

**AFRICAN DEVELOPMENT BANK  
AFRICAN DEVELOPMENT FUND**



**UNION OF THE COMOROS**

**INTERIM COUNTRY STRATEGY PAPER 2009-2010**

**COUNTRY AND REGIONAL DEPARTMENT – EAST (OREB)  
MARCH 2009**

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**MONETARY EQUIVALENCES AT 28 FEBRUARY 2009**

UA 1 = FC 570.938  
UA 1 = EURO 1.16.52  
EURO 1 = FC 491.967

**FISCAL YEAR**

1st January – 31 December

**ACRONYMS AND ABBREVIATIONS**

ADF:	African Development Fund
AFD:	<i>Agence Française de Développement</i>
AGOA:	African Growth and Opportunity Act
BWI:	Institutions Bretton Woods
CGFO:	Central Government Financial Operations
COMESA:	Common Market for Eastern and Southern Africa
CSP:	Country Strategy Paper
EPA:	Economic Partnership Agreement
EPCA:	Emergency Post-Conflict Assistance
EU:	European Union
FAO:	United Nations Food and Agricultural Organization
FDI:	Foreign Direct Investments
FSF:	Fragile States Facility
GDP:	Gross Domestic Product
GFRP:	Global Food Crisis Response Programme
GNP:	Gross National Product
HDI:	Human Development Index
HIPC:	Heavily Indebted Poor Country (Initiative)
I-CSP:	Interim Country Strategy Paper
IMF:	International Monetary Fund
IOC:	Indian Ocean Commission
I-PRSP:	Interim Poverty Reduction Strategy Paper
M&E:	Monitoring and Evaluation
MDG:	Millennium Development Goals
MDRI :	Multilateral Debt Relief Initiative
NGO:	Non-Governmental Organization
ODA:	Official Development Assistance
PEMFAR:	Public Expenditure Management and Financial Accountability Review
PRGF:	Poverty Reduction and Growth Facility
PTA:	Preferential Trade Area
UA:	Unit of Accounts
UNCTAD:	United Nations Conference on Trade and Development
UNDP:	United Nations Development Programme
UNICEF:	United Nations Children's Fund
US:	United States

## EXECUTIVE SUMMARY

1. The present 2009-2010 Interim Country Strategy Paper (I-CSP) for the Union of Comoros is a follow-up to the lifting of sanctions in February 2009, after clearance of its arrears with the Bank under the Fragile States Facility (FSF). As a result of the lifting of sanctions, the Bank will reengage in Comoros after a long period of absence, and support the country in its efforts towards sustainable development and poverty reduction.

2. **A new encouraging context.** Since 2007, Comoros has witnessed rapid developments and made significant progress in the political and economic spheres. In view of the political achievements, notably the organization of transparent elections in 2006 and the peaceful settlement of the Anjouan crisis in 2008, political stability, albeit fragile, has been restored. At the economic level, the 2007 arrears clearance operation has been completed and the authorities have started to address the major economic vulnerabilities and implement reforms, supported by the IMF through the Emergency Post Conflict Assistance (EPCA). These efforts have been welcomed by the entire international community, which is increasingly mobilizing support for the country in its effort to achieve sustainable development.

3. **But Comoros still faces major challenges.** As a fragile State, Comoros remains weak in terms of: (i) political stability, and (ii) institutional capacities. Moreover, owing to its geographical specificity and insularity, the country faces constraints in trade and needs to address problems relating to connections, both national and international, the lack of basic infrastructures, and high external dependency.

4. The proposed I-CSP is based on the I-PRSP, and draws on the new strategic orientations of the Bank for increased commitment in fragile States. The Government has already started implementing its poverty reduction strategy, and has adopted bold economic and financial reforms backed by the IMF's Emergency Post Conflict Assistance (AUPC). Although Comoros has pressing needs in all sectors, the Bank can, for the moment, intervene only in some well-targeted areas, so as to remain focused and maximize the impact of its interventions. The proposed interventions for the interim 2009-2010 period are complementary to those of the other development partners and reflect the priorities of the authorities. They are aimed at mitigating the country's situation of fragility and supporting it to create an enabling environment for sustainable development, as well as helping Comoros to reach the completion point of the HIPC Initiative in the near future. Specifically, the Bank will contribute to: (i) improving economic management through support for institutional capacity building; and (ii) creating a better environment through improved water supply and sanitation. A full-fledged CSP will be prepared in 2010 and will contain in-depth analysis of the issue of sustainable growth in Comoros, based on the economic and sector studies and analyses to be carried out during the interim period.

5. All the Bank's operations will fall under two pillars: (i) **strengthening institutions and the macroeconomic framework**, and (ii) **improving water supply and sanitation**. The basic package available for Comoros for the 2009-2010 period stands at UA 15 million, comprising the normal performance-based ADF XI allocation (UA 5 million) and the FSF Enhanced Support (UA 10 million). Comoros will also benefit from several other Bank facilities, such as resources of the FSF Targeted Support Window for capacity building.

**6. Under Pillar 1- Strengthening institutions and the macroeconomic framework**, the Bank intends to mitigate the country's fragility in statistics, public finance and debt management, as well as the business climate. The Bank will finance an Economic Reforms Support Programme, in line with the EPCA, and strengthen specific areas. The financing will take the form of budget support to the tune of UA 2 million, financed with FSF resources. The programme will be accompanied by an Institutional Support operation aimed at strengthening macroeconomic and financial management, and reinforcing private sector organizations. The proposed financing from ADF-XI stands at UA 5 million. These two programmes will be launched in June 2009.

**7. Under Pillar 2 – Improving water supply and sanitation**, the Bank will contribute to improving access to water and sanitation, with a direct positive impact on the health and living conditions of the population, especially women through construction/rehabilitation/extension of water infrastructures. The project will also contribute positively to public health and hygiene. The Bank will earmark UA 8 million from the FSF, and the project will be launched in September 2009.

**8. The Boards are invited to approve the eligibility of Comoros for FSF resources, as well as the present interim country strategy paper for Comoros** for January 2009 to December 2010.

## 1. INTRODUCTION

1.1 The arrears clearance operation for Comoros, approved by the Board of Directors in December 2007 and closed at end September 2008, marked the beginning of a new engagement by the Bank in the country. The present Interim Country Strategy Paper (I-CSP)<sup>1</sup>, which covers the 2009-2010 period, assesses the outlook and challenges facing the country, the strategic options of the Government, and the role that the Bank could play, jointly with the Government and other development partners, to assist the country achieve its development objectives. It also takes into account the Bank's commitment to assist Comoros through the Fragile States Facility.

1.2 Recent developments in the country, particularly the holding of democratic elections in Anjouan, have raised hopes for the gradual return to political stability. However, the situation remains fragile, and the new political framework has not yet stood the test of time. The efforts and achievements made at the economic level are also fragile and have been limited, if not reversed, as a result of the upsurge in petroleum and food prices. These are some of the factors that render Comoros eligible for the Fragile States Facility (FSF). This I-CSP, which comes in the wake of a protracted interruption of the Bank's operations in the country due to the country's chronic arrears<sup>2</sup>, proposes an effective re-engagement with Comoros and defines a suitable and realistic strategy in keeping with the Bank's new policy and the Fragile States Facility.

<sup>1</sup> I-CSP in view of: (i) the anchoring to an Interim Poverty Reduction Strategy Paper (I-PRSP), and (ii) the precarious nature of the political environment, notably in terms of sustained political consensus needed for the implementation of the reforms.

<sup>2</sup> After 15 years of interruption of operations on the ground, Comoros received a UA 1.5 million grant on 24 December 2008 in response to the African food crisis.

1.3 The I-CSP is based on a participatory approach, involving the Government, development partners, the private sector and the civil society. The process began with preliminary discussions in January 2008, followed by two missions to Moroni in July 2008 and February 2009. On that occasion, the Comoros authorities presented their various development needs. However, since the Bank could not respond to all these concerns, *albeit* legitimate, it identified, with the full agreement of the Government, the following elements as key guiding principles for the formulation of the new strategy: (i) alignment with the national development strategy; (ii) insistence on the effectiveness of development in view of the limited domestic and foreign resources; (iii) selectivity; (iv) emphasis on results; and (v) aid coordination and establishment of partnerships

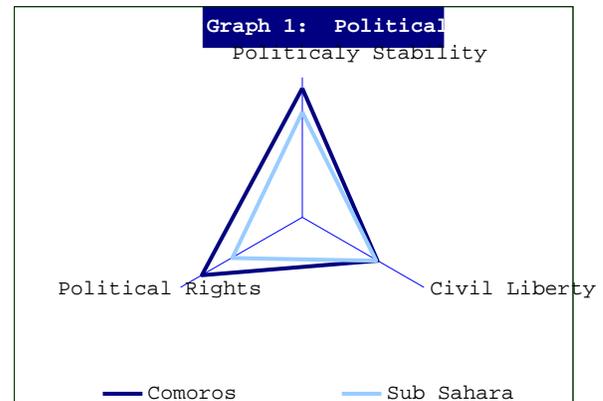
## 2. COUNTRY CONTEXT AND OUTLOOK

### 2.1 Political, Economic and Social Context

#### Political Context

2.1.1 Comoros, a small island country, comprising three islands, has witnessed a succession of military takeovers and political crises since it gained independence in 1975. In 2001, Comoros adopted a new Constitution, and much progress has been made towards returning to political stability. Thus in 2006, free and transparent elections were held in the Union, as well as in the islands in 2007 and 2008. These achievements were highly commended by the International community, and backed by a special commitment by the African Union.

2.1.2 Despite the significant progress, notably in stabilization of the political environment and return to peace, there are still political tensions between the Union and the Islands (Anjouan, Mohéli and Grand Comoros), relating to the principle of rotation and autonomy, that have been hampering dialogue and cooperation between the islands (cf. Box 1). However, engagement by the international community is important, and has been contributing significantly to maintaining dialogue between the Islands. It should be noted that the next presidential elections in the Union of Comoros are scheduled for 2010.



**Source:** ADB Statistics Department, African Economic Outlook, 2008 and the WB, Governance Indicators

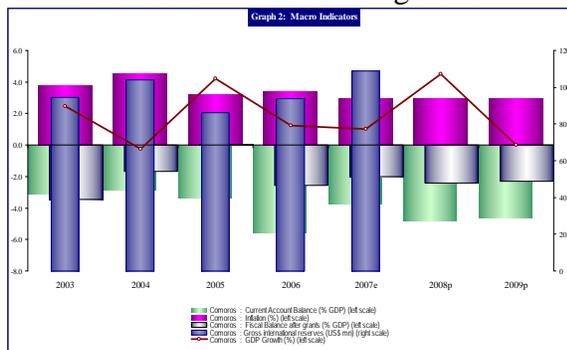
### **Box 1.** **Overview of Institutional Organization**

The Union of Comoros consists of three islands. A central Government of the Union, with its constitution, a President, a Government and an administration, is based in Moroni. There is a system of rotation among the Islands with an election every four years. Each island has its own Constitution and President who has a 5-year term, a Government and an administration. This organization, which has a historical basis, is highly complex and virtually unworkable. A referendum on constitutional reforms has been planned for March 2009.

At the political level, inter-island conflicts have been frequent and the African Union has been playing a key role of intermediation between the Islands and prevention/settlement of conflicts. In terms of the practical management of such an organization, many problems have arisen, notably the risks of redundancy and wastage of human and financial resources, as well as tensions stemming from the distribution of budgetary resources among the Islands.

## Economic Context

2.1.3 Economic growth in Comoros is weak. From an annual average of 2.5% of GDP over the 1999-2006 period, growth declined to 0.5% in 2007 and is estimated at 0.5% for 2008, mainly as a result of: (i) the deterioration of terms of trade, (ii) limitation of domestic credits by two commercial banks, (iii) power outages due to cancelling of the supply contract with Total, and (iv) to a lesser extent, the political crisis in Anjouan in March 2008<sup>3</sup>. The economy is essentially driven by the primary sector (agriculture) and retail services. Macroeconomic imbalances have increased as a result of extreme dependence of the economy on three cash crops (vanilla, cloves and ylang-ylang)<sup>4</sup>. Furthermore, domestic demand, which represented 18% of GDP and nearly 50% of current account revenues, is largely driven by remittances from the Comorian Diaspora. With an estimated population growth of 2.5% in 2007, the per capita GNP has not ceased to decline over the last two decades, standing at US\$ 660 in 2006, an amount which is highly insignificant to reduce poverty on the Islands. The various trends of the GDP, inflation and external accounts are summarized in Figure 2.



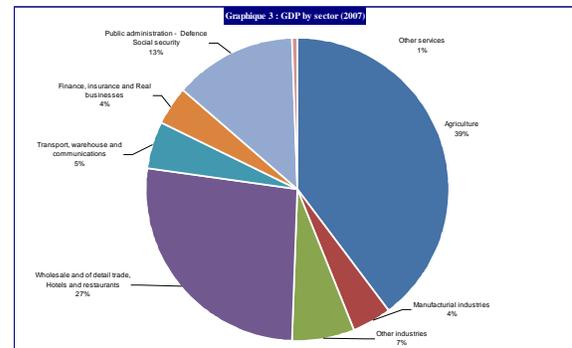
**Source:** Department of Statistics, ADB

<sup>3</sup> Although this crisis has had a negative impact in economic terms, it has not put into question the process of return to political stability, but rather has helped to ease the tensions on this island.

<sup>4</sup> Vanilla and cloves are plants that are mainly used in food preparation, whereas ylang-ylang is a flower used mainly in cosmetics.

## *Engines of Growth*

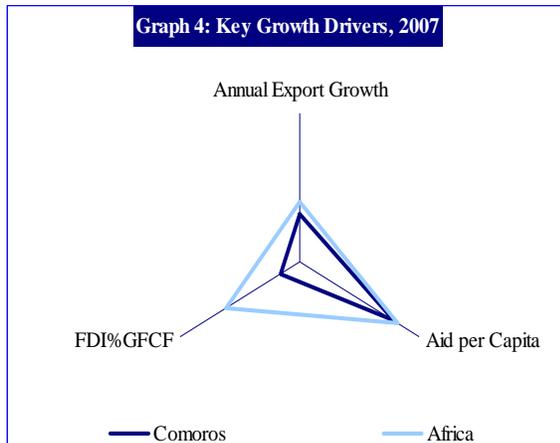
2.1.4 The main source of wealth of the country is agriculture (cf. Figure 3), which contributes up to 40% of GDP. This sector, which employs about 80% of the working population, accounts for 90% of export earnings. The industrial sector alone represents 11% of GDP, while the service sector, comprising largely commercial activities, contributes up to 49% of GDP, including 13.2% for the administration. The Comorian economy is not adequately diversified, and is highly vulnerable to external shocks due mainly to heavy dependence on fluctuations in the prices of its three major export commodities and on imports, notably food products and energy.



**Source:** AfDB Statistics Department, African Economic Outlook, 2007

2.1.5 Comoros is one of the African countries with the highest levels of transfers, in GDP percentage terms. According to the IMF, in 2005, the transfers represented 18.5% of GDP, a percentage which is higher than the export of goods and services and equivalent to three times the amount of international aid. The negative impact of the international financial crisis has been generating considerable concern. From 2000 to 2006, remittances, FDIs and ODA increased as a result of the improved economic situation. However, although the level of aid per capita amounted to US\$ 40 in 2006, equivalent to the average of African countries, FDIs fell far short of this amount, reflecting both the exogenous difficulties

(insularity, remoteness of markets, etc.) as well as endogenous drawbacks (high costs, inadequate legal and regulatory framework) of Comoros in the business environment. Figure 4 illustrates this situation, indicating that, compared to other African countries, aid remains a special engine of growth, ahead of exports and investment.



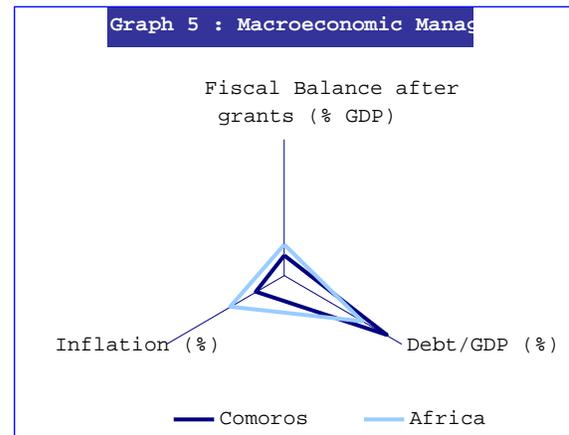
Source: AfDB Statistics Department

## **Macroeconomic Management**

### *Inflation/Exchange Rate*

2.1.6 The membership of Comoros in the Franc zone guarantees a tight monetary policy that helps maintain inflation at acceptable levels. However, inflation was expected to rise to 4.5% in 2007 from 3.4% in 2006 and reach 9-10% by 2008, under the pressure of the prices of petroleum products and food products. However, although Comoros' membership in the Franc zone limits the possibility of issuing currency to address budgetary deficits, it imposes a fixed exchange rate in relation to the Euro, thereby reducing the country's room for manoeuvre to enhance the competitiveness of its exports in relation to those of its major competitors, such as Madagascar and India. Figure 5 illustrates this dilemma related to the Franc zone and indicates that Comoros has been recording better performance in price management compared to other

African countries, but is less performing in external deficit and debt management.



Source: ADB Statistics Department

### *Public Finance*

2.1.7 Total Government expenditure and net borrowings increased in 2007 to 22.3% of GDP compared to 21.2% in 2006. The size of the wage bill (primary expenditure item, accounting for about 60% of the latter) and the accumulation of wage arrears in the public service continue to weigh heavily on public finance. The total amount of revenues, after peaking at 15% of GDP on the average over the 2001-2005 period, declined to 13.6% of GDP in 2006 and 12.7% in 2007, and declined further in 2008, with the economic slowdown. The total amount of external grants increased from 5% of GDP in 2005, up to 7.6% and 8.9% of GDP respectively in 2007 and 2008. Overall, the increase in budgetary deficit in 2007 to 2.2% of GDP from 1.2% in 2006, continued in 2008 with an estimated deficit of 2.7% of GDP.

2.1.8 In 2008, fiscal policy priorities focused on the collection of taxes and customs revenues. As regards expenditures, efforts towards contraction have been hampered by the considerable weight of the wage bill in relation to total spending and by the duplication of some items due to the

organizational arrangements between the Union and the Islands. Consequently, a freeze on public service recruitment was introduced and a reform of the public service has been ongoing. However, more audacious tax measures should be taken in order to reverse the upward trend of the budgetary deficit.

### *Balance of Payments*

2.1.9 The current account deficit deteriorated in 2007, i.e. 6.7% compared to 5.6% in 2006, despite improvement of the export earnings from cloves. The deficit is expected to deepen further in 2008 to 8.7% of GDP, mainly as a result of the upsurge in the prices of petroleum and food products in the first 9 months of the year. The high vulnerability to external shocks remains an essential issue, since the country is affected by global prices and its exports are concentrated on three commodities (vanilla, clove and ylang-ylang) representing 95% of export earnings. The sizeable emigrant Comorian remittances have largely contributed to reducing the deficit between imports and exports, thereby helping to maintain international reserves at a satisfactory average in recent years, reaching about 7 months of imports in 2007.

2.1.10 The level of public debt is extremely high, representing 57.6% of GDP and 271% of exports in 2007, and the country still does not have a clear debt clearance policy. Although Comoros does not have arrears with the Bretton Woods Institutions, the Bank Group's arrears clearance operation for Comoros has taken longer than expected, notably as a result of fresh arrears accumulated by the country after the payment deadline. Furthermore, faced with the problem of debt overload, the Comorian authorities have had to negotiate new terms of payment on their debt owed to

some multilateral creditors. Lastly, in view of the country's weak macroeconomic management, the IMF concluded an Emergency Post-Conflict Assistance (EPCA) arrangement with the Government on 15 December 2008, aimed at preparing the country to embark on a debt clearance process through the HIPC Initiative.

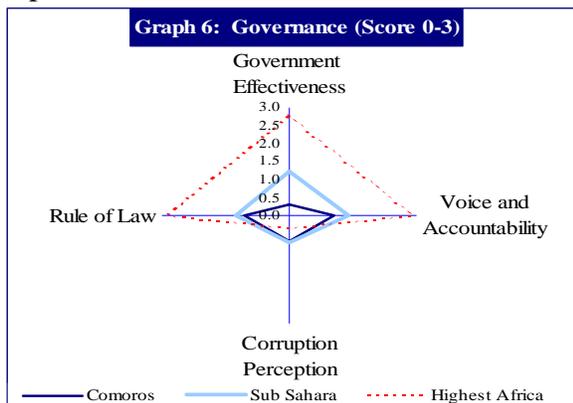
### **Governance**

2.1.11 Comoros is confronted with major challenges in the area of governance (cf. Annex 5), as a result of Government inefficiency as reflected by very low ratings over time, inefficiency and lack of transparency of the judicial system, and the high level of corruption, even though some progress was made in the last decade.

2.1.12 The lack of cooperation between the governments of the islands with regard to the revenue-sharing mechanisms and the recent crises between them and the Government of the Union hinder the implementation of national programmes. Recent developments relating to some illegal offshore activities in Anjouan and the mismanagement of petroleum contracts resulting in power outages also illustrate the problems of governance encountered. The corruption perception index of Transparency International for 2007 indicates that corruption is widespread in the country, thereby resulting in its ranking as 28<sup>th</sup> out of 52 African countries considered.

2.1.13 As indicated in Figure 6, the efficiency of the public administration is particularly weak in Comoros, compared to the rest of Africa. Specifically, the system of public financial management is inefficient, and the enforcement of the decentralization mechanism put in place in 2005 has been plagued with numerous difficulties. For example, while the budget formulated with

the assistance of the IMF is generally realistic and executed as planned, to the extent that the revenues cover the wages and operating costs of the administration, it is not credible on a sectoral basis. The execution of expenditures is monitored in the islands, but this does not provide data and reports covering the Union. Furthermore, an evaluation of expenditure by sector in each island (health, education, agriculture, etc.) shows considerable divergence between actual expenditures and commitments. Similarly, measures taken to monitor expenditures and efficiency of the budget execution chain are inadequate<sup>5</sup>. Tax collection is increasingly less effective, and the mechanism of revenue-sharing has proved to be a source of frustration on the Islands, with each island challenging the 30% deducted by the Union for common expenditures.



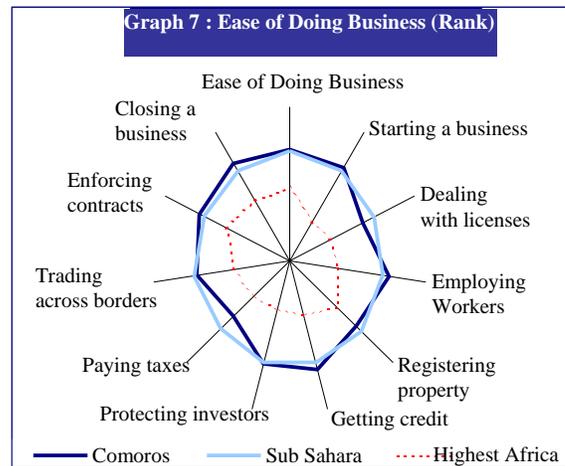
**Source:** AfDB Statistics Department using data from the WGI, WB, 2008

## Business Climate

2.1.14 Private sector development has been undermined by an unfavourable business climate, inadequate infrastructure,

<sup>5</sup> Monitoring of budget execution and budgetary risks is very weak. Currently, there is only one Auditing Commission but it is not operational. In theory, the National Assembly has appropriate control powers to carry out the supervision and effective external auditing. In practice, it does not have any effective control. Furthermore, the budgetary execution chain does not give rise to the production of standardized accounting documents.

high costs of energy, telecommunications and transport, a poorly organized financial sector and chronic shortage of skilled labour. The judicial and regulatory framework governing economic activity is also inadequate. Moreover, in view of the uncertain political situation, the country attracts little foreign direct investments. It was only recently, notably with the arrival of non-traditional donors (Arabs, Chinese, etc.) that the Islands received FDIs in the banking sectors, saw the creation of a new bank and development in the tourism sector with the construction of new hotels. Unfortunately, the lack of organizational capacity of the private sector is a hindrance to reaping the benefits of such investments (for example, supply for hotels stimulating agriculture and fisheries).



**Source:** AfDB Statistics Department using data from Doing Business Databases, WB, 2008

2.1.15 The ranking of Comoros in the World Bank's Doing Business Report (147<sup>th</sup> out of 178 countries) reflects the weak competitiveness of the country. The poor ratings generally concern the following areas: business start-up procedures, employing and dismissing workers, and access to credit. The rigidity of labour regulations and legislation creates numerous adverse effects. Notably, it reduces the number of jobs created and decreases productivity. However, the supply of labour

does not adequately meet the needs of business entrepreneurs, despite the high level of unemployment. Private businesses are often compelled to recruit expatriate staff (from Madagascar, in particular), at high cost and without an impact on the creation of local employment. With regard to financing, businesses regularly mention the problem of lack of access to credit as a major drawback in conducting their activities.

### ***Regional Integration and Trade***

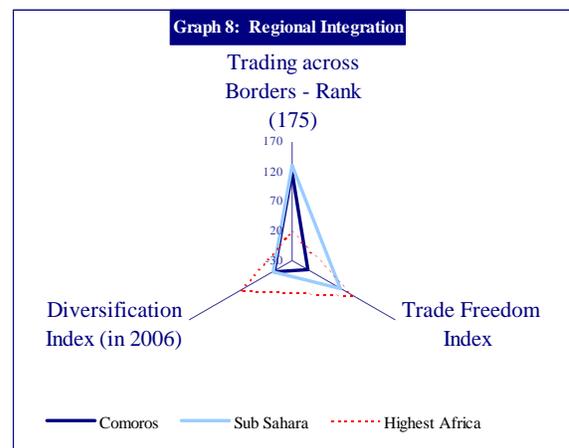
2.1.16 At the regional level, Comoros is well integrated. Indeed, the country is a member of the Indian Ocean Commission (IOC) and the Common Market of East and Southern Africa (COMESA). In recent years, the foreign policy of Comoros has been geared towards promotion of regional cooperation with Madagascar, Mauritius and Seychelles under the Indian Ocean Commission.

2.1.17 This strong integration has translated into the formulation of several regional projects, namely: (i) project for monitoring COMESA air traffic navigation/management, which consists in integrating the COMESA airspace, (ii) the East Africa Electricity Consortium, for the creation of a specialized institution to enhance electric interconnectivity between the region and the rest of Africa; (iii) building of the institutional capacities of the Eastern and Southern African Trade and Development Bank, popularly known as PTA Bank<sup>6</sup>; and (iv) the project for Internet connectivity.

<sup>6</sup> In May 2008, this institution received a financial envelop to the tune of US\$ 98.6 million from the Bank Group to build its lending capacity for member State enterprises. The new line of credit should be used to finance high impact projects in productive sectors capable of promoting employment, generating foreign exchange, facilitating the transfer of technologies and the acquisition of technical capacities.

2.1.18 There are also opportunities for exports to the European Union and US markets. At the end of 2007, the EU signed an interim Economic Partnership Agreement (EPA) with Comoros that guarantees the country free access to EU markets as from 1 January 2008. Furthermore, Comoros has met the criteria for benefiting from trade arrangements of the African Growth and Opportunity Act (AGOA).

2.1.19 External trade concentrates on Europe and, to a lesser extent, Africa. Indeed, exports are mainly directed towards Europe (83.7% of total exports in 2005, including 73.3% for France). As for imports, they mainly come from Africa (23.7% of total imports in 2005, including 15.4% from South Africa). But Europe with 19% of total imports (including 13.8% for France) remains a privileged partner. In both trade and regional integration, transport remains the primary constraint.



**Source:** AfDB Statistics Department using data from Doing Business Databases, WB, 2008, AEO 2008 and The Heritage Foundation, 2008

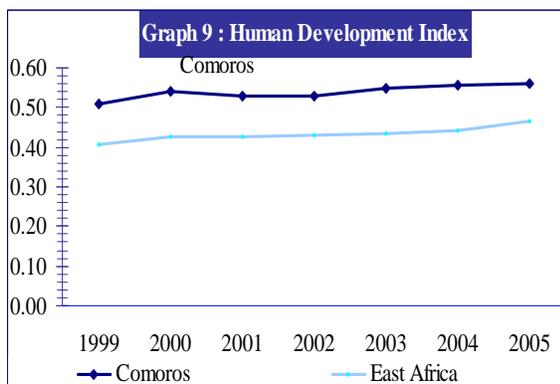
## **Social Context**

### ***Poverty, Social Inclusion and Equity***

2.1.20 Comoros has an estimated population of 750,000 inhabitants. The 2008

Human Development Index (HDI) ranks the country 137<sup>th</sup> out of 179. For each of the Islands, the population living below the poverty line (fixed at FC 285,144 per capita per year) is 38.4% in Anjouan, 37.8% in Mohéli and 35.3% in Grande Comore. Monetary poverty is higher in rural areas (41.1% of individuals) than in urban centres (26.7%), and yet 62% of the population is rural. The most affected segments of the rural population are fishermen and related trades (53.5%), stockbreeders (48%), micro-entrepreneurs (46.4%) and salaried workers (25.5%).

2.1.21 According to the comprehensive household survey of 2004, a high proportion, namely 44.8% of individuals, are affected by food insecurity. Furthermore, less than half of the land is arable, which in the context of the food crisis, constitutes a serious drawback in view of the high pressure exerted on the meagre land and water resources. Soil erosion and natural disasters also undermine agriculture. Hence, the affected population is unable to meet its daily food requirements.



**Source:** AfDB Statistics Department using data from the UNDP Databases, 2008

2.1.22 In the area of education, some good performances were obtained in literacy and education, compared to the situation in the 1990s. In 2007, the primary education enrolment rate was estimated at 85% as against 75% in 1990. Girl/boy ratio in primary education improved from 73% in 1990 to 88% in 2007. Estimates by the United Nation Conference on Trade and Development (UNCTAD) indicate that the country had 44% adult illiterate in 2004 and an educational deficit that the country has been striving to address, notably by broadening access to basic education.

2.1.23 In the area of health, progress made by the country towards achieving the Millennium Development Goals has been slow, if not negative, for certain indicators. The proportion of the population with access to “improved water source” declined from 93% to 86% over the 1990-2004 period, with all the negative implications that this has for the health of the people. The proportion of undernourished increased from 47% to 62% over the same period. The rate of HIV/AIDS prevalence, estimated at about 0.12% in 2002, is one of lowest in Sub-Saharan Africa.

2.1.24 With regard to access to drinking water, the proportion of the population with access to drinking water is relatively low (about 12%), particularly for the poor population. Indeed, for the vast majority of households, it is women and young girls who fetch water, mostly untreated, from community tanks or public stand-pipes, with all the negative implications for the health and education of the population.

**Box 2**  
**Impact of Food Crisis**

Although the economy of Comoros is essentially based on the agricultural sector, food production covers only 49% of the country's needs. The rest of food demand is fully covered by imports, which are directly affected by the escalation of food prices.

According to the FAO definition, Comoros is one of the **highly vulnerable** food importing countries, notably in view of the high ratio of food imports to total imports, representing 0.38 for the 2000-2006 period, and the ratio of food imports to food exports of 3.76. About 55% of the rural population live below the poverty line and the dependency on food products is about 75%. Furthermore, the upsurge in food prices primarily affects the poorest segments of the population as well as the middle-class, since the share of supplementary income allocated to food reduces expenditures for basic health and education spending by as much.

As part of the Bank's process of re-engagement in Comoros, an emergency grant of UA 1.5 million was approved at end December 2008 in response to the food crisis, signed in January 2009 and disbursed on 4 February 2009.

***Gender***

2.1.25 As regards gender, Comoros has achieved significant results, with virtually equal access to health and education. However, the deterioration of basic social services, particularly in the area of health, has impacted negatively on women and they are the most directly affected. Similarly, despite the increasing number of women in the education system, recent studies conducted by the National Statistics Office show that there is a high level of gender inequality in the economic, social and political environment.

2.1.26 Comoros is a matrilineal Muslim society, where the place and influence of women are limited to the private domain. Women have also played a considerable role in mitigating the consequences of conflicts. Many organizations were born during the period and continue to play a major role in socioeconomic development. With regard to the public arena, women are less involved in decision making (very low women representation in high Government positions). For this reason, some development partners, notably the UNDP, are committed to reducing gender inequalities and strengthening the economic autonomy of women. With regard to the proposed support in this strategy, special

attention will be given to the gender issue, both in capacity building and access to drinking water.

***Environment and Climate Change***

2.1.27 Comoros has been facing environmental problems as a result of the rapid degradation of ecosystems, exploitation of coral reefs for the extraction of construction materials, exploitation of fishery resources involving illegal fishing practices and excessive deforestation (for example, the abusive use of wood in the production of the ylang-ylang spirit and the production of fuel wood). The risks of natural disaster are high (cyclones, flooding, volcanic eruptions and tsunamis). Climate change has had a negative impact, particularly on water and marine resources, agriculture and biodiversity.

2.1.28 Despite the existence of national strategies and legislation in the environmental sector, the weak institutional capacities in the management of environmental actions is a serious handicap for their implementation.

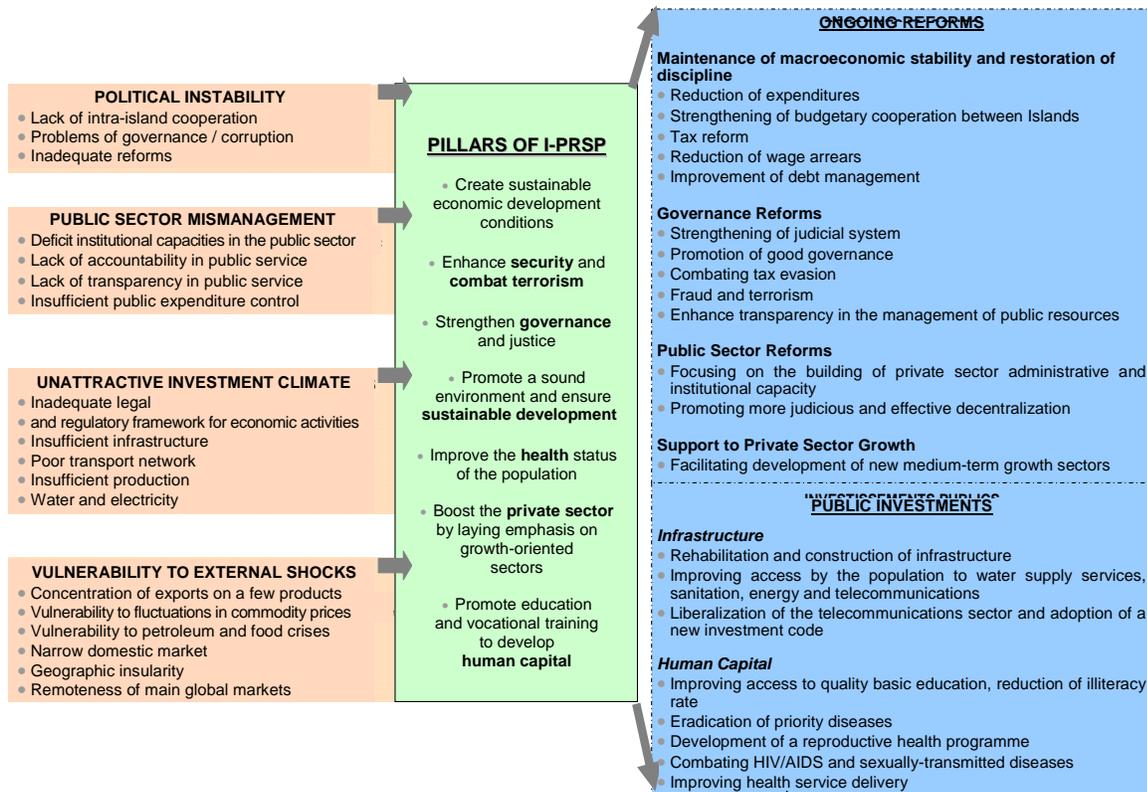
## 2.2 Strategic Options

### 2.2.1 Country Strategic Framework

The Interim Poverty Reduction Strategy Paper (I-PRSP) of Comoros for the 2006-2009 period, formulated in 2005, hinges on 7 priorities (cf. Table 1), aimed at strengthening

the rule of law and ensuring sustainable development. The resulting Government programme highlights two strategic areas, namely, reforms and capacity building on the one hand, and infrastructural requirements at the economic and social levels, on the other.

**Table 1 - I-PRSP Strategy**



### 2.2.2 Challenges and Weaknesses

2.2.2.1 Comoros is facing many challenges, as indicated in Table 1 above, in its effort towards sustainable and lasting development that would help achieve the MDGs. The main weaknesses identified are **characteristic of a fragile State**, particularly political instability, poor governance and weak institutional capacities. To these may be added those **specific to small island countries**, particularly problems of national and international connections that hamper trade, scarcity of basic infrastructure and generally

the high dependence on the outside world for physical and human resource development.

2.2.2.2 This has caught Comoros in the poverty trap, with few opportunities to cross the minimum development threshold enabling it to trigger a virtuous growth and poverty reduction circle. However, with the arrears clearance plan and fresh efforts to mobilize the country's development partners, the future appears more promising. **In particular, the Fragile State Facility will enable the country to receive**

**additional support from the Bank**, despite its poor performance in Country Policy and Institutional Assessment (CPIA) (cf. Annex 7).

2.2.2.3 Over the last three years, the performance of Comoros, as measured by the CPIA, has been unsatisfactory and has even deteriorated slightly. Only the macroeconomic, regional integration, equity in public resources and human resources indicators obtained a stable rating of 3 (moderately weak), while the others are characterized by their poor performance. The CPIA particularly highlights two areas of concern, namely, the management of public sector institutions (rating: 2.1) and the private sector environment (financial sector and very weak business framework, rating: 2).

### 2.2.3 *Strengths and Opportunities*

2.2.3.1 Comoros has immense untapped potential in some specific areas (cf. Annex 6), notably agriculture, fisheries and tourism, and labour-intensive activities. Thus, there are opportunities for agricultural diversification and marketing of Comorian agricultural produce in the countries of the region. The fisheries sector is underdeveloped, given the fishery potential of 85,000 tonnes of fish per annum. The tourism and ecotourism sectors could also be engines of growth. Unfortunately, the persisting turmoil that is hampering the restoration of political stability, as well as the lack of visibility in the implementation of administrative decisions, have undermined private sector development.

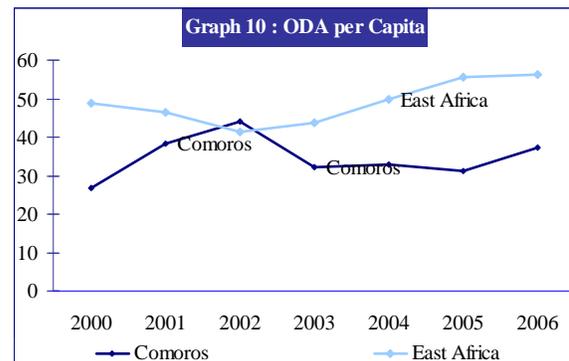
2.2.3.2 To develop these sectors, private sector intervention will be required, in view of the limited resources of the Government. However, the latter will have a key role to play in improving the business climate both in terms of efficiency of the administration, the

special and key partner of the private sector, and in the transparency and simplification of administrative rules relating to investments. Continued dialogue between an organized private sector and the Government could be a first step towards improving the business environment.

## 2.3 **Recent Developments in Aid Coordination/Harmonization and Positioning of ADB in the Country**

### 2.3.1 *Aid Coordination and Harmonization*

2.3.1.1 Development partners present in Comoros have organized regular consultations in recent years. The development partners' forum, which includes partners in the field, generally meet on a monthly basis in Moroni, under the Chair of the UNDP, to discuss aid coordination issues and update the Government and the donor community on the partners' activities and problems hampering the implementation of projects.



**Source:** AfDB Statistics Department using data from the OECD, 2008

2.3.1.2 Comoros concluded a loan agreement with **IMF** in December 2008 for the implementation of an Emergency Post-Conflict Aid Programme (EPCA) for a six-month period from October 2008 to March 2009. The programme aims at promoting macroeconomic stability in the country through implementation of reforms mainly

geared towards enhanced cooperation between the three Islands, and better management of public finance and the debt. The EPCA should help pave the way for a PRGF, and lead Comoros towards debt relief under the Heavily-Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

2.3.1.3 The current Interim Strategy (ISN) of the **World Bank**, covering the 2007-2008 period, has two objectives, namely: (i) provide basic services to the most disadvantaged communities; and (ii) consolidate national reconciliation by building the capacities of the Government. In 2009, the World Bank intends to launch a institutional support programme for public financial management geared towards the management human resources and expenditure control.

2.3.1.4 The CSP 2008-2013 of the **European Union** for Comoros has identified the following intervention sectors: (i) transport infrastructure (roads, port and airport); (ii) education and vocational training; and (iii) institutional support for good governance.

2.3.1.5 To address the problem of political instability and promote national reconciliation, the **UNDP** has made significant efforts for the implementation of the transitional agenda for Comoros, by coordinating a special multi-donor fund in the amount of US\$ 3.3 million. The UNDP 2008-2013 Cooperation Programme comprises projects in the following areas: (i) institutional support to combat poverty; (ii) governance; (iii) HIV/AIDS control; and

(iv) environmental protection.

2.3.1.6 The **League of Arab States** is involved in investments and agricultural development in Comoros, with various projects, notably in animal health and aromatic plant production.

2.3.1.7 Among the country's bilateral donors, **France** plays a highly active role in the area of development, mainly through the **French Development Agency (AFD)**. The cooperation framework between the French Government and the Government of Comoros for the 2006-2010 period specifies the following major intervention areas: (i) health, (ii) agriculture and food security, (iii) development of productive sectors, (iv) water, and (v) specialized and vocational training. On its part, **China** is operating in the infrastructure (Moroni Airport, installation of generators and telecommunication equipment), training (health and food security) and agriculture (planning, plantation - rice, soya and sugar cane and processing of agricultural commodities) sectors. The **Arab countries** have been focusing their investments on infrastructure and tourism.

2.3.1.8 The ongoing activities of the major multilateral donors (cf. Table 2) focus on governance and the social sectors, followed by agriculture and infrastructure. However, in the definition of new donor assistance strategies, infrastructure will be given the pride of place, followed by capacity building and policy dialogue. The agricultural sector remains a privileged area for bilaterals, in addition to the interest shown by specialized organizations.

**Table 2**  
**Ongoing Operations of Major Multilateral Partners - 2008**

DONOR	AGRICULTURE		GOVERNANCE		SOCIAL		INFRASTRUCTURE		TOTAL DONOR
	Euro M.	%	Euro M.	%	Euro M.	%	Euro M.	%	Euro M.
<b>World Bank</b>	0.4	45	2.1	9.5	2.1	11	2.1	80.7	<b>6.7</b>
<b>European Union</b>			15.5	70.1	16.5	86.4			<b>32</b>
<b>UN System</b>	0.5	55	4.5	20.4	0.5	2.6	0.5	19.3	<b>6</b>
<b>TOTAL</b>	<b>0.9</b>	100	<b>22.1</b>	100	<b>19.1</b>	100	<b>2.6</b>	100	<b>44.7</b>
<b>% SECTOR</b>	<b>2.1%</b>		<b>49.4%</b>		<b>42.7%</b>		<b>5.8%</b>		

**Source:** PSIP Comoros, General Planning Commission

### **2.3.2 Relations between Comoros and the Bank Group**

2.3.2.1 The Bank Group has been operating in Comoros since 1977. Prior to the 1993 sanctions, its portfolio consisted of 9 projects, 2 studies and a structural adjustment programme. As indicated in Annex 2, the Bank's resources were essentially used to finance development projects in the transport and agriculture sectors. The rest of the resources was devoted to economic reforms, social sector and the public utility services. The Bank's financing amounted to UA 64.76 million, consisting of UA 10 million from ADB resources and UA 54.74 million from ADF resources.

2.3.2.2 The implementation of the Bank Group operations in Comoros has been laborious as a result of: (i) lack of qualified personnel in the civil service and in its executing agencies, and (ii) successive sanctions imposed by donors on the country since 1986. Furthermore, the unstable political environment characterized by frequent change in governments did not allow for rigorous preparation and monitoring of projects.

### **2.3.3 Lessons Drawn from Previous Bank Interventions in Comoros**

2.3.3.1 The geopolitical specificity of the country, comprising three autonomous Islands and emerging from a succession of coups d'état cannot be overlooked in the formulation of a strategy for the country. Consequently, the need to establish permanent dialogue with the authorities and all the stakeholders is indispensable. To this end, special emphasis will be laid on deepening knowledge about the Comorian economy.

2.3.3.2 The Bank's past experience in Comoros also revealed that in view of the chronic arrears to the Bank<sup>7</sup>, the country did not receive continuous and sustained support, despite the immense needs. This recurrent situation should be given particular attention to ensure the viability and sustainability of the intervention. The EPCA Agreement with the IMF and coordination between the donors have helped address this situation.

2.3.3.3 Given the Government's inability to implement programmes and projects, it

<sup>7</sup> This is accounted for, *inter alia*, by the wrongful location for the Mutsamudu Port project, financed with an ADB loan.

has decided that all operations should include the “capacity building” component to ensure success. The strategy should also take into account the need to retain highly qualified and experienced personnel, and provide for incentives to avoid the frequent rotation of personnel between the Ministries. Lastly, medium-term high level technical assistance will be deployed for building the internal capacities of the administration, as well as ensuring effective implementation of the Bank’s policy and smooth implementation of projects<sup>8</sup>.

2.3.3.4 The Bank does not have an office in Comoros. The authorities fear that this may cause administrative delays once the Bank’s operations start in the country. The community of development partners present in Moroni are also of the view that coordination between donors could be better if the Bank had a representative in Comoros. Ultimately, the option would be to open a Liaison Office in Moroni.

2.3.3.5 In view of the resources available and the re-engagement of the Bank after protracted absence, the complementarity of the interventions and their coordination will be strengthened, in order to obtain the best concrete results. The various strategies and activities identified by other donors, as well as the comparative advantages of the Bank, will be the basis for the major cooperation areas selected. Thus, it is clear that only a common and sustained engagement at the level of economic reforms and institutional support could have an effective positive impact on the restructuring of the country’s macroeconomic framework<sup>9</sup>. Furthermore,

<sup>8</sup> This technical assistance will be obtained through Pillar 3 of the Fragile States Facility.

<sup>9</sup> The Bank has been engaged in discussions with the IMF since the last quarter of 2008 and has been involved in the formulation of an IMF emergency programme. Discussions regarding the contribution of the Bank to deepening the reforms

faced with the lack of and the deterioration of basic infrastructure, effective coordination of activities that ensures consistency and complementarity of interventions is necessary to guarantee a positive impact on the ground<sup>10</sup>.

### 3. BANK GROUP STRATEGY FOR COMOROS

#### 3.1 Justification for Bank Group Intervention

3.1.1 The I-CSP for Comoros has come at a critical moment in the country’s development, marked by **new political stability**, *albeit* fragile, but backed by real political will and clear support by the international community, particularly the African Union, a **clear situation of arrears**, with the effective clearance of all the arrears and measures taken together with donors to avert new medium-term arrears, and lastly, a **national programme supported by an emergency post-conflict assistance (IMF)** backed by bold measures to give fresh impetus to the country’s effective development prospects. **Comoros is a country that is eligible for the Fragile States Facility** (cf. Annex 3). Consequently, the Bank’s intervention falls within the framework of the new Fragile States Facility, with the following priority areas: (i) economic reforms and governance, and (ii) infrastructure.

3.1.2 The major challenge facing Comoros is political stability and the strengthening of governance, which, having been lacking for many years, has not only

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and measures implemented under the programme are well advanced.

<sup>10</sup> In view of the immense needs, there is a strong temptation to respond to ad hoc requests made by the authorities without due attention to the overall logic.

deteriorated the socioeconomic environment, with degraded basic services, limited economic performance, etc. (cf. paragraph 2.1), but has also weakened a redundant and demobilized administration and stifled private sector development (cf. paragraph 2.2). To meet this challenge, while ensuring the country's economic recovery and improvement of the well-being of the people, Comoros should notably: (i) enhance dialogue between the Islands and ensure the equitable development of each of the Islands, (ii) strengthen the administration and the role of the private sector in the promotion of economic growth, and (iii) improve basic services. Consequently, in order to be selective while optimizing the results and their impact on development, and in view of the arbitration conducted by the Government, the CSP 2009-2010 will focus on two major objectives, namely: (i) **strengthening institutions and the macroeconomic framework**<sup>11</sup>, and (ii) improving access to drinking water and sanitation. These two objectives have been aligned with the Government's interim poverty reduction strategy, particularly with regard to the development of a sound environment and ensuring sustainable development, improved public health and private sector development. These have resulted from consultations conducted in 2008 (two missions) and 2009 (one mission) with the Government and the development partners, notably the civil society and private sector, and reflect our positioning in the country (cf. paragraph 2.3).

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<sup>11</sup> The choice of water is in response to the poor access to clean water (cf. 2.1.20), is based on the Bank's expertise in the area and the focus given to the sector in both the Bank's medium term strategy and the FSF.

### **Pillar 1. Strengthening Institutions and the Macroeconomic Framework**

3.1.3 This pillar comprises two components, namely: **improvement of the regulatory framework of public finance and enhancing the performance of the administration, as well as that of the private sector entities**. The first component is a follow-up and support to the ongoing IMF programme, notably with regard to the revision and adoption of laws on public financial management.

3.1.4 In view of the weak capacities of the public sector, capacity building for the administration is indispensable, so as to make it an effective development actor. The priority is to promote macroeconomic stability through better management of public finance and the debt, with the ultimate objective of benefiting from debt relief, namely reaching the HIPC completion point and gaining access to the multilateral debt relief initiative. This would require capacity building for the Ministries, notably the Ministry of Finance, in the management of public finance, debt management and statistics on the three Islands.

3.1.5 With a 13,000-strong workforce and enormous budgetary constraints, the country cannot continue to depend on the public sector to create employment. Consequently, now is the time to initiate concrete measures to stimulate the private sector and turn it into an effective engine of economic growth and a source of employment. The capacity building agenda will therefore include a private sector promotion component in support of the Government's efforts to advance economic growth through opportunities provided by the private sector to complement public investments. This will mainly entail providing support to local institutions by complementing the activities

already implemented by other donors operating in the area and enhancing private and public sector dialogue.

## **Pillar 2. Improving Access to Drinking Water and Sanitation**

3.1.6 The demand and needs as regards basic infrastructure are many and the water sector has been prioritized, in view of its direct impact on improving the well-being of the population, notably women and young girls, who bear water fetching responsibilities in families, but also in view of all the indirect effects in the area of hygiene, public health, as well as proper water control, which is a key element of food security.

3.1.7 In complementarity with other donors<sup>12</sup>, this pillar will aim at: (i) providing the Comorian authorities with an appropriate institutional, organizational and financial framework for the sector, (ii) formulating a sectoral strategy with a national programme over a 20-year period, and (iii) providing the Comorian population greater access to drinking water that will strengthen sanitation. It falls under the 2006-2009 I-PRSP action plan, namely: increasing access to drinking water and sustainable management of water resources (Programme 6 of strategic thrust vi). In order to take into account the specific context of insularity, the situation of each Island will be equitably examined in the formulation of concrete interventions. Furthermore, in contributing to improving the well-being of the people, activities in the water sector will contribute to strengthening political stability.

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<sup>12</sup> A joint programme with the AFD is nearing completion.

## **3.2 Expected Results**

3.2.1 *Dialogue:* The Bank hopes to deepen dialogue with the Government, notably in political and economic governance. Issues regarding the improvement of the political and institutional environment, and particularly the need to strengthen cooperation between the Government of the Union and the Governments of the various islands, will be the subject of discussions with the Government. With regard to economic governance, the need to restore budgetary discipline, improve public administration and reduce the public wage bill will be raised. Furthermore, the Bank will lay emphasis on the significance of timely settlement of debt payments to ensure harmonious implementation of the Bank Group operations in the country. Lastly, dialogue should focus on strengthening economic growth and the development of income-generating activities, notably in the agriculture, energy and transport sectors.

3.2.2 *Analytical Studies:* During the I-CSP period, the Bank hopes to undertake, economic and sector studies in areas closely related to economic management, in order to strengthen and improve its knowledge on the country and effectively contribute to enhancing economic governance in the medium term. It will also be necessary to deepen reflection on the sources of economic growth in Comoros so as to strengthen sectoral diversification of the economy. The sectors identified as potential engines and income-generators will undergo comprehensive sectoral reviews. The Economic and Sector Studies (ESS) planned for the coming years will also help to determine the strategic pillars of the next CSP of the Bank and improve selectivity and quality at entry for operations (cf. Table 3).

**Table 3**  
**Indicative Programme of Activities excluding Grants for Comoros (2009-2010)**

2009	
1	Diagnosis of Growth Sources
2010	
2	General Review of Sectors Identified under the Diagnosis of Growth Sources
2011	
3	CSP Completion Report
4	Portfolio Performance Review
5	New CSP (2011-2015)

3.2.3 ***Institutional Support:*** The development strategy of Comoros requires capacity building that will ensure synergy between the various interventions so as to achieve tangible results. The Bank's support will be geared towards strategic interventions aimed at: (i) improving the quality and reliability of statistics (basic statistics, statistics related to the PRSP and national accounting), (ii) improving public financial management (management of the budget and the debt), and (iii) promoting private sector development. The support will be financed from ADF resources in the amount of UA 5 million.

3.2.4 ***Policy-based Lending.*** The aim of this support is to improve the regulatory framework of public finance. The choice of the "budget support" instrument is guided by the need to provide rapid aid to Comoros in order to consolidate the positive impacts of the IMF's EPCA reform programme and

take advantage of the dynamics generated. To this end, the smooth implementation of the IMF programme will be a condition for the disbursement of the budget support. The support will be financed from the Fragile States Facility resources to the tune of UA 2 million. It fulfils the relevant criteria for budget support, as outlined in Annex 4.

3.2.5 ***WSS Project:*** A single physical project is envisaged, namely the formulation of a short, medium and long-term water sector development strategic plan, and the installation of new equipment, rehabilitation and extension of priority water infrastructures (defined in the short-term plan), in order to improve access to drinking water, as well as sanitation, and thereby contribute to improving hygiene and public health (cf. Table 4). The project will be financed with Fragile States Facility resources to the tune of UA 8 million.

**Table 4**  
**Indicative Programme of Grants for Comoros (2009-2010)**

Target	Operations	Main Objectives	FSF Estimated Amount	ADF Estimated Amount	Coordination with Other Partners
<b>Pillar 1: Strengthening Institutions and the Macroeconomic Framework</b>					
Capacity building for: the administration and Private sector organizations	Institutional support to Budget / Treasury / Debt Division and Statistics of the Ministry of Finance; and to private sector organizations.	Improving public financial management, the debt and statistics  Enhancement of dialogue between private sector and public sector.		UA 5 M	EU, UNDP, WB
Strengthening of macroeconomic framework	Policy dialogue in public finance	Adoption of key reforms  Effective implementation of medium-term reforms	UA 2 M		IMF, EU and WB
<b>Pillar 2: Improving Access to drinking water</b>					
Developing water basic infrastructure	Project for improving access to drinking water and sanitation	Access to drinking water strengthened Improved sanitation Reduction of diseases and improvement of the hygiene of the population	UA 8 M		AFD, UNDP, WB, UNICEF, EU, NGOs

### 3.3 Monitoring and Evaluation (M&E)

3.3.1 The logical framework will be used for monitoring the progress made and results obtained. This will be done through supervision, mid-term reviews, evaluations and various activity reports (cf. Annex 1). Other missions will be organized to monitor operations to be financed by the FSF. A review of progress made and the results obtained will be undertaken at the end of the I-CSP period.

### 3.4 Potential Risks and Mitigation Measures

3.4.1 *Political Instability Leading to Lack of Ownership and Continuity of Policies:* Although the political risk has lessened considerably, it still remains high.

This risk will be mitigated by the efforts of the international community, particularly the African Union, which ensures the maintenance of harmonious dialogue between the Islands. Strengthening of dialogue with the authorities and various interventions on the field should also have a positive effect.

3.4.2 *Inadequate Capacity of Government to Implement Reforms:* Past experiences in Comoros show that the Government's capacities in human, institutional and financial resources for the implementation of projects and reforms are weak, and this could compromise the smooth implementation of the strategy. However, this risk will be reduced through planned capacity building activities and greater coordination between donors as part of capacity building efforts.

**3.4.3 The Government's inability to Honour its Debt Obligations:** The weak growth prospects, combined with that of the Government in maintaining a stable macroeconomic environment, can result in a deficit in public resources and, consequently, difficulties to meet the debt service obligations to the Bank, resulting in the application of sanctions, or the interruption of activities on the ground. This risk could be mitigated by the various actions to develop capacities for the management of public expenditures and their debt, undertaken by the Bank as well as other partners, notably the IMF and through a combination of donor efforts to enable Comoros to benefit from global debt relief under the HIPC Initiative. Similarly, growth prospects as a result of the stimulation of private sector activities and the return of foreign investments to the country will contribute to reducing this risk.

**3.4.4 Vulnerability to External Shocks:** Comoros is highly vulnerable to external shocks, since its economy directly depends on fluctuations in terms of trade, external aid, petroleum prices and natural disasters (outbreak of diseases, volcanic eruptions and cyclones, etc.). To reduce the vulnerability of the country to these external shocks, the Bank is deeply involved in constructive dialogue with the country and is trying to mobilize all the possible resources through the GFRP, the ADF, the FSF, bilateral funds, special funds and the private sector window. Other organizations, notably the World Bank and the United Nations System, are also actively involved in mobilizing supplementary resources that will help to enhance food security and prepare the country against natural disasters.

#### 4. CONCLUSION AND RECOMMENDATIONS

4.1 The present I-CSP falls within the framework of the Bank's re-engagement in Comoros following the implementation of the 2007 arrears clearance plan and a protracted absence of the Bank in the country. This strategy comes at a crucial time in the history of the country, when some political stability has been restored, but when the aspirations of the people should be rapidly met in order that the efforts and progress made in recent years would not be eroded and that the country will definitively emerge from the infernal cycle of political crises and payment arrears.

4.2 The I-CSP hinges on two strategic pillars, namely: (i) **strengthening institutions and the macroeconomic framework**, and (ii) **improving access to drinking water and sanitation**. Through these interventions, the Bank hopes to provide significant support towards achieving the development objectives of the country, as stipulated in the I-PRSP; the support will be strengthened by complementarity with interventions by other partners.

4.3 The Government shares the conclusions of the evaluation conducted by the Bank and the strategies earmarked for the 2009-2010 period to provide aid to the country. **The Boards are invited to approve the eligibility of Comoros for FSF resources, as well as the present Interim Country Strategy Paper for Comoros**

**Framework for Monitoring the Outcomes of I-CSP 2009-2010 of Comoros**

Strategic Objective (I-PRSP)	Constraints on Achieving Expected Outcomes	Final Outcome Indicators (2010)	Final Output Indicators (2010)	Bank Interventions expected in the I-CSP
<b>PILLAR 1. STRENGTHENING INSTITUTIONS AND THE MACROECONOMIC FRAMEWORK</b>				
<p><b>Create conditions for sustainable economic development through the implementation of key economic reforms and capacity building for the administration (public finance, debt and statistics)</b></p>	<p>Lack of cohesion between the 3 Islands</p> <p>Excessive size of the administration, despite the insufficient human resources both qualitatively and quantitatively</p> <p>Inappropriate working conditions of the administration, insufficient logistical, computer and office automation equipment</p> <p>High personnel wastage rate and lack of skills</p>	<p>Macroeconomic stability is strengthened</p> <p>Public financial management is more judicious and transparent</p> <p>The CGFO is produced regularly and comprehensively</p> <p>Budget preparation and execution is strengthened</p> <p>The regulatory framework relating to public financial management has been strengthened</p>	<p>The macroeconomic framework was formulated 6 months before the start of the fiscal year</p> <p>At least 150 m/d<sup>13</sup> courses on the formulation of macroeconomic framework have been provided</p> <p>The budget committee meets regularly and at least quarterly starting from January 2009 (at least 6 meetings between 2009 and 2010)</p> <p>The CGFO is produced at least quarterly starting January 2009 (at least 6 CGFO prepared between 2009 and 2010)</p> <p>At least 100 m/d of training on CGFO has been provided</p> <p>The budgetary circular has been prepared and circulated among the stakeholders in accordance with public financial regulations annually (2009 and 2010)</p> <p>At least 400 m/d of training and technical assistance on budget preparation and execution has been provided</p> <p>6 legislative instruments on public financial regulation have been passed and are enforced (including budget nomenclature, financial planning, manual of budgetary procedures, nomenclature of accounting documents and the new charter of accounts)</p>	<p>Support to economic reforms (FSF Resources)</p> <p>Project for institutional support to Budget, Debt and Statistics Directorates of the Ministry of Finance (ADF-XI Resources)</p>

<sup>13</sup> M/D: Number of persons/day

Strategic Objective (I-PRSP)	Constraints on Achieving Expected Outcomes	Final Outcome Indicators (2010)	Final Output Indicators (2010)	Bank Interventions expected in the I-CSP
		<p>Capacities for mobilizing revenues have been improved</p> <p>Improvement of the transparency of public procurement systems, strengthening of financial control and financial management</p> <p>Debt management has improved</p> <p>Building external and internal control capacity</p>	<p>A computerized system of revenue management has been installed and is operational (AGIR)</p> <p>A new tax code has been prepared</p> <p>At least 100 m/d of training and technical assistance in areas relating to taxation have been provided</p> <p>The action plan to strengthen the public procurement system has been formulated</p> <p>At least 100 m/d of training have been provided in areas relating to financial control and financial management</p> <p>Activities on the computerization of the treasury have begun</p> <p>At least 6 professional-level officers have undergone long-term training</p> <p>A computerized debt management system has been put in place and is operational (CS-DRMS 2000+)</p> <p>At least 100 m/d of training and technical assistance have been provided</p> <p>The country has not accumulated any payment arrears to the ADB</p> <p>A debt clearance plan for Comoros has been formulated and implemented</p> <p>A study on the clarification of the roles of auditing and control entities has been clarified. An action plan on the reform on the external and internal control has been developed</p>	

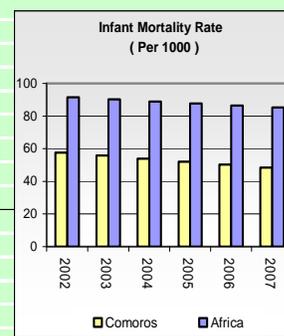
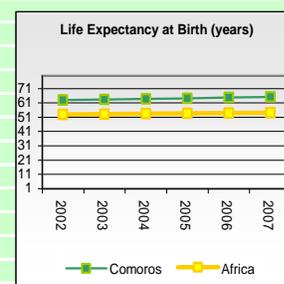
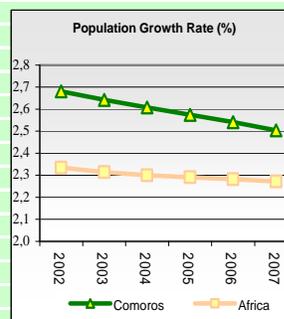
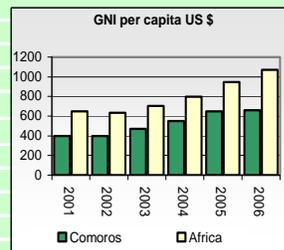
Strategic Objective (I-PRSP)	Constraints on Achieving Expected Outcomes	Final Outcome Indicators (2010)	Final Output Indicators (2010)	Bank Interventions expected in the I-CSP
		<p>Statistical production capacities have been enhanced at the level of the Union and the Autonomous Islands</p> <p>Relevant entities have been strengthened with office automation and computer equipment and work spaces have been constructed or renovated</p>	<p>At least 50 m/d of training and technical assistance in areas relating to external and internal control have been provided</p> <p>Statistical databases and regular publications of national statistics are produced and disseminated</p> <p>At least 150 m/d of training in areas relating to statistics have been provided</p> <p>At least 100 computers and related equipment have been delivered and installed; rehabilitation and construction earmarked for institutional support have started.</p>	
<p><b>Creating sustainable economic development conditions by strengthening private sector organizations and dialogue with the public sector</b></p>	<p>Lack of capacity of private sector organizations</p> <p>Lack of dynamism in the private sector</p> <p>Lack of framework for constructive private/public sector dialogue</p>	<p>The private sector is better organized</p> <p>Private sector organizations can advise their members</p> <p>The private sector was consulted in the context of the deepening of economic reforms</p>	<p>The Chamber of Commerce Union received at least 50 computers, a system of communication between the Islands has been put in place and a training room provided</p> <p>At least 50 m/d of training for private sector actors in the areas of management, administration, finance, exports and imports have been provided</p> <p>A financial and organizational auditing of the Chamber of Commerce Union has been conducted</p> <p>A manual of procedures for the Chamber of Commerce Union has been developed and implemented</p> <p>A formal framework for public sector- private sector consultation has been put in place and meetings between the private sector and the public sector have been organized</p>	<p>Institutional Support to Private Sector Organizations Project (ADF-XI Resources)</p>

Strategic Objective (I-PRSP)	Constraints on Achieving Expected Outcomes	Final Outcome Indicators (2010)	Final Output Indicators (2010)	Bank Interventions expected in the I-CSP
<b>PILLAR 2. IMPROVING ACCESS TO DRINKING WATER AND SANITATION</b>				
<p><b>Improve the socioeconomic and health conditions of the people of the Union of Comoros</b></p>	<p>Poor coordination of the intervention of development partners</p> <p>Lack of capacity</p> <p>Delay in the implementation of institutional reforms</p> <p>Increase in demand for water in built-up areas</p> <p>Dilapidated installations</p> <p>Virtually non-existent sanitation system</p>	<p>Framework of consultation and coordination of donors put in place</p> <p>Appropriate institutional framework put in place</p> <p>Long-term strategic vision established</p> <p>Access to drinking water increased</p> <p>Waste water sanitation has been carried out for selected built-up areas</p> <p>Water-borne diseases reduced</p> <p>Living conditions of women and young girls have improved.</p>	<p>Water and Sanitation Sector Committee put in place at the PMU</p> <p>The company in charge of water management has been provided with capacity building support</p> <p>The Water Sector Development Plan has been finalized</p> <p>Drinking water supply works completed</p> <p>The water network has been rehabilitated and extended to communities that did not have access to clean water.</p> <p>The rate of connection has increased.</p> <p>Rate of access to drinking water</p> <p>Rate of sanitation</p> <p>The waste water drainage system is operating</p> <p>Maternal mortality rate</p> <p>Under-5-year old mortality rate</p> <p>Water fetching chores by women and young girls have reduced</p>	<p>Water Supply and Sanitation Project (WSS) (FSF Resources)</p>

# Comoros

## COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Comoros	Africa	Developing Countries	Developed Countries
<b>Basic Indicators</b>					
Area ('000 Km <sup>2</sup> )		2	30 307	80 976	54 658
Total Population (millions)	2007	0,8	963,7	5 448,2	1 223,0
Urban Population (% of Total)	2007	28,1	39,8	43,5	74,2
Population Density (per Km <sup>2</sup> )	2007	375,5	31,8	65,7	23,0
GNI per Capita (US \$)	2006	660	1 071	2 000	36 487
Labor Force Participation - Total (%)	2005	48,7	42,3	45,6	54,6
Labor Force Participation - Female (%)	2005	43,1	41,1	39,7	44,9
Gender -Related Development Index Value	2005	0,554	0,486	0,694	0,911
Human Develop. Index (Rank among 174 countries)	2005	134	n.a.	n.a.	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	2005	36,9	34,3	...	...
<b>Demographic Indicators</b>					
Population Growth Rate - Total (%)	2007	2,5	2,3	1,4	0,3
Population Growth Rate - Urban (%)	2007	4,3	3,5	2,6	0,5
Population < 15 years (%)	2007	41,5	41,0	30,2	16,7
Population >= 65 years (%)	2007	2,9	3,5	5,6	16,4
Dependency Ratio (%)	2007	79,3	80,1	56,0	47,7
Sex Ratio (per 100 female)	2007	100,7	99,3	103,2	94,3
Female Population 15-49 years (% of total population)	2007	24,5	24,2	24,5	31,4
Life Expectancy at Birth - Total (years)	2007	65,2	54,2	65,4	76,5
Life Expectancy at Birth - Female (years)	2007	67,4	55,3	67,2	80,2
Crude Birth Rate (per 1,000)	2007	33,3	36,1	22,4	11,1
Crude Death Rate (per 1,000)	2007	6,5	13,2	8,3	10,4
Infant Mortality Rate (per 1,000)	2007	48,4	85,3	57,3	7,4
Child Mortality Rate (per 1,000)	2007	62,7	130,2	80,8	8,9
Total Fertility Rate (per woman)	2007	4,3	4,7	2,8	1,6
Maternal Mortality Rate (per 100,000)	2005	400,0	724	450	8
Women Using Contraception (%)	2000-06	25,7	29,9	61,0	75,0
<b>Health &amp; Nutrition Indicators</b>					
Physicians (per 100,000 people)	2005	14,8	39,6	78,0	287,0
Nurses (per 100,000 people)	2005	75,9	120,4	98,0	782,0
Births attended by Trained Health Personnel (%)	2000-06	61,8	50,4	59,0	99,0
Access to Safe Water (% of Population)	2006	85,0	62,3	80,0	100,0
Access to Health Services (% of Population)	2004	82,4	61,7	80,0	100,0
Access to Sanitation (% of Population)	2004	33,0	45,8	50,0	100,0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2003-05	0,1	4,7	1,3	0,3
Incidence of Tuberculosis (per 100,000)	2005	45,0	300,7	275,0	18,0
Child Immunization Against Tuberculosis (%)	2006	84,0	83,7	85,0	93,0
Child Immunization Against Measles (%)	2006	66,0	75,4	78,0	93,2
Underweight Children (% of children under 5 years)	2004	25,0	28,6	27,0	0,1
Daily Calorie Supply per Capita	2004	1 787	2 436	2 675	3 285
Public Expenditure on Health (as % of GDP)	2005	1,6	2,4	1,8	6,3
<b>Education Indicators</b>					
Gross Enrolment Ratio (%)					
Primary School - Total	2005	85,4	96,4	91,0	102,3
Primary School - Female	2005	79,9	92,1	105,0	102,0
Secondary School - Total	2004	35,0	44,5	88,0	99,5
Secondary School - Female	2005	30,0	41,8	45,8	100,8
Primary School Female Teaching Staff (% of Total)	2005	32,9	47,5	51,0	82,0
Adult Illiteracy Rate - Total (%)	2007	42,9	33,3	26,6	1,2
Adult Illiteracy Rate - Male (%)	2007	35,8	25,6	19,0	0,8
Adult Illiteracy Rate - Female (%)	2007	49,9	40,8	34,2	1,6
Percentage of GDP Spent on Education	2005	3,9	4,5	3,9	5,9
<b>Environmental Indicators</b>					
Land Use (Arable Land as % of Total Land Area)	2005-07	35,0	6,0	9,9	11,6
Annual Rate of Deforestation (%)	2000-07	4,0	0,7	0,4	-0,2
Annual Rate of Reforestation (%)	2000-07	...	10,9	...	...
Per Capita CO2 Emissions (metric tons)	2005-07	0,1	1,0	1,9	12,3



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;

last update : juillet 2008

UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports

Note : n.a. : Not Applicable ; ... : Data Not Available;

**ANNEX III****PAST OPERATIONS OF THE BANK GROUP BY SECTOR (NO ONGOING OPERATION)**

	<b>No. of Operations</b>	<b>Approval Date</b>	<b>Closing Date</b>	<b>Amount Committed (millions of UA)</b>	<b>% Sector</b>	<b>Amount Disbursed (millions of UA)</b>	<b>% Disbursed</b>
<b>TRANSPORT</b>	<b>4</b>			<b>26.30</b>	<b>40.63%</b>	<b>23.81</b>	<b>90.60%</b>
Construction of the Nioumaleke Road		29/06/78	31/12/81	3.7		3.7	
Matsamudu Port *		26/11/81	31/12/85	10.0		9.6	
Road maintenance		04/12/81	31/12/87	5.0		4.2	
Moya-Mremani Road Construction		26/05/82	30/06/94	7.1		6.1	
<b>AGRICULTURE</b>	<b>4</b>			<b>19.38</b>	<b>29.92%</b>	<b>6.27</b>	<b>27.22%</b>
Fisheries Plan **		13/11/92	31/12/95	0.6		0	
Nioumakele-Sembehou Rural Development		07/09/82	30/06/94	9.2		1.1	
Vanilla and Clove Tree Development		16/08/77	31/03/83	5.3		1.0	
Artisanal Fishing Development		20/12/79	30/06/94	4.1		3.0	
<b>EDUCATION</b>	<b>1</b>			<b>6.17</b>	<b>9.53%</b>	<b>3.61</b>	<b>58.51%</b>
Education		28/08/80	31/12/94				
<b>ENERGY</b>	<b>1</b>			<b>5.06</b>	<b>7.82%</b>	<b>0.0</b>	<b>0.0%</b>
Tatinga Irrigation Scheme		19/11/94	30/06/89				
<b>MULTI-SECTOR</b>	<b>1</b>			<b>7.83</b>	<b>12.10%</b>	<b>7.83</b>	<b>100.00%</b>
Structural Adjustment Lending		29/10/91	30/06/96				
<b>TOTAL</b>	<b>11</b>			<b>64.74</b>	<b>100.00%</b>	<b>40.52</b>	<b>62.63%</b>

\* ADB Loan

\*\* ADF Grant

## UNION OF COMOROS - FRAGILE STATE

**Supplemental Assistance Window:** The operational activities proposed for Comoros are in keeping with the operational priorities of ADF 11. Comoros meets the eligibility criteria for the supplementary allocation of the Fragile States Facility (FSF), namely: (a) **Peace and stability:** the holding of free and transparent presidential election in April 2006 constitutes a determining factor. The organization of democratic presidential election on the Island of Anjouan in May/June 2008 further reinforced the country's political stability; (b) **Unmet needs:** The Union of Comoros recorded very low growth compared to other fragile countries; (c) **Improving macroeconomic conditions and deepening debt policies:** The macroeconomic situation improved slightly, with a contraction of deficits. Discussions with the IMF and potential interventions by partners in the improvement of public financial management and debt management are encouraging; (d) **Sound financial management:** In addition to the measures relating to enhanced effectiveness in revenue collection and control of expenditures, other measures were adopted to enhance transparency in public financial management including regular formulation of the consolidated Central Government's Financial Operations CGFO, regular meetings of the budgetary committee, restoration of the Inspectorate General of Finance, civil service headcounts, creation and putting in place of software for the management of civil servants and the payroll, as well as the creation of the civil service authority. A public expenditure and financial assessment (PEFA) review has also been prepared. Several studies on public financial management were conducted (report on public financial reforms (World Bank, 2007), a report on the 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 and 2005) and diagnosis of customs (World Bank, 2005). The Government undertook to formulate a strategy and an action plan for the public financial reforms. Lastly, the majority of partners are involved in the strengthening of economic governance as part of operations they are undertaking in Comoros; and e) **Transparency of public accounts:** The public sector reforms are ongoing and beginning to yield results. Measures have also been instituted to combat tax evasion, fraud and financial terrorism.

Given that Comoros meets the two stages of eligibility conditions, it should receive complementary aid from the Fragile States Facility (FSF) resources.

**First Stage Criteria:  
Eligibility based on Peace and Stability Criteria and on Unmet Needs**

<i>Commitment to consolidate peace and security</i>	<ul style="list-style-type: none"> <li>• In 2001, a reconciliation process was initiated based on the recognition of the greater autonomy for each island. Many milestones were crossed<sup>14</sup>, the last being the free and transparent presidential election held in April 2006, based on a system of rotation as indicated in the Constitution.</li> <li>• With the assistance of donors, the new Government has developed a crisis Resolution plan and embarked on the implementation of an economic recovery plan.</li> <li>• The African Union has actively participated in this national reconciliation process and played a key role in the dialogue with the Anjouan Island.</li> </ul>
<i>Unmet needs</i>	<ul style="list-style-type: none"> <li>• According to the Human Development Index (HDI), Comoros is ranked 134<sup>th</sup> out of 177 countries, with a per capita income of US\$ 660 in 2006.</li> <li>• The number of persons living below the poverty line has been on the rise, reaching 54.7% in 2005.</li> </ul>

**Second Stage Criterion: Main Benchmarks in Governance and Country's Commitment to these Benchmarks**

<i>Improving the macroeconomic situation and debt management practices</i>	<ul style="list-style-type: none"> <li>• In 2007, Comoros benefited from an arrears clearance plan in the context of countries emerging from conflicts.</li> <li>• In 2008, the clearance plan was closed.</li> <li>• In February 2009, sanctions were lifted.</li> <li>• Internal and external imbalances improved, representing 2% and 3.7% of the GDP in 2007 respectively as against 2.6% and 5.6% in 2006.</li> <li>• The debt burden has decreased from 110.9% of the GDP in 2000 to 69.9% in 2006 and 55.9% in 2007.</li> </ul>
<i>Country's commitment to pursue and strengthen reforms and re-establish an environment conducive to investments</i>	<ul style="list-style-type: none"> <li>• Among the seven pillars of the 2006-2009 PRSR, two are devoted to the restructuring of the economic environment (creation of conditions for sustainable economic development and promotion of a healthy macroeconomic environment) and one to the promotion of the private sector.</li> <li>• The Government's medium-term programme also included these pillars and initiated reforms to ensure effective tax collection and expenditure control, as well as enhanced transparency in public financial management.</li> <li>• The desire of the authorities to pursue the enhanced reforms<sup>15</sup> had been clearly expressed at the preparation of a Poverty Reduction and Growth Facility (PRGF) with the IMF in 2007, although the operation was not presented to the Board as a result of the Anjouan crisis and was subsequently reaffirmed during the IMF mission in August 2008.</li> </ul>
<i>Transparency of public accounts</i>	<ul style="list-style-type: none"> <li>• As part of the reforms pursued by the Government, special emphasis was placed on transparency in public financial management<sup>16</sup>, and general economic governance.</li> <li>• Measures against tax evasion, fraud and financial terrorism have also been passed.</li> <li>• Governance remains an area where most of the development partners provide support to the country.</li> </ul>

<sup>14</sup> Parliamentary elections (April 2004), Installation of National Assembly (June 2004), Creation of a Constitutional Court (October 2004)

<sup>15</sup> In 2005, an SMP programme with the IMF extended in 2006.

<sup>16</sup> A public expenditure and financial assessment (PEFA) was conducted for Comoros.

**Targeted Assistance Window:** Comoros is a country emerging from a protracted period of political instability, marked by a rating of violent political changes since it gained independence in 1975. Hence, capacity building needs are vital and the country hopes to benefit from the Targeted Assistance Window resources through a secondment programme designed to provide highly qualified professional services, experts in the management of issues related to Fragile States and will provide assistance to the Ministry of Finance, Budget and Planning in the following areas: i) management of public finances and the debt and ii) portfolio management and project monitoring-evaluation.

**Justification for the Use of FSF Resources for Policy Dialogue:** In the light of all the measures envisaged and taken to strengthen national systems, notably in conjunction with the strong coordination with other donors, the present I-CSP may envisage the granting of policy dialogue support to Comoros in the form of budgetary support. The latter will help to effectively bolster the voluntary measures taken by the Government and confirmed in the IMF's EPCA programme aimed at restoring a sound situation leading to the granting of resources from the Poverty Reduction and Growth Facility (PRGF). Support to the reforms will help stabilize the economic situation, reduce the impact of the financial crisis and the projected decline in remittances as well as strengthen transparency and improve the country's CPIA ratings, notably by passing legislative instruments on the regulation of public finances. It will also contribute to the implementation of the reforms that will lead to the HIPC decision point. It will focus on the Budget and the Treasury, in the light of the discussions with our other partners (IMF, WB and EU) and with a view to ensuring complementarity. Discussions between the partners for the setting up of a formal Partnership Framework are ongoing. This support will bolster and complement the planned ADF institutional support. Comoros meets the conditions required to benefit from budgetary support as outlined in the Bank's policy (DBSL) and in its policy for fragile States. These conditions are summarized in the table below. It is worth noting the collaborative nature of the budgetary support between the various institutions.

Safeguards will be provided to ensure the success of the execution of the policy dialogue support. This will entail pursuing dialogue and closely monitoring the policy dialogue operation, particularly in close collaboration with our partners. This support will be in two tranches of UA 1 million each, representing a total of UA 2 million. Disbursements of the tranches of the policy dialogue support will be subject to the satisfactory progress of the IMF programme.

**General and technical Conditions precedent to Budget Support  
according to the Bank's Policies on Budget Support and Fragile States**

Political stability	The political situation has been relatively stable since the Resolution of the Anjouan crisis in July 2008. The next presidential elections in the Union of Comoros are scheduled for 2010.
Economic stability	Although the economic situation is dire, it is not unstable. Notably, inflation is under control in view of Comoros' membership of the Franc zone. Economic stability and its maintenance have been confirmed by the IMF benchmark programme.
Commitment of Government and support by technical and financial partners	The Government has demonstrated a strong commitment in the formulation and implementation of the I-PRSP and in the formulation of the comprehensive PRSP. With relatively few resources, significant progress has been made in the area of public financial management. The Government has undertaken to formulate a strategy and action plan for public financial reforms. Donors have actively supported the commitment of the Government in the implementation of the I-PRSP. Thus, Comoros received the support of the World Bank, IMF including the EPCA programme, European Commission, United Nations Agencies, regional organizations (COMESA, Pole Debt, BEAC, and BECAO), UNCTAD, WTO and many bilateral donors including France. The ADB, with its arrears clearance operation and the adoption of an I-CSP, is in the process of re-engaging in the country after over a decade of absence. The Government's commitment is assured through its adherence to the IMF EPCA programme.
Existence of a well-formulated PRSP with an implementation mechanism	The Government has already formulated an interim PRSP entailing an exemplary participatory process. A comprehensive PRSP is undergoing formulation and will be finalized by end 2009. An implementation mechanism exists. However, the implementation has been delayed as a result of the 2007-2008 turmoil in Anjouan.
Existence of solid partnership between the PMR and the donors and among donors	<b>A relatively solid partnership exists between the Union of Comoros and the donors.</b> Donor meetings have been organized regularly since 2006, including a meeting in Mauritius, meetings in Paris and meetings in Comoros in 2007, 2008 and 2009. Donors (European Commission, World Bank and African Development Bank) have initiated discussions for the establishment of a Partnership Framework.
Satisfactory fiduciary review	Several studies on public financial management have been conducted. These include: a report on public financial reforms (World Bank, 2007), a report on the computerization of the expenditure chain (World Bank, 2006), a report on the public procurement system (World Bank, 2007), a report on taxes and customs reforms (IMF, 2001), a diagnosis of customs (World Bank, 2005) and a report on taxes and customs reforms (IMF, 2005). The PEFA Report (2007) identified weaknesses in the fiduciary area. The ADB's institutional support project as well as budgetary support will contribute to remedying the weaknesses identified. The support is closely coordinated with other donors. The Government has undertaken to formulate a public financial reform strategy and action plan.
The country must have fulfilled the two-stage criteria for eligibility for the FSF.	The country meets the two-stage criteria for FSF eligibility.
There must be consensus between the Government and donors on development priorities to be supported by the DBSL.	There is a consensus between donors on the priorities to be supported by the DBSL. The PRSP serves as a basis for donor interventions.
The country must be in the process of implementing a credible institutional capacity building programme.	The country requested the support of the ADB for a substantial institutional and capacity building support project.
The rationale for the operation must be provided in a programme document, as well as in the evaluation report and must include measures for mitigating fragility risks.	The rationale for budgetary support is provided in I-CSP.
The operation will not be audited by a public audit organization, but by an auditing firm, at least once a year during the implementation of the operation.	Budgetary support will be audited by an independent auditing firm after each tranche. Moreover, the Internal Auditor will submit each relevant report on the budgetary support.

**GOVERNANCE RATINGS (1998 – 2006)**

<b>Governance Indicator</b>	<b>Year</b>	<b>Percentile Rank (0-100)</b>	<b>Rating for Governance (-2.5 to +2.5)</b>
<a href="#">Voice and accountability</a>	2006	40.9	-0.25
	2002	33.2	-0.53
	1998	28.8	-0.71
<a href="#">Political stability</a>	2006	41.8	-0.15
	2002	56.3	0.31
	1998	62	0.47
<a href="#">Government effectiveness</a>	2006	0.9	-1.7
	2002	15.2	-0.96
	1998	2.8	-1.76
<a href="#">Regulatory quality</a>	2006	5.4	-1.52
	2002	14.1	-1.08
	1998	14.6	-1.06
<a href="#">Rule of law</a>	2006	18.6	-0.93
	2002	15.7	-1.04
	1998	8.6	-1.28
<a href="#">Control of corruption</a>	2006	34.5	-0.59
	2002	24.3	-0.85
	1998	8.3	-1.19

**Source:** Kaufman D., A. Kraay and M. Mastruzzi 2007, Governance Matters 2007

## Comparative Advantages and Sources of Potential Growth for Comoros

### Why invest in Comoros...

### In what sectors?

Country's Comparative Advantages
<p><b>Greater political stability with the national reconciliation process</b></p> <ul style="list-style-type: none"> <li>- Improved growth prospects with access by country to all Arab funds, including the Arab Monetary Fund and the Arab Fund for Agriculture</li> </ul> <p><b>Improvement of macroeconomic situation</b></p> <ul style="list-style-type: none"> <li>- Low inflation rate, satisfactory level of foreign exchange reserves</li> <li>- Economic reforms in public financial management, fiscal and trade policy ongoing.</li> </ul> <p><b>Availability of natural resources</b></p> <ul style="list-style-type: none"> <li>- Area: 1,861 km<sup>2</sup></li> <li>- Exclusive economic area: over 160,000 km<sup>2</sup></li> <li>- Vast livestock and horticulture potential, with nearly 720 km<sup>2</sup> of arable land.</li> <li>- Forests, marine and coastal resources.</li> <li>- Varied fauna and flora.</li> <li>- Potential for tourism and ecotourism, given the existence of tropical jungles and beaches.</li> <li>- A variety of fish species (including coelacanth) and seafood.</li> </ul> <p><b>Incentives for investments:</b></p> <ul style="list-style-type: none"> <li>- Availability of labour (with a young population).</li> <li>- Cheap labour, but requiring training</li> <li>- Adoption of a new investment code aimed at promoting the creation of new enterprises.</li> <li>- Existence of regulatory frameworks for the privatization and competition in numerous activity sectors.</li> <li>- Single window for investors, to be rendered operational.</li> <li>- Recent adoption of a regulatory provision concerning procurement procedures tailored to the Comorian private sector.</li> <li>- Governance reforms ongoing.</li> <li>- Application for WTO membership made in February 2007.</li> </ul> <p><b>Geo-strategic Position</b></p> <ul style="list-style-type: none"> <li>- Comoros could potentially serve as a platform for coastal shipping between Africa, Middle East and Asia.</li> <li>- Regional Integration: Comoros is a member of the COI and COMESA and could draw benefits from the markets of other member countries.</li> </ul>

Major Potential Sources of Growth in the Private Sector
<p><u>Income-generating Activities</u></p> <ul style="list-style-type: none"> <li>• Consolidation of traditional exports - vanilla, clove and ylang-ylang.</li> <li>• Agricultural diversification - fruit, vegetables and flowers for local consumption and export.</li> <li>• Agro-industry for supply of spices, rice, semi-processed food products derived from commodities such as banana, litchi, coconut, tomato for local consumption and export.</li> <li>• Harnessing of natural resources, including fisheries and seafood.</li> <li>• Development of tourist activities</li> <li>• Processing - bread, flour mill, cottage industry, packaging of spices and perfume essences.</li> <li>• Industrial products (construction materials, metallic products, wooden furniture, etc.) for domestic use and for businesses.</li> </ul> <p><u>Infrastructure</u></p> <ul style="list-style-type: none"> <li>• Production and distribution of water and electricity</li> <li>• Rehabilitation and construction of transport infrastructure, including ports.</li> <li>• Infrastructure for tourism and ecotourism.</li> <li>• Telecommunications.</li> </ul>

**COMOROS: CPIA 2006-2008 Ratings**

Year	A. Economic Management			B. Structural Policies			C. Social Inclusion/Equity Policies					D. Management and Public Sector Institutions					Overall Rating
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
	Macro	Fin.	Debt	Regional Integration and comm.	Fin Sector.	Business env.	Gender equality	Equity in public resources	Hum. Res.	Social Protect	Env.	Property rights	Budget Manage.	Funds Mob.	Public Adm.	Coru. Tran. Public	
<b>2008</b>	3.0	2.0	2.0	3.0	2.0	2.0	2.5	3.0	3.0	2.5	2.5	2.0	2.0	2.5	2.0	2.0	<b>2.357</b>
<b>2007</b>	3.0	2.0	2.0	3.0	2.5	2.0	3.0	3.0	3.0	2.5	2.0	2.5	2.0	2.5	2.0	2.5	<b>2.465</b>
<b>2006</b>	3.0	2.0	1.5	3.0	2.5	2.0	3.0	3.0	3.0	2.5	2.0	2.5	2.0	2.5	2.0	2.5	<b>2.42</b>

1= very weakfor 2 years and over, 2 = weak, 3 = fairly weak, 4 = fairly high, 5= high and 6= very high for 3 years and over

MAP OF COMOROS

