FOR AGENDA

EBS/10/109

June 7, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Union of the Comoros—First Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for a Modification of Performance Criteria and Financing Assurances Review**

Attached for consideration by the Executive Directors is a paper on the first review under the three-year arrangement under the Extended Credit Facility for the Union of the Comoros and its request for a modification of a performance criteria and the financing assurances review. A draft decision appears on pages 17–19. This paper, together with the paper on the enhanced Heavily Indebted Poor Countries Initiative for the Union of the Comoros (EBS/10/110, 6/7/10) is tentatively scheduled for discussion on **Monday, June 21, 2010**. Unless an objection from the authorities of the Union of the Comoros is received prior to the conclusion of the Board's consideration, the document will be published. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Matungulu (ext. 38137) and Mr. Culiuc (ext. 38396) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the African Development Bank, the Common Market for Eastern and Southern Africa, the European Commission, and the Islamic Development Bank, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

UNION OF THE COMOROS

First Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for a Modification of Performance Criteria and Financing Assurances Review

Prepared by the African Department
(In consultation with other departments)

Approved by Roger Nord and Thomas Dorsey

June 7, 2010

ECF arrangement:	Comoros's three-year ECF arrangement was approved in September 2009, in an amount of SDR 13.57 million (152.5 percent of quota, including 12.5 percent for EPCA repurchase).
Mission team:	Mr. Matungulu (head) and Messrs. Culiuc (AFR), Dicks-Mireaux (SPR), Fievet (STA), and Rozenov (FIN). Moroni, April 6–20, 2010.
Focus:	First review under the ECF arrangement; discussions on HIPC decision point; a modification of performance criteria. The mission met with President Sambi, Vice President and Minister of Finance Ikililou, Central Bank Vice Governor Mzé A.M. Chanfiou, and other senior officials. It also liaised with parallel World Bank, AfDB, and EU teams; and held discussions with local representatives of the donor community.
Mission outcome:	The authorities met all quantitative performance criteria and all but one quantitative benchmarks for end-December 2009; they observed all but one structural benchmarks through end-2009, albeit with some delays, for the period. In collaboration with World Bank staff, the mission reached understandings with the government on final HIPC completion point triggers. Staff recommends completion of the review.

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EXECUTIVE SUMMARY

In the last two years, amendments to the constitution have set in motion a streamlining of Comoros' political system. The reforms have converted island presidential and legislative institutions to provincial branches of government and instituted a single (Union) presidency and one National Assembly, setting aside a complex 4-president arrangement in place since 2001. As a result, national economic policy making is becoming more centralized and, apparently, somewhat more effective.

Overall performance under the ECF-supported program has been broadly satisfactory. All quantitative targets were met at end-September; all but one was observed at end-December 2009; and six of eight quantitative targets for end-March 2010 were met. Despite weakening somewhat in recent months, revenue collection has been generally consistent with program expectations. However, difficulties in managing the wage bill remain a concern. The authorities have agreed to strong corrective measures; rigorous implementation will be essential to safeguard the medium-term profile of the fiscal program. With the exception of adoption of a reform strategy for the petroleum products-importing company and computerization of the wage bill, all of the structural measures targeted for the period through end-March 2010 have been implemented (albeit with delays in some cases).

The authorities concur about the need to continue fiscal consolidation in support of their macroeconomic objectives, targeting a reduction of the domestic primary deficit to 1.5 percent of GDP in 2010. They are intensifying efforts to strengthen tax and customs administration, and have introduced new fiscal measures; all of which would raise revenue to 14.3 percent of GDP in 2010. The authorities are endeavoring to better align spending to available government resources by enhancing control over personnel payments and ensuring more effective operation of the Treasury committee, to avoid accumulating new arrears.

In the structural area, program focus will be on public finance management and key sectors critical to improved growth performance. The main reforms aim to strengthen control over the wage bill and initiate restructuring of the telecommunications, petroleum importing, and electricity parastatals.

HIPC and MDRI debt relief is crucial to securing medium-term external debt sustainability. Maintaining sustainable levels of indebtedness also requires steady implementation of growth-enhancing economic policies, with a focus on fiscal consolidation and restructuring of public utilities. Prudent debt policy and management will also be needed in the period ahead.

Program risks appear manageable. Frictions between the Union and island authorities may delay needed but politically difficult reforms. Also, weak administrative, institutional and data capacity will continue to add challenges to economic analysis, policy formation, implementation and program monitoring. A possible worsening of the terms of trade or decline in remittances, and a weaker-than-anticipated global economic upturn which may delay the inflows of capital and FDIs would also pose risks. However, with timely implementation of the authorities' program, these risks should be manageable.

Staff supports the authorities' request for completion of the first ECF review.

I. Recent Developments

1. **In the last two years, amendments to the constitution have set the stage for a streamlining of Comoros' political system and enhanced central government authority over budget and economic management**. In May 2009, island presidential and legislative institutions were converted to provincial branches of government. The reform leaves the country with only one (Union) president and one National Assembly.[1] As a result, national economic policy making is becoming more centralized and, apparently, somewhat more effective. In an unexpectedly bold sign of strengthening of the judiciary, on May 8, 2010, the Constitutional Court rejected a move by President Sambi to extend his term beyond the initial limit of May 2010. To consolidate the national electoral cycle, the court also proposed that the first ever nation-wide presidential and local elections be held by November 2011; and agreed to an interim presidential mandate by the incumbent. Consistent with the court's ruling, President Sambi named an interim cabinet on May 26, 2010. These developments should ease the rising political tensions in recent months.

2. **Economic activity has been stronger than anticipated though modest.** 2009 GDP growth is estimated at 1.8 percent, above the program forecast of 1 percent, but still below the rate of population growth of around 2½ percent. The construction industry grew substantially as witnessed by a near doubling of cement imports, while the financial sector saw the addition of two new banks and a 44-percent expansion in credit to the private sector. Constraints on growth included a still difficult global economic environment, resulting in lower-than-anticipated spending for public works and, along with a June 2009 Yemenia plane crash, the stagnation of travel receipts and postponement of a major FDI project in the tourism sector. With subdued growth and easing pressures on global energy and food prices, end-year inflation declined to 2.1 (7.4 percent in 2008).

3. **The external position improved considerably in 2009.** Despite depressed world prices for vanilla and ylang ylang, goods exports doubled, albeit primarily on account of an offloading of vanilla stocks accumulated in the last two years. Remittances, while not growing at the rate of previous years, proved resilient to the world economic crisis and amounted to 20 per-cent of GDP. With a marked improvement in the terms of trade, these factors helped narrow the current account deficit to 7.9 percent of GDP in 2009 (11.1 percent of GDP in 2008). SDR allocations of SDR 7.8 million from the Fund helped increase reserves to the equivalent of 7.1 months of imports at end-2009, up from 5.2 months in 2008.

4. **In November 2009, Comoros was accorded an exceptional debt restructuring treatment by the Paris Club.** Paris Club creditors agreed to provide an exceptional debt treatment to Comoros, beyond standard Naples terms. Arrears on short-term debt—a senior

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[1] The 2001 constitution provided for one Union and three island presidents and parliaments. The arrangement resulted in costly elections being held every year at various levels.

category of debt normally not treated by the Club, but which constitutes the bulk of Comoros' debt to the Club—were deferred and are to be repaid over 8 years. Overall, the agreement treats debts amounting to US$13 million and reduces by about 80 percent the payments due by Comoros over the program period (2009–12).The agreement includes a clause further reducing debt service payments due if Comoros reaches the HIPC decision point. Other official bilateral and commercial creditors have either agreed to defer arrears pending a treatment in the context of the HIPC Initiative process or are holding discussions with the authorities on their restructuring. With respect to discussions with external private creditors, the authorities are engaged in good faith negotiations consistent with the Fund's lending into arrears policy.[2] Developments in debtor-creditor relations are not expected to undermine program implementation. Comoros has cleared arrears and remains current on its debt service obligations with major multilateral creditors, and has contacted the remainder to start negotiations to clear arrears in the context of a comprehensive resolution of the country's debt situation under the HIPC Initiative process.[3]

5. **Regional external assistance has picked up.** In March 2010 the Qatari government, with the support of the League of Arab States and the Islamic Conference, hosted a conference on development and investment in Comoros. Announced pledges amounted to about US$350 million, including 128 million in FDI for the tourism sector. The first tangible result of the conference came in early May, when Qatar granted US$26 million in budget support (equivalent to CF 9.8 billion or 4.9 percent of GDP) earmarked primarily for the repayment of domestic arrears, including several months of civil service wage arrears.

Box 1. May 2010 Qatari Grant: Use and Selected Macroeconomic Repercussions

As requested by the Qatari authorities, the CF 9.8 billion grant has been allocated to the settlement of domestic wage and supplier arrears equivalent to CF 5.9 billion. Pending consultations with Fund staff on its use, a balance of CF 3.9 billion is kept in reserves—supporting a concomitant increase in Treasury deposits with the Central Bank. The increase in aggregate demand from the much higher than initially programmed reduction in domestic arrears is expected to trigger a surge in imports estimated at CF 4.6 billion. The high import content of consumer spending implies little spillover on real growth (0.2 percent) and inflation (0.3 percent); raising real GDP growth and inflation to 2.1 percent and 3.1 percent in 2010, respectively. Other macroeconomic repercussions include a rise in domestic revenue to a projected 14.3 percent of GDP in 2010 (13.9 percent in 2009) mostly through a strengthening of customs revenue, and an increase in domestically-financed investment outlays to 1.3 percent of GDP (1 percent of GDP under initial program projections).

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[2] Arrears accumulated during the program to these creditors are not considered arrears for program purposes as they are subject to rescheduling or restructuring.

[3] For details see The Enhanced HIPC Decision Point Document which is being circulated to the Board (EBS/10/110; 6/7/10)

II. Performance Under the ECF

A. Macroeconomic Policies Satisfactory, but Some Fiscal Slippage

6. **Program performance through end December 2009 was broadly satisfactory.** Seven of eight quantitative performance indicators, including all performance criteria, were observed (Text Table 1). Revenue collection was somewhat stronger than programmed partly reflecting customs administration efficiency gains, but also stronger-than-expected receipts from the *special economic citizenship program*. However, at 2.6 percent of GDP, the domestic primary budget deficit (a program benchmark) exceeded the program target by 1 percent of GDP owing to spending overruns on wages and transfers, including CF 1.7 billion (0.9 per-cent of GDP) to the state-owned Comores Telecom in support of a regional under-ocean fiber-optic cable project, which promises to greatly improve Comoros' connectivity to the rest of the world. Nevertheless, the target on net domestic credit to the government (a performance criterion) was narrowly met.

7. **Preliminary data for the first quarter of 2010 point to a somewhat weaker program outturn.** Six of eight quantitative benchmarks were observed. Weakened focus on tax and customs administration resulted in the revenue target being missed by a small margin. The target on the domestic primary fiscal deficit was nevertheless met, as the authorities cut spending on goods and services and domestically funded investment. Wage policy also deteriorated because, in response to a widespread teachers' strike, the government granted in February a 30-percent wage increase to education workers, effective October 1, 2010, with an estimated budgetary impact of 0.5 percent of GDP in 2010 and 1.4 percent in 2011 and in 2012. This pay award has prompted unions of other sectors (medical and judiciary) to demand comparable remuneration increases.

Text Table 1. Comoros: Quantitative Indicators Under the ECF
(In millions of Comorian Francs, cumulative since end of previous year, unless otherwise specified)

	2009				2010	
	Sep.		Dec.		Mar.	
	Indicative target	Realized	PC	Realized	Indicative Target	Preliminary
Performance Criteria						
1. Ceiling on net credit to government (NCG)	588	-374 met	1,142	1,131 met	-391	389 not met
2. Ceiling on the net accumulation of domestic payments arrears [2, 3]	217	-2,331 met	-731	-2,737 met	-2,369	-2,645 met
3. Ceiling on new nonconcessional external debt contracted or guaranteed by the government [4]	0	0 met	0	0 met	0	0 met
4. Ceiling on new short-term external debt contracted or guaranteed by the government [4]	0	0 met	0	0 met	0	0 met
5. Ceiling on accumulation of external debt service arrears	0	0 met	0	0 met	0	0 met
Quantitative Benchmarks						
6. Floor on the domestic primary balance		-1,509 met	-2,970	-4,967 not met	-1,421	-825 met
7. Floor on total domestic revenues		19,761 met	25,975	26,401 met	5,232	5,152 not met
8. Ceiling on expenditures by cash advances [3]		226 met	500	257 met	100	89 met

[1] Definitions of targets and adjusters are provided in the Technical Memorandum of Understanding (TMU).
[2] Targets and realizations adjusted as specified in the TMU.
[3] 2009 targets cumulative from July 1, 2009.
[4] Excluding trade credits.

B. Structural Reforms Progressing, with Some Delays

8. **Slow progress in the reform of state-owned utilities has marred an otherwise satisfactory performance in the structural area.** All but two structural program indicators were observed (Text Table 2), albeit with delays in some cases. Although the wage bill benchmark has not yet been fully met, importantly computerization of wage payments has conclusively been tested, setting the stage for routine operation in the coming months. Moreover, in early April, the government submitted to parliament new personnel frameworks for government ministries that are compatible with medium-term budget viability (end-March benchmark). However, by end-March 2010 the government had not completed consultations with the IFC on the reform options for the telecommunications and hydro-carbon importing companies, a delayed end-September 2009 structural benchmark.

Text Table 2. Comoros: Structural Benchmarks Under the ECF

Structural indicators	Date	Status
Maintaining a flexible petroleum price-fixing mechanism	Continuous	Met
Completion of IFC-approved reform strategies for Comores Telecom and Societe Comorienne des Hydrocarbures	Sep. 30, 2009	Partially met
Appointing the Permanent Secretary for the reform-monitoring committee (CREF)	Sep. 30, 2009	Met
Government approval of a strategy for clearance of domestic payments arrears	Oct. 31, 2009	Met
Government approval of a comprehensive medium-term PEM reform strategy	Dec. 31, 2009	Met
Government approval of a medium-term strategy to improve revenue mobilization	Dec. 31, 2009	Met
Government approval of the final PRSP	Dec. 31, 2009	Met
Full computerization of civil servant payment roster and adequate staffing of the unit monitoring wage payments.	Mar. 31, 2010	Partially met
Submitting a draft law to parliament that sets the organic frameworks for the island ministries in line with the recommendations of the High Authority for the Public Administration.	Mar. 31, 2010	Met

III. Program Issues

A. The Macroeconomic Framework and Outlook

9. **Reforms supported by the Fund under the ECF continue to seek achievement of the following medium-term macroeconomic objectives:** (i) real GDP growth of 3½ percent by 2012; (ii) an inflation rate below 3 percent, under the zone franc currency peg; (iii) an external current account deficit limited to just below 12 percent of GDP by 2012 reflecting higher-than-initially anticipated energy products prices; and (iv) raising the investment ratio to 18.2 percent of GDP by 2012. Achieving these objectives would help enhance the effectiveness of the poverty reduction strategy, facilitating progress toward the MDGs.

Text Table 3. Comoros: Selected Economic and Financial Indicators, 2008–13

	2008	2009		2010		2011	2012	2013
		Prog	Prel	Prog	Proj			
Real GDP, percentage change	1.0	1.0	1.8	1.5	2.1	2.5	3.5	4.0
Consumer price index (end period percentage change)	7.4	2.3	2.1	1.9	3.1	2.7	2.9	3.0
Domestic government revenues (share of GDP)	13.1	13.8	13.9	13.6	14.3	14.2	14.5	14.9
Total grants (share of GDP)	10.4	6.9	9.7	6.1	13.7	7.1	7.1	7.2
Total expenditure (share of GDP)	26.0	22.3	23.0	22.1	23.2	23.1	22.7	23.0
Domestic primary balance (share of GDP)	-2.7	-1.6	-2.6	-1.5	-1.5	-1.2	-0.5	-0.4
Current account balance (share of GDP)	-11.1	-8.0	-7.9	-10.4	-8.9	-12.5	-11.8	-11.1
Excl. official and private transfers	-34.3	-29.1	-33.6	-29.1	-35.9	-32.6	-31.5	-30.4
Gross international reserves (millions USD, end of period)	110.4	111.9	153.1	112.0	153.3	155.3	156.0	157.0
In months of imports of goods & services	5.2	6.1	7.1	5.7	6.5	6.8	6.6	6.4

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

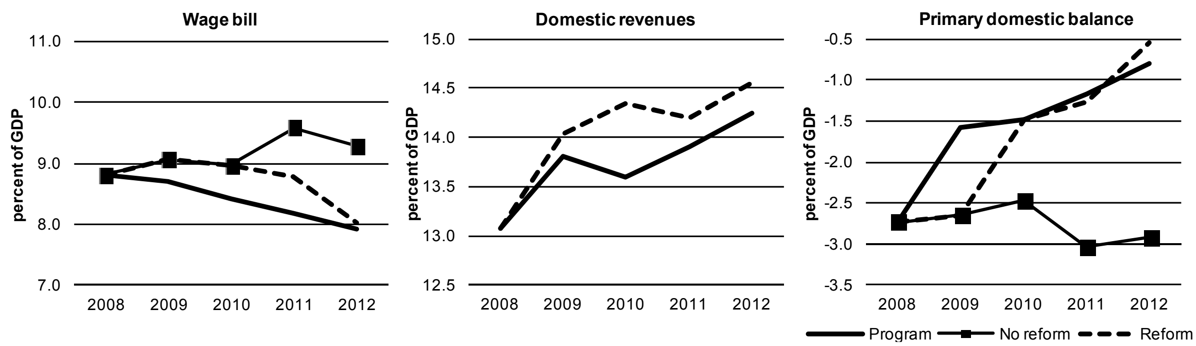
10. **Growth is expected to firm further in 2010**, supported by a healthier external environment, higher donor-funded spending for public works and wage arrears clearance, and resumption of private sector infrastructure projects in tourism, following the March 2010 Arab League conference on development and investment in Comoros. Inflation is projected to rise to approximately 3 percent reflecting a rebound in world commodity prices, but also in response to increased domestic demand underpinned by large wage arrears repayments to civil servants. Private transfers from abroad are projected to increase only marginally, as significant repayments of wage arrears in the public sector are expected to reduce household consumption dependence of aid from the Diaspora. The reserve position is expected to remain comfortable.

B. Fiscal Policy for 2010 and Medium-Term Budget Consolidation

11. **The recent weakening wage policy poses a challenge.** Absent corrective measures, and taking account of wage overruns incurred in 2009, the salary increase granted to teachers in late February 2010 would: (i) raise the wage bill by a yearly average of 1.1 percentage-point of GDP during the program period, to an annual average of 9.2 percent of GDP; (ii) widen the domestic primary fiscal deficit to an annual average of 2.2 percent of GDP against an initial program target of 1.1 percent of GDP; and (iii) increase the fiscal financing gap by the equivalent of $6.3 million per year (1.1 percent of GDP) during the program period.

12. **The authorities concur on the need for swift corrective measures and are targeting a reduction of the domestic primary deficit to 1.5 percent of GDP in 2010 (2.6 percent of GDP in 2008–09).** This is to be achieved through (i) a targeted increase in revenue, equivalent to 0.7 percent GDP; and (ii) net cuts in basic expenditures of just 1.2 percent GDP, the bulk of which in wages, goods and services, and transfers. The program makes provisions for an increase in domestically-funded capital outlays, totaling an estimated 0.5 percent of GDP.

Figure 1. Comoros: Wage Bill, Revenue, and Fiscal Consolidation, 2008–12



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

Stepping up revenue mobilization

13. **Key revenue measures under the original ECF program include:**

- Establishment of a unified tax administration for the three islands, organized along functional lines, with a strong headquarters operating center;
- Posting of tax offices (*centre des impôts*) reporting to the (Union) General Directorate of Taxes (DGI) outside of Moroni and the island of Ngazidja; and
- Rationalization of the DGI’s Large Taxpayer Unit operations.

14. **The above are being complemented by additional measures from recommendations by an FAD technical assistance mission in January of 2010 (MEFP ¶14), in particular:**

- Stricter enforcement of filing of returns by, and closer monitoring of, large taxpayers with a view to increasing the rate of filing to 95 percent;
- More systematic enforcement of the fiscal ID number (NIF) system; and
- Further computerization of the revenue management at the tax directorate (DGI).

15. **The authorities are also putting in place new fiscal measures to boost tax revenues above initial program targets (MEFP ¶15)**:

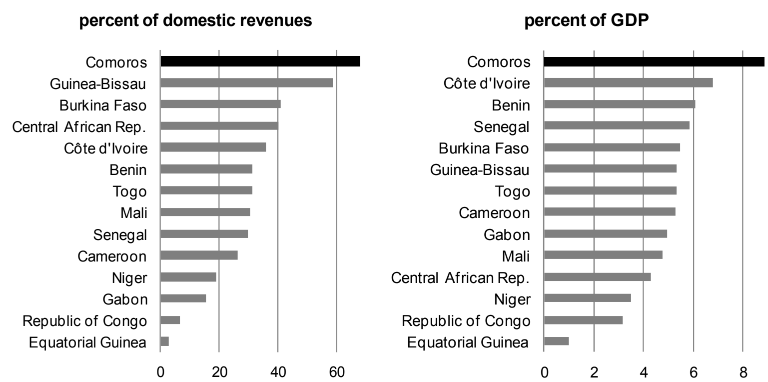
- An increase of 5 percent in the tax on petroleum products, as well as in excises on tobacco and alcohol;
- The reinstatement of the tax on diesel and other motor vehicles, as well as the business license tax; and
- The enforcement of licensing fees for telecommunication use of radio frequencies.

16. **Customs revenues are also projected to be above original targets**, reflecting: (i) higher-than-programmed imports supported by larger domestic arrears repayments; (ii) accelerated progress in streamlining customs clearance procedures; and (iii) a more aggressive move from specific, container-based, to ad-valorem import taxation within the existing COMESA-based customs tariff structure (MEFP ¶16).

Making the wage bill compatible with medium-term budget viability

17. **Authorities are introducing measures to gradually return the wage bill-to-GDP ratio to its initial medium-term trajectory (MEFP ¶18)**. At 9 percent of GDP and 66 percent of domestic revenues in 2009, the wage bill leaves little space for spending in priority areas, and is considerably larger than in other Zone Franc countries (Figure 2).

Figure 2. Comoros: Wage Bill Compared to CFA Zone Countries, 2008



Sources: IMF country desk estimates.

The authorities have undertaken preparations for a civil service personnel census to be completed by end-year with World Bank technical assistance. The census is complementing other wage-control measures under the program:

- Freeze on net civil service recruitments outside of priority sectors;
- Effective operation by August of 2010 of newly tested computerized wage management system; and
- Implementation under the 2011 budget of new ministry personnel frameworks compatible with medium-term budget viability. The reform is programmed to take effect in mid-2011, at which time the size of the civil service will be cut by around 15 percent. In 2012, the first full year with the downsized civil service, the wage bill would decline to 7.9 percent of GDP (Table 2B).

18. **The ECF-supported program continues to provide for increases in priority sector outlays, in line with the objectives of the PRSP and the agreed HIPC completion point triggers**. The authorities plan to develop indicative targets on social and other priority outlays, with technical assistance from donors. Pending finalization, monitoring of priority

outlays is focused on broad education and health spending categories, including those that could be funded with resources freed-up by any interim HIPC assistance (Table 5).

19. **The authorities are implementing recommendations from a recent audit of domestic arrears.** Seven months of civil service wage arrears and one-third of arrears to suppliers are being settled in 2010, for a total of CF 10.8 billion (5.4 percent of GDP), largely with grants from Qatar (para. 5 and Box 1) and the EU (US$10 million).

Box 2. Domestic Arrears—Stock and Clearance Process

Based on an audit prepared with EU assistance, the stock of domestic arrears amounted to CF 22.8 billion (12.1 percent of GDP) at end-2008, of which CF 14.3 billion was owed to civil servants. The arrears stock is estimated to have been brought down to CF 20.6 billion by end-2009, and is projected to decline further to CF 9.8 billion by end-2010. This remaining amount is programmed to be reduced by an annual average of CF 1.8 billion over the medium term, and should be fully cleared by 2016.

20. **A fiscal financing gap of CF 6.6 billion (US$18.3 million or 3.3 percent of GDP) for 2010 is fully covered.** It is calculated after recent domestic arrears clearance operations and related Qatari and EU grants; debt relief granted under the November 2009 Paris Club agreement (topped up to standard Cologne terms at the decision point) together with assumed relief on comparable terms by other official bilateral and commercial creditors; as well as delivery of IDA interim HIPC assistance. With respect to multilateral creditors, the authorities requested debt restructuring in the context of the HIPC Initiative; creditors have expressed a willingness to begin discussions on the terms of a possible restructuring. Typically multilateral creditors deliver HIPC debt relief at the completion point and, for the purposes of the program it is assumed that outstanding arrears and current debt service falling due are deferred until the projected HIPC completion point at end-2012. As the program does not assume that the completion point is reached, it is conservatively assumed that after 2012 these discussions continue, existing arrears continue to be deferred but payment of debt service falling due resumes.

Text Table 4. Comoros: Filling the Financing Gap for 2010–12

	2010									2011	2012
	Billions CF				Millions USD				pct of GDP	pct of GDP	
	Q2	Q3	Q4	Annual	Q2	Q3	Q4	Annual	Annual		
I. Gross financing requirement [1]	2.5	3.3	0.9	6.6	6.8	9.1	2.4	18.3	3.3	2.6	2.5
II. Identified financing	1.6	3.3	0.0	4.9	4.5	9.1	0.0	13.5	2.4	1.4	1.3
AfDB	0.5	...	...	0.5	1.5	...	...	1.5	0.3	0.3	0.3
World Bank	1.1	...	...	1.1	3.0	...	...	3.0	0.5	0.5	0.5
Gulf partners/Arab league and others	...	0.1	...	0.1	...	0.1	...	0.1	0.0	0.5	0.5
European Union	...	3.3	...	3.3	...	9.0	...	9.0	1.6	...	...
III. Financing gap (I - II)	0.9	0.0	0.9	1.7	2.4	0.0	2.4	4.8	0.9	1.3	1.2
IV. ECF Disbursement	0.9	...	0.9	1.7	2.4	...	2.4	4.8	0.9	0.8	0.8
V. Residual financing gap (III - IV)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.4

Source: IMF Staff estimates and projections.
[1] 2010 gross financing requirements calculated after exceptional financing related to debt restructuring operations and after grants already disbursed by the EU (US$10 million) and Qatar (US$26 million).

C. HIPC Decision Point and Debt Sustainability

21. **The 2010 LIC DSA shows that Comoros is in debt distress and would remain so under the baseline scenario for most of the projection period.** Assuming HIPC and MDRI debt relief, the country's debt becomes manageable. In collaboration with World Bank staff, the mission reached understandings with the authorities on HIPC completion point triggers.

22. **HIPC and MDRI debt relief is crucial to securing Comoros' medium-term external debt sustainability.** Public external debt amounted to $287 million (53 percent of GDP) at end-2009, before Paris Club debt relief, including $54 million (10 percent of GDP) in arrears—22.5 percent of which to Paris Club creditors. The latest HIPC DRA assessed a NPV of debt-to-exports ratio of 343 percent at end-2009 after traditional debt relief, which would decline to 86 percent under the assumption of HIPC/MDRI and bilateral beyond HIPC debt relief being achieved in 2012. Under this scenario, the ratio of debt service to exports would be reduced to 1.5 percent in 2013, from 19.5 percent in 2010 before traditional debt relief.

23. **In addition to comprehensive debt relief, maintaining sustainable levels of indebtedness will require steady implementation of growth-enhancing economic policies**, with a focus on fiscal consolidation and restructuring of public utilities. Prudent debt policy, with heavy reliance on highly concessional grants and loans, and management will also be needed in the period ahead.

D. Structural, Financial Sector Reforms, and PRSP

24. **The authorities are endeavoring to enlist strategic partners of international repute in the ownership and management of the growth-supporting public utilities and to further improve public financial management**. In May 2010, they adopted an IFC-approved reform strategy for the state-owned telecommunications company (prior action); and while pursuing consultations with the IFC on reform options for the hydrocarbon importing company, they have appointed a new Board of Directors to begin addressing management inefficiencies in the company (prior action). Also, an AfDB-sponsored consultant will soon be recruited to help prepare a reform strategy for the electricity utility, MA-MWE.

25. **The authorities are strengthening financial sector supervision.** Two new foreign banking institutions have started operations in the last year, including Tanzania's EXIM Bank in which the IFC has a financial stake. With technical assistance from the Fund and *Banque de France*, the Central Bank of Comoros (BCC) is strengthening its banking supervision unit.

26. **In March 2010, the IMF Board discussed Comoros' updated Poverty Reduction and Growth Strategy Paper (PRGSP, EBD/10/3; and JSAN, EBD/10/10).** The ECF program supports the PRGSP's six pillars. It aims in particular to further economic

stabilization and lay the foundations for sustained and equitable growth by strengthening public finance and improving infrastructure provision. Accordingly, the fiscal program is strengthening revenue mobilization and improving expenditure management, seeking to create fiscal space for higher spending in priority and growth-supporting sectors (paras. 13-18 above). The authorities' ECF-supported program also endeavors to strengthen overall economic competitiveness, with a view to fostering stronger growth and faster poverty alleviation. To that end, related ECF reforms would deliver cost-effective and reliable energy, telecommunications, and banking services to the economy (paras. 24 and 25).

Text Table 5. Comoros: The Structural Reform Agenda Under the ECF, 2010

Measures	Macroeconomic justification	Date
Prior Actions		
Submission of the 2010 supplementary draft budget law to the National Assembly		
Adoption by the Council of Ministers of the reform strategy for Comores Télécoms; and appointment of a new Board of Directors for Société Comorienne des Hydrocarbures		
Completion and forwarding to IMF staff of a comprehensive report on Treasury balances outstanding, together with a plan for the recovery of those tax liabilities		
Structural benchmarks		
Maintaining the petroleum product price-setting mechanism.	Will ensure a reliable supply of petroleum products and limit pressures for subsidies	Ongoing
Appointment of Union Presidency representative in the reform-monitoring committee (CREF)	Increase the effectiveness reform implementation and monitoring	June 30, 2010
Introduction of computerized pay slips	Improve control of the wage bill and of government expenditure	Beginning in September 2010
Completion of the census of government employees and officials	Improve control of the wage bill and of government expenditure	End-December 2010
Implementation of the Civil Service organizational frameworks	Improve control of the wage bill and of government expenditure	2011 Budget

IV. PROGRAM MODALITIES AND MONITORING

27. **Modifications of end-June 2010 performance criteria are proposed** (MEFP, Table 1). In early May, the authorities received an unexpected and exceptionally large budget grant from Qatar (para. 5 and Box 1 above). While the underlying objectives of the program remain unchanged, it has become necessary to modify some performance criteria for end-June 2010 to reflect relevant fiscal and macroeconomic repercussions. In particular, as a result of the grant, there will notably be higher-than-initially envisaged (i) reduction in

domestic arrears in 2010; (ii) reduction of net bank credit to the government; and (iii) increase in some priority spending categories and a concurrent softening of the fiscal stance.[4]

28. **To strengthen the likelihood of the program's success, three prior actions have been implemented as indicated in Table 2 of the MEFP.** The program includes quantitative performance criteria for end-June and end-December, and indicative targets for March and September (MEFP, Table 1).

29. **The prior actions and proposed structural measures focus on public finance management and key sectors critical to improved growth performance**. Prior actions were notably designed to help expedite reforms of public utilities, essential for strong growth and for lessening potential subsidy pressures on the budget. Other program conditionality aims to enhance revenue mobilization and advance fiscal consolidation, through better collection of tax arrears and expeditious operation of the new computerized wage payment management and civil service personnel frameworks (MEFP, Table 2).

30. **An updated safeguards assessment has been completed before the first ECF review;** the authorities have started implementation of agreed recommendations in earnest.

V. PROGRAM RISKS

31. **Key risks to the program relate to political frictions between the Union and island authorities**. These may delay implementation of politically difficult reforms, in particular the streamlining of public service staffing levels and restructuring of public utilities. Also, weak administrative, institutional and data capacity will continue to add challenges to economic analysis, policy formation, implementation and program monitoring. Other potential risks are external shocks, including a worsening of the terms of trade or a decline in remittances, and a weaker-than-anticipated global economic upturn which may delay the inflows of capital and FDIs. To mitigate these risks, steadfast implementation of growth-enhancing economic policies will be needed in the period ahead.

32. **The risk to Fund resources is considered manageable for Comoros.** Over the remainder of the program period (2010–12), debt service to the Fund would average 0.1 percent of exports of goods and services (Table 7). On this basis, Comoros' capacity to repay the Fund appears sound.

[4] Adjustors for the original performance criteria would have implied that the unexpected (unprogrammed) Qatari grant could have been used solely to reduce domestic s arrears. In parallel with the proposed modification of performance criteria the adjustor has been changed to permit the use of budget support in excess of programmed amounts to be used to increase spending on priority sectors in addition to reducing domestic arrears (see Technical Memorandum of Understanding).

VI. Staff Appraisal

33. **Recent developments point to slow, uneven, yet significant progress in political normalization in Comoros.** Amendments to the constitution have set the stage for a streamlining of the political system, and enhanced central government authority over budget and economic management. The reforms have instituted a single (Union) presidency and one National Assembly, discarding a complex 4-president arrangement in place since 2001. This is helping facilitate economic decision-making as testified by swift implementation of the prior actions for Board consideration of the first ECF review.

34. **Against a backdrop of an exceptionally difficult domestic context, performance under the ECF-supported program has been generally satisfactory.** Encouraging program results have been achieved despite concurrent implementation of politically sensitive institutional reforms and severe domestic capacity limitations. Staff commends the authorities for progress made to date, and urge them to stay the course.

35. **In the period ahead more determined efforts will be needed to durably set reforms on the right course.** Comoros' reform agenda is at a crossroads. While rising political tensions had weakened program implementation in recent months, cabinet approval of bold corrective measures in late April was a welcome development. Timely implementation will be needed to avoid the program veering off track, and to set economic reform durably on track. With the most difficult political reforms dealt with, prospects for success appear today cautiously reasonable.

36. **Critically important are the efforts to raise revenues and curb wages through civil service reform and computerization of personnel expenditure management, which would contribute to creating fiscal space for higher social and priority sector spending.** Consistent with the PRSP, staff also urges close adherence to program objectives in the structural area, especially as regards reform of growth-supporting public utilities. Rigorous program implementation would spur higher donor support, including relief under the enhanced HIPC initiative and MDRI; elicit and sustain private investor confidence; and bolster growth and medium-term debt sustainability. It will be essential to accelerating progress towards the MDGs.

37. **Recent experience has underscored the importance of sustained interisland cooperation in ensuring program success.** A key risk is that such cooperation breaks down over power-sharing issues, preventing implementation of critical program measures. Fiscal consolidation and restoration of economic competitiveness would be delayed as a result, complicating realization of the government's growth and poverty reduction objectives.

38. **Comoros' external public debt is unsustainable and cooperation of donors and creditors in debt relief, and program and project financing is critical for the success of the program.** Staff welcomes the surge in donor support in 2010, including from the Gulf region. Steady external assistance on highly concessional terms, preferably on the form of

grants, will be needed to ensure smooth reform implementation, adequate coverage of the financing gaps, and debt sustainability.

39. **Staff supports the authorities' request for the completion of the first review under the ECF arrangement, the financing assurances review, and disbursement of related Fund resources, in light of** Comoros' overall satisfactory reform implementation through end-March 2010 and the strength of proposed corrective measures to preserve the medium-term objectives of the program.

Proposed Decision

The following decision, which may be adopted by a majority of votes cast, is proposed for adoption by the Executive Board:

1. The Union of the Comoros has consulted with the Fund in accordance with paragraphs 4(b) of the three-year arrangement for the Union of the Comoros under the Extended Credit Facility (ECF) (EBS/09/132 8/31/09, and Corr.2, 9/21/09) (the "Arrangement") in order to review program implementation.

2. The letter dated June 5, 2010 from the President of the Union of the Comoros, the Minister of Finance, Budget, and Investments and the Governor of the Central Bank of the Comoros (the "June 2010 Letter"), along with its attached Memorandum of Economic and Financial Policies (the "June 2010 Memorandum") and the Technical Memorandum of Understanding (the "June 2010 TMU"), shall be attached to the Arrangement, and the letter dated August 11, 2009 from the Vice-President in charge of the Ministry of Finance, Budget and Promotion of Women Entrepreneurship and the Governor of the Central Bank of Comoros, and its attachments, shall be read as supplemented and modified by the June 2010 Letter, and its attachments..

3. Accordingly, the Arrangement shall be amended as follows:

   a. A new subparagraph 2(d) shall be added as follows:

      "2 (d) The fourth disbursement, in an amount equivalent to SDR 1.5575 million, will be available on or after March 15, 2011, at the request of the Union of the Comoros and subject to paragraphs 4 and 5 below"

b. In paragraph 4(A)(a) the references to "Table 1 of the MEFP and as further specified in the TMU" shall be revised, with respect to the third disbursement, to read "Table 1 of the June 2010 MEFP and as further specified in the June 2010 TMU".

c. A new subparagraph 4(B) shall be added as follows:

"4(B) the fourth disbursement under this Arrangement specified in paragraph 2(d) above:

(a) If the Managing Director of the Trustee finds that, with respect to the fourth disbursement, the data as of December 31, 2010 indicate that:

(i) the ceiling on net credit to the government, or

(ii) the ceiling on the net accumulation of domestic arrears

set out in Table 1 of the June 2010 MEFP and as further specified in the June 2010 TMU; or

(b) until the Trustee has determined that, with respect to the fourth disbursement, the third program review referred to in paragraph 6 of June 2010 Letter, has been completed."

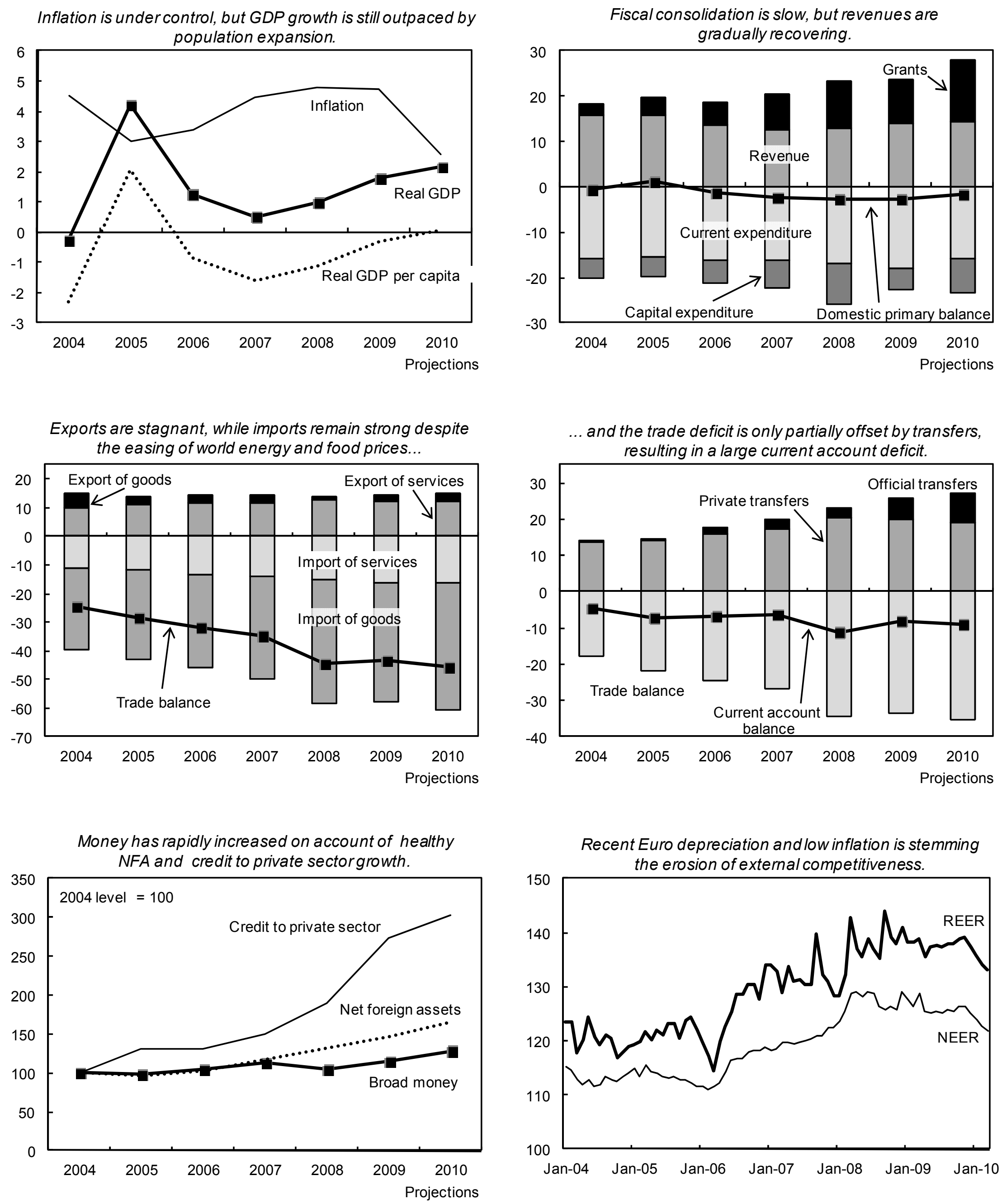
d. The continuous performance criteria referred to in paragraphs 5(a), 5(b) and 5(c) shall be as specified in Table 1 of the June 2010 MEFP and as further specified in the June 2010 TMU.

e. A new subparagraph (e) shall be added to paragraph 5 as follows:

"(e) Until the Trustee has determined for each disbursement, for so long as the Union of the Comoros has outstanding sovereign external arrears to private creditors, that a financing assurances review has been completed"

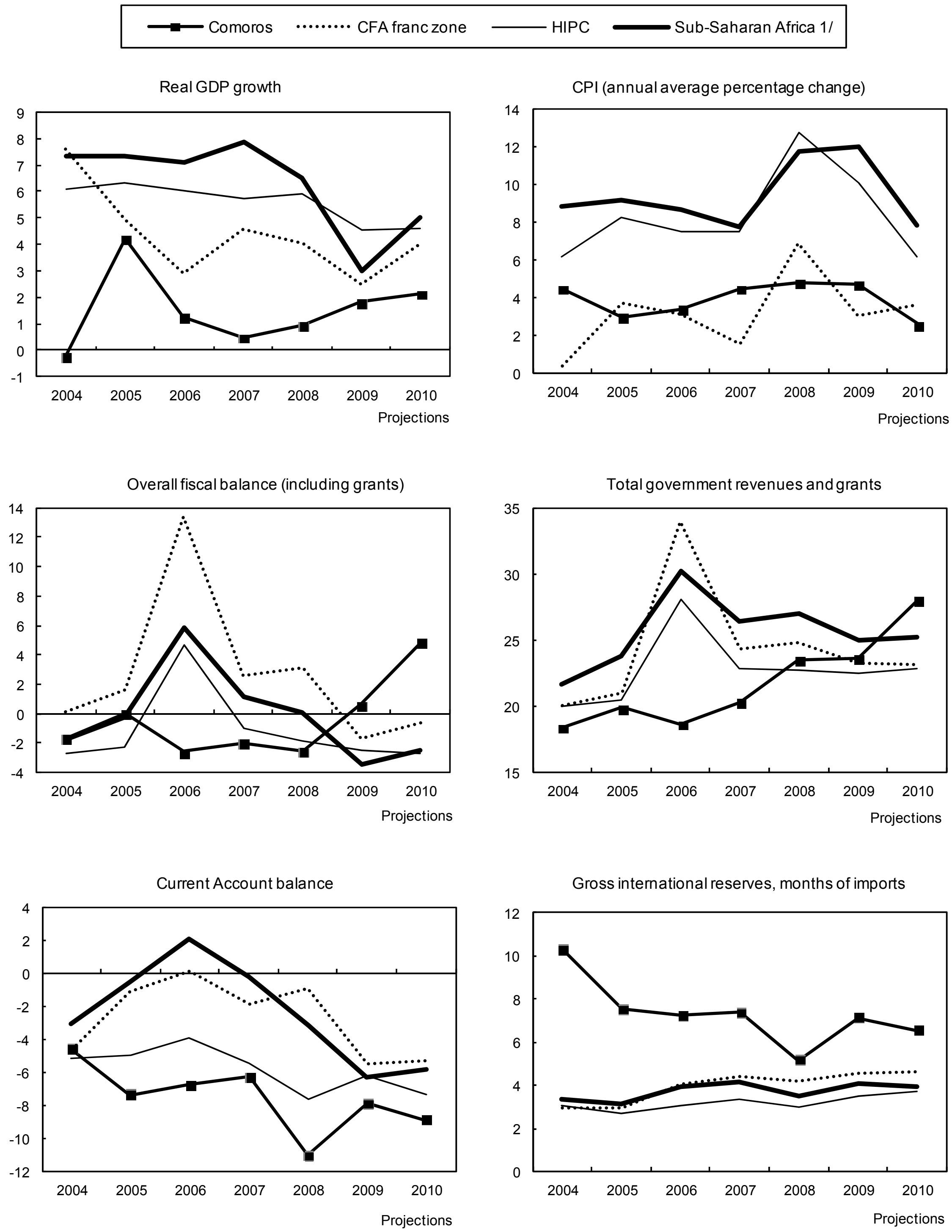
4. The Fund decides that the first program review contemplated in paragraph 4(b) and the financing assurances review contemplated in paragraph 5(e) of the Arrangement are completed and that the Union of the Comoros may request the disbursement of the second loan referred to in paragraph 2(b) of the Arrangement, on the condition that the information provided by the Union of the Comoros on the implementation of the measures specified as prior actions in table 2 of the June 2010 TMU is accurate.

Figure 3. Comoros: Recent Macroeconomic Development, 2004–10
(Percent of GDP, unless otherwise indicated)



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

Figure 4. Comoros: Comparator country groups—Macroeconomic Development and Outlook, 2004–10
(Percent of GDP, unless otherwise indicated)



Sources: WEO; and IMF staff estimates and projections.
[1] Sub-Saharan Africa, excluding South Africa and Nigeria.

Table 1. Comoros: Selected Economic and Financial Indicators, 2008–13

	2008	2009		2010		2011	2012	2013
		Prog	Prel	Prog	Proj			
(Annual percentage change, unless otherwise indicated)								
National income and prices								
Real GDP	1.0	1.0	1.8	1.5	2.1	2.5	3.5	4.0
GDP deflator	5.5	4.7	4.6	4.3	3.8	3.3	3.0	3.1
Consumer price index (annual averages)	4.8	4.9	4.8	2.1	2.6	2.9	2.8	2.9
Consumer price index (end period)	7.4	2.3	2.1	1.9	3.1	2.7	2.9	3.0
Money and credit								
Net foreign assets	-17.9	1.0	-35.7	0.9	22.3	5.2	2.9	3.5
Domestic credit	30.1	7.9	23.4	8.5	-6.1	7.9	8.3	7.6
Credit to government	43.4	3.9	7.5	-4.5	-1.1	0.9	-1.4	-5.5
Broad money	16.8	4.8	11.7	5.8	49.5	6.5	6.5	7.2
Velocity (GDP/end-year broad money)	4.8	3.7	4.6	3.7	3.3	3.2	3.2	3.2
External sector								
Exports, f.o.b.	-55.4	79.3	131.6	0.6	17.1	3.5	4.4	4.1
Imports, f.o.b.	28.5	-5.4	2.3	5.9	13.1	-1.8	4.0	3.6
Export volume	-35.0	67.3	81.3	0.6	18.1	1.7	2.3	1.9
Import volume	33.1	52.9	11.7	-0.5	-0.8	-7.1	3.1	2.4
Terms of trade	-40.8	38.5	39.4	-6.0	-13.0	-3.7	1.2	1.0
(in percent of GDP, unless otherwise indicated)								
Investment and savings								
Investment	14.3	13.8	12.4	15.6	16.6	17.5	18.2	19.2
Public	9.3	6.1	4.7	7.0	7.5	7.9	8.1	8.7
Private	5.0	7.7	7.7	8.6	9.1	9.6	10.1	10.5
Gross national savings	3.2	5.8	4.5	5.1	7.7	4.9	6.4	8.3
Public	1.0	1.2	4.1	0.0	7.6	0.7	1.6	2.1
Private	2.3	4.6	0.4	5.1	0.1	4.2	4.8	6.1
Government budget								
Domestic Revenue	13.1	13.8	13.9	13.6	14.3	14.2	14.5	14.9
Total grants	10.4	6.9	9.7	6.1	13.7	7.1	7.1	6.8
Total expenditure	26.0	22.3	23.0	22.1	23.2	23.1	22.7	23.0
Current expenditure	16.8	16.3	18.1	15.1	15.6	15.2	14.6	14.4
Domestic primary balance	-2.7	-1.6	-2.6	-1.5	-1.5	-1.2	-0.5	-0.4
Change in arrears	0.2	-0.7	0.2	-0.3	-7.6	-0.4	-0.5	-1.0
External interest	0.1	0.0	-0.1	0.0	-2.2	0.0	0.0	0.0
Domestic	0.0	-0.7	0.4	-0.3	-5.4	-0.4	-0.5	-1.0
Overall balance (cash basis)	-2.3	-2.3	0.8	-2.7	-2.7	-2.2	-1.6	-2.3
Excluding grants	-12.8	-9.2	-8.9	-8.8	-16.4	-9.3	-8.7	-9.1
Financing	2.4	-3.8	-0.7	-3.9	-0.6	-0.5	-0.9	-1.1
Foreign (net)	1.2	-3.5	-1.3	-3.8	0.8	-0.6	-0.9	-0.9
Domestic (net)	1.1	-0.3	0.6	-0.1	-1.4	0.1	0.0	-0.2
Financing gap [1]	0.0	6.2	-0.2	6.7	3.3	2.6	2.5	3.4
External sector								
Exports of goods and services	13.9	13.9	14.7	14.0	15.0	14.9	14.7	14.5
Imports of goods and services	48.3	42.6	48.2	42.7	50.5	47.2	46.1	44.6
Current account balance	-11.1	-8.0	-7.9	-10.4	-8.9	-12.5	-11.8	-10.9
Excl. official and private transfers	-34.3	-29.1	-33.6	-29.1	-35.9	-32.6	-31.5	-30.1
External debt, NPV in percent of GDP [2]	36.3	31.9	46.2	30.2	41.8	40.2	38.4	36.5
External debt, NPV in percent of exports of goods & services	261	230.1	330	216	308	286	275	266
External debt service (in percent of exports of goods and services)	12.4	10.4	12.9	10.7	19.5	9.7	9.1	7.8
Overall balance of payments (in millions of U.S. dollars)	-25.6	-15.9	-12.3	-16.9	-6.0	-15.0	-14.4	-20.7
Official grants and loans (percent of GDP)	11.1	7.1	9.7	6.3	13.9	7.3	7.3	7.0
Gross international reserves (end of period)								
In millions of U.S. dollars	110.4	111.9	153.1	112.0	153.3	155.3	156.0	157.0
In months of imports of goods & services	5.2	6.1	7.1	5.7	6.5	6.8	6.6	6.4
Real effective exchange rate (2000=100)	137	...	137.9	...	...	...	...	...
Exchange rate CF/US$ (period average)	334.3	...	353.2	...	...	...	...	...
Memorandum items:								
GDP (nominal, in bilions of CF)	178.0	188.2	189.6	199.2	201.0	212.6	226.5	242.9

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

[1] The program financing gap for 2010–12 could be covered by additional grants, emergency assistance and ECF financing.

[2] External debt ratios before traditional debt-relief.

Table 2A Comoros: Consolidated Government Financial Operations, 2008–13
(In millions of Comorian francs, cumulative, unless otherwise indicated)

	2008	2009		2010		2011		2012		2013
		Prog	Prel	Prog	Proj	Prog	Proj	Prog	Proj	Proj
Total revenue and grants	41,853	38,902	44,776	39,181	56,340	42,132	45,322	46,144	49,060	52,697
Revenues	23,266	25,975	26,401	27,103	28,838	29,053	30,175	31,748	32,949	36,089
Tax revenues	18,176	22,000	20,515	23,514	25,097	25,291	26,367	27,735	28,869	31,654
Direct and indirect taxes	9,006	15,587	10,867	16,614	13,800	17,968	14,918	20,257	16,768	18,914
Taxes on international trade and transactions	9,169	6,381	9,648	6,866	10,663	7,286	10,721	7,436	11,357	11,976
Nontax revenues	5,091	3,975	5,887	3,589	3,741	3,762	3,808	4,013	4,080	4,435
External grants	18,586	12,927	18,374	12,078	27,502	13,079	15,147	14,396	16,111	16,608
Budgetary assistance	2,857	1,892	7,743	0	14,399	0	0	0	0	0
Projects (incl. techn.assist.)	15,729	11,035	10,631	12,078	12,678	13,079	14,221	14,396	15,146	16,608
HIPC interim assistance					425		927		965	0
Total expenditure and net lending	46,338	42,018	43,627	43,987	46,567	46,473	49,105	49,885	51,484	55,976
Current expenditure	29,855	30,595	34,240	30,033	31,432	30,976	32,377	32,436	33,168	34,918
Primary current expenditures	26,490	27,523	29,806	28,118	29,190	28,990	30,108	30,352	30,784	32,432
Wages and salaries	15,690	16,378	17,034	16,760	17,864	17,084	18,350	17,653	17,875	18,516
Goods and services	8,122	7,756	7,447	7,573	7,492	7,521	7,743	8,022	8,298	8,971
Transfers and Pensions	2,678	3,389	5,325	3,785	3,835	4,385	4,015	4,677	4,611	4,945
Interest payments	1,273	1,105	1,069	857	1,100	840	989	825	1,021	991
External debt	888	719	715	662	906	636	785	610	807	762
Before rescheduling					670		649		623	593
On restructured obligations					236		136		184	169
Domestic debt	386	386	355	195	195	204	204	214	214	229
Foreign-financed project assistance	945	1,721	1,585	790	634	854	711	939	757	830
Technical assistance	1,147	246	1,780	269	507	291	569	320	606	664
Capital expenditure	16,483	11,424	8,939	13,954	15,135	15,498	16,728	17,449	18,316	21,058
Domestically financed investment	1,758	1,422	1,563	1,938	2,598	2,502	2,718	3,171	3,384	4,704
Foreign-financed investment	14,725	9,465	7,326	11,439	11,960	12,374	13,389	13,606	14,260	15,625
Counterpart funds-financed	0	536	50	577	577	621	621	672	672	730
Net lending	0	0	448	0	0	0	0	0	0	0
Domestic primary balance	-4,981	-2,970	-4,967	-2,953	-2,950	-2,439	-2,651	-1,776	-1,219	-1,046
Overall balance (commitment basis)	-4,485	-3,116	1,148	-4,806	9,773	-4,341	-3,783	-3,741	-2,424	-3,279
Excluding grants	-23,072	-16,043	-17,226	-16,885	-17,729	-17,420	-18,930	-18,137	-18,535	-19,887
Change in net arrears	309	-1,300	430	-638	-15,212	-835	-851	-1,114	-1,132	-2,307
Interest on external debt	232	0	-271	0	-4,428	0	0	0	0	0
Domestic arrears [1]	77	-1,300	702	-638	-10,784	-835	-851	-1,114	-1,132	-2,307
Excluding float			-2,147							
Overall balance (cash basis)	-4,176	-4,416	1,579	-5,444	-5,439	-5,176	-4,633	-4,855	-3,556	-5,587
Excluding grants	-22,763	-17,343	-16,795	-17,522	-32,941	-18,255	-19,780	-19,251	-19,667	-22,194
Errors and omissions (+ = underfinancing)	-57	0	-324							
Financing	4,233	-7,247	-1,255	-7,836	-1,205	-2,187	-992	-2,640	-2,041	-2,713
Foreign (net)	2,218	-6,670	-2,387	-7,590	1,653	-2,042	-1,297	-2,173	-1,939	-2,111
Drawings, PIP (identified)	1,088	397	60	420	424	440	448	470	477	512
Amortization	-2,164	-1,983	-2,239	-2,299	-2,800	-2,483	-2,650	-2,643	-2,653	-2,623
Before rescheduling					-2,510		-2,433		-2,379	-2,128
On restructured obligations					-290		-217		-274	-495
Clearance of deferred arrears and debt service [2]		-5,084	-5,016	-5,711						
Change in net arrears (principal)	3,015	0	-1,155	0	-12,252	0	0	0	0	0
Exceptional financing	280	0	5,964		16,282		905		237	0
Arrears restructuring and deferral					15,103		0		0	0
Current maturities restructuring and deferral					1,178		905		237	0
Domestic (net)	2,015	-577	1,131	-246	-2,858	-145	305	-467	-102	-602
Bank financing	1,320	-577	1,131	-246	-2,858	-145	305	-467	-102	-602
Central bank	1,320	-284	1,357	145	-2,445	246	512	-76	208	-292
Of which: IMF	1,826	0	1,693	0	0	0	0	-304	-252	-728
Commercial banks	0	-293	-226	-391	-413	-391	-207	-391	-310	-310
Nonbank financing	695	0	0	0	0	0	0	0	0	0
Financing gap [3] (+ = underfinancing)	0	11,663	0	13,281	6,644	7,364	5,625	7,495	5,597	8,300
Memorandum items:										
GDP (nominal)	178,047	188,249	189,586	199,247	200,995	208,868	212,644	222,786	226,485	242,890
Debt service to be paid in cash [4]					2,232		1,590		2,228	3,372
Interest payments					682		453		537	749
Amortization					1,549		1,137		1,691	2,623

Sources: Ministry of Finance; and IMF staff estimates.

[1] Quantitative PCs and benchmarks on net accumulation of domestic arrears exclude float (nil in projections).

[2] Includes further deferral of arrears to the HIPC decision point, following which these arrears are assumed to be cleared through restructuring or further deferral.

[3] The program financing gap for 2010–12 could be covered by additional grants, emergency assistance and ECF financing.

[4] Net of HIPC interim assistance from mid-2010 to 2012.

Table 2B. Comoros: Consolidated Government Financial Operations, 2008–13
(In percentage of GDP, cumulative, unless otherwise indicated)

	2008	2009		2010		2011		2012		2013
		Prog	Prel	Prog	Proj	Prog	Proj	Prog	Proj	Proj
Total revenue and grants	23.5	20.7	23.6	19.7	28.0	20.2	21.3	20.7	21.7	21.7
Revenues	13.1	13.8	13.9	13.6	14.3	13.9	14.2	14.3	14.5	14.9
Tax revenues	10.2	11.7	10.8	11.8	12.5	12.1	12.4	12.4	12.7	13.0
Direct and indirect taxes	5.1	8.3	5.7	8.3	6.9	8.6	7.0	9.1	7.4	7.8
Taxes on international trade and transactions	5.2	3.4	5.1	3.4	5.3	3.5	5.0	3.3	5.0	4.9
Nontax revenues	2.9	2.1	3.1	1.8	1.9	1.8	1.8	1.8	1.8	1.8
External grants	10.4	6.9	9.7	6.1	13.7	6.3	7.1	6.5	7.1	6.8
Budgetary assistance	1.6	1.0	4.1	0.0	7.2	0.0	0.0	0.0	0.0	0.0
Projects (incl. techn.assist.)	8.8	5.9	5.6	6.1	6.3	6.3	6.7	6.5	6.7	6.8
HIPC interim assistance					0.2		0.4		0.4	0.0
Total expenditure and net lending	26.0	22.3	23.0	22.1	23.2	22.3	23.1	22.4	22.7	23.0
Current expenditure	16.8	16.3	18.1	15.1	15.6	14.8	15.2	14.6	14.6	14.4
Primary current expenditures	14.9	14.6	15.7	14.1	14.5	13.9	14.2	13.6	13.6	13.4
Wages and salaries	8.8	8.7	9.0	8.4	8.9	8.2	8.6	7.9	7.9	7.6
Goods and services	4.6	4.1	3.9	3.8	3.7	3.6	3.6	3.6	3.7	3.7
Transfers and Pensions	1.5	1.8	2.8	1.9	1.9	2.1	1.9	2.1	2.0	2.0
Interest payments	0.7	0.6	0.6	0.4	0.5	0.4	0.5	0.4	0.5	0.4
External debt	0.5	0.4	0.4	0.3	0.5	0.3	0.4	0.3	0.4	0.3
Before rescheduling					0.3		0.3		0.3	0.2
On restructured obligations					0.1		0.1		0.1	0.1
Domestic debt	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Foreign-financed project assistance	0.5	0.9	0.8	0.4	0.3	0.4	0.3	0.4	0.3	0.3
Technical assistance	0.6	0.1	0.9	0.1	0.3	0.1	0.3	0.1	0.3	0.3
Capital expenditure	9.3	6.1	4.7	7.0	7.5	7.4	7.9	7.8	8.1	8.7
Domestically financed investment	1.0	0.8	0.8	1.0	1.3	1.2	1.3	1.4	1.5	1.9
Foreign-financed investment	8.3	5.0	3.9	5.7	6.0	5.9	6.3	6.1	6.3	6.4
Counterpart funds-financed	0.0	0.3	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net lending	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance	-2.8	-1.6	-2.6	-1.5	-1.5	-1.2	-1.2	-0.8	-0.5	-0.4
Overall balance (commitment basis)	-2.5	-1.7	0.6	-2.4	4.9	-2.1	-1.8	-1.7	-1.1	-1.4
Excluding grants	-13.0	-8.5	-9.1	-8.5	-8.8	-8.3	-8.9	-8.1	-8.2	-8.2
Change in net arrears	0.2	-0.7	0.2	-0.3	-7.6	-0.4	-0.4	-0.5	-0.5	-1.0
Interest on external debt	0.1	0.0	-0.1	0.0	-2.2	0.0	0.0	0.0	0.0	0.0
Domestic arrears [1]	0.0	-0.7	0.4	-0.3	-5.4	-0.4	-0.4	-0.5	-0.5	-1.0
Excluding float			-1.1							
Overall balance (cash basis)	-2.3	-2.3	0.8	-2.7	-2.7	-2.5	-2.2	-2.2	-1.6	-2.3
Excluding grants	-12.8	-9.2	-8.9	-8.8	-16.4	-8.7	-9.3	-8.6	-8.7	-9.1
Errors and omissions (+ = underfinancing)	0.0		-0.2							
Financing	2.4	-3.8	-0.7	-3.9	-0.6	-1.0	-0.5	-1.2	-0.9	-1.1
Foreign (net)	1.2	-3.5	-1.3	-3.8	0.8	-1.0	-0.6	-1.0	-0.9	-0.9
Drawings, PIP (identified)	0.6	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Amortization	-1.2	-1.1	-1.2	-1.2	-1.4	-1.2	-1.2	-1.2	-1.2	-1.1
Before rescheduling					-1.2		-1.1		-1.1	-0.9
On restructured obligations					-0.1		-0.1		-0.1	-0.2
Clearance of deferred arrears and debt service [2]		-2.7	-2.6	-2.9						
Change in net arrears (principal)	1.7	0.0	-0.6	0.0	-6.1	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.2	0.0	3.1		8.1		0.4		0.1	0.0
Arrears restructuring and deferral					7.5		0.0		0.0	0.0
Current maturities restructuring and deferral	0.0	0.0	0.0	0.0	0.6	0.0	0.4	0.0	0.1	0.0
Domestic (net)	1.1	-0.3	0.6	-0.1	-1.4	-0.1	0.1	-0.2	0.0	-0.2
Bank financing	0.7	-0.3	0.6	-0.1	-1.4	-0.1	0.1	-0.2	0.0	-0.2
Central bank	0.7	-0.2	0.7	0.1	-1.2	0.1	0.2	0.0	0.1	-0.1
Of which: IMF	1.0	0.0	0.9	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.3
Commercial banks	0.0	-0.2	-0.1	-0.2	-0.2	-0.2	-0.1	-0.2	-0.1	-0.1
Nonbank financing	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap [3] (+ = underfinancing)	0.0	6.2	0.0	6.7	3.3	3.5	2.6	3.4	2.5	3.4
Memorandum items:										
GDP (nominal)	178,047	188,249	189,586	199,247	200,995	208,868	212,644	222,786	226,485	242,890
Debt service to be paid in cash [4]					1.1		0.7		1.0	1.4
Interest payments					0.3		0.2		0.2	0.3
Amortization					0.8		0.5		0.7	1.1

Sources: Ministry of Finance; and IMF staff estimates.

[1] Quantitative PCs and benchmarks on net accumulation of domestic arrears exclude float (nil in projections).

[2] Includes further deferral of arrears to the HIPC decision point, following which these arrears are assumed to be cleared through restructuring or further deferral.

[3] The program financing gap for 2010–12 could be covered by additional grants, emergency assistance and ECF financing.

[4] Net of HIPC interim assistance from mid-2010 to 2012.

Table 2C. Comoros: Consolidated Government Financial Operations, 2008–10
(In millions of Comorian francs, cumulative, unless otherwise indicated)

	2008	2009				2010						
		Sep		Dec		Mar		Jun		Sep	Dec	
		Prog	Prel	Prog	Prel	Prog	Prel	Prog	Proj	Proj	Prog	Proj
Total revenue and grants	41,853	28,888	33,752	38,902	44,776	8,462	11,936	18,260	32,766	44,635	39,181	56,340
Revenues	23,266	18,124	19,761	25,975	26,401	5,232	5,152	11,801	12,028	20,491	27,103	28,838
Tax revenues	18,176	14,895	14,915	22,000	20,515	4,568	4,477	9,815	9,959	17,747	23,514	25,097
Direct and indirect taxes	9,006	8,508	7,121	15,587	10,867	3,477	2,285	7,471	5,967	9,763	16,614	13,800
Taxes on international trade and transactions	9,169	6,366	7,794	6,381	9,648	1,084	2,192	2,330	3,785	7,571	6,866	10,663
Nontax revenues	5,091	3,229	4,846	3,975	5,887	664	676	1,985	2,069	2,744	3,589	3,741
External grants	18,586	10,764	13,991	12,927	18,374	3,229	6,784	6,459	20,738	24,145	12,078	27,502
Budgetary assistance	2,857	1,892	5,916	1,892	7,743	0	3,610	0	14,399	14,399	0	14,399
Projects (incl. techn.assist.)	15,729	8,574	8,076	11,035	10,631	3,124	3,174	6,249	6,339	9,508	12,078	12,678
HIPC interim assistance										237		425
Total expenditure and net lending	46,338	30,345	30,264	42,018	43,627	10,329	9,480	21,003	22,243	32,849	43,987	46,567
Current expenditure	29,855	21,371	23,613	30,595	34,240	6,736	7,189	13,816	14,676	21,576	30,033	31,432
Primary current expenditures	26,490	19,092	20,047	27,523	29,806	6,169	5,855	12,866	13,525	19,836	28,118	29,190
Wages and salaries	15,690	12,244	12,858	16,378	17,034	4,185	4,161	8,129	8,664	12,995	16,760	17,864
Goods and services	8,122	5,264	5,066	7,756	7,447	1,578	1,210	3,615	3,633	5,050	7,573	7,492
Transfers and Pensions	2,678	1,583	2,123	3,389	5,325	406	484	1,122	1,227	1,791	3,785	3,835
Interest payments	1,273	804	909	1,105	1,069	302	329	420	581	884	857	1,100
External debt	888	622	637	719	715	253	241	323	483	738	662	906
Before rescheduling							237		314	553		670
On restructured obligations							4		169	185		236
Domestic debt	386	183	271	386	355	49	88	97	97	146	195	195
Foreign-financed project assistance	945	1,291	1,058	1,721	1,585	197	473	395	317	475	790	634
Technical assistance	1,147	184	1,599	246	1,780	67	532	134	254	380	269	507
Capital expenditure	16,483	8,973	6,651	11,424	8,939	3,594	2,291	7,187	7,567	11,273	13,954	15,135
Domestically financed investment	1,758	1,175	1,223	1,422	1,563	484	122	969	1,299	1,870	1,938	2,598
Foreign-financed investment	14,725	7,396	5,429	9,465	7,326	2,965	2,169	5,930	5,980	8,970	11,439	11,960
Counterpart funds-financed	0	402	0	536	50	144	0	289	289	433	577	577
Net lending	0	0	0	0	448	0	0	0	0	0	0	0
Domestic primary balance	-4,981	-2,143	-1,509	-2,970	-4,967	-1,421	-825	-2,035	-2,795	-1,216	-2,953	-2,950
Overall balance (commitment basis)	-4,485	-1,457	3,488	-3,116	1,148	-1,867	2,456	-2,743	10,523	11,786	-4,806	9,773
Excluding grants	-23,072	-12,220	-10,504	-16,043	-17,226	-5,097	-4,328	-9,202	-10,215	-12,359	-16,885	-17,729
Change in net arrears	309	-780	-459	-1,300	430	-159	-1,403	-319	-10,181	-14,712	-638	-15,212
Interest on external debt	232	0	-271	0	-271	0	-383	0	-397	-4,428	0	-4,428
Domestic arrears [1]	77	-780	-187	-1,300	702	-159	-1,020	-319	-9,784	-10,284	-638	-10,784
Excluding float			-1,741		-2,147		-2,645					
Overall balance (cash basis)	-4,176	-2,237	3,029	-4,416	1,579	-2,027	1,053	-3,062	342	-2,926	-5,444	-5,439
Excluding grants	-22,763	-13,000	-10,962	-17,343	-16,795	-5,256	-5,731	-9,521	-20,396	-27,071	-17,522	-32,941
Errors and omissions (+ = underfinancing)	-57	0	-687	0	-324	0	-1,312					
Financing	4,233	-7,222	-2,342	-7,247	-1,255	677	259	1,104	-2,818	-2,853	-7,836	-1,205
Foreign (net)	2,218	-6,259	-1,962	-6,670	-2,387	738	-130	1,228	-359	1,740	-7,590	1,653
Drawings, PIP (identified)	1,088	298	10	397	60	105	0	210	212	318	420	424
Amortization	-2,164	-1,473	-1,465	-1,983	-2,239	633	-889	1,018	-1,401	-2,136	-2,299	-2,800
Before rescheduling							-876		-1,257	-1,941		-2,510
On restructured obligations							-13		-144	-195		-290
Clearance of deferred arrears and debt service [2]		-5,084	-5,016	-5,084	-5,016						-5,711	
Change in net arrears (principal)	3,015	0	-880	0	-1,155	0	-1,153	0	-1,235	-12,252	0	-12,252
Exceptional financing	0	0	5,390	0	5,964		1,911		2,065	15,810		16,282
Arrears restructuring and deferral							1,536		1,536	15,103		15,103
Current maturities restructuring and deferral							376		529	707		1,178
Domestic (net)	2,015	-963	-380	-577	1,131	-62	389	-123	-2,459	-4,593	-246	-2,858
Bank financing	1,320	-670	-380	-577	1,131	-62	389	-123	-2,459	-4,593	-246	-2,858
Central bank	1,320	-450	-374	-284	1,357	36	466	72	-2,356	-4,324	145	-2,445
Of which: IMF	1,826	0	0	0	1,693	0	0	0	0	0	0	0
Commercial banks	0	-220	-6	-293	-226	-98	-78	-195	-103	-269	-391	-413
Nonbank financing	695	0	0	0	0	0	0	0	0	0	0	0
Financing gap [3] (+ = underfinancing)	0	9,459	0	11,663	0	1,350	0	1,958	2,477	5,779	13,281	6,644
Memorandum items:												
GDP (nominal)	178,047	188,249	189,586	188,249	189,586	199,247	189,586	199,247	200,995	200,995	199,247	200,995
Debt service to be paid in cash [4]							773		1,452	1,963		2,232
Interest payments							244		455	601		682
Amortization							529		997	1,362		1,549

Sources: Ministry of Finance; and IMF staff estimates.
[1] Quantitative PCs and benchmarks on net accumulation of domestic arrears exclude float (nil in projections).
[2] Includes further deferral of arrears to the HIPC decision point, following which these arrears are assumed to be cleared through restructuring or further deferral.
[3] The program financing gap for 2010–12 could be covered by additional grants, emergency assistance and ECF financing.
[4] Net of HIPC interim assistance from mid-2010 to 2012.

Table 3. Comoros: Monetary Survey, 2008–13
(In millions of Comorian francs unless otherwise indicated)

	2008	2009		2010	2011	2012	2013
		Prog	Prel	Prog	Prog	Prog	Prog
Net foreign assets	29,341	41,013	18,870	23,084	24,286	24,996	25,858
Central bank Assets	39,861	40,073	51,601	55,689	56,763	57,320	58,002
Central bank Liabilities	-11,854	-1,989	-32,545	-32,545	-32,545	-32,545	-32,545
Commercial Banks Assets	3,612	3,819	2,089	2,215	2,343	2,496	2,676
Commercial Banks Liabilities	-2,278	-890	-2,275	-2,275	-2,275	-2,275	-2,275
Net domestic assets	7,716	10,562	22,511	38,761	41,548	45,123	49,339
Domestic credit	37,308	29,677	46,032	43,212	46,620	50,476	54,296
Net credit to government [1]	10,265	5,450	11,034	10,918	11,017	10,857	10,255
Of which: Treasury	8,812	8,235	9,944	7,086	7,391	7,289	6,687
Claims on public enterprises	2,744	2,744	1,303	1,303	1,303	1,303	1,303
Claims on other financial institutions	4,839	53	5,646	5,646	5,646	5,646	5,646
Claims on private sector	19,460	21,483	28,048	30,990	34,300	38,315	42,737
Other items net	-29,592	-19,115	-23,521	-4,451	-5,072	-5,352	-4,956
Broad money	37,057	81,575	41,381	61,845	65,834	70,119	75,198
Money	20,980	35,973	19,614	29,313	31,203	33,234	35,642
Currency in circulation	-1,638	12,884	-1,759	-2,629	-2,799	-2,981	-3,197
Demand deposits	22,617	23,279	21,373	31,942	34,003	36,216	38,839
Quasi-money	16,077	15,602	21,768	32,532	34,630	36,884	39,556
Memorandum items (in percent of beginning period broad money):							
Net foreign assets	-20.1	0.8	-28.3	10.2	1.9	1.1	1.2
Net domestic assets	37.0	3.4	39.9	39.3	4.5	5.4	6.0
Domestic credit	27.2	4.4	23.5	-6.8	5.5	5.9	5.4
Net credit to government	9.8	0.4	2.1	-0.3	0.2	-0.2	-0.9
Credit to public enterprises	5.4	0.0	-3.9	0.0	0.0	0.0	0.0
Credit to private sector	13.2	4.1	23.2	7.1	5.4	6.1	6.3
Other items (net)	9.7	-0.8	16.4	46.1	-1.0	-0.4	0.6
Broad money	16.8	4.4	11.7	49.5	6.5	6.5	7.2
Money	8.5	2.7	-3.7	23.4	3.1	3.1	3.4
Quasi-money	8.4	1.7	15.4	26.0	3.4	3.4	3.8
Velocity (GDP/end-year broad money)	4.8	3.7	4.6	3.3	3.2	3.2	3.2
Credit to private sector (percent change)	27.3	10.4	44.1	10.5	10.7	11.7	11.5

Sources: Central Bank of Comoros; and IMF staff estimates and projections

[1] Includes net credit to government entities other than public treasury.

Table 4. Comoros: Balance of Payments, 2008–13
(In millions of Comorian francs unless otherwise indicated)

	2008	2009		2010	2011	2012	2013
		Prog	Prel	Prog	Prog	Prog	Prog
Current Account	-19,675	-15,092	-14,973	-17,793	-26,623	-26,670	-26,561
Goods and Services	-61,200	-54,055	-63,508	-71,266	-68,717	-71,081	-73,175
Trade Balance	-56,882	-50,936	-55,375	-62,416	-60,967	-63,354	-65,623
Exports (f.o.b.)	2,190	3,965	5,073	5,940	6,150	6,420	6,684
Imports (f.o.b.)	-59,072	-54,901	-60,448	-68,356	-67,117	-69,775	-72,307
Services (net)	-4,319	-3,118	-8,133	-8,850	-7,750	-7,727	-7,552
Receipts	22,576	22,147	22,732	24,200	25,429	26,864	28,524
Payments	-26,895	-25,265	-30,865	-33,050	-33,179	-34,591	-36,076
Income (net)	67	-805	-255	-847	-584	-227	83
Credit	955	-87	460	59	201	580	845
Debit	-888	-719	-715	-906	-785	-807	-762
of which: Interest on rescheduled obligations				-236	-136	-184	-169
Current Transfers (net)	41,459	39,768	48,790	54,319	42,678	44,638	46,531
Government	4,949	3,859	11,108	15,640	1,477	1,559	1,495
of which: HIPC interim assistance				100	197	196	0
Private	36,509	35,909	37,682	38,679	41,201	43,079	45,036
Capital and Financial Account	14,174	8,937	18,224	15,635	21,167	21,396	18,943
Capital Account	13,637	9,068	7,266	11,861	13,670	14,555	15,113
Capital Transfers	13,637	9,068	7,266	11,861	13,670	14,555	15,113
Transfer of fixed assets	13,637	9,068	7,266	11,537	12,941	13,783	15,113
HIPC interim assistance				324	729	772	0
Financial Account	537	-132	10,958	3,774	7,497	6,841	3,830
Direct Investment	1,545	3,219	4,888	5,796	5,597	5,915	5,958
Net Portfolio and Other Investment	-1,008	-3,351	6,070	-2,023	1,900	926	-2,128
Government	-1,076	-1,586	1,960	-2,377	-2,202	-2,176	-2,111
Drawings	1,088	397	60	424	448	477	512
SDR Allocations			4,139				
Amortization	-2,164	-1,983	-2,239	-2,800	-2,650	-2,653	-2,623
Before rescheduling				-2,510	-2,433	-2,379	-2,128
On restructured obligations				-290	-217	-274	-495
Private Sector (net)	68	-1,765	4,110	354	4,102	3,102	-17
Banks, net	-1,359	207	-1,520	126	128	153	181
Other	1,427	-1,972	5,630	228	3,973	2,950	-198
Errors and Omissions	-3,056	0	-7,584	0	0	0	0
Overall Balance	-8,557	-6,155	-4,332	-2,158	-5,456	-5,274	-7,618
Financing	8,557	-5,507	4,332	-4,486	-169	-320	-682
NFA of central bank (increase -)	5,031.0	-211	4,812	-4,088	-1,074	-557	-681.9
Foreign Assets	2	-210.7	-11,741	-4,088	-1,074	-557	-682
Foreign Liabilities	5,029	0	16,552	0	0	0	0
Of which: Net IMF Credit	1,826		1,693	0	0	-252	-728
Net Change in Arrears	3,246	0	-1,427	-16,680	0	0	0
Clearance of deferred arrears and debt service [1]	0	-5,297	-5,016				
Exceptional Financing	280	0	5,964	16,282	905	237	0
Arrears restructuring and deferral				15,103	0	0	0
Current maturities restructuring and deferral				1,178	905	237	0
Financing Gap [2]	0	11,663	0	6,644	5,625	5,594	8,300
Memorandum items:							
Current Account (percentage of GDP)	-11.1	-8.0	-7.9	-8.9	-12.5	-11.8	-10.9
Excluding Transfers	-34.3	-29.1	-33.6	-35.9	-32.6	-31.5	-30.1
Exports of goods and services (percentage of GDP)	13.9	13.9	14.7	15.0	14.9	14.7	14.5
Imports of goods and services (percentage of GDP)	48.3	42.6	48.2	50.5	47.2	46.1	44.6
Gross international reserves (In millions of U.S. dollars)	110.4	111.9	153.1	153.3	155.3	156.0	157.0
In months of imports of goods and services	5.2	6.1	7.1	6.5	6.8	6.6	6.4

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

[1] Includes further deferral of arrears to the HIPC decision point, following which these arrears are assumed to be cleared through restructuring or further deferral.

[2] The program financing gap for 2010–12 could be covered by additional grants, emergency assistance and ECF financing.

Table 5. Comoros: Education and Health Expenditure, 2008–10
(In millions of Comorian francs)

	2008	2009	2010
Education	9,573	10,089	12,775
Wages	5,783	7,597	8,336
Goods and services	171	145	336
Transfers	731	649	903
Capital	2,888	1,698	3,200
Domestically-funded	0	0	200
Foreign-funded	2,888	1,698	3,000
Health	5,437	3,195	6,095
Wages	1,189	1,361	1,429
Goods and services	19	6	80
Transfers	392	130	466
Capital	3,838	1,698	4,120
Domestically-funded	0	0	120
Foreign-funded	3,838	1,698	4,000
Total education and health	15,010	13,284	18,870
Domestically funded	8,284	9,888	11,870
Domestically funded, in percent of GDP	4.7	5.2	5.9
Memorandum item			
GDP, in millions of CF francs	178,047	189,586	200,995

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

Table 6. Comoros: Schedule of Proposed ECF Disbursements and Reviews, 2009–12

Date	Disbursements [1] (Millions of SDRs)	Conditions
September 30, 2009 [2]	4.2275	Executive Board approval (September 21, 2009)
June 30, 2010	1.5575	Completion of first review, based on observance of performance criteria through December 31, 2009
September 15, 2010	1.5575	Completion of second review, based on observance of performance criteria through June 30, 2010
March 15, 2011	1.5575	Completion of third review, based on observance of performance criteria through December 31, 2010
September 15, 2011	1.5575	Completion of fourth review, based on observance of performance criteria through June 30, 2011
March 15, 2012	1.5575	Completion of fifth review, based on observance of performance criteria through December 31, 2011
September 7, 2012	1.5575	Completion of sixth review, based on observance of performance criteria through June 30, 2012

Source: IMF staff estimates and projections.
[1] Based on access of 152.5 percent of quota (SDR 13.5725 million).
[2] Includes early repayment of the SDR 1.1125 million EPCA purchased in December 2008.

Table 7. Comoros: Indicators of Capacity to Repay the Fund, 2009–22

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
		Projections												
Fund obligations based on existing credit														
(in millions of SDRs)														
Principal	0.00	0.00	0.00	0.00	0.00	0.45	1.29	1.29	1.29	1.29	0.85	0.00	0.00	0.00
Charges and interest [1]	0.02	0.00	0.00	0.02	0.02	0.02	0.02	0.02	0.01	0.01	0.01	0.00	0.00	0.00
Fund obligations based on existing and prospective credit														
(in millions of SDRs)														
Principal	1.12	0.00	0.00	0.00	0.00	0.45	1.45	2.07	2.70	3.16	2.72	1.72	1.09	0.47
Charges and interest [1]	0.03	0.00	0.00	0.04	0.04	0.04	0.04	0.04	0.03	0.02	0.02	0.01	0.01	0.01
Total obligations based on existing and prospective credit [2]														
In millions of SDRs	1.2	0.0	0.0	0.0	0.0	0.5	1.5	2.1	2.7	3.2	2.7	1.7	1.1	0.5
In millions of CF	626.6	0.0	0.0	22.4	22.6	278.4	851.3	1,205.5	1,559.7	1,816.8	1,565.4	988.4	628.4	274.2
In percent of government revenue	2.4	0.0	0.0	0.1	0.1	0.7	2.0	2.6	3.1	3.3	2.6	1.5	0.9	0.4
In percent of exports of goods and services	2.3	0.0	0.0	0.1	0.1	0.7	2.1	2.8	3.4	3.7	3.0	1.8	1.0	0.4
In percent of debt service [3]	21.2	0.0	0.0	0.7	0.7	6.8	18.5	26.9	35.2	43.0	43.1	32.8	20.6	8.9
In percent of GDP	0.3	0.0	0.0	0.0	0.0	0.1	0.3	0.4	0.5	0.5	0.4	0.3	0.1	0.1
In percent of quota	12.9	0.0	0.0	0.4	0.4	5.5	16.7	23.7	30.7	35.7	30.8	19.4	12.4	5.4
Outstanding Fund credit [2]														
In millions of SDRs	6.4	9.6	12.7	15.8	15.8	15.4	13.9	11.9	9.2	6.0	3.3	1.6	0.5	0.0
In millions of CF	3,513.3	5,293.3	7,079.1	8,873.8	8,933.2	8,733.5	7,958.4	6,775.8	5,233.2	3,427.9	1,873.9	891.3	268.5	0.0
In percent of government revenue	13.3	18.4	23.5	26.9	24.8	22.2	18.5	14.5	10.3	6.3	3.2	1.4	0.4	0.0
In percent of exports of goods and services	12.6	17.6	22.4	26.7	25.4	23.3	19.9	15.9	11.5	7.1	3.6	1.6	0.4	0.0
In percent of debt service [3]	119.0	199.3	281.3	277.6	264.9	213.4	172.7	151.0	118.0	81.1	51.6	29.6	8.8	0.0
In percent of GDP	1.9	2.6	3.3	3.9	3.7	3.3	2.8	2.3	1.6	1.0	0.5	0.2	0.1	0.0
In percent of quota	72.4	107.5	142.7	177.8	177.8	172.7	156.5	133.3	102.9	67.4	36.9	17.5	5.3	0.0
Net use of Fund credit (millions of SDRs)	3.1	3.1	3.1	3.1	0.0	-0.5	-1.5	-2.1	-2.7	-3.2	-2.7	-1.7	-1.1	-0.5
Disbursements	4.2	3.1	3.1	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment and Repurchases	1.1	0.0	0.0	0.0	0.0	0.5	1.5	2.1	2.7	3.2	2.7	1.7	1.1	0.5
Memorandum items														
Nominal GDP (millions of CF)	189,584	200,995	212,644	226,484	242,889	260,943	280,286	300,156	321,435	344,221	368,624	394,756	422,740	452,709
Exports of goods and services (millions of CF)	27,805	30,140	31,580	33,284	35,208	37,521	39,993	42,618	45,427	48,509	52,211	56,227	60,160	64,856
Government revenue (millions of CF)	26,401	28,838	30,175	32,949	36,089	39,414	43,082	46,724	50,725	54,673	59,122	63,974	69,335	74,936
Debt service (millions of CF) [2]	2,954	2,656	2,517	3,196	3,372	4,092	4,608	4,487	4,433	4,227	3,632	3,010	3,052	3,068
CF/SDR (period average)	545													

Sources: IMF staff estimates and projections.

[1] Temporary waiver of interest payments on PRGT borrowing until December 2011 is assumed.

[2] Assuming ECF disbursement of the entire amount of SDR 13.57 million (152.5 percent of quota). The entire EPCA credit of SDR 1.1 million (12.5 percent of quota) was repurchased by the first ECF disbursement.

[3] Total debt service before HIPC interim assistance; includes IMF repurchases and repayments.

APPENDIX I

UNION OF THE COMOROS

LETER OF INTENT

June 5, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. Over the last two years the Union of the Comoros has advanced along the path to political normalization. Amendments to the constitution in 2009 allow a more coherent management of the economy at the national level. At the same time, on the political front a promising start toward consolidation has been made since the most recent legislative elections. Moreover, the ongoing reform of the electoral cycle is expected to bring the number of democratic consultations to a level more compatible with the country's limited resources.

2. In this new context, the government's priority is to accelerate ongoing reforms with a view to boosting growth and more effectively combating poverty. We intend to achieve this working in close cooperation with the IMF and our other development partners. To sharpen the focus of our reform effort, in September 2009 the government adopted a final Poverty Reduction and Growth Strategy Paper (PRGSP), prepared through a participatory process involving the nation's civil society representatives. This poverty reduction strategy is the basis of a three-year program of reforms supported by the IMF under the Enhanced Credit Facility (ECF) in the amount of SDR 13.57 million, or 152.5 percent of our quota. Consistent with PRGSP, the ECF-supported program notably aims to further economic stabilization and lay the foundations for sustained and equitable growth by strengthening public finance and improving infrastructure provision. Accordingly, the program will seek to create fiscal space for higher spending in priority and growth-supporting sectors. Also, to strengthen overall economic competitiveness and foster stronger growth and faster poverty alleviation, the ECF program is pursuing an ambitious restructuring of the public utilities. This will help deliver cost-effective and reliable energy and telecommunications services to the economy.

3. Since the launch of our ECF-supported program in July 2009, the government has sought to keep the program on track. Our discussions with Fund staff for the first review confirmed that only two of fifteen quantitative and structural indicators for the second half of 2009 were not met. The primary fiscal balance recorded a substantial overrun, in particular

because of higher-than-anticipated wage outlays; and the reform strategies for the two State-owned companies engaged in telecommunications and imports of petroleum products were not adopted by the initial end-September deadline under the program. In the first quarter of 2010, three of ten quantitative and structural performance indicators have not been met. In particular, the domestic revenue target was missed by a small margin.

4. The government has taken steps to substantially improve program performance. To this end, new measures aimed at strengthening domestic resource mobilization and strengthening control over expenditure, especially personnel expenses, have been taken. The government also plans to improve the preparation of requests for the disbursement of assistance expected from donors; and has taken steps to improve the institutional framework for program monitoring. To that end, the Economic and Financial Reforms Unit (CREF) has been expanded to include a representative of the Office of the President of the Union. The above initiatives are expected to bring about a significant improvement in the monitoring of program execution and facilitate the attainment of program objectives in the future. In view of the corrective measures being implemented, the government is requesting completion of the first review and disbursement of the related ECF resources. Completion of the first review will enable the Union of the Comoros to reach the enhanced HIPC Initiative decision point.

5. Economic activity in the Comoros remains sluggish. The rate of real GDP growth was only 1.8 percent in 2009, up slightly from 2008 but still below the rate of population growth. It continues to be dependent on subsistence farming, externally financed public investments, and private sector construction, which benefits from relatively sustained remittances from Comorians living abroad. The easing of pressures on food and energy prices since 2008 has helped slow inflation and narrow the external current account deficit. In an environment of gradual recovery of the world economy, improvement in the business climate and in domestic political conditions, as well as the resumption of financial support from development partners, growth is expected to accelerate to an average of at least 2.5 percent in 2010–12. To achieve this, the government reaffirms its determination to continue implementing a prudent fiscal policy and to expedite implementation of structural reforms necessary to enhance the competitiveness of the economy. In this regard, IMF technical and financial support remains essential. The government remains determined to take any other appropriate measures that may prove necessary to achieve the program objectives. It would then consult with the Fund before revising any of the policies contained in the attached MEFP, in accordance with the Fund's policy on such consultation.

6. While the underlying objectives of the program remain unchanged, we would like to request modifications to some performance criteria for end-June 2010 to reflect the fiscal and macroeconomic repercussions from substantial external assistance received in late April. It is expected that the second review of the ECF-supported program will be completed by end-November 2010, and that the third review will be completed by mid-March 2011.

7. In line with our commitment to transparency in government operations, we agree to the publication of documents pertaining to our discussions with IMF staff under the first review of our ECF-supported program.

Sincerely yours,

/s/

Ahmed Abdallah Mohamed Sambi
President of Union of the Comoros

/s/	*/s/*
Mohamed Bacar Dossar **Minister of Finance, Budget, and Investment**	**Ahamadi Abdoulbastoi** **Governor of the BCC**

Attachments: MEFP and TMU

ATTACHMENT 1

UNION OF THE COMOROS

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR 2010

I. INTRODUCTION

1. **Since the adoption of its medium-term economic reform program supported by the International Monetary Fund under the Enhanced Credit Facility (ECF), the government has taken steps to progressively lay the foundation for sustained strong growth.** The actions taken are aimed at improving fiscal sustainability, building institutional and governance capacity, and rehabilitating social and economic infrastructure, particularly public utilities through the reform of public enterprises operating in that sector. Successful implementation of these reforms should also enable the Comoros to obtain debt relief under the HIPC Initiative and gradually stabilize the macroeconomic environment, enhance the competitiveness of the economy, and give new impetus to growth.

2. **This memorandum summarizes progress since the adoption of the ECF-supported program**, and sets out the measures and policies that the government plans to implement in 2010 to attain the objectives it has set in the program.

II. ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

A. Recent economic developments and outlook for end-2010

3. **Despite a number of encouraging signs, economic activity remained modest in 2009.** Bank credit to the private sector continued to grow, vanilla exports performed relatively well, and imports of petroleum products and cement, potentially supporting growth, remained steady. However, very few new investments were made outside the banking sector, and growth is far from shedding the effects of a long period of political instability and, more recently, a difficult international economic environment. The rate of real GDP growth is estimated at 1.8 percent in 2009, up nearly 1 percentage point from 2008. Benefiting from the easing of world food and energy prices, inflation was contained overall, remaining below 3 percent in 2009.

4. **Fiscal performance was not as good as expected.** Government revenue reached the equivalent of 13.9 percent of GDP, slightly exceeding the program target. However, this was only possible because of exceptional revenues from the economic citizenship program, because tax revenue, particularly direct and indirect domestic taxes, fell short of program expectations. Apart from the impact of a difficult economic situation, fiscal performance reflected weaknesses in tax and customs administration, which the government plans to

tackle as quickly as possible. The fiscal 2009 budget outturn was also negatively affected by (i) increasing difficulties in managing personnel expenses, which caused the wage bill to exceed projections by 0.3 percent of GDP; (ii) the assumption of obligations resulting from the crash of Yemenia Airways flight 626; and (iii) the cost of linking the Comoros to the regional fiber-optic communications cable. As a result of these developments, the domestic primary fiscal deficit amounted to 2.6 percent of GDP, close to the level recorded in 2008 and far from the program target of 1.6 percent of GDP.

5. **A sharp rise in the terms of trade and external grants helped reduce the external current account deficit in 2009.** Exports grew significantly, owing to the rundown of stocks built up in recent years. Supported by a continued high level of remittances from Comorians living abroad, the volume of imports, particularly in the construction, used vehicle, and petroleum sectors expanded appreciably, even though imports increased only slightly in value terms. With a sizable increase in budget grants received from abroad, these developments narrowed the external current account deficit (including budget support grants) to the equivalent of 7.9 percent of GDP (11.1 percent of GDP in 2008), close to the program projection of 8 percent. International reserves increased to the equivalent of 7.1 months of imports of goods and nonfactor services, reflecting in particular the SDR allocations from the IMF.

6. **The external debt of the Comoros remains unsustainable.** It rose to the equivalent of 343 percent of exports of goods and services (in net present value terms) at end-2009. In November, the government concluded an arrangement to restructure its debt to Paris Club creditors, securing an 80-percent reduction of service due during 2009–12, which could be increased to 90 percent when the country reaches the HIPC Initiative decision point. The Union of the Comoros obtained the agreement of non-Paris Club creditors to defer the settlement of external arrears equivalent to US$43.9 million at end-2009 and debt service of US$0.24 million in 2010, pending full resolution of the country's external debt situation under the enhanced HIPC Initiative and on terms comparable to those agreed with Paris Club creditors.

7. **Against the background of the expansion of the banking system, credit to the economy was sustained.** Two new banking institutions have been established, opening up new financing possibilities for the private sector. Thus, including microfinance sector lending, credit to the economy increased 44.1 percent in 2009, following growth of 27 percent in 2008. The bulk of bank credit benefited the trade sector. Money supply grew by 13.5 percent, outpacing the growth of nominal GDP, in parallel with a 9.7 percent increase in net foreign assets of the banking system—corresponding to a rise of 7.7 percent relative to beginning-of-the-period money supply.

B. Implementation of the program

8. **Domestic primary expenditure swelled to 16.5 percent of GDP (15.4 percent in the program).** This was due to pressure from the wage bill, the cost of the regional fiber-optic communications project, and expenses related to the crash of the Yemenia Airlines aircraft, which made numerous Comorian casualties. The spending overrun was not offset by modest excess revenue achieved (0.1 percent of GDP above the program target). Consequently, the domestic primary fiscal balance remained at the high level of 2008 (2.6 percent of GDP), compared to the program target of 1.6 percent of GDP. However, overall, only two of the fifteen quantitative and structural indicators of the program for end-December 2009 were not met. The second unmet program indicator for the period concerns the adoption of reform strategies for the State-owned telecommunications (Comores Télécoms) and petroleum products- importing (Société comorienne des hydrocarbures) companies.

9. **In the first quarter of 2010, seven of ten performance indicators were met.** The domestic revenue target was only narrowly missed and, thanks to improved monitoring of current expenditure, the domestic primary fiscal balance was kept within the program limits. However, net credit to the government exceeded program projections, because the settlement of wage arrears exceeded budgetary assistance earmarked for that purpose. In all, six of the eight quantitative performance indicators were met. In the area of structural reforms, one of the two program benchmarks for end-March was met, but with some delay. The second benchmark concerning the computerization of payroll operations was only partially met.

III. Economic and Financial Policies for 2010

A. Macroeconomic Framework

10. **The government intends to give new impetus to the economic reform agenda.** It is determined to strengthen fiscal discipline to maintain macroeconomic stability, and to ensure the prompt execution of its structural reform agenda.

11. **In line with this, the rate of real GDP growth is expected to begin recovering gradually and reach 2.1 percent in 2010.** In addition to subsistence farming and private construction sustained by the remittances of Comorians living abroad, economic activity is expected to rebound as a result of the rehabilitation of economic infrastructures, especially in the energy sector, financed by development partners, and the revival of financial services thanks to increased financial intermediation. The tourism sector could also receive a boost, benefiting from the greater involvement of Gulf region private partners following the March 2010 Doha Conference on development and investment in the Comoros. Inflation is expected to slightly pick-up, fueled in part by stronger aggregate demand following large repayments of civil service wage arrears. Reflecting the weakness of exports and sustained import demand, the external accounts are not expected to improve in 2010. The external

current account deficit is projected at 8.9 percent of GDP, compared to about 8 percent in 2009.

B. Fiscal Policy

12. **The government recognizes the need to curb the fiscal slippages recorded in 2009 as quickly as possible, in order to protect the fiscal consolidation objectives of its three-year reform program supported by the IMF under the ECF.** To achieve this, corrective measures are intended to strengthen the mobilization of government revenue and significantly improve the control of expenditure, particularly wage expenses. In 2010 these measures should make it possible to narrow the domestic primary fiscal balance to the equivalent of 1.5 percent of GDP, compared to 2.6 percent of GDP in 2008–09, consistent with our revised budget. The government's net fiscal financing needs for 2010 are estimated at 3.3 percent of GDP; they will be covered entirely by budget support from the European Union, the World Bank, the African Development Bank, Gulf region partners, and the IMF. If the government receives external budget support in excess of programmed amounts, it will consult with the IMF concerning its use and will establish a new supplementary budget outlining how these resources will be allocated to the settlement of domestic payments arrears and to other priority sectors. The amended 2010 fiscal program will be submitted for the approval of the National Assembly in the form of a supplementary budget by June 30, 2010.

13. **Domestic revenue is expected to reach CF 28.838 billion (14.3 percent of GDP) in 2010, 6.4 percent above the initial program target.** Revenue mobilization in 2010 will focus on enhancing the effectiveness of tax and customs administration, with technical support from development partners, including the IMF Fiscal Affairs Department, the AfDB, and France.

14. **The growth in Directorate General of Taxes (DGI) revenues will reflect the effects of agreed measures in the Directorate's performance contract.** Under the contract, tax centers will soon be opened in the island entities and placed under the direct authority of the Director General, and management of taxpayers monitored by the Large Taxpayer Unit (LTU) will be improved, based on the recommendations of the IMF Fiscal Affairs Department. In this context, the practice of "reclassifying" taxpayers has been eliminated; tax returns filed by large enterprises are now more closely monitored with a view to increasing the rate of filing to 95 percent; and the government has appointed a new manager for the LTU. In addition, a comprehensive inventory will be conducted of the Treasury's balance of outstanding tax claims, and the findings will be communicated to IMF staff before the first review of the program by the IMF Executive Board. Based on this report, a more systematic recovery of the tax liabilities in question will be undertaken. Finally, the offices of the DGI will be increasingly provided with qualified personnel and equipment, especially IT hardware.

15. **To achieve its domestic revenue mobilization goal, the government has also adopted new tax measures.** These include: (i) an increase of 5 percent in the tax on petroleum products; (ii) reinstatement of the tax on diesel and other motor vehicles, as well as the business license tax; and (iii) an increase of 5 percent in the rates of the excises on tobacco and alcohol. Moreover, the government is introducing royalties on management licenses and use of radio frequencies. The revenue yield from these measures is estimated at least CF 886 million.

16. **Measures at the Directorate General of Customs (DGD) to streamline goods clearance procedures will be stepped up and the ad valorem taxation on imports completed.** Several management changes have been introduced at the directorate general of customs. A central office responsible for the valuation, type, and origin of imported goods has begun operations, and the flat tax per container is being eliminated.

17. **As regards expenditure, nonpriority payments will be strictly monitored to protect the government's fiscal objectives.** Cuts will be made to certain expenditure items to compensate for shortfalls in revenue collection. In 2010, total expenditure is expected to be capped at CF 46.567 billion, or 23.2 percent GDP. In line with this, domestic primary expenditure will amount to CF 31.788 billion, equivalent to 15.8 percent of GDP, including a budgetary contribution to capital expenditure of CF 2.60 billion (1 percent of GDP, up 66 percent from last year). In support of the government's poverty alleviation efforts under the PRSP, education and health spending financed with own resources will be closely monitored by the reform-monitoring committee (CREF, paras. 28 and 29) and is expected to reach CF 11,870 billion (5.9 percent of GDP) in 2010, from 5.2 percent of GDP in 2009.

18. **The wage bill, projected at CF 17.864 billion (8.9 percent of GDP), fully reflects the government's current obligations to its employees.** Steps have been taken to keep it within that envelope. In particular, any new recruitment, solely in priority sectors, can be considered only in within the limit permitted by the number of departures. In August 2010 the government will roll out its new computerized payroll management system, which it has already fully tested. Finally, the government will conduct a comprehensive census of government employees and officials by end-2010. Further efforts are discussed in paragraph 26.

19. **Domestic payments arrears, including wage arrears, will be settled consistent with the broader objectives of the fiscal program.** With earmarked budget support from Qatar, the government will reduce domestic arrears by CF 10.784 billion in 2010, including several months of wage arrears and arrears to government private suppliers.

20. **More generally, the monitoring of government expenditure will be improved through more regular meetings of the Cash Flow Committee.** Complete minutes of the committee's deliberations will be kept and sent monthly to IMF staff. Expenditure without a prior commitment, particularly through Treasury payment orders, will be executed only in

exceptional cases of extreme urgency and will not exceed the ceiling of CF 150 million, beginning July 1, 2010.

21. **In view of the foregoing, the overall fiscal deficit (cash basis, grants included) will be CF 5.439 billion (2.7 percent of GDP).** Taking into account external financing (including debt relief) and reduction in net bank financing through a buildup of government deposits (CF 2.858 billion), the net financing requirements of the government are estimated at CF 6.640 billion (3.3 percent of GDP). This amount will be covered as follows: (i) World Bank: CF 1.1 billion; (ii) European Union: CF 3.3 billion; (iii) AfDB: CF 0.5 billion; (iv) Gulf region partners: CF 0.1 billion; and (v) IMF: CF 1.7 billion.

C. Money, Credit, and Financial System

22. **Monetary policy is conducted within the framework of the Comoros' membership in the franc zone.** It will support a moderate expansion of credit to the economy, aimed at containing inflation and averting capital flight risks. Consistent with this, the government's indebtedness to the banking system will remain prudent, largely reflecting the domestic pass-through of IMF financial support, including the SDR allocations in 2009. Broad money is expected to grow at a rate of 7.5 percent in 2010, faster than the growth of nominal GDP, compared to 13.5 percent in 2009. The required reserve ratio, set at 25 percent since 2008, will continue to be the main liquidity management tool. In the medium term, the BCC plans to make greater use of liberalized interest rates in an increasingly competitive environment. The BCC has completed a new safeguards assessment and has started implementing the main recommendations. In particular, the Bank's cash holdings will be audited and certified annually by an external auditor, and the financial statements will be prepared in accordance with international standards, starting in 2011. In addition, the Bank's comptroller will review the monetary data reported to IMF staff before they are sent. Finally, the BCC plans to complete the expansion of its bank supervision staff as soon as possible, with technical support from the IMF and Banque de France.

23. **By end-2010, the government will complete preparations for a strategy to refocus the activities of the National Postal and Financial Services Company (SNPSF).** This strategy is aimed, in particular, at limiting the activities of the SNPSF to savings deposits and money transfers, as well as extending the new postal checking service to a broader public.

D. Balance of Payments and External Debt

24. **The external current account deficit, private and official grants and transfers included, is expected to widen in 2010 to about 8.9 percent, compared to 7.9 percent of GDP in 2009.** This largely reflects the forecasted rebound in world energy and food prices. While seeking a substantial external debt relief within the framework of the enhanced HIPC Initiative and on terms similar to those provided by the Paris Club creditors, the government

reaffirms its commitment to a prudent debt policy, to avoid jeopardizing the sustainability of the country's external debt.

E. Structural policies

25. **As regards structural reform, the government aims to accelerate implementation of its public enterprise and civil service reform programs.** Prior to the IMF Executive Board's consideration of the first program review the government will adopt an IFC-approved reform strategy for the state-owned telecommunications company; and while pursuing consultations with the IFC on reform options for the hydro-carbon importing company, it has appointed a new Board of Directors in an effort to begin addressing management inefficiencies in the company. By end-December 2010 the government will also complete a reform strategy for the electric company, MAMWE, developed with the assistance of the AfDB. Implementation of the SCH and Comores Télécoms reforms are to begin in the fourth quarter of 2010, and by end-March 2011 for MAMWE.

26. **In the area of public administration, the government will take important measures aimed at securing medium-term budget viability.** The government recently submitted to Parliament new personnel frameworks for ministries that are compatible with available government financial resources. The government expects to have these frameworks operational by the end of the year and will attach them as annexes to the budget law, beginning in fiscal 2011. This reform will make it possible, in particular, to reduce the level of civil service staffing (including the army) to approximately 10,600 employees, compared to the current total of 12,300. The government is requesting technical and financial support from its development partners for the preparation and implementation of a staff reduction support program.

27. **The government will continue its broad program to promote good governance, including judicial reform and enhanced transparency.** By end-2011, it will complete the revision of procurement procedures to make them fully transparent, and consistent with COMESA standards. The government has also requested the support of technical and financial partners, France and the UNDP in particular, to assist with implementation of the Judiciary Action Plan aimed at improving the quality of the judicial system. With the support of the World Bank, the AfDB, France, and the United Nations System of Organizations, it has developed a program to improve governance, with implementation to begin before end-March 2011.

F. Poverty Reduction Strategy Paper (PRSP)

28. **In September 2009, the government completed the update of its Poverty Reduction Strategy (PRS).** The new PRS assigns priority to the promotion of macroeconomic stability; activity in the productive sectors of agriculture, fisheries, and tourism; governance; and human development. Members of civil society contributed actively to its preparation. The government recognizes the rather general nature of the strategy and

plans to make it more effective by better prioritization and specification of the projects and policies to be carried out within the PRS framework, particularly those related to the HIPC Initiative completion point triggers. With the support of development partners, the government expects to complete this work by end-2010.

29. **The government plans to use the savings resulting from the reduction in debt service obligations under the HIPC Initiative to finance the priority sectors defined in its poverty reduction and growth strategy.** Accordingly, it is preparing a comprehensive list of priority expenditures which will be closely monitored by the interdepartmental committee responsible for monitoring implementation of the PRSP. Pending the completion of that list, health and education spending are currently subject to regular monitoring by the CREF.

G. External Debt Relief and Management

30. **The government was granted debt relief by Paris Club members in November 2009 and has reached understandings with other creditors on debt treatment pending comprehensive resolution of Comoros' debt situation.** Agreements have been notably achieved on the treatment of external debt arrears outstanding at end-2009, as well as on deferral of scheduled debt service payments in 2010 owed to creditors other than the main multilateral lenders**.** The government is committed to honoring all obligations to the latter creditors on a timely basis. Discussions have been initiated with non-Paris club bilateral creditors, multilateral creditors other than the main donors and lenders, and commercial creditors for debt relief under the HIPC Initiative and on terms comparable to those of the Paris Club.

31. **The government fully recognizes the need for prudent debt management.** Any external borrowing contracted or guaranteed by the government will be subject to the prior approval of the Minister of Finance of the Union, and the autonomous island executives are not authorized to contract or guarantee external borrowing. In addition, throughout the three-year program, the government will neither contract nor guarantee short-term or nonconcessional external debt as defined in the Technical Memorandum of Understanding (TMU). The authorities will consult with IMF staff before contracting or guaranteeing any concessional external debt in excess of US$20 million. With assistance from the African Development Bank, the Public Debt Directorate will in the near future acquire more effective debt management software and, importantly, will undertake a personnel training program on its use.

H. Statistics

32. **The government is determined to continue its efforts to improve the database of socio-demographic and macroeconomic statistics needed to design and monitor its development policy.** The government plans to submit to the IMF, by end-May 2010, a request for technical assistance for an assessment of its methodology for preparing the

national accounts and the consumer price index. With support from the World Bank, the government intends to strengthen its statistical capacities, taking into account the decentralization of public administration. The efforts will focus on the establishment of frameworks for the collection, compilation, and dissemination of data from the islands, as well regular data dissemination, and the training of statistical officers.

IV. Monitor Program Execution

33. **Completion of the first review of the arrangement under the ECF for the Comoros will depend on prior accomplishment of the following three actions:** (i) adoption by the Council of Ministers of the reform strategies for Comores Télécoms; continuation of technical discussions with IFC on reform options for Société Comorienne des Hydrocarbures; and appointment of a Board of Directors for the latter company as specified in paragraph 25, (ii) completion and communication to IMF staff of a comprehensive report on Treasury balances outstanding ("restes à recouvrir"), together with a plan for the recovery of these fiscal obligations, and (iii) submission of a 2010 revised budget law to the National Assembly.

34. **The program will be monitored on the basis of quarterly targets with performance criteria established on a semi-annual basis (Tables 1 and 2).** The authorities will provide the IMF with such information as needed to monitor the program, in accordance with the Technical Memorandum of Understanding. During the program period, the authorities will not introduce or intensify restrictions on payments and transfers for current international transactions, and will not introduce or modify any multiple currency practices, conclude any bilateral payment agreement that are inconsistent with Article VIII of the IMF's Articles of Agreement, or impose or intensify any restrictions on imports for balance of payments purposes.

35. **The second review of the arrangement under the ECF will take place in November 2010.** In the area of structural reforms, the review will focus primarily on measures aimed at strengthening control of the wage bill, particularly: (i) the introduction of computerized pay slips, (ii) completion of the census of government employees and officials, and (iii) implementation of the Civil Service organizational frameworks.

Table 1. Comoros: Quantitative Performance Criteria, Benchmarks and Indicative Targets Under ECF [1]
(In millions of Comorian francs, cumulative since end of previous year, unless otherwise specified)

	2009				2010					
	Sep.		Dec.		Mar.		Jun.		Sep.	Dec.
	Indicative target	Realized	PC	Realized	Indicative Target	Preliminary	PC	Revised PC	Indicative Target	PC
Performance Criteria										
1. Ceiling on net credit to government (NCG) [2]	588	-374 met	1,142	1,131 met	-391	389 not met	753	-1,596	-3,730	-1,130
2. Ceiling on the net accumulation of domestic payments arrears [3, 4]	217	-2,331 met	-731	-2,737 met	-2,369	-2,645 met	-319	-9,784	-10,284	-10,784
3. Ceiling on new nonconcessional external debt contracted or guaranteed by the government [5]	0	0 met	0	0 met	0	0 met	0	0	0	0
4. Ceiling on new short-term external debt contracted or guaranteed by the government [5]	0	0 met	0	0 met	0	0 met	0	0	0	0
5. Ceiling on accumulation of external debt service arrears	0	0 met	0	0 met	0	0 met	0	0	0	0
Quantitative Benchmarks										
6. Floor on the domestic primary balance		-1,509 met	-2,970	-4,967 not met	-1,421	-825 met	-2,035	-2,795	-1,216	-2,950
7. Floor on total domestic revenues		19,761 met	25,975	26,401 met	5,232	5,152 not met	11,801	12,028	20,491	28,838
8. Ceiling on expenditures by cash advances [4]		226 met	500	257 met	100	89 met	150	150	150	150
9. Floor on domestically financed social spending										11,870

[1] Definitions of targets and adjusters are provided in the Technical Memorandum of Understanding (TMU).
[2] Unlike in the monetary survey, NCG includes net ECF purchases.
[3] Targets and realizations adjusted as specified in the TMU.
[4] 2009 targets cumulative from July 1, 2009.
[5] Excluding trade credits.

Table 2. Comoros: Proposed prior actions and structural benchmarks
for the arrangement under the ECF, 2010

Measures	Macroeconomic justification	Date	Status
Prior Actions			
Submission of the 2010 supplementary draft budget law to the National Assembly			
Adoption by the Council of Ministers of the reform strategy for Comores Télécoms; and appointment of a new Board of Directors for Société Comorienne des Hydrocarbures			
Completion and forwarding to IMF staff of a comprehensive report on Treasury balances outstanding, together with a plan for the recovery of those tax liabilities			
Structural benchmarks			
Full computerization of civil servant payment roster and adequate staffing of the unit monitoring wage payments.	Support fiscal consolidation by improving control of the wage bill	March 31, 2010	Partially met
Submitting a draft law to parliament that sets the organic frameworks for the island ministries in line with the recommendations of the High Authority for the Public Administration	Rightsizing the civil service to achieve medium-term budget viability	March 31, 2010	Met
Maintaining the petroleum product price-setting mechanism.	Will ensure a reliable supply of petroleum products and limit pressures for subsidies	Ongoing	
Appointment of Union Presidency representative in the reform-monitoring committee (CREF)	Increase the effectiveness reform implementation and monitoring	June 30, 2010	
Introduction of computerized pay slips	Improve control of the wage bill and of government expenditure	End-September 2010	
Completion of the census of government employees and officials	Improve control of the wage bill and of government expenditure	End-December 2010	
Implementation of the Civil Service organizational frameworks	Improve control of the wage bill and of government expenditure	End-June 2011	

ATTACHMENT 2

UNION OF THE COMOROS

Technical Memorandum of Understanding

Moroni, June 5, 2010

1. This technical memorandum of understanding (TMU) defines the quantitative and structural performance criteria and benchmarks to monitor the implementation of the program supported by the three-year arrangement under the Extended Credit Facility. It also describes the reporting requirements under that program.

I. DEFINITION

2. Unless otherwise specified below, "the government" is meant to include the government of the Union of the Comoros and the governments of the three autonomous islands. Local Governments, the central bank, or any government-owned entity with separate legal personality are excluded from the definition of government. The units covered under this definition of government are consolidated for the needs of the program.

II. QUANTITATIVE PERFORMANCE CRITERIA

3. Quantitative performance criteria are proposed for June 30 and December 31, 2010 with respect to change in net domestic credit to the government (NCG) and net accumulation of domestic payment arrears of government; with benchmarks for September 30, 2010. The following performance criteria are proposed for monitoring on a continuous basis: (i) the external debt service payments arrears of the government; (ii) the contracting or guaranteeing of new non concessional external debt by the government; and (iii) the contracting or guaranteeing of new short-term external debt.

A. Change in Net Domestic Credit to the Government

Definitions

4. Net domestic credit to the government is defined as overall net credit extended to the government from domestic bank and nonbank sources. Net bank credit to the government reflects the net debt position of the government vis-à-vis the central bank, commercial banks and the National Postal and Financial Services Company (SNPSF), as well as microfinance institutions. It is the difference between the government's gross indebtedness to the banking system and its claims on the banking system. These government claims include all deposits at the central bank and commercial banks, as well as Treasury cash holdings. The government's debt to the banking system includes central bank credit (statutory advances as well as any long-term credit, and IMF net credit) and commercial bank credit, as well as net deposits at

the SNPSF. Domestic nonbank credit to the government includes changes in the stock of Treasury bills placed in the domestic market, and privatization receipts, as well as any other domestic financial debt of the government held outside the banking sector, other than arrears, that may arise.

5. The change in net domestic credit to the government as of the date for the quantitative performance criterion or benchmark is defined as the difference between the stock on the date indicated and the stock on December 31, 2009.

Performance criteria

6. The amounts set in Table 1 of the MEFP on Net Credit to Government for June 30 and December 31, 2010 are ceilings and constitute performance criteria. The amount set in the above table for September 30, 2010 is a ceiling and constitutes an indicative target.

Reporting requirements

7. The BCC will report the provisional data on the net bank credit to the government to Fund staff on a monthly basis, with a lag of no more than 45 days after the end of each observation period. Final data will be reported with a maximum lag of two months. The Ministry of finance will report on a monthly basis, any financing from nonbank sources.

B. Domestic Payment Arrears

Definition

8. New domestic payments arrears of the government are defined as any of the following: (i) Any bill that has been received by the spending ministry from a supplier of goods and services, delivered and verified and for which, payment has not been made within 90 days after the date the payment order (*ordonnancement*) was cleared; (ii) in the case of specific contracts between the suppliers and the government, any bill received and not paid on the due date stipulated in the contracts; (iii) tax credits confirmed by the proper authorities after review, and not paid within 60 days from the date when the payment order was issued; (iv) wages and salaries and any payment to a government employee that were due to be paid in a given month but remained unpaid on the 15th day of the following month.

Performance criteria

9. Under the program, the government will not accumulate any new net domestic payments arrears. The amounts set in Table 1 of the MEFP on Net Accumulation of Domestic Arrears for June 30 and December 31, 2010 are ceilings and constitute performance criteria. The amount set in the above table for September 30, 2010 is a ceiling and constitutes a quantitative benchmark.

Adjuster

10. If external budget support is less than expected, the floor on the reduction of domestic payment arrears will be lowered by the full amount of the shortfall, up to a maximum preventing new net accumulation of arrears. In the case of surplus in external budget support, the floor on the net reduction of domestic arrears will be raised by the full amount of the surplus, up to a ceiling of CF 0.750 billion. Amounts in excess of this ceiling would be allocated to priority sectors after consultation between the authorities and IMF staff. Cumulative from January 1, 2010, the program assumes external budget support of CF 16.876 billion by end-June 2010, CF 20.178 billion by end-September 2010 and CF 21.043 billion by end-December 2010.

Reporting requirements

11. The authorities will report to Fund staff any accumulation of domestic payments arrears as defined above as soon as incurred as well as the status of outstanding balances (*restes à payer*) of the treasury.

C. External Payments Arrears

Definition

12. External payments arrears are defined as the sum of payments due but unpaid on outstanding external debt (for a definition of external debt, see ¶¶16-17) that has been contracted or guaranteed by the government, with the exception of external payment arrears arising from government debt being renegotiated with creditors including Paris Club creditors.

Performance criterion

13. Under the program, the government will not accumulate any external payments arrears with respect to public debt, except for payments related to renegotiations with creditors, including the Paris Club. This performance criterion will be monitored on a continuous basis.

Reporting requirements

14. The government will report to Fund staff any accumulation of external payments arrears as soon as the due date has been missed. It will provide each month with a maximum lag of 15 days, a table showing external debt service due (after rescheduling) and paid.

D. Ceiling on the Contracting or Guaranteeing of New Non concessional External Debt and Short-Term Debt by the Government

Definition

15. These performance criteria apply not only to debt as defined in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 6230-(79/140), last amended by Executive Board Decision No. 14416-(09/91), effective December 1, 2009, but also to commitments contracted or guaranteed by the government for which value has not been received.

16. Short-term debt refers to external debt with a contractual maturity of less than one year. The external debt refers to debt owed to nonresident.

17. The definition of debt—as specified in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt—reads as follows: “(a) For the purposes of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, including: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property; (b) Under the definition of debt set out in point 9(a), arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.”

18. Any external debt of which the present value, calculated with the reference interest rates mentioned hereafter, is superior to 50 percent of the nominal value (grant element of less than 50 percent) is considered nonconcessional, with the exception of IMF lending under

the Extended Credit Facility, which is considered concessional even if it does not meet the 35 percent grant element threshold. For debt with a maturity of more than 15 years, the ten-year reference market interest rate, published by the OECD, is used to calculate the grant element. The six-month reference market rate is used for debt with shorter maturities.

19. For the purposes of this performance criterion, government is understood to include the government (as defined in ¶2 above), as well as local administrations, public institutions of an industrial and commercial nature (EPIC), public administrative institutions (EPA), public enterprises, and government-owned or controlled independent companies (i.e., public enterprises with financial autonomy of which the government holds at least 50 percent of the capital).

Performance criterion

20. The government as defined in ¶19 will not contract or guarantee nonconcessional or short-term external debt as defined above. These performance criteria are monitored on a continuous basis. It does not apply to: debt rescheduling and restructuring operations. In addition, import-related credit and pre-export financing secured on export contracts of less than one year maturity, are excluded from the performance criteria on short-term debt.

Reporting requirements

21. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government.

III. Quantitative Benchmarks

A. Domestic Primary Balance

Definition

22. The consolidated domestic primary fiscal balance (payments order basis) is calculated as total government revenue (defined below), excluding foreign grants, less expenditure, excluding interest payments, and foreign-financed technical assistance and investment expenditure.

Quantitative Benchmarks

23. The benchmarks for the floor on the domestic primary fiscal balance, cumulative from the beginning of the 2010 calendar year, are set at CF –2.795 billion for June 30, 2010, CF –1.216 billion for September 30, 2010 and CF –2.950 billion for December 31, 2010.

Reporting requirements

24. During the program period, data on the domestic primary fiscal balance (payment order basis) will be forwarded monthly by the Ministry of Finance and the Budget of the Union government within 45 days following the end of each month.

B. Government Revenue

Definition

25. Government revenue is defined as reported in the consolidated government financial operations table (TOFE), and includes all tax and nontax receipts and excludes external grants.

Quantitative Benchmarks

26. The floor on government revenue, cumulative from the beginning of the 2010 calendar year, is set at CF 12.028 billion for June 30, 2010, CF 20.491 for September 30, 2010 and CF 28.838 billion for December 31, 2010. These amounts are considered benchmarks under the program, for the respective dates.

Reporting requirements

27. The Ministry of Finance will report to Fund staff preliminary revenue data monthly, with a lag of no more than 45 days, on the basis of actual collections as recorded in treasury accounts. Final data will be provided once the final treasury accounts are available, but not later than two months after the reporting of preliminary data.

C. Expenditures Made by Cash Advances

Definition

28. Expenditures made by cash advances include all expenditures paid without prior commitment order.

Quantitative Benchmarks

29. Responsibility for achieving the ceiling on expenditures outside of normal procedures rests with both the Union government and island authorities. The ceiling on expenditures made outside of normal procedures, cumulative from January 1, 2010 is set at CF 150 million at end-June 2010, September 30, 2010 and at December 31, 2010.

Reporting requirements

30. Data on expenditures made outside of normal procedures will be forwarded monthly by the Ministry of Finance of the Union government within 30 days following the end of each month.

D. Domestically financed social spending

Definition

31. Total domestically financed social spending (current and capital) is calculated, for each category of the current expenditure (wages, goods and services, transfers and subsidies and) capital expenditure, as (1) expenditure executed by the Ministry of Health (under "health") and (2) expenditure executed by the Ministry of Education (under "education"). Domestically financed social spending is classified according to the above categories (health and education) based on a classification of each project presented in the 2010 budget into health and education. Total domestically financed current and capital social spending includes social spending financed by domestic resources, including revenues, domestic financing, and general external budget support, and excludes all social spending financed by project-specific foreign grants and/or loans.

Quantitative Benchmarks

32. The floor on total domestically financed social spending for the period from January to December 2010 is set at CF 11.870 billion. The floor on domestically financed social spending is an indicative target.

Reporting deadlines

33. During the program period, data on domestically financed social spending will be forwarded annually by the Ministry of Finance of the Union government to the staff of the IMF within 45 days following the end of the period.

IV. Additional Information for Program Monitoring

34. The authorities will report to Fund staff the following information and data according to the schedule provided, either directly (e-mail or facsimile) or by airmail. Barring any agreement to the contrary, the data will take the form mutually agreed by the authorities and the IMF. The fiscal data, monetary data, external debt data, the consumer price index, and any information on important legislative and/or other developments will be provided not later than 45 days after the date to which they pertain.

Monthly

The monetary survey, and the monthly balance sheets of the BCC and commercial banks;

Classification of commercial bank loans by economic sector;

Interest rates;

TOFE data on a cash and payments order basis, the related detailed tables on revenue and a table showing the link between the payments order and cash basis for expenditures;

External public debt operations (debt contracted and publicly guaranteed, settlement of external payments arrears, and debt service paid, broken down between interest and principal);

Consumer price index; and

Imports and exports, production of electricity, tourist arrivals, and any other indicators of economic activity that may be available on a monthly basis.

Quarterly

Production of major products (vanilla, cloves, ylang-ylang)

Annually

National accounts data

Balance of payments

35. Moreover, information on important measures adopted by the government in the economic and social areas that would have an impact on program developments, changes in legislation, and any other pertinent legislation will be reported to Fund staff on a timely basis.