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UNION OF THE COMOROS

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Table of Contents

List of Tables, Graphs and Boxes

List of Annexes

Acronyms, Abbreviations and Currency Equivalents

ADB	African Development Bank
ADF	African Development Fund
AFD	French Development Agency
ALSF	African Legal Support Facility
AU	African Union
AWF	African Water Facility
BCC	Central Bank of the Comoros
BPW	Building and Public Works
CAR	Commitments at Risk
CCG	Comoro Combined Group
CCIA	Chamber of Commerce, Industry and Agriculture
CET	Common External Tariff
CGH	Comoro Gulf Holding
CGP	General Planning Commission
COMESA	Common Market for Eastern and Southern Africa
CSP	Country Strategy Paper
DWSSP	Drinking Water Supply and Sanitation Project
ECF	Extended Credit Facility
EDA	Anjouan Power Utility
EIM	Comprehensive Household Survey
EPCA	Emergency Post-Conflict Assistance
EU	European Union
FSF	Fragile States Facility
GDP	Gross Domestic Product
GEF	Global Environment Facility
HDI	Human Development Index
HIPCI	Heavily Indebted Poor Countries' Initiative
ICP	International Comparison Programme
ICT	Information and Communication Technologies
I-CSP	Interim Country Strategy Paper
ILO	International Labour Organization
IMF	International Monetary Fund
IOC	Indian Ocean Commission
KMF	Comorian Franc
LCE	Law on Economic Citizenship
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MSME	Micro-, Small- and Medium-Sized Enterprise
MTS	Medium-Term Strategy
NAPCC	National Action Plan on Climate Change
PAR	Portfolio at Risk
PAREGF	Economic Reform Support and Financial Governance Programme
PFM	Public Finance Management
PMU	Project Management Unit
PPIP	Portfolio Performance Improvement Plan
PPP	Public-Private Partnership
PRCI	Institutional Capacity Building Project
PRGS	Poverty Reduction and Growth Strategy
RISP	Regional Integration Strategy Paper
RWSSI	Rural Water Supply and Sanitation Initiative
SNAC	National Union of Comorian Farmers
UA	Unit of Account

UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNICEF	United Nations Children's Fund
USD	United States Dollar
VAT	Value-Added Tax.

Currency Equivalents, April 2011

UA 1= KMF 560.96
EUR 1 = USD 1.36
EUR 1 = KMF 491.97

Fiscal Year

1 January **-** 31 December

This report was prepared following a dialogue mission from 10 to 18 September 2011 led by Mr. Steve KAYIZZI-MUGERWA, Regional Director, East Africa II (OREB), it included Mr. Philippe TRAPE, Senior Country Economist for the Comoros, OREB, Mr. Donatien KOUASSI, Principal Programme Officer, OREB and Mrs. Anouchka NICOLET, Principal Financial Analyst, OSFU participated. Messrs. Solomane KONE, Lead Economist, OREB, Koffi Marc KOUAKOU and Nirina LETSARA, Statisticians, ESTA, Michel MALLBERG, Principal Economist, OSGE and Jean Louis KROMER, Principal Natural Resources Management Officer, OSAN, also contributed to the report preparation. The content of this strategy was discussed with the Comorian authorities at a workshop held in Moroni on 12 September 2011 and has been shared with the Comorian civil society and private sector representatives.

I. INTRODUCTION

1.1 The Comoros provides a good illustration of the challenges and opportunities facing countries emerging from domestic crisis and the capacity/determination of the international community to effectively assist them.

1.2 Following the Bank's re-engagement in the Comoros in 2009, the previous 2009-2010 Interim Country Strategy Paper (I-CSP) was designed as a flexible and rapid intervention instrument to effectively address the post-crisis situations characterized by institutional, economic and financial fragility. The I-CSP was also designed as a transitional instrument aimed at supporting and building the Government's capacity to update its 2009-2014 Poverty Reduction and Growth Strategy (PRGS).

1.3 To that end, and in order to meet the country's many needs, the Bank Group focused the I-CSP on two pillars: (i) building economic and financial governance capacity; and (ii) support to the drinking water supply and sanitation strategy.

1.4 Over the period covered by the I-CSP, the Comoros made progress in the areas of macroeconomic management and growth, with development partner support. However, the situation of fragility persists and the progress made remains insufficient as a basis for a sustainable and long-lasting development process. In this context, the Comoros is unlikely to achieve the bulk of the Millennium Development Goals (MDG).

1.5 Moreover, the macroeconomic management and governance efforts should be strengthened. The Comoros must also speed up actions aimed at creating the appropriate conditions for a structural change in the economy, in particular by improving the business climate and establishing strategic infrastructure.

1.6 This 2011-2015 CSP, which will cover the ADF-12 cycle and part of the ADF-13 cycle, is aligned with the Poverty Reduction and Growth Strategy (PRGS). It aims to provide an adequate, targeted response to the country's many challenges in order to consolidate peace, diversify the economy and create jobs. Its implementation will also benefit from the resources of Pillar 1 of the Fragile States Facility (FEF), the Comoros' eligibility for which was approved by the Boards in September 2011[1].

II. COUNTRY CONTEXT AND PROSPECTS

2.1 Political, Economic and Social Context

2.1.1 Political Context

2.1.1.1 Over the 1997-2007 period, the Comoros faced a major political and economic crisis which contributed to the country's international isolation, the migration of young people and the reversion to the informal sector and subsistence activities. The end of the Anjouan separatist crisis in 2007 laid the foundations for the gradual normalization of political life in the country after more than a decade marked by a serious institutional crisis.

2.1.1.2 However, this process was put to the test following the decision taken by President Ahmed Abdallah Sambi to extend his term of office which expired on 26 May 2010 by an additional eighteen (18) months after a disputed constitutional reform and an opposition boycott of Congress. In particular, this reform aimed at ensuring that the election of the President of the Union coincided with that of the Governors of the three islands (Grande Comore, Anjouan and Moheli) on 27 November 2011.

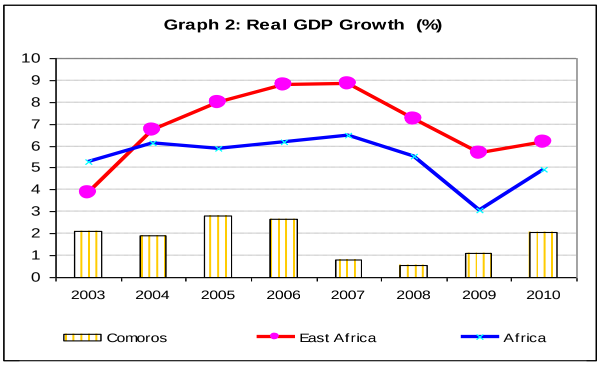
[1] Refer to: 'Second Cycle Assessment for Eligibility of Countries to the Fragile States Facility (FSF) Supplemental Support Funding' – Revised Version (ADB/BD/WP/2011/120/Rev.1 and ADF/BD/WP/2011/74/Rev.1)

2.1.1.3 Following African Union (AU) mediation, an agreement was reached between the parties to hold the Presidential election on 27 December 2010. The winner was Ikililou Dhoinine, outgoing Vice-President of the Union, who was officially sworn in on 26 May 2011. A new Government was appointed by Decree on 1 June 2011.

2.1.2 Economic Context

2.1.2.1 Over the past decade, economic growth in the Comoros has been erratic, partly due to political-related difficulties (cf. Figure 1). The economy has gradually recovered since 2008. Real GDP, driven by agriculture and services, rose by 0.6% in 2008, 1.1 % in 2009 and 2.1 % in 2010. In 2011, real GDP is expected to grow at around an average 2%, below the projected growth for East Africa.

Graph 1: Real GDP Growth Rate

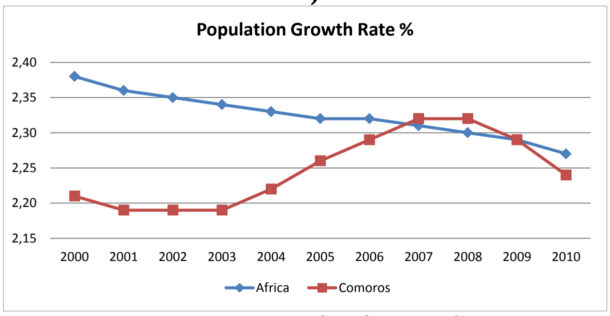


Source: ADB, Statistics Department

2.1.2.2 This recent improvement is partly due to increased public investment (mainly financed by external aid), an upturn in construction related to Diaspora remittances, an improvement in tourism activities and credit expansion[2]. However, the recovery of economic growth remains below the annual population growth, which, although falling since 2008, is still above 2%. These growth trends are not strong enough to check the current cycle of underemployment and poverty (cf. Figure 2).

[2] Domestic credit increased by 17% between December 2009 and December 2010, and credit to the economy by 28.5% over the same period.

Graph 2: Population Growth Trend (2000-2010)



Source: ADB Statistics Department, based on United Nations online data.

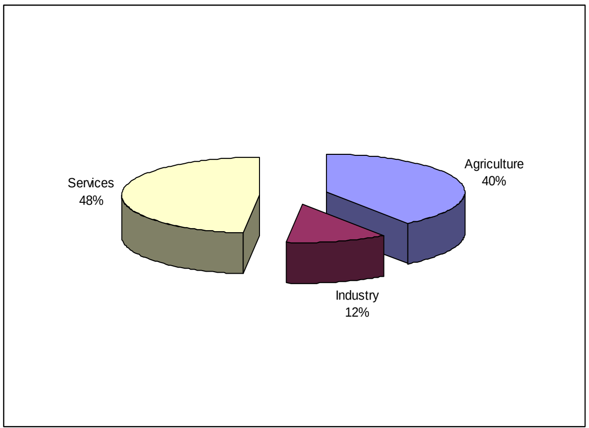
2.1.2.3 Economic growth could accelerate and reach an average of 4% by 2015, provided there is a rapid revival of public and private investment in the three high potential sectors of activity that are the mainstay of the Comoros economy (agriculture, fisheries and tourism). Additional budget resources are required to strengthen the implementation of structural reforms, especially under the Programme supported by the IMF and the other development partners, including the Bank.

Growth Factors

2.1.2.4 **Structural Stagnation**. Since the Comoros became independent in 1975, there has been no real structural transformation of its economy. The primary (agriculture, fisheries and, to a lesser extent, livestock) and the tertiary (trade and services) sectors are the main drivers of the economy.

2.1.2.5 Agriculture and fisheries contribute up to 40% of GDP and provide about 80% of jobs. Agricultural exports also account for the bulk of export earnings. In 2010, the main exports were prepared vanilla, ylang ylang essence, cloves and food produce. The share of the secondary sector in GDP remains low (12%), in particular industry (cf. Graph 3).

Graph 3: GDP Breakdown in 2010 (%)



Source: ADB, Statistics Department

2.1.2.6 **Structural Crisis**. For several years, the agricultural sector has experienced a major structural crisis affecting the cash crop sub-sector, especially vanilla, production volumes of which have dropped sharply[3]. The Comoros' share of the international vanilla market, currently estimated at 3,000 tonnes, now only represents 2% of world exports.

Table 1: Export Trend 2008- 2010

	Δ 2008-2010 (%)	
	Quantities	**Prices**
Vanilla	- 17.14	- 48.06
Cloves	373.62	5.71
Ylang Ylang	10.42	- 8.54
Other products	279.66	15872

Source: Central Bank of the Comoros, 2011

2.1.2.7 With regard to ylang-ylang, of which Comoros is the world's top producer, production volumes have been less severely affected by the uncertainties of the international economic situation and reached 45 tonnes in 2010. Clove production is mainly counter-cyclical and was 1,700 tonnes in 2009, compared with 3,500 tonnes in 2007, despite the maintenance of producer prices at about KMF 800/kg.

2.1.2.8 These unfavourable trends result from a combination of factors, in particular falling global demand, keen competition from artificial flavours and fragrances in the world agro-food and cosmetics industry, as well as the liberalization of the sector in 2007. This situation has brought about a significant on-going change in the Comorian agricultural sector.

2.1.2.9 **Intra-sector Change.** In recent years, the structural crisis in the cash crop sub-sector has resulted in a shift by producers towards food crops (+40% between 2007 and 2010), which are more remunerative, and for which there is sustained demand both for domestic consumption and export, the latter especially to Mayotte (cf. Table 2).

2.1.2.10 The fisheries and tourism sectors represent another potential growth challenge for the Comorian economy. Currently, only 45% of estimated fishery potential of 33,000 tonnes is tapped annually.

Table 2
Agricultural Production Trend, 2007-2010 (Tonnes)

	2007	**2010**	**Δ (%)**
Tubers	79	108	37
Legumes	10.3	11.9	16
Bananas	68	75	10
Vegetables	956	1531.60	60
Fruits	3696	5000	35
Total	4809.3	6726.5	39.8

Source: SNAC, 2010

2.1.2.11 The tourism potential is also greatly under exploited. Its market share is marginal in relation to regional and international demand for tourism products in the sub-region in Mauritius and the Seychelles and, to a lesser extent, Madagascar. These two sectors could considerably increase their contributions to the economy and constitute a major vehicle for value added and employment. Therefore, there is urgent need to define appropriate investment plans and strategies.

2.1.2.12 On the demand side, the Comorian economy is structurally dependent on private consumption, which represented 91.3% of GDP in 2010 and the *de facto* main GDP counterpart.

[3] In 1990, vanilla production was 200 tonnes compared with 30 tonnes in 2010, which represents a six-fold drop in production in 20 years.

Table 3
Selected Macroeconomic Indicators
(% of GDP)

	2008	2009	2010 (a)
GDP Growth (%)	0.6	1.1	2.1
Domestic Investment	14.2	12.9	16.0
Public Investment	6.4	5.9	8.6
Private Investment	7.8	7.0	7.4
Current Account Balance	-13.6	-7.8	-9.4
Total External Debt	63.5	53.4	44.8
External Debt Service	4.5	10.5	11.8

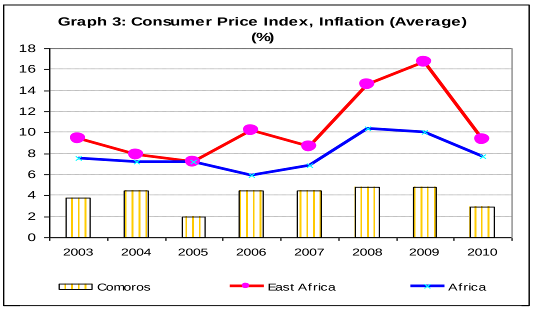
Source: ADB, Statistics Department,
(a) Provisional figures

Macroeconomic Management

2.1.2.13 Since the resolution of the Anjouan crisis, and despite the resumption of technical and financial cooperation with the donors, the macroeconomic situation in the Comoros remains fragile.

2.1.2.14 **Inflation**. Since 2002, the inflation rate has not risen above the 4.8% reached during the 2008 food and energy crisis. It fell to 4.7% in 2009 and 3.8% in 2010. However, it remains sensitive to current public expenditure, illustrated in particular by the sharp hike in prices during the first half of 2010 following payment of part of the civil service salary arrears using a grant from Qatar of USD 26 million in May 2010[4].

Graph 4: **Inflation Rate Trend (%)**



Source: ADB, Statistics Department

2.1.2.15 Against this backdrop, the Central Bank of the Comoros (BCC) has opted for a prudent liquidity sterilization policy through an increase in the banking sector mandatory reserve ratio from 25 to 30%. Furthermore, the Comoros, as a net importer, remains highly sensitive to imported inflation.

2.1.2.16 **Balance of Payments.** The continuing widening of the current account deficit (+13.6% of nominal GDP on average over the 1997-2010 period) and the balance of trade deficit (+17.8% over the 1998-2010 period) illustrates the fragility of the Comorian economy and its high sensitivity to changes in the terms of trade.

2.1.2.17 The recent major imbalances are related to the very sharp rise in imports and in prices of food and oil products in 2008 and 2009. Thus, imports in value increased by 43% from 2008 to 2010, from KMF 60.3 billion to KMF 86 billion. Over the same period, the value of imported oil products rose to KMF 19.5 billion, up by 58% on 2009.

2.1.2.18 Imports are mainly driven by demand for vehicles and construction materials, fuelled by migrant remittances. At the same time, the overall value of imports has climbed by 24% despite a downward trend in agricultural exports observed since 2007. This is related to the slump in world prices of vanilla to below USD 20/kg in 2010 compared with peaks of USD 450 in 2004.

2.1.2.19 **Public Finance**. Although the situation remains fragile, progress has been made under the IMF's 2009-2011 Three-Year Programme under the Extended Credit Facility (ECF), especially regarding the mobilization of domestic resources and collection of direct and indirect (customs duties) taxes. Hence, tax receipts increased by 7.8% between 2009 and 2010, mainly driven by a rise in customs duties. Furthermore, non-tax receipts from revenue from the programme related to the *Law on Economic Citizenship* rose by 17.7%[5].

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[4] A Conference on Investment and Growth in the Comoros was held in Doha (Qatar) on 9 and 10 March 2010, in which the Bank participated. It resulted in a USD 540 billion investment programme.

[5] This controversial law was promulgated by the Parliament of the Union on 27 December 2008 and aims to confer Comorian nationality on any non-Comorian project sponsor investing in the Comoros,

2.1.2.20 The budget deficit reached 3.9% of GDP in 2008. It narrowed to 1% of GDP in 2009 as a result of exceptional external financial contributions received by the country.

2.1.2.21 In 2010, a large surplus on the budgetary balance[6] was expected as a result of external support, expenditure control, domestic resource mobilisation and collection of direct and indirect (customs duties) taxes.

2.1.2.22 The budgetary situation in 2011 could turn out to be more complex under the combined effect of: (i) a reduction in grants; (ii) major wage concessions made in 2009 and 2010 to civil servants in the education and health sector; and (iii) and an increase in domestic debt arrears.

Table 4
Key Public Finance Indicators (% of GDP)

	2008	**2009**	**2010(a)**
Revenue	23.3	21.1	26.0
Expenditure	27.2	22.1	22.8
Budgetary Balance (b)	-3.9	- 1.0	3.2

Source: ADB, Statistics Department
Note: (a) Estimate (b) Including grants

2.1.2.23 The Comoros' budgetary viability remains closely linked to the size of the civil service wage bill, which is the country's main expenditure item. The public service wage bill has increased by 7.6% per year since 2006, i.e. at the same rate as total central government expenditure.

2.1.2.24 The wage bill is expected to increase from 9.2% of GDP in 2008 to 10% of GDP and 76% of central government revenue, excluding grants in 2011[7]. This situation has significantly weakened central government public investment resources. Therefore, the Comoros is becoming increasingly dependent on external resources (borrowing, grants and migrant remittances) to ensure budgetary balance and the overall financing of the economy. Thus, migrant remittances reached a record level of 25% of GDP in 2010.

2.1.2.25 **Public Debt**. Comoros' public debt is unsustainable. The debt burden (debt principal and arrears) represents a major constraint on economic development. The net present value of Comoros' debt represented 41.4% of GDP and 308% of exports of goods and services in 2010. For its part, external debt service represented 11.8% of exports of goods and services. The country reached the Highly Indebted Poor Country's (HIPC) Decision Point in July 2010, thus paving the way for initial interim debt relief of KMF 16.7 billion (USD 48.4 million)[8]. In November 2009, the Comoros also benefited from a USD 13.6 million initial bilateral debt relief from the Paris Club.

2.1.2.26 Attainment of the Completion Point, expected in the third quarter of 2012, is critical for the country's medium-term viability. It will pave the way for a significant reduction in the debt stock mainly through the Multilateral Debt Relief Initiative (MDRI). Outstanding debt to

in particular from the Gulf countries (Kuwait, United Arab Emirates). In particular, it led to the establishment of two large companies - the *Comoro Combined Group (CGG) and the Comoro Gulf Holding (CGH).* These two groups have maintained a dominant position and, in some cases, have benefited from directly negotiated government contracts. Their influence has, however, waned slightly since the formation of the new Government in September 2011.

[6] The originally set target under the IMF-backed Programme was 1.5% of GDP.

[7] The absence of a centralized public service database and ex-ante control of the decisions of the Presidents of the Executive Branches of the three islands in terms of recruiting new staff makes civil service management highly arbitrary. A civil service census was initiated in June 2011 with World Bank support.

[8] The Bank is not contributing to this interim debt relief in view of its USD 33.7 million contribution under the Bank's 2008 Arrears Clearance Programme. It will, however, participate in the Completion Point Debt Relief Programme.

exports of goods and services will be brought down to 86%.

2.1.2.27 Furthermore, special attention should be paid to arrears on central government domestic debt owed to the private sector (suppliers) and public enterprises. Representing KMF 864 million (i.e. 0.5% of GDP) in early 2010, they constitute a serious handicap for the economic development and financial viability of Comorian operators.

Governance, Business Climate and Competitiveness

2.1.2.28 According to the World Bank's *Worldwide Governance Indicators*, the Comoros is regularly ranked in the group of countries whose performance is inadequate. This situation is the legacy of a long period of internal conflict which has affected the country and limited the effectiveness of national institutions.

2.1.2.29 However, with the support of the development partners, progress has been made in recent years. Thus, the overall harmonized Country Policy and Institutional Assessment (CPIA) score for Comoros rose from 2.35 in 2008 to 2.70 in 2010. However, major governance challenges remain, especially concerning the quality of institutions and public sector management - areas in which performance is stagnating.

2.1.2.30 **Inefficiency of the administration and public services.** The inefficiency of the administration and public services constitutes a major constraint on Comoros economic development. This inefficiency stems both from the deterioration in the quality of human resources in Government departments and the absence of capital budgets which would enable employees in strategic public services (agriculture, tourism, fisheries, transport) to perform their duties. The failure to seek synergies and cost-sharing policy for the different administrations also contributes to this inefficiency.

2.1.2.31 **Regulatory Gap.** The regulatory gap is a major constraint on the development of the Comorian private sector. There is little regulation of the Comorian economy. The country's limited size and insular nature are not conducive to competition owing to the existence of *de facto* monopolies and/or collusion among operators. Bulk imports and exports of cash and semi-processed products are dominated by a limited number of operators. The supply of strategic public goods such as electricity, water and telecommunications is the prerogative of State-owned monopolies. This weak regulatory climate is also the result of the currently outdated Public Procurement Code. The National Assembly is expected to shortly consider a new Procurement Code.

2.1.2.32 Furthermore, the recent trend of awarding directly negotiated concession agreements and/or *barter agreements* under the *Law on Economic Citizenship (LCE)* is a major breach of the rules of economic transparency.

Table 5
Trend of Governance Indicators in the Indian Ocean (1998-2010) [9]

1998	Comoros	Mauritius
Accountability	- 0.64	+ 1.01
Political Stability	+ 0.47	+ 0.97
Government Effectiveness	- 1.74	+ 0.46
Regulatory Quality	- 1.28	+ 0.45
Rule of Law	- 1.29	+ 1.00
Control of Corruption	- 1.29	+ 0.17

2010	Comoros	Mauritius
Accountability	- 0.27	+ 0.74
Political Stability	- 0.68	+ 0.53
Government Effectiveness	- 1.77	+ 0.77
Regulatory Quality	- 1.56	+ 0.85
Rule of Law	- 1.15	+ 0.84
Control of Corruption	- 0.78	+ 0.68

[9] The governance score awarded to each criterion is in a range between –2.5 and +2.5. The closer the score moves to +2.5, the better the performance.

Source: World Bank, *Worldwide Governance Indicators, various years*

2.1.2.33 **Business Climate and Competitiveness**. In the World Bank's 2010 Doing Business Report, the Comoros was ranked 162nd out of 183 countries, two positions lower than in 2009. In addition to the governance-related constraints, potential national or foreign investors face many difficulties relating to starting or closing businesses, recruitment, taxation as well as access to financing and contract execution.

2.1.2.34 In addition, the lack of independence and the arbitrary nature of court rulings as well as the absence of courts of arbitration competent to settle trade disputes also constitute factors of insecurity for investors. The absence of a Supreme Court represents a major handicap for business.

2.1.2.35 The **significant infrastructure gaps** are likely to exacerbate human and institutional-related constraints. The poor state of basic transport (maritime, road and air) infrastructure and high factor costs (electricity, water, labour and communications) is contributing to the weakening of Comoros' economic competitiveness in relation to the regional average and its immediate neighbours (Madagascar, Mauritius and the Seychelles).

Table 6
Business Climate in the Indian Ocean

Criteria	**Comoros**	**Mauritius**
Ranking	**159**	**20**
Starting a Business	168	12
Dealing with Licenses	68	39
Registering Property	99	69
Getting Credit	168	89
Protecting Investors	132	12
Paying Taxes	96	12
Trading Across Borders	135	22
Enforcing Contracts	152	61
Closing a Business	183	71

Source: World Bank, *Doing Business 2011*

Regional Integration and Trade

2.1.2.36 The Comoros is a member of the Indian Ocean Commission (IOC) and COMESA[10]. The country also joined the League of Arab States (LAS) in 1993. At Bank level, it should be noted that the Comoros forms part of the thirteen countries of the 2011-2013 Regional Integration Strategy Paper (RISP) for Eastern Africa, approved in September 2011[11].

2.1.2.37 Regional integration offers tremendous opportunities for a small island country like the Comoros in terms of access to a large regional market for exports and imports. The challenge lies in integrating the Comoros into the regional market in particular, through policy harmonization and infrastructure development.

2.1.2.38 With regard to policies, the Comoros has been a member of the COMESA free-trade zone since 2006. The Comoros has adopted the COMESA Common External Tariff (CET) which has been beneficial, in particular with regard to customs modernization.

2.1.2.39 The operation entailed the replacement of trade taxes by excise duties and a consumption tax. However, Comoros' trade with COMESA member countries remains marginal and is currently only about 1.5% of exports and less than 10% of imports, mainly oil products from South Africa.

[10] COMESA comprises 23 countries, 18 of which are Eastern and Southern African and Indian Ocean States. The IOC, an intergovernmental organization established in 1984, has 5 members: the Comoros, Madagascar, Mauritius, the Seychelles and Reunion.

[11] The twelve other countries comprise seven (7) COMESA member countries (Djibouti, Eritrea, Ethiopia, Kenya, Uganda, Seychelles and Sudan). The remaining five (5) countries are Burundi, Rwanda and Tanzania (members of the East African Community), Somalia (IGAD) and the newly independent State of South Sudan.

2.1.2.40 The changes resulting from the CET could foreshadow the adoption by the Comoros of a Value Added Tax (VAT) intended to replace the consumption tax. This trend could, in time, provide the basis for the development of a manufacturing industry due to the proximity of the growth markets of South Africa, Reunion and Mauritius. With regard to infrastructure, the RISP retains the improvement of transport (by water, air and sea ports) as essential for island countries.

2.1.2.41 Of the four seaports in the Comoros (Mutsamudu, Moroni, Fomboni and Moheli), only the Mutsamudu Port has deep water facilities. All four require upgrading.

2.1.2.42 Information and Communication Technologies (ICT) and renewable energies are also potential sectors for improving Comoros' competitiveness.

2.1.2.43 IOC's role in regional integration remains confined to technical cooperation and partnership. The Bank has initiated the preparation of a flagship publication for the Indian Ocean countries, which will serve as an instrument for the closer involvement of the island states in regional operations.

2.1.3 Social and Crosscutting Aspects

2.1.3.1 **Poverty**. With a Human Development Index (HDI) of 0.428 in 2010, Comoros is ranked in the 'low' category in 139th position out of 182 countries and 50th in Africa in the UNDP 2010 Human Development Report. Over 70% of the population is affected by poverty, in particular, rural youths and women. According to the 2004 Comprehensive Household Survey (EIM) which is currently the most recent reference survey, 44.8% of the Comorian population was living below the poverty threshold estimated, per capita, at KMF 285,144 (i.e. about EUR 580). This poverty rate varies, depending on the island, the residential environment and economic activities of household heads. It is higher in Anjouan and Moheli than on Grande Comore.

2.1.3.2 **MDGs**. Progress towards achievement of the MDGs remains limited and particularly inhibited by the lack of investment in both social and economic infrastructure (health and education). Without additional financial resources, most of the MDG are unlikely to be achieved by 2015 (cf. Annex 3).

Gender and Social Equity

2.1.3.3 The Comorian Government recognizes the importance of mainstreaming the gender dimension and women's full participation in the development process. Therefore, there is no significant gender gap in terms of human development.

2.1.3.4 However, wide disparities persist, especially in the labour market. Women's employment in the Comoros remains low with only 13.7% of wage earners, 69.2% of whom are in jobs with little social protection. The civil service only employs 30% of women; principally in junior positions. Of the unemployed, 47% are women. Their low level of instruction and illiteracy also constitutes a major constraint to women's integration into Comoros' economic and social life.

Environment and Climate Change

2.1.3.5 The Comoros has rich land and marine-based biodiversity. It constitutes a potential to be safeguarded and developed from a tourism standpoint. On the global scale, the Comoros is part of twenty islands or archipelagos characterized by their significant endemic diversity, which is now seriously threatened by human activity and demographic pressure. The geographical specificities of the islands, which have steep slopes liable to erosion, make them particularly vulnerable.

2.1.3.6 It is estimated that 58% of the arable land is degraded and pressure on the last remaining forest areas is steadily increasing. The environment has also been made fragile by the archipelago's climatic conditions, characterized by heavy rains, pronounced dry seasons and the occurrence of cyclones.

2.1.3.7 With regard to climate change, currently available data reveals, in particular, a rise in the annual average temperature of about 1.5°C over the last forty years and a trend towards increasing irregularity of rainfall, coupled with a shortening of the rainy season and an impact on local micro-climates.

2.1.3.8 A National Action Plan on Climate Change Adaptation (NAPCCA) was prepared in 2006. It highlights the vulnerability of the Comoros to climate change, and the estimated economic impact. It also defines priority actions[12].

2.2 Strategic Options

2.2.1 Country Strategic Framework. In September 2009, the full-fledged Poverty Reduction and Growth Strategy Paper (PRGSP) over five (5) years (2009-2014) was presented to the development partners. The strategy's main thrusts concern: (i) the promotion of macroeconomic stability; (ii) activity in the productive sectors, agriculture, fisheries and tourism; (iii) governance; and (iv) human development. The Government, with Bank support, initiated a prioritization operation in the first quarter of 2011 aimed at operationalizing the strategy and maximizing the expected impact of activities planned.

2.2.2 Challenges and Weaknesses. The Comoros faces several economic and social development-related challenges and weaknesses.

[12] To-date none of the projects identified has been implemented. An initial Water Resource Management Project in Anjouan has been retained for financing by the Global Environment Facility (GEF), and implementation by UNDP/UNEP.

2.2.2.1 **Persistence of a high un-employment rate**. The unemployment rate is estimated at an average 14% of the work force, but it is likely that this figure is underestimated because of weaknesses of the statistics system. It is higher on Grande Comore (14.9 %) and Moheli (15.0 %) than on Anjouan (12.1 %). The dependency rate is reported to be 3.4, implying that an individual in work supports an average of 3.4 inactive or unemployed persons.

2.2.2.2 Creation of the necessary conditions to diversify the sources of growth and employment now represents the main challenge facing the Union. Weak labour supply is mainly related to the structural crisis in the traditional sources of growth and lack of diversification of the economy, in particular the absence of a real industrial base.

2.2.2.3 **Weak capacity**. Weak institutional capacity represents the second major challenge for the Comoros. Due to lack of appropriate budgetary resources, the intervention capacity of most of the ministries responsible for economic action (agriculture, fisheries, tourism, etc.) is extremely limited in terms of resources (including human resources) and represents a handicap for support to economic development.

2.2.2.4 **Structural weakness of the investment rate and degradation of basic infrastructure.** As previously mentioned, the lack of investment in basic infrastructure (roads, ports, energy, water) over the past two decades has buttressed the structural weakness of the economy, notably the rate of investment has remained low, which represents a major constraint on economic development. It is the result of: (i) a low public investment rate linked to serious budgetary constraints; (ii) low private investment rates constrained by a banking sector that is insufficiently developed; and (iii) a restrictive business climate.

2.2.2.5 This situation has resulted in the degradation of basic infrastructure and an increase in factor costs. In particular, the high cost of energy affects public finances and constitutes a major obstacle for water production, business operations and for improving the population's living conditions. The limited access to and high cost of electricity represent a major impediment to economic development and job creation (cf. Box 1).

2.2.2.6 **Limited Participation of the Private Sector in the Economy.** The Comorian economy is structurally dominated by the public sector. This is reflected in the size of the wage bill of the civil service or similar services, which annually absorbs most of the central government budget and leaves little leeway for public investment. The main feature of the public sector in the economy is the predominance of government shareholding in the country's main strategic enterprises (telecommunications, water and electricity, and the Hydrocarbons Company of Comoros).

2.2.2.7 **Insularity.** The Comoros faces double insularity: internal and external. The principle of territorial continuity which allows the free movement of goods and people among the three islands of the Union is now inoperative due to poor transport. This situation represents a major constraint to the fluidity of the labour market and to trade and investment not only within the Union, but also with the rest of Africa. Overcoming the constraint would enable the country to fully benefit from the large regional market through regional integration efforts.

2.2.2.8 The amassing of national wealth by the public sector thus creates a crowding out effect on the rest of the economy, which is one of the main sources of inefficient resource allocation.

2.2.3 Strengths and Opportunities

Strengths

2.2.3.1 **Specific under-tapped natural endowments.** The Comoros has specific, mostly under-tapped; natural resources. These constitute both capital and a major source of rural economic and social development opportunities. The country is also the world's biggest producer of ylang ylang and one of the leading producers of vanilla and cloves.

Box 1: Energy Constraint in the Comoros.

Total electricity generation is estimated at 41 MWH, with 70% for Grande Comore alone. Power generation is the responsibility of two companies, MAMWE for Grande Comore and Moheli, and *Electricité d'Anjouan (EDA)* for Anjouan both operate under capacity.

The cost of electricity generation is currently estimated at about USD 1 per KWH compared with an average of USD 0.10 per KWH in the sub-region. This high cost is mainly due to: (i) the dilapidated state of the distribution grid (over 40% losses); (ii) poor management of the main electricity generating utility (MAMWE); (iii) the high cost of imported fuel; and (iv) the lack of economies of scale and a price equalization, management and investment policy at the national level.

However, the Comoros has electricity generating potential based on renewable energy sources. The increased exploitation of the latter under a sustainable energy policy could support economic development through a significant reduction in electricity generating costs and electricity prices.

***Source**: Energy Directorate, Moroni, 2010*

2.2.3.2 The Comoros also has a major maritime domain and fishery resources, part of which could be exported or processed locally. Furthermore, the country has first class natural and environmental assets on which to build a high quality, ambitious tourism development strategy that could enhance regional tourism supply (the Seychelles, Mauritius and South Africa).

2.2.3.3 **Abundant labour**. Despite significant migratory flows mainly involving the young people (20-30 years old), the Comoros has large potential labour reserves that could be mobilized, subject to providing training courses to build their capacity and ensure their professional integration.

Opportunities

2.2.3.4 Private sector and regional integration promotion present vast opportunities for the Comoros, especially as a means of expanding the economic base and market. In this respect, structural reforms and strategic infrastructure (energy, water, transport and telecommunications) should be strengthened to support diversification.

2.2.3.5 The effect of such strategic options will be to widen access and lower factor costs with a view to promoting private activities in sectors with strong potential.

2.2.3.6 There are huge investment opportunities especially in the areas of: (i) commercial agriculture (management of vanilla, ylang ylang and clove plantations by private companies) and agro-industrial processing (distilleries); (ii) industrial fishing, including the possibility of initial processing on the spot (fish cutting workshops); (iii) inter-island sea transport and maritime infrastructure (modernization of fishing ports); and (iv) tourist receptive facilities.

2.2.3.7 Furthermore, the acceleration of structural reforms would create significant opportunities for investment related to the privatization process involving the main public enterprises, in particular, the Hydrocarbons Company of Comoros, MAMWE (water and electricity), and *Comores Telecom*.

2.3 Recent Aid Coordination-Harmonization Developments and Bank Group's Current Positioning

2.3.1 Aid Coordination.

2.3.1.1 In 2009, the Comoros received USD 50.6 million in official development assistance (ODA) from the international community, compared with USD 22.8 million in 2005, i.e. a doubling in five (5) years. Traditionally, aid provided to the Comoros comes from bilateral sources, which represents 56% of total ODA, in particular from France (80%) and Japan (19%)[13].

2.3.1.2 However, the March 2010 Doha Conference significantly modified the ODA landscape in the Comoros with the arrival of non-traditional donors from the Gulf countries. The involvement of these new actors, in particular concessional non-governmental organizations (NGOs), the operating methods of which differ considerably from the traditional cooperation agencies, is fortunate for the Comoros.

2.3.1.3 However, it also represents a major challenge with regard to coordination with the Government and the development partner community.

2.3.1.4 Coordination of aid to the Comoros remains limited. It is particularly complicated due to the lack of donor representation in the country. Among the multilateral donors, only the United Nations System and, since September 2011, the European Union, have representations in Moroni. The lack of representation is not conducive to the organization of sector thematic working groups (transport, water, energy, agriculture, etc.) which could reinforce strategic dialogue with the Government.

2.3.1.5 The above notwithstanding, recent progress has been recorded regarding aid coordination. UNDP organizes aid coordination meetings on a fairly regular basis. At sector level, a *Water* Committee was established under the Bank-financed Drinking Water Supply and Sanitation Project (DWSSP). Moreover, despite the

[13] Source: OECD/DAC, 2011

absence of a formal budget support group, frequent discussions were held among the main active partners in the area, namely the IMF, Bank, World Bank and the EU.

2.3.1.6 On the Government side, aid coordination is the responsibility of the General Planning Commission (CGP). However, its human, technical and financial resources remain limited. The Bank has provided support to the CGP through FSF. The EU also has an aid coordination support programme.

2.3.1.7 In the spirit of the Paris Declaration, aid coordination and harmonization and its alignment with the country's priority and budgetary requirements reflected in the 2009-2014 PRSP constitute a key objective. In coordination with the other partners, the Bank will contribute to the consolidation of recent initiatives, in particular through dialogue and capacity building.

2.3.2 Bank's Positioning in the Country.

2.3.2.1 Since it started activities in the Comoros in 1977, the Bank Group has approved fifteen (15) operations representing cumulated net commitments of UA 58.88 million, of which 83.6% from ADF resources. A port infrastructure project was financed using the ADB window for a net UA 9.67 million. These operations all targeted the public sector. Infrastructure accounts for the highest share (57%), including transport (40%), water and sanitation (17%), followed by multi-sector interventions (26%), the agricultural sector (11%) and the education sector (6%).

2.3.2.2 Bank cooperation with the Comoros was suspended in 1993 due to arrears. The Bank re-engaged in 2009 in a difficult crisis-exit context. The I-CSP was prepared and led to the implementation of 4 operations, one of which was completed in December 2010. Preparation of this CSP has provided an opportunity to assess portfolio performance and draw lessons to improve project implementation.

2.3.2.3 Despite some difficulties related to start-up and the country's fragile situation, significant progress has been noted. However, major challenges must be addressed, in particular: (i) building the capacity of project executing agencies and implementation units; (ii) the length of time taken to fulfil the conditions precedent to effectiveness and first disbursement; (iii) compliance with *reporting* and audit requirements; and (iv) aid coordination. In light of these achievements and lessons from implementing the I-CSP as well as its comparative advantage, the Bank will reinforce its presence in the infrastructure sector, while strengthening the reforms already initiated.

2.3.2.4 **Portfolio Performance**. As at 30 September 2011, the active portfolio, excluding emergency aid, comprised three (3) operations for a total amount net of commitments of UA 18.36 million, focused on the water and sanitation sector (54.5%) and multi-sector operations (45.5%).

2.3.2.5 Over the 2009-2010 I-CSP period, two emergency assistance grants were also awarded to the Comoros under the Bank's Africa Food Crisis Response Initiative in 2008 (UA 1.5 million) and Humanitarian Assistance to Flood Victims in 2009 (UA 0.64 million). The overall average cumulative portfolio disbursement rate is 13.13% (excluding emergency aid).

2.3.2.6 This fairly low rate is consistent with the context. It is partially due to the portfolio's relatively young age (average age: 1.3 years), on the one hand, and fragility-related constraints, on the other, although such constraints have been largely mitigated by the measures implemented. Portfolio performance has a satisfactory rating of 2.09. To address the constraints identified, a Portfolio Performance Improvement Plan (PPIP) was prepared and discussed during the CSP preparation (Annex 4).

2.3.3 Assessment and Lessons Learned from Previous Strategy

2.3.3.1 The 2009-2010 I-CSP covered the last two years of ADF-11. The resources mobilized amounted to UA 20.36 million, including UA 5.86 million under the ADF country allocation, UA 12.5 million under FSF (Pillars 1 and 3) and UA 2 million under RWSSI. These resources were used to implement a grant programme comprising four operations: (i) the Institutional Capacity Building Support Project (PRCI); (ii) the Drinking Water Supply and Sanitation Project (DWSSP); (iii) the Capacity Building Programme and; (iv) the Economic Reform Support and Financial Governance Programme (PAREGF)[14] (cf. Box 2)

Lessons

2.3.3.2 **Catalytic Role**. The Bank's resources have played a beneficial role for the country. In particular, they contributed to the mobilization of supplementary resources to the tune of UA 10.9 million towards the co-financing of the DWSS Project by the development partners, in particular the French Development Agency (AFD), the UNDP and UNICEF.

2.3.3.3 **Consideration of the Fragility Dimension.** The I-CSP was implemented in a post-crisis context, particularly characterized by a serious lack of operational capacity in government departments and qualified skills on the labour market that could be recruited by Bank-financed projects[15].

2.3.3.4 The Bank has mitigated this constraint through rapid, flexible and targeted operations, mainly thanks to FSF resources. This approach has produced results with respect to capacity building. However, implementation of the I-CSP has been affected by some slippage on the DWSS Project, due to underestimation of the lack of qualified skills. These start-up difficulties have finally been resolved and the conditions met for satisfactory implementation of the project.

2.3.3.5 The new strategy will focus more closely on quality at entry in a fragile situation and develop in situ and qualifying training to meet the different requirements in qualified skills and improve the Bank's portfolio performance.

2.3.3.6 **Selectivity Regarding the Pillars of Intervention**. The two I-CSP pillars focused on governance and drinking water supply were also relevant in light of challenges facing the Comoros. However, the assessment reveals a need to strengthen selectivity around one pillar in order to maximize synergy between strategic infrastructure requirements and the need for reforms, with a view to enhancing their development impact. Indeed, the reforms may be carefully designed and articulated to provide greater infrastructure development support.

2.3.3.7 **Importance of Improving Knowledge on Development Constraints.** The budgetary difficulties facing the Comoros since its independence have had an impact on the production and updating of the main medium-term public decision-making assistance tools such as sector strategies and strategic and prospective studies. This situation is compounded by a lack of specialized skills and economic analytical capacity[16].

[14] PAREGF aimed to support the stabilization of the economy and implementation of structural reforms under the Extended Credit Facility (ECF)-backed Programme.

[15] Specifically, this situation has delayed recruitment of staff qualified in financial management and procurement for the Project Management Unit (PMU); this has led to the postponement of the DWSS Project's entry into force.

[16] The University of Moroni does not have an operational economic research unit on which the Government could possibly rely for economic policy advice. This skill is systematically imported from abroad.

2.3.3.8 The new strategy should be able to close this knowledge gap in the short-term while putting in place the resources required for the gradual ownership of the main tools and mechanisms required for the economic development knowledge building process by the Comoros.

Box 2: Bank Support to Economic Reforms and Institutional Capacity Building in the Comoros.

In 2009, the Bank approved two grant operations: (i) the Economic Reform Support and Financial Governance Programme (PAREGF) under FSF; and (ii) the Institutional Capacity Building Project (PRCI) under ADF, complemented by FSF Pillar 3 targeted support.

The main PAREGF contributions are: (i) attainment of the HIPCI decision point; (ii) adoption of key regulatory texts on public finance reforms, including a Ten-Year Strategy (2009-2019) and a Three-Year Priority Action Programme for implementation.

The two years of PRCI implementation have resulted in: (i) regular publication of price statistics; (ii) progress in the preparation of national accounts, in the finalization phase; (iii) long training courses for Ministry of Finance officials; and (iv) preparation of the Public Procurement Code being discussed in Parliament. The remaining activities will strengthen domestic resource mobilization, cash flow and debt management, socio-economic statistics and monitoring of the PRGS.

FSF's major contribution was its rapidity and flexibility to provide better operational support, thereby creating appropriate conditions for the speedy implementation of operations. Critical activities have been speeded up, in particular finalization of the PRSP and ranking of priorities, strengthening of planning and coordination functions and the establishment of tools (Revision of the Revised Tax Code, the Taxpayers' Charter and reorganization of tax administration).

The main lessons learnt are: (i) the innovative and targeted combination of Bank instruments (ADF and FSF) against a backdrop of fragility and crisis exit; (ii) close coordination and search for synergy with the other donors (World Bank, IMF, EU, UNDP and France); and (iii) synergy and the need to support the reforms with targeted institutional support operations.

2.3.3.9 **Private Sector Development-related Concerns**. It is essential to take the private sector's role more closely into account in order to enhance the leverage effect, and lay the foundations for inclusive growth and a credible alternative to public sector employment. The aim of this new strategy is to create an enabling environment for private sector development and, consequently, envisage support to specific operations.

2.3.3.10 **Consideration of the Regional Dimension.** Although undeniable as discussed above, this dimension was totally neglected under the I-CSP. The 2011-2015 RISP for Eastern Africa and preparation of the flagship publication for the OIC will provide opportunities to ensure that regional integration is taken more closely into account in the case of the Comoros.

2.3.3.11 **Consideration of the sensitivities of the three islands** and the maintenance of a permanent institutional balance. This concern should also constitute one of the factors of success of the Bank's operations strategy.

III. BANK GROUP STRATEGY FOR COMOROS FOR 2011-2015

3.1 Rationale for Bank Group's Involvement

3.1.1 **Rationale**. Despite the progress made regarding domestic resource mobilization, Comoros' requirements in external financing, technical assistance and advisory services are expected to remain substantial in the medium- and long-term, especially with a view to reaching the HIPCI Completion point in 2012 and achievement of the MDG.

3.1.2 In addition, the limited progress made regarding growth and public finance management over the 2009-2010 should be consolidated. Such progress will require fresh momentum from the Government to implement the structural reforms (public enterprise management, the business climate, development of private initiative, upgrading of strategic support infrastructure[17] of the economy) that will strengthen competitiveness and economic growth.

3.1.3 The Bank has a comparative advantage on all the different projects and themes and will be able to mobilize its appropriate windows (ADF, ADB, FSF and Trust Funds) by acting in a selective and catalytic manner, in synergy with the donor community operating in the Comoros.

3.1.4 **Resources and Instruments.** The 2011-2015 strategy will cover two (2) ADF cycles, namely ADF 12 (2011-2013) and ADF 13 (2014-2016).

3.1.5 The initial ADF-12 resources amount to UA 15.6 million, comprising UA 5.6 million under the ADF-12 country allocation and UA 10 million under FSF Pillar 1. Other resources are expected from the Global Environment Facility (GEF) and the African Legal Support Facility (ALSF).

3.1.6 Two other windows likely to have a significant leverage effect on Comoros' economic development strategy will also be required to contribute: (i) the private sector window; and (ii) the regional operations window. Resources from the Bank's private sector window could be mobilized either for direct financing or under public-private partnerships (PPPs).

3.1.7 The identification of regionally-focused projects will be carried out following the conclusions and recommendations of the flagship study on the regional integration strategy for Indian Ocean Commission Countries (IOC), which is expected to be completed by end 2011.

3.2 Pillar for Bank Group Strategy

3.2.1 The Comorian institutions and economy continue to be weakened by the country's fragility and a series of structural constraints that impede its growth. This is preventing the initiation of a self-sustained development process that will create permanent jobs.

3.2.2 The preliminary diagnosis of Comoros' sources of growth carried out in 2010 with Bank assistance, showed that the medium-term revival of economic development in the Comoros will require focus on the development of the energy sector. It will also require in turn: (i) rehabilitation of strategic economic infrastructure; (ii) improvement of economic governance and available resource allocation; (iii) reduction in the importance of the State in the economy and private sector promotion; and, (iv) rapid recovery of investment in the economy's key sectors and sub-sectors namely agriculture, fisheries and tourism.

3.2.3 To achieve sustainable economic growth, it is also necessary to develop Comoros' industrial base and implement an active diversification policy, based in particular on the establishment of value chains derived from the above-mentioned growth-bearing sectors.

3.2.4 The development of industrial activities mainly based on the processing of agriculture and fisheries products, assumes the continuation and deepening of the structural reforms embarked upon since 2009 to improve the business climate. It is also urgent to make investments aimed at significantly reducing factor costs (especially electricity, water and telecommunications), with a view to creating an environment which is likely to attract foreign direct investment (FDI) as well as domestic investments.

3.2.5 Bank intervention in the water and sanitation sector since 2009, alongside other development partners, will help to improve the sector's management and productivity by 2015, thus fostering access and price reductions in the three islands.

3.2.6 However, analyses indicate that the key single constraint to economic

[17] Roads, telecommunications, ports, secondary airports, etc.

diversification in Comoros is access to modern energy supply. The Government and other stakeholders have underlined the urgency of carrying out investments and reforms of the energy sector. The Bank has been urged to use its expertise and experience from other countries to assist Comoros in developing its energy resources.

3.2.7 A well-functioning energy supply, mainly electricity, has many advantages for the economy. It will result in a rapid and lasting fall in production costs and lower the average tariff throughout the Comorian territory. Water production will also benefit given the links between energy and water. Importantly, it will also impact positively the nascent fisheries industry, which will require energy for refrigeration and other capacities, to enable exports of fish to external markets. Also important will be the impact on the tourist sector and other service industries, notably the public services.

3.2.8 However, the scale of the financing requirements related to the restructuring of the energy sector and scaling up its output presupposes the concentration of available Bank resources to maximize their impact and keen efforts to collaborate with other financiers. Also important will be a good deal of economic dialogue to ensure good governance and credible policy and project implementation.

3.2.9 In light of the foregoing, it is proposed to focus the Bank Group's strategy for the Comoros for the period 2011-2015 on a single pillar entitled ***Energy Sector Development in Support of Economic Diversification.***

3.2.10 The pillar comprises key elements of the focus and competences underlined in the Bank Group's Medium-Term Strategy (2008-2012), analyses of the Regional Integration Strategy Paper for Eastern Africa and the existing Bank Group sector strategies. The pillar draws on the Government's recent emphasis on economic reforms and the need for rapid diversification of the economy.

3.2.11 Above all, the pillar takes into account the lessons acquired from the I-CSP and different consultations with the Government and other stakeholders on the major challenges facing the economy in the medium to long-term.

3.2.12 In looking ahead, the pillar envisages the following interrelated policy and sector impacts: (i) enhanced private sector competitiveness and economic diversification, by improving the quality of energy service delivery; and (ii) better economic governance, through structural reforms, improved public finance management (PFM) and fiduciary framework, and an enhanced private sector institutional framework.

3.2.13 The second set of items will be a key feature of the Bank's effort, since energy sector development and economic diversification will require dedicated policy dialogue, involving all stakeholders. Policy dialogue will be critical to the country's reaching of the Completion Point under the HIPC Initiative in 2012, and the implied reduction in indebtedness. Without this, all efforts at economic diversification will not succeed.

3.3 Deliverables and Targets

Indicative Lending Programme

3.3.1 The indicative pipeline of projects (cf. Annex 2) comprises: (i) an energy sector support project; (ii) a fisheries sector institutional support project; and (iii) a budget support operation[18]. The development of the fisheries sector, as already indicated, will draw heavily on our support to the energy sector. Likewise, progress on the economic diversification front and policy reforms in energy will

[18] Cf. Annex 5 on the justification, conditions and criteria for budget support eligibility, especially in Fragile States.

require dedicated policy dialogue—in which all stakeholders will participate.

3.3.2 Hence all the three operations envisaged above have a common theme—contributing to successful reform and economic diversification and development in the Comoros. These operations will be backed by ADF-12 and FSF Pillar 1 resources. Future operations under the grant programme of the first two years of ADF-13 (2014 and 2015) will be fine-tuned in accordance with the evolution of Government's priorities under the 2009-2014 PRGS (cf. Box 3) and the 2011-2015 CSP mid-term review in 2013.

Box 3: Consultations with Stakeholders

The 2011-2015 CSP was the subject of broad-based consultations and validation by the stakeholders, including a workshop organized on 12 September in Moroni as well as sector and bilateral discussions.

The *Bank's Pillar* targeting the energy sector as its priority has been welcomed by all the stakeholders. The importance of strengthening the reforms by targeting governance and the business framework was emphasized.

Civil society and the private sector wanted the specific concerns of the three islands, notably employment, to be taken into consideration to ensure their smooth development.

The *private sector* noted that the constraints affecting it are not sufficiently taken into account in the national development strategy, especially access to credit and advisory services.

The *Donors* raised the importance of presence on the ground and strengthening coordination among donors. Cost-sharing mechanisms were also raised.

Analytical Work Programme

3.3.3 The Bank Group will also support the Government through dedicated studies and analytical work, the objective of which will be to support the implementation of the strategy, provide advice on economic and/or sector policies, and facilitate dialogue between the Comorian Government and the development partners.

3.3.4 The analytical work will help the Bank to generate a database of information and economic intelligence with which to identify and improve the quality at entry of future operations in Comoros.

3.3.5 The indicative analytical work programme will include: (i) the second phase of the diagnosis on sources of growth; (ii) a private sector profile; and (iii) strategic studies and master plans for sectors such as agriculture, tourism and manufacturing.

Country Dialogue Issues

3.3.6 Throughout the implementation of the 2011-2015 CSP, the Bank will maintain permanent dialogue with the Comorian authorities and the other stakeholders.

3.3.7 The main dialogue topics will be: (i) strengthening of economic governance in the broad sense, including the macroeconomic aspects, structural reforms and improvement of the business climate; (ii) revival of the cash crop sub-sectors and diversification of the economy; (iii) opportunities for, and strengthening of regional integration; (iv) strengthening of coordination and aid effectiveness, including co-financing opportunities; and, (v) management and improvement of the portfolio, in particular monitoring the implementation of the PIP.

3.3.8 The Bank will consider sustainable modalities for strengthening its presence on the ground, in order to enhance dialogue, portfolio management and donor coordination. The envisaged modalities will take into account the Nairobi Regional Service Centre and the outcome of the assessment of the Country Programme Office experience. A cost-sharing mechanism, in which some donors have expressed interest, will also be envisaged.

3.4 Potential Risks and Mitigation Measures

3.4.1 Three types of risks could jeopardize the impact of the Bank's strategy.

3.4.2 ***Political Risk***. Countries exiting crises need time to ease the social tensions stemming from periods of conflict. The Comoros has made undeniable progress regarding the political and social climate. However, despite the political normalization, tensions remain.

3.4.3 The creation of social safety nets and reconversion mechanisms will be required due, in particular, to the necessary adjustments to the civil service with a view to reaching the HIPC completion point in 2012. The provision of targeted budget support and assistance to economic diversification and private sector development should help to prevent this risk.

3.4.4 ***Macroeconomic Risk***. This risk, related to the lack of political will to successfully implement the reforms, could threaten the attainment of the HIPCI Completion Point in 2012 and indefinitely postpone Comoros' eligibility for MDRI. This situation could delay the creation of conditions to improve competitiveness and diversification with a view to inclusive economic growth. Through permanent dialogue and budget support, the Bank could help to mitigate this risk alongside the other development partners.

3.4.5 ***Climate Risk***. There could be cyclone-related floods as well as landslides caused by erosion, which could weaken the agriculture sector - currently the main driver of economic activity in the Union. The Bank will encourage consultations with the Government and development partners with experience in this area. The Bank's operations will also incorporate early warning mechanisms to limit the impact of climate change-related risks.

3.5 Monitoring and Evaluation

3.5.1 The weakness of the statistics system and data collection base currently represents a major constraint with regard to the monitoring and evaluation of the 2010-2014 Poverty Reduction and Growth Strategy (PRGS).

3.5.2 The Bank has provided support for the development of statistics in the Comoros, especially under the International Comparison Programme for Africa (ICP-Africa) for the 2004-2007 period. This support has continued under the PRCI and has led to the production of price statistics and major progress in the preparation of national accounts.

3.5.3 During the implementation of the 2011-2015 CSP, the Bank, in synergy with the other partners, will continue to participate in strengthening the Comoros monitoring and evaluation mechanism. In addition, this aspect will be incorporated and strengthened in the Bank's portfolio, in order to systematize the measuring and monitoring of outcomes.

3.5.4 The 2011-2015 CSP Result Framework in Annex 1 will serve as an instrument for monitoring and evaluation. The Bank will carry out the CSP mid-term review during the second quarter of 2013. This review will assess the progress and propose, as required, the necessary adjustments to guarantee the achievement of outcomes. The CSP completion report will be prepared in 2015.

IV. CONCLUSIONS AND RECOMMENDATIONS

4.1 The 2011-2015 CSP for the Comoros is aligned on the priorities of the Government's 2009-2014 Poverty Reduction and Growth Strategy (PRGS), the objective of which is to reduce poverty by reviving the economy and promoting more equitable growth.

4.2 The 2009-2014 PRGS is an appropriate platform for supporting Comoros' development efforts. The resumption of dialogue with the international financial community in 2009 laid the foundations for a development strategy focused on growth and poverty reduction, the establishment of a macroeconomic stabilization programme and the attainment of the HIPCI Decision Point in June 2011.

4.3 There has been progress in the area of economic management. However, these efforts must be pursued and deepened in order to provide the necessary fresh impetus to restructure the economy and enable the Comoros to lay the foundations of sustainable endogenous development through inclusive growth.

4.4 The CSP for the 2011-2015 period is based on a single pillar focused on *energy sector development in support of economic diversification* as the cornerstone of the Bank's intervention in the Comoros. In addition to the resources of the ADF country allocation and FSF Pillar 1, support in respect of regional integration and the private sector will complement the single pillar to enhance the Bank's impact on Comoros' development.

4.5 The Boards are invited to consider and approve this 2011-2015 Country Strategy Paper (CSP) for the Union of the Comoros.

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ANNEXES

2011-2015 CSP RESULTS FRAMEWORK

ANNEX 1

	Expected Outputs of the RBCSP by 2015					
Single Pillar - Energy Development in Support of Economic Diversification						
Long-Term Strategic Objectives	**Main Constraints**	**Intervention Themes under the CSP**	**CSP Output Indicators**	**Mid-Term Outcomes (2013)**	**Expected Outcomes in 2015**	**Linkages with MDG and PRGS**
Sustainable access to least cost energy for households and companies	High electric power generating costs	Energy sector restructuring support	Power grid loss (Base year 2010/11: 40%)	Reduction in loss rate from 40 to 25%	Power grid loss rate below 15%	MDG targets 1 and 7
			Electrification rate (%) (Base year 2010/11: 35%)	Increase in electrification rate to 45%	60% electrification rate for the Union	Thrusts 1, 2 and 3 of the PRGS
	Comoros high dependence on fossil energy	Establishment of an energy sector support programme based on increased use of renewable energies	Cost of electricity (low and medium voltage)	15% reduction in average cost of electricity generation	25% reduction in average electricity generation	
			Electricity Price	10% reduction in average selling price of electricity	25% reduction in average selling price of electricity	
			Oil imports (Tonnes)	10% drop in oil imports	25% drop in oil imports	
Improved economic governance	Persistence of major structural rigidities in the Comorian economy	Budget support to back up reform implementation	Debt/Exports ratio (%) (Base year 2010/11: 308%)	HIPCI completion point reached end 2012 and 86% debt/exports ratio	GFCF/GSP ratio of 20%; 30% of PIP financing from domestic resources Stabilization of debt/exports ratio at 86%	
	Imbalanced public finances	Restructuring of public finances	Budget deficit, excluding grants (base year 2010: 9%)	Narrowing of budget deficit, excluding grants, to 5% of GDP	Stabilization of budget deficit excluding grants at 2% of GDP	
A more competitive economy, supporting diversification and economic growth	Poorly performing business climate	Reorganization of public enterprise management	Public enterprise restructuring plan	At least one public enterprise has a restructuring plan	Satisfactory implementation of the restructuring plan	

Annex 2

BANK'S INDICATIVE PROGRAMME FOR THE 2011-2013 PERIOD (excluding private sector)

Year	Title	Amount (UAM)
LENDING PROGRAMME		
2012	Energy Sector Support Project	11.6
2012	Budget Support	2
2013	Fisheries Sector Institutional Support Project	2
	Total Loans	**15.6**
ECONOMIC AND SECTOR WORK PROGRAMME		**Sources**
2011	Flagship Study on an Indian Ocean Integration Study	Budget
2012	Diagnosis of Growth Sources (2nd Phase)	Budget
2012	Tourism Master Plan	Trust Funds
	Strategic Study on Rehabilitation of the Cash Crop Sector	Trust Funds
2013	Private Sector Profile	Budget/Trust Funds

Annex 3

COMOROS- MDG STATUS

(Source: General Planning Commission, Moroni, December 2009)

Target 1.A: Halve, between 1990 and 2015, the proportion of people living below the national poverty threshold			
Indicators	**2011 Reference Level**	**Recent Level**	**2015 Target Value**
Proportion of people living below the poverty threshold (%)	EBC(Budget and Consumption Survey) 199: 54.7%	EIM 2004: 44.8%	27.3%
Target 1.B. Halve, between 1990 and 2015, the proportion of people suffering from hunger.			
Indicators	**Reference Level**	**Recent Level**	**2015 Target Value**
- Prevalence of underweight children under five years of age (%) - Prevalence of growth-retarded children (%) - Proportion of population below minimum level of dietary energy consumption	**14** (1991GPHC) **20.6** (1991GPHC) **3.5** (1991GPHC)	**13.8** (REENE 2008)[19] **27,8** (REENE 2008) **6,4** (REENE 2008)	**7** **10.3** **1.3**
Target 1C. Achieve full and productive employment and decent work for all, including women and young people			
Indicators	**1991 Reference Level**	**Recent Level**	**2015 Target Value**
Unemployment Rate Net Activity Rate	12.8 % 1995 EBC	2004 EIM: 13.5% 2004 EIM: 37.45%	0 % 100 %
Target 2A: Ensure that by 2015 children everywhere, boys and girls alike, will be able to complete a full course of primary education			
Indicators	**1991 Reference Level**	**Recent Level**	**2015 Target Level**
- Net enrolment ratio in primary education (%) - School completion rate (%) - Literacy rate of 15-24 year olds (%)	63.2 40.6 68.8	76.1 (2008) 57 (2007) 61.9 (2007)	100 100 100
Target 3A. Eliminate gender disparity in primary and secondary education, preferably by 2015, and in all levels of education no later than 2015			
Indicators	**Reference Level**	**2008 Recent Level**	**Target Values in 2015**
Ratio of girls to boys in primary education	-	0.82	1
Ratio of girls to boys in junior secondary school	-	0.79	1
Ratio of girls to boys in high school	-	0.61	1
Target 4A: Reduce by two thirds, between 1990 and 2015, the under-five mortality rate			
Indicators	Reference Level	Recent Level	Target Value in 2015
Under-five mortality rate (per thousand live births)	130 1991 GPHC	71 UNICEF 2007	43.3
Infant mortality rate (per thousand births)	86.2 1991 GPHC	53 UNICEF 2007	28.7
Proportion of 1 year-old children immunized against measles (in %)	48 1996 DHS	73 WHO 2004	100

[19] Evaluation Report on the Nutritional Status of Under-Five Children, UNICEF, 2008

Targets 5.A and 5.B: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio and achieve universal access to reproductive health by 2015			
Target Indicators	**Reference Level**	**Recent Level**	**2015 Target Value**
Maternal mortality rate (per 100,000 live births)	517 1991 GPHC	380 (2003 GPHC)	129
Proportion of births[20] attended by skilled health personnel (%)	52 1996 DHS	80 (2009 MNTE Report)	88
Contraceptive prevalence rate (%)	13.4 EIM 2003	19 (2007 MCSDR)	100
Antenatal care coverage (at least one visit and at least four visits)	52 2000 MICS	53 (2008 MCSDR)	100
Target 6A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS			
Target Indicators	**Reference Level**	**Recent Level**	**2015 Target Value**
HIV prevalence among population aged 15-20 years (%)	0.025 2003 HIVS	0.011 2008 NACP	<0. 01
Condom use at last high risk sex (%)	35.7 1996 HIVS	-	100
Proportion of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS (%)	1.6 2003 HIVS	1.6 2003 HIVS	
Target 6.B: Achieve, by 2010 universal access to treatment for HIV/AIDS for all those who need it			
Target Indicator	**Reference Level**	**Recent Level**	**2015 Target Value**
Proportion of population with advanced HIV infection with access to antiretroviral drugs (%)	-	100	100
Target 6.C: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.			
Indicators	**Reference Level**	**Recent Level**	**2015 Target Level**
Incidence and death rates associated with malaria (%)	-	-	-
Proportion of children under 5 sleeping under insecticide-treated bed nets (%)	-	26.4 2998 EMII/NACP	-
Proportion of children under 5 with fever who are treated with appropriate antimalarial drugs (%)	-	49,51 2007 NACPR	-
Incidence, prevalence and deaths associated with tuberculosis	-	130	-
Proportion of tuberculosis cases detected and cured under DOTS (internationally-recommended tuberculosis control strategy (%)	32 (2000)	15 EIM 2004	- 15
Target 7A: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources			
Indicators	**Reference Level (2007)**	**Recent Level (2009)**	**2015 Target Level**
Proportion of land area covered by forests (%)[21]	2.8	NA	
Protected land area (ha)	30	30	
Energy consumed/inhab. (TOE)	0.2	0.2	
CO2 emissions/inhab. (MT)	78591.32	87012.50	

20 Which are carried out in health centres

21 In relation to the country's total surface area

CFC consumption ()	0.9	-	
Proportion of population using solid fuels (%)	78	78	
Target 7b: Reduce biodiversity loss, achieving by 2010, a significant reduction in the rate of loss			
Target Indicators	**Reference Level**	**Recent Level**	**2015 Target Level**
Proportion of terrestrial and marine areas protected (% of total surface area)	0.6 2003 MDG Report	0.6 2005 MDG Report	9.3
Proportion of protected species	40 % UNEP 2002	-	-
Target 7.C: Halve by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation.			
Target Indicators	**Reference Level**	**Recent Level**	**2015 Target Level**
Proportion of population using an improved drinking water source [22](%)	91.6 1996 DHS	85.1 2004 EIM	96
Proportion of population without sustainable access to a drinking water source (%)	95 1996 DHS	67 in 2008(ADB)[23]	47.5
Proportion of population using an improved sanitation facility (%)	29 in 2000 (ADB)	9 in 2004 (ADB)	65
Target 7D Facilitate access to decent and safe housing for the maximum number of households			
Indicators	**Reference Level**	**Recent Level**	**2015 Target Value**
Proportion of population with access to secure tenancy %	18 1995 DHS	68,7 2003 GPHC	
Proportion of urban population owning a decent home %	-	-	
Proportion of households with adequate sanitary facilities %	10 2004 EIM	_	

[22] An improved water source does not necessarily mean permanent availability or drinkability of water.

[23] ADB 2008 Gender, Energy and Environment Report

Annex 4

Portfolio Performance Review and Status of Bank's Operations in the Comoros

Introduction: This note on the review of the Bank's portfolio in the Comoros focuses on operations financed by the Bank since the resumption of cooperation with Comoros in 2009. It, therefore, concerns the operations financed during the implementation period of the Interim Country Strategy (2010-2011 CSP), which has the following two pillars: (i) strengthening of institutions and the macroeconomic framework; and (ii) improved access to drinking water and sanitation. The following four (4) operations were financed over the period: the Drinking Water Supply and Sanitation Project (DWSSP); the Institutional Capacity Building Support Project (PRCI); the Institutional Capacity Building Programme and the Economic Reform Support and Financial Governance Programme completed in 2010. The review's objective was to: (i) take stock of project implementation; and (ii) agree with the authorities on appropriate measures to improve overall portfolio performance.

Status of Bank's Portfolio in the Comoros: Since the start of its activities in the Comoros in 1977, the Bank Group had approved, as at 30 September 2011, fifteen (15) operations representing net cumulative commitments of UA 58.88 million. These operations all targeted the public sector and were mainly financed from ADF resources (83.6%). One (1) port infrastructure project was financed on the ADB window for a net UA 9.67 million representing 16.4% of total net commitments. To-date Bank Group financing has concerned the transport sector (40%), the agricultural sector (10.6%), multi-sector interventions (25.9%); the water and sanitation sector (17%) and the education sector (6.1%).

Characteristics of Portfolio of Active Projects: As at 30 September 2011, the Bank's active portfolio, excluding emergency assistance, comprised three (3) operations for a total amount net of commitments of UA 18.36 million, focused on the water and sanitation sector (54.5%), followed by multi-sector operations (45.5%). Two emergency aid operations in the areas of food aid under the Bank's Africa Food Crisis Response Initiative in 2008 and Humanitarian Assistance to Flood Victims in 2009 were also awarded to the Comoros.

Portfolio Status as at 30 September 2011

Project	Approved Amount (million UA)	Disbursed Amount (million UA)	Disb. Rate	Overall Assessment	Projects At Risk	Age (year)
Water and Sanitation Sector	**10.00**	**0.65**	**6.50 %**	**1.64**		**1.4**
1. Drinking Water Supply and Sanitation Project				1.64	PPP	
- FSF financing (Pillar I)	8.00	0.57	7.13 %			
- RWSSI financing	2.00	0.08	4.09 %			
Multi-Sector	**8.36**	**1.76**	**21.05 %**			
2. Capacity Building Support Project (PRCI)	**5.86**	**1.11**	**18.94 %**	**2.54**		**1.2**
- PRCI – Initial Grant	5.26	1.07	20.34 %	2.54		1.8
- PRCI – Supplementary Grant	0.59	0.04	6.89 %	-		0.6
3. Capacity Building Programme - FSF (Pillar III)	**2.50**	**0.65**	**26.00 %**	-		
Emergency Aid	**2.14**	**2.14**	**100 %**			
1. Emergency Aid to Flood Victims	0.64	0.64	100 %			
2. Bank's Food Crisis Response	1.50	1.50	100 %			
Total (excluding emergency aid)	**18.36**	**2.41**	**13.13 %**	**2.09**	**1**	**1.3**

Portfolio Performance: The overall cumulative average disbursement rate of the active portfolio as at 30 September 2011 was 13.13% (excluding emergency aid). This disbursement rate is below the Bank Group's average of 27% for 2010. This low rate is partially due to implementation difficulties and the fairly young age of the portfolio (average age: 1.3 years, excluding emergency assistance).

The Drinking Water Supply and Sanitation Project appears to be a potentially problematic project (PPP) because of the delay in fulfilling the conditions precedent to disbursement and the poor implementation performance achieved. Consequently, the portfolio at risk (PAR) of Bank operations in the Comoros was 33% as at 30 September 2011, with commitments at risk (CAR) representing 55% of the total portfolio.

With a score of 2.09, the portfolio performance is rated satisfactory overall. This performance must, however, be seen in perspective, in view of the difficulties encountered and challenges to be addressed.

The Project Portfolio Performance Review revealed the main problems impeding the smooth implementation of projects in the Comoros. These mainly affect the Drinking Water Supply and Sanitation Project (DWSSP) and concern: (i) long gaps between loan approval, effectiveness and first disbursement; (ii) the weak capacity of executing agencies and implementation units, especially regarding the procurement of goods and services and disbursement; (iii) non-compliance with *reporting* requirements (conduct of audits, particularly regarding emergency food aid); (iv) lack of communication between project implementation units; (v) abnormally long time taken to process documents at the Bank; and (vi) weak coordination and lack of consultation between the different entities involved in monitoring Bank-financed projects.

Main Recommendations

To address the difficulties encountered in operations implementation, the Bank and the Government have agreed on the following recommendations incorporated into the Portfolio Performance Improvement Plan (PPIP):

At Government level

- Intensify monitoring of the ADB portfolio by designating a specific resource person at the General Planning Commission (CGP) responsible for interface between the Project Coordinator, the oversight bodies and the Bank;
- Organize regular ADB portfolio monitoring meetings to identify and present problems upstream and keep the Bank informed;
- Take measures to fulfil the loan and grant conditions precedent to disbursement within the stipulated timeframes; and comply with the Bank's reporting and audit requirements.

At Bank level

- Carry out close portfolio monitoring by organizing quarterly videoconference monitoring meetings;
- Increase the number of project supervision missions to three (3) missions per year; and
- Implement a training programme for project officers.

Specific Recommendations were also formulated for each operation and concern:

1. Institutional Capacity Building Operation (PRCI)

For the Government:

- Accelerate the pace of public finance reforms in accordance with the Government's commitments to the IMF and the thrusts of the Programme supported by the Extended Credit Facility in order to be able to reach the HIPCI Completion Point;

- Speed up activities under the PRCI supplementary grant; and

- Clarify relations as well as the method of coordination between the projects of the different donors intervening in the governance sector.

For the Bank:

- Act diligently in processing non-objection opinions relating to the activities planned under the PRCI supplementary grant

2. Drinking Water Supply and Sanitation Project

For the Government:

- Step up project monitoring by the oversight authorities and the General Planning Commission (CGP);

- Intensify exchanges of experiences and collaboration between the PRCI and DWSSP regarding the preparation of bidding documents; and

- Speed up the conduct of the MAMWE technical and financial audit in order to fulfil the conditions of the structural reform programme supported by the IMF and development partners

For the Bank

- Speed up the processing of documents, in particular, procurement-related non-objection opinions;

- Carry out a project supervision mission in the fourth quarter of 2011 and maintain at least 2 the number of supervisions in 2012 and 2013;

3. Emergency Humanitarian Aid to Flood Victims

For the Government:

- Ensure close monitoring of the final implementation phase of the UNICEF project;

4. Bank's Africa Food Crisis Response

For the Government:

- Conduct a food aid audit and submit the report to the Bank by end 2011.

Appendix

PORTFOLIO PERFORMANCE REVIEW - MAY 2011
Country Portfolio Performance Improvement Plan (PPIP), 2011

Thematic issues	Problems	Measures to be Taken	Measurable Indicators	Responsible Body	Schedule	Expected Outcomes
1) Project Quality at Entry	Difficulties/slowness in fulfilment of loan conditions precedent	▪ Formulate realistic loan conditions. ▪ Ensure that the conditions can be fulfilled within the stipulated time frames	Government undertaking to fulfil the conditions precedent within 6 months of loan approval	GVT/ADB	Permanent	For 90% of the projects, the conditions precedent relating to start-up are fulfilled within 6 months of loan approval.
	Failure to take into consideration certain provisions prior to project start up	Adopt a filter system in order to ensure that, during the project preparation cycle, start-up difficulties have been resolved.	▪ Key personnel installed during appraisal. ▪ Premises to be used as offices are assigned by the Government during the negotiations. ▪ The procurement plan is ready during the negotiations. ▪ The project implementation schedule is ready. ▪ The Steering Committee is established on time	GVT/ADB	Permanent	
2) Procurement	Lack of familiarization by the executing agencies with the Bank's Rules of Procedure for the Procurement of Goods, Works and Services	▪ Systematically include a procurement expert in project launching missions. ▪ Systematize familiarization and immersion missions by the project management teams to the Bank's headquarters. ▪ Regularly organize training workshops on the procurement rules of procedure – to be combined with the disbursement workshop. ▪ As far as possible, include a procurement specialist in the supervision missions.	▪ One procurement expert participates in each launching missions. ▪ One familiarization mission is organized in the first year and then one mission every 2 years. ▪ One training workshop is organized every two years for project managers. ▪ One procurement expert participates in at least one supervision mission per year and per project.	ADB	Every 2 years	- Reduce the number of rejected procurement files. - At least 80% of procurement files submitted for the Bank's approval comply with the Bank's rules of procedure.

Thematic issues	Problems	Measures to be Taken	Measurable Indicators	Responsible Body	Schedule	Expected Outcomes
	Procurement process delays	▪ Review procurement methods at appraisal and select the most appropriate methods. ▪ Prepare the Procurement Plan (PP) and discuss it during the loan negotiations. ▪ During implementation ensure that Bank standard documents are used. ▪ Adhere to standard bidding document processing times.	▪ 80% of projects have not had procurement methods revised during implementation. ▪ For 100% of approved projects, the PP was discussed during the negotiations. ▪ All projects use Bank standard documents where applicable ▪ Response and document processing times comply with Bank standards.	GVT/PMU/ADB GVT/PMU/ADB PMU/ADB PMU/ADB	Permanent	The procurement time for each contract does not exceed by more than 1.5 months the period stipulated in the procurement plan.
3) Disbursement	Time lag/delay in putting in place the first disbursement	▪ Ensure the timely preparation of the WPAB of the first year and the PP, and have them validated during the negotiations. ▪ Fulfil the loan disbursement conditions within the stipulated time frames.	Average time for first disbursement must be ≤ 6 months after approval.	ADB/GVT	Permanent	For at least 90% of projects, the disbursement is put in place no later than 6 months after approval.
	Lack of familiarity with the Bank's disbursement rules of procedure	▪ Systematically include a disbursement expert in project launching missions. ▪ Systematize the organization of training workshops on disbursement rules of procedure (every 2 years – to be combined with procurement). ▪ Schedule a portfolio financial supervision mission (every two years).	▪ One disbursement expert participates in each project launching mission. ▪ At least one training workshop is organized for project managers every two years. ▪ One financial supervision mission is carried out every 2 years.	ADB	Every 2 years	At least 90% of disbursement requests received comply with the disbursement procedures.
	Failure to communicate project disbursement statements	Regularly submit to projects the monthly disbursement statement – from the 15th of each month.	Disbursement statements are submitted monthly.	ADB	Month	The project/Borrower is informed monthly of the disbursement status.
	Long disbursement request processing times	▪ Comply with standard disbursement request processing timeframes. ▪ Rapidly inform the PMU in the event of incomplete files or rejection of requests.	▪ 15 days for direct payment; 1 to 2 months for the revolving fund. ▪ 10 days from the date of receipt of the request	ADB	Permanent	Shortening of time taken to process requests.
	Emergency Aid	▪ Speed up disbursement procedures for emergency and special assistance grants.	▪ Emergency operations are disbursed within 3 months of their approval.	ADB	2012	

Thematic issues	Problems	Measures to be Taken	Measurable Indicators	Responsible Body	Schedule	Expected Outcomes
4) Implementation Monitoring and Reporting	Weakness/absence of reliable monitoring/evaluation mechanism at project level.	▪ Define performance indicators for each project and ensure monitoring of the logical framework. ▪ Systematize recruitment of a project monitoring/ evaluation officer. ▪ Systematically conduct mid-term reviews for all projects within the stipulated time frames.	▪ An impact measurement survey is carried out on project completion ▪ Each project has a monitoring/evaluation officer. ▪ 80% of projects have a mid-term review carried out within the stipulated time frame.	GVT GVT ADB/GVT	Permanent	For each project, a project impact study is carried out and available on completion
	Failure to communicate implementation, monitoring and audit reports within the stipulated time frames	▪ Have audits conducted and submit the reports within the stipulated time frames. ▪ Comply with the Bank's requirements concerning the communication of implementation and monitoring reports	▪ Audit reports are submitted no later than 6 months after the closure of the period. ▪ The activity reports are submitted quarterly.	GVT	2012	The Bank's requirements regarding audit and submission of implementation reports are complied with
5) Aid Coordination and Communication	Weak aid coordination at Government level	Establish an appropriate aid coordination mechanism	Coordination mechanism established and operational with monthly meetings.	GVT	Permanent	More efficient resource allocation. Duplication of operations prevented
	Weak coordination between donors/Bank/Govt./PMU	▪ Strengthen consultation among donors. ▪ Strengthen coordination and monitoring between the Bank, Government and executing agencies (emergency aid)	▪ Entrust leadership of coordination to one donor and have regular consultations ▪ Ensure there is a monthly review of the situation between the Government and the Bank	ADB/Donors ADB/GVT	Quarterly	- Improve intervention targeting. - Reduction in number of files pending
	Communication between the projects, Bank and Govt.	▪ Improve the flow and exchange of information between projects ▪ Improve communication between the Bank and Government/PMU	▪ Organization of periodic meetings between projects ▪ Quarterly reviews of pending files by the Bank and the Government.	ADB/PMU	Permanent	Improved project execution and implementation

Annex 5

Justification for the use of FSF Resources in Support of Reforms

1. To support the measures envisaged and implemented concerning the strengthening of national systems, particularly within the context of close coordination with the other donors, this CSP may provide support to the reforms in the Comoros in the form of budget support. The latter will help to effectively bolster the voluntary measures adopted by the Government and confirmed in the IMF programme finance under the Extended Credit Facility (ECF), the aim of which is to restore a sound economic and budgetary situation favourable to growth and poverty reduction.

2. Reform support will help to stabilize the economic and budgetary situation, contribute to the financing of budget execution, mitigate the impact of the global financial crisis, and pursue implementation of reforms aimed at improving public finance management especially with regard to domestic resource mobilization, and improve the investment environment. The reforms will be specified during preparation of the operation and will take into account the priority reforms that the authorities must implement as well as those reforms backed by other technical and financial partners.

3. This support will bolster and complement the activities carried out under the PRCI as well as those financed under FSF Pillar 3. The Comoros meets the conditions required to benefit from budgetary support as set forth in the Bank's policy on implementation of budget support and its Fragile States policy. These conditions are summarized in the Table below. This budget support will be implemented in close collaboration with the development partner community, including the World Bank with which a joint budget support is envisaged in 2012. Safeguard measures will be taken to guarantee the success of the reform support. They will concern, in particular, the pursuit of dialogue and close monitoring of the reform support process in collaboration with our partners. The Bank's budget support will be in two equal tranches of UA 1 million, i.e. a total of UA 2 million covering the 2012-2013 period. Disbursement of the two tranches will be subject to the satisfactory progress of the IMF Programme and implementation of the priority structural reforms.

Appendix

General and Technical Conditions Precedent for Budget Support in Accordance with the Bank's Policies on Budget Support and Fragile States	
Political Stability	The political situation has been fairly stable since the Anjouan crisis was resolved in July 2008. Legislative elections were organized in 2009. The presidential elections and the election of Governors of the islands were organized in 2010 and led to a stable political transition. The elections were described as 'generally free and fair' by international observers, including the African Union (AU), the International Organization of *La Francophonie* (OIF) and the Arab League.
Economic Stability	The economic results under the Extended Credit Facility (ECF) Programme for 2010 are satisfactory overall. The growth rate increased slightly from 1.8% in 2009 to 2.1% in 2010. Inflation has edged up slightly but has remained below 7%. The Paris Club granted bilateral debt relief to the Comoros in November 2009. The Comoros reached the Heavily Indebted poor Countries Initiative (HIPCI) in July 2010. However, debt remains high with, in 2010, a debt/GDP ratio of 37.3% and a debt/exports of goods and services ratio of 308%. The reform process has, however, weakened in 2011, especially as a result of the length of the electoral cycle and uncertainties concerning the transition period, Structural rigidities and a recurrent shortage of energy continue to have a negative impact on economic activity. According to IMF projections, economic growth should hover at around 2% in 2011, fuelled by an increase in Foreign Direct Investment (FDI) and maintenance of agricultural production. Budgetary slippage in the first three months, in particular a rise in the wage bill, is likely to widen the primary deficit to 1.5% of GDP – above the deficit estimated under the ECF. To improve economic stability, public finance sustainability and put the economy back on the right track, the authorities will have to improve the mobilization of domestic revenue, restore expenditure control and reactivate the structural reforms as soon as possible.
Existence of a well-designed PRGS with an implementation mechanism	In September 2009, the Full-Fledged Poverty Reduction and Growth Strategy Paper (PRGSP) was presented to the development partners. The PRGSP was prepared in a participatory manner with the support of donors, including the Bank. The strategy's priority areas are: (i) promotion of macroeconomic stability; (ii) revival of activities in the agriculture, fisheries and tourism sectors; (iii) governance; and (iv) human development. An implementation and monitoring/evaluation mechanism is envisaged. The World Bank and IMF joint evaluation indicates that the PRGSP is well-designed and presents a poverty reduction and growth programme. At the end of 2010, the Government, with the Bank's assistance, carried out a prioritization exercise with a view to implementing its strategy and optimizing the impact of the proposed activities.
Existence of a solid partnership between the RMCs and donors, and among donors.	A fairly sound partnership exists between the Comoros and donors. Donor meetings have been organized regularly since 2006. At the last donors' and investors' meeting in Doha (Qatar) in 2010, commitments of USD 540 million were announced to finance development projects. There is still no formal partnership framework, mainly because most of the donors are not represented in the country. The donors, under the aegis of the united Nations System, meet regularly to ensure aid coordination.
Satisfactory fiduciary review	Several public financial management studies have been prepared including, in particular: (i) a report on public finance reforms (World Bank, 2007), a report on computerization of the expenditure chain (World Bank, 2006), a report on the public procurement system (World Bank, 2007), a report on tax and customs reforms (IMF, 2001), customs diagnostic study (World Bank, 2005) and two reports on tax and customs reforms (IMF, 2005 and 2010). The PEFA (2007) report identified major fiduciary weaknesses on the Bank's part. With Bank support, the Government has prepared and adopted a Ten-Year Public Finance Reform Strategy and a three-year action plan for its implementation.
The country must have fulfilled the criteria of the two-stage filter process for eligibility to the FSF	The country has fulfilled the criteria of the two stage filter process for eligibility to FSF as mentioned in the 'Second Cycle Assessment for Eligibility of Countries to the Fragile States Facility (FSF) Supplemental Support Funding' (ADB/BD/WP/2011/120/Rev.1 – ADF/BD/WP/2011/74/Rev.1) adopted by the Boards on 7 September 2011
There must be consensus between the	There is a consensus between donors on the priorities to back through budget support. The PRSP serves as a basis for donor interventions.

government and donors on development priorities to be supported by budget support operations	
The country must be in the process of implementing a credible institutional capacity building programme	The country is in the process of implementing a vast capacity building and public finance management reform programme. The institutional support project (PRCI) financed through ADF, the targeted support operations on the FSF Window III and the Bank's budget support have helped to address the weaknesses identified. The World Bank, the European Commission, the UNDP and France are also financing institutional support operations which have helped to build institutional capacity and mitigate the fiduciary risks. The country has, among others, a new Tax Code and is preparing a new Public Procurement Code. There are also plans to finance Phase II of the Institutional Capacity Building Project from 2014.
The rationale for the operation must be provided in a programme document as well as in the appraisal report, and must include measures for mitigating fragility risks	The rationale for the operation is provided in the budget support operation appraisal report.
The operation will not be audited by a public audit organization but by an auditing firm, at least once a year during the implementation phase	The operation will be audited by an audit firm in accordance with the Bank's rules and procedures and using the Bank's standard terms of reference. An analysis of the fiduciary risk and identification of appropriate safeguard measures will also be carried out as part of the preparation of the budget support operation.

Annex 6

Breakdown of the Commitments of the Main Multilateral and Bilateral Partners in the Comoros - 2009

DONORS	**AGRICULTURE**		**GOVERNANCE**		**SOCIAL**		**INFRASTRUCTURE**		**MULTISECTOR**		**TOTAL**
	M. USD	%	M. USD	%	M. USD	%	M. USD	%	M. USD	%	M. USD
MULTILATERAL			**17.87**		**11.44**		**23.11**		**10.80**		**63.22**
-ADB									10.80	49.9	10.80
-World Bank											
-European Union			10.12	56.6	9.15	36.0	23.11	89.9			42.38
-United Nations System			1.23	6.9	2.29	9.0					3.52
-IMF			6.52	34.5							6.52
BILATERAL					**14.00**		**2.59**		**10.87**		**27.46**
-France					12.74	50.0	2.20	8.6	5.62	25.9	20.56
-Canada					0.99	3.9	0.39	1.5			1.38
-Japan					0.27	1.1			5.03	23.2	5.30
-Others									0.22	1.0	0.22
TOTAL	**-**	**-**	**17.87**	**100**	**25.44**	**100**	**25.70**	**100**	**21.67**	**100**	**90.68**
% SECTOR			**19.7**		**28.1**		**28.3**		**23.9**		

Source: OECD, Development Assistance Committee (DAC), 2011

ANNEX 7

COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Comoros	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km²)		2	30 323	80 976	54 658
Total Population (millions)	2010	0.7	1 031	5 659	1 117
Urban Population (% of Total)	2010	28.2	39.9	45.1	77.3
Population Density (per Km²)	2010	309.3	34.0	69.9	20.4
Gross National Income (GNI) per capita (USD)	2009	870	1 525	2 968	37 990
Labour Force Participation - Total (%)	2010	49.4	40.1	61.8	60.7
Labour Force Participation - Female (%)	2010	46.6	41.0	49.1	52.2
Gender-Related Development Index Value	2007	0.571	0.433	0.694	0.911
Human Development Index (rank among 169 countries)	2010	140	n.a	n.a	n.a
Population Living Below $ 1 a Day (%)	2005-08	…	42.3	25.2	…
Demographic Indicators					
Population Growth Rate - Total (%)	2010	2.2	2.3	1.3	0.6
Urban Population Growth Rate (%)	2010	2.6	3.4	2.4	1.0
Population < 15 Years (%)	2010	38.1	40.3	29.0	17.5
Population >= 65 years (%)	2010	3.5	3.8	6.0	15.4
Dependency Ratio (%)	2010	69.9	77.6	55.4	49.2
Sex Ratio (per 100 female)	2010	100.7	99.5	93.5	94.8
Female Population 15-49 years (% of total population)	2010	25.6	24.4	49.4	50.6
Life Expectancy at Birth - Total (years)	2010	66.2	56.0	67.1	79.8
Life Expectancy at Birth - Female (years)	2010	68.5	57.1	69.1	82.7
Crude Birth Rate (per 1000)	2010	31.3	34.2	21.4	11.8
Crude Death Rate (per 1000)	2010	6.4	12.6	8.2	8.4
Infant Mortality Rate (per 1000)	2010	44.1	78.6	46.9	5.8
Under-5 Mortality Rate (per 1000)	2010	56.0	127.2	66.5	6.9
Total Fertility Rate (per woman)	2010	3.8	4.4	2.7	1.7
Maternal Mortality Rate (per 100,000)	2008	340.0	530.2	290.0	15.2
Health and Nutrition Indicators					
Physicians (per 100,000 people)	2004-09	15.0	58.3	109.5	286.0
Nurses (per 100,000 people)	2004-09	79.8	113.3	204.0	786.5
Births Attended by Trained Health Personnel (%)	2005-07	…	50.2	64.1	…
Access to Safe Water (% of population)	2008	95.0	64.5	84.3	99.6
Access to Health Services (% of population)	2005-08	…	65.4	80.0	100.0
Access to Sanitation (% of population)	2008	36.0	41.0	53.6	99.5
Percent of Adults (aged 15-49) Living with HIV/AIDS	2007	0.1	4.9	0.9	0.3
Incidence of Tuberculosis (per 100,000)	2009	39.0	294.9	161.0	14.0
Child Immunization against Tuberculosis (%)	2009	80.0	79.9	81.0	95.1
Child Immunization against Measles (%)	2009	79.0	71.1	80.7	93.0
Daily Calorie Supply per Capita	2007	1 884	2 465	2 675	3 285
Public Expenditure on Health (as % of GDP)	2008	3.3	5.7	2.9	7.4
Education indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2008	119.4	102.7	107.2	101.3
Primary School - Girls	2008	114.1	99.0	109.2	101.1
Secondary School - Total	2005-08	45.8	37.8	62.9	100.1
Secondary School - Girls	2005-08	39.3	33.8	61.3	99.6
Primary School Female Teaching Staff (% of Total)	2008	36.9	47.0	60.5	81.4
Adult Literacy Rate - Total (%)	2008	73.6	64.8	80.3	98.4
Adult Literacy Rate - Male (%)	2008	79.3	74.0	86.0	98.7
Adult Literacy Rate - Women (%)	2008	67.8	55.9	74.8	98.1
% of GDP Spent on Education	2008	7.6	4.6	3.8	5.0
Environmental indicators					
Arable Land as % of Total Land Area	2008	43.0	7.8	10.6	10.9
Annual Rate of Deforestation (%)	2005-09	…	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2005-09	…	10.9	…	…
Per Capita CO2 Emissions (metric tons)	2009	0.2	1.1	2.9	12.5

Source: ADB, Statistics Department, 2011

ANNEX 8

KEY MACROECONOMIC INDICATORS

Indicators	Unit	2005	2006	2007	2008	2009	2010 (e)
National Accounts							
GNI at Current Market Prices	USD Million	385	404	467	531	548	…
GNI Per Capita	USD.	650	670	690	750	870	…
GDP at Current Prices	USD Million.	385.8	415.9	462.3	506.5	557.5	573.3
GDP at Constant 2000 Prices	USD Million	226.9	232.9	234.8	236.1	238.7	243.6
Real GDP Growth	%	2.8	2.6	0.8	0.6	1.1	2.1
Real GDP Growth Per Capita	%	0.6	0.3	-1.5	-1.7	-1.2	-0.2
Gross Domestic Investment	% of GDP	11.8	13.3	11.5	14.2	12.9	16.0
Public Investment	% of GDP	5.4	6.1	5.2	6.5	5.3	8.6
Private Investment	% of GDP	6.4	7.2	6.3	7.7	7.6	7.4
Prices and Money							
Inflation (CPI)	%	2.0	4.4	4.4	4.8	4.7	3,8
Exchange Rate (Annual Average)	Local Currency/USD.	395.6	392.2	359.5	335.9	354.1	371.5
Money Supply, Annual Changes (M2)	%	6.3	14.9	8.8	10.9	8.6	…
Velocity of Circulation of Money (GDP / M2)	%	23.4	25.2	26.9	29.1	27.2	…
Government Finance							
Total Revenue and Grants	% of GDP	20.0	18.1	20.4	23,3	21,1	26,0.8
Total Expenditure and Net Loans	% of GDP	19.9	20.2	22.5	27.2	22.1	22,8
Overall Deficit (-) /Surplus (+)	% of GDP	0.1	-2.1	-2.0	-2.6	0.6	4.1
External Sector							
Change in Export Volume	%	10.8	-9.8	29.1	-35.0	71,2	12,4
Change in Import Volume	%	6.9	-7.1	-2.1	33.1	10,6	-7,6
Change in Terms of Trade	%	-47,6	-17,9	-21,7	-28,9	22,8	-16,0
Current Account Balance	USD Million	- 28.7	- 25.4	- 35.1	- 58.6	- 42.6	-58.4
Current Account Balance	% of GDP	-7.0	-5.4	-6.8	-13.6	-7,8	-9,4
International Reserves	of imports	5.2	4.8	4.6	3.4	4.5	3.9
Debt and Financial Flows							
Debt Service	% exports	6,9	5,7	12,6	4,5	10,5	11,8
Total External Debt	% of GDP	67,6	73,2	79,2	63,5	53,4	44,8
Total Net Financial Flows	USD Million	41.0	30.9	-41.4	38.7	44.0	…
Net Official Development Assistance	USD Million	22.8	30.6	44.5	37.3	50.6	…
Net Foreign Direct Investment (FDI) Inflows	USD Million.	0.6	0.6	7.5	7.5	9.1	…

Source: ADB, Statistics Department; *World Economic Outlook*, September 2009 and International Financial Statistics, February 2010; OECD, Statistical Information Systems Divisions

Annex 9

MAP OF THE COMOROS