

GREEN/20/6

March 18, 2020

Joint Green Statement from Mr. Alkhareif, Mr. Chikada, Mr. El Qorchi, Mr. Geadah, Ms. Al Saud, Ms. Al-Riffai, Mr. Belhaj, and Mr. Shimada on the Union of the Comoros—Staff Report for the 2019 Article IV Consultation (SM/20/60)

We thank staff for their insightful reports and Mr. Raghani and Mr. Sidi Bouna for their helpful Buff statement. The Union of the Comoros is gradually recovering from the aftermath of Cyclone Kenneth but continues to face major challenges. As a result, solid policy choices are needed to enable the authorities to overcome institutional, financial, and human capital constraints and to move the country into the ranks of upper middle-income countries by 2030. **We broadly agree with staff's appraisal and we would like to make the following comments.**

We support the “Plan Comores Emergent 20-30” which will be an anchor for the country's economic policies. The Plan is ambitious and will help guide the government's actions to diversify the economy, address infrastructure and capacity gaps, and contribute to inclusive growth and well-being. However, implementation is key, and to be successful, the Plan should be actionable and adequately funded. The international community pledged funding of \$6.8 billion at the Comoros Development Partners Conference (CPAD 2019).

The development needs of the Union of the Comoros will require substantial expenditure and improving fiscal space is therefore a priority. To that end, we encourage the authorities to increase domestic resource mobilization, and reduce dependence on aid flows and donor support. Reforms to broaden the tax base, minimize exemptions and strengthen tax and custom administration and enhance public financial management can help achieve fiscal sustainability and boost inclusive growth.

Institutional weaknesses and poor governance hinder inclusive growth. We welcome the comprehensive work on Strengthening Governance and Reducing Vulnerability to Corruption detailed in the Selected Issues, which provides relevant policy framework for the authorities to address those issues. We, therefore, encourage the authorities to initiate a reform of public service to strengthen the skills and accountability of employees and improve the quality of services by moving forward with their plans for new transparent and merit-based hiring-and-promotion rules in all government's entities in line with staff recommendation.

In the same vein, we see merit for the authorities to improve SOE's governance to reduce their fiscal burden and encourage private sector activity. We positively note the authorities' intention to align the taxation of SOEs with those of privately-owned enterprises and encourage them to move towards cost recovery pricing. Specifically, we see an opportunity for the government to move towards liberalizing

fuel prices now and optimize on the currently low global price of oil, while being mindful of the economic impact on the most vulnerable segments of the population.

Fund's technical assistance would be essential for building the capacity of government entities and the effectiveness of technical assistance needs to be improved. We agree with the authorities on the benefits of hands-on trainings and understand their request for a resident advisor that would galvanize efforts and accelerate capacity building.

We are concerned about the major vulnerabilities in the financial sector. The banking sector suffers from recurring government arrears and weaknesses in the judicial system thus undermining claim enforcement, jeopardizing asset quality and depriving the private sector of valuable financing resources. We encourage the authorities to address the sector's weaknesses and help restore the financing role of banks, including through arrears clearance, less interference in credit allocation, better governance, and improved enforcement of claims on creditors. We concur with staff on adopting measures to ensure financial stability, strengthening forward-looking and risk-based supervision and enforcing a resolution regime. We look forward to the resolution of the SNPSF that would contribute to putting the financial system on a sounder footing. We urge the authorities to strengthen the AML/CFT framework and support the recommendations of the staff and the GIABA (Intergovernmental Action Group against Money Laundering in West Africa).

We welcome the proposal to strengthen the country's resilience to natural disasters. Strengthening post disaster management is commendable, but we encourage the authorities to address long-term adaptation measures as well. Assistance from the Fund and other development partners would be crucial in this regard.

We encourage the authorities to fight poverty and increase social spending and strengthen human capital. We are encouraged by the emphasis on human capital development in the "Plan Comores Emergent 20-30" but stress the urgent need to assist the most vulnerable.

With these comments we wish the authorities every success.