

**EXECUTIVE  
BOARD  
MEETING**

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Supplement 1

March 5, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Union of the Comoros—Staff Report for the 2019 Article IV Consultation—  
Informational Annex**

Board Action:	Executive Directors' <b>consideration</b> (Formal)
Tentative Board Date:	<b>Wednesday, March 18, 2020</b>
Publication:	Yes*
Questions:	Mr. Weisfeld, AFR (ext. 37482) Mr. Benlamine, AFR (ext. 38800) Mr. Melhado Orellana, AFR (ext. 29090)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—Arab Monetary Fund, African Development Bank, Common Market for Eastern and Southern Africa, European Investment Bank, Food and Agriculture Organization, Islamic Development Bank, United Nations Development Programme, World Trade Organization

**\*Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**





# UNION OF THE COMOROS

## STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

March 2, 2020

Prepared By

African Department

### CONTENTS

RELATIONS WITH THE FUND	2
JOINT WORLD BANK-IMF WORK PROGRAM FOR 2020	7
STATISTICAL ISSUES	11

## RELATIONS WITH THE FUND

(As of December 31, 2019)

<b>Membership Status:</b> Joined September 21, 1976		Article VIII
<b>General Resources Account:</b>	<b>SDR Millions</b>	<b>% Quota</b>
Quota	17.80	100.00
Fund holdings of currency (Holdings Rate)	20.81	116.92
Reserve position in Fund	2.93	16.48
<b>SDR Department:</b>	<b>SDR Millions</b>	<b>% Allocation</b>
Net cumulative allocation	8.50	100.00
Holdings	9.55	112.26
<b>Outstanding Purchases and Loans:</b>	<b>SDR Millions</b>	<b>% Allocation</b>
RCF Loans	2.97	16.70
Emergency Assistance <sup>1</sup>	5.93	33.30
ECF Arrangement	4.83	27.13

### Latest Financial Arrangements :

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ECF <sup>2</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> Emergency Assistance may include ENDA, EPCA, and RFI.

<sup>2</sup> Formerly PRGF.

**Overdue Obligations and Projected Payments to Fund<sup>3</sup>** (SDR millions; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Principal	1.87	1.40	1.83	3.43	2.22
Charges/interest	0.10	0.10	0.10	0.07	0.02
<b>Total</b>	1.97	1.51	1.93	3.50	2.24

**Implementation of HIPC Initiative:** Enhanced framework

I. Commitment of HIPC assistance

Decision point date	July 2010
Assistance committed	
by all creditors (US\$ Million) <sup>4</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	0.07
<b>Total disbursements</b>	<b>2.97</b>

<sup>3</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.

<sup>4</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.

**Summary of Safeguards Assessment.** The Banque Centrale des Comores (BCC) continues to face capacity constraints that are frequently encountered by small central banks. External audit arrangements are broadly aligned to international practices. However, substantial effort is required to enhance transparency in financial reporting, align the internal audit operations with international standards, strengthen the system of internal controls, and improve the audit committee's oversight. In addition, legal amendments are needed to enhance the BCC's autonomy.

**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 June 13<sup>th</sup>, 2018 (Country Report No. 18/189). Directors welcomed Comoros's economic performance despite continued difficulties. Directors encouraged the authorities to continue to pursue comprehensive policy measures and structural reforms, to achieve a higher and more inclusive growth rate. Directors emphasized that sustained efforts are needed to create fiscal space needed to scale up priority infrastructure and social spending. They welcomed the steps taken to modernize the monetary policy framework and encouraged the authorities to carefully sequence the envisaged reforms. Directors emphasized that priority needs to be given to addressing infrastructure gaps, maintaining a stable electricity supply, strengthening governance, and reducing gender inequality. They stressed that implementing the ambitious development agenda will require the identification of sustainable financing sources in the context of a realistic budgetary framework, to safeguard debt sustainability. They emphasized that continued efforts to improve the statistical capacity and enhance the reliability, timeliness and consistency of economic data are critical for macroeconomic surveillance and policymaking.

**Recent Technical Assistance**

<b>Department</b>	<b>Date</b>	<b>Subject</b>
MCM, AFS	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	Mar-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
FAD, AFS	Jan-17	PFM priority action plan for 2017-2019
MCM, AFS	Jan-17	Risk Based Supervision
STA, AFS	Apr-17	National Accounts
AFS	Apr-17	Revenue Administration
MCM, AFS	Apr-17	Risk Based Supervision
STA, AFS	May-17	Price Statistics
AFS	Jun-17	Development of Customs value evaluation
AFS	Jul-17	Revenue Administration
FAD, AFS	Aug-17	Macro-fiscal framework and budget credibility
STA, AFS	Aug-17	Consumer Prices/Producer Price
MCM	Sept-17	Introduction of Central Bank Securities
AFS	Sept-17	Pension Fund
AFS	Sept-17	Revenue Administration
STA, AFS	Dec-17	National Accounts
AFS	Jan-18	Pension Fund
AFS	Jan-18	Strengthening the Accounting System
AFS	May-18	Strengthening of large enterprises Service
AFS	May-18	National Accounts
AFS	May-18	Improve the preparation of the budgetary implementation
STA	June-18	Government Finance Statistics
AFS	Oct-18	National Accounts
AFS	Feb-19	Consumer Price Statistics
AFS	Feb-19	National Accounts
AFS	Aug-19	National Accounts

FAD	Sep-19	Tax Administration
AFS	Oct-19	Orientation Program
FAD	Nov-19	State Owned Enterprises Surveillance
AFS	Dec-19	Tax Administration
AFS	Dec-19	PFM Treasury Operations and Accounting

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**Resident Representative:** A resident representative post established in September 1991 was closed in December 1995. The Comoros post was reestablished in May 2012. Currently there is no resident representative in Moroni.

## JOINT WORLD BANK-IMF WORK PROGRAM FOR 2020

1. **The Fund Comoros team led by Mr. Weisfeld (mission chief) met with the World Bank Comoros team led by Mr. Jose Luis Diaz-Sanchez (country economist) on December 11, 2019,** to identify macrocritical structural reforms and coordinate the Bank and Fund country teams' work for calendar year 2020.

2. **The teams agreed that Comoros suffers from pronounced fragility, the presence of two interlocking vicious circles, one related to the political and institutional spheres, the other to the economy.** Political and institutional fragility manifests in political instability and weak institutions and governance, including weak policy implementation capacity and rule of law. Economic fragility manifests in severe constraints on domestic resources and pronounced vulnerability to shocks, e.g. vulnerability to natural disasters. These factors limit investment in human and physical capital, depressing current and future growth.

3. **The teams agreed on the structural reforms that the authorities will need to undertake to overcome fragility, together with a division of labor:**

- **Enhancing civil service management, governance, and the rule of law to address the political/institutional dimension of fragility.** This is macrocritical as a strong rule of law and the trust it generates are part of the underpinning of any dynamic economy. Key improvements needed include:
  - *Strengthening the civil service and the judicial system.* No Bank or Fund work is planned in this area at present.
  - *Improving local governance.* As a starting point for this work and to identify potential entry points for intervention, a study will examine the existing incentives for and points of collaboration between the traditional systems of governance that are rooted in community-based structures, and the formal institutions. **WB team in the lead.**
  - *Strengthening the asset declaration regime for high-level officials* to address corruption and laundering of its proceeds. **Fund team in the lead.**
- **Reform of tax and customs policy and administration to increase revenue in an efficient manner.** Macrocritical because it will help generate the fiscal revenue needed for raising investment into human and physical capital, which is needed to accelerate inclusive growth. Key improvements include reducing tax and customs exemptions, enhancing tax

administration (e.g., by strengthening the large tax payers' unit), and strengthening customs operations (e.g., valuation procedures). **Fund team in the lead.**

- **Reform of public financial management (PFM) including strengthening oversight of state-owned enterprises to reduce the fiscal risks they create.** Macrocritical because robust PFM will allow directing resources to where they are needed most, while strengthened SOE oversight will allow containing the important fiscal risks generated by SOEs. **Fund team in the lead.**
  - **Strengthening financial sector regulation and supervision.** Macrocritical to ensure a well-functioning financial sector that provides adequate credit to the economy without creating undue risk. The Fund and Bank teams are collaborating in advising the authorities on strengthening risk-based supervision and bank resolution. The Bank has been advising the authorities on restructuring the ailing postal bank SNPSF. **Area of shared responsibility, with a need for close coordination to avoid overlaps.**
  - **Implementing a well-targeted growth strategy** by steering investment in physical and into the areas with the highest economic and social returns. Macrocritical because directing investment where it is needed most is key for maximizing inclusive growth. The Bank is already engaged in, or plans to engage in, supporting the authorities on growth-enhancing projects in electricity capacity, telecom, financial sector access, statistics, fisheries, and reconstruction (post-Cyclone Kenneth project). The Bank is also engaged in a project on improving the competitiveness of value chains in agriculture, tourism, and transport services. Bank projects in the health and social safety net sectors will boost potential growth. **Bank team in the lead**
  - **Enhancing resilience to climate change.** Macrocritical because climate change is likely to generate larger and larger economic dislocation, requiring adaptation efforts to limit these impacts. Climate change issues will be addressed through projects and analytical work on the areas of (a) recovery from climate-change induced disasters; (b) disaster risk management and urban resilience; (c) climate-smart agriculture; (d) good governance and best practices in community-based fisheries; (e) blue economy approaches; (f) renewable energy. **Bank team in the lead**
- 4. The teams have the following requests for information from their counterparts:**
- The Fund team requests to be kept informed of progress in the above macrocritical structural reform areas. Timing: at least quarterly.

- The Bank team requests to be kept informed of the Fund's assessments of macroeconomic policies and prospects. Timing: in the context of Art. IV and other missions (at least quarterly).

**5. The below table lists the teams' work programs during calendar year 2020.**

<b>Joint World Bank-IMF Work Program, 2020</b>			
<b>Title</b>	<b>Products</b>	<b>Provisional Timing of Missions</b>	<b>Expected Delivery Date</b>
<b>1. Bank work program</b>	Comoros Country Partnership Framework	NA	Expected Board date: Jan 2020
	Comoros Financial Inclusion and Stability Project	NA	Expected Board date: March 2020
	Comoros Solar Energy Integration Platform	N/A	March 2020
	Comoros Post-Kenneth Recovery and Resilience Project	NA	Active
	Additional financing for the Social Safety Net project	NA	Active
	Comprehensive Approach to Health System Strengthening project	NA	Active
	Statistics Project	NA	Active
	Integrated Development and Competitiveness Project	NA	Active
	Regional Communications Infrastructure Program – APL 4 (AF) - regional project	NA	Active
	First South West Indian Ocean Fisheries Governance and Shared Growth Project regional project	NA	Active
	Advisory Services for Formulation of National Agriculture Investment Plan		2020
	Payments System Regulatory Framework		2020
	FIRST-Funded Capacity Building for the Financial Institutions Supervisor and Resolution Authority TA		2020

<b>Joint World Bank-IMF Work Program, 2020 (concluded)</b>			
	Local Governance and Institutional Assessment		2020
	Comoros Urbanization Review		2020
	Macro modelling training - TA		2020
	Debt Management - TA		2020
	Comoros Payments System Regulatory Framework - TA		2020
	FIRST #Phase 4 -Capacity Building for the Financial Institutions Supervisor and Resolution Authority - TA		2020
<b>2. Fund work program</b>	Staff visits related to expected SMP and possible financial arrangement	Two missions (in mid and late 2020)	To be determined
	Capacity Development (CD)	In line with the CD Strategy	In line with the CD Strategy
	DSA update	As needed	As needed

## STATISTICAL ISSUES

### 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 national statistical office lacks adequate financial resources, staff capacity, and institutional environment. No quarterly estimates are produced. A mission in July 2019 helped to revise the 2016 GDP estimates and compile new GDP estimates for the years 2017 and 2018. Lack of institutional arrangements to produce official statistics on agriculture still hinders the quality of national accounts. The mission recommended that the national statistical office collect business data on a yearly basis.

**Consumer prices.** Comoros adopted the Common Market for Eastern and Southern Africa (COMESA) Harmonized Consumer Price Index (HCPI) as its national consumer price index (CPI) from January 2017. The results are of superior quality to those produced with the previous methodology. The base year is 2011 and the expenditure weights are based on the results of the 2014 household survey. A mission in February 2019 addressed issues of duplication, misclassification, and seasonality; and assisted in the compilation of an improved consumer price index (CPI) series from August 2012 to December 2018 with the base year 2011.

**Government finance statistics.** Although fiscal statistics currently compiled only include the Union and the three autonomous Islands, they represent a significant share of general government operations in the Comoros. Fiscal statistics compiled are aggregated for the Union and the Islands into a “Tableau des Opérations Financières de l’Etat” (TOFE) in a presentation broadly aligned to the analytical framework of the *Government Finance Statistics Manual (GFSM) 1986*. The data suffers from comprehensiveness and accuracy issues as the source data used for compilation of the TOFE are scattered and not from the Union or Islands’ general ledgers (Balance Générale des Comptes du Trésor). No data are compiled on stock positions of financial assets and liabilities, although some information is available for the Union. Further improvements to data quality, and compilation of fiscal statistics consistent with the latest methodological standards, the *GFSM 2014*, requires strengthening the legal and institutional frameworks in support of GFS compilation.

**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.	
<p><b>External sector statistics.</b> Despite technical assistance and some improvements over the past few years, shortcomings in coverage, data sources, compilation and dissemination continue to affect accuracy and reliability. Annual balance of payments data are published in BOPSY. However, data on international investment position (IIP) are not compiled and external debt statistics are not reported to the World Bank's Quarterly External Sector Database (QEDS).</p>	
<b>II. Data Standards and Quality</b>	
Comoros has participated in the enhanced General Data Dissemination System (eGDDS) since February 2013 and disseminates metadata for 11 of the 15 recommended data categories, as well as one supplementary category (industrial production index).	No data ROSC is available.
<b>III. Reporting to STA</b>	
<p><b>National accounts:</b> Comoros is not reporting any national accounts data to STA.</p> <p><b>Consumer prices:</b> In July 2015 Comoros delivered to STA a set of monthly consumer price indexes covering period January 2000 – October 2014. Since then no further reporting.</p>	
<p><b>Government finance statistics:</b> 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.</p>	
<p><b>Monetary and financial statistics:</b> The Central bank of Comoros (CBO) compiles monetary statistics for the central bank and other depository corporations (ODCs) using the standardized report forms (SRFs), which are published in the International Financial Statistics (IFS). The CBO does not compile the SRFs for the other financial corporations</p> <p><b>Financial Soundness Indicators:</b> Comoros compiles eleven of the twelve core Financial Soundness Indicators for deposit takers. Reporting to the Statistics Department of the IMF is irregular. The latest reported data refer to December 2016.</p>	
<p><b>External sector statistics:</b> Only annual BOP data are reported to STA. Data on IIP and External Debt are not reported.</p>	

**Comoros: Table of Common Indicators Required for Surveillance**  
(As of January 30, 2020)

	Date of Latest Observation (mm/yy)	Date Received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>
Exchange Rates	Dec. 2019	Dec. 2019	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	Nov. 2019	Jan. 2020	M	M	M
Reserve/Base Money	Nov. 2019	Jan. 2020	M	M	M
Broad Money	Nov. 2019	Jan. 2020	M	M	M
Central Bank Balance Sheet	Nov. 2019	Jan. 2020	M	M	M
Consolidated Balance Sheet of the Banking System	Nov. 2019	Jan. 2020	M	M	M
Interest Rates <sup>2</sup>	Nov. 2019	Jan. 2020	M	M	M
Consumer Price Index	Nov. 2019	Jan. 2020	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> — General Government <sup>4</sup>	Sep. 19	Dec. 2019	I	I	I
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> — Central Government	Sep. 19	Dec. 2019	I	I	I
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Sep. 19	Dec. 2019	I	I	I
External Current Account Balance	Dec. 18	Dec. 2019	I	I	I
Exports and Imports of Goods and Services	Dec. 18	Dec. 2019	I	I	I
GDP/GNP	2018	Aug. 2019	A	A	A
Gross External Debt	2018	Dec. 2019	NA	NA	NA
International Investment Position <sup>6</sup>	NA	NA	NA	NA	NA

<sup>1</sup> Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

<sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7</sup> Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).