

**EXECUTIVE  
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MEETING**

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To: Members of the Executive Board

From: The Secretary

Subject: **Union of the Comoros—Staff Report for the 2016 Article IV Consultation;  
and Staff-Monitored Program—Informational Annex**

Board Action:	Executive Directors' <b>consideration</b> (Formal)
Tentative Board Date:	<b>Wednesday, December 7, 2016</b>
Publication:	Yes*
Questions:	Mr. Trines, AFR (ext. 35639) Mr. Arnason, AFR (ext. 38867) Mr. McLoughlin, AFR (ext. 35321)
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**\*Unless an objection from the authorities of is received prior to the conclusion of the Board's consideration, the document will be published.**





# UNION OF THE COMOROS

November 21, 2016

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION; AND STAFF-MONITORED PROGRAM—INFORMATIONAL ANNEX

Prepared By

African Department

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## RELATIONS WITH THE FUND

(As of October 31, 2016)

**Membership Status:** Joined September 21, 1976

Article VIII

**General Resources Account:** **SDR Millions** **% Quota**

Quota	17.80	100.00
Fund holdings of currency	15.00	84.29
Reserve position in Fund	2.80	15.75

**SDR Department:** **SDR Millions** **% Allocation**

Net cumulative allocation	8.50	100.00
Holdings	8.25	97.07

**Outstanding Purchases and Loans:** **SDR Millions** **% Allocation**

ECF Arrangement	11.41	64.13
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**Latest Financial Arrangements :**

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF <sup>1/</sup>	Sep. 21, 2009	Dec. 23, 2013	13.57	13.57
SAF	Jun. 21, 1991	Jun. 20, 1994	3.15	2.25

<sup>1/</sup> Formerly PRGF

**Overdue Obligations and Projected Payments to Fund <sup>2/</sup>** (SDR millions; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Principal	0.00	1.62	2.25	2.71	1.87
Charges/interest	0.00	0.00	0.00	0.02	0.01
<b>Total</b>	0.00	1.62	2.25	2.73	1.88

<sup>2/</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**Implementation of HIPC Initiative:** Enhanced framework

## I. Commitment of HIPC assistance

Decision point date	July 2010
Assistance committed	
by all creditors (US\$ Million) <sup>1/</sup>	144.80
Of which: IMF assistance (US\$ million)	4.27
(SDR equivalent in millions)	2.89
Completion point date	December 2012

## II. Disbursement of IMF assistance (SDR Million)

Assistance disbursed to the member	2.89
Interim Assistance	-
Completion Point balance	2.89
Additional disbursement of interest income <sup>2/</sup>	0.07
<b>Total disbursements</b>	<b>2.97</b>

<sup>1/</sup> Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

<sup>2/</sup> Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

**Summary of Safeguards Assessment.** The last safeguards assessment was conducted in 2010. The BCC continues to publish its annual audited financial statements, but has not yet implemented International Financial Reporting Standards (IFRS). The assessment also recommended that the bank establish an internal audit function, progress on which has been slow. IX. Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable.

**Exchange Rate Arrangements:** The currency of Comoros is the Comorian franc, which is pegged to the Euro at €1 = CF 492. Comoros has accepted the obligations of Article VIII, Sections 2(a), 3, and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

**Article IV Consultation:** The last Article IV consultation was concluded on February 4, 2015 (Country Report No. 15/34). Directors welcomed Comoros's improved policy implementation and economic performance in recent years. However, they noted that significant challenges remained - including high poverty, inadequate infrastructure, and vulnerabilities characteristic of small island economies. They saw achieving fiscal stability as a key near-term objective, encouraging the authorities to strike a better balance between available resources and expenditures and calling for efforts to strengthen revenue mobilization and public financial management by implementing quick-win reforms in both areas. Directors also cautioned against excessive reliance on the potentially volatile proceeds from the Economic Citizenship Program. They further stressed the need to develop the financial sector and expedite the pace of structural reforms in order to boost external competitiveness and growth prospects.

#### Recent Technical Assistance

Department	Date	Subject
FAD	Oct-14	Assist authorities designing, developing & implementing taxpayer register
MCM	Nov-14	Strengthening Banking Supervision and Regulation
FAD, AFS	Nov-14	Budget Preparation Manual
FAD, AFS	Nov-14	Budget Preparation and Presentation
FAD, AFS	Nov-14	Cash Management
FAD, AFS	Jan-15	Cash Management
FAD, AFS	Jan-15	Cash Management and Government Banking Arrangements
FAD, AFS	Mar-15	Cash Management
FAD, AFS	May-15	Cash Management and Government Banking Arrangements
FAD, AFS	Jul-15	Building Macro Fiscal Capabilities
LEG, AFS	Aug-15	Customs Tax Legislation
FAD, AFS	Oct-15	Customs Administration
AFS, MCM	Jan-16	Risk Based Supervision
MCM	Jan-16	Bank Supervision and Regulation
STA	Jan-16	Balance of Payments Statistics
FAD	Jan-16	Treasury Single Account
FAD	Jan-16	TADAT Assessment of the Comoros Tax Authority
FAD/AFS	Mar-16	Strengthen Customs Control on Non-Petroleum Excisable Goods Including Exemptions
MCM	Apr-16	Revisions to the Banking Law and Strengthening the Operational Framework for Monetary Policy
MCM	Apr-16	Bank Restructuring
STA, AFS	Apr-16	National Accounts
STA	Jun-16	Government Finance Statistics

FAD/AFS	Jun-16	Development of Customs Code Regulations - Offsite
FAD	Jul-16	Revenue Administration

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**Resident Representative:** A resident representative post established in September 1991 was closed in December 1995; in the 2000s, the IMF's field operations in the country were managed by the resident office in Madagascar. The Comoros post was reestablished in May 2012.

# JOINT WORLD BANK-IMF WORK PROGRAM, 2016–2017

TITLE	Products	Provisional timing of mission	Expected delivery date
<b>Bank work program in next 12 months</b>	<b>A. Mutual information on relevant work programs</b>		
	1. Development Policy Operations	Appraisal 12/20/2016	February 2017
	2. Statistics Project	Appraisal 10/04/2016	January 2017
	3. Electricity Sect. Recovery (AF)	Appraisal January 2017	April 2017
	4. Financial Sector Development & Implementation Plan - TA		December 2016
	5. Strengthening Social ProtectionTA.		February 2017
	6. CL4D- Multi-stakeholder leadership TA.		December 2016
	7. Poverty Assessment EWt.		
	8. DeMPA and MTDS training TA		May 2017
	9. From Remittances to Savings TA		November 2016
	10. Action plan for targeting and UHC AA		June 2017
	11. Revenue management NLTA AA		May 2017
			October 2017



<b>IMF work program in next 12 months</b>	2014 Article IV Consultation	November 2014	January 2015: Board meeting
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### B. Requests for work program inputs

<b>Fund request to Bank</b>	Update on Bank's assistance in the area of PFM reforms and PRSP implementation and energy sector reforms	Continuous
<b>Bank request to Fund</b>	Sharing macro-framework updates; policy notes produced in the area of monetary and fiscal policy, and AFRITAC reports on PFM support.	Continuous

### Comoros: Recent World Bank Operations

Project	Type of Funding	Amount Approved (in mln. of US\$)	Date Approved	Description
Coastal Resources Co-management for Sustainable Livelihood	TF	2.73	4/5/2011	Grant to increase access to revenues and to basic social services in the fishing community of the recipient's territory.
Second Economic Governance Reform	IDA Grant	3.0	06/02/2015 3/28/2013	To improve economic governance & transparency, and competition & management of the electricity and ICT sectors
Electricity Sector Recovery project	IDA Grant	5.0	6/9/2013	To contribute to the improvement in the electricity sectors' commercial & financial performance.
Regional Telecom Project	IDA Grant	22	9/10/2013	To support the Recipient's efforts to lower prices for international capacity and extend the geographic reach of broadband networks

Economic Governance TA Project	IDA Grant	5.3	11/12/2013	Grant to increase the efficiency, accountability and transparency of public financial management and to improve the management of civil service human resources and wages.
Social Safety Net Project	IDA Grant	6.0	3/19/2015	Provide poor communities with access to safety net and nutrition services.
South West Indian Ocean Fisheries Governance	IDA Grant	1.2	4/30/2015	Grant to boost regional cooperation and integration in the fisheries sector.
	Regional IDA TF	8.3		
		3.5		
Development Policy Operation (pipeline)	IDA Grant	3.00	02/20/2017	To enhance fiscal management and the conditions for economic growth
	IDA Grant			
Statistics Project (pipeline)		2.50	01/09/2017	
	IDA Grant			To strengthen the capacity of the National Office to improve the production & dissemination of Statistics
Electricity Sect. Recovery-AF (Pipeline)		6	04/05/2017	To contribute to the improvement in the electricity's sector commercial and financial performance

# RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP

## A. Bank Group's Support in Comoros

**1. The African Development Bank Group (AfDB) started its operations in Comoros in 1977 and has since then approved seventeen (18) operations and one (2) economic and sector work (ESW).** Cumulative Bank Group commitments net of cancellation amounted to UA 78.26 million as of October 2016. These operations targeted the public sector and were mainly financed from ADF resources (87.6 percent). One (1) port infrastructure project was financed through the ADB window for a net UA 9.67 million representing 12.4 percent of total net commitments. In addition, the AfDB approved three (3) emergency operations to assist in mitigating the adverse impact of the food crisis in 2008 (UA 1.5 million) and support victims of floods in 2009 and in 2012 (UA 1.28 million). Since 2009, in addition to the ADF, Comoros are eligible for Pillars I and III of the Fragile States Facilities (FSF), on which they have received additional resources of UA 21.46 million. On the Pillar I, Comoros received UA 10 million in ADF 12 and UA 15 million in ADF 13 e), respectively addressed to support Energy Sector in the ADF 12 and Road sector in the ADF 13. The resources on Pillar III have supported the statistical capacity building in the PRCI (UA 595.000), the preparation of SCA2D (UA 241.000), and recently the assistance to private sector (UA 625.000). In November 2015, the Bank approved a PRCI phase 2 under the resources of pillar I of TSF (UA 6 million)

**2. Overall, AfDB operations in Comoros have been mainly directed toward supporting economic-related infrastructure, support to public finances and improvement of rural livelihoods.** They have primarily concerned Energy sector (69.89 per cent), and multi-sector (30.10 percent).

## B. Strategic Orientation

**3. The Bank Group concretely re-engaged in Comoros in 2010 following the resolution of the Anjouan crisis and the lifting of sanctions in February 2009 after clearance of its arrears with the Bank.** A two-year Interim Country Strategy Paper (I-CSP) 2009-2010 focusing on economic and financial governance and water and sanitation was approved in April 2009. In December 2011, the Board of the AfDB approved a full Country Strategy Paper (CSP) for 2011–2015 based on a single pillar focusing on the energy sector in support of economic diversification. This new CSP draws on the Growth and Poverty Reduction Strategy Paper for 2010-2014 and spans over two ADF cycles - ADF 12 and ADF 13. In April 2016, the Bank approved a second full CSP for 2016-2020, based one single pillar: Developing basic energy and road infrastructure to support economic diversification. The current CSP is aligned on the national Strategy of growth and sustainable development (SCA2D 2015-2019) and is financed by ADF 13 and 14 resources, corresponding to a total amount of UA 40 million, including UA 10 million from the Transition States Facility (TSF). These resources will primarily aim to finance (i) a road project (UA 15 million), (ii) an energy investment project (UA 10 million), and (iii) a sectoral

budget support –energy and road- operation (UA 15 million) whose main objective will be to support government efforts in rehabilitation of roads and energy sectors in which the country faces major challenges.

**4. Moreover, aware of the weak of institutional capacity of Comoros, the Bank approved, in November 2015, the second Phase of the Project of Institutional capacity building (PRIC 2) to strengthen the operationalization of Tax department (AGID), improve the capacity of programming and management of public investment (CGP), and improve the effectiveness of the department in charge of energy (DGME).**

**5. As of October 2016, the Bank’s ongoing portfolio in resources amounts to UA 22.005 million comprising 4 operations: (i) Energy Sector Support Project (ii) Energy Production, Transport & Distribution Plan, (iii) Private Sector Support Project, and (iv) the Institutional Capacities Building (PRCI 2).** A Midterm review of CSP combined to Country Portfolio Performance Review (CPPR) is planned in 2018.

### C. Non Lending Activities

**6. Along with other developing partners, the AfDB aims to provide Comoros’s authorities with policy advice and decision tools on key strategic directions with the objective of leveraging and sustaining economic growth over the medium-long term.** In this respect, the first phase of a study on the sources of growth in Comoros was completed in December 2010 and provided a series of preliminary key recommendations on ways of boosting growth and improving the economic and business climate. A second ESW concerning Fragility study is achieved in April 2014, to support the finalization of SCA2D.

### D. Summary of AfDB Current Lending Portfolio

Project	Sector	Effectiveness	Closing Date	Amount	
				Millions of Units of Account	Millions of U.S. Dollars
Energy Sector Support Project	Power	11/27/2013	03/01/2018	13.380	18.65
Energy Production, Transport & Distribution Plan	Power	11/27/2015	12/31/2020	2.000	2.79
Private Sector Support Project	Multisector	05/22/2014	02/28/2017	0.625	0.871
Institutional Capacity Building	Multisector	11/27/2015	01/31/2020	6.000	8.364
Total				22.005	30.675

**Source:** AfDB, 2016

## E. IMF-African Development Bank Collaboration

7. **Collaboration between the IMF and Africa Development Bank teams has been largely through exchanges, sharing of information and joint missions.** Also, the Bank has always participated of the Article IV mission.

## STATISTICAL ISSUES APPENDIX

### I. Assessment of Data Adequacy for Surveillance

**General:** Data provision has serious shortcomings that significantly hamper surveillance. Inadequate staffing, funding, and institutional environment undermine the accuracy and comparability of almost all macroeconomic statistics, with the partial exception of monetary and financial statistics.

**National accounts.** The latest estimates for GDP are for 2008 and therefore inadequate for surveillance. Source data from either surveys or administrative sources do not support compilation of key aggregates required to compile GDP. The national statistical office lacks adequate financial resources, staff capacity, and institutional environment. The authorities have made limited progress implementing recommendations of technical assistance to produce a GDP time series by extrapolating from the current base year (2007). No quarterly estimates are produced.

**Consumer prices.** The accuracy and reliability of the consumer price index (CPI) represents another key source of uncertainty. Expenditure weights are based on a survey from the late 1980s and sub-indices are compiled irregularly across the islands. Most price data are collected only for the country's capital. CPI compilation is largely conducted by one person. The African Development Bank assigned an international Expert from May 2011 to January 2012, who helped the NSI to design a new consumer price index (CPI). Baskets of products, expenditure weights, collection locations as well as calculation techniques were revised. An IT tool was implemented and the responsible official was trained in managing the whole compilation process. Next STA Technical Assistance mission dedicated to price statistics is planned for November 2016.

**Government finance statistics.** In August/September 2005 an STA mission found that the public chart of accounts did not accurately record the execution of the budget and that a standardized presentation on outstanding public debt is not compiled. Classification of budgetary data is often not consistent over time or across the islands. In particular, problems arise in data on domestic arrears, external debt, and external support, including its investment spending components, complicating fiscal analysis. An August 2016 STA mission proposed various steps to improve compilation and quality of data.

**Monetary and financial statistics.** The Central Bank of Comoros (BCC) produces adequate monetary statistics on its own accounts, for the commercial banks, the development bank, the deposits collected by the Société nationale des postes et des services financiers (chèques postaux and saving passbooks), and for two microfinance networks. The Franc Zone arrangement has established accounting and prudential standards that prevent data disruptions. A major shortcoming is the absence of data on the large amount of Euro cash in circulation, handicapping surveillance. In June 2009 the BCC started reporting monetary and financial statistics to the IMF using Standardized Report Forms (SRFs). The current presentation and

content of monetary statistics accords largely with the methodology in the IMF's *Monetary and Financial Statistics Manual 2000*.

1. **External sector statistics.** Despite technical assistance and some improvements over the past few years, shortcomings in coverage and compilation continue to affect accuracy and reliability. Currently two BCC economist are responsible for compiling balance of payments statistics. The last TA mission (January 2016) recommended the recruitment of one additional staff, to assure regular compilation of balance of payments (BP) and the development of the International Investment Position (IIP).

## II. Data Standards and Quality

Comoros has participated in the enhanced General Data Dissemination System (eGDDS) since May 2015 and disseminates metadata for 11 of the 15 recommended data categories, as well as one supplementary category (producer price index).

No data ROSC is available.

## III. Reporting to STA

**National accounts:** Comoro is not reporting any national accounts data to STA.

**Consumer prices:** In July 2015 Comoro delivered to STA a set of monthly consumer price indexes covering period January 2000 – October 2014. Since then no further reporting.

**Government finance statistics:** There is no regular compilation and dissemination of fiscal data (TOFE). No GFS data are reported to GFSY or IFS. Data are compiled on GFSM 1986 / TOFE basis, only when it is requested by the African Department; this data is incomplete (both transactional and institutional coverage) and thus data do not accurately reflect the fiscal position. The last TA mission (June 2016) noted deficient material and technical resources.

**Monetary and financial statistics:** Comoros reports MFS data for the depository corporations on a monthly basis using the standardized report forms (SRFs). The institutional coverage of monetary statistics does not include other financial corporations.

**Financial Soundness Indicators:** Comoros has begun reporting Financial Soundness Indicators (FSIs) to STA on a regular basis, with monthly/annual data beginning in 2010 M1.

**External sector statistics:** Only annual BP data are reported to STA; the most recent dataset (received in 2014) is related to year 2012. Data on IIP and External Debt are not reported.