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Debt Management Performance Assessment (DeMPA)

Union of the Comoros

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THE WORLD BANK

Economic Policy and Debt Department (PRMED)
Poverty Reduction and Economic Management Network (PREM)

The DeMPA is a methodology for assessing public debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions. It is adapted from the Public Expenditure and Financial Accountability (PEFA) framework. The DeMPA tool presents the 15 debt performance indicators along with a scoring methodology. The DeMPA tool is complemented by a guide that provides supplemental information for the use of the indicators.

For additional information on the World Bank's Debt Management Technical Assistance Program, including more on the DeMPA Tool, please visit our website at: http://www.worldbank.org/debt

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ACRONYMS

ABEDA	Arab Bank for Economic Development in Africa
AfDB	African Development Bank
BCC	Central Bank of the Comoros [*Banque centrale des Comores*]
BCEAO	Central Bank of West African States
BdF	*Banque de France*
BEAC	Bank of Central African States
CG	Central Government
CGP	General Planning Board [*Commissariat général au plan*]
CNDP	National Committee for Public Debt Management [*Comité national de la dette publique*]
CPI	Consumer Price Index
CREF	Economic and Financial Reforms Unit [*Cellule de réformes économiques et financières*]
CVC	Account Audit Commission [*Commission de vérification des comptes*]
DN Douane	National Customs Directorate [*Direction nationale des Douanes*]
DNB	National Budget Directorate [*Direction nationale du budget*]
DND	National Debt Directorate [*Direction nationale de la dette*]
DNI	National Tax Directorate [*Direction nationale des impôts*]
DNS	National Statistical Directorate [*Direction Nationale de la Statistique*]
DPI	Debt Performance Indicator
DRI	Debt Relief International
DRS	Debt Reporting System
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
ECF	Extended Credit Facility
EONIA	Euro Overnight Index Average
EU	European Union
GDP	Gross Domestic Product
HIPC Initiative	Heavily Indebted Poor Countries (HIPC) Initiative
ICBP	Institutional Capacity-Building Project
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IGF	Inspectorate General of Finance
IMF	International Monetary Fund
LdF	Budget Law [*Loi des finances*]
MDRI	Multilateral Debt Relief Initiative
ME	Ministry of Economy
MF	Ministry of Finance
MFA	Ministry of Foreign Affairs
MTDS	Medium Term Debt Strategy
NA	National Assembly
OPEC	Organization of Petroleum Exporting Countries
PEFA	Public Expenditure and Financial Accountability
PGT	General Payment Office of the Treasury [*Paierie générale du trésor*]
PRSP	Poverty Reduction Strategy Paper
PV	Present Value
SG	Secretary General
TOFE	Government Flow of Funds Table [*Tableau des opérations financières de l'état*]

EXECUTIVE SUMMARY

An interinstitutional mission visited Moroni, Union of the Comoros, to assess public debt management operations using the Debt Management Performance Assessment (DeMPA) tool.[1] This report assesses debt management performance on the basis of 27 assessed dimensions of the 35 included in the DeMPA (eight dimensions could not be assessed).

Debt management performance was undermined by repeated political and institutional crises in the country in recent years, which have adversely affected the Government's capacity to mobilize external financing and honor its financial commitments. The buildup of external payment arrears led in turn to fewer sources of financing. The Government has, however, recently launched a raft of initiatives to help foster a more stable domestic environment with the institution of democratic governance, the preparation of a poverty reduction program, and the clearance of payment arrears. This more favorable environment should soon pave the way for more significant amounts of external financing, particularly in the wake of the country's eligibility for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The situation therefore requires that the authorities devote their full attention to improving public debt management. This is the backdrop against which this assessment was conducted.

Overall, debt management performance in the Comoros is satisfactory in the following three areas: (i) coordination with fiscal policy, in particular the inclusion of public debt service projections and payments in budget preparation and tracking; (ii) coordination with monetary policy focused on the management of the statutory advances granted by the Central Bank of the Comoros (BCC); and (iii) the procedure for external debt service.

The assessment also underscores the priority areas and actions that would facilitate overall improvement in the area of debt management. More specifically, these activities should target:

- Improving the basic functions related to debt service[2] and producing statistical reports. The specific actions to be conducted should include the establishment of a debt registration and integrated debt management system, better coordination of disbursements, access to all loan agreements, written procedures for making copies to be kept in safekeeping and a safe place for storing these copies, personnel capacity building, and the preparation of reports and statistical bulletins on the debt situation.[3] Management of the debt portfolio could also be improved through the provision of reliable and frequent projections related to the cash flow situation and earnings on the central Government's credit balances with the Central Bank of the Comoros (BCC).

- Instituting proper programming with respect to borrowing. The authorities should formulate a debt management strategy by ensuring the participation of all institutions included in debt management channels and establish a legislative framework that would provide the updating and publication schedule. Borrowing policy objectives will also need to be included in primary

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[1] This assessment is based on discussions with the representatives of the local authorities listed in Annex 1. The mission consisted of: Paul Moreno-Lopez, Antonio Velandia-Rubiano, Ralph Van Doorn (World Bank), Marie-Hélène Le Manchec (Consultant - PRMED), and Gervais Doungoupou (Pôle Dette). For more detailed information on the DeMPA tool and to download the User Guide, please visit: http://go.worldbank.org/WU75GZA040.

[2] This action corresponds to the third debt management trigger of the completion point under the HIPC Initiative for the Comoros: (3) Amend the 2003 decree (Decree No. 03-62/PR) establishing the debt management office so as to refocus its mandate and activities, consistent with the office's capacity limitations.

[3] These actions correspond to the first and second debt management triggers of the completion point under the HIPC Initiative for the Comoros: (1) improve public debt management systems, in particular installing effective debt management software; and (2) produce detailed annual reports on external and domestic debt (See "Union of the Comoros: Decision Point Document under the Enhanced HIPC Initiative, International Development Association, International Monetary Fund, June 2010).

legislation. Better programming also requires strengthening the analytical skills in departments and preparing and following up on audit findings related to debt management operations.

This report presents the aspects of the economic and institutional framework in the Comoros that are essential for a better understanding of the debt management situation, outlines the methodological aspects of the assessment tool, provides a detailed assessment of each dimension and, lastly, presents a number of conclusions.

I. BACKGROUND

1. Economic and Institutional Context

Macroeconomic Growth and Stability Remain Weak

The Gross Domestic Product (GDP) of the Union of the Comoros, an archipelago of three islands with a population of roughly 670,000, was estimated at US$525.5 million in 2009 (US$785 per capita). Approximately 45 percent of the population lives below the poverty threshold. The poverty rate varies considerably among the islands and regions and is generally higher in rural areas and on Anjouan Island. Over the past twenty years, the Union's economic development has been hobbled by numerous and recurring political crises, macroeconomic disequilibria, and external shocks.[4]

Economic recovery in the Comoros has been slow (Table 1). Real GDP growth stood at a mere 1 percent in 2008 and at 1.8 percent in 2009. Most recent estimates put growth at 2.1 percent in 2010, supported by the expansion of the building sector (an increase in donor-financed public investment and private investment fueled by Diaspora remittances) and the financial sector (the entry of new banks). The anemic growth rate and the easing of inflationary pressures on food and oil prices since 2008 pushed inflation down to 2.7 percent on average in 2010. Fiscal pressures continued to be reflected in wage arrears in 2010, despite efforts by the authorities to bring public expenditure in line with available resources. The external current account deficit was estimated at 10.2 percent of GDP in 2010 (compared to 9 percent of GDP the previous year), owing largely to an increase in exports linked to the public investment program and a significant deterioration in the terms of trade.

Public Finance and Debt Management Are Impacted by a Complex Institutional System

Public finance management is heavily impacted by the complex political and institutional system. The Union is a blend of a centralized system and very marked autonomy of the three islands—Mwali (Mohéli), Ndzuwani (Anjouan), and N'gazidja (Grande Comore). The law of the Union of the Comoros takes precedence over the law of the islands and is enforceable throughout the Union (Article 8 of the Constitution). In this institutional configuration, public finance management involves several entities, among them the National Assembly, the Executive, the Ministries of Finance, and the treasuries of the islands and central Government. Fiscal and cash flow management are based on shared fiscal and budgetary responsibilities between the central Government and the islands, while in the area of borrowing, only the Union is authorized to enter into domestic and external loan agreements and is thus responsible for debt management.

[4] During this period, real per capita income declined progressively and the Government had greater difficulty meeting its basic obligations, including those in the area of debt servicing, which is high relative to exports. Remittances from the Comorian Diaspora have sustained domestic consumption and provided a buffer against shocks to household income. "Comoros: Economic Governance Reform Support Grant," IDA, May 2010.

Table 1. Comoros: Main Economic and Financial Indicators, 2008 - 2012
(As a percentage of GDP, unless otherwise indicated)

	2008	2009	2010e	2011p	2012p
Real GDP (percentage variation)	1.0	1.8	2.1	2.5	3.5
Consumer price index (annual average)	4.8	4.8	2.7	3.0	2.9
Terms of trade (percentage variation)	-40.8	22.8	-15.6	-2.1	4.5
Domestic revenue (excluding grants)	13.1	13.9	14.4	14.2	14.5
Total expenditures and net loans	26.0	23.0	24.0	23.2	22.7
Wages and salaries	8.8	9.0	8.9	8.6	7.9
Debt servicing	0.7	0.6	0.7	0.5	0.4
External debt	0.5	0.4	0.6	0.4	0.3
Change in arrears	0.2	0.2	-7.8	-0.4	-0.5
Overall fiscal balance (including grants, cash-based)	-2.3	0.8	-3.0	-2.2	-1.5
Export of goods and services	14.0	13.2	13.2	13.7	14.0
Import of goods and services	48.4	47.9	50.8	47.6	47.4
Current account	-11.1	-9.0	-10.2	-13.6	-13.1
Gross international reserves (less the import of goods and services, c.i.f.)	5.1	7.1	6.1	6.3	6.0

e: estimate and p: projection
Source: Comorian authorities and estimates and projections from the staff of the International Monetary Fund ("Union of the Comoros: Article IV and Second Review Under the Extended Credit Facility," December 2010).

There are two types of revenue. The revenue to be shared (composed of customs revenue and a portion of taxes) managed by the Union and revenue collected and managed by the islands. The Union's annual budget law sets forth the distribution quota for the revenue to be shared after payment by the central Government of external debt service, contributions, wages, and pensions, and payment for the provision of services and into the road maintenance fund.[5] This allocation formula provides a quantitative framework for the preparation and formulation of the budgets of the autonomous islands which, by law, must be balanced.[6] Beyond the aforementioned expenditures for which the central Government is responsible, the other public operating and capital expenditures are autonomously managed by the islands.[7]

In practical terms, expenditure often exceeds revenue collected, owing to lax public expenditure management, a substantial increase in the number of civil servants (the wage bill absorbed more than 60 percent of domestic revenue in 2010), and significant shortcomings in revenue collection. This situation resulted in the accumulation of domestic arrears related to the payment of wages and goods and services. In fact, the only special form of "financing" to which the Government has access is the buildup of arrears, given the absence of a domestic market for issuing government securities, the suspension, until recently, of external budgetary assistance, and the capping of statutory advances from the Central Bank of the Comoros (see Section 2 below). Against this backdrop of persistent cash flow shortfalls, cash flow management has become virtually non-existent and the treasuries of the islands and the Union are not sharing information on their respective cash balances. No provisional cash flow plan has been prepared despite the establishment of a coordination unit for this purpose.

[5] The allocation formula is as follows: 37.5 percent for the Union, 27.4 percent for N'gazidja, 25.7 percent for Anjouan, and 9.4 percent for Mwali.
[6] Article 6 of Decree No. 10-076/PR promulgating Law No. 10-004/AU of June 9, 2010 on the 2010 supplementary budget law.
[7] The Union recently assumed responsibility for payment of the wages of central and island government officials, following the failure to pay the wages of a number of island officials despite transfers made by the central Government to the bank accounts of island governments.

The Comoros is, however, implementing economic and institutional reforms.

The Comoros has been implementing significant economic and institutional changes, particularly with —and beyond the three-year Extended Credit Facility (ECF) concluded with the International Monetary Fund (IMF)—its eligibility for the HIPC Initiative, the implementation of its (economic) poverty reduction program, and the constitutional amendments paving the way for streamlining the Comorian (institutional) political system and recent democratic elections.

- *HIPC Initiative*. The Comoros reached the decision point under the HIPC Initiative in June 2010. The external public debt of the Comoros contracted and guaranteed by the Government was estimated, in nominal terms, at US$287 million (including arrears) as of end-December 2009 (Table 2). In order to bring the present value of the debt-to-exports ratio to 150 percent, the country's debt under the HIPC Initiative is expected to be reduced to a total of US$145 million in present value terms (a common reduction factor of 56 percent). Once the completion point has been reached under the HIPC Initiative (projected for December 2012),[8] the Comoros will also be able to receive additional external debt relief under the Multilateral Debt Relief Initiative (MDRI) which, according to most recent estimates, should provide relief with respect to servicing the debt owed to the International Development Association (IDA) and the African Development Bank (AfDB) in the amount of roughly US$52.2 million in present value terms.[9]

Table 2: Nominal and Present Value of the Debt Stock (including arrears) as of end-December 2009

	Nominal Value	PV
In US$ millions	286.8	257.4
Debt-to-GDP ratio (as a percentage)	53.6	48.1
Debt-to-export ratio (as a percentage)	382.2	343.0
Debt-to-tax revenue ratio (as a percentage)[1/]	384.7	345.3
Memo		
Common reduction factor (%)		56

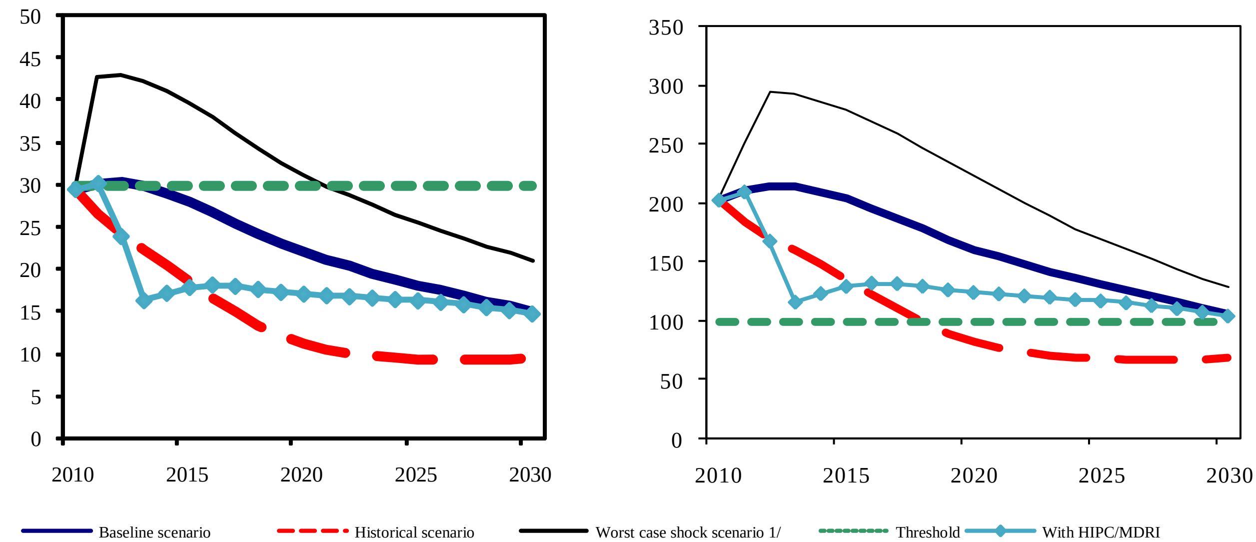
Source: "Union of the Comoros: Enhanced Heavily Indebted Poor Countries Initiative. Decision Point Document." International Development Association, International Monetary Fund, June 2010.
1/ Reflects central government revenue, excluding grants.

Overindebtedness challenges will nonetheless persist despite payment of the entire debt relief amount under the HIPC Initiative and the MDRI. The most recent debt sustainability analysis (DSA) conducted indicates that the Comoros will remain overindebted for most of the projection period, until 2030 (see Chart 1). The Comoros' external debt will also continue to be sensitive to exogenous shocks.[10] Consequently, the maintenance of sustainable debt levels over the medium term also calls for the strict application of pro-growth economic policies, centered in part on the improvement of public finances as well as a prudent debt policy and sound debt management.

[8] December 2012 is a provisional date. The exact date will be determined when the Comoros meets all the HIPC Initiative completion point triggers.
[9] Since the Comoros owed no debt to the IMF as of end-December 2004, no relief is projected under the IMF's MDRI. See "Union of the Comoros: Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—Decision Point Document." International Development Association, International Monetary Fund, June 2010.
[10] Annex II of the report: "Union of the Comoros: Enhanced Heavily Indebted Poor Countries Initiative—Decision Point Document." IDA, IMF, June 2010.

Chart 1: Present Value Ratio of Public and Publicly Guaranteed External Debt

Present value of debt-to-GDP ratio	Present value of debt-to-export ratio



Source: Annex II of the report: "Union of the Comoros: Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—Decision Point Document." International Development Association, International Monetary Fund, June 2010.

- *Poverty reduction strategy.* The Government of the Comoros officially adopted the first Poverty Reduction Strategy Paper (PRSP) in September 2009,[11] which establishes an ambitious program focused on: (i) stabilizing the economy and fostering sustainable and equitable growth by establishing sound public finance and improved infrastructure; (ii) strengthening the key sectors of the economy that offer the greatest potential for growth and poverty reduction, namely tourism, agriculture, and fisheries; (iii) improving governance and social cohesion; (iv) enhancing human development outcomes, particularly in the areas of health and education, through improved social service provision; and (v) fostering a sustainable and secure environment for the civilian population. At the Conference on Development and Investment, organized by the Government of Qatar and held on March 9 and 10, 2010, bilateral partner countries pledged to provide substantial financial assistance to support the Comoros' development efforts.

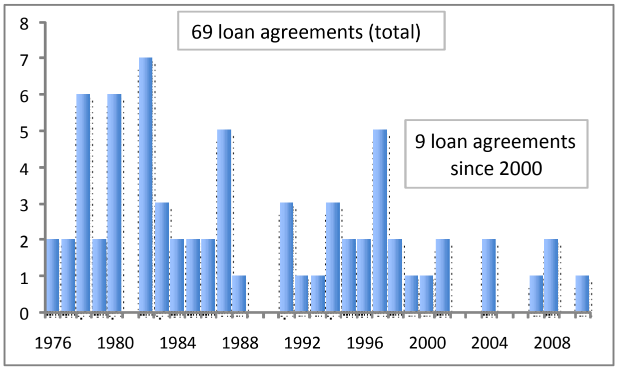
- *Constitutional amendments and democratic elections.* Institutional and political processes in the Comoros are becoming more stable. A May 2009 constitutional reform makes provisions for a President and National Assembly of the Union, with the presidential and legislative institutions of the islands being changed to provincial administrative entities. A new government will take office in May 2011, following presidential and local elections in December 2010. The decisions of the Constitutional Court governing the electoral process have been respected. In that context, the island of Anjouan, where separatist demands have been made, has elected pro-Union local leaders. These positive developments should strengthen the ability of government entities to tackle the economic and institutional challenges mentioned above.

[11] Since the early 2000s, the PRSP framework has proved particularly useful in laying the foundation for the national reconciliation process and guiding the authorities with the gradual formulation of development principles for the country.

2. Current Public Debt Situation

The public debt of the Comoros is composed largely of foreign debt. At end-2009, most of this debt was owed to multilateral creditors (77 percent), largely to the World Bank (42 percent) and the African Development Bank (AfDB) Group (13 percent). There has been little **external debt** management activity in recent years. Only nine loans were obtained between 2000 and 2010, accounting for 13 percent of the Government's external loans (Chart 2). Two-thirds of these loans were obtained from multilateral institutions and 45 percent from the World Bank and IMF. In 2010, the only loan obtained was one from Exim Bank in China. Later on, this loan agreement was transferred by the Government to a State-owned entity—Comoros Telecom—with the Government serving as the primary guarantor (See Box 1). Recently, debt management activity has focused mainly on requests to restructure and reschedule debt, and from 2007 onwards on arrears to creditors, with efforts being stepped up with implementation of the HIPC Initiative.

Chart 2: Comoros – Number of Public Loan Agreements
(1976 – 2010, excluding rescheduling)



The Comoros does not have any conventional **domestic debt,** inasmuch as there is no domestic market that allows for the issuance of government securities. The Government does have financial obligations in the form of statutory advances provided by the Central Bank of the Comoros as well as substantial arrears with respect to wage payment, payment for goods and services, and cross debts to the retirement fund and public enterprises. The amount of advances at the end of budget year 2010 stood at roughly CF 4.4 billion (equivalent to EUR 9 million), close to the established annual ceiling. At end-2008 and based on an audit conducted with the assistance of the European Union, arrears were estimated at CF13.4 billion or 7.5 percent of GDP, equivalent to 57 percent of domestic revenue or 29 percent of total expenditures and net loans.[12] The Union is responsible for 69 percent of these arrears and 73 percent of total arrears correspond to wage arrears.[13] Although these payment arrears, cross debts, and statutory advances represent a government financial obligation, they are not included in this study's assessment of the Government's capacity to manage its public debt. However, when an arrears payment schedule has been established and debts become securitized, they can then be included in public debt management performance assessments. In May 2010, the Government received a grant from Qatar and the EU, part of which was allocated to clearing these arrears, which amounted to a total of CF 10.8 billion (EUR 20 million).[14] The Government has pledged to clear the remaining arrears by 2016.

[12] IMF estimate of total arrears amounting to CF 22.8 billion ("Union of the Comoros: First Review Under the ECF Arrangement," International Monetary Fund, July 2010) includes additional cumulative arrears during the first eight months of 2009.
[13] "Assessment of the Domestic Debt of the Comorian State," preliminary report, *Asesores de Comercio Exterior*, financed by the European Union, November 7, 2009.
[14] "Union of the Comoros: First Review under the ECF Arrangement," International Monetary Fund, July 2010.

Box 1: Government Guarantee Extended to Comoros Telecom

Financing for two telecommunications projects, namely the inter-island fiber optics network and the national backbone, was identified in December 2010 and resulted in the conclusion of two separate agreements—a loan agreement between Exim Bank of China and the Union of the Comoros and a loan agreement transfer from the Government to a State-owned enterprise—Comoros Telecom—backed by the Government.

First, a financing agreement was signed between the Governments of the Union of the Comoros and China on December 14, 2009 and a loan agreement was concluded between the Government of the Union of the Comoros and Exim Bank on December 2, 2010. The loan agreement amount stands at ¥215 million (Chinese renminbi)—US$31 million or 5½ percent of GDP. The terms and conditions of the loan are as follows:

- *Currency*. The loan is denominated in renminbi; consequently, the Government of the Comoros has agreed to assume exchange rate fluctuation risks (Article 2.1). Disbursements and repayments may be made in such foreign currencies as the United States dollar, but will be recorded using the rate of exchange on the date of publication of the transaction by Exim Bank;
- *Cost*. The rate of interest will be fixed at 1 percent, payable every six months, along with related additional loan fees that include: (i) a management fee of 0.5 percent applicable to the total loan amount and payable within 30 days of the signing of the financing agreement or before the first disbursement; and (ii) a fee of 0.75 percent applicable to the non-disbursed amounts every six months during the disbursement period (Articles 2.2-2.6 and 3.6);
- *Maturity date*. The term of the loan is 25 years, composed of a five-year grace period and a twenty-year repayment period (Article 2.3);
- *Method of repayment*. Payments shall be made every six months in equal amounts (Article 4.3); and
- *Goods, services, and technology*. These shall be purchased in China using financing provided by Exim Bank (Article 2.5).

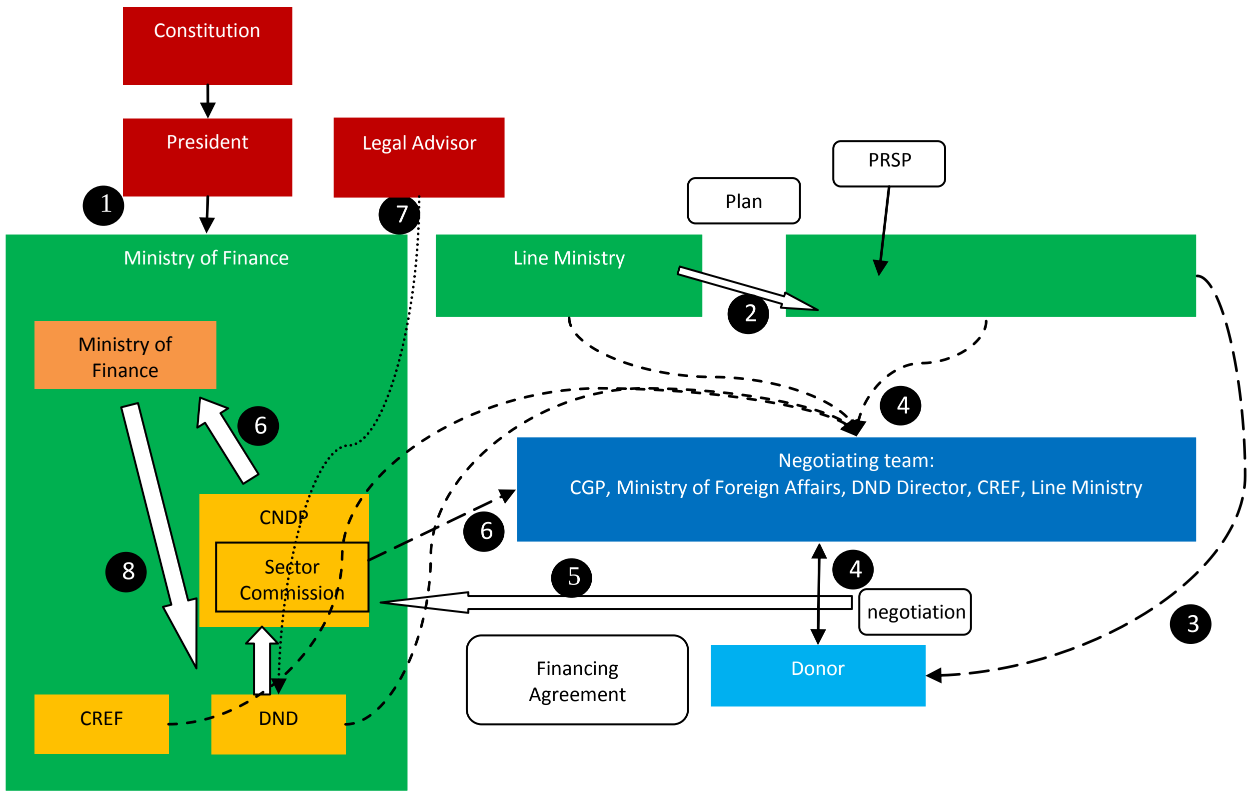
A Memorandum of Understanding was later concluded between the Comorian Government and Comoros Telecom (December 27, 2010) by means of which the Government transferred the loan agreement concluded with Exim Bank to Comoros Telecom, along with all legal guarantees. The Government is serving as the guarantor of the payment of loan amounts and undertakes to assume responsibility for these amounts in the event of default by Comoros Telecom. The agreement stipulates that Comoros Telecom pledges to:

- Use the funds borrowed for the projects identified and for the improvement and expansion of national telecommunications infrastructure;
- Repay the amounts borrowed, plus interest, within the contractual timeframes and pay any other expenses that may be necessary for the execution of the agreement; and
- Make direct payments to Exim Bank and transmit a copy of the payment order to the National Debt Directorate [*Direction nationale de la dette* DND].

No provisions were made in the Memorandum of Understanding for a debt guarantee fee or obligation to transmit to the DND any information essential for monitoring the loan. The DeMPA mission received a copy of these two agreements only after its departure. None of the officials interviewed during the mission, including those of the DND and the sector commission of the National Committee for Public Debt Management (CNDP), participated in the various negotiations, nor did they have a copy of the two agreements.

3. Public Debt Management Institutional Framework

Negotiation and Signing of External Loan Agreements



1. The Constitution authorizes the President to negotiate and ratify international treaties and agreements related to public borrowing. The President in turn delegates this authority to the Ministry of Finance.

2. The Line Ministries draft initial borrowing plans and submit them to the General Planning Board (CGP), which ensures adherence to national economic policy guidelines and objectives, so that it can assess and verify that the plan to be financed is in line with the public investment program and the PRSP.

3. If the CDG approves the plan, it then looks into financing sources. When a donor is identified, it contacts the Ministry of Foreign Affairs.

4. A team composed of the CGP, the Ministry of Foreign Affairs, the DND Director, the Economic and Financial Reform Unit (CREF), and the relevant Line Ministry negotiates the terms of the loan agreement with the donor.

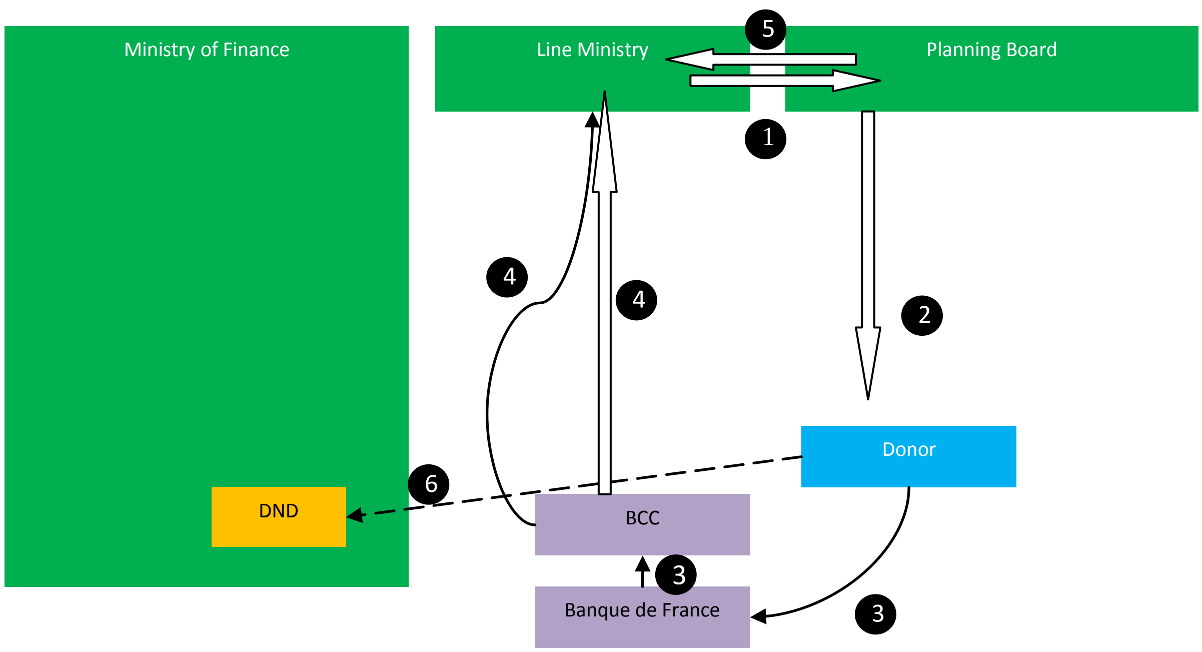
5. The borrowing plan is submitted to the CNDP so that the CNDP sector commission can issue a well-founded opinion on the financing proposal and ensure that concessionality requirements are met.

6. If financing is considered concessional (the threshold under the IMF's ECF program is currently set at 50 percent), the loan agreement is signed by the Minister of Finance. If it is not, then a renegotiation request is submitted.

7. Legal advisors have never been called upon to assist with the negotiating process. The powers of the legal advisor in the Office of the President were, however, recently expanded so that this individual can provide assistance to the DND and CNDP with all future borrowing negotiations and other debt-related activities.

8. Information on new loans is recorded by the DND Chief Officer in an Excel database.

External Loan Drawings



1. The relevant Line Ministry submits a disbursement request to the Planning Board (CGP).

2. The CGP transmits the disbursement request to the donor.

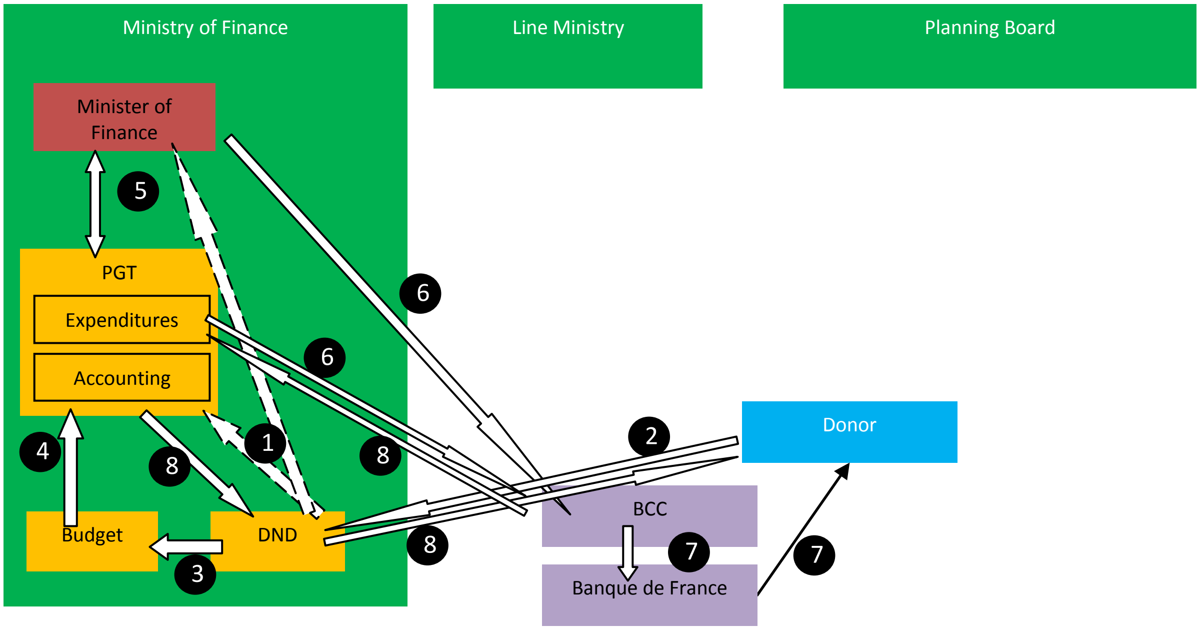
3. The donor transmits the funds for the account of the Central Bank of the Comoros (BCC) to the *Banque de France.*

4. The BCC deposits the funds into the account of the beneficiary and sends the latter a credit notice. The BCC does not inform the *Paierie générale du trésor* (PGT) or the DND of this disbursement.

5. The CGP is authorized to collect information on disbursements from the Line Ministries by sending tracking forms on a quarterly basis that enable it to assess public investment and GDP growth. The CGP does not provide the DND with these figures.

6. The DND becomes aware of disbursements only after payment notices are sent by donors.

Debt Servicing



1. Before the start of each month, the DND sends a note to the Minister of Finance (with a copy to the PGT) containing all scheduled payments for the month ahead.

2. The donor sends a payment notice to the DND.

3. The DND reconciles the payment notice received from the donor with the amount recorded in its database. It then initiates the payment order process by issuing and transmitting five key documents (transmission notification, commitment form, credit notice, commitment note, and payment order) to the National Budget Directorate (DNB).

4. After a DNB official checks the documents to ensure that they are in order and the financial comptroller confirms the availability of funds, the DNB authorizes the payment and sends the credit notice, commitment form, and commitment note to the PGT.

5. The PGT expenditures and accounting departments check, respectively, the supporting documentation and payment amounts authorized. The Paymaster General consults the Minister of Finance to obtain the latter's prior approval for debt servicing.

6. While the Minister of Finance authorizes a transfer of funds from the common revenue account to the BCC (expenditures account), the Paymaster General sends a transfer letter to the BCC requesting it to make the payment.

7. The BCC sends the payment notification to the *Banque de France*, which pays the donor.

8. When the PGT receives the transfer report from the BCC, a copy is sent to the DND Director, who can then inform the beneficiary that the transfer was made.

II. METHODOLOGICAL ASPECTS OF PERFORMANCE

1. Assessment and Scoring Methodology

The DeMPA tool comprises a set of 15 indicators that aim to encompass the complete spectrum of debt management operations as well as the overall environment in which these operations are conducted. Each DeMPA indicator is broken down into one or several related dimensions. There are a total of 35 dimensions and each is assessed separately.

The scope of the DeMPA is central government debt management activities and closely related functions, such as the issuance of loan guarantees, on-lending, cash flow forecasting, and cash balance management. Thus the DeMPA does not assess the ability to manage all public debt and does not, for example, cover contingent liabilities (such as liabilities of the pension system, losses of State-owned enterprises, etc.), nor does it cover debt of State-owned enterprises if the latter is not guaranteed by the central Government.

Performance indicators include minimum levels, which indicate acceptable performance relative to international standards, and provide the benchmarks used by the DeMPA to assess public debt management performance. Consequently, the indicators for which the minimum requirements have not been met indicate the areas in which reforms and/or capacity-building actions would be most beneficial. The DeMPA tool is not, however, intended to provide recommendations on reforms and/or needs related to building capacity and strengthening institutions.

Assessment criteria for each dimension are explicitly outlined in the scoring methodology and, on the basis of these criteria, a score of A, B, C, or D is assigned. A score of C indicates that the minimum criteria for that dimension have been met. A minimum requirement is the necessary condition for effective performance under the particular dimension being measured. If the minimum requirements set out in C are not met, then a D score is assigned. In cases where a dimension is not applicable, an N/R (not rated or assessed) is assigned (for example, when a particular dimension assesses a public debt management activity that does not exist). The A score reflects sound practice for that particular dimension of the indicator. The B score is an intermediate score lying between the minimum requirements and sound practice.

2. Link with the PEFA

The Public Expenditure and Financial Accountability (PEFA) report, which assesses public finance management in the Union of the Comoros, dates back to October 2007. This report assesses the performance of public financial management systems, processes, and institutions using 31 indicators. The PEFA assessment methodology, which serves as the basis for the DeMPA assessment, covers several aspects of public finance management, including public debt management. The two methodologies thus have several common points within a set of performance indicators.

- For the multi-year perspective in fiscal planning and public expenditure policy, the PEFA assigned the Comoros a score of C for the scope and frequency of debt sustainability analysis. The assessment noted that an external debt sustainability analysis was done during the 2004-2007 period.

- With respect to predictability in the availability of funds for commitment of expenditures, PEFA assigned a score of D for the degree of predictability and monitoring of cash flow. In fact, no cash flow plan exists and the ministries do not have reliable information on actual cash flow availability. Budget adjustments during the financial year are significant and frequent.

- In the area of recording and managing cash balances, debt, and guarantees, PEFA assigned a score of C for the quality of external debt data recording, which takes place on an ongoing basis, and the fact that there is an annual reconciliation process with donors. Domestic debt is recorded by the treasury and essentially takes the form of statutory advances from the BCC. A score of C was assigned to the systems for contracting loans and issuance of guarantees, given that the Minister of Finance is authorized to sign international loan agreements, grants, and guarantees (after receiving approval from the Council of Ministers). The legislature ratifies the agreements.

- The PEFA assigned a score of D for regularity in bank reconciliations for treasury accounts, owing to deficiencies in this area. PEFA assigned a score of D for financial statements, given that the Government was not preparing consolidated financial statements.

- Lastly, for the effectiveness of the internal audit system, PEFA assigned a score of D for the quality and coverage of internal auditing, and a score of D for the degree to which internal audit outcomes are addressed by the entities audited. With respect to external auditing, the Comoros was assigned a C for the scope of auditing and adherence to auditing standards (50 percent of expenditures were verified using accepted standards); a score of B for the timely submission of audit reports to the legislature; and a D for evidence of follow-up on audit recommendations.

3. Technical Assistance – Planned and in Progress

In the area of strengthening debt management capacity:

- The AfDB is expected to begin to provide technical assistance this year, to be funded by the African Development Fund as part of the Institutional Capacity-Building Project (ICBP). This project has eight components: (i) implementation of the CS-DRMS 2000+ debt recording and management system, slated for November 2011; (ii) a mechanism to ensure the recording of data; (iii) mechanisms and procedures for improving the quality of debt-related data recorded as well as related reports; (iv) an internal quality control mechanism for debt data; (v) an orderly analysis and processing system so that data can be presented in the budget law; (vi) the review of legislative and regulatory provisions on debt management, and in particular the decree establishing the DND (Decree No. 03-62/PR); (vii) the review of debt policy and debt management legislation; and (viii) the preparation of procedures and manuals and the training of officials in DSA.

- With the assistance of the *Pôle Dette*, the authorities have prepared a capacity-building program focused on: (i) the drafting of manuals of procedure on the different debt management functions (front office, middle office, and back office); and (ii) the formulation of an annual borrowing strategy that could be included as an annex to the 2012 budget law if the Comorian authorities so request. Lastly, country representatives will continue to be invited, as they have been in the past, to regional *Pôle Dette* debt management capacity-building activities, such as regional seminars and workshops scheduled to take place in 2011 and covering mainly two areas: internal control and auditing of public debt and the legal aspects of public debt. The materialization of these capacity-building programs is currently dependent on the institutional and financial situation of the *Pôle Dette*, in view of the fact that the institution is currently transitioning toward new structures, which are yet to be defined. The authorities should, as necessary, make plans to seek assistance from other entities that provide institutional support with the aim of successfully executing these institutional capacity-building programs.

In the area of strengthening the internal audit structures and creating a Court of Audit:

- The ICBP also targets improvement of the institutional capacities of two current internal audit entities (the Account Audit Commission (CVC) and the Inspectorate General of Finance (IGF)) by assisting with the training of personnel and providing financial and material assistance. This capacity building covers several areas, among them oversight of budget execution and review of the legal framework of the CVC, so that this entity can become a Court of Audit in 2012.

In the area of capacity building for the drafting of macroeconomic policies:

- In the context of public finance management reforms covering the period 2010-2019, a "Priority Action Plan for 2010-2012" was prepared by the Ministry of Finance with the aim of ensuring the implementation of reforms. One of the dimensions covered is the training of officials in the area of formulating and updating macroeconomic policies (the Ministry of Economy, CGP, National Statistical Directorate (DNS), the PGT, the DNB, the BCC, and the island Finance Commissioners are expected to participate). This training is being finalized by the CREF and is expected to take place during the first half of 2011.

III. DEBT MANAGEMENT PERFORMANCE ASSESSMENT

Summary of the Performance Indicator Assessment

Performance Indicators and Dimensions		Score
DPI-1: Legal Framework	1. Existence, coverage, and content of the legal framework	**D**
DPI-2: Managerial Structure	1. The managerial structure for central government borrowings and debt-related transactions	**D**
	2. The managerial structure for the preparation and issuance of central government loan guarantees	**D**
DPI-3: Debt Management Strategy	1. The quality of the debt management strategy document	**D**
	2. The decision-making process, updating, and publication of the debt management strategy	**N/R**
DPI-4: Evaluation of Debt Management Operations	1. Level of disclosure—in an annual report or its equivalent—of government DeM activities, central government debt, evaluation of outcomes against stated objectives, and compliance with the Government's DeM strategy	**D**
DPI-5: Audit	1. Frequency of internal and external auditing of central government debt management activities, policies, and operations, as well as publication of external audit reports	**D**
	2. Degree of commitment to address the outcomes from internal and external audits	**N/R**
DPI-6: Coordination with Fiscal Policy	1. Coordination with fiscal policy through the provision of accurate and timely forecasts on total central government debt service under different scenarios	**C**
	2. Availability of key macro variables and a debt sustainability analysis, and the frequency with which this analysis is undertaken	**D**
DPI-7: Coordination with Monetary Policy	1. Clarity of separation between monetary policy operations and DeM transactions	**N/R**
	2. Coordination through regular information sharing on current and future debt transactions and the central Government's cash flows with the Central Bank	**D**
	3. The extent of the limit to direct access to central bank resources	**C**
DPI-8: Domestic Borrowing	1. The extent to which market-based mechanisms are used to issue debt, publication of a borrowing plan for T-bills and T-bonds, and the preparation of an annual plan for the aggregate amount of local currency borrowing in the domestic market, divided between the wholesale and retail markets	**N/R**
	2. The availability and quality of the documented procedures for local currency borrowing in the domestic market	**N/R**
DPI-9: External Borrowing	1. The degree of assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity)	**D**
	2. Availability and quality of documented procedures for borrowing in foreign markets	**D**
	3. Availability and degree of involvement of legal advisors before signing of the loan contract	**D**
DPI-10: Loan Guarantees, On-Lending, and Derivatives	1. Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees	**D**
	2. Availability and quality of documented policies and procedures for on-lending of borrowed funds	**D**
	3. Availability of a DeM system with functionalities for handling derivatives, and availability and quality of documented procedures for the use of derivatives	**N/R**
DPI -11: Cash Flow Forecasting	1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	**D**
	2. Effectiveness of managing the aggregate cash balance in government bank accounts, including integration with the domestic debt borrowing program	**D**
DPI -12: Debt Administration and Data Security	1. Availability and quality of documented procedures for the processing of debt servicing	**C**
	2. Availability and quality of documented procedures for debt data recording and validation, as well as storage of agreements and debt administration records	**D**
	3. Availability and quality of documented procedures for controlling access to the central Government's debt data recording and management system	**D**
	4. Frequency and off-site, secure storage of debt recording and management system backups	**D**
DPI-13: Segregation of Duties, Staff Capacity, and Business Continuity	1. Segregation of duties for some key functions and the presence of a risk monitoring and compliance function	**D**
	2. Staff capacity and human resource management	**D**
	3. Presence of an operational risk management plan, including business-continuity and disaster-recovery arrangements	**D**
DPI-14: Debt	1. Completeness and timeliness of central government debt records	**D**

Records	2. Complete and up-to-date records of all holders of government securities in a secure registry system	**N/R**
DPI-15: Debt Reporting	1. Meeting of statutory and contractual reporting requirements for central government debt to all domestic and external entities	**D**
	2. Meeting of statutory and contractual reporting requirements for total nonfinancial public sector debt and loan guarantees to all domestic and external entities	**N/R**
	3. Quality and timeliness of a debt statistical bulletin (or its equivalent) covering central government debt	**D**

1. Governance and Strategy Development

DPI-1: Legal Framework

Dimension	**Score**
Existence, coverage, and content of the legal framework	**D**

The legal framework for debt management in the Comoros is based on a body of laws and legal provisions, such as the Constitution, decrees, and orders. Loan contracting and the issuance of guarantees are the sole responsibility of the Government of the Union. This framework specifies the entity with the authority to enter into financial commitments on behalf of the Government, as well as the entities tasked with implementing the borrowing policy. The islands do not have the authority to contract domestic or external loans. The assessment of this legal framework reveals a number of sound practices, but also identifies significant weaknesses in the enforcement of some of its provisions.

The Constitution (primary legislation) expressly authorizes the President of the Union of the Comoros to negotiate and ratify[15] international treaties and agreements related to public borrowing, and serve as guarantor for compliance with the provisions of these agreements.[16] The President, in turn, delegates this authority to the Minister of Finance (Decree No. 81-013/PR), who negotiates and signs, on behalf of the Government, loans and loan agreements contracted by the Union of the Comoros. However, the LdFs—including the one in force—that support this primary legislation (the Constitution) have neglected to specify the objectives for which borrowing is authorized, such as financing of the budget deficit and/or current payments, or debt refinancing.

Secondary legislation entrusts the responsibility of public debt management to the Minister of Finance, and more specifically to the DND, the operational arm of the Government of the Union (Decree No. 03-062/PR of June 14, 2003, and Order No. 03-005/MFBECEIP/CAB). To that end, it is responsible for (i) collecting and recording information, and creating a public debt database; (ii) tracking debt service payments, contributions to international organizations, and payments and other measures adopted with respect to the debt guaranteed by the Government and the other debts for semi-public entities; (iii) evaluating the most recent debt relief proposals; (iv) analyzing the debt and formulating a debt strategy; (v) preparing debt reports and a DSA under the HIPC Initiative; (vi) engaging in negotiations on all debt-related matters; and (vii) coordinating with donors on the issue of debt restructuring. These activities therefore primarily involve "back office" functions, as well as "middle office" (debt strategy formulation) and "front office" (loan negotiations) functions, as the director of the DND sometimes takes part in negotiations.[17] With respect to the aforementioned responsibilities, the DND did not develop a debt strategy, or prepare debt reports or a DSA.

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[15] The mission did not have any conclusive information on the process for ratifying agreements because, in recent years, borrowing in the Comoros has been reduced to an absolute minimum.

[16] Constitution of December 2001 (Title III, Article 12, paragraphs 1 and 2).

[17] "Back office" functions include those related to the recording of loans, operational risk management, and debt servicing. In broad terms, "middle office" functions include debt planning with the formulation of a borrowing policy and strategy, the definition of the legal and financial risk management provisions, and governance in the area of debt management with oversight and audit of debt transactions. "Front office" activities primarily involve the negotiating and mobilizing of loans.

This legal framework is strengthened by a body of laws and legal provisions[18] that establish the applicable rules and their implementation with respect to the borrowing and public debt management policy.

The decree on the reference framework provides for (i) the formulation of a borrowing policy whose general guidelines[19] shape the strategy (Article 4); (ii) the inclusion of the strategy in a document appended to the LdF (Article 4); (iii) transparency in the borrowing and public debt management process (Article 6); (iv) the coordination of the borrowing and public debt management policy with the fiscal and monetary policies (Articles 8-9-10); (v) the conditions for the issuance of guarantees (Articles 11 and 12), where a single authority must be responsible for contracting loans and issuing guarantees; (vi) the introduction of procedures manuals (Article 13); and (vii) the inclusion of a legal advisor in the borrowing and public debt management process (Article 14). The reference framework, however, does not require external audits of debt management activities, and merely indicates that this management activity may be subject to an audit.

The CNDP is responsible for implementing and monitoring most of these provisions. Specifically, it is tasked with (i) monitoring the implementation of the national borrowing and public debt management strategy; (ii) coordinating the actions of the administrations and entities involved in the borrowing and public debt management process; (iii) implementing the Government's guidelines and objectives pertaining to the sustainability of public finances and public debt; (iv) enforcing regulations on public debt management; (v) issuing a well-founded opinion on all domestic and external borrowing plans and requests for guarantees and on-lending of loans (the Government or its entities); (vi) monitoring the exchange and circulation of information among the entities and all other administrations and entities participating in the borrowing and public debt management process. The CNDP has a sector commission that is assisted by a permanent secretariat (the DND).

To date, the CNDP has not convened any meetings, owing largely to limited debt management activity in recent years (see Chapter I). All debt renegotiation and restructuring operations—the main objective of debt management activity in recent times—were organized and monitored by the DND, and coordination of debt management with the fiscal policy is the responsibility of the budget committee. However, in light of its responsibilities, this lack of institutional input had repercussions in two areas primarily: the non-enforcement of the legislation and regulations governing the contracting of loans and issuance of guarantees (observed quite recently during negotiations of the loan guarantee issued to the Government by Exim Bank of China before this loan was transferred to Comores Telecom; the details of this arrangement appear in Box 1), and a lack of coordination between entities involved in the borrowing process, particularly between the DND and the CGP.

In view of the absence of specific debt management objectives in the primary legislation and of the obligation to conduct external audits in the secondary legislation, as well as inadequate implementation of the provisions of the legal framework (for example, the absence of a debt strategy, debt reports, and the DSA, the failure to make the CNDP operational and ensure the participation of a legal advisor in loan negotiations), the Union of the Comoros has not met the minimum requirements and a score of D was assigned.

[18] Decrees No. 08-017/PR on the reference framework for the public borrowing and public debt management policy of the Union of the Comoros and No. 08-027/PR establishing the CNDP. See also Order No. 08-09/MFB establishing the operating procedures of the CNDP.
[19] The objectives set forth in the annual strategy—such as narrowing of the budget deficit or financing of development activities—may be modified in accordance with prevailing priorities.

DPI-2: Managerial Structure

Dimension	Score
1. The managerial structure for central government borrowings and debt-related transactions	D
2. The managerial structure for preparation and issuance of central government loan guarantees	D

Dimension 1

As indicated in Chapter I (specifically in the section on debt management procedures), several institutions are part of the managerial structure for public debt management in the Comoros.

With respect to **external debt**, the DND—the principal debt management entity—manages all debt-related activities and operations and takes part in the negotiation and renegotiation of agreements. The PGT manages cash flows and debt service clearance, the DNB handles the payment order for the debt service payment, while the BCC makes the debt service payment. The CGP sometimes participates in the loan negotiations and is the only entity that pools disbursements for ongoing projects involving line ministries on a quarterly basis.[20] Lastly, the CREF submits information on the debt and debt servicing to the IMF, in keeping with its contractual reporting requirements.

Domestic debt, as defined in the context of the DeMPA tool (see Chapter I), does not exist. There are, however, payment arrears and statutory advances from the BCC, as well as cross debts. These are instruments used to handle the coverage of cash flow needs, which the PGT is tasked with managing. The PGT is also responsible for the domestic payment arrears database. Although a payment schedule has not yet been established, the PGT is awaiting guidelines from the authorities to define the strategy options. If these arrears are securitized, the DND should monitor the agreements.

There is effective coordination of debt management activities among the entities of the Ministry of Finance. However, there is no coordination between the DND and the CGP regarding disbursements for ongoing projects. The DND becomes aware of the disbursements only after the payment notices have been issued by the donors. The format and frequency of requests for disbursements submitted to the line ministries would nonetheless hinder effective monitoring of disbursements by the DND. The two entities should, first of all, agree on the format and frequency of these requests.

The negotiation process for the most recent loan signed with Exim Bank of China and the transfer of the agreement to Comores Telecom (Box 1)—during which the DND was not required to participate in the negotiations or conduct the necessary analyses, for example with respect to the concessionality rate prior to the signing of the loan and the credit risk analysis—is another example of the lack of sharing and coordination among the various entities. The analysis was conducted at the highest level by the Minister of Finance and the other stakeholders, thereby disregarding the legal and regulatory provisions in force.[21]

The absence of effective coordination of activities among these various entities involved in debt management reveals that the performance does not meet the minimum requirements and a score of D has been assigned to this dimension.

Dimension 2

The procedure used for issuing guarantees is as follows. Requests are addressed to the Minister of Finance, who forwards them to the DND and the CNDP for review and analysis. If the request is deemed eligible, a draft approval decree is prepared by the DND and signed by the Minister of Finance, who is

[20] The CGP monitors disbursements in order to develop the public investment program and provide a foundation for, among other things, sector growth forecasts.

[21] Financing requests must be analyzed by the DND and the CNDP prior to signing of the agreement by the Minister of Finance (see DPI-1).

vested with the authority to sign. After the decree has been signed, the Minister informs the beneficiary, by means of a letter drafted by the DND, that it may sign the loan agreement with the donor. This procedure is, however, not outlined in an official document.

The DND and CNDP are the two entities authorized to manage the procedures for issuing guarantees. However, in reality, these entities were not involved in the issuance of the most recent guarantee to Comores Telecom. In view of the non-compliance with the mandates of the entities tasked with managing the guarantees and with the procedures in effect, the Union of the Comoros has not met the minimum requirement and a score of D has therefore been assigned.

DPI-3: Debt Management Strategy

Dimension	Score
1. The quality of the debt management strategy document	**D**
2. The decision-making process, updating, and publication of the debt management strategy	**N/R**

Dimension 1

The Comoros does not have a debt management strategy (see DPI-1). In 2006, the DND prepared a preliminary draft document during a seminar organized by the *Pôle-Dette*, which was never developed into a formal strategy.

Despite the absence of an official strategy, decisions related to debt management are being made in the context of the implementation of the Three-Year Extended Credit Facility (ECF) Arrangement. Loans are subject to the conditions under the ECF. More specifically, the ECF Arrangement stipulates that "…throughout the three-year program, the Government will neither contract nor guarantee short-term or nonconcessional external debt. The authorities will consult with IMF staff before contracting or guaranteeing any concessional external debt in excess of US$20 million…"[22] As a result, loan concessionality is the most relevant parameter in the Comoros for containing risks to the debt portfolio.[23] Non-compliance with this ECF performance criterion would block access to debt relief under the HIPC Initiative and the MDRI and to all external financing. Debt sustainability is monitored closely by IMF and World Bank staff.

Owing to the authorities' failure to develop a debt management strategy despite their strong commitment to the ECF Arrangement, the minimum requirements were not met and a score of D has been assigned to this dimension.

The long-term challenges will involve undertaking the efforts required to formulate a debt management strategy.[24] The Comoros could reach the HIPC Initiative decision point in 2012 and benefit from debt relief. At that time, the development and monitoring of a clear debt management strategy will become key elements, in light of the Government's increasing borrowing capacity. It should, inter alia, provide an assessment of the associated risks and costs of the various possible financing policies. This strategy

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[22] IMF Country Report No. 10/233 published in July 2010. Union of the Comoros: First Review Under the Three-Year Arrangement Under the Extended Credit Facility, Memorandum on Economic and Financial Policies for 2010, Appendix 1, page 38.

[23] Owing to the absence of an array of financing options, the other risk indicators, such as the share of foreign currency debt relative to domestic currency debt, the currency composition of foreign currency debt, and the average term of the debt are less relevant in the case of the Comoros.

[24] Despite the absence of a range of financing options, the DND could generate various provisional debt service scenarios, by conducting sensitivity analyses, such as a change in the exchange rate (for example, EUR-USD and JPY-EUR) in order to provide risk assessments that could prove beneficial to the formulation of the fiscal policy. The DND could also incorporate risk and cost measures that would provide the foundation for the analysis of other financing policies. These assessments will, however, assume greater importance in the future. Calculation of the maturity profile may also prove to be a useful indicator that could be included in the debt-related data provided by the DND to the various government agencies.

should maintain a prudent foreign debt management policy based on a borrowing ceiling and concessional loans, with the aim of preserving external and fiscal sustainability.

Dimension 2

The DND is, in theory, responsible for formulating the debt management strategy,[25] while the CNDP is tasked with monitoring its implementation.[26] However, the legal framework failed to specify the entity responsible for endorsing the approval of the strategy (*Decree 08-017 of March 4, 2008*).[27] The legislation stipulates that the strategy must be outlined in a document appended to the LdF and must include the borrowing ceilings, the terms and conditions of the new loans, and the portfolio structure for the new loans. The strategy must also include the reasons for the loan and a public debt sustainability profile for the following 15 years.

However, the entities with responsibility for debt management have not formulated a strategy. The BCC is not involved in this management activity, and the procedures do not indicate the persons responsible for approving the document, or provide the dates on which this strategy must be updated and published. Owing to the non-existence of a debt management strategy, this dimension cannot be rated (N/R).

DPI-4: Evaluation of Debt Management Operations

Dimension	Score
1. Level of disclosure—in an annual report or its equivalent—of government DeM activities, central government debt, evaluation of outcomes relative to stated objectives, and compliance with the Government's DeM strategy	D

Debt management activities in the Comoros have not yet been presented in a report for the Minister of Finance or Parliament. There is inadequate use of the information provided in the DND's EXCEL database (output tables and charts) and analyses of data recorded and extracted where necessary are not being conducted. The absence of a reporting format hampers the DND's initiatives to produce this report. To date, the information produced by the DND is limited to a few statistics (including outstanding loans broken down into donor categories, debt servicing by principal and interest) relating to domestic needs (for example, these statistics are sent to the CREF in keeping with the contractual reporting requirements of the IMF). The mission was, however, aware that a draft status report was being prepared at the DND.

Moreover, administrative constraints such as the absence of systems for evaluating and monitoring activities (for example, mission statements in government entities containing criteria for assessing and identifying performance levels) and the lack of monitoring of contractual obligations under the reference framework with respect to the production of reports, limit the ability of the DND to produce and disclose information on debt management. Lastly, the non-existence to date of a binding debt management strategy approved by the authorities makes the task of producing an evaluation report more challenging.

No report on debt management activities or annual evaluation report on operations pertaining to a strategy selected beforehand has been sent to the Parliament or Minister of Finance. Consequently, the performance for this indicator does not meet the minimum requirement and has been assigned a D rating.

[25] Article 2, Decree 03-062 of June 14, 2003 and Article 6, Order No. 03-005 of August 7, 2003. The DND serves as the Permanent Secretariat of the Sector Commission of the CNDP (Article 8, Decree 08-027 of April 17, 2008), which should be the entity responsible for adopting the strategy.

[26] Article 2c Decree 08-027 of April 17, 2008.

[27] In other WAEMU member countries, the strategy must be validated by the CNDP's decision-making body, which is composed of the Ministers, before it is included in the annex to the LdF.

IPD-5 : Audit

Dimension	Score
1. Frequency of internal and external auditing of central government DeM activities, principles, and operations, as well as publication of external audit reports	**D**
2. Degree of commitment to address the outcomes of internal and external audits	**N/R**

From a regulatory standpoint, there are two internal audit entities—the CVC,[28] which functions as the Court of Audit, and the IGF[29]—but no external audit entity. Neither of these two internal audit entities has, to date, conducted a specific audit of public debt management.

Dimension 1

The non-availability of external audits indicates that the minimum performance requirements have not been met; a score of D has therefore been assigned to this dimension. The absence of external audits results in the absence of an independent assessment of the risks that could have an adverse impact on the equilibrium of public finances.

Dimension 2

In the absence of an audit report, it is impossible to ascertain whether or not the relevant entities are taking the audit recommendations into consideration. As a result, the second dimension cannot be rated.

2. Coordination with Macroeconomic Policies

DPI-6: Coordination with Fiscal Policy

Dimension	Score
1. Coordination with fiscal policy through the provision of accurate and timely forecasts of total central government debt service under different scenarios	**C**
2. Availability of key macroeconomic variables and a debt sustainability analysis, and the frequency with which this analysis is undertaken	**D**

The budget committee,[30] which meets on a quarterly basis, coordinates public debt management with the fiscal policy. The members of this Committee, which is chaired by the Secretary General of the Ministry of Finance, are as follows: (i) the PGT of the Union and the islands; (ii) the National Tax Directorate (DNI) of the Union and the islands; (iii) the National Customs Directorate (ND- Customs) of the Union; (iv) the DNB of the Union and the islands; (v) the DND; (vi) the CGP; (vii) the High Authority [public service]; and (viii) the Department of Research at the BCC (by invitation only). The CREF coordinates the activities of this committee, ensures the sharing of information and statistics from the various

[28] The CVC, which was established in 2000 pursuant to an order issued by the Head of State, is the Supreme Audit Institution for public finances and falls under the Office of the President. It is responsible for verifying the accuracy and reliability of public accounts and auditing the management of public entities and companies, as well as the execution of the LdFs. The CVC prepares its own action plan each year. It conducts document and on-site audits, before preparing an audit report that is submitted to the President of the Republic, the ministers, the NA, the audited entity, and to other government agencies (such as the PGT and the DNB). During its audits of the execution of previous LdFs, the CVC encountered a number of difficulties stemming from the failure of the PGT to close the revenue and expenditure account and the DNB the budget execution account. Last year, the PGT prepared a list, which should facilitate closure of the revenue and expenditure account relating to the 2010 LdF.

[29] The IGF falls under the Office of the Minister of Finance. It is also responsible for verifying enforcement of the laws and regulations governing the administrative, financial, and accounting operations of government departments, entities, and corporations. The IGF has not yet conducted an audit of the execution of the LdFs. Its reports are addressed to the Minister of Finance and a copy is sent to the relevant ministry.

[30] Although the CNDP is responsible for coordinating the borrowing and public debt management policy with fiscal policies, this committee has not yet convened a meeting (Decree No. 08-017/PR of March 4, 2008 and No. 08-027/ PR of April 17, 2008). (See DPI-1.)

aforementioned entities, monitors the quarterly execution of the Government Flow of Funds Table (TOFE), and coordinates relationships with international institutions, including the IMF in the area of reform monitoring, performance criteria, and quantitative benchmarks.

Dimension 1

The DND provides the CREF with information on the monthly external debt payments and the DNB with the annual debt service forecasts for budget preparation. These forecasts also cover debt servicing related to financing projections based on the terms for approved loans and the records of disbursements in the DND's EXCEL database. The gaps between budgeted and authorized expenditures for external debt servicing over the past two fiscal years appear to be fairly small (between 9 percent and 2 percent relative to budgeted amounts in 2009 and 2010, respectively).

"Domestic debt" service forecasts include only payments for statutory advances. These advances, which can be repaid over 12 months, will therefore reflect projected liquidity needs for the following fiscal year. A floating rate of interest is used for the advances[31] (see DPI-7, Dimension 3). In view of the absence of a cash flow plan (see DPI-11), the DNB forecasts interest payments for statutory advances and drawings based on the previous fiscal year's budget amount.[32] As outstanding loan amounts have remained relatively stable at around CF 4.4 billion since 2008, this projection is still reasonably accurate.

Consequently, total debt service projections are determined during the annual budget preparation exercise. As the minimum requirements for effective performance under this dimension have been met, a score of C has been assigned.

Dimension 2

The authorities have not yet conducted a DSA. A preliminary draft of the DSA was prepared by members of the budget committee (DND,[33] DNB, DNS, and BCC) in October 2010, but a final version was never developed. The committee used three-year macroeconomic projections obtained by the various entities represented on the committee, which were incorporated into the Debt-Pro software, but were not reconciled for purposes of drafting a macroeconomic policy.[34] As the committee discontinued this activity, a final analysis report was not included in the 2011 LdF. These weaknesses are largely institutional and relate to a lack of understanding of DSAs and the failure to draft the macroeconomic policy.

The most recent DSA for the Comoros was prepared in June 2010 by the staffs of the IMF and the World Bank in the context of the decision point for the HIPC Initiative and the first review under the three-year ECF arrangement. The DND's role in the preparation of these DSAs was limited to providing data on the external debt and debt servicing required for the analysis.

The drafting of a macroeconomic policy and the preparation of a DSA without external assistance are key elements for meeting the minimum requirements of this dimension. A score of D was therefore assigned.

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[31] This floating rate corresponds to the EONIA rate plus a margin of 1.5 points. The EONIA rate is the daily reference rate applied to the interbank deposits of a large sample of major banks (not backed by securities) in the Euro zone.

[32] Authorized domestic debt payments are relatively low. In 2009, they accounted for 13.4 percent of authorized external debt payments, 1.5 percent of domestic revenues, and 0.9 percent of total expenditures and net loans.

[33] The DND is authorized to conduct a DSA, in accordance with Decree No. 08-027/ PR of April 17, 2008.

[34] A macroeconomic policy that provides the foundation for the PRSP was published in 2010. It was spearheaded by a UNDP-funded consultant, along with members of the CREF, the BCC, and the CGP. This individual, who coordinated this policy, is authorized to continue this effort.

DPI-7: Coordination with Monetary Policy

Dimension	Score
1. Clarity of separation between monetary policy operations and DeM transactions	**N/R**
2. Coordination through regular information sharing on current and future debt transactions and the central Government's cash flows with the Central Bank	**D**
3. The extent of the limit to direct access to central bank resources	**C**

Dimension 1

The Comorian Government does not borrow on the domestic financial market or from private investors (DPI-8). The BCC has no independent monetary policy in place, as the Union maintains a fixed exchange rate system between the Comorian franc and the Euro, which was facilitated by a cooperation agreement between the BCC and *Banque de France*.[35] In view of the fact that interest rates in the Comoros are determined by the main interest rates of the Euro zone's interbank market, the only instrument available to the BCC to help control monetary growth is the level of required reserves. The current level of 30 percent has been in place since June 2010. In light of the non-existence of government securities, this dimension has not been rated.

Dimension 2

Owing in part to the absence of cash flow forecasting (DPI-11), there is little information sharing between the central Government and the BCC. The BCC, which is a member of the budget committee, participates in the quarterly meetings by invitation only.

A recent example reveals that frequent information sharing between the Central Bank and the central Government is necessary, even when no government securities are issued and no independent monetary policy is in place: following receipt by the central Government of a grant from Qatar totaling approximately EUR 20 million—60 percent of which was earmarked for the payment of arrears related to wages and goods and services—the BCC then increased the level of required reserves from 25 percent to 30 percent, in a bid to sterilize this liquidity and curb inflationary pressures.

Owing to the absence of frequent information sharing between the central Government and the BCC, the minimum performance requirements were not met and a score of D has been assigned to this dimension.

Dimension 3

The Government may access the BCC's statutory advances (Article 22 of the bylaws of the BCC) by maintaining a ceiling of 20 percent of the annual average for domestic and recurrent revenues for the Government over the previous three years. The maximum maturity period for advances is 12 months. The interest rate applied to statutory advances established by the BCC's Board of Directors is variable and corresponds to the EONIA rate[36] plus a margin of 1.5 points, which is applied on a monthly basis. Payments relating to the clearance of advances are recorded by the Treasury.[37] Article 22 of the bylaws of the BCC also stipulates that "no other form of credit or advance to the Union of the Comoros [...] may be granted by the Bank, either directly or indirectly." As a result, the minimum performance requirements for this dimension have been met and a score of C has been assigned.

[35] Under this agreement, *Banque de France* performs the functions of a BCC official and thus handles all of the BCC's external financial transactions.
[36] See footnote on page 15.
[37] Over the past three fiscal years, the amount of advances at the end of the budget year stood at approximately CF 4.4 billion (EUR 9 million), which is close to the established annual ceiling. In the past, the Government had benefited from a long-term facility with the BCC, which was repaid in 2010 (CF 896 million).

3. Borrowing and Related Financing Activities

DPI-8: Domestic Market Borrowing

Dimension	Score
1. The extent to which market-based mechanisms are used to issue debt, publication of a financing plan for T-bills and T-bonds, and the preparation of an annual plan for the aggregate amount of local currency borrowing in the domestic market, divided between the wholesale and retail markets	**N/R**
2. The availability and quality of documented procedures for local currency borrowing in the domestic market	**N/R**

Dimension 1

The Comorian Government does not borrow on the domestic financial market or from private investors; as a result, this dimension was not rated (N/R). It bears noting, however, that the absence of domestic borrowing, despite the growing financing needs of the Government, essentially masks the accumulation of domestic arrears and the fact that local banks prefer to invest in the private sector, owing to the margins that they can secure through loans to private economic operators.[38] In fact, in the current context, borrowing at market rates would be unrealistic and inconsistent with the fiscal benchmarks established under the ECF and with the envisaged macroeconomic policy. As explained in the first chapter, the Government's financial commitments to the citizens, including those relating to domestic arrears (see DPI-11) and statutory advances granted by the BCC (see DPI-7), are not categorized as domestic debt that should be managed by the DND's units.

Dimension 2

In view of the fact that there is no domestic market borrowing, the entities tasked with debt management cannot publish the terms, conditions, and borrowing procedures for each instrument. Consequently, the second dimension cannot be rated (N/R).

DPI-9: External Borrowing

Dimension	Score
1. The degree of assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity)	**D**
2. The availability and quality of documented procedures for external borrowings	**D**
3. The availability and degree of involvement of legal advisors before signing of the loan contract	**D**

Dimension 1

External borrowing in the Comoros is currently determined by the ECF arrangement with the IMF (see DPI-3). In light of the country's overindebtedness and low revenue levels, all contracted external loans must include a grant component accounting for at least 50 percent of the loan amount. The only donors that offer such generous financial terms and conditions for their loans are IDA, the International Fund for Agricultural Development (IFAD), and the AfDB. The Government therefore has very little room for maneuvering to identify donors that would offer the most beneficial and cost-effective borrowing terms

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[38] The Comorian financial system is composed of four banks, a postal bank, and two groups of institutions involved in micro finance. Most of the loans are short-term loans granted to importers at high interest rates and with limited risk ("*Accès au credit," rapport préliminaire du "Diagnostique de la croissance"* ["Access to Credit," preliminary report on the "Growth Analysis"], World Bank, December 2010).

and negotiate the terms and conditions for the loans in question with donors. Just one loan was signed with Exim Bank of China in 2010, while nine were contracted between 2000 and 2010 (see Chapter I).

Despite these borrowing constraints, the DND was able to prepare terms sheets stipulating the financial terms of the current main donors, play a more active role during loan negotiations, and undertake an assessment of the risks associated with possible financing operations in the future.

Owing to the non-existence of an assessment of the most cost-effective financial terms and conditions, the Comoros does not meet the minimum requirements under this first dimension and a score of D has been assigned.

The borrowing and public debt management process nonetheless entails mainly the restructuring and rescheduling of external debt, aimed at clearing arrears accumulated in the past estimated at US$54 million at end-2009 (10 percent of GDP).[39] These operations were planned and proposed by the DND, which conducted an analysis of the maturity profile of the debt and established repayment schedules, while seeking to avoid having too many payments falling due during the same period. In most cases, the DND endeavored to obtain a 10-year grace period. It is in the context of this work that the Minister of Finance, with support from the DND, negotiated a rescheduling of obligations to the Organization of Petroleum Exporting Countries (OPEC) Fund, while the CNDP, and more specifically the DND, engaged in debt restructuring negotiations with Paris Club donors.

Dimension 2

Documented procedures for external borrowing have not been prepared, although DND officials are aware of their existence. The DND was nonetheless not required to participate in the negotiation process or prepare a terms sheet for the loan recently signed in December 2010 with Exim Bank of China. As a result, the minimum requirements under this dimension were not met and a score of D has been assigned.

Dimension 3

Given that legal advisors have never been called upon to assist with the negotiation process, this dimension was rated a D. However, the legal advisor in the Office of the President was quite recently asked to assist the DND with all future loan negotiations and other debt-related activities. Once the legal advisor has acquired the basic knowledge pertaining to these tasks, this individual will be able to fully assume this responsibility.

DPI-10: Loan Guarantees, On-Lending, and Derivatives

Dimension	**Score**
1. The availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees	**D**
2. The availability and quality of documented policies and procedures for on-lending of borrowed funds	**D**
3. The availability of a DeM system with functionalities for handling derivatives, and the availability and quality of documented procedures for the use of derivatives	**N/R**

[39] For a more detailed description of the progress made in this area, see the "Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—Decision Point Document," June 3, 2010. Box 1: External Arrears Clearance, page 12.

Dimension 1

The management of loan guarantees and on-lending of borrowed funds by the Government to its agencies has been covered in well established policies. These policies apply to the issuance of guarantees and on-lending of borrowed funds, and are set forth in the same clauses of the same secondary legislation (Decree No. 08-017/PR of March 4, 2008 and Order No. 08-09/MFB of September 4, 2008). This management activity is the responsibility of the CNDP—more specifically of the sector commission and its permanent secretariat (the DND) (Decree No. 08-027/ PR of April 17, 2008). They have not, however, been developed into operational guidelines.

In accordance with the laws and legal provisions, the CNDP—the sole body authorized to act in this sphere—must be consulted prior to any negotiations, and is responsible for issuing a well-founded opinion in response to requests for guarantees and on-lending of borrowed funds submitted to the Government. A legal advisor must be involved in the negotiation phases and during drafting of the proceedings and related documents. Whenever the CNDP is asked to provide a well-founded opinion on a request for a guarantee or on-lending of borrowed funds, the sector commission must conduct a study that covers the following eleven points: (i) the socioeconomic impact of the project; (ii) consistency between the type of project and its method of financing; (iii) the financing interest or the entity requesting the guarantee or on-lending of funds; (iv) the compatibility of the financing with the national borrowing strategy; (v) the type and amount of the Government's commitments vis-à-vis the project; (vi) the impact of new borrowing on debt servicing and public debt sustainability; (vii) the loan duration and grace period; (viii) the grant component;[40] (ix) the beneficiary sector; (x) the allocation of funds in line with the project's various components; and (xi) the conditions for loan effectiveness and disbursement.

As indicated in Chapter I, a government guarantee was recently granted to Comores Telecom, but the aforementioned conditions were not met. Neither the CNDP nor the legal advisor was asked to submit a well-founded opinion, nor was the CNDP sector commission or the DND asked to review this financing request. Established policies have been well defined, but could be strengthened by incorporating the obligation to assess credit risks and a guarantee fee.

In view of the non-compliance with the policies for approving and issuing loan guarantees and the absence of policy operational guidelines for the sector commission and the DND, a score of D has been assigned to this dimension.[41] These guidelines are important, as they are the cornerstone of effective management and external debt sustainability.

Dimension 2

As was the case with the first dimension, all of the policies established for on-lending of borrowed funds by the Government to its entities were clearly defined, but could be strengthened with the inclusion of the obligation to assess credit risks and a guarantee fee. The Comorian Government has not provided any on-lending in recent times. It did, however, provide on-lending on two occasions in the past to Comores Telecom, prior to the formulation of the aforementioned policies.[42] A score of D has also been assigned in view of the failure to develop these policies into operational guidelines.

[40] The Government must refrain from providing a guarantee for loans with terms that are more expensive than those for its own loans (the concessionality rate is currently set at 50 percent under the ECF).
[41] Such as specification of the analysis framework for evaluating the socioeconomic impact of the project or consistency between the type of project and its method of financing.
[42] Comores Telecom's failure to adhere to the payment schedule led to the rescheduling of the loan negotiated between the Comorian Government and the two donors in question (BADEA and the Kuwaiti Fund) in 2007.

Dimension 3

The third criterion cannot be assessed because derivatives are not used by the Comorian Government as a hedging instrument.

4. Cash Flow Forecasting and Cash Balance Management

DPI-11: Cash Flow Forecasting

Dimension	Score
1. The effectiveness of forecasting the aggregate level of cash balances in government bank accounts	D
2. The effectiveness of the management of the aggregate cash balance in government bank accounts, including the integration with the domestic borrowing program	D

Dimension 1

The Comorian central Government does not prepare cash balance forecasts. Where there are persistent cash flow deficits, which, as a result, provide little excess liquidity to manage, the authorities have virtually no incentive to develop a cash flow plan (see above). Furthermore, budget execution requiring the enactment of several supplementary LdFs, with a view to amending the initially approved LdF, complicates the task of establishing accurate central government budget forecasts.

In the Comoros, the PGT has responsibility for managing the central Government's cash balances. For many years, these cash balances have not been able to cover all of the Government's expenditure commitments. As indicated above in DPI-7, the PGT of the Union has access to short-term advances from the BCC.[43] These advances are nonetheless still insufficient relative to the size of the Government's persistent cash balance deficits. This situation results in a type of "rationing" of liquidity, the allocation of which is determined on a daily basis, subsequent to a discussion between the Union's Minister of Finance and Treasurer. Priority is accorded to debt service payments to multilateral donors and to wages. The authorities are committed to finding a solution to the issue of arrears—the accumulation of which is the product of these persistent liquidity shortages—and intend to clear these arrears by 2016.[44]

One of the factors that explain these persistent cash flow shortfalls is the country's political organization. As already stated in Chapter I of this document, in addition to the Union's Ministry of Finance and Treasury, each island has its own ministry and treasury, thus assertiing their autonomy in relation to the central Government. Against a backdrop of weak growth and limited public revenues, each island is seeking to maximize its share of the budget, thereby causing liquidity shortfalls and weak budget execution.[45]

Moreover, the ministries and treasuries in the islands do not systematically inform their counterparts in the Union, and there are institutional tensions between central government and decentralized entities. A joint Union/Island Coordination Unit was established in 2008 and tasked with supervising the

[43] Statutory advances are described in DPI-7.

[44] See the 2009 consultations with respect to Article IV of December 27, 2010 on page 8. For more information on efforts to clear external debt arrears, see the "Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—Decision Point Document," June 3, 2010, Box 2, page 12. A provisional report published in November 2009, *Analyse des Arriérés Intérieurs de l'Etat Comorien* (Analysis of the Domestic Arrears of the Comorian Government), presents the situation with respect to domestic arrears payments.

[45] For example, the mission was informed of a transfer from the PGT to a treasury on one of the islands for wage payments, which was ultimately used for other purposes. After this transfer, the Union decided from then on to deposit wage payments directly into employee accounts at the postal bank.

coordination of cash balances. However, its activities were suspended the following year. A substitute mechanism—the Treasury Committee[46]—was subsequently established, but no meeting has been convened to date.

All in all, cash balance forecasts have not been prepared or submitted to the DND. As a result, the minimum requirements for this dimension have not been met, and a D score has been assigned.

Dimension 2

As already indicated, the PGT is responsible for managing the central Government's cash balances. Cash balances are deposited into several current accounts at the BCC[47] to facilitate the allocation of resources to the Union and the islands. There is no single treasury account and the BCC does not pay interest on credit balances.[48] In view of the fact that the Government's credit balances are not interest bearing, the minimum requirements for this dimension have not been met. A D score has therefore been assigned.

5. Operational Risk Management

DPI-12: Debt Administration and Data Security

Dimension	Score
1. The availability and quality of documented procedures for the processing of debt servicing	**C**
2. The availability and quality of documented procedures for debt data recording and validation, as well as storage of agreements and debt administration records	**D**
3. The availability and quality of documented procedures for controlling access to the central Government's debt data recording and management system	**D**
4. Frequency and off-site secure storage of debt recording and management system backups	**D**

In view of the absence in the Comoros of conventional domestic debt, no process relating to data capture, disbursements, or the storage of agreements can be applied.[49] As a result, the ratings will pertain solely to the quality and monitoring of the external debt procedures.

Dimension 1

A draft procedures manual on public debt servicing was prepared in 2004 with DRI support.[50] The external debt servicing procedure being used is the one described in the manual.[51] The process is relatively long and requires numerous verifications, as outlined below:

- Before the start of each month, the DND sends a note addressed to the Minister of Finance (copy to the PGT) containing all of the scheduled payments for the following month. Debt servicing regulations provide for the reconciliation of the amounts recorded in the DND's Excel database with the payment notices received from donors.

[46] See Presidential Decree 09-081/PR of July 20, 2009. The decree establishes a cash flow plan aimed at preventing arrears accumulation. This committee is chaired by the General Secretary of the ministry responsible for the budget.
[47] The administrations of the Union and the islands also have bank accounts at the postal bank to facilitate fund transfers and wage payments.
[48] The BCC stopped paying interest on credit balances in 2008.
[49] However, whenever a plan to clear arrears on wages and goods and services is validated and put in place by the Government, the DND will be able to monitor this debt. The current process for data capture, the storage of agreements, or data security could be assessed.
[50] The "Manuel de procédures en gestion de la dette publique" (Procedures Manual on Public Debt Management), preliminary draft, April 2004. The DND has indicated that the manual will be fine-tuned and finalized during the second half of 2011 with AfDB support.
[51] The procedure is well established owing to the fact that most of the staff have worked at the DND for a long time.

- The DND initiates the payment order process by issuing and transmitting five key documents—a transmission notification, a commitment form, a credit notice, a commitment note, and a payment order—to the DNB. These documents are signed by the director of the DND and verified by its accountant.

- After a DNB official checks to ensure that these documents are in order and the financial controller confirms the availability of funds, the DNB authorizes the payment and submits the credit notice, commitment form, and commitment note to the PGT. The PGT's expenditures and accounting departments verify, respectively, the supporting documentation and authorized payment amounts.

- The Paymaster General—who closely monitors the payment due dates—consults the Minister of Finance in order to obtain the latter's prior approval for debt servicing.[52]

- While the Minister of Finance authorizes a fund transfer from the common revenue account to the BCC (expenditures account), the Paymaster General sends a transfer letter to the BCC, requesting that it make the payment. The BCC forwards the payment notification to the BdF, which pays the donor. When the PGT receives the transfer report from the BCC, a copy is sent to the director of the DND, who can then inform the beneficiary that the transfer has been completed.

While the manual does not explicitly state that the authorities must respect the payment due dates, it does provide short deadlines for each stage of the payment process to ensure that payments are made in a timely manner. In reality, the authorities are committed to respecting—insofar as it is financially possible—the stipulated maturity dates for donors, for which the debt service payments are set forth in the LdF. If there are cash flow difficulties, the payment may be made in several installments and the entire debt service amount, if not paid by the due date, will be paid during the grace period.

In light of the existence of a debt servicing procedures manual, which is being followed, this dimension is rated C.

Dimension 2

The procedures manual described in the previous section is also used for debt data recording and validation procedures. Information on new loans, disbursements, and debt rescheduling is recorded in an Excel database[53] by the DND official responsible for external debt servicing. When the DND receives a copy of the agreements, the terms, conditions, and amounts of the new loans are entered in the database. Another official verifies the accuracy of the data capture and the data are systematically validated using the payment notices from donors. There is, however, a delay in entering information on disbursements as the sole source of information is the payment notice from the donors (DPI-2 and DPI-14).

With respect to storage of the agreements, the DND has a small number of the original documents (less than 30 percent of the agreements) and copies of the missing original documents (less than 20 percent of the agreements). Line ministries were once authorized to sign loan agreements, and a number of agreements were never transmitted to the DND. As a result, the DND had to obtain signed copies of agreements with, by way of example, the *Agence Française de Développement*, from the Paris Club Secretariat. As regards storage of all signed original loan agreement documents, the DND inherited a situation that it was unable to improve independently, as it is seeking to do by obtaining copies of the

[52] According to the DND, the absence of the Minister of Finance does not delay the debt servicing process because other ministers are authorized to approve payments in his or her absence.
[53] There is relatively little content in the external debt database (only 69 loans), which facilitates data manipulation on Excel. The database has some twenty spreadsheets, including output tables.

missing original documents. These agreements or copies of agreements, as well as all documents related to debt management, are stored in unlocked cabinets at the DND, and are thus vulnerable to theft and disaster. However, only DND officials have access to this office, which remains closed in their absence.

Financial assistance from the BCC is recorded and monitored by the PGT and the BCC, while domestic arrears are recorded by the PGT.[54]

In light of the fact that the DND has not requested or obtained copies of all signed original loan agreements and that the documents relating to debt or debt management are not securely stored, the minimum conditions for this dimension have not been met and a score of D has been assigned.

Dimension 3

Data on external debt are not captured in a debt data recording and management system and are therefore stored in an unsecure location. For example, Excel does not have an audit trail that shows who accessed the database and when. There are also no documented procedures for controlling access to the database.

Access to this database is currently still restricted. Only one DND official[55] has access to the database using a personal password. Whenever modifications to the database are made by this official, the latter makes copies of the database on three other computers in the division. The database is locked in the absence of this official. This practice prevents a situation whereby several officials can make modifications to the database without leaving an audit trail.

However, under this procedure, a single official does not have complete control of the database. If this official is unable to perform his or her duties, several copies of the database are available for use as the main database.

In view of the absence of documented procedures, the minimum performance requirements for this dimension were not met and a score of D has been assigned.

Dimension 4

The official responsible for external debt management also makes monthly backup copies on CDs of the database and all files relating to debt management, which are kept in a locked drawer in the official's office as well as at his or her place of residence. No other copies are available at another ministry. There are no documented procedures requiring the official to make backup copies.

This initiative is commendable and reduces the risk of loss because the CDs are stored in two different locations. However, given that the backup copies are still exposed to the risk of fire, flood, or theft,[56] that just one official is responsible for making backup copies, and that documented procedures are non-existent, this dimension is rated a D.

DPI-13: Segregation of Duties, Staff Capacity, and Business Continuity

Dimension	**Score**
1. Segregation of duties for some key functions and the presence of a risk monitoring and compliance function	**D**

[54] Data on accounting arrears were recorded during the aforementioned audit in an Excel file held by the PGT (see Chapter I). The PGT is responsible for updating the file by recording outstanding debts in 2009 and 2010. With respect to cross debts with public enterprises and the pension fund, the CREF has begun to convene meetings with their representatives as well as with those from the government entities involved, with a view to determining the Government's net financial position.
[55] This official is the former acting director of the DND.
[56] Backup copies could be stored in a secure location in another government building, such as the Central Bank or the Treasury.

2. Staff capacity and human resource management	**D**
3. Presence of an operational risk management plan, including business-continuity and disaster-recovery operations	**D**

Dimension 1

In theory, the team that is supposed to participate in the negotiation of loan agreements and signing of contracts ("front office") is composed of representatives of the CGP, the Ministry of Foreign Affairs, and the relevant line ministry, as well as of the directors of the DND and the CREF.[57] Although the DND director is a member of the negotiating team, other DND officials are responsible for data recording and debt servicing ("back office"). There is therefore a separation of duties between the "front office" and the "back office."

The DND, which comprises four officials, conducts relatively simple operations because it manages only 69 foreign loans currently in effect. None of these loans is being disbursed, and only a small number have been disbursed over the past three years. The accuracy of the data entered by one official is systematically verified by another official.

There is no operational risk monitoring owing to the unavailability of skilled personnel to perform this function. As regards compliance with guidelines, the DND director was, at one time, responsible for ensuring that "the procedures in the manual were complied with and implemented."[58] However, following a recent review of the DND's organizational chart, which still does not include detailed descriptions of each position, the task of ensuring compliance with the guidelines was not assigned.

Owing to the absence of an official responsible for risk monitoring and ensuring compliance with procedures, the minimum performance requirements for this dimension were not met and a D has been assigned.

Dimension 2

The recently implemented organizational chart includes five positions (including a vacancy): director; head of the external debt unit; official responsible for contributions to international organizations and external debt monitoring; head of the domestic debt unit (including the recently added responsibility of formulating an arrears clearance strategy);[59] and officer tasked with evaluating tracking of domestic debt payments. The DND may also accept trainees to support its activities. This number of positions appears to be sufficient to cover all current DND activities. While the previous organizational chart included detailed job descriptions for each position, the revised version provides only the minimum academic qualifications required for each one. The four DND officials are fairly experienced, having worked at either the DND or the Ministry of Finance for between five and ten years.

All the officials have a *baccalauréat* and a Master's in Economics or Public Sector Management from foreign universities (e.g., in Madagascar and Morocco). These academic qualifications fully meet the requirements for the positions and the staff is sufficiently well prepared to perform the basic duties required. However, these officials should strengthen certain analytical skills to enable them to have a better grasp of the tools to help analyze and ensure debt sustainability in the long term. These skills will become essential once the country reaches the completion point of the HIPC Initiative. Training in the calculation of current values and grant components, DSA preparation, and sensitivity analysis is therefore critical.

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[57] See footnote on page 34.
[58] "Mission sheets" obtained from the DND.
[59] It is not very clear if coordination between the PGT and DND regarding formulation of a clearance strategy was planned.

As far as continuing training programs are concerned, the DND officials have participated in several seminars, for example seminars on debt management and on DSA offered by the *Pôle-Dette* in 2007 and 2009, respectively, on public finance management and poverty reduction presented by the Central Bank of West African States (BCEAO) and the Bank of Central African States (BEAC) in 2010 and, more recently, on the Medium-Term Debt Strategy (MTDS) proposed by the World Bank in 2011. Moreover, one of the components of the ICBP (implementation of this project will begin this year) covers the training of officials in DSA (see Chapter I, technical assistance). However, the DND does not have an individualized training plan and the participation of all the officials in the course will be contingent upon the availability of funds allocated to training.

In view of the absence of descriptions of the positions in the revised organizational chart and the weak analytical capacity to perform more complex tasks, the performance in this dimension does not meet the minimum requirements; consequently, a score of D has been assigned.

Dimension 3

The DND does not have a business-continuity or disaster-recovery operations plan (the main dangers cited by the DND include volcanic eruptions and fires). This dimension has therefore been assigned a D rating.

6. Debt Records and Reporting

DPI-14: Debt records

Dimension	**Score**
1. Completeness and timeliness of the central government debt records	**D**
2. Complete and up-to-date records of all holders of government securities in a secure registry system	**N/R**

Dimension 1

The Union does not have a government debt recording and management system akin to SYGADE or CS-DRMS (see Chapter I on technical assistance). Given the small number of foreign loans, the low contraction for new loans, and the absence of domestic debt, complete debt records are being maintained in Excel. The only agreements missing are those pertaining to the agreement signed in December 2010 between Exim Bank of China and the transfer agreement for Comores Telecom with a government guarantee. To date, the DND has received only a copy of the first agreement.

As indicated in DPI-2, the DND is made aware of disbursements only after payment notices have been issued by the donors. It is therefore impossible to ascertain if these disbursements are recorded within three months following the transaction. However, even if the CGP were to share information on disbursements, the problem would persist. The CGP, which is authorized to collect information on disbursements from line ministries, sends tracking forms on a quarterly basis only, which do not include the exact dates of the disbursements.

Transfer notices (reports of transfers for external debt servicing sent by the PGT) and the terms and conditions of the debt rescheduling and restructuring agreements are entered in the database within three days and one week, respectively. Thus, once posted, validated, and recorded, these data are immediately available for the publication of basic external debt statistics. This database has never been audited and data contained therein with data from donors have rarely been reconciled. However, it bears noting that this database was reconciled in January 2010 during preparatory work for the country's achievement of the decision point for the HIPC Initiative.

Although no assessment can be conducted of the timeframes between actual disbursements and their registration in the DND database, the failure to include the agreement signed with Exim Bank of China and the guarantee granted to Comores Telecom, as well as the lack of coordination between the CGP and the DND on the disbursed amounts (including the format and frequency of the request) for ongoing projects reveal that the minimum requirements for the first dimension of this indicator were not met.[60] As a result, a score of D has been assigned.

Dimension 2

An evaluation of the existence, completeness, and timeliness of records of holders of government securities cannot be conducted because the Comoros does not issue securities.

DPI-15: Debt Reporting

Dimension	**Score**
1. Meeting of statutory and contractual reporting requirements for central government debt to all domestic and external entities	**D**
2. Meeting of statutory and contractual reporting requirements for total nonfinancial public sector debt and loan guarantees to all domestic and external entities	**N/R**
3. Quality and timeliness of a debt statistical bulletin (or its equivalent) covering central government debt	**D**

The contractual reporting requirements are the requirements set forth in the World Bank's Debt Reporting System and those contained in the IMF's ECF. In an effort to publish high quality data, the World Bank noted that the most recent data submitted in early 2010 were not always consistent (the outstanding debt amount at end-2009 did not correspond to the projected debt payment amount), and that correspondence had to be exchanged in a bid to settle the differences. Consequently, the quality of these data was rated "2- with a stagnant trend," an indication of the existence of significant problems.

Under the contractual reporting requirements with the IMF, data, including debt-related data, must be communicated each month within a period of 45 days following the date to which they relate. The CREF has noted the persistence of numerous problems with regard to monitoring the execution of the TOFE on a monthly basis, necessitating, on occasion, the submission to the IMF of a request for a waiver from this requirement. However, the problems stem from budgetary data that require consolidation between data from the Union and the islands (revenues, expenditures, and changes in domestic arrears), and not data pertaining to external debt and statutory advances, given that only the Union is authorized to contract loans. The IMF staff report of July 2010 on the first review under the three-year ECF arrangement noted that the quality of the data on external debt should be improved to facilitate the fiscal analysis.[61]

In addition to the regulatory reporting requirements, the DND provides a raft of reports to various government agencies on the execution of debt servicing for the previous fiscal year, as well as on the debt stock (e.g., the DNB, the CGP, the CVC),[62] and to the EU. However, the TOFE was not published on the Government's website, nor did the BCC include the central Government's debt service payments in its annual status report. As a result, debt-related figures were not published by government agencies.

[60] Although the DND was unable to enter the terms and conditions of the Chinese loan in its database for the month of March, it has to be included as a justification for a D rating (data entered after three months).
[61] See Annex 4, page 7, "Union of the Comoros: First Review under the Three-Year Arrangement under the Extended Credit Facility," IMF Report No. 10/233, July 2010.
[62] The Director of the CVC stated that he had not yet received annual data for 2009, despite the submission of a request in June 2010.

Dimension 1

In light of these observations, a score of D is assigned to this dimension. Two major weaknesses affect the data submitted to the World Bank and the IMF, as well as the publication of key data on debt, which should be published more than three months before the declaration period.

Dimension 2

Owing to the fact that there is, to date, no requirement to report total nonfinancial public sector debt and loan guarantees, the second dimension was not evaluated.[63]

Dimension 3

As the Comorian Government did not produce a statistical bulletin covering central government debt, the third and final dimension was assigned a D rating.

[63] As indicated in DPI-10, the Government recently issued its first loan guarantee, and the Government and donors engaged in rescheduling negotiations for the two on-lending transactions conducted in the past.

IV. CONCLUSION

Based on the 27 dimensions assessed (eight dimensions could not be assessed), the Comoros has met the minimum conditions pertaining to public debt management performance for three dimensions. The weaknesses in the dimensions where performance was deemed unsatisfactory largely reflect the difficulties faced by the Union in strengthening its institutional and legislative framework, following a protracted period of recurring crises. Given the scope of these challenges, an overall improvement in public debt management performance in the Comoros calls not only for specific actions within the entities participating in debt management channels (individual actions), but also for actions outside these channels aimed at implementing more general institutional reforms in the public service (actions outside the channels).

The Comoros' debt management performance satisfies the minimum requirements in the following areas:

- **Coordination with the fiscal policy** (DPI-6, Dimension 1). Public debt service forecasts and payments are integrated into budget preparation and tracking. The DND provides information on the monthly external debt service payment and the annual forecasts. These forecasts are quite accurate, owing to the limited gaps between authorized and budgeted amounts over the past two years. Domestic debt servicing forecasts include only payments for statutory advances. These advances reflect expected liquidity needs for the following fiscal year, which remain similar from one year to the next, thus facilitating the forecasting process.

- **Coordination with monetary policy** (DPI-7, Dimension 3). The law stipulates that the Government may access statutory advances from the BCC up to a limit of 20 percent of the annual average domestic and recurrent fiscal revenues of the three previous years. The repayment terms are clearly defined. The BCC's bylaws also stipulate that "no other form of credit or advance to the Union of the Comoros [...] may be granted by the Bank, either directly or indirectly."

- The **procedure for the processing of debt service** (DPI-12, Dimension 1). The external debt servicing procedure is included in a draft procedures manual prepared with the assistance of the DRI in 2004, revealing a relatively long procedure with numerous verifications. The procedure is routinely monitored by DND staff.

With a view to strengthening and improving effective public debt management in the Comoros, the priority areas, in which support measures could be adopted, are divided into two main pillars:

- **Improvement of the basic debt management functions: debt servicing, the production of statistical reports, and backup copies**

    - Debt service monitoring can be improved, which would in turn help enhance the quality of external debt data (DPI-15, D1). The introduction of an integrated debt recording and management system, improved coordination of disbursements among the relevant entities, the availability of all loan agreements (at least a copy of all the missing original agreements), documented procedures for making backups and storing them in a secure location (e.g., at the Central Bank or the Treasury), as well as staff capacity building, should ensure this improvement (DPI-13, D2; DPI-12, D2, D3, and D4; DPI-14, D1). This should facilitate the production of debt reports and statistical bulletins (DPI-4; DPI-15, D3).

    - In the long term and once persistent cash flow deficits have been reduced, portfolio debt management can be improved through accurate and frequent cash flow forecasting. This will require substantial improvement in budget execution and the activation of the Treasury Committee (DPI-11, D1). In this same context, earnings on the central Government's credit balances with the BCC would allow the authorities to bring their practices in line with international standards and increase, if only minimally, cash balances (DPI-11, D2).

- **Introduction of robust loan programming**

  - A more robust loan programming process would require the development and implementation of a debt management strategy (DPI-3, D1). This strategy should be produced by the authorities by ensuring the participation of all institutions operating in debt management channels, including the one for the BCC (DPI-7, D2). The legislative framework should provide the updating and publication schedule for a new strategy, as well as the unit responsible for its publication. The objectives for which borrowing is authorized should also be included in primary legislation, and application of the provisions of the legal framework should be improved, such as in the area of loan negotiation and contracting (DPI-1).

  - In order to ensure adequate loan programming and satisfactory monitoring, the authorities could expand their activities to include more analyses, which would require capacity building (DPI-6, D2; DPI-9, D1 and D2; DPI-10, D1 and D2; DPI-13, D2). More specifically, the authorities could (i) prepare term sheets with the financial terms of current main donors; (ii) assess the risks of possible future financing operations (including the credit risks of entities that require public financing; (iii) calculate the guarantee and on-lending fees; (iv) independently calculate the grant components of external loans; (v) ensure the involvement of a legal advisor in the loan negotiation process; (vi) independently develop a coherent medium- and long-term policy; and (vii) prepare DSAs.

  - Programming could be improved through the preparation and incorporation of the findings on the regular annual debt management operations assessments (DPI-4) and external audits (DPI-5, D1).

As noted in Chapter II, the Comoros is benefiting from several technical assistance programs that target, among other things, the aforementioned priority actions. These technical assistance programs therefore provide the Comorian authorities with an opportunity to strengthen debt management in the short and medium terms.

ANNEX 1: LIST OF INSTITUTIONS AND OFFICIALS MET BY THE MISSION

NAME	TITLE	INSTITUTION
Ibrahim Salim	Legal Adviser	Office of the President
MOHAMED SOILIHI Maoulida	Statistician	Debt Directorate
Sabit Ferouse	Coordinator	ICBP
Abdou Chakourou	ARCFP	ICBP
Daime Abderemane	DND	Debt
Ahmed Abdou Salame	Debt Management	DND
Djazimati Djamal	Economist	PIP CGP
Andjibou Ali	Finance Inspectorate	IGF
Saandi Mouigni Daho	Permanent Secretary	CREF
Nour Allah Alnour Assik	Research Officer	CREF
Boinali El- Amine	Deputy Permanent Liaison Officer [COI]	MIREX
Mistoihi Bacar Ahamada	Debt Officer	DND
Hamada Moussa	CDR	Public Treasury
Mohamed Mchangama	Treasury Agent	Public Treasury
Mina	Trainee	Debt Directorate
Abasse Mohamed Toi	Financial Controller	Financial Controller
Ali Mohamed Mroudjaé	General Secretary (Finance)	
Ahamed Ahamada	Director General of the Budget	Budget Directorate
Hamida Abdou	DGAB	Budget Directorate
Natharatie Ali Said	Paymaster	Treasury, Mwali
Issoufi Haidar	Budget Director	Mwali
Abdallah Ben Omar	Budget Director	Anjouan
Mohamed Jaffar	Head, Accounting (Treasury)	Anjouan