

**Union of the Comoros: Poverty Reduction Strategy Paper—Progress Report—  
Joint Staff Advisory Note**

This paper was prepared jointly by the staffs of the International Monetary Fund and the International Development Association on the Comorian authorities' second Annual Progress Report on the implementation of their Poverty Reduction Strategy Paper as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on November 30, 2012. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Comoros or the Executive Board of the IMF or IDA.

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# UNION OF THE COMOROS

## SECOND ANNUAL PROGRESS REPORT ON THE IMPLEMENTATION OF THE COMOROS POVERTY REDUCTION STRATEGY (CPRS)—JOINT STAFF ADVISORY NOTE

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### OVERVIEW

- 1. This Joint Staff Advisory Note (JSAN) reviews the second Annual Progress Report (APR) on Comoros' first full Poverty Reduction Strategy (CPRS).** The CPRS was approved by the Government of Comoros and submitted to the International Development Association (IDA) and the International Monetary Fund (IMF) in September 2009. It was prepared through broad-based consultations with major stakeholders and civil society following a participatory approach. The overall strategy covers the period 2010–2014. The JSAN on the CPRS was presented to the IDA and the IMF Boards in July 2010.
- 2. The CPRS provides a comprehensive framework for the design and monitoring of growth and poverty reduction policies in Comoros.** The strategy is organized around six pillars: (i) stabilize the economy and lay the groundwork for strong and equitable growth; (ii) develop key productive sectors by focusing on institution building and ensuring a broader role for the private sector; (iii) strengthen governance and social cohesion; (iv) improve the health status of the general public; (v) promote education and vocational training with the aim of developing human capital; and (vi) foster environmental sustainability and civilian security.
- 3. The first APR covered the period from January to December 2010, and was submitted to IDA and the IMF in May 2011.** The report acknowledged that implementation of the CPRS was uneven. Specifically, it revealed a timid recovery in economic growth, improvements in political governance, greater inclusion of women in the labor force, and a reduction of maternal and infant mortality rates. However, the advances were generally modest in comparison with the ambitious objectives set out in the strategy paper. Main obstacles were insufficient coordination among implementing government departments and entities, and the country's limited capacity to absorb mobilized external financial assistance.

**4. The second APR documents a moderately positive performance during 2011.** Although the reform agenda under the Extended Credit Facility arrangement with the Fund veered temporarily off-track in the first half of 2011 because of slippages in the fiscal and structural areas, performance improved markedly in the remainder of the year thanks to the adoption of critical corrective measures. These included stepped-up efforts to strengthen domestic revenue mobilization; and the backdated reversal of an unsustainable public wage increase in October 2010 that had set the fiscal program off track. On the structural front, the authorities completed a long-delayed census of the civil service; adopted new ministry personnel frameworks aimed at streamlining and moving towards a financially viable civil service; and developed a roadmap for the privatization of the public telecommunication company (*Comores Télécom*) with technical assistance from the World Bank. Though limited, encouraging progress was also recorded in the health and education sectors as infant and maternal mortality rates declined, and primary school enrollment rates improved slightly, including for girls. However, monitoring and evaluation of the CPRS implementation continue to be hampered by the lack of a comprehensive and reliable statistical system, as well as by the authorities' limited technical expertise in key policy areas.

## MACROECONOMIC AND GROWTH FRAMEWORK

**5. The macroeconomic developments outlined in the APR are broadly in line with the staffs' assessment.** In 2011, real GDP growth reached 2.2 percent (2.0 percent in 2009–10), driven by a favorable performance of agriculture production, a moderate rebound in foreign direct investment (FDI), and resilient remittances from the Diaspora that were equivalent to 19 percent of GDP.<sup>1</sup> Domestic constraints—particularly poor transport and power generation infrastructure, as well as a weak legal framework—held back development of the private sector. Despite sluggish economic activity, end-year inflation rose to 7 percent (6.6 in 2010) fueled by pressures on international fuel and food prices. Going forward, the authorities are advised to take further steps to address key structural impediments to sustained strong growth, including closing the infrastructure gap while staying the course with stability-prone financial policies, promoting the development of sectors with the highest growth potential, and improving the investment climate. In addition, continued progress on export promotion and diversification will be essential.

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<sup>1</sup> Given Comoros' narrow export base, remittances are the most prominent source of foreign exchange. These transfers have been highly counter-cyclical in the recent years, providing a reliable safety net for residents in the face of external and domestic shocks.

**6. The APR would benefit from a more comprehensive discussion of fiscal developments in 2011 and outlook for 2012.**

The report rightly points out that fiscal policy has generally supported the implementation of the CPRS. It should also underscore the erratic performance achieved in this area. Especially disruptive in the first semester of 2011 were the impact of the October 2010 wage increase beyond government revenue capacity, a considerable weakening of tax revenue, and the accumulation of arrears on domestic payment obligations, mostly on wages. As a result of strong corrective revenue and spending measures in the second half of the year, the primary budget balance recorded a surplus of 1.6 percent of GDP, compared with a deficit of 1.6 percent of GDP in 2010. The fiscal position strengthened further in 2012, with the surplus of the domestic primary budget projected to reach 2.2 percent of GDP at end-year reflecting continued satisfactory revenue mobilization and more effective control of spending, particularly the wage bill. The APR could have been more candid in reviewing these fiscal developments and short-term prospects, and in stressing the need for strict adherence to the fiscal program under the ECF arrangement, which remains critical to the achievement and preservation of medium-term fiscal sustainability. Areas of focus in the ECF-supported fiscal program include policies to improve the efficiency of tax administration and enhance control over personnel outlays. Also worthy of consideration in the APR would have been a preliminary review of performance in 2012 in other areas of the PRS.

**7. Staffs encourage the government to maintain debt sustainability in the post**

**HIPC/MDRI era.** Debt relief under the HIPC and MDRI initiatives is expected to lower the NPV of debt-to-export ratio from 343 percent as of end-December 2009 to about 78.9 percent at end-2012. However, in light of Comoros' narrow export base and high vulnerability to exogenous shocks, it is critical that the government's fiscal financing needs continue to be met mostly with grants, and that new borrowing is contracted on concessional terms for the foreseeable future. Staffs take note of encouraging steps under way to strengthen the capacity of the debt management unit at the Ministry of Finance, and encourage the authorities to develop a comprehensive debt management strategy for the post HIPC/MDRI era.

**8. Key policy challenges remain going forward.** These include: (i) maintaining macroeconomic stability in the face of a deteriorating external environment; (ii) mobilizing external resources pledged by donors from the Gulf region for high-quality investment plans consistent with Comoros' poverty reduction strategy and absorptive capacity; (iii) strengthening further public financial management; (iv) improving policy and donor coordination; and (v) building capacity of government institutions to enhance CPRS's implementation and monitoring, including the provision of more details on actions undertaken in key reform areas.

## POVERTY REDUCTION

### Pillar I: Stabilize the Economy and Lay the Groundwork for Strong and Equitable Growth

#### 9. Progress in strengthening budget management was mixed during the APR period.

Performance was especially lackluster in the first semester of 2011 because of a lengthy political transition<sup>2</sup>. The implementation of several public financial management (PFM) measures under the ECF arrangement was delayed—including the establishment of the new Directorate-General of Taxes (DGI) and its Board of Directors<sup>3</sup>, a census of civil service employees, and the adoption of new ministry personnel frameworks for a leaner and more effective civil service. The new administration rekindled the reform agenda: a new General Tax Code was adopted in July 2011 with the assistance of the AfDB; the census of civil service employees was completed in late 2011 with World Bank support; and legislation on new ministry personnel frameworks was approved by parliament in December 2011. Staffs advise the authorities to build on recent progress in strengthening PFM, including by ensuring that the new, more functionally-integrated General Administration of Taxes, becomes operational in early 2013; and implementing rigorously the new ministry personnel frameworks. Equally important in the period ahead will be the continued rigorous implementation of the new computerized payroll management system, and routine operation of the Treasury Committee and the Joint Debt Department/Treasury/ Central Bank Committee to avoid the accumulation of new payments arrears.

#### 10. Despite reform momentum picked up recently, the APR correctly characterizes developments in the energy sector as falling short of expectations during 2011.

The new administration has intensified contacts with the World Bank and other development partners in an effort to bridge prohibitive technical and financial capacity gaps in reforming the electricity parastatal (MA-MWE) and the state-owned oil importing company (SCH). Nonetheless, progress in meeting the CPRS's main quantitative targets in the energy sector was limited, especially as regards the national electrification rate and the efforts to shore up the financial standing of state-owned

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<sup>2</sup> Elected in December 2010, President Ikililou was sworn-in in May 2011 and formed his cabinet in June.

<sup>3</sup> The general tax administration entity (AGID) is the revenue authority charged with collecting domestic taxes in the Union of the Comoros. Daily operations are managed by a Director General under the broad oversight of a Board of Directors chaired by the Union Finance Minister. Other Board members include the agency's Director General and representatives of the three islands Governors.

enterprises operating in the sector. Staffs recommend the authorities to expedite implementation of the MA-MWE and SCH restructuring plans approved in August 2012 by the cabinet, especially the signing of a management contract with an expert of international repute for MA-MWE. Staffs also take note of the announced resumption of flexible, cost-based, pricing policies in the energy sector and urge an early implementation.

**11. Staffs concur that deficient transport and telecommunication infrastructures are important constraints to the development of the Comorian economy.** They urge the authorities to redouble the efforts to improve the quality of roads, ports, airports, and telecommunications networks. In the transportation sector, they call for an early implementation of the recently adopted Road Maintenance Strategy and Long-Term Transport Sector Policy Framework, so as to prioritize interventions and catalyze additional assistance from development partners. In the telecommunication sector, it is essential to accelerate the implementation of the roadmap for the privatization of *Comores Télécom*, agreed with development partners and approved by the Cabinet in August 2012. In this regard, the authorities have decided to retain the International Finance Corporation (IFC) as transaction adviser.

## Pillar II: Develop Key Productive Sectors

**12. Lowering transaction costs to improve the investment climate remains critical.** The APR reports progress in areas such as starting a business, and reducing associated costs and procedures. However, lowering transaction costs calls for stronger efforts to (i) strengthen the judiciary for commercial dispute resolution, (ii) expedite export and import procedures, and (iii) expand access to cost-effective infrastructure services. The authorities are advised to step up the implementation of their Investment Climate reform program being carried out within areas such as business dispute resolution, small business development, and leasing. This is an important step, as the 2012 Doing Business Report ranks Comoros particularly low on entry and exit criteria (168 and 183 worldwide, respectively). Staffs commend the country's decision to join the Multilateral Investment Guarantee Agency as this helps investors overcome political and other non-commercial risks.

**13. Staffs encourage the authorities to address the long-standing constraints to sustained growth posed by infrastructure bottlenecks—particularly in the energy sector—and a weak business environment.** They concur with the authorities that agriculture, fishing, and tourism remain Comoros' strategic sectors for promoting robust, export-led and sustainable growth and achieving substantive gains in poverty alleviation. In this light, the reported lack of progress in the implementation of the land tenure rights reform is a source of concern and renewed efforts should

be made to achieve decisive progress in this area going forward. Staffs take note that in 2011 most of the newly established companies were in the trade sector.

**14. Removing constraints to raising the economy's productivity and to promoting private sector development continues to be a top priority.** As the country reaches the HIPC Initiative Completion Point and its debt burden is significantly reduced, staffs encourage the authorities to support private sector development as a means to accelerate growth and better fight poverty consistent with their ambitious agenda under the CPRS. In this regard, future reports could explore in more detail the linkages between economic policies, growth and poverty reduction, as well as the extent to which financial intermediation is facilitating diversification of the economy.

### **Pillar III: Strengthen Governance and Social Cohesion**

**15. The government rightly recognizes the importance of promoting social cohesion and national reconciliation.** Since its independence in 1975, Comoros has suffered 21 coups and coup attempts. The main source of recurrent political tensions has historically been the sharing of power and resources between the three islands. The APR is candid about how corruption, nepotism and political interference can undermine the country's social cohesion and stresses the key role of decentralization in promoting accountability. Given the importance of gradually restoring confidence in the state's ability to manage the complex transition to normality, future APRs should report on how the authorities are moving forward with decentralization and ensuring continuous consensus building.

**16. Strengthening the role of the judiciary and deepening the fight against corruption has gained momentum since 2011.** Staffs welcome the reinforcement of the Supreme Court's role, including of its *Section des Comptes*, and encourage the authorities to strengthen further the credibility of the judicial system and ensure transparency in the use of public resources. With regard to corruption, staffs commend the promulgation of the law establishing the National Anticorruption Commission, in June 2011, and its establishment in August 2011. The Commission has already reviewed 56 cases, of which 6 have been forwarded to the judicial authorities. Another positive step was the September 2012 adoption of the national anti-corruption strategy and the approval of the decree requiring key officials to submit an annual asset declaration. The Government is encouraged to implement the latter firmly.

**17. Building on recent progress, the Government is advised to step up reforms aimed at improving public sector efficiency and accountability.** A civil service census was conducted from June to October 2011. Greater transparency and accountability on civil service matters is

instrumental to enhancing dialogue and building confidence between the Union and Island governments. The report could benefit by summarizing the findings of the final list of civil servants, completed in late August 2012. The importance of rolling out the government's computerized wage payment system (GISE), both at the Union and island levels, is rightly emphasized in the APR. Since July 2011, most civil service wages are paid through GISE. The authorities should now make GISE the sole system to pay salaries of civil servants and other public employees, strengthen regulation of human resource management and rules of compensation, and implement the organic frameworks for all ministries.

#### **Pillar IV: Improve the Health Status of the General Public**

**18. In 2011, there has been tangible progress in the development of strategic plans for the health sector.** The challenge will now be financing and implementing these plans as well as ensuring close periodic follow up. Staffs welcome the tangible progress on two key health priorities, namely combating malaria and tuberculosis, as mentioned in the report. The decision to provide free treated bed nets and malaria ACT has contributed to a decline of the general morbidity of malaria from 42 percent in 2006 to 36 percent in 2011 (National Malaria Program). The prevalence rate of malaria was at 8.9 percent (MAIS Survey 2011).

**19. Staffs recommend improving coordination and mapping of donor support to the health sector.** Donors contribute more than 80 percent of the funds allocated to the health sector. While the government should make efforts to increase its own contribution—its share in total health sector funding was only 4.2 percent in 2011, compared with an expected target of 7 percent recommended in the CPRS – it is also important to improve the coordination of donor assistance, so as to ensure appropriate allocation of resources by levels of service and equality of access to health services.

**20. Staffs concur with the report that weaknesses in data collection hamper tracking progress in several areas.** The authorities should thus strengthen the health information system by standardizing software at all levels of the system, and ensuring prompt and comprehensive data reporting. The implementation of the latter should be monitored in the APR for 2012 and beyond. Without time-series data, it is difficult to gauge accurately the extent of progress made. It is commendable that data collection of the Demographic Health Survey and MICS 2012 is ongoing and will provide more information on outcome indicators. The authorities are encouraged to publicly disclose the final reports in a timely manner.



## Pillar V: Develop Human Capital

**21. Staffs welcome the Government's significant efforts on elaborating the diagnostic of the education system from preschool to tertiary education.** This has resulted in the preparation of the 2011 education monitoring table (dashboard). In addition, an exhaustive education country status report (CSR) has been developed along with a financing model and education policy framework through 2020. To ensure a broad consensus, the government successfully held in 2012 a national conference to present the education CSR and discuss the vision for 2020 with the different stakeholders, including civil society and the donor community. The government is currently developing a three-year strategy plan focused on basic education.

**22. Staffs agree that Comoros has made some progress on education in the past years, although secondary education and gender disparities still pose challenges.** The gender parity index has generally improved across the education cycles. The preschool enrollment rate tripled to 16 percent between 2009 and 2011<sup>4</sup>. The Gross Enrollment Rate (GER) increased at the primary level, from 103.3 percent to 107.9 percent between 2009 and 2011 and the completion rate also increased from 57 percent to 62 percent during the same period. In contrast, the GER in junior secondary and senior secondary has declined from 52.5 percent to 44.1 percent and from 46 percent to 35.7 percent between 2009 and 2011, respectively. Results at the tertiary level have been quite impressive, with the number of tertiary students per 100,000 inhabitants increasing substantially from 978 in 2010 to 1,336 in 2011. The authorities are encouraged to analyze possible factors behind the reported drop in the secondary GER and the sharp decrease of the literacy rate from 60 percent in 2010 to 56.5 percent in 2011 with a view to take corrective actions.

**23. Improved learning quality has become the highest priority for the education sector.** The results of the international learning assessment PASEC<sup>5</sup>, carried out in 2009, were relatively low for Comoros compared to the 15 comparator countries with 33.3 in Mathematics and French versus 38.7 for the other countries, on the same subjects. The 26 percent repetition rate at primary school in 2011 is very high compared with the average of about 15 percent for Sub Saharan Africa (SSA) countries. As a result, in addition to teacher training, the authorities are encouraged to establish an

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<sup>4</sup> PRSP and RESEN.

<sup>5</sup> Programme d'analyse des systèmes éducatifs de la CONFEMEN (Conférence des Ministres de l'Éducation des pays ayant le français en partage).

accountability mechanism to enhance teacher supervision and monitoring. Given the multiplicity of national examinations, the gradual establishment of a national student learning assessment framework is recommended.

## **Pillar VI: Foster Environmental Sustainability and Civilian Security**

**24. Future APRs should analyze comprehensively development constraints faced in the areas of environment and civilian security.** In addition to difficulties in meeting identified financing needs, structural and/or technical constraints also pose challenges to the achievement of the authorities' goals in the areas of environment and civilian security. The authorities are encouraged to enhance coherence between expected outcomes, intermediate results, and policy recommendations. With regard to civilian security from natural disasters and adaptation to climate change, staffs welcome that such issues are now better addressed, given the vulnerability of the country. In staffs' view, strengthening the multi-sector institutional coordination capacity of the Environment Department should be given top priority. The APR could better address waste management issues, with special attention to Moroni.

## **IMPLEMENTATION, MONITORING, AND EVALUATION**

**25. The report usefully contributes to the monitoring of the CPRS implementation and its preparation involved a wide range of stakeholders,** including leaders and experts from line ministries, entities at the regional level, donors, and civil society and private sector representatives. Initially, the island-level monitoring committees (COPSED) prepared and validated their 2011 reports. This was followed by the nine sectoral technical groups (GTS) that cover public finance, infrastructure, water and sanitation, private sector, agriculture, livestock and fisheries, governance, health, education and environment preparing and validating (workshop June 22–27, 2012) their own reports. The latter form the basis for the APR preparation by the General Commissariat of Planning, which also benefited from progress reports prepared every semester by line ministries and discussed in meetings chaired by the Head of State.

**26. The APR notes that implementation of the CPRS has thus far been positive, with key reforms having been implemented, including in the PFM and governance areas.** The report also makes it clear that the CPRS has proven to be an overly ambitious agenda. This has caused some reforms to lag behind, including in the structural areas. To improve the operational impact of the CPRS and associated APRs, staffs consider that future reports should prioritize recommendations, formulate them in a manner that facilitates the use of measurable indicators, and identify clear timelines for their implementation.

**27. Staffs concur with the authorities that significant challenges remain regarding the effective monitoring and evaluation of the CPRS, especially considering the lack of a comprehensive and reliable data and statistical system.** Staffs support the authorities' view that priority should be attached to strengthening statistical capacity and welcome the donor-supported activities already taking place to that end. According to the latest survey conducted in 2004, about 45 percent of the population lived below the poverty line. Staffs welcome the launch in 2013 of a poverty survey, as this will contribute to a better understanding of recent poverty trends.

## RISKS AND CONCLUSIONS

**28. The second APR gives a candid and generally fair assessment of progress achieved and the challenges encountered in implementing the CPRS.** Staffs commend the government on the advances made under difficult political and external circumstances and encourage the authorities to expedite the pace of their reform agenda. Particularly noteworthy are achievements in maintaining macroeconomic stability, rekindling the reform of the public utilities, and securing improvements (albeit modest) in health and human capital indicators. However, poverty remains widespread—particularly in rural areas—and capacity constraints are a major obstacle to effective implementation of the reform agenda. Furthermore, growth prospects continue to be hampered by energy shortages and infrastructure bottlenecks.

**29. The implementation of the CPRS continues to be subject to substantial risks.** On the macroeconomic front, a potential further worsening of the ongoing global economic crisis could undermine the efforts to safeguard medium-term macroeconomic stability and reduce poverty. Political resistance to structural reforms could also affect the implementation of the CPRS, frustrate the quest for strong sustained growth, and delay progress towards achieving the MDGs. Under these conditions, continued efforts to enhance inter-island social and political cohesion as well as close adherence to the reform agenda will be crucial going forward; at the same time, stronger donor support will be needed to continue addressing Comoros' large infrastructure and capacity gaps. While some progress has been made in strengthening capacity at the union level, significant hurdles remain in the islands. In addition to the efforts to strengthen domestic program design and monitoring expertise, additional capacity building efforts will be needed in data collection, compilation, analysis, and reporting--all of which are essential for effective implementation and monitoring of the CPRS.

## ISSUES FOR DISCUSSION

**30. Directors might wish to focus on the following issues:**

- Do Executive Directors agree with the staffs' assessment that the Comorian authorities have made reasonable progress in implementing the CPRS under the difficult circumstances during the assessment period?
- Do they agree that government is taking appropriate actions to improve implementation of the CPRS?