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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR2.5 MILLION
(US$3.8 MILLION EQUIVALENT)

TO THE UNION OF THE COMOROS

FOR THE

ECONOMIC GOVERNANCE REFORM OPERATION

March 27, 2014

Poverty Reduction and Economic Management 1
Africa Region

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THE UNION OF THE COMOROS

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENT

(Exchange Rate Effective as of March 20, 2014)
Currency Unit = Comorian Franc (KMF)
US$1 = KMF 357.1

ABBREVIATIONS AND ACRONYMS

3G	Third generation mobile communications network
AfDB	African Development Bank
BCC	Central Bank of the Comoros
CFA	Central African Francs
CPS	Country Partnership Strategy
CREF	Economic and Financial Reforms Unit
DCPT	*Direction Générale de la Comptabilité Publique et du Trésor* (Office of Public Accounting and Treasury)
DeMPA	Debt Management Performance Assessment
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
ECP	Economic Citizenship Program
EDA	*Electricité de Anjouan* (Electricity Company of Anjouan)
EEZ	Exclusive Economic Zone
EGTAG	Economic Governance Technical Assistance Grant
EGRG	Economic Governance Reform Grant
ERDPG	Economic Reform Development Policy Grant
ESRP	Electricity Sector Recovery Project
EU	European Union
FPAD	Development Partners Forum
GB	Gigabyte
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
ICT	Information and Communications Technologies
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
INSEED	National Institute of Statistics and Economic Studies and Demographic
IUU	Illegal, Unregulated and Unreported
LDP	Letter of Development Policy
MA-MWE	*Gestion de l'Eau et l'Electricité aux Comores* (Water and Power Utility in Comoros)
MOF	Ministry of Finance
NCS	National Council of Statistics
NGO	Non-Governmental Organisation
NPDC	National Public Debt Committee

NPV	Net Present Value
PDOs	Program Development Objectives
PFM	Public Financial Management
PIP	Public Investment Program
PRGSP	Poverty Reduction and Growth Strategy Paper
RCIP-4	Fourth phase of the Regional Communication Infrastructure Program
SCADD	Sustainable Accelerated Growth and Development Strategy
SDR	Special Drawing Rights
UNDP	United Nations Development Programme
USD	United States Dollar

Vice President	Makhtar Diop
Country Director	Mark R. Lundell
Sector Director	Marcelo Giugale
Sector Manager	John Panzer
Task Team Leader	Rafael Muñoz Moreno

THE UNION OF THE COMOROS

ECONOMIC GOVERNANCE REFORM GRANT

TABLE OF CONTENTS

1. INTRODUCTION AND COUNTRY CONTEXT 1
2. MACROECONOMIC POLICY FRAMEWORK 3
   2.1 RECENT ECONOMIC DEVELOPMENTS 3
   2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY 5
   2.3 IMF RELATIONS 7
3. THE GOVERNMENT'S PROGRAM 7
4. THE PROPOSED OPERATION 9
   4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION 9
   4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS 10
   4.3 LINK TO CAS AND OTHER BANK OPERATIONS 22
   4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS 22
5. OTHER DESIGN AND APPRAISAL ISSUES 23
   5.1 POVERTY AND SOCIAL IMPACT 23
   5.2 ENVIRONMENTAL ASPECTS 23
   5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS 24
   5.4 MONITORING AND EVALUATION 25
6. SUMMARY OF RISKS AND MITIGATION MEASURES 25

ANNEXES

Annex 1: Policy and Results Matrix 28
Annex 2: Letter of Development Policy 31
Annex 3: Fund Relations 38
Annex 4: Map of Comoros 39

TABLES

Table 1: Comoros Main Economic Indicators, 2009–17 3
Table 2: Comoros Central Government Operations, 2009–17 (Percent of GDP) 4
Table 3: Comoros Balance of Payments Financing Requirements and Sources, 2012–16 5
Table 4: DPO Prior Actions and Analytical Underpinnings 20

The proposed Economic Governance Reform Grant was prepared by an IDA team consisting of: Rafael Muñoz Moreno (Senior Economist, Task Team Leader, AFTP1), Noro Aina Andriamihaja (Economist, AFTP1), Anne-Lucie Lefebvre (Senior Public Sector Specialist, AFTP1), Hajarivony Andriamarofara (Senior Governance and Public Sector Specialist, AFTP1), Xavier Vincent (Senior Fisheries Specialist, AFTN1), Dirk Bronselaer (Senior Procurement Specialist, AFTPE), Tim Kelly (Senior ICT Policy Specialist, TWICT), Mustafa Zakir Hussain (Senior Energy Specialist, AFTG1), Helene Bertaud (Senior Counsel, LEGAM), Faniry Razafimanantena (Economist, AFTP1), Hugues Agossou (Senior Financial Management Specialist, AFTME), Joseph Byamugisha (Financial Management Specialist, AFTFM), Ralph Van Doorn (Economist, PRMED), Stephan Eggli (Operations Officer, OPSOR), Shahrzad Mobasher Fard (Research Analyst, AFTP1), Said Ali Antoissi (Consultant, AFTP1), Jean Gaspard Ayi Ntoutomane (Consultant, AFTP1). The team benefited from the extraordinary assistance of Madeleine Chung-Kong (AFTP1), Almaz Teklesenbet (AFTP1), Mariella Beugue (AFMMU), Rondro Malanto Rajaobelison (AFMMG), and Khurshid Banu Noorwalla (AFMMU). Finally, the team benefited of the guidance of John Panzer (Sector Manager, AFTP1), Keiko Kubota (Lead Economist, AFTP1), Thomas Buckley (Country Program Coordinator, AFCMG), and Haleh Bridi (Country Director, AFCS4, until January 31, 2014). Valuable peer reviewing comments and suggestions were provided by Alain W. D'Hoore (Senior Economist, EASPT), and Javier Suarez (Senior Economist, ECSF3).

THE UNION OF THE COMOROS

ECONOMIC GOVERNANCE REFORM GRANT

GRANT AND PROGRAM SUMMARY

Borrower	Union of the Comoros.
Implementation Agency	Vice-Presidency in charge of Finance of the Union of the Comoros.
Financing Data	IDA Grant: SDR2.5 million (US$3.8 million equivalent).
Operation Type	Two-year programmatic operation (first operation out of two). Single tranche.
Pillars of the Operation And Program Development Objective(s)	The development objectives of this DPO are to: (i) improve economic management and transparency, and (ii) enhance competition and improve performance in key infrastructure sectors (ICT and electricity). The operation is designed around three pillars: (i) Strengthening economic governance; (ii) improving transparency in economic management; and (iii) improving competition and management in key infrastructure sectors.
Result Indicators	***Pillar A: Strengthening economic governance*** **1.1 Consolidating treasury and cash management** Cash management plans integrating the Union and island treasuries are operational. Baseline: No integrated plans (2013); Target: Integrated plan updated monthly (2015). **1.2 Improving budget comprehensiveness** Public budget that includes detailed information on investment and recurrent expenditures adopted. Baseline: No public budget with detailed information on investment and recurrent expenditures (2013); Target: Public budget with detailed information on investment and recurrent expenditures (2015). **1.3 Improving debt management** Transparency and accountability of debt management has improved. Baseline: No regular debt reports produced and debt management framework incomplete (2013); Target: Annual debt reports produced and all new loans, guarantees and loan renegotiations conducted in line with debt management law (2015). ***Pillar B: Improving transparency in economic management*** **2.1 Enhancing transparency and efficiency on the fight against corruption** Percentage of senior officials who filed their Asset Declaration Form, publicly available on the CNLPC website and/or in a national newspaper. Baseline: 30% (2013); Target: 80 % (2015). **2.2 Enhancing transparency in the management of fisheries resources** Information on access granted for fishing activities systematically disclosed, with revenue and its use documented in the budget law. Baseline: Information not systematically available and included in the budget law (2013); Target: Access to information on revenue and its use

	regularly documented and disclosed (2015). **2.3 Strengthening statistical system** National Accounts prepared using the 1993 methodology and National Statistics Institute operational. Baseline: Draft national accounts for year 2007 using the 1993 methodology prepared (2013) and no autonomous National Statistics Institute operational. Target: National accounts for year 2012 using the 1993 methodology adopted (2015) and an autonomous National Statistics Institute is operational. ***Pillar C--- Improving competition and performance in key infrastructure sectors*** **3.1 Enhancing competition in the ICT sector** Increase in the number of Telecom operators with a service license and reduction in the monthly price per 1 GB of mobile data (3G) Baseline: 1 Telecom operator and US$20.81 price (2013); Target: 2 Telecom operators and US$15 price (2015). **3.2 Improving performance in the electricity sector** Reduction in total losses in the electricity sector. Baseline: 45% (2013). Target: 40% (2015).
Overall risk rating	The proposed programmatic DPO carries substantial overall risk, mostly associated with the country's vulnerability to external shocks and potential political difficulties to implement reforms, mainly in the electricity and ICT sectors.
Operation ID	P131688.

IDA PROGRAM DOCUMENT FOR A PROPOSED GRANT TO THE UNION OF THE COMOROS

1. INTRODUCTION AND COUNTRY CONTEXT (INCLUDING POVERTY DEVELOPMENTS)

1. **This program document proposes an Economic Governance Reform Grant (EGRG), the first in a series of two annual programmatic development policy operations (DPO) in the Union of the Comoros.** The proposed programmatic DPO, in the amount of SDR2.5 million (US$3.8 million equivalent), supports the implementation of Comoros's Poverty Reduction and Growth Strategy Paper (PRGSP). It builds upon the reforms initiated during the completion point of the Enhanced Heavily Indebted Poor Countries Initiative (HIPC) and builds on an Economic Reform Development Policy Grant (ERDPG) DPO, which was approved in November 2012 and disbursed in January 2013. The proposed operation also supports policy actions in preparation of a second generation PRGSP in 2014, the so-called Sustainable Accelerated Growth and Development Strategy (SCADD).

2. **Comoros implemented ambitious structural reforms that enabled it to reach the HIPC completion point in December 2012**. Since 2009, Comoros has successfully implemented a series of macro-stabilization and structural reform programs supported by the International Monetary Fund (IMF), the World Bank, the European Union (EU) and the African Development Bank (AfDB), among others. These policy reforms supported, most notably, gains in fiscal and debt consolidation that improved macroeconomic stability and contributed to the process of reforming state-owned enterprises. These reforms enabled the country to reach the HIPC completion point in December 2012, resulting in the debt cancellation of US$144.8 million in end-2009 net present value (NPV) terms. An additional debt stock cancellation of US$76.9 million was also provided under the Multilateral Debt Relief Initiative. Full debt relief reduced the country's NPV of debt-to-exports ratio from 343 percent at end-December 2009 to a more sustainable 79 percent at end-December 2012.

3. **Notwithstanding the progress in macroeconomic management, the widespread poverty and unemployment in Comoros are major challenges.** An accurate assessment of poverty is not possible given that the last household survey was conducted in 2004, when poverty affected one out of two individuals. Efforts to finalize the household survey in 2014 and update the poverty profile of the country are underway as part of the preparation of the SCADD (see paragraph 48). Poverty is primarily concentrated in rural areas but recent rural urban exodus may have further exacerbated urban poverty in crowded suburbs. Furthermore, even the non-poor population remains highly vulnerable to falling into poverty. Much of the problem lies in the high unemployment level, exacerbated by the low productivity of the economy, with high prevalence of informality and centered on agriculture and fisheries production intended for self-consumption. Not surprisingly, Comorians have often migrated to other countries in search of better economic prospects. Demographic forces will exert further pressures on the economy with the population projected to rise by 50 percent and the labor force expected to double over the next 15 years.

4. **Political stability has been instrumental to sustain reform efforts and build more stable institutions.** The new Constitution adopted in 2009 clarified the scope of devolution and recentralized some core functions of the state in order to strike a balance between the central and island powers. While the greater trust reached between the islands and the Union continues to be instrumental to preserving political stability, the implementation process under this new framework is not exempt from risks and tensions, such as limited fiscal room, high risk of debt distress, weak institutional capacity, and a modest pace of economic growth which remains largely insufficient to create the number of jobs needed to absorb the labor force and reduce the staggering levels of unemployment and poverty. The success of this reform process will therefore largely hinge upon maintaining trust between the Union and island governments and accelerating economic growth, which will require improved economic governance and transparency and reforms in key sectors, such as electricity and information and communications technologies (ICT). Other reforms supported by this operation, such as adopting a debt management system, will also assist Comoros to address its vulnerabilities.

5. **The development objectives of this DPO are to: (i) improve economic management and transparency; and (ii) enhance competition and improve performance in key infrastructure sectors (ICT and electricity).** The operation is designed around three pillars: (i) strengthening economic governance; (ii) improving transparency in economic management; and (iii) improving competition and management in key infrastructure sectors. The proposed DPO series also supports government reforms in three of the six axes of the country's PRGSP: (i) economic stabilization and equitable growth; (ii) building institutions and ensuring a broader role for the private sector; and (iii) strengthening governance and social cohesion.

6. **The reforms supported by this DPO are expected to contribute to reducing Comoros' poverty and achieving shared prosperity.** This will be done by improving the management of the limited public resources to reorient them towards poverty reducing sectors, improving the management of the electricity sector and liberalizing the ICT sector to increase the competitiveness of the economy and facilitate job creation. Given the broad poverty in the country, accelerating economic growth and employment creation will be key to reduce extreme poverty, while improved public expenditure will also serve to partially cope with vulnerability.

7. **The proposed operation is consistent with the new Country Partnership Strategy (CPS) in the Union of Comoros for 2014-2017 and reinforces ongoing World Bank technical assistance projects.** The CPS, which will be presented to the Board of Directors in May 2014, draws on lessons learned from the Interim Strategy Note for the period FY10-FY12 presented to the Board on June 1, 2010. The CPS will support the implementation of ongoing reforms and help sustain reform momentum following HIPC completion. The current operation is at the core of the reform program of the 2014-2017 CPS and reinforces the parallel dialogue and financing provided through other Bank projects, namely the: (i) Economic Governance Technical Assistance Grant (EGTAG); (ii) the Trust Fund on Statistical Capacity Building Grant; (iii) The Electricity Sector Recovery Project; (iv) the planned Southwest Indian Ocean Regional Fisheries Project; and (v) the Fourth Phase of the Regional Communications Infrastructure Project (RCIP-4).

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

8. **The Comorian economy is on a new positive trajectory.** Comoros has been building economic momentum since 2009 and, according to the latest estimates, real GDP advanced by 3 percent in 2012 and 3.5 percent in 2013. This performance was mainly driven by a good agricultural harvest, increased investments in infrastructure and construction, and resilient remittances from the diaspora. Government spending has been supported by the allocation of savings from the HIPC and the MDRI debt relief to priority sectors (such as health, education, energy, water and sanitation and infrastructure), the substantial contributions from the Economic Citizenship Program (ECP) and robust external support. The normalization of civil service wage payments has also stimulated private consumption and aggregate demand.

Table 1: Comoros Main Economic Indicators, 2009–17
(Percent of GDP, unless otherwise specified)

	2009	2010	2011	2012 E[3]	2013P[3]	2014P[3]	2015P[3]	2016P[4]	2017P[5]
National Income and Prices									
Real GDP growth (% change)	1.8	2.1	2.2	3.0	3.5	4.0	4.0	4.0	4.0
Inflation (% change, annual average)	4.8	3.9	6.8	6.3	2.3	3.2	3.2	3.2	3.2
Public Finance									
Domestic Revenue (excl. grants)	13.9	14.3	16.1	19.3	15.2	15.0	15.2	15.4	15.6
Grants [1/]	9.7	14.9	7.5	9.6	28.6	9.1	8.7	8.7	8.7
Total expenditures (incl. net lending)	22.8	22.1	22.0	25.1	25.5	25.8	25.6	25.5	24.5
Domestic primary balance	-2.6	-1.6	1.6	3.0	-1.2	-0.5	0.1	0.4	0.6
Overall balance (incl. grants)	0.8	0.9	-1.9	2.9	17.4	-2.5	-2.5	-2.1	-1.8
Financing gap	0.0	0.0	0.0	0.0	0.0	1.1	1.0	1.2	1.3
External Sector									
Exports of goods and services	14.5	15.7	16.2	14.5	15.6	15.8	16.1	16.2	16.1
Imports of goods and services	47.7	49.9	50.2	53.9	53.1	52.3	49.7	47.3	45.3
Current account balance	-7.8	-5.7	-9.4	-3.8	-6.1	-10.5	-9.1	-7.5	-7.3
Gross reserves (months of imports)	6.8	6.4	6.7	7.1	6.1	6.0	6.1	6.1	6.0
External debt									
External debt, NPV (in percent of GDP) [2/]	46.2	38.9	33.1	8.4	10.0	12.3	14.4	16.0	17.2
External debt service (in % of exports) [2/]	13.5	11.4	10.0	10.6	0.7	1.8	2.4	4.1	4.7
NPV of external debt (in% of exports) [2/]	329.7	248.6	203.9	56.5	64.1	78.0	89.2	98.4	107.0

Sources: Comoros Ministry of Finance; and IMF staff estimates.
[1/] Includes interim HIPC assistance (2010-12) and debt relief under HIPC and MDRI.
[2/] External debt ratios after full HIPC, MDRI and beyond HIPC relief from end-2012.

9. **Fiscal performance has improved but remains too dependent on non-tax revenues and grants, and a broader improvement in budget management and tax collection is required to ensure fiscal sustainability in the medium term.** The overall fiscal balance including grants improved from a deficit of 1.9 percent of GDP in 2011 to a surplus of 2.9 percent of GDP in 2012. This improvement, however, was in large part explained by the growth in non-tax revenues, which came largely as a result of the revenue windfall from the ECP and raised fiscal revenue from 16.1 percent in 2011 to 19.3 percent of GDP in 2012. This was also complemented by increased grants equivalent to 9.6 percent of GDP in 2012 and the savings due to HIPC debt relief. Tax revenue, in contrast, remained low at 12 percent of GDP in 2012. Despite success in reducing major public expenses such as the wage bill, the management of public finances remains weak and undermines efforts to control public expenditure. As a result, this often translates into government arrears and contracting non-programmed foreign loans.

Table 2: Comoros Central Government Operations, 2009–17 (Percent of GDP)

	2009	2010	2011	2012E	2013P	2014P	2015P	2016P	2017P
Revenue and grants	23.6	29.2	23.6	28.9	43.7	24.1	23.9	24.1	24.2
Revenue	13.9	14.3	16.1	19.3	15.2	15.0	15.2	15.4	15.6
Tax revenue	10.8	11.1	10.9	11.8	12.1	13.1	13.3	13.6	13.7
Non-tax revenue	3.1	3.2	5.2	7.6	3.1	1.9	1.9	1.8	1.9
Grants	9.7	14.9	7.5	9.6	28.6	9.1	8.7	8.7	8.7
Of which: Budget support	4.1	9.2	0.0	0.0	1.0	0.4	0.0	0.0	0.0
Project grants	5.6	5.4	7.0	8.3	8.5	8.7	8.7	8.7	8.7
HIPC grants		0.2	0.4	1.2	19.1	0.0	0.0	0.0	0.0
Total expenditure	23.0	22.1	22.1	25.3	25.5	25.8	25.6	25.5	25.4
Current expenditure	18.1	16.4	16.6	18.4	16.4	15.8	15.5	15.2	15.1
Wages and salaries	9.0	9.2	8.5	8.0	7.6	7.3	7.0	6.8	6.6
Goods and services	3.9	3.7	3.5	3.9	3.7	3.5	3.5	3.5	3.5
Transfers and pensions	2.8	1.8	1.8	1.9	2.1	2.0	1.9	1.9	1.9
Other current expenditures	1.8	1.2	2.3	4.1	2.7	2.8	2.8	2.8	2.8
Scheduled interest	0.6	0.5	0.4	0.4	0.1	0.1	0.3	0.3	0.4
Capital expenditure and net lending	5.0	5.7	5.6	7.2	8.7	8.7	8.9	9.3	9.5
Capital expenditure	4.7	5.7	5.4	6.8	9.1	10.0	10.1	10.3	10.4
Domestically financed	0.8	1.2	0.7	2.5	2.8	2.4	2.6	2.9	3.1
Foreign financed	3.9	4.5	4.8	4.2	6.0	7.3	7.2	7.1	7.0
Counterpart funds-financed	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.3
Net lending	0.2	0.0	0.1	0.2	0.5	0.0	0.0	0.0	0.0
Overall balance, including grants (commitment)	0.6	7.0	1.4	3.6	18.2	-1.7	-1.7	-1.4	-1.3
Domestic primary balance	-2.6	-1.6	1.6	3.0	-1.2	-0.5	0.1	0.4	0.6
Change in net arrears	0.2	-6.2	-3.4	-0.7	-0.9	-0.8	-0.8	-0.7	-0.6
Interest on external debt	-0.1	-2.0	-0.8	-0.1	0.0	0.0	0.0	0.0	0.0
Domestic arrears	0.4	-4.2	-2.6	-0.6	-0.9	-0.8	-0.8	-0.7	-0.6
Overall balance, including grants (cash)	0.8	0.9	-1.9	2.9	17.4	-2.5	-2.5	-2.1	-1.8
Special adjustment and errors and omissions	-0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-0.7	1.1	0.3	-2.8	-17.5	1.4	1.4	1.	0.6
Domestic financing (net)	0.6	-0.4	0.5	-1.7	1.5	0.3	0.3	0.1	-0.2
Foreign financing (net)	-1.3	1.4	-0.2	-1.1	-19.0	1.1	1.1	0.9	0.7
Drawings	0.0	0.3	0.0	0.0	0.2	1.4	1.3	1.2	1.1
Amortization	-1.2	-1.4	-1.3	-1.2	-19.2	-0.3	-0.2	-0.4	-0.4
Clearance of def. arrears and debt service	-2.6								
Change in net arrears (principal)	-0.6	-5.1	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	3.1	7.7	2.7	0.1	0.0	0.0	0.0	0.0	0.0
Financing gap (+= under financing)	0.0	0.0	0.0	0.0	0.0	1.1	1.0	1.2	1.3

Sources: Comoros Ministry of Finance; and IMF staff estimates

10. **Comoros' external position deteriorated in 2013.** The current account deficit, which contracted from 9.4 percent of GDP in 2011 to 3.8 percent of GDP in 2012 due to solid exports of cloves and buoyant remittances from the Comorian diaspora, deteriorated to 6.1 percent of GDP in 2013. Exports increased by 26 percent between 2012 and 2013, with a substantial

increase in exports of vanilla and essential oils more than offsetting the marginal decrease in exports of cloves. Meanwhile, imports have increased by 4.5 percent during the same period due to an increase in fuel imports and government's foreign financed investment program. Remittances from the diaspora remained strong at around 23 percent of GDP. The deterioration in the current account deficit was financed by drawing on international reserves, thereby leading to a decline in import cover from 7.1 months in 2012 to 6.1 months in 2013. This level is still consistent with the Zone Franc regulations and meets the immediate foreign transaction needs of the country (Table 3).

Table 3: Comoros Balance of Payments Financing Requirements and Sources, 2012–16
(Millions of US dollars)

	2012	2013E	2014F	2015F	2016F
Financing requirements					
Current account deficit	-24.2	-41.2	-76.2	-70.6	-62.3
Financing sources					
FDI and portfolio investments (net)	25.1	-135.5	21.3	12.3	-0.4
Capital grants	34.1	155.8	52.7	55.8	59.2
Total disbursements					
Change in reserves	-36.2	20.1	-5.6	-5.5	-6.2
IMF credit (net)	5.1	4.9	0	-0.2	-2.0
Errors and Omissions	-1.1	-0.8	0	0	0
Projected Financing Gap	0	0	7.9	-7.9	-9.7

Source: World Bank and IMF staff estimates

11. **Inflationary pressures on the economy remain contained, and the monetary policy stance continues to be prudent and in conformity with the Comorian franc zone monetary arrangement.** Comoros maintains a peg against the euro under the arrangement with the Bank of France, and the inflation rate has been broadly stable and in line with the CFA zone countries. Growth in the consumer price index is expected to be 2.3 percent in 2013, down from 6.3 percent in 2012. Broad money (M2) is stable and is expected to increase by only 2 percent in 2013, mainly driven by an increase of 11 percent in credit to the private sector which has been increasing steadily as a result of the gains in political and economic confidence in the last three years.

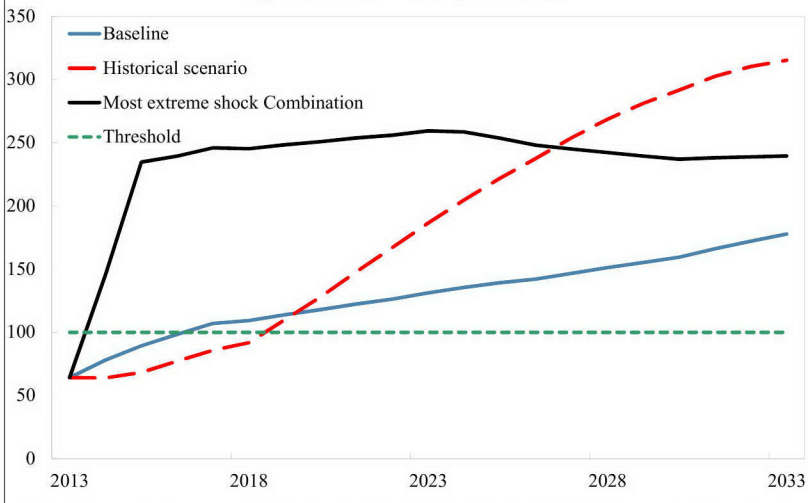
2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

12. **Comoros' medium-term growth outlook continues to be favorable.** Real GDP growth is projected to strengthen moderately from 3.5 percent in 2013 to 4 percent over 2014-17 (Table 1). Growth in the medium term is expected to be supported by private investment in telecoms, a gradual improvement in MA-MWE's operational performance, continued reforms to enhance the investment climate, sustained remittances from the diaspora and high public investment supported by donor financing. The trend of robust remittances will continue to support housing and trade, and a sustained performance in the agricultural sector could be achieved with additional investment in the sector and favorable international prices for the few commodities that are exported. Inflation is projected to remain low and on a stable path in the medium term owing to easing pressures on import prices.

13. **Fiscal consolidation is expected to continue in the medium term.** The domestic primary deficit, excluding revenues from the ECP, is expected to continue to narrow to 0.5 percent of GDP in 2014 (Table 2). This reflects ongoing efforts to extend the tax base and strengthen the efficiency of tax and customs administration, together with wage restraint and potential savings, albeit limited, through the implementation of civil service reforms. These projections are also based on sustained external support from donors (around 9 percent of GDP) and continuation of the ECP, albeit at a lower level (non-tax revenues remain at around 1.9 percent of GDP). The government has decided to allocate the debt service savings from the HIPC and MDRI initiative to priority social sectors, mainly health and education, which are expected to amount to 6.1 percent of GDP in 2013, up from 5.8 percent of GDP in 2012. The expenses allocated to these sectors as a percentage of GDP are expected to increase in the medium term. The projected external and fiscal financing gap of around 1.1 percent of GDP in 2014 and 2015 is expected to be covered by the proceeds from the IMF program and additional budget support from the AfDB.

14. **Comoros continues to be at high risk of debt distress even after the reaching the HIPC completion point.** According to the Debt Sustainability Analysis (DSA) prepared in December 2013, the external debt outlook for Comoros remains vulnerable to shocks, particularly those relating to its export potential and/or weaker GDP growth. Under the baseline scenario which assumes that real GDP will accelerate to 4 percent per year, that the annual inflation rate will hover around 3 percent per year, and that the current account deficit will converge to about 7 percent of GDP (given robust remittances and FDI and substantial external assistance), Comoros' debt dynamics will remain below the established indicative thresholds for the PV of the external debt-to-GDP ratio and debt-to-revenue ratios over the medium term. In contrast, the PV of the debt-to-exports ratio, which is projected to rise from 64.1 percent in 2013 to 178 percent by 2033, would surpass by a wide margin the indicative threshold of 100 percent (Figure 1). The results of the DSA indicate that a shock to remittances would only have a moderate impact on the external debt outlook for Comoros given that these are mostly used to cover Comoros' imports. Therefore, Comoros' policies need to be geared towards increasing exports and economic growth, while maintaining prudent fiscal and debt management policies to avoid debt distress.

Figure 1: PV of debt-to-exports ratio, %



* Most extreme shock corresponds to the shock which yields the highest ratio in 2023, i.e., non-debt flows shock.
Source: IMF and World Bank.

15. **Comoros remains very vulnerable from a macroeconomic point of view.** First, even though economic growth has picked up, it remains below the needs of the country, given high

poverty and a growing labor force that will double over the next 15 years. Second, despite making some progress in fiscal stabilization, public finances remain fragile. As a result, the capacity of the government to initiate strategic interventions that could launch a higher path of growth is limited. Moreover, Comoros remains vulnerable to a potential deterioration of the global economy, especially in the Euro zone. Although remittances remained buoyant throughout the 2008 global crisis and subsequent slowdown in European economies, a further deepening of the economic distress in European economies could have an impact on Comoros' economic outlook. Finally, the external position of the country could be adversely affected by increasing commodity costs.

16. **Comoros' macroeconomic policy framework is adequate for the proposed operation.** This programmatic DPO is scheduled to finance the government's program in 2014 and 2015. The government has successfully concluded the Extended Credit Facility (ECF) program with the IMF and the 2014 public budget builds on efforts to pursue fiscal consolidation. Also, the authorities have expressed interest in a follow-up arrangement with the IMF to continue improving macroeconomic management and deepen structural reforms. The authorities are committed to prudent monetary policy, guided by the adherence to the CFA franc zone. While the external position has deteriorated in 2013, it remains reasonably sound in the immediate future and the government is taking measures to ensure that the debt is sustainable in the medium term. Macroeconomic vulnerabilities remain high, but sustained external donor support, and stable and high remittances will help to partially mitigate them. Also, reforms supported by this operation will address some of the main vulnerabilities that Comoros confronts. The high risk of debt distress and weak framework for contracting and managing debt will be partially mitigated by the adoption of a debt management law in line with international standards. Also, reforms in the fisheries sector will enhance transparency of revenues generated by fishing licenses, increasing the volume and predictability of public revenues. Overall, reforms supported by the DPO will also seek to accelerate economic growth by unlocking constraints in key sectors (i.e. ICT).

2.3 IMF RELATIONS

17. **Comoros successfully completed an IMF ECF arrangement in December 2013 which had been implemented since September 2009**. Preparation of a new arrangement is under discussion. In addition to the ECF, the IMF also provides technical assistance through its functional departments as well as the Africa Regional Technical Assistance Center South (AFRITAC South) to support the tax and customs administration reforms, the PFM reform, the supervision of monetary and banking activities, and assessment of the quality of statistics.

3. THE GOVERNMENT'S PROGRAM

18. **The 2010-14 Poverty Reduction and Growth Strategy Paper (PRGSP) seeks to stabilize the economy, promote private sector growth and improve delivery of social services.** The PRGSP was adopted in September 2009 with a long-term focus to achieve the Millennium Development Goals while supporting the achievement of the HIPC completion point. Preparation was led by the General Commissariat of Planning, which followed a participatory approach with extensive consultations both at the Union and island levels,

including representatives from civil society, traditional and religious leaders, non-government organizations (NGOs), and development partners, among others. Technical working groups were constituted at the ministries and the islands level to follow up on implementation of the PRGSP. The PRGSP focuses on six key axes: (i) Stabilize the economy and lay the groundwork for strong equitable growth; (ii) strengthen key 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 population; (v) promote education and vocational training with the aim of developing human capital; and (vi) promote environmental sustainability and civilian security. A second generation strategy, the Sustainable Accelerated Growth and Development Strategy (SCADD), is under preparation for adoption in 2014.

19. **Government efforts to restore macroeconomic and fiscal stability focus on increasing revenue collection and containing the wage bill.** With the support of an IMF ECF program, the government has focused on restoring macroeconomic stability and keeping fiscal expenditure under control. The government has implemented reforms of the tax administration, centered on implementing a unified tax administration across the four constituent governments. Moreover, to strengthen tax and customs control and reduce leakages and fraud, joint tax and customs investigation operations have been increased. With the support of the IFC, the government has also improved the "paying taxes" indicator in the Doing Business which is expected to positively influence government capacity to raise public revenues. The government has also updated the taxpayers' registry in the large taxpayer units. To keep spending under control, the government has updated the civil service payroll drawing on the civil service census, and is moving forward on the use of a new computerized payroll system.

20. **The Government has adopted policies aimed at improving the business climate to foster private sector development**. With the support of the IFC, the government continues to implement reforms to improve the business environment and unlock binding constraints to private sector development. This includes the development of small business edge initiative, development of improved financial tools (i.e., leasing) to support SMEs, and the creation of alternative business dispute resolution mechanisms. The government has initiated a reform of the energy sector, which is generally perceived as one of the key constraints to growth. Also, to boost connectivity, the government has recently secured funding for developing a fiber optic investment program which the government intends to complement with the opening of the ICT sector to competition.

21. **The Government adopted a comprehensive Public Financial Management (PFM) Reform Strategy for the period 2010-19 which is now being implemented.** The PFM Reform Strategy is organized around four pillars: (i) modernizing the legislative and regulatory framework and strengthening institutional capacity; (ii) rationalizing budget preparation; (iii) strengthening budget execution; and (iv) increasing transparency through improved internal and external controls. However, the action plan for 2010-12 was only partially implemented due to limited institutional capacity and a new PFM Reform Strategy for the period 2014-2016 has been prepared. A more realistic new action plan for 2014-2017 is under preparation aiming at introducing program budgeting by 2018. Preparation and implementation of this new action plan benefits from donors' support, mainly from the World Bank, the AfDB and the IMF (through AFRITAC South). Additional financing for the World Bank-funded Economic Governance Technical Assistance Grant will continue supporting preparation and implementation of the

revised action plan. A new Procurement Code is also being implemented since May 2012. The code is generally consistent with good public and international practices and aims at improving transparency, efficiency, economy and accountability; equal opportunity for all bidders; prevention of fraud and corruption; and promotion of local capacity. The Procurement Code was supplemented by regulations, procedures manuals, and standard bidding and other procurement documents and it is being implemented by new institutions. These reforms are the very first steps in putting in place an efficient and effective public procurement system and require substantial capacity building and implementation on the ground.[1]

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

22. **The proposed programmatic DPO in the amount of US$3.8 million supports the implementation of the government's reform program.** Financing will support continued efforts toward fiscal stabilization and improved public service delivery and implementation of key reforms spelled out in three of the six pillars of the country's PRGSP, namely: (i) stabilize the economy and lay the groundwork for strong equitable growth; (ii) strengthen key sectors by focusing on institution-building and ensuring a broader role for the private sector; and (iii) strengthen governance and social cohesion.

23. **The development objectives of this DPO are to: (i) improve economic management and transparency; and (ii) enhance competition and improve performance in key infrastructure sectors (ICT and electricity).** The operation is designed to address the need for improved transparency and performance in the management of public resources and improved management and development of the electricity and ICT sectors. The operation is designed around three pillars: (i) strengthening economic governance; (ii) improving transparency in economic management; and (iii) improving competition and management in key infrastructure sectors. It is expected that improved budgetary and expenditure management tools will benefit the general public and particularly the poor by facilitating a better reallocation of limited resources towards poverty reducing expenditures.

24. **Learning from previous operations, this programmatic DPO coordinates policy reforms with other sector operations and donors, to ensure timely technical assistance is provided to assist with implementation.** Given Comoros' limited institutional capacity, it is critical to focus policy reforms in a few relevant areas that are broadly supported by donors, and to provide adequate assistance to support implementation. Previous DPOs in Comoros demonstrated the importance of identifying timely and complementary technical assistance projects which support the implementation of the reform agenda. The proposed programmatic

[1] The Code created the Public Procurement Oversight Authority or *Autorité de Regulation des Marchés Publics (ARMP)* and the National Tender Board Directorate or *Direction Nationale de Contrôle des Marchés Publics (DNCMP)* for procurement reviews, both at the Vice- Ministry of Finance level. The Code also provides for the creation of procurement units or *Cellules de Gestion de Marchés Publics (CGMP)* under the leadership of a *Personne Responsable des Marchés Publics (PRMP)*, and a *Commission d'Appel d'Offres (CAO)* within each department and/or decentralized departments of national public institutions to which the law is applicable.

operation carries on this complementarity, and reinforces on-going dialogue in public financial management (PFM), anticorruption, statistics, energy, fisheries and telecom sectors supported by Bank projects and technical assistance. Furthermore, the programmatic DPO serves as a tool for close collaboration and coordination among donors, lowering the transaction costs of reforms. Finally, some of the prior actions of the DPO are tied to the annual budget and the timing of the operation reinforces the congruence of the DPO with the country's budget cycle.

4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A: Strengthening economic governance

Consolidating Treasury and cash management

25. **There has been significant improvement in the legal and institutional framework for public financial management.** The National Assembly adopted in 2012 the Public Financial Management Bill *(Loi des Opérations Financieres de l'Etat)* that aims at modernizing the management of public finances. The Bill provides more clarity on the roles and responsibility of the federal government and autonomous islands in the management and accountability of public finances. The Bill also aims at introducing gradually the principles of performance and results based budgeting, and transition toward the adoption of program budgeting by 2018.

26. **There remain significant challenges on the PFM front, particularly to accelerate implementation of the 2012 PFM law and ensure effective budget and treasury management as tools for resource allocation.** Despite the improvement in PFM, the last 2013 Public Expenditure and Financial Accountability (PEFA) report raised the urgency of the implementation of these reforms, particularly to help improve transparency and fiscal comprehensiveness. Key among the challenges confronted in PFM is the substantial fragmentation in treasury and cash management that makes it difficult for the government to have a clear view of its cash position. The previous DPO supported the adoption of a decree that creates a Directorate of Public Accounts and Treasury (*Direction Générale de la Comptabilité Publique et du Trésor)* (DCPT) and the appointment of the General Director and the General Paymaster of the Union Government within the Ministry of Finance to consolidate the accounting functions and treasury management, although with still substantial delegation to islands of certain treasury payments. However, the DCPT is not yet operational and the country continues to operate with four parallel treasuries at the Union and islands levels, which undermines the capacity of the Ministry of Finance to manage and consolidate cash positions, therefore limiting its capacity to manage its cash flows and to minimize borrowing costs. Furthermore, this fragmentation makes it difficult to prepare periodic financial reports and the consolidated accounts for external audit.

27. **This operation series supports government's efforts to improve treasury management by effectively making operational the Directorate of Public Accounts and Treasury.** The government of the Union and the islands are working to clarify technical and institutional aspects of the implementation of the decree that creates the DCPT, particularly the identification of an office building and the preparation of the technical features of the Treasury modules of the upcoming integrated financial management information system. This operation

supports this process by ensuring that government provides adequate financial and human resources to make the DCPT operational by end 2014. Additional support to implement the PFM reforms is provided by the Bank-financed EGTAG project and AFDB technical assistance project.

- **Prior action:** A dedicated budget line for the Directorate of Public Accounts and Treasury is clearly identified in the 2014 Budget Law and the following key staff are appointed in accordance with the Recipient's decree no. 12-047/PR 29 February 2012 relating to DGCPT, including its General Manager *(Directeur Général)*, Coordinator (*Coordonnateur)*, Managers of the three support services *(Chefs des 3 Services d'Appui)*, Treasurer of the Union (*Trésorier Payeur Général)* and Treasurer of each of the three Autonomous Islands *(Trésoriers Payeurs de chacune des trois Îles Autonomes)*.

28. **Treasury management is further undermined by off-budget accounts held by sector ministries.** There are currently no information declared to the Treasury or the Budget Department for four accounts of some revenue-collection ministries that send payments collected directly to the Central Bank or hold them in dedicated off-budget accounts (*Régies de recettes, régies de dépenses*). As a result, the Treasury lacks a comprehensive picture of the cash position of the government which undermines its capacity to allocate resources and decide on priority payments.

29. **This operation supports the process of identifying the off-budget accounts with a view to increasing transparency and improving cash management.** As a result, the list of "*Régies de recettes et des dépenses*" will be included in the 2014 budget law. Furthermore, a list of accounts of the administrative entities of the government (at the Union and the Autonomous Islands' levels) in the Central Bank will be completed to facilitate identification and tracking of Government's accounts as a first step towards consolidating government' accounts at the Central Bank through a Treasury Single Account.

- **Prior action:** The Recipient has included in its 2014 Budget Law four (4) previously off-budget accounts (*comptes de régies*) recorded in the accounts of the Treasury, and has issued a decision (*arrêté*) containing a complete list of accounts of the administrative entities of the Recipient (at the Union and the Autonomous Islands' levels) in the Recipient's central bank.

30. **Subsequently, the DCPT will be operational and collaboration with the Central Bank will be strengthened to allow timely monitoring of the cash position and production of reports.** The government will work to make the DCPT operational as a trigger for the next DPO operation. Also, the government is well aware of the potential benefits of implementing a Treasury Single Account, but only based on a gradual and programmatic approach considering the limited capacity and operational constraints and therefore focus will be on improving treasury cash plans in the short term. To achieve this, as the trigger for the next operation, the Treasury will sign a Memorandum of Understanding with the Central Bank to guide Central Bank management of Treasury operations and exchange of information. Also, as trigger for the next operation all the accounts of the public administrations in the Central Bank of Comoros will be reflected in the Treasury accounting records and annexed in the 2015 budget law. As a result,

cash management plans will be operational and updated monthly to ensure they are effectively in use. This overall reform will be supported by the parallel introduction of an IFMIS (supported by Bank and AfDB technical assistance projects) with the objective of producing quarterly consolidated treasury accounts of the union and the island by December 2015.

Improving budget comprehensiveness

31. **While budget preparation and comprehensiveness have improved recently, substantial weaknesses remain.** As noted in the 2013 PEFA report, budget transparency has not improved between 2007 and 2013. A new budget classification was established in 2009 to improve the presentation of the budget, but it has not yet been implemented. There have been recent improvements in line with international standards supported by the previous Bank-financed ERDPG, such as the issuing to sector ministries of a budgetary circular setting sector targets six weeks before budget discussions take place to facilitate budget preparation. Despite these recent improvements, the public budget still lacks key information, which means that decision makers cannot get a comprehensive view of budget operations.

32. **This operation supports government's efforts to improve budget comprehensiveness by presenting information on the budget ceiling per sector ministry, the state of execution for the actual fiscal year, and data on government revenues in the 2014 budget law.** The government has decided to incorporate relevant information in the budget that will facilitate economic management. To do so, the 2014 budget law will set overall envelopes per ministry to improve budget implementation moving forward. It will also include the data on government revenues to ensure a more consistent presentation of budget information. This will facilitate reallocation of public resources toward government priorities.

- **Prior action:** The Recipient has included in its 2014 Budget Law: (i) overall envelopes per ministry; (ii) the state of execution of the 2013 budget until June 30, 2013 presented in the same format as the draft budget; and (iii) data on government revenues (own resources and external resources) in the main headings of the budget nomenclature, including data for Fiscal Year 2013.

33. **Moving forward, the Government's objective is to take advantage of the revised budget classification adopted in 2009 and present in the 2015 public budget detailed information on investment and recurrent expenditures, including an annex to the budget document with information on the Public Investment Program (PIP).** This operation supports, as a trigger for the next DPO operation, that the 2015 budget law presents detailed information of the Public Investment Program and recurrent expenditures using the harmonized functional classification.

Improving debt management

34. **Debt management in Comoros has improved since 2011, but remains weak.** The 2011 Debt Management Performance Assessment (DeMPA) found weaknesses in nearly all areas of debt management and prompted the preparation of a debt management reform plan in

2012.[2] The reform plan proposed steps in three key reform axes to address these weaknesses: (i) governance; (ii) debt management strategy and borrowing activities; and (iii) operational risk. The Bank continues to support implementation of the plan and capacity building, including the secondment of a Comorian debt manager to the World Bank in 2013.

35. **Improving debt management remains critical against a background of high risk of debt distress, even after the recent HIPC completion point.** Improving debt management will help ensure that the debt portfolio remains sustainable in the long term, while facilitating that the government finances itself on more favorable terms. Building upon the implementation of the debt management reform plan by the Public Debt Directorate (PDD), which has been producing basic debt reports as part of the HIPC Completion Point triggers, the proposed prior action of this operation will ask the government to include in the 2014 budget law a detailed debt report analyzing the debt stock as of October 31, 2013. The report will analyze external debt and use the latest available estimate of domestic arrears. This report will help strengthen the analytical capacity of the PDD and increase the transparency of public debt, providing high-quality and relevant information for decision making such as an analysis of the level, cost and risks of the debt portfolio.[3]

- **Prior action:** The Recipient has included in its 2014 Budget Law a detailed debt report analyzing the debt stock as of October 31, 2013.

36. **Moving forward, this DPO seeks to strengthen the institutional mechanisms to ensure more transparent and technical reviews of newly contracted or renegotiated loans.** To this end, the trigger for the next operation will support the adoption by the National Assembly of a debt management law according to international standards. This law is expected to clarify the objectives, actions and responsibilities related to the management of public debt, including: (i) clear authorization from the National Assembly to the government to negotiate loans on behalf of the State, (ii) the specific purposes for using the debt (e.g., to finance the budget deficit), (iii) clear medium and long term objectives to manage the debt (e.g., minimize cost and risk of the portfolio), (iv) the requirement to develop a debt management strategy for the medium term, and the process of decision making, (v) a mandatory report to the National Assembly on debt and other debt management activities submitted annually and a periodic assessment of performance against objectives and strategy, and (vi) a decision-making process for external and domestic debt and for granting loan guarantees, including a technical assessment of the cost and risks associated with proposed new loans, guarantees and loan renegotiations. Additional support to prepare the debt management law is provided by the Bank and the AfDB.

[2] World Bank, "Union des Comores: Plan de réformes de gestion de la dette publique," July 2012.

[3] The report should include at a minimum: (i) domestic and external central government debt and loan guarantees, taking into account all debt restructuring agreements signed until June 30, 2013; (ii) information on central government debt stocks: by creditor, residency classification, instrument, currency, interest rate basis, and residual maturity; (iii) debt flows: principal and interest payments; (iv) debt ratios and indicators: present value of debt to exports, GDP, revenue; (v) basic risk measures of the debt portfolio: refinancing risk, interest rate risk, exchange rate risk. See http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1184253591417/GDM-PMF.pdf

Pillar B: Improving transparency in economic management

Enhancing transparency and efficiency on the fight against corruption

37. **Despite progress in fighting corruption significant challenges remain.** Having climbed up 27 places compared to its 2010 ranking, Comoros now ranks 127th out of 177 states in the 2013 Corruption Perceptions Index by Transparency International.[4] However, significant challenges remain, particularly in terms of a weak judicial system, with cases brought to the judiciary rarely resulting in successful prosecution.

38. **The Government has been working on this area, especially increasing accountability, but more work remains.** In September 2012, the Government adopted an overall strategy on anti-corruption that sought to promote a culture that rejects corruption while strengthening public officials/civil servants to fight corruption cases. Subsequently, it issued a decree to ensure asset and income declaration of high ranking public officials to increase transparency and avoid conflict of interests. As of July 31, 2013, 30 out of 32 former government officials submitted their asset declaration to the Anti-Corruption Commission (*Commission nationale de prévention et de lutte contre la corruption).* Asset declaration forms were sent to the newly-appointed government officials in August 2013 in order to update the list by end 2013.

39. **Supported by this operation, the Anti-Corruption Commission aims to strengthen its ability and focus to effectively monitor asset and income disclosure of public officials.** Given the limited resources available, the Anti-corruption Commission aims to focus as a first step on areas that have large pay-offs and raise public awareness to prevent corruption. This operation will support the Anti-Corruption Commission to publish yearly in local newspapers and/or Government web sites a list stating the public officials who have filed their asset declaration as a way to encourage full compliance in the medium term.

- **Prior action:** The Anti-Corruption Commission *(Commission nationale de prévention et de lutte contre la corruption)* has published, on its website and/or in a national newspaper, a list of public officials who have filed their asset declaration, in accordance with the Recipient's Decree no. 12-183/PR dated September 15, 2012.

40. **Moving forward, the government will seek to adopt an improved legal and institutional framework to combat corruption.** The indicative trigger for the next operation supports the review of the anti-corruption law that limits substantially the role of the Comoros Anti-Corruption Commission has was already identified in the anti-corruption strategy in 2012. The proposed trigger on the amendment to the anti-corruption legislation aims at empowering the Anti-Corruption Commission by giving its officers the legal powers to investigate perceived corruption cases and define limitation period for the treatment of fraud and corruption cases. These changes will enhance the independence of the Anti-Corruption Commission and reinforce its authority. It will also bring the legal and institutional anti-corruption framework of the Comoros up to international standards. Government is making good progress with the adoption of the revised legislation as the first set of amendments has already been approved by the

[4] http://www.transparency.org/country#COM.

National Assembly during its December session. As a result of the reforms supported by this operation, the Anti-corruption Commission expects that the percentage of senior officials who file their asset declaration form will increase to 80 percent in 2015, compared to around 30 percent today.

Enhancing transparency in the management of fishery resources

41. **The fisheries sector is a major pillar of Comoros' economy, and its sustainable contribution to the economy and development require well-conceived policy choices moving forward.** Comoros enjoys an Exclusive Economic Zone (EEZ) that straddles important regional tuna fishing grounds. Tuna caught by foreign fleets is not landed in Comoros and its contribution to the national economy merely consists of payments to the government for accessing the EEZ and its resources. The government's interest in investing in a modernized national fleet and processing capacity to boost domestic production is in conflict with the current policies granting access to foreign fleets for the limited amount of tuna resources available. The policy options required moving forward will need to rely on adequate information, particularly with regards to the access granted to and revenue paid by foreign fleets.

42. **The government has initiated, with the support of the Bank, efforts to improve the transparency and monitoring of fishing agreements, licenses and related revenues.** The previous Bank-financed ERDPG supported the disclosure of three fishing agreements (of which two were unknown to the public), fishing licenses, and related revenue information through government websites[5] and a local newspaper. This disclosure has served to foster greater transparency and accountability toward the owners of the resources (e.g., international NGOs have reported on the information disseminated).[6] It has also created a level playing field for stakeholders in the sector, including the fishing agreements signatories and the neighboring coastal states (e.g., the EU and the United Republic of Tanzania have requested and accessed this information), which will foster improved regional management of limited fishery resources.

43. **This transparency effort needs to be sustained and, through the current operation, the financial information disclosed from the fishing agreements will be incorporated in the 2014 budget law.** Such improvements in transparency could also help secure public revenue collection, alter the perception of corruption, curb illegal fishing and gradually optimize resource rents. The government, with the support of this operation as a prior action, is expected to adopt a legal text that mandates full systematic disclosure of fishing agreements and license information, and inclusion of financial information and their earmarked use in the public budget. The disclosure will include financial information and will be effective no later than six months after the the agreement or the license comes into force. In addition, the legal text will prohibit the inclusion of confidentiality clauses in future fishing or assimilated agreements.

- **Prior action:** The Recipient has signed and published a presidential decree to systematize disclosure of fishing access rights to national waters attributed and related revenues as well as their allocation.

[5] http://cref-comores.org/pubs/Protocoles/

[6] http://transparentsea.co/index.php?title=Licenses_and_access_agreements_database#Comoros.

44. **Moving forward, additional transparency will be needed to disclose vessel flagging information and foster international efforts to fight illegal, unregulated and unreported (IUU) fishing and better capture potential public domestic revenues.** Comoros hosts an open register and sells national flags to foreign operated vessels through a private company. Comoros-flagged fishing vessels and its related freezer cargo vessel can operate outside of national waters without control and knowledge of the fisheries administration while, under its international obligations, Comoros remains accountable for their activities. Such vessels were identified as IUU, thereby creating reputational and legal concerns for the country. In addition, revenue generated by this register is unknown to the stakeholders since disclosure of information remains discretionary and often under the control of a private company. As trigger for the next DPO operation, the Ministry of Transport and the Directorate General of Maritimes Affairs, in collaboration with the Ministry in charge of fisheries and the Directorate General for Fisheries, will widen the scope of disclosure by publishing in the national press and on a government website every six months, the list of vessels on the national vessel register with the indication of the inputs, changes in features and write-offs of ships, as well as the publication of revenues for the State and the register-managing entity, with freezer cargo and fishing vessels-specific identification. This will also support other international agreements, such as the one with the EU. As a result of the reforms proposed by this operation, Comoros will be able to better fulfill its international obligations and gain a greater awareness of the wealth generated by its fishery assets. Implementation of these reforms will be supported by the on-going dialogue stemming from the South West Indian Ocean regional fishery initiatives.

Strengthening statistical development

45. **Outdated basic statistics and data shortcomings hamper policy decision making in Comoros.** The most recent population census and household survey were conducted in 2003, the national accounts continue to rely on the 1968 methodology, and the consumer price index only covers Moroni, the capital city. These circumstances are seriously hampering policymaking, with the lack of updated population and poverty statistics impeding the targeting of social programs, the national accounts not properly capturing the highly prevalent informal segment of the economy and the inflation rate not reflecting the different island realities.

46. **Limited progress has been made towards the development of the statistical database in Comoros.** Improving the statistical database is part of the National Strategy for the Development of Statistics for the period between 2010 and 2014. A law on statistics was adopted on March 26, 2011 and promulgated on July 14, 2011. The law foresees the creation of a National Council of Statistics (NCS) to coordinate all stakeholders that intervene in the preparation of statistics and the transformation of the National Directorate of Statistics, which is currently under the supervision of the General Commissariat of Planning, into an autonomous National Institute of Statistics and Economic Studies and Demographic (INSEED). Little progress in setting up these two key institutions has, however, been achieved since the law came into force in 2011. As a result, the capacity to produce statistical data remains weak, and the ability to collect and analyze the data is being further undermined by the limited coordination across the various institutions involved.

47. **This operation supports the government's efforts to make operational the National Council of Statistics.** The NCS will serve to improve coordination among all stakeholders involved in the production of statistics and spearhead the transformation of the current National Directorate of Statistics into the autonomous INSEED. This operation supports, as a prior action, the adoption of a decree to make operational the NCS. The NCS's main mission will be to clearly define the human resources needs and the institutional structure of the INSEED, and ensure the proper coordination of all institutions involved in the preparation of statistics.

- **Prior Action:** The Recipient has signed (after Cabinet review) and published a presidential decree for the establishment of the National Council of Statistics.

48. **Moving forward, the operation will support making operational the INSEED and build on ongoing efforts to adopt revised national accounts prepared using the 1993 methodology.** In parallel, the government is working with international donors to improve statistics. The results of the Household Survey (*Enquête 1-2-3*) are expected to be available by mid-2014. The national account system using the 1993 methodology has been prepared with a base year of 2007 and current year 2008 is under preparation. The National Directorate of Statistics is currently preparing the national accounts for 2010 to 2012 using the 1993 methodology. As a trigger for the next operation, the government will make operational the INSEED and adopt revised national accounts in 2015, which will represent a major leap forward in terms of improved statistical information. The objective of this reform is to assist the government to modernize the production of the national accounts, with a view to better capturing all economic activities, including the informal sector. A Bank-financed Statistical Capacity Building Fund is supporting implementation of statistics reforms in Comoros.

Pillar C: Improving competition and performance in key infrastructure sectors

Enhancing competition in the ICT sector

49. **The ICT sector in Comoros remains relatively underdeveloped with a particularly low level of internet use.** Comoros has hardly benefited at all from the revolution in communications that is bringing higher rates of growth elsewhere in Africa. Comoros is one of the few remaining countries worldwide to have retained a state-owned monopoly operator (i.e., Comores Telecom) in the telecommunication sector, whose performance remains very poor relative to that of neighboring countries. The penetration rate of mobile services in Comoros was 32 percent per 100 inhabitants in 2012, which is below the rates seen in Madagascar (39 percent), Kenya (72 percent) and Mauritius (113 percent). Comoros performs even more poorly for internet-based services, and Comores Telecom prohibits the use of internet telephony services, such as Skype. With enhanced competition, the Comorian population should be able to access improved services and benefit from more affordable prices in order to remain in touch with the diaspora.

50. **The Union of Comoros has committed to a program of reform of the telecom sector.** The government has been following a two-track process of reform which involves liberalizing the market, by introducing a second full-service operator and new internet service providers, and privatizing the incumbent operator, Comores Telecoms. The first track is supported by a World

Bank investment credit under the fourth phase of the Regional Communications Infrastructure Program (RCIP-4). The current DPO operation will support this process by requesting, as a prior action, the submission to the National Assembly of a draft ICT sector reform law. This will be a first step towards removing exclusive privileges associated with existing licenses, a prerequisite to effectively providing a level playing field for new competitive market entry. Ultimately, the coming into force of this new legislation would constitute a key step towards market liberalization as it will provide a platform for reform, which should attract foreign investment.

- **Prior action:** The Recipient's government has prepared and submitted to the National Assembly a draft information and communication technology sector law that sets out a framework for market liberalization.

51. **The RCIP-4 investment credit for US$22m was approved in September 2013.** The grant provides technical assistance to support the reform process, notably through assistance with drafting the ICT Sector Law and with the process of selecting a second full service operator. The grant will also help fund a new undersea fiber optic cable, FLY/LION3, to link Comoros with Mayotte and Madagascar. The intervention of the World Bank has encouraged the entry of new operators, including Orange, Orange Madagascar and Telecom Mauritius, into the FLY/LION3 consortium which originally included only Comores Telecom and Telma (Madagascar). The grant also foresees the creation of an Internet Exchange Point and measures to stimulate broadband internet usage among key public sector institutions, such as schools, etc.

52. **The trigger for the next operation seeks to effectively open the market for competition by introducing a second full-service license, and ending Comores Telecom's *de facto* monopoly.** Indications from the privatization process suggest that there would be considerable interest from private investors in a second license, as Comoros has a relatively low level of mobile and internet penetration given its level of GDP per capita. The reform supported by this DPO envisages increasing the number of licensed operators in the market, thereby providing more choice, reducing prices, and improving the services offered to Comorian consumers. As trigger for the next operation, the government will initiate a competitive bidding process for a second full-service license. In the medium term, it is expected that the reform will continue by initiating a competitive bidding process to allocate spectrum, drafting new licenses, etc. Some of the preparatory work required has already been carried out as part of the process for preparing the RCIP-4 grant, but some additional institutional capacity will be required.

Improving performance in the electricity sector

53. **The quality of electricity supply is extremely low in Comoros.** The sector's poor financial situation and poor management lead to inadequate revenues to cover investment, maintenance and fuel bills - which leads to poor quality and coverage of the physical network and unreliable and expensive generation. The quality of electricity supply varies considerably depending on location. In Moroni there tends to be approximately six hours of planned interruption of service each day, and frequent unplanned load shedding. The situation is generally much worse in the rest of the Island of Grande Comore. In Moheli, power availability is better with 12 to 18 hours per day, but it is only available to a very small number of clients.

54. **Unreliable electricity supply is a major constraint to Comoros' economic development.** Lack of electricity supply undermines the economic wellbeing of households, from health benefits linked to cooking technology, to improved opportunities for education and opportunities for employment and entrepreneurial activity. It also undermines the potential development of commercial activity and increases the cost of investment in Comoros.

55. **In order to improve the quality of electricity supply, there is a fundamental need to improve the commercial operation of the sector so that it is less of a drain on the budget and more funds are available for investment, maintenance and operations.** The two publicly owned Comorian power utilities (MA-MWE in Grande Comore and Moheli and EDA in Anjouan) are currently in a structural situation of negative cash-flow from current operations, mostly because of high total losses and extremely poor payment collection rates. For instance, MA-MWE billed 55 percent and collected 58 percent in 2010. Insufficient cash flow from consumers impacts the financial viability of the entire supply chain, limits funding for investment and maintenance and constrains the quality of the electricity supply because of limited funds to pay for fuel. Furthermore, it has a significant fiscal impact, with substantial direct subsidies of 360 million CF (US$797,000), and indirect subsidies in the form of non-payment of petroleum product taxes of 2.7 billion CF 2011 (US$7.2 million) in 2011.

56. **This DPO operation complements a recently approved IDA operation focused on improving sector governance and commercial management of Comorian electricity companies.** The World Bank-financed Electricity Sector Recovery Project (ESRP) builds on previous sector re-organization supported under the previous DPO and will help implement the reform by funding senior experienced managers to work with the existing management to significantly improve billing, collection and overall operational management. Based on Bank experience with such operations, a fundamental basis/precursor for the hiring of these experienced managers will be the development of a performance/regulatory compact between the Government of Comoros and MA-MWE. This regulatory compact would have to set out specific expectations for performance of MA-MWE management over the next few years and allocates clear accountability for management decisions and thereby creates a strong performance focused incentive structure in the sector. This regulatory compact would form part of the "Recovery and Development Plan" which would be approved by the Government and adopted by MA-MWE management prior to the senior managers funded by the ESRP commencing their work. This DPO operation will support this process by requesting, as prior action, that acceptable terms of reference for preparation of this Plan are finalized and that the procurement process for an appropriate international expert is initiated for preparation of the Plan. The prior action for this DPO therefore supports the efforts to reduce total losses in the sector. The ESRP addresses key environmental implications of this Plan.

- **Prior Action:** To reduce total losses in the electricity sector, the Recipient's government has approved the terms of reference for a recovery and development plan establishing clear objectives for results to be attained by MA-MWE management and has initiated the procurement of the independent expert to prepare such plan by the publication of a call for expressions of interest.

57. **Moving forward, the government aims to reinforce improved commercial management in the sector with improved cost recovery and more targeted subsidies across the full energy value chain.** In addition to reinforcing further government actions with regards to reducing losses, there is a need to better understand the existing costs and subsidies in the supply chain so that cost recovery can be increased from consumers and, where possible, subsidies can be more effectively targeted. As trigger for the next operation, the government will adopt a Recovery and Development Plan and set performance targets for MA-MWE. Also, as trigger for the next operation, the government will prepare an auditable report setting out the cash flow and debt situation between MA-MWE, EDA, the fuel supply company (SCH), private fuel supply companies and public sector entities, with the objective to make the sector financially sustainable by settling cross arrears between all stakeholders involved in the sector and maximizing cost-recovery by the sector. As part of the ESRP, a PSIA will be carried out to ensure there is good understanding of the impact of higher cost recovery on the poor.

Table 4: DPO Prior Actions and Analytical Underpinnings

Prior Action	Analytical Underpinnings
Pillar A: Strengthening economic governance	
Consolidating treasury and cash management: A dedicated budget line for the Directorate of Public Accounts and Treasury is clearly identified in the 2014 Budget Law and the following key staff is appointed in accordance with the Recipient's decree no. 12-047/PR 29 February 2012 relating to DGCPT, including its General Manager *(Directeur Général)*, Coordinator (*Coordonnateur)*, Managers of the three support services *(Chefs des 3 Services d'Appui)*, Treasurer of the Union (*Trésorier Payeur Général)* and Treasurer of each of the three Autonomous Islands *(Trésoriers Payeurs de chacune des trois Îles Autonomes)*.	2013 Public Expenditure and Financial Accountability Report
Consolidating treasury and cash management: The Recipient has included in its 2014 Budget Law four (4) previously off-budget accounts (*comptes de régies*) recorded in the accounts of the Treasury, and has issued a decision (*arrêté*) containing a complete list of accounts of the administrative entities of the Recipient (at the Union and the Autonomous Islands' levels) in the Recipient's central bank.	2013 Public Expenditure and Financial Accountability Report
Improving budget comprehensiveness: The Recipient has included in its 2014 Budget Law: (i) overall envelopes per ministry, (ii) the state of execution of the 2013 budget until June 30, 2013 presented in the same format as the draft budget; and (iii) data on government revenues (own resources and external resources) in the main headings of the budget nomenclature, including data for Fiscal Year 2013.	2013 Public Expenditure and Financial Accountability Report
Improving debt management: The Recipient has included in its 2014 Budget Law a detailed debt report analyzing the debt stock as of October 31, 2013.	- 2013 Public Expenditure and Financial Accountability Report - 2011 Debt Management Performance Assessment Report - "Union des Comores: Plan de réformes de gestion de la dette publique," July 2012.

	Main recommendations: (i) improve governance by reactivating national public debt committee and publication of debt reports; (ii) improve analysis by elaborating debt management strategy and producing technical analyses on new loans; (iii) reduce operational risk by adopting debt management software and adopting internal procedures manual.
Pillar B: Improving transparency in economic management	
Enhancing transparency and efficiency on the fight against corruption: The Anti-Corruption Commission *(Commission nationale de prévention et de lutte contre la corruption)* has published, on its website and/or in a national newspaper, a list of public officials who have filed their asset declaration, in accordance with the Recipient's Decree no. 12-183/PR dated September 15, 2012.	2012 Government anticorruption strategy: The implementation of the asset declaration program is listed as a key results indicator (see p. 22 of the National Anti-Corruption Strategy).
Enhancing transparency in the management of fisheries resources: The Recipient has signed and published a presidential decree to systematize disclosure of fishing access rights to national waters attributed and related revenues as well as their allocation.	World Bank Fisheries Policy note for Comoros. October 2013.
Strengthening statistical system: The Recipient has signed (after Cabinet review) and published a presidential decree for the establishment of the National Council of Statistics.	National Strategy of Statistical Development 2010-2014.
Pillar C: Improving competition and performance in key infrastructure sectors	
Enhancing competition in the ICT sector: The Recipient's government has prepared and submitted to the National Assembly a draft information and communication technology sector law that sets out a framework for market liberalization.	- World Bank and African Development Bank, 2012. *eTransform Africa: The transformational use of information and communication technologies in Africa*. (www.eTransformAfrica.org). - PPIAF-funded roadmap for Comoros Telecommunications sector, March 2012. - *ICT Sector Policy Note for Comoros*, October 2013.
Improving performance in the electricity sector: To reduce total losses in the electricity sector, the Recipient's government has approved the terms of reference for a recovery and development plan establishing clear objectives for results to be attained by MA-MWE management and has initiated the procurement of the independent expert to prepare such plan by the publication of a call for expressions of interest.	- World Bank Electricity Sector Recovery Project. - Energy Sector Policy Note. - Political Economy of the governance of MA-MWE.

4.3 LINK TO CAS AND OTHER BANK OPERATIONS

58. **The proposed programmatic DPO will be an integral part of the joint IDA/IFC 2014-2017 CPS that will be presented to the Board of Directors in May 2014.** The CPS is aligned with the new government strategy under preparation (SCADD), particularly with respect to economic growth and job creation. The CPS seeks to: (i) consolidate the gains achieved thus far by providing additional financing to instruments that have proven effective (social protection, PFM reform and development policy operations); (ii) implement recently approved infrastructure operations in electricity and ICT; and (iii) maintain flexibility to respond to the Government's needs. Recent discussions with counterparts in Comoros reaffirmed the proposal of the Bank in terms of approach and strategic priorities. Counterparts also pointed out to reinforcing areas in the CPS such as promotion of the private sector, fisheries and vocational/professional training.

59. **The proposed DPO will anchor the Bank's support for the reform process in Comoros.** This will be done by closely coordinating the policy dialogue embedded in the DPO with the implementation of on-going Bank-financed projects in Comoros. Implementation of the DPO will build on the technical assistance provided by the IDA-supported EGTAG operation which supports, in coordination with other donors, PFM and civil service reform. Policy reforms on anticorruption build on dialogue stemming from a Governance and Anti-Corruption Technical Assistance, which is supporting the government in redefining the governance and anti-corruption action plan and reforms. The electricity component reflects the ongoing reform supported by the Bank-financed Electricity Sector Recovery Project Grant which supports the authorities, mostly related to the commercial performance of the state-owned public utilities (MA-MWE and EDA). A Statistical Capacity Building Fund is supporting the institutional set-up of the National Statistics Office and is assisting the authorities in the implementation of the national strategy of statistics. Governance reforms in the fisheries sector reflect the on-going dialogue stemming from the planned South West Indian Ocean regional fishery initiatives. Reforms on telecommunication support the implementation of the regional Communications Infrastructure Program (RCIP-4) that is helping to strengthen capacity and competition in the telecom sector.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

60. **The reforms supported by this DPO are built on the government reform program that has been broadly discussed with stakeholders.** Some sector reforms have been broadly discussed with stakeholders in a dialogue with significant Bank participation, as part of the preparation of sector operations (i.e. ICT and electricity). In other areas, such as PFM reform, reforms supported implement the government strategy that has been previously discussed and agreed with the Bank as well as partners. With regards to the budget preparation, the budgeting process involves consultation with the autonomous islands as provided for in the financial management legislation. However, there is currently no involvement of the civil society and development partners to incorporate its inputs and programs into the budget proposal. This operation supports, as a trigger for the next DPO operation, that the 2015 budget law presents detailed information of the Public Investment Program, including information on development partners' programs.

61. **This operation was prepared in collaboration and coordination with the IMF and other donors providing budget support**, notably the AfDB, as well as the EU. The reforms supported by the proposed operation have been discussed with the AfDB and the IMF. The AfDB has provided a series of two programmatic budget support operations (each in the amount of about US$1.5 million) approved in December 2012 that are complemented by a capacity building and technical assistance project (of about US$8.5 million). Development partners are also coordinating the delivery of technical assistance and increased donor coordination will take place through the newly-created informal donor coordination platform mechanism (or Development Partners Forum - FPAD), under the leadership of the United Nations Development Programme (UNDP). This coordination is also seen at the sectoral level, where involved donors have close coordination in areas of support. Also, the reform program is coordinated with other donors who are leading the policy dialogue focused on social sectors to ensure that the government program gets adequate overall support in areas such as access to and quality of education, health care services, and fighting HIV and malaria.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

62. **The policies supported by this programmatic EGRG series are likely to generate poverty reduction and a positive social impact.** Improved budgetary and expenditure management supported by the DPO series will benefit the general public and particularly the poor by developing more comprehensive and integrated budget and treasury management that will facilitate a better reallocation of the limited resources available towards poverty-reducing expenditures. Fisheries reforms provide additional information about revenue generated and its use. Moreover, the use of more efficient tools to track such expenditures in the budget and an improved governance framework driven by anti-corruption measures will enhance the effectiveness of such expenditures. Taken together, improvements in the reform areas targeted by this programmatic DPO should enable the government to move forward with the implementation of its PRGSP and allocate the scarce resources available to priority areas of social development.

63. **Energy reforms are expected to have positive distributional impact, increasing quantity and quality of electricity services available in Comoros.** This will particularly be the case for small businesses, and small health facilities or vulnerable social groups in rural areas who currently have very poor levels of supply and cannot afford to run individual generators. There will also be improved consumer and civil society understanding of the electricity sector. At the same time, the utilities' commercial recovery (that includes improved billing and collection of all the electricity generated and the work to reduce fraud and non-payment of electricity) will require more of the population to pay electricity bills than is currently the case. The Electricity Sector Recovery Project includes a Poverty and Social Impact Analysis (PSIA) to assess the impact on the poor – in particular related to better billing and better enforcement of payment. The PSIA will also seek to better understand policies that could be modified to achieve the expected results and limit negative impacts on the poor.

5.2 ENVIRONMENTAL ASPECTS

64. **The policy actions supported by this operation are not likely to have significant**

positive or negative effects on the environment, forests, and natural resources. The policies addressed by this operation focus on institutional reforms without any expected short-term direct or indirect environmental impact. The fisheries policy actions have no direct effects on the environment in the short term, but may indirectly generate environmental benefits in the longer term. The reform in the sector supports public disclosure of fishing licenses which provides opportunities for identifying illegal vessels and reducing pressure on stock. As such, in the long run, the reform promotes more effective and responsible fisheries management. The activities under the Electricity Sector Recovery Project are limited to funding consultancies, studies and the acquisition of electricity meters, management information systems, hardware, and software equipment in the commercial and technical areas of utility operation. Thus, no significant adverse environmental or social impacts are anticipated under the project.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

65. **Overall, the fiduciary framework is deemed adequate to receive the proceeds of the grant. While there are substantial fiduciary risks, the Government has been pursuing a program of PFM reforms since 2010 to improve fiscal management.** The Government is committed to modernizing the PFM system by implementing the new PFM Reform Strategy for the period 2014-2016 that address the PFM weaknesses as identified in the 2013 PEFA assessment. Some progress is being made in this respect and according to the 2013 PEFA assessment, there were improvements made in 15 out of a total of 22 indicators which scored a D or a D+ in 2007. The reform has been reinvigorated following the adoption of a new PFM Organic Law in 2012, but implementation remains slow and requires to be complemented with on-going reforms to improve budget comprehensiveness and transparency, budget execution, financial reporting and external audit oversight. The annual public budget document is published in the Official Gazette and quarterly budget execution reports were published in 2012 in the Economic and Financial Reforms Unit (CREF) website but those for 2013 have not yet been made public. Procurement reform is still at a nascent stage following the promulgation of the public procurement code in February 2012 and the establishment of the Public Procurement Regulatory Authority. Procurement units have also been set up at ministerial level and in State-Owned Enterprises but the actual operationalization of the procurement legislation needs to be speeded up. The PFM reform is supported by development partners, including the World Bank and the African Development Bank, through technical assistance.

66. **The Central Bank of the Comoros (BCC) is making satisfactory progress in implementing the recommendations of an IMF Safeguard Assessment completed in April 2010.** The safeguards assessment found that, despite capacity constraints and the need to develop an internal audit function, the BCC has taken steps to strengthen its safeguards framework. In this regard, the BCC is taking steps to: (i) implement the International Financial Reporting Standards; (ii) revise its audit charter to clearly define the audit committee's mandate in relation to reporting modalities and interaction with the external auditor; and (iii) post regularly the Central Bank's annual financial statements on its website.[7] The most recently published audited financial statements were for the year 2012 and the auditors issued a clean audit opinion[8].

[7] http://www.banque-comores.km/
[8] http://www.banque-comores.km/DOCUMENTS/Rapport_annuel_2012.pdf.

67. **The proposed grant will follow the Bank's disbursement procedures for development policy operations.** The untied budget support will be disbursed provided the Bank is satisfied with the program being carried out by the Recipient and the appropriateness of Comoros' macroeconomic policy framework. No procurement requirements are applicable for this operation. Once the grant is approved by the Board and becomes effective, and following the Recipient's request for withdrawal of proceeds of the grant, IDA will disburse the single tranche of SDR2.5 million (US$3.8 million equivalent) into a dedicated account that forms part of the country's official foreign exchange reserves (held by the BCC). This dedicated account will be established for the purpose of this operation. The total amount of the operation will be reduced to reflect the reimbursement of SDR100,000 (US$150,000 equivalent) for a Project Preparation Advance.

68. **The financial support provided under this operation is not intended to finance goods or services in the standard negative list.** The Recipient shall ensure that upon the deposit of the grant into said account, an equivalent amount is credited in the Recipient's budget management system, in a manner acceptable to the Bank. The Recipient will report to IDA, by fax or email within 10 days of the transfer, on the amounts deposited in the foreign currency account and credited in local currency to the budget management system. If the proceeds of the grant are used for ineligible purposes as defined in the Financing Agreement, IDA will require the Recipient, promptly upon notice from IDA, to refund an amount equal to the amount of said payment to IDA. Amounts refunded to IDA upon such request shall be cancelled. Although no external audit will be required, the Bank reserves the right to require an audit of both accounts at any time. The administration of this grant will be the responsibility of the Ministry of Finance of the Union.

5.4 MONITORING AND EVALUATION

69. **Program monitoring and evaluation.** The CREF will be responsible for monitoring reforms, reporting progress and coordinating actions with all ministries and entities, including at the island level. The CREF has shown strong political leadership in coordinating reforms as part of the HIPC completion point and the previous ERDPG DPO. The CREF will provide bi-annual reports to IDA on implementation progress measured against the agreed upon reform program. The overall reform program will be also continuously reviewed by the Government in close coordination with regular Bank supervision missions to ensure continued implementation of the program within an adequate macroeconomic policy framework. While the statistics system of the country is weak, the DPO has selected readily available indicators that government already produces to facilitate progress monitoring.

6. SUMMARY OF RISKS AND MITIGATION MEASURES

70. **The proposed programmatic DPO carries substantial overall risk,** mostly associated with the country's vulnerability to external shocks, high risk of debt distress and potential political difficulties in implementing reforms, mainly in the electricity and ICT sectors.

71. **Downside risks to the realization of the proposed EGRG's objectives remain primarily political.** The fragile political environment remains a challenge. Historically, difficult inter-islands relations over the use of public resources, within the context of weak governance,

structural weaknesses in PFM and high politicization, have been at the root of the country's protracted fragility. This is reflected in the slow implementation of reforms that may alter the equilibrium among the Union and the islands, supported by previous DPO operations (i.e. implementation of the DCPT). The proposed operation addresses this challenge by identifying reforms which are endorsed by the Union and island governments, providing technical assistance to facilitate the consensus, and by seeking to foster trust among the parties by improving the transparency in the use of public resources. In certain areas (i.e. single treasury), the team will seek to reinforce the dialogue between the Union and the island administration and stakeholders by organizing joint workshops to ensure that reforms are inclusive and fair to all.

72. **Implementation of the reforms will face localized resistance.** Reforms in the electricity and ICT sectors will require the enforcement of payment of electricity bills and may indirectly imply layoffs in the national telecommunications company, which will create localized resistance. This risk will be mitigated in several ways. The operational focus in facilitating the liberalization of the ICT sector as a way to overcome the entrenched resistance to the privatization of Comores Telecom would imply staff reductions in Comores Telecoms itself, but job creation in the rest of the sector. This approach may also face some resistance moving forward if Comores Telecom has to lay off staff because of heightened competition. The concerted effort among the donor community and the substantial financial and technical assistance to carry these reforms will raise the political capital of the government in the short-term. Moreover, a more dynamic communication strategy from both the government and donors, providing examples of similar reforms implemented in peer countries, will provide a more balanced picture of the long-term gains of the reforms beyond the short-term costs.

73. **Macroeconomic risks remain high.** Economic development largely hinges on the continued political stability and improvements in economic management, although a weakening of global economic conditions, especially in the European economies, would also undermine short- and medium-term prospects. The country remains at high risk of debt distress and with fiscal stabilization at the core of the short-term policy agenda and no domestic fiscal space to cushion shocks, the scope for macroeconomic policy responses would be limited to the availability of adequate and timely financial support from the donor community. Reforms supported by this operation will partially address some of the vulnerabilities, reducing the risk of debt distress by adopting a debt management strategy and increasing and making more predictable public revenues through enhanced transparency of fishing rights.

74. **Weak institutional capacity could undermine the implementation of some sector policies supported by this operation.** While capacity remains weak in the country, the operation seeks to mitigate it by: (i) coordinating with other donors and, when possible, consolidating their interventions; and (ii) relying on on-going Bank-funded investment projects that provide significant parallel technical assistance and capacity-building interventions in areas supported by this DPO series.

75. **Fiduciary risks remain significant despite the on-going implementation of PFM reforms.** While there has been progress in implementing the PFM reform, a 2013 PEFA report highlighted substantial fiduciary weaknesses. They are partially mitigated by the focus of the proposed operation on improvements in fiduciary standards, and also by continued donor

assistance in public financial management and public administration reforms.

76. **Environmental risks are low and social risks will be further studied as part of the electricity reform.** Potential redistributive impact of the reforms supported to improve the financing of the electricity sector (i.e. through tariff reforms or enforcement collection) will be further studied as part of electricity reform project. This will provide information that will allow the government to contain potential negative impact on the most vulnerable population. The proposed operation is not expected to have substantial environmental risks.

Annex 1: Policy and Results Matrix
Union of the Comoros – Economic Governance Reform Grant – Results Framework

Prior Actions and Triggers		Results
Prior Actions under DPO 1	**Triggers for DPO 2**	
Pillar A: Strengthening economic governance		
1.1 Consolidating treasury and cash management		
A dedicated budget line for the Directorate of Public Accounts and Treasury is clearly identified in the 2014 Budget Law and the following key staff is appointed in accordance with the Recipient's decree no. 12-047/PR 29 February 2012 relating to DGCPT, including its General Manager *(Directeur Général)*, Coordinator (*Coordonnateur)*, Managers of the three support services *(Chefs des 3 Services d'Appui)*, Treasurer of the Union (*Trésorier Payeur Général)* and Treasurer of each of the three Autonomous Islands *(Trésoriers Payeurs de chacune des trois Îles Autonomes)*.	Directorate of Public Accounts and Treasury has become operational through: (i) a dedicated budget line clearly identified in the 2015 Budget Law; (ii) appointment of all staff required in accordance with the Recipient's decree no. No. 12-047/PR 29 February 2012 relating to DGCPT; (iii) dedicated equipment provided; and (iv) office space allocated; and signature of a Memorandum of Understanding between the Treasury and the Central Bank to guide Central Bank management of Treasury operations and exchange of information.	Cash management plans integrating the Union and island treasuries are operational. Baseline: No integrated plans (2013) Target: Integrated plan updated monthly (2015)
The Recipient has included in its 2014 Budget Law four (4) previously off-budget accounts (*comptes de régies*) recorded in the accounts of the Treasury, and has issued a decision (*arrêté*) containing a complete list of accounts of the administrative entities of the Recipient (at the Union and the Autonomous Islands' levels) in the Recipient's central bank.	All the accounts of the public administrations in the Central Bank of Comoros are reflected in the Treasury accounting records and annexed in the 2015 budget law.	
1.2. Improving budget comprehensiveness		
The Recipient has included in its 2014 Budget Law: (i) overall envelopes per ministry; (ii) the state of execution of the 2013 budget until June 30, 2013 presented in the same format as the draft budget; and (iii) data on government revenues (own resources and external resources) in the main headings of the budget nomenclature, including data for Fiscal Year 2013.	The Public Investment Program is adopted by the Council of Ministers. The respective tables of institutional classification, economic classification, functional classification, source of funds classification and classification by type of financial support in accordance with the principles of the decree on the harmonized budget nomenclature are annexed to the 2015 budget law.	Public budget that includes detailed information on investment and recurrent expenditures adopted. Baseline: No public budget with detailed information on investment and recurrent expenditures (2013). Target: Public budget with detailed information on investment and recurrent expenditures (2015).
1.3 Improving debt management		

Prior Actions and Triggers		Results
Prior Actions under DPO 1	**Triggers for DPO 2**	
The Recipient has included in its 2014 Budget Law a detailed debt report analyzing the debt stock as of October 31, 2013.	A debt management law according to international standards is adopted by the National Assembly.	Transparency and accountability of debt management has improved. Baseline: No regular debt reports produced and debt management framework incomplete (2013) Target: Annual debt reports produced and all new loans, guarantees and loan renegotiations conducted in line with debt management law (2015)
Pillar B--- Improving transparency in economic management		
2.1 Enhancing transparency and efficiency on the fight against corruption		
The Anti-Corruption Commission *(Commission nationale de prévention et de lutte contre la corruption)* has published, on its website and/or in a national newspaper, a list of public officials who have filed their asset declaration, in accordance with the Recipient's Decree no. 12-183/PR dated September 15, 2012.	Government submits an amendment to the anti-corruption law to the National Assembly in order to strengthen judiciary powers of the anticorruption commission.	Percentage of senior officials who filed their Asset Declaration Form, publicly available on the CNLPC website and/or in a national newspaper. Baseline: 30% (2013) Target: 80 % (2015)
2.2 Enhancing transparency in the management of fisheries resources		
The Recipient has signed and published a presidential decree to systematize disclosure of fishing access rights to national waters attributed and related revenues as well as their allocation.	Government ensures transparency on fishing and fishing-related vessels operating outside national waters, and related revenues for the State and the National Transport Authority.	Information on access granted for fishing activities systematically disclosed, with revenue and its use documented in the budget law. Baseline: Information not systematically available and included in the budget law (2013). Target: Access to information on revenue and its use regularly documented and disclosed (2015).
2.3 Strengthening statistical system		
The Recipient has signed (after Cabinet review) and published a presidential decree for the establishment of the National Council of Statistics.	The Recipient has make operational the autonomous National Statistics Institute and a Decree adopts the revised national accounts prepared using the 1993 methodology.	National Accounts prepared using the 1993 methodology and National Statistics Institute operational. Baseline: Draft national accounts for year 2007 using the 1993 methodology prepared (2013) and no autonomous National Statistics Institute operational. Target: National accounts for year 2012 using the 1993 methodology adopted (2015) and an autonomous National Statistics Institute is operational.

Prior Actions and Triggers		Results
Prior Actions under DPO 1	**Triggers for DPO 2**	
Pillar C--- Improving competition and performance in key infrastructure sectors		
3.1 Enhancing competition in the ICT sector		
The Recipient's government has prepared and submitted to the National Assembly a draft information and communication technology sector law that sets out a framework for market liberalization.	Government will begin the process of granting additional licenses for the telecoms sector, including initiating a competitive bidding process for a second full-service license.	Increase in the number of Telecom operators with a service license and reduction in the monthly price per 1 GB of mobile data (3G) Baseline: 1 Telecom operator and US$20.81 price (2013) Target: 2 Telecom operators and US$15 price (2015)
3.2 Improving performance in the electricity sector		
To reduce total losses in the electricity sector, the Recipient's government has approved the terms of reference for a recovery and development plan establishing clear objectives for results to be attained by MA-MWE management and has initiated the procurement of the independent expert to prepare such plan by the publication of a call for expressions of interest.	In support of the efforts of the ESRP, to reduce total losses in the sector, the government has adopted the Recovery and Development Plan and has set performance targets for MA-MWE in line with this Plan, and prepared an auditable report setting out the cash flow and debt situation between MA-MWE, EDA, SCH, private fuel supply companies and public sector entities.	Reduction of total losses in the electricity sector Baseline: 45% (2013) Target: 40% (2015)

Annex 2: Letter of Development Policy

UNION DES COMORES
Unité – Solidarité – Développement
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VICE – PRESIDENCE CHARGEE DU MINISTERE DES FINANCES, DE L'ECONOMIE, DU BUDGET, DE L'INVESTISSEMENT ET DU COMMERCE EXTERIEUR, CHARGEE DES PRIVATISATIONS

Cellule des Réformes Economiques et Financières (CREF)

Le Secrétaire Permanent

N° 13/30- MFBECEP/SP *Moroni, le 13 mars 2014*

A
M. Jim Young Kim
Président de la Banque mondiale
Banque mondiale

Objet : Proposition de Don pour la réforme de la gouvernance économique (*Economic Governance Reform Grant ou EGRG*): Lettre de politique de développement.

Monsieur le Président,

Au nom du Gouvernement des Comores, et en mon nom personnel, permettez-moi de vous adresser les meilleurs vœux pour vous-même et votre famille.

Par la présente, j'ai l'honneur de vous adresser une requête de financement pour appuyer la mise en œuvre du Document de Stratégie pour la Croissance et la Réduction de la Pauvreté (DSCRP) à travers un don pour la réforme de la gouvernance économique (*Economic Reform Grant or EGRG*) de l'Association Internationale pour le Développement (IAD). Cette Lettre de Développement (LDP) énumère et décrit les actions déjà engagées et celles restant à initier par le Gouvernement pour mettre en œuvre le programme de réformes qui serait appuyé par l'Association Internationale de Développement (IAD) dans le cadre du don d'Appui budgétaire en cours de préparation pour soutenir les réformes relatives à la gouvernance économique. Je joins à cette lettre la matrice de mesures élaborée en collaboration avec l'équipe de la Banque Mondiale et dont le contenu est détaillé dans cette lettre.

I. Contexte

Depuis l'indépendance de 1975, une instabilité politique récurrente a affecté négativement le développement économique et social de notre pays. Cependant, depuis ces dernières années, ces tensions politiques se sont apaisées, particulièrement depuis les élections de 2010, considérées comme justes et transparentes par la communauté internationale. Avec la stabilité retrouvée, un engagement fort a été pris par le pays tout entier, afin de concentrer nos efforts sur la consolidation de l'unité nationale, l'amélioration du niveau de vie des Comoriens et la

réduction de la pauvreté en vue de nous rapprocher au mieux des objectifs du millénaire pour le développement.

Depuis la prise de fonction du Président de la République, le Gouvernement a affirmé son engagement à poursuivre les objectifs du Document de Stratégie pour la Croissance et la Réduction de la Pauvreté (DSCRP 2010-2014). Des progrès significatifs ont été réalisés pour le renforcement de la gestion macroéconomique et la réalisation des réformes structurelles. Ces efforts ont contribué à une mise en œuvre satisfaisante d'un programme de réformes appuyé par une Facilité élargie de crédit (FEC) du Fonds Monétaire International (FMI), confirmée par la sixième et dernière revue (décembre 2013). En particulier, avec l'atteinte des principaux déclencheurs, les Comores ont atteint le point d'achèvement de l'Initiative des Pays Pauvres Très Endettés (IPPTE) en décembre 2012. L'Union des Comores continue également à bénéficier d'allègements au titre de l'initiative de réduction de la dette bilatérale et multilatérale (MDRI). Cependant, et malgré ces efforts, le Gouvernement est conscient de la vulnérabilité de l'économie nationale et à ce titre, nous nous préparons à négocier un nouveau programme avec le FMI à partir de février 2014.

II. Contexte Macroéconomique

La croissance réelle du PIB a atteint 3% en 2012 après une moyenne d'environ 2 % pour la période 2009–2011. L'accélération graduelle des activités économiques reflète l'amélioration de la performance de l'agriculture de subsistance, ainsi qu'une envolée des prix internationaux du girofle, une hausse de la construction immobilière largement financée par les transferts de la diaspora, et une reprise au niveau des investissements directs étrangers (IDE). L'inflation, toujours à un chiffre, a décéléré de 6,8% en 2011 à 6,3% en 2012. Un environnement international favorable a conduit à la réduction du solde du compte courant de 9,4% à 3,8 % du PIB entre 2011 et 2012. Au niveau des finances publiques, après des dérapages en 2010 et 2011, la performance s'est améliorée considérablement en 2012. Cette performance a été possible grâce à une augmentation des recettes publiques. En 2012, le solde budgétaire primaire a été porté à 3 % du PIB par rapport à 1,6 % du PIB en 2011.

Le Gouvernement a continué en 2013 à stabiliser l'économie et à appliquer les réformes structurelles nécessaires pour une croissance durable et les perspectives de croissance pour 2013 ont été favorables: l'activité a progressé dans le secteur immobilier (construction de logements et infrastructures routières) et dans le secteur de l'agriculture, du fait de bonnes conditions climatiques. On observe également une augmentation vigoureuse du crédit au secteur privé. La croissance réelle devrait atteindre 3,5% en 2013 contre 3% en 2012. L'inflation devrait être autour de 2,3% en moyenne en 2013, grâce à la hausse de la production agricole et à l'évolution relativement positive des marchés internationaux du pétrole et des produits alimentaires. Par contre, le déficit des transactions courantes devrait augmenter pour atteindre 6,1% du PIB, en raison d'une hausse des importations, liée principalement à des projets d'investissements sur financements étrangers ainsi que les ressources du Programme de citoyenneté économique (PCE). Le solde budgétaire primaire a par contre été négatif et représente de -1,2% du PIB, du fait de recettes non fiscales plus faibles que les prévisions.

Bien que la reprise de la croissance économique soit encourageante, le Gouvernement est conscient de la nécessité de continuer la formulation et la mise en œuvre de politiques destinées à renforcer la croissance économique et réduire la pauvreté. Notre objectif est de mobiliser les ressources potentielles de manière plus active afin d'accélérer les efforts de développement pour atteindre les objectifs suivants en 2014 et 2015 : (i) accélérer la croissance réelle du PIB à 4,0 % ; (ii) maintenir l'inflation à près de 3,2 % sur une base annuelle ; (iii) financer un déficit du compte courant à 10,5 % du PIB en 2014 et 9,1 % du PIB en 2015 avec une hausse des transferts courants publics et privés et un ralentissement progressif des importations. Bien que comportant beaucoup de défis, ces objectifs sont

réalisables dans l'hypothèse d'absence de chocs internes et d'un environnement économique international favorable.

Au niveau des finances publiques, nos efforts de consolidation fiscale sont renforcés et le déficit budgétaire primaire devrait être amélioré. Il passerait ainsi de -1,2% du PIB (hors recettes exceptionnelles mentionnées ci-dessus) en 2013 à -0,5 % du PIB en 2014 et 0,1 en 2015. Pour atteindre ces objectifs en 2014, notre intention est: (i) d'intensifier les efforts de mobilisation au niveau de nos administrations fiscales et douanières pour atteindre les objectifs de recettes équivalents à 13,1 % du PIB ; et (ii) d'assurer une gestion rigoureuse des dépenses publiques, afin de réduire la masse salariale de 7,6% en 2013 à 7,3 % du PIB en 2014, de contenir les autres dépenses courantes à 8,5 % du PIB et de porter les dépenses d'investissements financées sur ressources intérieures à 2,4 % du PIB. Il est à noter que l'atteinte des objectifs sur la masse salariale se fera avec la mise en œuvre du logiciel GISE (*Gestion Intégrée des Salaires et Effectifs*) au niveau national. Par ailleurs, les dépenses d'investissement financées sur ressources propres au niveau des secteurs de l'éducation et de la santé seront augmentées pour atteindre environ de 5,7 % du PIB en 2014. Dans l'hypothèse où les évolutions nationale ou internationale induiraient une baisse des niveaux de recettes ou de dons, le Gouvernement est déterminé à prendre des mesures correctrices, notamment pour réduire les augmentations des dépenses prévues au niveau des biens et services et les dépenses d'investissement financées sur ressources internes, ou pour poursuivre un effort vigoureux de recouvrement fiscal.

III. Document de Stratégie pour la Croissance et la Réduction de la Pauvreté

Le DSCRP couvre la période 2010-14 et résulte d'un processus participatif et inclusif, au niveau de l'Union et des iles. Il a été officiellement adopté en septembre 2009 et identifie les axes prioritaires: (i) la stabilisation de l'économie et les bases d'une croissance forte et équitable ; (ii) le renforcement des secteurs clés en mettant l'accent sur le renforcement des institutions et sur un plus grand rôle du secteur privé ; (iii) le renforcement de la gouvernance et de la cohésion sociale ; (iv) l'amélioration de l'état de santé du grand public ; (v) la promotion de l'éducation et la formation professionnelle ; et (vi) la promotion de la durabilité environnementale et de la sécurité civile.

Le DSCRP jette les fondements des programmes de réformes qui seraient appuyées par le Don pour la réforme de la gouvernance économique. En développant les réformes appuyées par cette opération, le Gouvernement est conscient que pour être efficace, le programme doit être complet et se focaliser sur les mesures macroéconomiques et structurelles nécessaires pour accélérer la croissance et la réduction de la pauvreté, notamment la fourniture des services publics aux plus nécessiteux. A cet effet, le don pour la réforme de la gouvernance économique repose sur trois piliers de politiques:

a) le renforcement de la gouvernance économique;
b) la transparence dans la gestion économique; et
c) l'amélioration de la compétitivité et de la gestion de secteurs clefs liés aux infrastructures.

Les trois axes de politique de l'EGRG sont alignés sur les reformes identifiées dans le DSCRP 2010-14 et sur les axes prioritaires de la nouvelle Stratégie de croissance accélérée et de développement durable (SCA2D) en préparation. Le premier pilier concerne l'amélioration de la gestion des finances publiques et la gestion de la dette publique. Le deuxième pilier porte sur l'amélioration de la transparence, le renforcement de la gouvernance et la lutte contre la corruption, la préparation des statistiques et le renforcement de la gouvernance économique dans le secteur de la pêche. Le troisième pilier vise sur l'amélioration de la concurrence et la gestion dans les secteurs des télécommunications et de l'électricité.

Cependant, il convient de rappeler qu'après une décennie de mise en œuvre du DSCRP, les résultats enregistrés se sont révélés en dessous des attentes au fil des différentes revues menées, et il s'est avéré nécessaire de recadrer l'action afin de consolider les acquis, de corriger les insuffisances et de relever les défis persistants et émergeants en matière de développement national. C'est dans cette optique que le Gouvernement a décidé de procéder à l'élaboration d'une nouvelle Stratégie de croissance accélérée et de développement durable (SCA2D) devant couvrir la période quinquennale de 2015-2019. Ces travaux permettront notamment de définir les axes stratégiques préliminaires de la SCA2D qui seront soumis à l'appréciation de l'atelier de planification stratégique.

IV. Actions préalables et prochaines étapes supportées par l'EGRG

Renforcement de la gouvernance économique

Le gouvernement a poursuivi ses efforts afin d'améliorer la gestion des finances publiques, et mettre en application la *Loi des Opérations Financières de l'État*, qui a été votée par l'Assemblée Nationale et promulguée par le Président de l'Union des Comores en Août 2012. Nos efforts actuels visent à rendre opérationnelle la direction générale de la comptabilité publique et du trésor. La Loi de Finances 2014 comprend une dotation de KMF 3 million pour rendre pleinement opérationnelle la direction générale de la comptabilité publique et du trésor. De plus, après la démission en 2013 du Directeur Général qui avait été nommé dans le cadre des réformes appuyées par l'AID au titre de l'*Economic Reform Grant* consenti par l'AID aux Comores l'année dernière, nous avons renforcé nos efforts et tous les responsables clef (Directeur Général, Coordonnateur, Chefs des 3 Services d'Appui, Directeur de la Comptabilité publique, Directeur du Contrôle interne et de l'Audit, Directeur de la Dette, Chef du service des Etudes, Chef du Service des Assurances, Trésorier Payeur Général, et Trésoriers Payeurs de chacune des trois Îles Autonomes) ont été nommés par le décret n° 14-025/PR et par le arrêté n° 14-028/VP-MFEBICEI/CAB (**Action préalable 1**). Nous travaillons pour mettre à disposition de l'ensemble du personnel de la nouvelle direction de nouveaux bureaux et nous espérons que le nouveau bâtiment sera prêt avant mars 2015. Comme convenu, nous espérons que la Banque Centrale de Comores et la direction générale de la comptabilité publique et du trésor adopteront avant décembre 2014 un accord pour guider les échanges d'information entre les deux institutions (**déclencheur de la préparation d'un deuxième EGRG**).

Nous avons intégré dans Loi de Finances 2014 quatre comptes hors budget inscrits dans le trésor. Ainsi, la liste des régies de recettes a été intégrée dans la Loi de Finances 2014, et un arrêté n° arrête n° 14-029/VP-MFEBICEI/CAB a énuméré la totalité des comptes que l'administration comorienne, (au niveau de l'Union et des Iles) détient à la Banque Centrale de Comores (**Action préalable 2**). Nous poursuivrons ces réformes de telle sorte que tous les comptes que l'administration comorienne détient à la Banque Centrale des Comores soient inclus dans la liste des comptes du Trésor et que cette liste soit annexée à la Loi de Finances 2015.

L'exhaustivité de la loi des finances a été améliorée en 2014. En effet, celle-ci contient davantage de précision quant: (i) aux enveloppes globales par ministère, (ii) à l'état d'exécution de la Loi de Finances 2013 jusqu'au 30 septembre 2013 présenté dans le même format que le projet de la Loi de Finances, et (iii) aux données sur les recettes publiques (ressources propres et ressources externes) dans les principales rubriques de la nomenclature budgétaire, y compris les données des exercices 2013 (**Action préalable 3**). Il est prévu que le conseil des ministres adopte un programme d'investissements publics, notamment les opérations sur financement extérieur, en utilisant la nomenclature budgétaire déjà adoptée par décret n° 13-131/PR et que ce programme soit annexé à la Loi de Finances 2015 (**déclencheur de la préparation d'un deuxième EGRG**).

Néanmoins, malgré l'atteinte des objectifs de la PPTE et la réduction consécutive de la dette, et les efforts pour maitriser la dette publique, les Comores continuent à être en risque de surendettement. Aussi, une analyse de la situation de la dette (comportant une analyse des stocks au 31 octobre 2013) a été effectuée par le ministère des finances et incluse dans la Loi des Finances 2014 et est disponible sur le site web du ministère des finances à l'adresse suivante: www.finance.gouv.km (**Action préalable 4**). Nous comptons renouveler régulièrement cette analyse et l'intégrer à chaque fois dans la loi de finances annuelle. Nous travaillons aussi à la préparation d'une loi sur la gestion de la dette publique avec le soutien de la Banque Africaine de Développement et nous espérons que la première version de ce projet sera disponible pour commentaires de toutes les parties prenantes avant avril 2014, de manière à ce que le conseil de ministres puisse l'adopter et que le projet de loi puisse être envoyé à l'Assemblée Nationale avant juin 2014. Ainsi la loi de gestion de la dette pourrait être adoptée par l'Assemblée Nationale d'ici décembre 2014. (**Déclencheur de la préparation d'un deuxième EGRG**)

Transparence dans la gestion économique

En matière de lutte contre la corruption, le site web de la commission nationale de prévention et de lutte contre la corruption est désormais opérationnel. Il présente et permet d'accéder en ligne au rapport d'activité de la commission. Ce rapport inclut une liste des agents de l'Etat qui ont effectué leur déclaration de patrimoine (**Action préalable 5**). A ce jour, le total d'agents de l'Etat qui ont effectué leur déclaration de patrimoine représente 30% des agents soumis à cette obligation. Le gouvernement prévoit de présenter un projet d'avenant à la loi no. 08-013/AU relative à la transparence des activités politiques, économiques, financières et sociales (« loi anti-corruption ») à l'Assemblée Nationale en 2015, pour donner des pouvoirs d'instruction à la commission nationale de prévention et de lutte contre la corruption. Nous espérons qu'une première version de ce projet sera disponible pour commentaires de toutes les parties prenantes avant mai 2014, de manière à ce que le conseil de ministres puisse l'adopter et que le projet de loi puisse être envoyé à l'Assemblée Nationale avant juin 2014. Ainsi, la loi anti-corruption pourrait être adoptée par l'Assemblée Nationale avant décembre 2014.

Pour renforcer la gouvernance économique du secteur de la pêche, le gouvernement a décidé de publier tous les accords de pêche et toutes les licences de pêche en vigueur au cours des douze derniers mois et les recettes associées. A cette fin, le Gouvernement a adopté et publié le décret n° 14-034/PR rendant obligatoire la publication systématique des droits de pêche consentis dans les eaux nationales ainsi que les revenus y afférent et leur affectation (**Action préalable 6**). Ces informations détaillées ont été placées sur le site Web de la Cellule des Réformes Economiques et Financières et un résumé a été publié dans un journal de couverture nationale. Cette démarche sera renouvelée chaque semestre. Le gouvernement entend également adopter un décret qui permettra de rendre publique la liste de tous les bateaux de pêche qui opèrent sous pavillon comorien. Nous espérons qu'une première version de ce projet sera disponible pour commentaires de toutes les parties prenantes avant juin 2014, de manière à ce que le conseil de ministres puisse l'adopter avant novembre 2014 (**déclencheur de la préparation d'un deuxième EGRG**).

Le gouvernement est très engagé dans l'amélioration de la qualité des statistiques. Au plan institutionnel, le décret n°14-008/PR a été adopté. Ce décret a créé le Conseil National des Statistiques et fixé ses attributions (**Action préalable 7**). Il est chargé de coordonner toutes les institutions qui fournissent et analysent des données statistiques et de superviser le démarrage effectif des activités de l'Institut National des Statistiques, lui-même créé par décret n°14-007/PR. Nous espérons que la mise à disposition de l'Institut National des Statistiques de ressources financières et humaines lui permettant d'exercer ses activités pendant 2015 seront prévues dans la Loi de Finances 2015. Nous travaillons aussi en parallèle, avec soutien entre autres de la Banque Africaine de Développement, à la préparation d'une enquête 1-2-3, qui

permettra de mettre à jour des données sur la pauvreté et la distribution des revenus. Les enquêtes 1 et 2 ont été déjà finalisées et nous espérons que l'enquête 3 sera réalisée avant août 2014 de manière à permettre l'actualisation du profil de pauvreté avant décembre 2014. Nous avons aussi travaillé à l'élaboration des comptes nationaux révisés qui prendront mieux en compte le secteur informel. Nous espérons que des comptes nationaux révisés jusqu'à 2012 pourront être préparés avant novembre 2014 de manière à ce que le conseil de ministres puisse les adopter formellement avant décembre 2014 (**déclencheur de la préparation d'un deuxième EGRG**).

Amélioration de la compétitivité et de la gestion de secteurs clés liés aux infrastructures

Le gouvernement s'est engagé à libéraliser le secteur des télécommunications conformément aux dispositions du plan d'action pour le secteur, adopté en Mars 2012. Pour faciliter ce processus l'IDA a mis à disposition des Comores un crédit de 22 millions de dollars américains, pour le financement de la quatrième phase du Programme d'infrastructures régionales des communications (RCIP-4) qui a été approuvé par le Conseil de Administration de l'AID en Septembre 2013. Le Gouvernement a préparé, adopté en Conseil des Ministres et envoyé à l'Assemblée Nationale un projet de loi de libéralisation du secteur des télécommunications qui fixe le cadre de la libéralisation du marché (**Action préalable 8**). Nous espérons que ce projet sera discuté à l'Assemblée Nationale et adopté par l'Assemblée Nationale avant avril 2014. Il s'agira du premier pas vers l'octroi de nouvelles licences d'opération dans le secteur des télécommunications. Nous espérons qu'une première version des documents d'appel d'offres sera disponible pour initier un appel d'offres compétitifs pour un deuxième opérateur dans le secteur des télécommunications avant juin 2014, et lancer formellement l'appel d'offres (après approbation des documents par le Conseil des Ministres) avant décembre 2014.

Le gouvernement s'est engagé à améliorer la gestion technique des entreprises publiques dans le secteur électrique (MA-MWE, EDA et SCH). Avec le soutien du projet pour la reforme électrique financé par l'AID, le gouvernement va mettre en place un cadre de performance pour MA-MWE, qui permettra une gestion ciblée sur des résultats. A cette fin, le gouvernement a adopté les termes de référence du consultant chargé de préparer le Plan de redressement et de développement qui établira de manière claire les résultats à atteindre dans le secteur de l'électricité et qui servira de base pour le cadre de performance. Avec la publication d'un appel à expressions d'intérêt, un appel d'offres compétitif a été aussi lancé pour la sélection de ce consultant dont il est prévu qu'il commence ses activités avant mai 2014 (**Action préalable 9**). Un premier rapport est espéré avant septembre 2014. L'adoption de ce rapport et des objectifs de performance de MA-MWE par le conseil de ministres est prévu avant décembre 2014 (**déclencheur de la préparation d'un deuxième EGRG**). Aussi en parallèle, le gouvernement entend préparer un rapport pour estimer les dettes croisées entre MA-MWE, EDA SCH et les opérateurs privés du secteur pétrolier. Des termes de référence pour ce travail seront finalisés avant mai 2014 pour avoir un rapport préliminaire avant novembre 2014.

V. Conclusion

Au nom du gouvernement de l'Union des Comores, je tiens à remercier l'AID pour l'appui qu'elle a fourni à notre pays. Ce soutien a été et continue d'être essentiel pour jeter les bases et élargir la portée de nos initiatives de développement.

Le Gouvernement s'engage à prendre toutes les mesures de politiques décrites dans cette lettre et résumées dans la matrice politique ci-jointe. Elles sont entièrement conformes à la détermination du Gouvernement à guider l'Union des Comores sur le chemin de la croissance, de la diversification et du renforcement de l'économie, de la lutte contre la pauvreté et de la gestion économique prudente. Je suis confiant que cette demande de soutien à notre programme de réformes recevra votre considération favorable.

OUBEIDI MZE CHEI
Conseiller du Chef de l'Etat,
Gouverneur pour les Comores auprès de la Banque mondiale
Secrétaire Permanent de la CREF

Annex 3: Fund Relations

IMF Executive Board Concludes the Sixth and Final Review under the Extended Credit Facility Arrangement with the Union of the Comoros

Press Release No. 13/509
December 13, 2013

The Executive Board of the International Monetary Fund (IMF) today completed the sixth and final review under the three-year arrangement under the Extended Credit Facility (ECF) for the Union of the Comoros. The completion of the review enables the disbursement of an amount equivalent to SDR 1.55 million (about US$2.4 million). In completing the review, the Board approved a waiver for the nonobservance of the performance criterion on net credit to the government at end-June 2013.

The three-year Extended Credit Facility (ECF) arrangement for the Union of the Comoros was approved in September 2009, for the equivalent of SDR 13.5725 million (US$13.57 million, or 152.5 percent of quota, see Press Release No. 09/315).

Following the Executive Board's discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair issued the following statement:

"The authorities are to be commended for significant progress in implementing their Fund-supported adjustment program. As the financing arrangement under the Extended Credit Facility draws to a close, structural reforms have advanced and the main macroeconomic objectives have been achieved. Growth with low inflation has been sustained, and the fiscal position has strengthened. Looking ahead, it will be important to safeguard macroeconomic stability and further reduce poverty through prudent policies and continued reforms.

"Additional efforts are needed to strengthen cash management, budget preparation, and expenditure control as well as bolster domestic revenue mobilization. It will also be critical to preserve the gains from debt relief through continued reliance on concessional financing and improved debt management.

"Structural reforms of public utilities and further investment in infrastructure will help accelerate growth and poverty reduction. Plans to reform the energy sector and address other supply-side bottlenecks hold out the promise to improve the business environment and strengthen medium-term prospects.

"Going forward, strong policies remain crucial, and continued close engagement with the Fund will be important."