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The World Bank**

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INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM DOCUMENT
FOR A PROPOSED GRANT
IN THE AMOUNT OF SDR 2.2 MILLION (US\$3 MILLION EQUIVALENT)
TO THE UNION OF THE COMOROS
FOR THE
SECOND ECONOMIC GOVERNANCE REFORM GRANT

May 5, 2015

Macroeconomics and Fiscal Management Global Practice
Africa Region

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THE UNION OF THE COMOROS

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENT

(Exchange Rate as of March 31, 2015)
Currency Unit = Comorian Franc (KMF)
US\$1 = KMF 458
US\$ = SDR 0.72490558

ABBREVIATIONS AND ACRONYMS

| | |
|---------|--|
| 3G | Third Generation Mobile Communications Network |
| AfDB | African Development Bank |
| AFRITAC | Africa Technical Assistance Center |
| BCC | Central Bank of the Comoros |
| CPS | Country Partnership Strategy |
| CREF | Economic and Financial Reforms Unit |
| DGCPT | <i>Direction Générale de la Comptabilité Publique et du Trésor</i> (Office of Public Accounting and Treasury) |
| DeMPA | Debt Management Performance Assessment |
| DPO | Development Policy Operation |
| DSA | Debt Sustainability Analysis |
| ECF | Extended Credit Facility |
| ECP | Economic Citizenship Program |
| EDA | <i>Electricité de Anjouan</i> (Electricity Company of Anjouan) |
| EGTAG | Economic Governance Technical Assistance Grant |
| EGRG | Economic Governance Reform Grant |
| ERDPG | Economic Reform Development Policy Grant |
| ESRP | Electricity Sector Recovery Project |
| EU | European Union |
| GB | Gigabyte |
| GDP | Gross Domestic Product |
| HIPC | Heavily Indebted Poor Countries |
| ICT | Information and Communications Technologies |
| IDA | International Development Association |
| IFC | International Finance Corporation |
| IMF | International Monetary Fund |
| INSEED | National Institute of Statistics and Economic Studies and Demographic |
| LDP | Letter of Development Policy |
| MA-MWE | <i>Gestion de l'Eau et l'Electricité aux Comores</i> (Water and Power Utility in Comoros) |
| MDRI | Multilateral Debt Relief Initiative |
| MOF | Ministry of Finance |
| NPV | Net Present Value |
| PDOs | Program Development Objectives |
| PFM | Public Financial Management |
| PIP | Public Investment Program |
| PRGSP | Poverty Reduction and Growth Strategy Paper |
| PSIA | Poverty and Social Impact Analysis |
| RCIP-4 | Fourth Phase of the Regional Communication Infrastructure Program |
| SCADD | Sustainable Accelerated Growth and Development Strategy |
| SDR | Special Drawing Rights |
| TSA | Treasury Single Account |
| USD | United States Dollar |

| | |
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THE UNION OF THE COMOROS

SECOND ECONOMIC GOVERNANCE REFORM GRANT

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**THE UNION OF THE COMOROS
SECOND ECONOMIC GOVERNANCE REFORM GRANT
GRANT AND PROGRAM SUMMARY**

| | |
|---|---|
| Borrower | Union of the Comoros. |
| Implementation Agency | Vice-Presidency in charge of Finance of the Union of the Comoros. |
| Financing Data | IDA Grant: SDR 2.2 million (US\$3 million equivalent). |
| Operation Type | Two year programmatic operation (second operation out of two). Single tranche. |
| Pillars of the Operation And Program Development Objective(s) | <p>The Development Objective of this DPO series is to strengthen economic management, promote transparency, and enhance performance in the electricity and ICT sectors.</p> <p>The operation is designed around three pillars: (i) strengthening economic management; (ii) improving transparency in economic management; and (iii) improving competition and management in key infrastructure sectors.</p> |
| Result Indicators | <p>Cash management plans integrating the union and island treasuries are operational.</p> <p>Number of non-project central government bank accounts outside of the single account framework reduced.</p> <p>A computerized wage management system that integrates union and island civil service operational.</p> <p>Public budget that includes detailed information on investment and recurrent expenditures adopted.</p> <p>Transparency and accountability of debt management has improved.</p> <p>National Accounts prepared using the 1993 methodology and National Statistics Institute operational.</p> <p>Number of cases completed by the anti-corruption commission and brought to court.</p> <p>Information on access granted for fishing activities systematically disclosed, with revenue and its use documented.</p> <p>Increase in the number of telecom operators with a service license and reduction in the monthly price per 1 GB of mobile data (3G).</p> <p>Increase in MA-MWE collection rates.</p> <p><i>[For details on indicator baseline and targets, please see Annex 1].</i></p> |
| Overall risk rating | The proposed programmatic DPO carries substantial overall risk. |
| Climate and disaster risks | There are no short and long term climate and disaster risks relevant to the operation. |
| Operation ID | P150924 |

IDA PROGRAM DOCUMENT FOR A PROPOSED GRANT TO THE UNION OF THE COMOROS

1. INTRODUCTION AND COUNTRY CONTEXT (INCLUDING POVERTY DEVELOPMENTS)

1. **This program document proposes an Economic Governance Reform Grant (EGRG), the second in a programmatic series of two development policy operations (DPO) for the Union of the Comoros.** The proposed DPO, in the amount of SDR 2.2 million (US\$3 million equivalent), will support a series of reforms with the development objectives of improving economic management, promoting transparency, and enhancing performance in key infrastructure sectors (ICT and electricity).

2. **Comoros is a small and fragile state with a narrow economic base, widespread poverty and thin institutional capacity.** Years of political instability contributed to acute underinvestment in services, infrastructure, skills, institutional capability and the productive sectors of the economy. The economy has relied primarily on the export of a few agricultural commodities, and has been subject to terms of trade and price shocks associated with global market fluctuations. These factors have contributed to widespread poverty and unemployment, particularly amongst women¹. Recent data on poverty are unavailable given that the last household survey was conducted in 2004², when poverty was estimated to affect 46 percent of individuals. Poverty was observed to be primarily concentrated in rural areas, but recent urban migration may have further exacerbated poverty in crowded urban suburbs. Remittances from the Comorian diaspora have emerged as a major pillar of the economy, simultaneously supporting both household welfare and the external position. Demographic forces will exert further pressures on the economy with the population projected to grow by 50 percent and the labor force expected to double over the next 15 years.

3. **The return of political stability in recent years has been instrumental for building more stable institutions, and has opened a window of opportunity for reform.** Comoros had been undergoing a prolonged period of political instability since its independence from France in 1974, defined by struggles for political power and strained relations between the national and island governments. Dialogue and constitutional reforms in the 2000s paved the way for a gradual move to political stability, allowing two democratic transitions of power to occur in the last decade. The new Constitution adopted in 2009 clarified the scope of devolution and re-centralized some core functions of the state in order to strike a balance between central and island powers. Comoros is now beginning to benefit from greater levels of trust and cooperation between the union and island governments, which is a process that is instrumental in paving the way for economic reform. Nevertheless, the context remains fragile and the constitution will be tested during the upcoming electoral cycle for presidential elections in 2016.

4. **The recent period of stability has enabled Comoros to implement a set of reforms, allowing it to reach the HIPC completion point, but significant challenges remain and the pace of reform is slow.** Since 2009, Comoros has implemented a series of macro-stabilization and

¹ Female labor force participation in Comoros is estimated at 35 percent of the active workforce. Women's employment is concentrated in informal and agriculture sectors.

² New poverty estimates are currently being prepared by the Comoros statistics institute, and are due by mid-2015.

structural reform programs with support from development partners³, securing gains in fiscal consolidation and macroeconomic stability. It also made advances in public financial and debt management reforms, and initiated a process for reforming state-owned enterprises. These measures enabled the country to reach the completion point in December 2012, and allowed it to benefit from debt cancellation under the HIPC and MDRI initiatives. They have also supported recent improvements in economic conditions, with growth in 2013 marking an eight year high at 3.5 percent. Despite this progress, significant challenges impede economic development, poverty reduction and shared prosperity in Comoros. The fiscal position continues to be fragile with limited room for maneuver and is supported by weak public finance management systems. Transparency and accountability continue to be key constraints to the development agenda. Moreover, growth and job creation continue to be held back by a high cost environment, particularly in relation to securing reliable access to electricity and connectivity through modern telecommunication services. Pressures relating to these factors, particularly difficulties in the electricity sector, reduced the rate of economic growth to 3 percent in 2014. The government has outlined a reform agenda to tackle these constraints, and although there is progress in the post-HIPC period, capacity on the ground is limited and the pace of reform is slow.

5. The successful completion of this DPO series is expected to deepen economic management reforms, and contribute to reducing poverty. The reforms set out in this operation have been defined at the start of the series, and have secured incremental progress in the reform program. These reforms include the liberalization of the telecoms sector, the adoption of a detailed recovery framework for the electricity sector, the introduction of a single treasury account, and an improved legal framework for the management of debt. The operation will also deepen transparency and accountability in Comoros by improving the comprehensiveness of budget documents and strengthening the legal framework for combatting corruption. These reforms support the implementation of Comoros' National Strategy for Accelerated and Sustainable Growth. They also contribute to reducing poverty and increasing shared prosperity. Economic management, PFM and anti-corruption reforms will enhance the budget's ability to allocate resources to national development priorities and help to limit the leakage of funds. Energy reforms are expected to improve the reliability of electricity supply to households and businesses. Reforms in the telecoms sector are expected lower communication costs, which will be of particular benefit in the Comoros context given the important role that connections with family members and remittances from abroad play in the economic welfare of poor households.

6. The proposed DPO carries risks associated with the upcoming electoral cycle, Comoros' weak institutional capacity and potential opposition to reforms. Comoros has embarked on its electoral season with parliamentary elections having been concluded in early 2015 and presidential elections due in 2016. The political context remains fragile, and may be clouded by concerns relating to the timely roll-out of the electoral schedule due to financing and capacity constraints. Moreover, fiscal discipline will be at stake during this period as union and island governments are likely to embark on an expansionary fiscal path. Further risks stem from the diminishing appetite for pursuing sensitive reforms over this period. Comoros' macroeconomic and fiscal framework continues to be vulnerable to shocks that are characteristic of small island economies, including commodity price shocks and regional economic downturns that could affect remittance flows. Lastly, weak institutional capacity continues to present a risk that could impede

³ International Monetary Fund (IMF), the World Bank, the European Union (EU) and the African Development Bank (AfDB), among others.

the implementation of the reform measures supported by this program, and fiduciary risks remain significant despite the ongoing public finance management (PFM) reforms.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

7. **After having attained an eight year high of 3.5 percent GDP growth in 2013, economic conditions slowed growth slightly to 3 percent in 2014.** Severe shortages in electricity supply and sluggish progress in the completion of structural reforms presented a drag on all sectors of the economy. In addition, fixed prices at the pump prevented the pass through of lower global oil prices, which may have otherwise eased economic conditions. Growth in GDP per capita also decreased in 2014 from 0.8 to 0.3 percent in real terms, as the rate of economy's growth only mildly exceeded that of the population. Comoros has a narrow economic base. Its economic output is largely driven by trends in its rural economy, and increasingly, activity in the commerce and hospitality sector. Although steady and robust remittance flows have sustained domestic demand, recent events have demonstrated the economy's vulnerability to the performance of the electricity sector.

Table 1: Comoros Main Economic Indicators, 2012–18
(Percent of GDP, unless otherwise specified)

| | 2012 | 2013 | 2014E | 2015P | 2016P | 2017P | 2018P |
|---|------|-------|-------|-------------------|-------|-------|-------|
| National Income and Prices | | | | | | | |
| Real GDP growth (% change) | 3.0 | 3.5 | 3.0 | 3.0 | 3.3 | 3.8 | 4.0 |
| Real GDP per capita (% change) | 0.3 | 0.8 | 0.3 | 0.3 | 0.5 | 1.0 | 1.0 |
| Inflation (% change, annual average) | 5.9 | 1.6 | 2.4 | 3.0 | 2.5 | 2.5 | 2.5 |
| Public Finance | | | | | | | |
| Domestic Revenue (excl. grants) | 19.4 | 15.4 | 14.2 | 14.1 | 14.1 | 14.7 | 15.8 |
| Grants ^{1/} | 9.2 | 27.4 | 9.5 | 9.7 | 9.2 | 9.1 | 9.1 |
| Total expenditures (incl. net lending) | 29.1 | 26.2 | 24.3 | 25.0 | 25.2 | 26.6 | 25.3 |
| Domestic primary balance | 3.1 | -1.5 | -1.9 | -0.7 | -0.8 | -1.0 | 0.0 |
| Overall balance (incl. grants) | -1.3 | 15.1 | -0.8 | -1.9 | -1.9 | -2.2 | -0.4 |
| External Sector | | | | | | | |
| Current account balance | -8.3 | -11.4 | -10.4 | -9.8 | -11.3 | -10.3 | -9.3 |
| Exports of goods and services | 14.9 | 14.9 | 15.4 | 15.6 | 14.2 | 14.6 | 14.6 |
| Imports of goods and services | 53.9 | 57.0 | 56.8 | 57.6 | 56.7 | 54.9 | 53.9 |
| Remittances | 26.6 | 25.3 | 25.6 | 26.8 | 26.5 | 25.2 | 25.3 |
| Gross reserves (months of imports) | 7.1 | 5.4 | 5.6 | 4.9 | 5.0 | 5.1 | 5.0 |
| Exchange Rate CF/US\$ (end of period) | 382 | 370 | 370 | 453 ^{3/} | ... | ... | ... |
| External debt | | | | | | | |
| External debt (in percent of GDP) ^{2/} | 40.5 | 16.1 | 17.8 | 17.3 | 16.9 | 16.4 | 16.0 |
| External debt service (in % of exports) ^{2/} | 10.3 | 2.1 | 2.8 | 2.3 | 3.8 | 4.0 | 4.6 |

Sources: Government of Comoros; WB and IMF staff estimates.

^{1/} Includes interim HIPC assistance (2010-12).

^{2/} External debt ratios after full HIPC, MDRI and beyond HIPC relief from end-2012.

^{3/} Exchange rate as at 7 April, 2015.

8. **Inflationary pressures remained moderate in 2014.** Average consumer prices rose by an estimated 2.4 percent in 2014, compared to 1.6 percent the previous year mostly due to an increase in the cost of some food items and domestic fuel. Higher inflation was also triggered by the depreciation of the Comorian franc against the US dollar in 2014, which caused upward pressures on market prices for imported goods. The monetary policy stance continued to be prudent as Comoros maintains a peg against the euro, and has remained in conformity with the franc zone monetary arrangement.

9. **The 2014 budget faced significant implementation difficulties as recurrent spending pressures and a reduction in revenues resulted in a contraction of the domestic investment budget.** Public finances recorded an overall fiscal deficit of 0.8 percent of GDP in 2014, down from a 1.4 percent deficit the previous year. Spending pressures relating to the public sector wage bill and electricity sector operations were drivers of an expansion in the recurrent budget. Budget implementation in 2014 was particularly challenging as an unplanned pay settlement to increase teacher salaries pushed the wage bill to 8.3 percent of GDP and as electricity blackouts increased the cost of diesel subsidies to the energy utility. The roll-out of the parliamentary elections also imposed additional costs. At the same time, revenues remained modest with a decline in non-tax revenues and the continued suspension of the Economic Citizenship Program (ECP)⁴ placing further pressure on the overall envelope, and causing the rollover of salary arrears from month to month. Overall, Comoros continues to operate under a tight fiscal situation, with narrow fiscal space, even though reforms in recent years have yielded some gains in terms of fiscal consolidation. The fiscal balance remains fragile, and domestic arrears continue to be a source of weakness in expenditure management, especially for the wage bill.

10. **Comoros' external position improved moderately in 2014, and international reserves continue to be adequate.** Comoros continues to face structural trade and current account deficits due to its narrow export and income base, and its large import bill. The current account deficit is projected to have narrowed from 11.4 percent of GDP in 2013 to 10.4 percent in 2014⁵ as the drop in oil prices helped to reduce the cost of the import bill, and as the volume of remittances from the diaspora continued to grow. The overall balance of payments deficit was financed largely by capital grants and concessional financing. Import cover in 2014 stood at 5.6, a level that supports the immediate foreign transaction needs of the country.

11. **The Comorian financial sector is shallow but sound.** Comoros' financial sector is small, and is limited to banks and micro finance institutions⁶. The provision of credit to the private sector has been growing, but has been mostly financing consumption rather than investment. Financial indicators suggest that the sector is generally sound albeit with some sources of fragility,

⁴ The ECP allows Comoros to offer citizenship to foreigners who reside in partner countries. The partner government selects the candidates following a background check conducted by the partner government. In exchange, Comoros receives a fee for each passport issued. In recent years revenue from the program has become significant in relation to Comoros' GDP. The program was suspended in 2013.

⁵ Actual balance of payments data for 2014 is not available as yet.

⁶ Total assets of the financial system stood at 54 percent of GDP in 2013(IMF AIV report, January 2015).

particularly at the state owned postal bank, which suffers from weak management. Non-performing loans stood at 19 percent at end-2014 with robust rate of provisioning at 60 percent⁷.

**Table 2: Comoros Central Government Operations, 2012–18
(Percent of GDP)**

| | 2012 | 2013 | 2014E | 2015P | 2016P | 2017P | 2018P |
|---|------|-------|-------|-------|-------|-------|-------|
| Revenue and grants | 28.6 | 42.8 | 23.7 | 23.8 | 23.3 | 24.4 | 24.9 |
| Revenue | 19.4 | 15.4 | 14.2 | 14.1 | 14.1 | 14.7 | 15.8 |
| Tax revenue | 11.8 | 12.0 | 11.6 | 11.4 | 11.5 | 12.1 | 13.1 |
| Non-tax revenue ^{1/} | 7.6 | 3.4 | 2.6 | 2.6 | 2.6 | 2.6 | 2.7 |
| Grants | 9.2 | 27.4 | 9.5 | 9.7 | 9.2 | 9.1 | 9.1 |
| <i>Of which:</i> Budget support | 0.0 | 1.6 | 1.5 | 1.0 | 0.4 | 0.4 | 0.3 |
| Project grants | 8.3 | 7.6 | 8.0 | 8.8 | 8.8 | 8.8 | 8.8 |
| HIPC grants | 0.9 | 18.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total expenditure | 29.1 | 26.2 | 24.3 | 25.0 | 25.2 | 26.6 | 25.3 |
| Current expenditure | 18.2 | 14.8 | 15.0 | 14.6 | 14.5 | 14.2 | 14.1 |
| Wages and salaries | 8.0 | 7.6 | 8.3 | 8.5 | 8.5 | 8.5 | 8.4 |
| Goods and services | 3.9 | 3.7 | 4.6 | 3.5 | 3.5 | 3.5 | 3.5 |
| Transfers and pensions | 1.9 | 2.1 | 2.0 | 2.5 | 2.3 | 2.0 | 2.0 |
| Scheduled interest | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Capital expenditure and net lending | 10.9 | 11.4 | 9.3 | 10.4 | 10.7 | 12.4 | 11.2 |
| Capital expenditure | 10.7 | 10.9 | 9.3 | 10.4 | 10.7 | 12.4 | 11.2 |
| o/w domestically financed | 2.5 | 3.4 | 1.3 | 0.3 | 0.6 | 1.7 | 1.9 |
| o/w foreign financed | 8.2 | 7.5 | 8.0 | 10.1 | 10.1 | 10.7 | 9.3 |
| Net lending | 0.2 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance, including grants (commitment) | -0.7 | 16.0 | -0.6 | -1.2 | -1.9 | -2.2 | -0.4 |
| Domestic primary balance | 3.1 | -1.5 | -1.9 | -0.7 | -0.8 | -1.0 | 0.0 |
| Change in net arrears | -0.7 | -0.9 | -0.1 | -0.6 | 0.0 | 0.0 | 0.0 |
| Overall balance, including grants (cash) | -1.3 | 15.1 | -0.8 | -1.9 | -1.9 | -2.2 | -0.4 |
| excluding HIPC grants | -2.2 | -3.1 | -0.8 | -1.9 | -1.9 | -2.2 | -0.4 |
| Financing | -2.8 | -16.9 | 0.8 | 1.9 | 1.9 | 2.2 | 0.4 |
| Domestic financing (net) | -1.7 | 1.6 | 1.1 | 0.0 | -0.3 | -0.4 | -0.4 |
| o/w IMF (net) | 0.0 | 0.7 | 0.0 | 0.0 | -0.5 | -0.6 | -0.7 |
| Foreign financing (net) | -1.1 | -18.5 | -0.3 | 1.9 | 2.2 | 2.6 | 0.8 |
| Drawings | 0.0 | 0.0 | 0.0 | 2.2 | 2.7 | 3.1 | 1.3 |
| Amortization | -1.2 | -18.5 | -0.3 | -0.3 | -0.5 | -0.5 | -0.6 |

Sources: Government of Comoros; WB and IMF staff estimates

^{1/}Includes ECP receipts – none from 2013 onwards.

⁷ The stock of non-performing loans includes old discount loans of KMF 1.3 billion to the vanilla sector that have been non-performing since the early 2000s. The central bank is coordinating efforts to have these loans written off. IMF Article IV report, 2015.

**Table 3: Comoros Current Account Deficit Financing Sources
2013–18
(Percent of GDP)**

| | 2013P | 2014E | 2015P | 2016P | 2017P | 2018P |
|---|-------|-------|-------|-------|-------|-------|
| Current account financing requirements | | | | | | |
| Current account deficit | -11.4 | -10.4 | -9.8 | -11.3 | -10.3 | -9.3 |
| Trade balance | -32.2 | -30.5 | -31.2 | -32.6 | -30.3 | -29.3 |
| Services (net) | -10.0 | -11.0 | -10.8 | -9.9 | -10.0 | -10.0 |
| Income (net) | 0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Current transfers (net) | 30.7 | 31.2 | 32.2 | 31.3 | 30.1 | 30.1 |
| Government | 5.4 | 5.5 | 5.4 | 4.8 | 4.8 | 4.7 |
| Private | 25.3 | 25.7 | 26.9 | 26.6 | 25.3 | 25.4 |
| Financing sources | | | | | | |
| Capital grants | 23.2 | 6.7 | 5.7 | 6.8 | 5.9 | 4.7 |
| of which HIPC | 16.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| FDI and portfolio investments (net) | -16.2 | 3.0 | 3.5 | 4.4 | 4.4 | 4.6 |
| Financing | 4.9 | 0.7 | 0.6 | 0.0 | 0.0 | 0.0 |
| Change in reserves (increase -) | 4.9 | 0.7 | 1.0 | 0.0 | 0.0 | 0.0 |
| of which IMF credit (net) | 0.7 | 0.0 | 0.0 | -0.2 | -0.3 | -0.4 |
| Net change in arrears | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptional financing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Government of Comoros; WB and IMF staff estimates

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

12. **Comoros’ medium-term growth outlook is expected to be moderate, and may be buoyed by reforms in energy and telecoms.** GDP growth is projected to remain steady at 3 percent in 2015 and to accelerate to an average of 3.6 percent in the medium term⁸. This level of growth would be robust in the Comoros context⁹, and is sensitive to the success of reforms for lowering telecommunication costs and improving the reliability of electricity supply, as well as progress in investment climate reform. The agriculture sector will continue to underpin Comoros’ economy and a favorable price environment, particularly for cloves and vanilla, would boost both economic output and poverty reduction. Remittances are projected to continue on a robust path and to support commercial activity, the housing sector and private consumption.

13. **The current account balance will remain in structural deficit, and will be financed largely by capital grants and concessional financing.** The current account deficit is projected to narrow to 9.8 percent of GDP in 2015 as the volume of imports is anticipated to decline with the depreciating Comorian franc, thereby slowing down the growth of the import bill, which would have otherwise expanded as programmed capital investment projects get underway. A deficit

⁸ Comoros’ national accounts are based on the 1968 System of National Accounts Framework. The National Statistics Institute is preparing to update the national accounts records using the 1993 framework. These modifications may change the growth narrative for Comoros and the medium term outlook.

⁹ Real GDP growth averaged only 1.5 percent between 2007 and 2012.

averaging 10.3 percent of GDP is expected in the medium term. Reserves are expected to remain at around 5 months of import cover. Prices increased mildly in 2014, and may increase further in 2015 if the Euro-pegged Comorian franc continues to depreciate against the US dollar, but are expected to remain moderate at an average of 2.5 percent. Nonetheless, Comoros remains highly exposed to external price and exchange rate shocks, especially those affecting food and fuel markets.

14. Comoros continues to present a fragile fiscal position in the medium term as fiscal space remains narrow, given the low revenue effort and growing expenditure pressures. A slightly higher overall deficit at 1.9 percent is expected in 2015, narrowing to an average of 1.6 percent of GDP in the medium term, which is mostly financed through drawings on concessional capital investment loans. The upcoming elections pose the most significant risk to the fiscal outlook in the next two years, as overspenders have tended to drive the accumulation of domestic arrears and an expansion of the wage bill around the political cycle. The revenue effort, which has remained stubbornly low, is another source of risk. These factors indicate a delicate fiscal setting in the medium term and the urgency of reforms to widen fiscal space and strengthen revenue administration.

15. Fiscal risks are likely to become evident as the 2015 budget is implemented; leading the authorities to identify a set of initial adjustments. Customs revenues are expected to decline as the depreciation of the Comorian franc makes imports less affordable, whilst expenditure pressures related to the wage bill and the electricity sector continue in 2015. The authorities acknowledge these risks and have agreed to a series of measures to strengthen the fiscal position. These include the reduction of customs and tax exemptions, the setting of a monthly ceiling for salary payments at the union and islands levels, and the acceleration of reforms for strengthening wage bill administration.

16. Having benefited from HIPC debt relief, Comoros' risk of debt distress has been upgraded from high to moderate. Comoros' public and publicly guaranteed debt stock declined from 44.5 percent of GDP in 2011 to 17.4 percent in 2014 after having completed the HIPC and MDRI debt relief process¹⁰. Stress tests conducted as part of the 2014 Debt Sustainability Analysis found that the reduction in Comoros' debt burden reduced its vulnerability to macroeconomic shocks, but that the debt sustainability outlook is highly sensitive to the level of remittance flows¹¹.

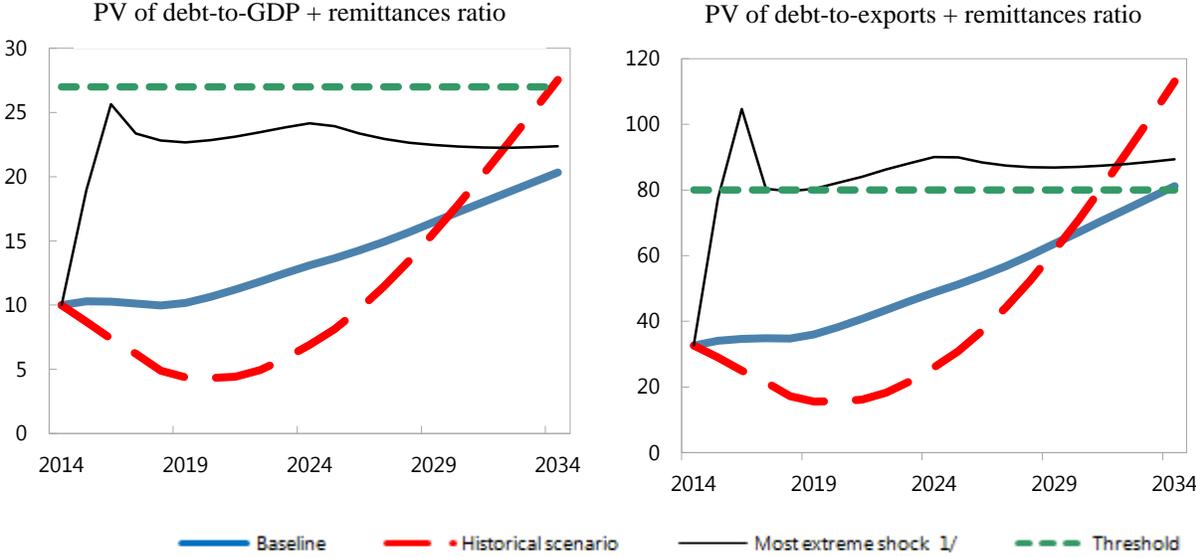
17. Comoros' financing needs will continue to be significant in the medium term. Ensuring debt risks remain contained while the country's development needs are addressed will require prudence in fiscal management, policies that enhance exports and continued donors assistance. It also requires that all new loans are scrutinized to ensure that they are consistent with a prudent debt management strategy, that the underlying projects are of economic worthiness and that loans are ratified by the national assembly based on objective criteria. The authorities informed the

¹⁰ Concessional loans provided by multilateral creditors account for approximately two thirds of the remaining debt stock, whilst the remaining third is due to official bilateral creditors. Liabilities to the latter expanded in 2013 as Comoros contracted a concessional loan from the India EXIM bank to finance large infrastructure investments in the energy sector.

¹¹ Comoros qualifies for the inclusion of private remittances in the denominator of the debt and debt service indicators for the purposes of the baseline of the DSA. Private remittances represent a large and reliable source of foreign exchange—currently in excess of 25 percent of GDP.

World Bank and IMF in March 2015 that they are considering a US\$149 million loan for expansion of port facilities from a foreign consortium. Although the terms of the proposed loan are concessional, the size of the loan is large at approximately 24 percent of GDP. A preliminary update of Comoros’ debt sustainability analysis (DSA) indicates that the loan may result in a downgrade of the risk of debt distress from moderate to high. The Bank team advised the authorities of the risks this loan would pose to their debt sustainability outlook, the need to assess the economic contribution of the project and the need to take a cautious approach.

Figure 1: PV of debt to export and GDP ratios (including remittances), 2014–2033¹²



Source: Joint Bank-Fund DSA, 2015.

18. **Comoros’ macroeconomic policy framework is judged to be adequate for the purposes of the proposed operation, though uncertainty will persist.** The Government of Comoros made gains in strengthening macroeconomic and fiscal management, as indicated by the conclusion of the Extended Credit Facility (ECF) with the IMF at the end of 2013. Looking ahead, the authorities continue to be committed to prudent monetary policy, guided by the policy framework of the franc zone, and to strengthening the framework for debt management. The projected fiscal deficit is due to be funded through concessional donor financing for strategic capital investments¹³. In terms of the external position, despite a moderate deterioration of the current account deficit in 2013, the outlook in the medium term is expected to be supported by stable and high remittances and sustained external donor support to fund capital investments. Nevertheless, macroeconomic vulnerabilities remain high. Comoros remains vulnerable to a deteriorating global economy, especially in the Euro zone. Although remittances remained buoyant throughout the 2008 global crisis and subsequent slowdown in European economies, continued slow growth could have an impact moving forward. In terms of debt sustainability, increased

¹² The most extreme stress test is the test that yields the highest ratio on or before 2024. In both cases it corresponds to a non-debt flows shock.

¹³ Central bank financing of government operations is restricted by the monetary cooperation agreement with France, which limits advances to the treasury to no more than 20 percent of the average tax revenue of the preceding three years.

access to financing may spur borrowing to fund large projects that would revert the risk of distress to high. Furthermore, despite making some progress in fiscal stabilization, the pace of reforms for improving public finance management and for increasing revenues remains slow. Hence, government finances remain fragile, and with the election season in view, there is a possibility that fiscal restraint may weaken over the next 18 months.

2.3 IMF RELATIONS

19. **Comoros completed an IMF ECF arrangement in December 2013, a follow-up program is not yet in place.** The recently concluded ECF was an important program for supporting improvements in Comoros' macroeconomic framework. The adoption of a new program would be a key factor for enhancing prudence in macroeconomic management. The IMF concluded Article IV consultations in January 2015 and is in discussions with the authorities regarding the preconditions for a follow-up program. The IMF also provides technical assistance through its functional departments as well as the Africa Regional Technical Assistance Center South (AFRITAC South) to support tax and customs administration reforms, PFM reforms, the supervision of monetary and banking activities and the assessment of the quality of statistics.

3. THE GOVERNMENT'S PROGRAM

20. **Having concluded the first Poverty Reduction and Growth Strategy Paper, a second generation strategy, the Sustainable Accelerated Growth and Development Strategy for 2015-19 has been adopted.** The Poverty Reduction and Growth Strategy Paper (PRGSP), on which the Government's Program for 2010-14 was based, sought to stabilize the economy, promote private sector growth and improve delivery of social services, while supporting the achievement of the HIPC completion point. The Sustainable Accelerated Growth and Development Strategy (SCADD) continues to support these overall themes. It addresses the productive sectors with a focus on agriculture, fisheries, trade and tourism, and seeks an enabling environment through improved infrastructure and a more accommodating business environment. It also promotes the social sectors, the environment and good governance. The strategy is supported by a prioritized plan of action. The preparation of the SCADD was led by the General Commissariat of Planning, following a participatory approach with extensive consultations both at the union and island levels, including representatives from civil society, traditional and religious leaders, non-government organizations, and development partners.

21. **Government efforts to strengthen macroeconomic and fiscal stability focus on improving treasury management, increasing revenue collection and containing the wage bill.** The government is seeking to maintain macroeconomic stability, keep fiscal expenditure under control and to improve budget implementation. Broadening fiscal revenues and controlling the size of the wage bill are priorities. To increase revenues, the authorities are pursuing tax administration reforms and have recently issued a freeze on tax and customs exemptions. The government has also updated the taxpayers' registry in the large taxpayer units. Moreover, to strengthen tax and customs control and reduce leakages and fraud, joint tax and customs investigation operations have been increased. These measures mark progress, however, the authorities need to deepen and accelerate revenue reforms in order to have an impact on widening fiscal space. In order to keep spending under control, the government has updated the civil service payroll drawing on the results of the civil service census, and is progressively adopting a computerized payroll system. These reforms are complemented with measures to strengthen treasury management, including the

adoption of a Treasury Single Account (TSA). Besides these measures, more vigorous efforts by the authorities to contain public sector salaries at the union and island levels and to clear in-year salary arrears will be critical. With more effective cash management and better control of the wage bill, as well as measures to enhance revenues, the authorities would create some fiscal space for additional spending on social sectors and infrastructure.

22. The authorities have also adopted a Public Financial Management (PFM) Reform Strategy for the period 2010-19. The PFM Reform Strategy is organized around four pillars: (i) modernizing the legislative and regulatory framework and strengthening institutional capacity; (ii) rationalizing budget preparation; (iii) strengthening budget execution; and (iv) increasing transparency through improved internal and external controls. It is supplemented by a focused priority plan of action for the period covering 2014-2016. Ongoing PFM reforms benefit from donor support, mainly from the World Bank, the AfDB, the IMF and the Government of France. Additional financing for the World Bank funded Economic Governance Technical Assistance Grant will continue supporting implementation of PFM reforms, with a focus on budget execution and wage bill management.

23. Policies in the energy and telecoms sectors are based on reform plans that lay out a path for improving performance and competition. The Government adopted a policy for the energy sector¹⁴ in 2012 that lays out plans for sector reform and recovery, and which addresses long term as well as short-term issues. The four identified priority areas are (1) a comprehensive reform of corporate governance and commercial and technical management of MA-MWE; (2) preparation of future investments in renewable generation so as to reduce the reliance on imported oil products for power generation; (3) institutional sector reform including governance of sector enterprises, and energy pricing; and (4) improvement and extension of the petroleum storage capacities. In telecoms, the roadmap for the Comoros Telecommunications sector (2012) lays out a set of reforms for the adoption of market-based mechanisms and good governance. It places an emphasis on the privatization of the incumbent operator, Comores Telecom, the licensing of a second operator, the creation of independent internet services providers and the strengthening of the regulator.

24. Business environment reforms are ongoing with the aim to improve the climate for investments and encourage private sector development. With the support of the IFC, the government continues to gradually implement reforms to improve the business environment. The reforms in this area are nascent at this stage, and include the development of small business edge initiative, development of improved financial tools (e.g. leasing) to support SMEs, and the creation of alternative business dispute resolution mechanisms. The government has also initiated reforms of the energy and telecoms sector to foster more efficient and lower cost services to both households and the private sector.

¹⁴ *Document de politique de l'énergie électrique et des produits pétroliers de l'Union des Comores.*

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

25. **The proposed grant in the amount of SDR 2.2 million (US\$3 million equivalent) is aligned with the strategic direction of the SCADD and other key strategies underpinning the government’s reform program.** Despite having emerged from a prolonged period of political and institutional turmoil, and having embarked on a path for reform, Comoros remains burdened by weak systems for economic management, lack of transparency and under-performing economic sectors. The government’s reform program recognizes these challenges as constraints to increased growth and prosperity. This DPO series has set out to support Comoros in its development efforts progressively over a period of two years. The program supports Comoros at a time when it is critical to secure the gains and the momentum mobilized during the HIPC period, whilst a sustained period of stability provides a platform for pursuing reforms.

26. **The development objective of this DPO series is to strengthen economic management, promote transparency, and improve the performance of the electricity and ICT sectors.** The operation is designed around three pillars: (a) strengthening economic management, (b) improving transparency in economic management, and (c) improving competition and management in key infrastructure sectors. This operation aims to: (i) strengthen economic management by: improving treasury coordination and introducing a TSA, adopting a law for enhancing debt management, and updating the methodology for Comoros’ national accounts; (ii) advance the transparency and anti-corruption agenda by: increasing the comprehensiveness of the budget and strengthening the legal framework for combating corruption; and (iii) support structural reforms in the electricity and ICT sectors.

27. **This proposed operation builds on the results achieved by the first DPO in this series, leading to progress in advancing Comoros’ development agenda.** The first operation made advances in pursuing Comoros’ reform agenda and in strengthening economic management. It increased budget comprehensiveness and fiscal transparency so that more information on national finances has been delivered to the National Assembly and the public than before, including the disclosure of fishing access rights and associated revenues. It supported the institutional autonomy of the statistical system and the implementation of anti-corruption efforts. The first operation also helped to launch structural reforms for improving the performance of the telecoms and electricity sectors. This operation will deepen results in these areas. It will further strengthen economic management through the reform of treasury operations and the introduction of a TSA, enabling better cash management. A new debt management law will set the institutional framework for borrowing, and an upgrade of the national accounts system will recast our understanding of the structure of Comoros’ economy and enhance the government’s ability to pursue its economic management agenda. This operation also supports the amendment of the anti-corruption law, giving more legal power to the fight against corruption. The deepening of structural reforms is likewise a key pillar of this operation, leading to the introduction of competition in the telecoms sector, and the adoption of a performance-focused recovery framework for the electricity sector.

28. **Learning from previous operations, this programmatic DPO coordinates policy reforms with World Bank sector operations and other development partners to leverage**

technical assistance and implementation support. Recent DPO ICRs¹⁵ have highlighted that given Comoros' limited institutional capacity, it is critical to focus policy reforms in a few relevant areas that are broadly supported by donors, and to provide adequate assistance to support implementation. Previous DPOs in Comoros demonstrated the importance of identifying timely and complementary technical assistance projects which support the implementation of the reform agenda. The proposed operation adopts this approach, and reinforces ongoing dialogue in PFM, anticorruption, statistics, energy and telecom sectors supported by Bank projects and technical assistance. The DPO also serves as a tool for collaboration and coordination among donors, enhancing policy dialogue for the reforms.

Table 4: DPO Prior Actions and Implementation Status

| Prior Action | Status |
|--|-----------|
| Pillar A: Strengthening economic management | |
| Coordinating treasury and cash management: The Recipient's Directorate of Public Accounts and Treasury within its Ministry of Finance has become operational through: (i) the identification of a dedicated budget line in the Recipient's 2015 Budget Law; and (ii) the appointment of the remaining core staff as required by the Recipient's Decree no. No. 12-047/PR dated February 29, 2012, through the Recipient's Arrete No.15-008/VP-MFEBICEP/CAB dated March 28, 2015. | Completed |
| The Recipient's Ministry of Finance and Central Bank have signed a memorandum of understanding governing the functioning and administration of a Treasury Single Account at the Recipient's Central Bank, which memorandum of understanding, among other things, prohibits the opening and operating of new bank accounts unless prior authorization from the Recipient's vice-president responsible for finance has first been obtained. | Completed |
| Strengthening wage bill management: The Recipient has strengthened wage bill management through: (i) the integration of civil service wages in the computerized wage management system; and (ii) the integration of biometric national ID numbers in the computerized wage management system. | Completed |
| Improving budget comprehensiveness: The recipient has incorporated the public investment program in its 2015 budget law. | Completed |
| Improving debt management: The Recipient has prepared and submitted to its National Assembly a debt management bill to strengthen the Recipient's debt management framework. | Completed |
| Strengthening statistical systems: The Recipient, through its National Statistics Institute (<i>L'Institut National de la Statistique et des Etudes Economiques et Demographiques</i>), has: (i) prepared a budgeted five year action plan that uses the SNA 1993 methodology for the production of national accounts; and (ii) has completed data collection for updating the Recipient's 2011-2013 accounts. | Completed |
| Pillar B: Improving transparency in economic management | |
| Enhancing transparency and efficiency on the fight against corruption: The Recipient has enacted Law No.13-015/AU amending the Anti-Corruption Law, dated December 26, 2013, in order to, <i>inter alia</i> , strengthen the judicial powers of the Anti-Corruption Commission (<i>Commission nationale de prevention et de lutte contre la corruption</i>). | Completed |
| Pillar C: Improving competition and management in key infrastructure sectors | |
| Enhancing competition in the ICT sector: The Recipient has launched a competitive bidding process to award a second full-service license in the telecommunications sector. | Completed |
| Improving performance in the electricity sector: The Recipient, through its Ministry in charge of Production, Environment, Energy, Industry and Craft, has adopted a recovery and development plan of the MA-MWE Company that includes a commercial recovery and performance framework. | Completed |

¹⁵ Implementation completion report for the Economic Reform Development Policy Grant, June 2014.

4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A: Strengthening economic management

Coordinating treasury and cash management

29. **Despite some recent improvements in PFM, weak treasury management continues to be a persistent challenge for the effective management of public resources.** Comoros has made improvements in the legal and strategic framework for strengthening PFM. The National Assembly adopted the Public Financial Management Law (*Loi des Opérations Financières de l'Etat*) in 2012. The law provides more clarity in the roles and responsibilities of the federal government and autonomous islands in the management of and accountability for public finances. The authorities have also adopted a PFM reform plan and have been pursuing a series of measures, including strengthening the budget preparation process and improvements in revenue administration. However, significant challenges remain pertaining to all aspects of the PFM cycle. Key amongst these are Comoros' fragmented treasury operations, which pose important coordination and resource management constraints for the authorities. Weak coordination arrangements amongst the four existing treasuries¹⁶ and fragmented banking arrangements make it difficult for the government to have a clear view of its cash position and to allocate scarce resources strategically as it executes its budget.

30. **This operation builds on the ongoing treasury reforms by supporting the introduction of a Treasury Single Account framework for Comoros and the operationalizing of the DGCPT.** The previous two DPO operations supported the creation of a Directorate of Public Accounts and Treasury - *Direction Générale de la Comptabilité Publique et du Trésor* - (DGCPT) and the appointment of the General Director. The purpose of the DGCPT is to play a key coordinating role in treasury management, including the consolidated (union and island) cash plans and financial statements. The previous operation also supported the disclosure of existing bank accounts as a first step towards coordinating the government's banking arrangements. This operation builds on these efforts by supporting two measures for deepening treasury coordination reforms: (i) operationalization of the DGCPT, (ii) introduction of the first TSA framework for Comoros.

31. **The authorities have been working over the past two years to make the DGCPT operational, but different factors delayed this goal.** Several challenges have presented themselves in pursuit of this goal, including the difficulty of attracting qualified personnel, coordination between the various treasuries on the respective institutional roles, and the shortage of resources to equip the new directorate. These factors, taken together with the slow pace of reforms relating to matters of institutional coordination in Comoros, have contributed to the delays in establishment of the DGCPT. There is now a clearer understanding between the union and island governments about how to implement the DGCPT, and a director general has taken office. This operation supports the ongoing efforts to establish a functional and effective DGCPT by supporting the appointment of the remaining core staff and the allocation of dedicated budget line for the directorate in 2015. The DGCPT is due to be further supported by the Banks's EGTA project

¹⁶ The union treasury, and one for each of the three islands.

through the provision of office equipment.

- **Prior action:** The Recipient's Directorate of Public Accounts and Treasury within its Ministry of Finance has become operational through: (i) the identification of a dedicated budget line in the Recipient's 2015 Budget Law; and (ii) the appointment of the remaining core staff as required by the Recipient's Decree no. No. 12-047/PR dated February 29, 2012, through the Recipient's Arrete No.15-008/VP-MFEBICEP/CAB dated March 28, 2015.

32. **Comoros has embarked on the process of adopting a Treasury Single Account.** The tight cash position of government throughout the fiscal year, combined with a growing number of bank accounts operated by government spending agencies, and delays in the depositing of funds collected by revenue agencies have provided the impetus for pursuing this reform. This operation supports the first stage in the TSA process through the adoption of a memorandum of understanding between the Ministry of Finance and the Central Bank of Comoros. The memorandum sets out a framework that consolidates union and island accounts¹⁷, and sets out the respective roles and responsibilities of the various government entities within the system. It also requires the rationalizing of existing bank accounts and the authorization of the Vice President for Finance prior to the opening of new accounts. Its adoption marks a process of consultation and consensus between the union and island treasuries, expenditure and revenue agencies and the Central Bank of Comoros. It signifies an important step in strengthening cash management in Comoros. It is also the first stage in establishing the parameters of the TSA and then subsequently embedding it in the legal framework governing Comoros' public finances. The implementation of the framework is the next step, and could pose some capacity challenges that may be overcome with technical support from partners, including the World Bank and IMF.

- **Prior action:** The Recipient's Ministry of Finance and the Central Bank have signed a memorandum of understanding governing the functioning and administration of a Treasury Single Account at the Recipient's Central Bank, which memorandum of understanding, among other things, prohibits the opening and operating of new bank accounts unless prior authorization from the Recipient's vice-president responsible for finance has first been obtained.

33. **The treasury reforms supported by this DPO series are expected to result in improved cash planning and management.** The treasury reforms will enable the authorities to adopt more robust in-year resource allocation processes, including more effective cash management plans, as both expenditure and revenue accounts are integrated in the TSA framework. The implementation of the TSA framework will also result in a consolidation of the government's banking operations as the number of bank accounts is rationalized and an integrated banking arrangement is adopted. There are currently 64 government bank accounts¹⁸ prior to TSA implementation. This number is expected to be reduced to less than 10 as the framework is adopted.

¹⁷ The framework has been designed with support from the IMF Southern Africa Technical Assistance Center (AFRITAC).

¹⁸ Excluding project and public enterprise accounts.

Strengthening wage bill management

34. **Comoros' current civil service management modalities are fragmented, leading to a lack of coordination and weak control in wage bill management.** Comoros' decentralized governance system extends to civil service management. The union and islands operate separate civil service and wage management systems. In addition, they have autonomy over recruitment rights at their respective administrative level, whilst the commitment to fund the wage bill is centralized. These arrangements have resulted in fragmented management of the wage bill and provide incentives for hiring at the local level irrespective of the aggregate cost of salaries to the budget. They also diminish the authorities' capacity to exert payroll controls, leading to increases in recruitment and salaries, especially around the electoral cycle.

35. **This operation supports the strengthening of wage bill management through the adoption of an integrated wage management system.** This DPO introduces civil service management reforms in the second operation of the series to address the recent growth in the wage bill from 7.6 percent of GDP in 2013 to 8.3 percent in 2014. To help overcome the difficulties in maintaining control of the national wage bill in a decentralized setting, the Government of Comoros is migrating from the fragmented to a centralized wage management system with support from the World Bank Economic Governance Technical Assistance project. A new computerized system will allow the authorities to integrate the union and island civil services under one framework. By consolidating the various civil service databases, the integrated system will strengthen controls for payroll administration as well as oversight over the wage bill. The system will also integrate agents who are currently paid under a manual procedure. This operation will support this process by requiring the integration of the union civil service database in the new computerized wage management system as the first stage in the roll out of the mechanism. It also requires the integration of biometric national identity numbers for each civil servant as a lever for strengthening controls.

- **Prior action:** The Recipient has strengthened wage bill management through: (i) the integration of civil service wages in the computerized wage management system; and (ii) the integration of biometric national ID numbers in the computerized wage management system.

36. **The wage management reforms supported by this operation are expected to strengthen control over the size of the wage bill and improve civil service management.** The transfer of the union government's civil service to the new integrated system is expected to pave the way for the integration the islands' civil services and the operationalization of the coordinated mechanism. The system will provide the authorities with the tools for centralized oversight to ensure, amongst other things, the integrity of the consolidated payroll list, strategic management of the civil service and a mechanism for the monitoring of the evolution of the wage bill. In addition to the reform supported by this DPO, the authorities plan to adopt an administrative and operational manual for the wage management system that sets out the coordination and control procedures for its use by the relevant government entities. The integration of the biometric national ID card numbers will support this process by providing a unique ID number as the basis for regular payroll audits.

Improving budget comprehensiveness

37. **Comoros has made progress in pursuing budget comprehensiveness reforms to widen the scope of its budget documents.** As noted in the latest PEFA report (2013), budget transparency has improved marginally between 2007 and 2013. A key constraint to budget comprehensiveness and transparency is the narrow classification framework. A new classification framework was established in 2013 to improve the presentation of the budget, and is still in the process of being implemented. Nevertheless, there have been recent improvements, particularly in the 2014 budget, as the budget annexes have been expanded to include information on budget execution, the debt position and the size of the civil service.

38. **This operation seeks to deepen budget transparency reforms by expanding the coverage of the budget to include the Public Investment Program.** The Public Investment Program (PIP), which is prepared by the National Commission for Planning, comprises budget information relating to the externally funded investment portfolio. It has typically been prepared under an entirely parallel process to the budget cycle and had not been included in the budget law. Hence, budget information on public investments has represented only a small proportion of the total. This operation will support the Planning Commission and the Budget Directorate to prepare the PIP in step with the budget preparation calendar, and to present this information in the budget law for 2015 using the institutional classification framework of the budget. As a result, the PIP has been appropriated by parliament and the budget presents a more complete picture of domestically and externally funded investment program.

- **Prior action:** The recipient has incorporated the public investment program in its 2015 budget law.

39. **The budget comprehensiveness reforms are expected to provide Comoros' stakeholders, including the legislature and the public, with greater transparency and increased access to information.** The two budget laws supported by this DPO series (2014 and 2015) have increased the comprehensiveness of the budget by expanding the annexes to include information on budget execution, ministry allocations, revenue sources, the debt position and the public investment program. These reforms, which build on measures pursued in previous DPO operations, are expected to play a role in increasing trust and cooperation through increased transparency and access to information.

Improving debt management

40. **Strengthening debt management remains a priority in Comoros in the post-HIPC period.** The 2011 Debt Management Performance Assessment (DeMPA)¹⁹ marked some improvements in debt management, but found that weaknesses exist in nearly all areas, prompting the preparation of a debt management reform plan in 2012²⁰. The reform plan proposed steps in

¹⁹ World Bank, "Union of the Comoros: Debt Management Performance Assessment," June 2011, http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1226602826665/DeMPAComorosFinal_EN.pdf

²⁰ World Bank, "Union des Comores: Plan de réformes de gestion de la dette publique," July 2012.

three key reform axes to address these weaknesses: (i) improved legal and regulatory framework; (ii) a debt management strategy; and (iii) reduction of operational risk. The Bank has continued to support strengthened debt management through targeted capacity building, including a program of technical trainings and the secondment of a Comorian debt manager to the World Bank in 2013. The capacity of the Public Debt Directorate has been strengthened, including their role in managing regular debt reporting and supporting timely debt service payments. Debt reporting was further reinforced through the previous operation, which supported the inclusion of a detailed debt report, including estimates of domestic arrears, in the 2014 budget.

41. **This DPO seeks to strengthen the governance framework for debt management by introducing a debt management law.** The debt management reform plan highlighted the importance of reinforcing the legal framework to encourage sound decision making and transparency in public financing. To this end, the operation supports the submission of a debt management bill to the National Assembly²¹. This bill clarifies the objectives, actions and responsibilities related to the management of public debt, including: (i) clear authorization from the National Assembly to ratify loans on behalf of the State based on objective criteria, (ii) the specific purposes for using the debt, (iii) clear medium and long term objectives to manage the debt (e.g., minimize cost and risk of the portfolio), (iv) the requirement to develop a debt management strategy for the medium term, (v) a mandatory report to the National Assembly on debt and other debt management activities submitted annually, and (vi) a decision making process for external and domestic debt and for granting loan guarantees, including a technical assessment of associated costs and risks.

- **Prior action:** The Recipient has prepared and submitted to its National Assembly a debt management bill to strengthen the Recipient's debt management framework.

42. **The debt management reforms supported by this DPO series are expected to strengthen economic management through more transparent and strategic control of the debt position.** Scrutiny of the debt position through regular reporting and an effective legal framework are critical for maintaining control of the nation's liabilities. These measures will help ensure that debt-financed investments are supported by economic analysis. The reforms supported by this DPO series are already yielding results in this direction. Access to regular debt reports has been institutionalized in the budget. In addition, the 2015 budget included a debt management strategy for the first time.

Strengthening statistical development

43. **Although the institutional and strategic framework for statistics has been reformed; outdated basic statistics hamper economic management in Comoros.** Comoros adopted a law to strengthen its institutional framework for statistics management in 2011. The law established the National Council of Statistics, mandated to coordinate all stakeholders involved in the production of statistics. The law also changed the status of the National Directorate for Statistics from a directorate under the Planning Commission to an autonomous agency: National Institute

²¹ The bill has been submitted to the national assembly in October 2014. The assembly concluded its tenure, ahead of the parliamentary elections, in November 2014. Hence, the bill is due to be adopted by the new national assembly.

of Statistics and Economic Studies and Demographic (INSEED²²). As the institutional arrangements were being revised, the statistics agencies continued to benefit from technical assistance to modernize statistical methodology for core economic statistics such the national accounts, consumer prices and poverty estimates, and to update existing datasets. Yet, despite these reforms and capacity building, outdated basic statistics and methodologies continue to hamper policy decision making in Comoros. Indeed, the most recent population census and household survey were conducted in 2004, the national accounts continue to rely on the 1968 methodology and the consumer price index only covers Moroni, the capital town. These circumstances are seriously compromising policymaking with the lack of updated population and poverty statistics impeding the targeting of social programs, the national accounts not properly capturing the large informal segment of the economy and the inflation rate not reflecting the different island realities.

44. This operation will pursue the modernization of Comoros' national accounts methodology as a key step towards improving basic statistics for economic management. INSEED (previously the National Directorate of Statistics) has, to date, been preparing national account statistics using the SNA 1968 methodology. This approach is outdated, and omits several sectors of the economy, including the informal sector. The institute has received technical assistance to develop its capacity to prepare Comoros' national accounts using the 1993 methodology, and has established 2007 as the base year for a new series. However, this was an ad-hoc activity as the institute had not prepared an institutional action plan or budget to support the transition to the new methodology on a regular basis. This operation supports INSEED in preparing updated national accounts based on SNA 1993, and integrating the processes and costs associated with this methodology in its institutional action plan and budget. The institute has submitted a five year action plan and budget for approval to the Ministry of Finance. It has also completed the collection of data that will form the basis for national accounts estimates for 2011-2013. Based on this data, the institute will prepare national account estimates for the period 2007-2013 with technical assistance from its partners²³.

- **Prior Action:** The Recipient, through its National Statistics Institute (*L'Institut National de la Statistique et des Etudes Economiques et Démographiques*), has: (i) prepared a budgeted five year action plan that uses the SNA 1993 methodology for the production of national accounts; and (ii) has completed data collection for updating 2011-2013 accounts.

45. The statistical strengthening reforms supported by this DPO series are expected to reinforce economic management by providing more accurate information for policy making. The strengthening of Comoros' statistical institutions is expected to strengthen the basis for implementing and monitoring the SCADD, including targeting of vulnerable and poor communities where needed. Similarly, improved national accounts will provide critical information on the actual size and structure of the economy, and guide policy makers in designing economic reforms. The reforms supported by this DPO series have supported the institutional strengthening of INSEED and the modernizing of national accounts statistics. It is expected that with continued technical assistance, INSEED will be in a position to regularly produce national accounts data based on an updated methodology from 2015 onwards. INSEED has also benefited

²² L'Institut National de la Statistique et des Etudes Economiques et Démographiques.

²³ INSEED receives technical assistance from AFRISTAT and IMF south AFRITAC in this area. It expects to receive further training and TA to finalize the national accounts series by end 2015.

from a larger operational budget allocation in 2015 as a result of its improved planning and budgeting process.

Pillar B: Improving transparency in economic management

Supporting the fight against corruption

46. **Corruption is recognized as one of the main governance challenges facing Comoros.** In 2014, Comoros ranked 142 out of 175 countries in the Transparency International corruption perceptions index,²⁴ indicating the depth of the accountability and transparency deficit. In recognition of the need to tackle this situation, the government adopted an anti-corruption strategy that seeks to promote probity and a culture of rejection towards corruption in September 2012. Subsequently, the authorities issued a decree that requires asset and income declarations by high ranked public officials to increase transparency and avoid conflict of interests. The previous operation supported this effort by requiring the Anti-Corruption Commission (*Commission nationale de prévention et de lutte contre la corruption*) to begin publishing a list of compliant and non-compliant public officials who have filed their asset declaration. Major challenges remain in the fight against corruption, particularly in terms of the limited capacity of the anti-corruption commission.

47. **This operation seeks to enhance Comoros' capacity to combat corruption by supporting the government to strengthen the underlying legal and institutional framework.** The anti-corruption strategy identified the need for the revision of the Comoros anti-corruption law. One of the main shortfalls identified in the law was insufficient legal powers to enable the Anti-Corruption Commission to fulfil its mandate. Hence, the government has adopted a set of amendments to the anti-corruption legislation, aiming at empowering the Commission by giving its officers the legal powers to investigate perceived corruption cases, and extending the period for the treatment of fraud and corruption cases. These changes will enhance the independence of the Anti-Corruption Commission and reinforce its authority. They will also help to bring the legal and institutional anti-corruption framework of Comoros towards international standards.

- **Prior action:** The Recipient has enacted Law No.13-015/AU amending the Anti-Corruption Law, dated December 26, 2013, in order to, *inter alia*, strengthen the judicial powers of the Anti-Corruption Commission (*Commission nationale de prévention et de lutte contre la corruption*).

48. **The anti-corruption reforms supported by this DPO series are expected to foster an environment of increased accountability.** The disclosure of the list of officials in compliance with asset declaration requirements and the revision of the anti-corruption law will increase the anti-corruption commission's credibility and power to execute its core functions, including the preparation and submission of cases to the judiciary. In the long-term, its success will contribute to building a climate of accountability that will contribute to strengthening governance in Comoros. So far, the anti-corruption commission has submitted 15 cases to the judiciary, and is expected to increase the number of completed cases to 20 by 2016.

Enhancing transparency in the management of fisheries resources

²⁴ <http://www.transparency.org/country#COM>.

49. **The previous operation in this series supported transparency efforts in the fisheries sector**, namely, the disclosure of information relating fishing agreements in the 2014 budget law. The government adopted a decree that mandates full systematic disclosure of fishing agreements, license information and budget revenues from this source. To date, this information has been regularly published by the Ministry of Finance²⁵, thereby enhancing transparency in this area.

Pillar C: Improving competition and management in key infrastructure sectors

Enhancing competition in the ICT sector

50. **Comoros has barely benefited from the revolution in communications that is bringing higher rates of growth elsewhere in Africa.** The ICT sector in Comoros remains underdeveloped with a particularly low level of access to high-speed internet. It is one of the few remaining countries worldwide to have retained a state-owned monopoly operator (Comores Telecom) in the telecommunication sector, whose performance remains very poor relative to that of neighboring countries. The penetration rate of mobile services in Comoros was 32 percent in 2012, well below the rates seen in neighboring countries such as Madagascar (39 percent), Kenya (72 percent) and Mauritius (113 percent).

51. **The Government of Comoros has committed to the liberalization of the telecoms sector.** The authorities adopted, on 25 December 2014, a law that removes Comores Telecom's exclusive privileges, effectively providing a level playing field for new competitive market entry. The government is also considering the privatization of Comores Telecom, although domestic pressure against this reform means that progress is uncertain in the medium term. The reforms of the telecom sector are supported by the World Bank under the fourth phase of the Regional Communications Infrastructure Program (RCIP-4). The program provides assistance for strengthening the legal framework for liberalization, and supports technical assistance to the process of licensing and selecting new service providers. The program also has an infrastructure component that will fund a new undersea fiber optic cable to link Comoros with Mayotte and possibly also Madagascar.

52. **This operation supports the effective opening of the telecoms sector through the granting of a full-service license to a new operator.** The law that liberalized the telecoms sector, supported by the previous DPO and by RCIP-4, marked a fundamental stage in the opening-up of the sector. Fully realizing the gains of this reform requires the market entry of competing operators. This operation builds on the liberalization agenda by supporting the granting of licenses for entry to the telecoms sector through a competitive process. Specifically, the prior action requires the preparation of the bidding tender documents, including the background information materials. It also requires the publication of a notice of intent to tender a license for the entry of a new telecoms service provider in the international press. The notice is a component of a well-planned procurement process as it promotes market interest and stimulates the number and quality of bids received when the tender process is launched. The full tender process is expected to be completed by July 2015.

²⁵ <http://www.cref.gouv.km/v1/index.php/publications-cref/accords-de-peche>

- **Prior action:** The Recipient has launched a competitive bidding process to award a second full-service license in the telecommunications sector.

53. **The introduction of competition to Comoros’ telecoms sector is expected to result in better connectivity at lower costs for Comorian businesses and households.** This reform will move Comoros nearer to regional and global standards in telecoms, and allow it to enjoy access to more modern and affordable telephone and internet services. Increasing the number of licensed operators in the market will provide more choice, and is expected to reduce prices and improve the quality of services offered to Comorian consumers. These results will be measurable through the potential reduction in the cost of mobile data, which stood at KMF 10,000 per gigabyte per month in 2013, by at least 25 percent.

Improving performance in the electricity sector

54. **Inadequate commercial management, investment and maintenance are major drivers of poor electricity supply in Comoros.** Comoros’ electricity supply network relies entirely on diesel generated power. Access to electricity supply is low²⁶, with frequent and unplanned load shedding and very low supply levels in rural areas. Weak commercial management and underinvestment are major drivers of this situation. The two publicly owned Comorian power utilities (MA-MWE in Grande Comore and Moheli, and EDA in Anjouan²⁷) are in a structural situation of negative cash-flow from current operations, mostly because of high fuel costs, an inefficient infrastructure and poor payment collection rates²⁸. As a result of insufficient cash flow, both utilities are only able to pay for a portion of their fuel consumption for generation, undermining the financial viability of the entire supply chain²⁹. The fragile financial position of the electricity sector has constrained funding for investment and maintenance operations. It also presents a drain on public resources, both through direct subsidies and indirect subsidies in the form of non-payment of petroleum product taxes³⁰, leading to the accumulation of arrears. The resulting lack of electricity supply undermines the economic wellbeing of households. It also undermines the potential development of commercial activity and investment in the Comorian economy.

55. **The electricity reforms in this DPO series complement the World Bank Electricity Sector Recovery Project for improving the commercial management and governance of the sector.** The Electricity Sector Recovery Project (ESRP) is supporting a series of measures for establishing a more effective management and performance framework for the recovery of MA-MWE. The project will help implement the reform by funding senior experienced managers to work with the existing management to improve billing, collection and overall operational management. Based on experience with such operations, a fundamental precursor for the hiring of these experienced managers was the development of a performance and regulatory framework between the Government of Comoros and MA-MWE. This framework sets out expectations for

²⁶ The electrification rate in Comoros is estimated at 60.8 percent.

²⁷ MA-MWE: *Gestion de l’Eau et l’Electricité aux Comores* (Water and Power Utility in Comoros). EDA: *Electricité de Anjouan* (Electricity Company of Anjouan).

²⁸ Collection rates were estimated at 55 percent in 2013.

²⁹ The current average tariff is set at 122 KMF/KWH whereas the cost of generation is estimated at 133 KMF/KWH.

³⁰ The annual subsidy to MA-MWE amounted to 1.5 percent of GDP, and tax arrears reached 1 percent of GDP in 2013.

the performance of MA-MWE management over the next few years and allocates accountability for management decisions.

56. **This operation seeks to reinforce the recovery of the electricity sector by supporting the adoption of the MA-MWE Recovery and Development Plan.** The previous DPO supported this process by requesting that the preparation of the plan is initiated. This operation supports the next stage, namely the adoption of the plan by the Government of Comoros and MA-MWE as the basis for the management, oversight and governance of the sector. The recovery plan will establish a performance framework between the government and MA-MWE management. The framework will hold MA-MWE management and the senior managers³¹ accountable by setting reasonable and achievable targets for improving performance. Unlike previous efforts at adopting a MA-MWE action plan³², this recovery process is expected to gain traction because it is backed up the World Bank project to strengthen management capacity and an AfDB project to renovate MA-MWE infrastructure. It is also expected that the clear definition of roles and responsibilities elaborated through the recovery framework would reduce government interference in operational decisions. To facilitate this, the implementation of the recovery plan will be overseen by a high level inter-ministerial committee.

- **Prior Action:** The Recipient, through its Ministry in charge of Production, Environment, Energy, Industry and Craft, has adopted a recovery and development plan of the MA-MWE Company that includes a commercial recovery and performance framework.

57. **In addition to the recovery plan, the authorities are seeking to strengthen the financial position of the electricity sector companies.** In light of the weak commercial performance and financial position of the energy companies, the sector has seen worrying signs on its balance sheet, notably those of accumulating receivables and arrears between the various entities. A cross-arrears report is being prepared as the first step to present an up to date assessment of the existing liabilities, and to provide recommendations for reversing the situation based on the financial flows in the sector. The report is due to be completed by August 2015.

58. **The recovery process supported by this DPO series is expected to place the electricity sector on a path to improved performance.** The recovery plan will form part of the sector's strategic framework. Its implementation will lead to the adoption of an improved management and governance framework. It will also support the adoption of improved management practices such as the use of modern commercial management software and investments in equipment to reduce technical losses. Hence, collection rates are expected to increase from 55 percent in 2013 to 65 percent in 2016. Ultimately, the implementation of the recovery plan is expected to support the reduction of generation losses from 45 to 40 percent in the medium term, placing the electricity companies on a more sustainable financial footing. It will also build a culture of professional management, performance orientation and accountability that will serve the sector in the long term.

³¹ With support from the WB ESRP project, the recovery plan will be implemented on the ground by a team of experienced international senior managers, who will, together with the existing management, reform operational processes in three key departments of the company: commercial, administrative and financial and technical.

³² Action plan for the reorganization of MA-MWE, August 2012.

Table 5: DPO Reform Areas and Analytical Underpinnings

| Reform Area | Analytical Underpinnings | Link to prior actions |
|---|--|--|
| Pillar A: Strengthening economic management | | |
| Coordinating treasury and cash management | Comoros Public Expenditure and Financial Accountability (PEFA) Report (2013) IMF Technical Assistance Report: <i>Nouvelle stratégie de réformes en gestion des finances (2013)</i> | The PEFA and the <i>stratégie de réformes</i> highlighted the key weaknesses relating to treasury operations, including the fragmentation in treasury and cash management. |
| Strengthening wage bill management | Working paper on the Case of Civil Service Recruitment in Comoros (2013) Report on the high level workshop for Developing a Strategy for Civil Service Reform in the Comoros Islands (2013) World Bank EGTAG Project | The civil service recruitment paper highlighted underlying challenges in controlling the wage bill while the high level report points to the importance of increased coordination in civil service management. The EGTAG project supports these reforms. |
| Improving budget comprehensiveness | Policy Note on the Comoros Public Investment Program (2013) Comoros Public Expenditure and Financial Accountability (PEFA) Report (2013) | The PEFA identified several gaps relating to budget comprehensiveness. Analysis of PIP carried out by the World Bank supported the recommendation to integrate all investment projects in the budget. |
| Improving debt management | Debt Management Performance Assessment (DeMPA) (2011) Comoros Debt Management Reform Plan (2012) | The DeMPA highlighted the need to strengthen the legal and strategic framework underpinning debt management, and this recommendation was taken-up in the reform plan. |
| Strengthening statistical systems | IMF Technical Assistance Report: <i>Mission d'Assistance Technique en Matière de Statistiques du secteur réel</i> (2013) | The IMF report presented a review of the key economic statistics and provided recommendations to update the national accounts methodology to SNA '93. |
| Pillar B: Improving transparency in economic management | | |
| Enhancing transparency and efficiency on the fight against corruption | Comoros Anti-Corruption Strategy (2012) | The anti-corruption strategy analyses the context and highlights the importance of strengthening the mandate and powers of the anti-corruption commission. |
| Pillar C: Improving competition and management in key infrastructure sectors | | |
| Enhancing competition in the ICT sector | ICT Sector Policy Note for Comoros (2014) World Bank RCIP-4 Project Roadmap for the Comoros Telecommunications sector (2012) | The ICT note, RCIP-4 project and the telecoms roadmap present a consensus on the need to open the market to competition both by passing legislation and seeking the entry of a new service provider through a competitive process. |
| Improving performance in the electricity sector | Energy Sector Policy Note for Comoros (2014) World Bank Electricity Sector Recovery Project (ESRP) | The energy sector note and the ESRP emphasize the necessity of a recovery plan that addresses the need for improved and performance based commercial management. |

4.3 LINK TO CAS AND OTHER BANK OPERATIONS

59. **The proposed programmatic DPO is an integral part of the Country Partnership Strategy (CPS) 2014-17 and is aligned with its objectives.** The joint World Bank/ IFC CPS is

structured around two pillars: (i) Increased Public Sector Capacity; and (ii) Shared Growth and Increased Employment. Its strategic priorities are aligned with the Government's strategy for sustainable growth (SCADD) and contribute to the objectives of reducing extreme poverty and increasing shared prosperity in Comoros. This DPO series is aligned with the CPS. The treasury, debt management and statistics reforms directly strengthen the Government's economic management capacity, whilst the anti-corruption and budget comprehensiveness reforms support transparency in the public sector. The DPO also contributes to the shared growth and employment objectives of the CPS through the infrastructure reforms in telecoms and energy sectors that will improve the environment for growth.

60. The proposed DPO is closely coordinated with the ongoing Bank projects in Comoros.

It builds on the technical assistance provided by the IDA-supported EGTAG operation which supports, in coordination with other donors active in Comoros, public financial management and civil service reform. Policy reforms on anti-corruption build on dialogue stemming from a Governance and Anti-Corruption Technical Assistance, which is supporting the government in redefining the governance and anti-corruption action plan. The electricity component reflects the ongoing reform supported by the Electricity Sector Recovery Project Grant which supports the authorities in improving the commercial performance of the state-owned utilities. A Statistical Capacity Building Fund is supporting the institutional set-up of the National Statistics Institute and is assisting the authorities in the implementation of the national strategy of statistics. Governance reforms in the fisheries sector reflect the ongoing dialogue stemming from the Indian Ocean regional fishery initiative. Reforms on telecommunication support the implementation of the regional Communications Infrastructure Program (RCIP-4) that is helping to strengthen capacity and competition in the telecom sector.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

61. The reforms supported by this DPO draw on the government reform program, the consultative processes underpinning it and consultations through Bank operations. Sector reforms have been discussed with stakeholders with significant Bank participation, as part of the preparation of sector operations (i.e. ICT and electricity). In other areas, such as PFM, direct consultations with key government counterparts at the union and island levels took place. With regards to budget preparation, the budgeting process involves consultation with the autonomous islands as provided for in the financial management legislation. However, there is currently no involvement of the civil society to incorporate its inputs into the budget proposal. In response to this gap, the Bank is conducting an assessment of the social accountability context with the objective of enhancing civil society engagement in budgeting and public policy.

62. This operation was prepared in collaboration and coordination with the IMF and other donors providing budget support. The AfDB is providing a series of two programmatic budget support operations (each in amount of about US\$3 million), that is to be complemented with a capacity building and technical assistance project. The IMF had also been supporting the government through the ECF, and continues to support the government through technical assistance. The reforms supported by the proposed operation have been discussed with other partners such as the European Commission, the Government of France and other partners through the informal donor coordination platform mechanism (or Development Partners Forum), under the leadership of the United Nations Development Program.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT³³

63. **Improving public finance management and transparency will indirectly contribute to improved poverty and social outcomes in Comoros.** An effectively executed budget is an important pre-requisite to a functioning public finance system that is able to allocate resources to national development priorities. Effective treasury and wage bill management support the system's ability to maximize the use of scarce budget resources, and enhance the budget's ability to respond to social and developmental needs. Moreover, an improved governance framework, driven by anti-corruption measures, will support openness and help to limit the leakage of funds. Taken together, improvements in economic management and accountability targeted by this programmatic DPO will help the government to move forward with the implementation of the SCADD and allocate the scarce resources available to priority areas of social development.

64. **Energy reforms are expected to have a positive social impact by increasing the reliability of access to electricity services available in Comoros.** This will particularly be the case for households, businesses, health facilities and schools in rural areas that currently have very low levels of supply and cannot afford to run individual generators. At the same time, the utilities' commercial recovery (that includes improved billing and collection rates) will require more of the population to pay electricity bills than is currently the case. The Electricity Sector Recovery Project includes a Poverty and Social Impact Analysis (PSIA) to assess the impact on the poor – in particular related to better billing and better enforcement of payment. The PSIA will also seek to better understand policies that could be modified to achieve the expected results and limit negative impacts on the poor.

65. **Reforms in the telecoms sector will improve access to ICT and reduce costs, thereby providing wide social benefits and reducing costs faced by the poor.** The absence of competition in Comoros' telecoms sector is directly associated with the relatively high costs of telephony, and the low access to internet services. The reforms supported by this DPO series to liberalize the telecoms sector and introduce competing service providers will reduce communications costs and increase Comorian households' access to ICT services. Lower communication costs will be of social benefit in the Comoros context given the important role that connections with family members and remittances from abroad play in the economic welfare of households.

³³ Access to data on poverty, inequality, vulnerability, the cost and access to services is very limited in Comoros. The latest poverty estimates date back to 2004. A household budget survey is currently being carried out by the Comoros statistics institute. The results are due to be ready in mid-2015.

5.2 ENVIRONMENTAL ASPECTS

66. **The policy actions supported by this operation are not likely to have significant positive or negative effects on the environment, forests, and natural resources.** The policies addressed by this operation focus on institutional reforms without any expected short-term direct or indirect environmental impact. The activities under the Electricity Sector Recovery Project are limited to funding consultancies, studies and the acquisition of electricity meters, management information systems, hardware, and software equipment in the commercial and technical areas of utility operation. Thus, no significant adverse environmental or social impacts are anticipated under the project.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

67. **The Government has been pursuing a program of PFM reforms since 2010 to improve fiscal management and is committed to implementing its PFM Strategy, but progress is slow.** Progress is being made in PFM, and according to the 2013 PEFA assessment, by 2013 there were improvements made in 7 out of a total of 22 indicators which scored a D or a D+ in 2007. PFM reform was bolstered following the adoption of a new PFM Organic Law in 2012, but implementation remains slow and requires technical assistance through all aspects of the PFM chain. Nevertheless, some recent improvements have been noted. The annual public budget documents are published in the Official Gazette and the Ministry of Finance website, along with annual budget execution reports³⁴. Treasury coordination reforms are progressing with the adoption of a TSA framework. Efforts are being made to improve revenue administration, including controls on the volume of tax exemptions. Procurement reform is still at a nascent stage following the promulgation of the public procurement code in February 2012 and the establishment of the Public Procurement Regulatory Authority. Procurement units have also been set up at ministerial level and in state-owned enterprises but the actual operationalization of the procurement legislation needs to be speeded up. The PFM reform program is supported by development partners, including the World Bank, IMF and the African Development Bank, through technical assistance. The introduction of the World Bank leadership for Results approach through the EGTAG project is also expected to facilitate the implementation of PFM reforms.

68. **The Central Bank of the Comoros (BCC) is making satisfactory progress in implementing the recommendations of an IMF Safeguard Assessment completed in April 2010.** The safeguards assessment found that, despite capacity constraints and the need to develop an internal audit function, the BCC has taken steps to strengthen its safeguards framework. In this regard, the BCC is taking steps to: (i) implement the International Financial Reporting Standards; (ii) revise its audit charter to clearly define the audit committee's mandate in relation to reporting modalities and interaction with the external auditor; and (iii) post regularly the Central Bank's annual financial statements on its website. The most recently published audited financial statements were for the year 2013 and the auditors issued a clean audit opinion³⁵. While not exempt from substantial risks, overall, the fiduciary framework is deemed adequate to receive the proceeds of the grant.

³⁴ <http://www.finances.gouv.km/v1/index.php/directions/direction-generale-du-budget>

³⁵ http://www.banque-comores.km/DOCUMENTS/Rapport_annuel_2013.pdf.

69. **The proposed operation will consist of a single tranche credit in the amount of SDR 2.2 million (US\$3 million equivalent) to be made available upon effectiveness and disbursed on the basis of a withdrawal application.** The proposed grant will follow the Bank's disbursement procedures for development policy operations. The untied budget support will be disbursed provided the Bank is satisfied with the program being carried out by the Recipient and the appropriateness of Comoros' macroeconomic policy framework. No procurement requirements are needed. Once the grant is approved by the Board and becomes effective, and following the Recipient's request for withdrawal of proceeds of the grant, and provided IDA is satisfied with the Country's macroeconomic framework and the with program being carried out by the Recipient IDA will disburse the single tranche of SDR 2.2 million (US\$3 million equivalent) into a dedicated account that forms part of the country's official foreign exchange reserves (held by the BCC). This dedicated account will be established for the purpose of this operation.

70. **The financial support provided under this operation is not intended to finance goods or services in the standard negative list.** The Recipient shall ensure that upon the deposit of the grant into said account, an equivalent amount is credited in the Recipient's budget management system, in a manner acceptable to the Bank. The Recipient will report to IDA, by fax or email within 30 days of the transfer, on the amounts deposited in the foreign currency account and credited in local currency to the budget management system. If the proceeds of the grant are used for ineligible purposes as defined in the Financing Agreement, IDA will require the Recipient, promptly upon notice from IDA, to refund an amount equal to the amount of said payment to IDA. Amounts refunded to IDA upon such request shall be cancelled. Although an audit of the deposit will not be required, the IDA reserves the right to require audits at any time. The administration of this grant will be the responsibility of the Ministry of Finance of the Union. The closing date of the grant is December 31, 2016.

5.4 MONITORING AND EVALUATION

71. **Program monitoring and evaluation.** The CREF³⁶ will be responsible for monitoring reforms, reporting progress and coordinating actions with all ministries and entities, including at the island level. The CREF has shown strong political leadership in coordinating reforms as part of the HIPC completion point and the previous ERDPG DPO. It has also received technical assistance from the World Bank to strengthen its monitoring and evaluation capacity. The CREF will provide bi-annual reports to IDA on implementation progress measured against the agreed upon reform program. The overall reform program will be also continuously reviewed by the Government in close coordination with regular Bank supervision missions to ensure continued implementation of the program within an adequate macroeconomic policy framework. While the statistics system of the country is weak, the DPO has selected readily available indicators that government already produces to facilitate monitoring.

72. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions under this operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints

³⁶ Ministry of Finance - Economic and Financial Reforms Unit "*Cellule des Reformes Economiques et Financières*"

received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org”

6. SUMMARY OF RISKS AND MITIGATION

73. **The proposed programmatic DPO carries substantial overall risk**, mostly associated to the upcoming electoral cycle, Comoros' vulnerability to external shocks, weak institutional capacity and potential opposition to reforms, mainly in the electricity and ICT sectors.

74. **The electoral cycle poses significant political risks to this operation and the implementation of Comoros' broader reform program.** Comoros has embarked on its electoral season, with parliamentary elections having been concluded in February 2015 and elections to select the president of the union and island governors due in 2016. The political context remains fragile, and may be clouded by concerns relating to the timely roll-out of the electoral schedule due to financing and capacity constraints. Fiscal discipline will be at stake during this period as union and island governments are likely to embark on expansionary expenditure and recruitment efforts. Further risks stem from the diminishing appetite for pursuing sensitive reforms over this period (see next paragraph). The proposed operation addresses these challenges by pursuing reforms that are endorsed by consensus at the union and island levels, and that engage the legislative process. The program also seeks to mitigate political fragility through reforms that foster trust by improving transparency in the use of public resources and reducing corruption. However, this will remain a risk factor for the operation that will be monitored closely through regular dialogue, and supported by an ongoing fragility assessment.

75. **Several of the proposed reforms may stimulate stakeholder opposition in the design and implementation stages.** Reform plans for the recovery of the electricity sector will propose stricter enforcement of payment of bills that may prove unpopular unless accompanied by an improvement in service provision. ICT sector reforms have raised concerns about potential layoffs in the national telecommunications company stemming from increased competition in the sector and proposed privatization reforms. These influential concerns have already slowed down the pace of privatization reforms, and may have a similar effect on the liberalization process. Treasury coordination reforms may also raise concerns relating to the autonomy of island treasury operations. These risks will be mitigated in several ways. The electricity sector recovery plan will balance measures for better recovery with measures for more frequent and reliable supply to businesses and households through a phased approach. ICT reforms are placing a focus on facilitating the liberalization of the sector as a means of increased job creation and commercial activity in telecommunications. This will help to overcome some of the entrenched resistance to telecoms reform as efficiencies and job creation in the rest of the sector are realized. Lastly, the reforms for coordinating treasury operations are being designed and implemented in a participatory manner that seeks buy-in from stakeholders at the union and island levels.

76. **Comoros' macroeconomic and fiscal framework continues to be vulnerable to shocks that are characteristic of small island economies.** Commodity price shocks could be readily translated into higher domestic prices given the extent to which consumption relies on imported goods, particularly food and fuel. Global or regional economic downturns could yield a shock to remittance flows and diminish employment opportunities abroad. In addition, expenditure pressures and low revenues present a risk to the fiscal position. The operation seeks to mitigate Comoros' macro-fiscal vulnerability by supporting measures that support the opening-up of fiscal space such as a strengthened treasury position, tighter wage bill and debt management and lower subsidy costs through efficiency gains in the electricity sector. Lower telecommunications costs may also increase resilience against shocks at the household level. Besides this, fiscal space and sustainability will continue to be at the center of the macroeconomic policy dialogue surrounding this operation. A renewed ECF arrangement with the IMF would also be an important mitigating factor to manage macroeconomic risks.

77. **Weak institutional capacity presents a risk that could impede the implementation of sector strategies and the reform measures supported by this program.** Capacity constraints are typical in the case of small, fragile states including the capacity to execute the budget. Institutions at the island level have particularly high capacity constraints. These factors pose the risk that the actions supported by this program might not be implemented as successfully as expected or in the agreed timeframe. They also raise the risk that sector strategies and the policy environment will be inadequate or underfunded. The operation seeks to mitigate this risk by: (i) coordinating with other donors and, when possible, leveraging interventions; (ii) relying on ongoing Bank funded investment projects that provide significant technical assistance and capacity-building interventions in areas supported by this DPO series, including in strengthening sector strategies and policies; (iii) ensuring that dialogue involved detailed discussion about the implementation requirements for each policy action; and (iv) ensuring that the program is anchored in realistic expectations and that the reforms are anchored in concrete sector strategies.

78. **Fiduciary risks remain significant despite the ongoing implementation of PFM reforms.** While there has been progress in implementing PFM reforms, the 2013 PEFA report still highlighted substantial fiduciary weaknesses. They are partially mitigated by continued donor assistance in public financial management and public administration reforms.

79. **Social risks related to electricity sector reforms will be further studied as part of the electricity reform project.** Potential redistributive impact of the reforms supported to improve the financing of the electricity sector (i.e. through tariff reforms or payment enforcement) will be further studied as part of electricity reform project. This will provide information that will allow the government to contain potential negative impact on the most vulnerable population. The proposed operation is not expected to have substantial environmental risks.

80. **Climate change and disasters are not considered to be significant risks relating to this operation.** Comoros is vulnerable to the climate change effects and natural disasters associated with small island volcanic states. The authorities are developing a disaster risk management strategy with support from the World Bank and the United Nations. There are no specific climatic or disaster risks that are foreseen to affect the implementation of this operation.

| Risk Categories | Rating |
|---|--------------------|
| 1. Political and governance | Substantial |
| 2. Macroeconomic | Substantial |
| 3. Sector strategies and policies | Substantial |
| 4. Technical design of project or program | Moderate |
| 5. Institutional capacity for implementation and sustainability | High |
| 6. Fiduciary | Substantial |
| 7. Environment and social | Low |
| 8. Stakeholders | Substantial |
| 9. Other | |
| Overall | Substantial |

Annex 1: Policy and Results Matrix

| Prior Actions and Triggers | | Results |
|---|--|--|
| Prior Actions for DPO 1 | Prior Actions for DPO 2 | |
| <i>Pillar A: Strengthening economic management</i> | | |
| 1.1 Coordinating treasury and cash management | | |
| A dedicated budget line for the Directorate of Public Accounts and Treasury is clearly identified in the 2014 Budget Law and the following key staff is appointed in accordance with the Recipient's decree no. 12-047/PR 29 February 2012 relating to DGCPT, including its General Manager (<i>Directeur Général</i>), Coordinator (<i>Coordonnateur</i>), Managers of the three support services (<i>Chefs des 3 Services d'Appui</i>), Treasurer of the Union (<i>Trésorier Payeur Général</i>) and Treasurer of each of the three Autonomous Islands (<i>Trésoriers Payeurs de chacune des trois Îles Autonomes</i>). | The Recipient's Directorate of Public Accounts and Treasury within its Ministry of Finance has become operational through: (i) the identification of a dedicated budget line in the Recipient's 2015 Budget Law; and (ii) the appointment of the remaining core staff as required by the Recipient's Decree no. No. 12-047/PR dated February 29, 2012, through the Recipient's Arrêté No.15-008/VP-MFEBICEP/CAB dated March 28, 2015 ³⁷ . | Cash management plans integrating the union and island treasuries are operational. Baseline: No integrated plans (2013) Target: Integrated plans developed and adopted with the budget laws (2016) |
| The Recipient has included in its 2014 Budget Law four (4) previously off-budget accounts (<i>comptes de régies</i>) recorded in the accounts of the Treasury, and has issued a decision (<i>arrêté</i>) containing a complete list of accounts of the administrative entities of the Recipient (at the union and the Autonomous Islands' levels) in the Recipient's central bank. | The Recipient's Ministry of Finance and the Central Bank have signed a memorandum of understanding governing the functioning and administration of a Treasury Single Account at the Recipient's Central Bank, which memorandum of understanding, among other things, prohibits the opening and operating of new bank accounts unless prior authorization from the Recipient's vice-president responsible for finance has first been obtained. | Number of non-project central government bank accounts outside of the single account framework reduced Baseline: 64 ³⁸ (2013) Target: Less than 10 ³⁹ (2016) |
| 1.2 Strengthening wage bill management | | |

³⁷ Directeur de comptabilité publique et Chefs des 3 Services d'Appui.

³⁸ Arrêté #14-029/VP-MFEBICEI/CAB dated 11 March 2014.

³⁹ The target reflects progressive implementation. The number of non-project government bank accounts outside the TSA framework is expected to fall to zero as the framework is fully implemented.

| Prior Actions and Triggers | | Results |
|--|--|--|
| Prior Actions for DPO 1 | Prior Actions for DPO 2 | |
| | The Recipient has strengthened wage bill management through: (i) the integration of civil service wages in the computerized wage management system ⁴⁰ ; and (ii) the integration of biometric national ID numbers in the computerized wage management system. | A computerized wage management system that integrates union and island civil service operational. Baseline: Separate systems operated for the union and islands (2013) Target: An integrated system that consolidates union and island civil service operational (2016) |
| 1.3 Improving budget comprehensiveness | | |
| The Recipient has included in its 2014 Budget Law: (i) overall envelopes per ministry; (ii) the state of execution of the 2013 budget until June 30, 2013 presented in the same format as the draft budget; and (iii) data on government revenues (own resources and external resources) in the main headings of the budget nomenclature, including data for Fiscal Year 2013. | The recipient has integrated the public investment program in its 2015 budget law. | Public budget that includes detailed information on investment and recurrent expenditures adopted. Baseline: No public budget with detailed information on both investment and recurrent expenditures (2013) Target: Public budget with detailed information on investment and recurrent expenditures (2016) |
| 1.4 Improving debt management | | |
| The Recipient has included in its 2014 Budget Law a detailed debt report analyzing the debt stock as of October 31, 2013. | The Recipient has prepared and submitted to its National Assembly a debt management bill to strengthen the Recipient's debt management framework. | Transparency and accountability of debt management has improved. Baseline: No regular debt reports produced and debt management framework incomplete (2013) Target: Annual debt reports produced and all new loans, guarantees and loan renegotiations conducted in line with debt management law (2016) |
| 1.5 Strengthening statistical system | | |
| The Recipient has signed (after Cabinet review) and published a presidential decree for the establishment of the National Council of Statistics. | The Recipient, through its National Statistics Institute (L'Institut National de la Statistique et des Etudes Economiques et Demographiques), has: (i) prepared a budgeted five year action plan that uses the SNA 1993 methodology for the production of national accounts; and (ii) has completed data collection for updating 2011-2013 accounts. | National Accounts prepared using the 1993 methodology and National Statistics Institute operational. Baseline: Draft national accounts for year 2007 using the 1993 methodology prepared (2013) Target: National accounts for year 2013 using the 1993 methodology adopted (2016) |
| <i>Pillar B--- Improving transparency in economic management</i> | | |
| 2.1 Supporting the fight against corruption | | |

⁴⁰ The prior action refers to the integration of the Union's civil service roster in the computerized wage management system.

| Prior Actions and Triggers | | Results |
|---|---|--|
| Prior Actions for DPO 1 | Prior Actions for DPO 2 | |
| The Anti-Corruption Commission (<i>Commission nationale de prévention et de lutte contre la corruption</i>) has published, on its website and/or in a national newspaper, a list of public officials who have filed their asset declaration, in accordance with the Recipient's Decree no. 12-183/PR dated September 15, 2012. | The Recipient has enacted Law No.13-015/AU amending the Anti-Corruption Law, dated December 26, 2013, in order to, <i>inter alia</i> , strengthen the judicial powers of the Anti-Corruption Commission (<i>Commission nationale de prévention et de lutte contre la corruption</i>). | Number of cases completed by the anti-corruption commission and brought to court. Baseline:15 (2013) Target: 20 (2016) |
| 2.2 Enhancing transparency in the management of fisheries resources | | |
| The Recipient has signed and published a presidential decree to systematize disclosure of fishing access rights to national waters attributed and related revenues as well as their allocation. | | Information on access granted for fishing activities systematically disclosed, with revenue and its use documented. Baseline: Information not systematically available (2013) Target: Access to information on revenue and its use regularly documented and disclosed (2016) |
| Pillar C--- Improving competition and management in key infrastructure sectors | | |
| 3.1 Enhancing competition in the ICT sector | | |
| The Recipient's government has prepared and submitted to the National Assembly a draft information and communication technology sector law that sets out a framework for market liberalization. | The Recipient has launched a competitive bidding process for a second full-service license in the telecommunications sector ⁴¹ . | Increase in the number of telecom operators with a service license and reduction in the monthly price per 1 GB of mobile data (3G) Baseline: 1 Telecom operator and KMF 10,000 price (2013) Target: At least 2 Telecom operators and KMF 7,500 price (2016) |
| 3.2 Improving performance in the electricity sector | | |
| To reduce total losses in the electricity sector, the Recipient's government has approved the terms of reference for a recovery and development plan establishing clear objectives for results to be attained by MA-MWE management and has initiated the procurement of the independent expert to prepare such plan by the publication of a call for expressions of interest. | The Recipient, through its Ministry in charge of Production, Environment, Energy, Industry and Craft, has adopted a recovery and development plan of the MA-MWE Company that includes a commercial recovery and performance framework. | Increase in MA-MWE collection rates Baseline: 55 percent (2013) Target: 65 percent (2016) |

⁴¹ The request for expressions of interest and the bidding information note.

Annex 2: Letter of Development Policy

UNION DES COMORES
Unité – Solidarité – Développement
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**VICE – PRESIDENCE CHARGE
DU MINISTERE DES FINANCES, DE
L'ECONOMIE, DU BUDGET, DE
L'INVESTISSEMENT ET DU
COMMERCE EXTERIEUR,
CHARGEE DES PRIVATISATIONS**

Cellule des Réforme Economiques
et Financières (CREF)

Le Secrétaire Permanent

N° 15/ 050 - MFBECEP/SP Moroni, le 20 Avril 2015

A
M. Jim Yong Kim
Président de la Banque Mondiale
Banque Mondiale

Objet : Proposition de Don pour la réforme de la gouvernance économique (*Second Economic Governance Reform Grant*) : Lettre de politique de développement.

Monsieur le Président,

Au nom du Gouvernement de l'Union des Comores, et en mon nom personnel, permettez-moi de vous adresser nos vœux, les meilleurs pour vous-même et votre famille.

Par la présente, il m'est l'honneur de vous adresser une requête de financement pour appuyer la mise en œuvre du nouveau Document de Stratégie de Croissance Accélérée et de Développement Durable (SCADD) pour 2015-2019 à travers un don pour la réforme de la gouvernance économique (*Second Economic Reform Grant*) de l'Association Internationale pour le Développement (IDA). Cette Lettre de Développement dénombre et décrit les actions préalables déjà engagées par le Gouvernement pour déclencher la mise en œuvre du programme de réformes qui serait appuyé par l'IDA dans le cadre du don d'appui budgétaire en cours de préparation pour soutenir les réformes relatives à la gouvernance économique.

I. Contexte

Les Comores ont connu depuis son indépendance en 1975, une instabilité politique itérative caractérisée par de nombreux coups d'Etat et de tentatives de coups d'Etat. Cela a engendré un retard conséquent dans le décollage économique du pays et sa cohésion sociale. Néanmoins, depuis ces dernières années, ces tensions politiques se sont apaisées, particulièrement depuis l'enterrement de la crise séparatiste et des élections de 2010 qui en découlaient, considérées comme justes et transparentes par la communauté internationale.

Avec la stabilité retrouvée, les Comores ont regagné leurs confiances vis-à-vis les institutions financières et ensemble, nous avons pris un engagement fort afin de concentrer nos efforts sur la consolidation de l'unité nationale, l'amélioration du niveau de vie des Comoriens et la réduction de la pauvreté en vue de nous rapprocher au mieux des objectifs du millénaire pour le développement.

Ainsi, le Gouvernement de l'Union a enregistré de nombreux faits marquants au cours de l'année 2014. A terme du Document de Stratégie pour la Croissance et la Réduction de la Pauvreté (DSCR 2010-2014), nous avons procédé le 08 Janvier 2014 à la validation finale dudit document qui a fait l'objet d'une planification stratégique d'un nouveau Document de Stratégie de Croissance Accélérée et de Développement Durable pour 2015-2019 dans l'optique de maintenir les progrès significatifs réalisés ces dernières temps en matière de renforcement de la gestion macroéconomique et la réalisation des réformes structurelles sur l'énergie et les télécom pour ne citer que ces deux-là. Dans la même période, la Banque mondiale a approuvé le 06 mai 2014 un nouveau Document de Stratégie de Partenariat (CPS) avec l'Union des Comores pour 2014-2017 pour appuyer les nouvelles priorités de développement incarnées dans le SCADD et remplacer la Stratégie Intérimaire de 2010-2012. Les autres partenaires de développement notamment la France l'Union Européenne, la Banque Africaine de Développement et le Système des Nations Unies sont aussi en train de développer des nouvelles stratégies de partenariat en adéquation avec les objectifs de la SCADD. Le Gouvernement continue les consultations avec le FMI pour bâtir un nouveau programme avec le Fond.

II. Contexte Macroéconomique

Le Gouvernement a continué en 2014 à appliquer les réformes nécessaires pour une croissance durable. La croissance réelle du PIB a atteint 3,0% en 2014, contre un taux de 3,5% pour 2013. La décélération des activités économiques reflète en partie l'accentuation de la crise de l'énergie et la faible exécution du programme des investissements publics. Les perspectives de croissance pour le moyen terme sont plus favorables grâce au soutien de la demande intérieure privée, en liaison avec le niveau soutenu des transferts courants privés qui ont permis de contenir le déficit du compte courant de la balance des paiements. Le niveau général des prix devrait être autour de 2,5% en moyenne terme, grâce à la hausse de la production agricole.

Au niveau des finances publiques, nos efforts de consolidation fiscale ont affrontés des difficultés en 2014 en raison des pressions budgétaires relatives aux salaires, les élections et électricité. Malgré ces défis, le déficit budgétaire a été réduit en 2014. Il passerait ainsi de -3,1% du PIB en 2013 à 0,8 en 2014. Pour rétablir la discipline budgétaire, notre intention est: (i) d'intensifier les efforts de mobilisation au niveau de nos administrations fiscales et douanières; et (ii) d'assurer une gestion rigoureuse des dépenses publiques, afin de contrôler la masse salariale et de contenir les autres dépenses courantes. Au jour d'aujourd'hui, nous avons pris des mesures phares pour améliorer l'assiette fiscale de l'Etat. Entres autres, nous avons décidé de geler les nouvelles exonérations tout en évaluant ceux qui sont encourus déjà, et de consolider le fichier des contribuables des douanes et des impôts pour rehausser les recettes budgétaire de l'Etat. Nous avons également fixés la masse salariale par entité à travers une note circulaire envoyée aux différentes entités pour maîtriser les dépenses courants de l'Etat. Par ailleurs, les dépenses d'investissement seront financées par des dons et des prêts concessionnels pour supporter les investissements dans secteurs clés tel que la sante, l'éducation et les infrastructures de route et de télécommunication.

Relations avec le FMI

L'atteinte de nos objectifs de finances publiques, nous conduira à négocier un nouveau programme de Facilité Elargie de Crédit avec le FMI cette année. Nous avons donc préconisé des mesures rigoureuses cette année au niveau de l'administration fiscale et douanières afin d'arriver à bon port avec le FMI. Ces mesures incluent : (i) une extension du fichier des contribuables de 180 dans ces derniers années à 400 en 2015, (ii) geler les exonérations ad hoc au niveau de la douane, et (iii) consolider les recettes fiscales et des régions financières, afin d'augmenter les revenus et consolider les dépenses publiques.

III. Stratégie pour la Croissance et la Réduction de la Pauvreté

Nous avons entrepris de doter le pays d'un nouveau cadre intégré de développement, dénommé « Stratégie de Croissance Accélérée et de Développement Durable –SCADD», couvrant la période 2015-2019 pour remplacer la stratégie de réduction de la pauvreté qui arrive à expiration. Cette stratégie reposera sur des hypothèses réalistes en ce qui concerne le financement disponible en mettant l'accent sur l'accroissement de l'attrait de l'économie comorienne pour les investissements et le tourisme. Les Partenaires techniques et financiers, y compris le FMI et la Banque mondiale nous ont beaucoup accompagnés dans ce processus. La SCADD offre un cadre de développement à moyen terme pour jeter les bases de la réalisation de la vision des autorités qui est de « faire des Comores un pays émergent d'ici 2040, respectueux des droits de l'Homme, de l'égalité de genre et promouvant l'Etat de droit ». Ainsi, les objectifs globaux retenus sont : renforcer les fondements d'une croissance économique, forte, viable, durable, équitable et inclusive ; améliorer la qualité de vie de la population et garantir l'équité dans l'accès aux services sociaux de base ; promouvoir le patrimoine naturel et culturel et l'utilisation optimale des ressources naturelles ; promouvoir la bonne gouvernance et la résilience face à la fragilité politique.

IV. Actions préalables et prochaines étapes supportées par l'EGRG

Renforcement de la gouvernance économique

Le gouvernement a poursuivi ses efforts afin d'améliorer la gestion des finances publiques, et mettre en application la *Loi des Opérations Financières de l'Etat*, qui a été votée par l'Assemblée Nationale et promulguée par le Président de l'Union des Comores en Août 2012. Nos efforts actuels visent à rendre opérationnelle la direction générale de la comptabilité publique et du trésor à travers la nomination de tous les membres y relatifs afin de consolider la gestion de la trésorerie et des liquidités. Nous avons pu nommer les trois responsables clés de la DGCTP pour compléter les neuf nominations faites l'année dernière par afin de rendre l'institution opérationnelle. En outre, Le budget de la DGCTP a été augmenté en 2015. Nous avons aussi bénéficié d'une assistance financière du projet Appui à la Bonne Gouvernance Economique (ABGE) pour nous appuyer à réhabiliter un local pour la DGCTP. (**Action Prioritaire #1**)

Nous sommes aussi arrivés à bâtir un consensus avec la BCC le 27 novembre 2014, pour la création d'un compte unique du trésor pour faciliter les échanges d'informations entre les deux institutions et la remontée des flux financiers à la BCC. Le CUT exige explicitement un contrôle et une consolidation des comptes de l'Etat. (**Action Prioritaire #2**).

Le programme d'investissement public est intégré dans le budget national et présenté dans la loi des finances 2015. Le PIP présente les décaissements projetés pour 2015 pour une liste de projets équivalents à un montant de KMF38.3 milliards (soit 13.7% du PIB). La majorité de ces projets sont financés par des bailleurs de fonds multilatéraux et bilatéraux.

Toutefois des faiblesses structurelles liées aux projets non-financés et à la nomenclature budgétaire et le plan des comptes doivent être adressées dans le prochain exercice (**Action Prioritaire #3**).

Compte tenu des difficultés que nous rencontrons dans la gestion de la masse salariale, le gouvernement est en train d'adopter un système centralisé de gestion de la fonction publique. Ce système va renforcer le control de la masse salariale ainsi que celui de l'administration de la paie. L'objectif recherché c'est de soutenir la migration à partir d'un système fragmenté vers un système qui intègre la gestion de la masse salariale de l'Union et des îles, commençant par l'intégration de la base de données de la fonction publique de l'Union dans le nouveau système informatisé de gestion des salaires comme première étape, et l'intégration des numéros d'identité nationale biométrique pour chaque fonctionnaire (**Action Prioritaire #4**).

Le gouvernement a soumis à l'assemblée générale le 13 octobre 2014 pour examen et adoption, le projet de loi de la gestion de la dette publique. La loi sur la gestion de la dette publique aborde les sujets relatifs aux garanties souveraines octroyées par les entreprises publiques, la fragmentation des engagements de dettes publiques, et la rétention d'informations qui empêche le suivi de décaissement et abouti à des retards dans le paiement des obligations de l'état envers ses créiteurs et contribue à adresser ces contraintes. Le projet de loi de la gestion de la dette publique a été élaboré suite à une assistance technique fournie au Ministère des Finances par la Banque Mondiale et le Fonds Monétaire International depuis 2012. Le projet de loi a été formellement soumis à l'Assemblée Générale. Cette loi était prévue d'être discutée durant la dernière session de l'assemblée ouverte depuis fin Octobre malgré le temps imparti à la législature en fin de mandat. Nous comptons le faire passer au cours de la première session de la nouvelle assemblée en 2015 (**Action Prioritaire #5**).

L'Institut National de la Statistique et des Etudes Economiques et Démographiques (INSEED) a produit un plan de travail budgétisé qui adopte la méthodologie SNA1993 pour la production de comptes nationaux, et a commencé la mise à jour de ces comptes en 2014, approuvé par le ministère des finances.. L'INSEED a terminé en Septembre 2014 la collecte et la saisie des informations requises pour la production des comptes nationaux 2011-2013 sur la base de la méthodologie SNA 1993 et la finalisation des comptes se fera en May2015 après un appui technique qui sera offert par l'AFRISTAT. L'appui se focalisera de même sur les comptes 2008-2010 afin d'obtenir la série historique. Ces questions seront discutées avec les techniciens du projet d'appui aux statistiques d'AFRISTAT et la Banque Mondiale. Une ligne budgétaire spécifique à l'INSEED a été introduite dans la loi des finances 2015 (KMF 4 millions vs 3 millions en 2014) (**Action Prioritaire #6**).

Transparence dans la gestion économique

Le Gouvernement a soumis à l'Assemblée Nationale un amendement à la loi d'Anti-corruption pour fortifier les pouvoirs judiciaires de la Commission Anti- Corruption. La Commission Anti-Corruption est régi par une loi de 2008 et mise en place en 2011. En Décembre 2013, l'Assemblée Nationale a voté des amendements à la loi qui ont été promulgués par le Président de l'Union en Janvier 2014. La nouvelle loi permet d'accroître les prérogatives de la commission en le qualifiant d'Officier de Police Judiciaire avec la possibilité de garder les gens en garde à vue; et de mener des enquêtes et les transmettre au parquet sans pour autant passer par la police nationale et sans l'autorisation préalable du procureur de la république. De même, la durée de prescription est passée de 5 à 20 ans. Le gouvernement est aussi conscient des challenges auxquelles la commission est confrontée et allons continuer le travail pour alléger ces contraintes notamment sur la question d'indépendance financière et l'accélération des procès juridiques.

Ces deux choses-là sont prises au courant dans l'exécution de la stratégie de lutte contre la corruption que nous avons déjà adopté (**Action Prioritaire #7**).

Amélioration de la compétitivité et de la gestion de secteurs clés liés aux infrastructures

Afin de solliciter l'intérêt des investisseurs et assurer un environnement de compétition plus favorable le Gouvernement a lancé le processus compétitif d'octroi de la deuxième licence de télécoms aux Comores. Financée par l'assistance technique du bureau RCIP-4, un consortium composé du Cabinet Artelia group et Cabinet Eric Vève et Associés a été recruté pour nous appuyer, à travers l'Autorité Nationale de Régulation des TIC, dans le processus d'octroi de la deuxième licence TIC aux Comores. Les lancements sont apparus dans les magazines et journaux internationaux et régionaux identifiés comme : The Economist, GSMA, Jeune Afrique et Balancing Act (**Action Prioritaire #8**).

Au niveau du secteur de l'énergie, nous sommes à pied d'œuvre pour améliorer la fonction commerciale de la MA-MWE (Eau et Electricité des Comores) à travers le projet d'Appui au Redressement du Secteur de l'Electricité financé par la Banque mondiale. Afin réduire le total des pertes du secteur, le gouvernement a adopté le Plan de Redressement et de Développement et a établi des cibles de performance pour MA-MWE conformément au plan. Le plan est approuvé et adopté par le Conseil d'Administration de MA-MWE. Le cadre senior de la direction commerciale de MA-MWE a pris ces fonctions le 20 janvier 2015 (**Action Prioritaire #9**). En outre, nous sommes aussi dans le processus de lancer une étude sur la dette croisée entre la MA-MWE, la SCH et le Gouvernement de l'Union et nous sommes engagés à normaliser les relations fiscales dans le secteur.

V. Conclusion

Au nom du gouvernement de l'Union des Comores, je tiens à remercier IDA pour l'appui qu'elle a fourni à notre pays. Ce soutien a été et continue d'être essentiel pour jeter les bases et élargir la portée de nos initiatives de développement.

Le Gouvernement s'engage à prendre toutes les mesures de politiques décrites dans cette lettre. Elles sont entièrement conformes à la détermination du Gouvernement à guider l'Union des Comores sur le chemin de la croissance, de la diversification et du renforcement de l'économie, de la lutte contre la pauvreté et de la gestion économique prudente. Je suis confiant que cette demande de soutien à notre programme de réformes recevra votre considération favorable.



OUBEIDI MZE CHEI

*Conseiller du Président de l'Union,
Gouverneur pour les Comores auprès de la
Banque Mondiale,
Secrétaire Permanent de la CREF*

UNION OF THE COMOROS

Unity – Solidarity – Development

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**VICE - PRESIDENCY FOR
FINANCE, THE ECONOMY, BUDGET,
INVESTMENT AND FOREIGN TRADE,
AND PRIVATIZATION**

The Permanent Secretary
Unit of Economic and Financial Reform (CREF)
Moroni

To

M. Jim Yong Kim
President of the World Bank
World Bank

Subject: Proposed grant for the reform of economic governance (Second Economic Governance Reform Grant): Development Policy Letter.

Mr. President,

On behalf of the Government of the Union of the Comoros, and on my own behalf, allow me to extend to you our best wishes, and best wishes for yourself and your family.

It is my honor to address you with a request for funding to support the implementation of the new Document of Strategy for Accelerated Growth and Sustainable Development (SCADD) for 2015 to 2019 through a grant for the reform economic governance (Second economic Reform Grant) of the International Development Association (IDA). This Letter of Development presents the prior actions already taken by the Government to initiate the implementation of the reform program that would be supported by IDA under the budget support grant being prepared to support reforms related economic governance.

Context

Since its independence in 1975, Comoros has experienced continuing political instability marked by numerous coups and attempted coups. This caused a significant delay in the country's economic takeoff and its social cohesion. Nevertheless, in recent years, these political tensions have subsided, especially since the end of the separatist crisis and the 2010 elections which were regarded as fair and transparent by the international community. With newfound stability, Comoros reestablished trust in financial institutions, concentrated efforts on consolidating national unity, improved living standards and poverty reduction in order to get closer to achieving the Millennium Development Goals.

Thus, the Union Government has recorded many milestones during 2014. With the conclusion of the Strategy for Growth and Poverty Reduction (PRSP 2010-2014), we proceeded on January 08, 2014 with the final validation of the new Strategy for Accelerated Growth and Sustainable Development (SCADD) for 2015-2019 with a view to maintaining the significant progress made recently for strengthening macroeconomic management and implementing structural reforms in the energy and telecoms to name but two. In the same period, the World Bank approved on May 6, 2014 a new Country Partnership Strategy Paper (CPS) with the Union of the Comoros for 2014-2017 to support new development priorities embodied in the SCADD and to replace the Interim Strategy 2010-2012. Other development partners including the European Union, France, the African Development Bank and the UN system are also currently developing new partnership strategies in line with the objectives of the SCADD. The Government also continues consultations with the IMF to build a new program with the

Macroeconomic context

The Government continued in 2014 to implement the reforms necessary for sustainable growth. Real GDP growth reached 3.0 percent in 2014, compared with 3.5 percent for 2013. The deceleration of economic activity partly reflects the steepening of the energy crisis and the weak implementation of the program for public investments. Growth prospects for the medium term are more favorable with the support of private domestic demand, in conjunction with the sustained level of remittances which helps contain the current account deficit of the balance of payments. Inflation is expected to be around 2.5 percent on average in the medium term, as a result of the increase in agricultural production.

With regard to public finances, our fiscal consolidation efforts have faced difficulties in 2014 due to budget pressures on wages, elections and electricity. Despite these challenges, the budget deficit was reduced in 2014. It increased from 3.1 percent of GDP in 2013 to 0.8 in 2014. To restore fiscal discipline, we intend to: (i) intensify mobilization efforts in our tax and customs administrations; and (ii) ensure rigorous management of public expenditure in order to control the wage bill and to contain other current expenditure. As of the today, we have taken key measures to improve the tax base of the state. Among others, we decided to freeze new exemptions while assessing those already outstanding, and consolidated the Customs taxpayers file to enhance the budgetary revenue of the State. We have also fixed payroll by entity through a circular note to contain recurrent spending. In addition, capital expenditures will be funded by grants and concessional loans to support investments in key sectors such as health, education, road infrastructure and telecommunications.

Relations with the IMF

The aim of achieving our fiscal targets leads us to negotiate a new Extended Credit Facility with the IMF this year. We are therefore pursuing strong measures to strengthen tax and customs administration in order to achieve this goal. These measures include: (i) an extension of the tax payers file from 180 to 400 in 2015, (ii) a freeze ad hoc customs exemptions, and (iii) the consolidation of tax revenue authorities in order to increase revenue and consolidate public spending.

Accelerated and Sustainable Development Growth Strategy

We set out to provide the country with a new integrated development framework, called the Accelerated and Sustainable Development Growth Strategy (SCADD) covering the period 2015-2019 to replace the strategy of poverty reduction that expires. This strategy will be based on realistic assumptions regarding available funding by focusing on increasing the attractiveness of the Comorian economy for investment and tourism. The technical and financial partners, including the IMF and the World Bank, have supported us in this process. SCADD provides a medium-term development framework for laying the foundations for the realization of the vision of the authorities for Comoros to become an emerging country by 2040, respectful of human rights, equality of gender and promoting the rule of law. Thus, the overall objectives are: to strengthen the foundations for economic growth: strong, viable, sustainable, equitable and inclusive;

improve the quality of life of the population; ensure equity in access to basic social services; promote the natural and cultural heritage; the optimal use of natural resources; promote good governance and resilience to political fragility.

Prior Actions and Next Steps

Strengthening economic governance

The government continued its efforts to improve the management of public finances, and to implement the Law of Financial Operations of the State, which was passed by the National Assembly and promulgated by the President of the Union of Comoros in August 2012. Our current efforts are aimed at making operational the General Directorate of Public Accounting and Treasury through the appointment of all members thereto to strengthen the management of cash and liquidity. We have named the three key officials of the directorate to complement the new appointments made last year to make the institution operational. In addition, the budget was increased in 2015. We also received financial assistance from the project Support to Good Economic Governance (ABGE) to support us to rehabilitate a room for DGCTP. (Prior Action # 1)

We also achieved consensus with the Central Bank of Comoros (BCC) on 27 November 2014, for the creation of a treasury single account to facilitate the exchange of information between the two institutions and the financial flows back to the BCC. The treasury single account explicitly requires control and consolidation of government accounts. (Prior Action # 2).

The public investment program (PIP) has been integrated into the national budget and presented in the Finance Act of 2015. The PIP has projected disbursements for 2015 for a list of \ projects totaling KMF38.3 billion (13.7 percent of GDP). The majority of these projects are funded by multilateral and bilateral donors. However, structural weaknesses related to non-funded projects, budget classification and the chart of accounts should be addressed in the next fiscal year (Prior Action # 3).

Given the difficulties we face in managing the wage bill, the government has adopted a centralized civil service management system. This system will strengthen control of the wage bill and that of payroll administration. The aim is to support the migration from a fragmented system to a system that integrates payroll management of the Union and the islands, starting with the integration of the database of the Union government as the first step, and the integration of biometric national ID numbers for each official (Prior Action # 4).

The government has submitted to the National Assembly on October 13, 2014 for consideration and adoption, the bill for the management of public debt. The bill discusses topics related to sovereign guarantees granted by public enterprises, the fragmentation of public debt liabilities, and improving information for monitoring payments and liabilities. The bill for the management of public debt has been drawn up following technical assistance provided to the Ministry of Finance by the World Bank and the International Monetary Fund since 2012. The bill was formally submitted to the General Assembly. The law was scheduled to be discussed during the last session of the meeting open since late October despite the time to end legislature mandate. We intend to spend during the first session of the new Assembly in March 2015 (Prior Action # 5).

The National Institute of Statistics and Economic and Demographic Studies (INSEED) produced a costed work plan which adopts SNA1993 methodology for the production of national accounts, and started updating these accounts in 2014, approved by the Ministry of Finance. The INSEED finished in September 2014 collecting and entering information required to produce the national accounts from 2011 to 2013 on the basis of the methodology SNA 1993 and the finalization of the accounts is expected in May 2015 after technical support from AFRISTAT. The support will focus on the estimation of the 2008-2010 accounts to obtain the historical series. These issues will be discussed with the technicians of the project to support AFRISTAT statistics and the World Bank. A specific budget line to INSEED was introduced in the 2015 Finance Act (KMF 4,000,000 vs. 3,000,000 in 2014) (Prior Action # 6).

Transparency in Economic Management

The Government submitted to the National Assembly an amendment to the Anti-corruption law to strengthen the judicial powers of the Anti-Corruption Commission. The Anti-Corruption Commission is governed by a 2008 law and implemented in 2011. In December 2013, the National Assembly passed amendments to the law that have been promulgated by the President of the Union in January 2014. The revised law increases the prerogatives of the committee by empowering the Judicial Police Officer to keep people in custody; and to conduct investigations and pass them to the judiciary without going through the national police and without prior authorization from the prosecutor. Similarly, the limitation period is increased from 5 to 20 years. The government is also aware of the challenges which the Commission is facing and will continue working to alleviate these constraints particularly on the issue of financial independence and acceleration of legal proceedings. These two things will be taken in to account in implementing the strategy against corruption that we have already adopted (Prior Action # 7).

Improving Competitiveness and Management In Key Infrastructure Sectors

To solicit investor interest and ensure a more favorable competitive environment, the Government launched the competitive process for granting the second telecom license in the Comoros. Funded by technical assistance from the World Bank RCIP-4 project, a consortium consisting of Cabinet Artelia and Group Eric Vève and Associates was hired to support us, through the National Regulatory Authority of ICT in the process of granting the second license. The notice of intent has appeared in international and regional magazines and newspapers identified as: The Economist, GSMA, *Jeune Afrique* and Balancing Act (Prior Action # 8).

In terms of the energy sector, we are seeking to improve the commercial function of the MA-MWE (Water and Electricity of the Comoros) with support from the World Bank electricity sector project. To reduce the total sector losses, the government passed the Development and Recovery Plan and established performance targets for MA-MWE according to the plan. The plan has been approved and adopted by the Board of Directors of MA-MWE on January 20, 2015 (Prior Action # 9). In addition, we are also in the process of launching a study on cross debt between MA-MWE, SCH and the Government of the Union, and we are committed to normalize fiscal relations in the sector.

Conclusion

On behalf of the Government of the Union of Comoros, I want to thank the IDA for the support it has provided to our country. This support was and continues to be essential to lay the foundations and broadening the scope of our development initiatives. The Government undertakes to take all policy measures described in this letter. They are fully consistent with the Government's determination to guide the Union of Comoros on the road to growth, diversification and strengthening of the economy, the fight against poverty and prudent economic management. I am confident that this request for support to our reform program will receive your favorable consideration.

OUBEIDI MZE CHEI
Adviser to the Head of State,
Governor for the Comoros to the World Bank
Permanent Secretary of the CREF

Annex 3: Fund Relations Annex

IMF Executive Board Concludes 2014 Article IV Consultation with the Union of Comoros

Press Release No. 15/41
February 9, 2015

On February 4, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the 2014 Article IV consultation¹ with the Union of Comoros.

Comoros is a small, low-income and fragile-three island state with limited natural resources and connectivity to the rest of the world. Political instability and fractious inter-island relations marked the country during the first decades after independence from France in the mid-1970s. Political stability and economic turnaround have been in place following the adoption of a new constitution in 2009. Under the 2009–13 Extended Credit Facility (ECF) arrangement the secular decline in per capita GDP slowed. Additionally, authorities made progress in consolidating macroeconomic stability and advancing structural reforms that enabled Comoros to complete the Heavily Indebted Poor Countries (HIPC) Initiative in December 2012.

Economic growth was 3.5 percent in 2013 but is estimated to have eased to 3.3 percent in 2014, adversely affected by electricity disruptions and slower-than-expected implementation of the public investment program. Inflation has remained subdued in the low single digits. The current account deficit is projected to narrow to 7.4 percent of GDP in 2014 from 11.3 percent in 2013, reflecting a contraction in imports that resulted from lower imports of investment goods and lower fuel import prices, as well as higher remittances.

Economic growth is expected to firm to 3.5 percent in 2015, despite continuing headwinds from the electricity sector and a tight fiscal situation, supported by an acceleration in the pace of implementation of foreign-financed public investment and lower fuel prices. For the medium term, staff's baseline assumption is that economic growth will average around 4 percent per annum, provided that reforms are implemented.

Implementation of the 2014 budget was challenging, particularly after mid-year. While revenues were broadly on target, resources were inadequate to meet the higher-than-budgeted wage bill resulting from an increase in teacher salaries and previously un-budgeted expenditures. Domestically-financed investment spending was severely constrained and temporary arrears were incurred on salaries and external debt.

The key short-term challenge is to find a better balance between available resources and expenditures so that arrears can be avoided. Spending plans need to be based on realistic expectations of the resources likely to be available. The 2015 budget is premised on this principle, but the scope for domestically-financed investment is inadequate, as obligatory spending on wages and salaries and debt service absorb most of domestic revenue.

For the medium term, the key challenges are to create fiscal space for infrastructure investment and social spending, accelerate inclusive growth and employment generation, and reduce poverty. The authorities need to focus their efforts on strengthening revenue administration and public financial management to expand fiscal space and improve transparency. Weaknesses in the business environment, including inadequate infrastructure, especially in the energy sector, and difficulties in contract enforcement represent important challenges.

Based on the external low income country debt sustainability analysis, IMF and World Bank staff have re-assessed Comoros' risk of debt distress as moderate rather than high, which was the case in the previous DSA update completed in December 2013. The full inclusion of remittances in the analysis is the main reason for the improved debt sustainability outlook.

Executive Board Assessment²

Executive Directors welcomed Comoros's improved policy implementation and economic performance in recent years. However, Directors noted that significant challenges remain—including high poverty, inadequate infrastructure, and vulnerabilities characteristic of small island economies. Prudent macroeconomic policies and stepped-up reform efforts are needed to bolster resilience, enhance competitiveness, and foster inclusive growth.

Directors saw achieving fiscal stability as a key near-term objective. Regretting the incurrence of domestic arrears in 2014, they encouraged the authorities to strike a better balance between available resources and expenditures. In this regard, Directors welcomed the government's decision to base the 2015 budget on more realistic assumptions, and advised both enhanced prioritization and restraint, including containment of the wage bill.

Directors called for efforts to strengthen revenue mobilization and public financial management, and encouraged the authorities to implement quick-win reforms in both areas. They noted that revenue collection trails that of peer economies, and recommended strengthening administration through more effective management of the large tax payer list, better enforcement of compliance, and streamlining exemptions. Strengthening public financial management would help to limit the incurrence of arrears, enhance fiscal transparency and credibility of the budget, and create space for infrastructure investment and priority social spending. Directors noted the improvement in Comoros's debt distress rating, and encouraged the authorities to continue to rely on grants and concessional financing.

Directors cautioned against excessive reliance on the potentially volatile proceeds from a new Economic Citizenship Program, and advised allocating these resources to investment projects, restructuring public enterprises, and strengthening external buffers. Strong safeguards are also needed to help prevent misuse of the program.

Directors stressed the need to develop the financial sector, and strengthen the central bank's regulatory and supervisory oversight, including through risk-based supervision. They called for the development, with Fund technical assistance, of a resolution strategy to accelerate the recapitalization and restructuring of the Postal Bank.

Directors encouraged the authorities to expedite the pace of structural reforms in order to boost external competitiveness and growth prospects. Efforts are needed to strengthen the business climate through the removal of key supply-side constraints in the electricity, telecommunications, and financial sectors. Directors welcomed the progress in preparing a new Poverty Reduction Strategy, while calling for a strong private sector development component aimed at improving the attractiveness of the Comorian economy.

Directors encouraged the authorities to improve data quality and timeliness by prioritizing allocations to the new statistical agency and working with technical assistance providers.

Directors agreed that assistance from development partners is critical, given Comoros's limited capacity to undertake complex reforms. They acknowledged the role that a new Fund arrangement could play in supporting the authorities' reform efforts taking into account the small states' challenges that Comoros is facing, and looked forward to early engagement on this issue.

Comoros: Selected Economic and Financial Indicators, 2011-18

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-------|-------|-------|------|------|-------------|------|------|
| | | | Prel. | | | Projections | | |
| (Annual percentage change, unless otherwise indicated) | | | | | | | | |
| National income and prices | | | | | | | | |
| Real GDP | 2.2 | 3.0 | 3.5 | 3.3 | 3.5 | 4.0 | 4.0 | 4.0 |
| GDP deflator | 4.7 | 2.6 | 3.1 | 3.2 | 3.1 | 3.0 | 3.0 | 3.0 |
| Consumer price index (annual averages) | 2.2 | 5.9 | 1.6 | 2.9 | 2.5 | 2.5 | 2.5 | 2.5 |
| Consumer price index (end period) | 4.9 | 1.0 | 3.5 | 2.8 | 1.8 | 2.5 | 2.5 | 2.5 |
| Money and credit | | | | | | | | |
| Net foreign assets | 17.2 | 16.5 | -9.8 | 0.6 | -1.5 | 4.5 | 6.1 | 6.0 |
| Domestic credit | 4.9 | 7.6 | 21.0 | 15.0 | 14.1 | 9.3 | 8.1 | 8.2 |
| Credit to the private sector | 8.9 | 22.4 | 12.6 | 7.6 | 17.4 | 14.6 | 13.0 | 13.7 |
| Broad money | 9.6 | 16.0 | 2.8 | 6.7 | 6.7 | 7.1 | 7.1 | 7.1 |
| Velocity (GDP/end-year broad money) | 2.9 | 2.6 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| External sector | | | | | | | | |
| Exports, f.o.b. | 16.4 | -19.0 | -3.1 | -6.7 | 9.5 | 7.4 | 7.0 | 7.0 |
| Imports, f.o.b. | 7.2 | 18.1 | 2.8 | -6.2 | 5.1 | 8.5 | 5.9 | 6.4 |
| Export volume | -24.3 | -28.1 | 25.6 | -8.6 | 6.1 | 4.6 | 3.9 | 3.9 |
| Import volume | -6.9 | 12.1 | 7.5 | 2.7 | 10.5 | 9.2 | 6.7 | 7.0 |
| Terms of trade | 3.1 | 2.6 | -0.9 | 4.0 | 5.4 | 2.2 | 2.3 | 2.1 |

(In percent of GDP, unless otherwise indicated)

| | | | | | | | | |
|------------------------------|-------|------|-------|------|-------|-------|-------|-------|
| Investment and savings | | | | | | | | |
| Investment | 14.9 | 16.8 | 20.4 | 19.4 | 20.8 | 22.1 | 22.8 | 23.4 |
| Public | 5.4 | 6.8 | 9.8 | 8.0 | 10.0 | 11.0 | 11.6 | 12.3 |
| Private | 9.5 | 10.1 | 10.5 | 11.4 | 10.8 | 11.1 | 11.2 | 11.2 |
| Gross national savings | -19.0 | 8.5 | 9.0 | 12.1 | 9.8 | 11.3 | 12.3 | 12.5 |
| Public | 2.2 | 5.5 | 2.0 | 0.2 | 1.4 | 2.0 | 2.6 | 3.2 |
| Private | -21.3 | 3.0 | 7.0 | 11.8 | 8.4 | 9.4 | 9.8 | 9.3 |
| Government budget | | | | | | | | |
| Total revenue and grants | 23.6 | 28.5 | 41.5 | 23.5 | 24.2 | 24.4 | 25.0 | 25.7 |
| Tax Revenue | 10.9 | 11.8 | 12.1 | 12.0 | 12.6 | 13.1 | 13.8 | 14.4 |
| Total grants ¹ | 7.5 | 9.2 | 26.0 | 8.9 | 9.0 | 8.7 | 8.7 | 8.7 |
| Total expenditure | 22.0 | 25.1 | 24.6 | 23.8 | 25.3 | 26.3 | 26.9 | 27.5 |
| Current expenditure | 16.6 | 18.4 | 14.8 | 15.7 | 15.3 | 15.2 | 15.3 | 15.3 |
| Capital expenditure | 5.4 | 6.8 | 9.8 | 8.0 | 10.0 | 11.0 | 11.6 | 12.3 |
| Domestic primary balance | 1.6 | 3.0 | -1.4 | -1.4 | 0.1 | 1.0 | 1.1 | 1.3 |
| Change in arrears | -3.4 | -0.7 | -0.9 | -0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| External (Interest) | -0.8 | -0.1 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic | -2.6 | -0.6 | -0.9 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (cash basis) | -1.9 | 2.5 | 15.5 | -0.6 | -1.0 | -1.9 | -1.8 | -1.8 |
| Excluding grants | -9.4 | -6.7 | -10.6 | -9.5 | -10.1 | -10.6 | -10.5 | -10.5 |
| Financing | 0.3 | -2.8 | -15.4 | 0.6 | 1.0 | 1.9 | 1.8 | 1.8 |
| Foreign (net) | -0.2 | -1.1 | -17.0 | -1.1 | 1.1 | 2.2 | 2.2 | 2.4 |
| Domestic (net) | 0.5 | -1.7 | 1.6 | 1.7 | 0.0 | -0.3 | -0.4 | -0.5 |
| Errors and omissions | -0.2 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
| External sector | | | | | | | | |
| Exports of goods and services | 16.2 | 14.9 | 14.9 | 14.5 | 14.5 | 14.4 | 14.3 | 14.2 |
| Imports of goods and services | 50.2 | 53.9 | 57.2 | 50.9 | 53.2 | 51.7 | 50.4 | 49.9 |
| Current account balance | -11.3 | -8.3 | -11.3 | -7.4 | -11.0 | -10.8 | -10.5 | -10.9 |
| Excl. official and private transfers | -34.1 | -39.7 | -42.1 | -36.5 | -38.8 | -37.3 | -36.2 | -35.8 |
| Remittances | 18.7 | | 26.4 | 26.7 | 26.2 | 25.6 | 25.1 | 24.5 |
| External debt, in percent of GDP ² | 44.9 | 40.7 | 18.5 | 17.4 | 17.5 | 18.5 | 19.4 | 20.3 |
| External debt, in percent of exports of goods and services ² | 275.5 | 271.8 | 123.7 | 121.1 | 120.9 | 128.1 | 135.0 | 142.7 |
| External debt service (in percent of exports of goods and services) ² | 10.0 | 10.3 | 2.1 | 2.8 | 2.3 | 3.8 | 4.0 | 4.6 |
| Overall balance of payments (in millions of U.S. dollars) | -25.5 | -5.8 | -32.5 | 0.0 | -4.1 | 8.2 | 11.3 | 9.8 |
| Official grants and loans (percent of GDP) | 7.5 | 9.2 | 26.0 | 8.9 | 10.4 | 11.4 | 11.4 | 11.6 |
| Gross international reserves (end of period) | | | | | | | | |
| In millions of U.S. dollars | 170.1 | 191.1 | 168.0 | 170.2 | 166.8 | 174.6 | 185.1 | 194.2 |
| In months of imports of goods & services | 6.7 | 7.1 | 5.4 | 5.6 | 4.9 | 5.0 | 5.1 | 5.0 |
| Real effective exchange rate (2000=100) | 100.2 | 95.5 | 99.0 | 98.4 | ... | ... | ... | ... |
| Exchange rate CF/US\$ (period average) | 353.6 | 382.7 | 370.4 | 363.0 | ... | ... | ... | ... |
| <i>Memorandum items:</i> | | | | | | | | |
| GDP (nominal, in billions of CF) | 216.0 | 228.2 | 243.6 | 260.1 | 277.6 | 297.3 | 318.3 | 340.9 |
| GDP per capita (nominal, in US Dollars) | 860 | 815 | 873 | 923 | 948 | 991 | 1,039 | 1,087 |
| Education and health expenditure (in billions of CF) | 14.8 | 16.8 | 18.3 | ... | ... | ... | ... | ... |

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

¹ Includes interim HIPC assistance (2010-12) and debt relief under HIPC and MDRI.

² External debt ratios after full HIPC, MDRI and beyond HIPC relief from end-2012.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and the summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.