Union of the Comoros and the IMF

Union of the Comoros: Staff-Monitored Program
February 8, 2005

Country's Policy Intentions Documents

Union of the Comoros: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

February 2, 2005

The following item is a Letter of Intent and a Memorandum of Economic Policies of the government of Union of the Comoros. It is being made available on the IMF website by agreement with the member as a service to users of the IMF website. This memorandum describes the policies that Union of the Comoros is implementing in the framework of a staff-monitored program. A members's staff-monitored program is an informal and flexible instrument for dialogue between the IMF staff and a member on its economic policies. A staff-monitored program is not supported by the use of the Fund's financial resources; nor is it subject to the endorsement of the Executive Board of the IMF.

Moroni, February 2, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

The Comoros has just put an end to almost a decade of instability, uncertainty, and mistrust with a democratic and constructive dialogue that has led to the establishment of new national institutions. The new Constitution adopted by referendum grants a large degree of autonomy to the islands and consolidates the territorial integrity of the country. Following the adoption of the new Constitution, the signing of the transition agreement for the Comoros in December 2003, and parliamentary elections held in March/April 2004, a new government, effectively representing all Comorian interests, was formed in July 2004. In early January 2005, the new National Assembly, created in June 2004, passed all the key organic laws, including the organic law on the competencies of the islands and the Union.

The first priority of the government is to foster social and economic development and ensure the well-being of its people. The government is committed to implementing an economic and financial program to be monitored by IMF staff for the calendar year 2005, with a view to restoring credible economic management, placing public finances back on a sound footing, improving financial intermediation, and accelerating structural reforms. Such a program should facilitate the dialogue with multilateral and bilateral donors and, we very much hope, allow access to new concessional assistance. Its successful execution is a prerequisite for negotiating a program to be supported by the IMF through the PRGF, and for becoming eligible to the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

The attached memorandum (Attachment I) reviews the macroeconomic developments in 2004 and describes the economic and financial policies that the government intends to implement to achieve the macroeconomic and structural objectives set for 2005. The government is committed to establishing and regularly updating a database of reliable statistics, and to reporting to the IMF staff all the information needed to monitor the implementation of the program. A Technical Memorandum of Understanding defining the performance indicative targets of the staff-monitored program and the data to be reported is also attached (Attachment II).

The Comorian authorities firmly believe that the policies and measures set forth in the attached policy memorandum are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Throughout the duration of the program, the government will consult the Managing Director, on its own initiative or at your request, to discuss the economic and financial policies of the Comoros.

To assess progress in implementing the program, the IMF will, together with the government of the Union of the Comoros, conduct the first review of the program no later than May 2005, on the basis of the end-March 2005 benchmarks. A second review will take place no later than September 2005, on the basis of the end-June 2005 benchmarks. Following the successful completion of the second review, the government would like to begin negotiations with the IMF on a PRGF-supported program.

Sincerely yours,

/s/
Aboulbastoj Ahamadi
Minister of State
Minister of Finance and Budget

/s/
Ibrahim Ben Ali
Governor
Central Bank of the Comoros

/s/
C.E. Doulcin Mahamoud
Minister of Finance, Budget, and Planning
Autonomous Island of Anjouan

/s/
Dr. Younoussa Assoumani
Minister of Economy and Finance
Autonomous Island of Ngazidja

/s/
Milissane Hamadia
Minister of Financial and Economic Affairs
Autonomous Island of Mohéli

Attachments: - Memorandum of Economic and Financial Policies for 2005
- Technical Memorandum of Understanding

UNION OF THE COMOROS

Memorandum of Economic and Financial Policies for 2005

I. Introduction

1. **For nearly a decade, the Union of the Comoros endured political and economic hardship.** The Comoros has limited natural resources and a narrow and fragmented domestic market. Almost 60 percent of the population lives below the poverty line, and there is limited access to clean water and electricity, and to services such as education and health care. The situation worsened over the past few years due to internal strife, resulting in a serious deterioration of public services, and a large drop in donor assistance.

2. **Major efforts have helped to reunify the country and create new institutions.** Following parliamentary elections in March/April 2004 to elect the assemblies of the islands and the Union, the President formed a new government of the Union in July 2004. The new Assembly of the Union has passed important organic laws, in particular, the organic law on distribution of competencies between the islands and the Union.[1] Consistent with the new devolution of powers, revenue-sharing quotas were defined as follows: debt service and international contributions 17.5 percent; pensions 5.5 percent; outside services 2.6 percent; Union operating costs 27.9 percent; Ngazidja operating costs 20.4 percent; Anjouan operating costs 19.1 percent; and Mwali operating costs 7.0 percent.

3. **The new government is determined to resolve the country's economic difficulties.** In particular, the government's economic policy will focus on:

- Fiscal consolidation in the context of decentralized public finance management, with particular emphasis on solving the problem of chronic arrears;
- Reallocation of public expenditure to social sectors, in particular: (i) a reduction in primary current expenditure to allow for an increase in investment; and (ii) within primary current expenditure, a reduction in expenditure on wages and security to benefit poverty reduction spending;
- Adoption of structural measures that will create an environment conducive to promoting the private sector (for example, reform of the justice system, promotion of export-oriented sectors, development of financial intermediation).

4. **With the assistance of IMF and World Bank staff, we have prepared an economic program for 2005 that endeavors to tackle the most urgent problems.** This program will be the basis for a medium-term program for the period 2006-2008 aiming at

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[1] As the Constitutional Court rejected some aspects of the law, Parliament is scheduled to adopt the final version of the law in February 2005.

accelerating economic growth and reducing poverty. It is hoped that the medium-term program will be supported by the IMF's PRGF, the World Bank, and other creditors and donors, and that it will enable the Comoros to access the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

II. Recent Economic Developments

5. **Real GDP growth has been, on average, well below population growth over the past few years.** Production of our main export products (vanilla, cloves, and ylang-ylang) has been sluggish, and tourism has plummeted. Investment has stagnated, and the gross national savings rate has fallen to very low levels. This year, mainly because of the poor performance of the vanilla sector in a context of falling international prices, we are forecasting GDP growth of about 2 percent. Inflation, which had been very low in the first half of 2004, increased in the second half in line with the rise in international oil prices, and is expected to hover around a yearly average of 4.3 percent.

6. **Fiscal performance once again was weak in 2004.** The revenue-sharing mechanism introduced in March between the Union and the autonomous islands was bypassed, notably to settle wage arrears. Moreover, funds to be paid in 2004 were preempted in 2003 to finance the purchase of a new electricity generating plant and the installation of a mobile telephone service. Fiscal revenue is expected to total 14.9 percent of GDP, below the level of 15.3 percent of GDP achieved in 2003, while primary current expenditure is projected at 16.3 percent GDP, an increase of 1 percent of GDP from last year. This is mainly due to new hirings and the operating costs in the new institutions. Spending on wages rose slightly to about 55 percent of total primary current expenditure. Moreover, the new electricity plant resulted in a significant increase in investment outlays notwithstanding the steady decline in donor support.

7. **Because of these developments, the domestic primary balance[2] is projected to** worsen **considerably**, falling from a surplus of 0.5 percent of GDP in 2003 to an estimated deficit of 1.4 percent of GDP in 2004. The overall deficit (on a payment order basis, including grants) is projected at 2.7 percent of GDP. Reflecting a low level of bank financing and external resources, this deficit will be financed mainly through the net accumulation of about three months of wage arrears[3] and a new accumulation of arrears to external creditors roughly equal to 0.9 percent of GDP.

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[2] The domestic primary balance is defined as total revenue, excluding grants, minus expenditures, excluding interest payments and externally financed technical assistance and investment.

[3] The stock of wage arrears amounts to CF 8.1 billion, the equivalent of 15 to 18 months of wages.

8. **Given the country's participation in the franc zone, monetary policy remained focused on maintaining the fixed parity.**[4] Money supply growth is expected to decline slightly in 2004, reflecting delays in wage payments. Lending to the private sector is also expected to fall, mainly due to a drop in domestic financing of the vanilla crop in 2004 reflecting the sector's problems due to the decline in international prices. The net official reserve position improved somewhat due to the high volume of euro banknote purchases. Lending rates declined in early 2004 and currently range between 8 and 14 percent.

9. **The Central Bank of the Comoros (BCC) continued its efforts to improve prudential rules, strengthen bank supervision, and expand financial intermediation.** In March 2004, the National Post and Telecommunications Company (SNPT) was broken up into two entities, one to provide telecommunication services, and one to provide financial and postal services. In addition to the national savings bank (CNE), a postal checking service was established in April 2004. Further, a decree was adopted in July 2004 to improve monitoring of the microfinance sector, which currently accounts for about 25 percent of total deposits and 20 percent of credit, and is still growing rapidly.

10. **Performance in the external sector was mixed in 2004.** On the one hand, the trade balance is expected to deteriorate, mainly because of the fall in the price of vanilla by almost 60 percent and higher import costs in line with the increase in the price of oil and other commodities. On the other hand, travel receipts and private transfers from Comorians living abroad rose sharply following the opening up of a new direct flight between France and Moroni. As a result, the external current account deficit (including official grants) is projected to improve to 3 percent of GDP in 2004 from 6.2 percent of GDP in 2003. The surplus in the capital account is expected to fall slightly, reflecting lower official external financing. The overall external deficit is expected to decline from US$5.9 million in 2003 to US$2.9 million in 2004. Official reserves will remain above 10 months of imports of goods and nonfactor services.

11. **The serious economic crisis of recent years resulted in an accumulation of external debt service arrears,** especially on debt due to the African Development Bank (AfDB), the Arab Bank for Economic Development in Africa (BADEA), and bilateral creditors. External arrears accumulation is projected at US$6.1 million in 2004. Outstanding external debt at end-2004 is estimated at US$290 million (76 percent of GDP and 470 percent of goods and services exports), including arrears amounting to US$106.9 million, of which US$61.2 million due to multilateral creditors, mainly the AfDB and the BADEA.

12. **In light of the major efforts to carry out institutional and political reforms, there has been little headway in the area of structural reforms**. No progress was achieved in the area of public enterprise restructuring. The judicial reform agenda should benefit from

[4] Since the beginning of 2000, the exchange rate has been fixed at € 1 = CF 492.

the recent adoption by Parliament of the organic laws on the justice system, the Supreme Court, and the status of magistrates.

III. Poverty Reduction and the Medium-Term Macroeconomic Framework

13. **Political tensions made it difficult to pursue the poverty reduction initiatives** defined in our interim Poverty Reduction Strategy Paper (I-PRSP) of July 2002. Reducing endemic poverty and achieving the Millennium Development Goals (MDG) remains one of the paramount tasks in the government strategy. To this end, we have updated the I-PRSP action plan for the medium term (2005-2007), with specific actions in the five strategic areas of the I-PRSP: lay the ground for sustainable economic development; stimulate private sector activities; develop the agricultural sector; strengthen governance, the justice system, and security; and enhance human capital. Moreover, starting in 2005, we will begin increasing allocations to the social sectors, especially health and education, from their very low levels in 2004 in order to catch up on our PRSP goals and improve on the MDG indicators. The government will also undertake to restructure the national pharmacy (Pharmacie Nationale d'Approvisionnement des Comores) and lower its operating costs and margins in an effort to reduce the price of drugs.

14. **A central economic policy objective is to accelerate economic growth, and thereby reduce poverty.** After a long period of decline, the introduction of sound economic policies and renewed donor support are expected to boost gradually economic growth to 5 percent per year by 2008. Special emphasis will be given to promoting the agricultural sector, which employs the majority of the workforce, developing trade,[5] revitalizing tourism,[6] and accelerating structural reforms. Over the same period, investment rates should grow from their present very low levels, as a result of higher investment outlays by the government and an expected pick-up in foreign direct investment. Inflation will remain subdued in line with a monetary policy focused on the fixed parity of the Comorian franc within the franc zone. We are aware of the utmost importance of containing the budget deficit in order to achieve our growth and poverty reduction objectives.

IV. Economic and Financial Policies For 2005

A. Macroeconomic Framework

15. **The 2005 program is designed to establish the basis for stronger growth**. The immediate crisis we are faced with is for the 2004/05 vanilla campaign to unfold normally: with the sharp drop in the international price of vanilla (from US$251/kg on average in 2003

[5] In particular, we are considering an extension of the Moroni port zone to the grounds of the old airport as a temporary solution until work is completed on a new deep sea port on Ngazidja Island.

[6] Particularly through efforts to re-open the Galawa Beach Hotel and restore regular flights to South Africa, and by providing better protection for the Mohéli marine reserve.

to about US$50/kg in 2004), the current f.o.b. sales price is roughly half the cost price mandated by the official schedule. We are actively seeking a solution in order not to jeopardize the sector. Moreover, we will overhaul the mode of operation of the cash crop sectors, starting in 2005. Specifically, the government has decided to transfer its regulatory power over the vanilla, clove, and ylang-ylang sectors to the industry association, which will endeavor to professionalize the operators. Furthermore, taxation of the sectors has been transformed (see revenue measures table). On this basis, the program forecasts a real GDP growth of 3 percent, slightly above the population growth rate, with inflation at a moderate 3 percent. The external current account deficit (including grants) should widen to about 4.2 percent of GDP on account of a deterioration in the trade balance. This would affect the overall balance and the reserve position, which would nonetheless remain around 10 months of imports of goods and nonfactor services.

B. Fiscal Policy

16. **The anchor for fiscal policy in 2005 is the adoption by the governments of the Union and the autonomous islands of a consolidated budget consistent with** macroeconomic **stability**. To this end, all parties have formally agreed to the effective transfer of shared revenues to the special account with the Central Bank of the Comoros and to the revenue sharing mechanism based on the quotas.[7] Strictly adhering to these agreements will be critical for achieving our program's macroeconomic objectives.

17. **The key objective of this budget is to achieve a domestic primary surplus of about 1.8 percent** of **GDP**. To achieve this objective, the fiscal adjustment in 2005 will be about 3 percent of GDP resulting from increases in revenue and expenditure curtailment.

18. **Revenue will be negatively affected by exogenous developments and by some needed tax cuts**. We will only have one shipment of rice in 2005 instead of the usual two.[8] Also, we have discontinued the surtax on rice of CF 50/kg in effect in the autonomous islands of Ngazidja and Mohéli. This tax had been introduced to finance the launch of the new university, but weighed heavily on the most vulnerable segments of society.

19. **These shortfalls will be more than offset by a number of revenue enhancing measures to increase revenue by about 1¼ percent of GDP over the 2004 level to 16.2** percent **of GDP**. Specific measures that were adopted in the context of the 2005 Finance Law are:[9]

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[7] The special account will be debited automatically by the BCC every day to credit the specific accounts according to the quotas.

[8] Exceptionally, the first shipment for 2005 will be delivered in December 2004.

[9] These measures will be complemented by the recommendations of the technical assistance mission on tax policy from the IMF Fiscal Affairs Department.

- Require stamp taxes for the issuance all official documents;
- Harmonization of the customs tariffs of the Union and the autonomous islands of Ngazidja and Mohéli on the one hand, and the autonomous island of Anjouan on the other hand. Specifically, the autonomous island of Anjouan has adjusted its customs tariff rates for luxury rice and tobacco to bring them in line with the rates of the Union and the autonomous islands of Ngazidja and Mohéli. This harmonization is expected to increase revenue during 2005 by about 0.4 percent of GDP;
- Overhaul of agricultural sector taxes: to encourage country-wide operations, the island specific business and export licenses have been eliminated and a single business and export licensing system has been introduced; the five percent export tax on vanilla, cloves, and ylang-ylang and the specific export duties on vanilla have been replaced with a specific domestic tax set at CF 350/kg of green vanilla for 2005.[10] This domestic tax should yield about 0.2 percent of GDP in 2005. The professional fee will remain in place, but the proceeds will be managed by the industry association to finance the observatory, the laboratory, and the vanilla solidarity fund;
- All discretionary tax and customs exemptions will be eliminated, especially in the Union customs office.

Furthermore, in the islands, enhanced capacity is expected to lead to higher revenue collection, especially from business licenses and locally-controlled corporations. The tax on petroleum products will benefit from the rise in crude prices and the growing use of generators. Also, the tax authorities undertook a number of audits late in 2004; the payment of back income and domestic consumption taxes, totalling about 0.3 percent of GDP, will take place in 2005.

20. **The government is determined to reverse the rapid growth in primary spending experienced in recent years to a level commensurate with the resources of the Union**. The 2005 **budget** limits primary expenditure to 14.4 percent of GDP compared with 16.3 percent of GDP in 2004. The brunt of the savings will come from a cut in the wage bill by 1.6 percent of GDP from its level without measures, notably by not renewing the contracts of temporary personnel hired over the last two years and applying a freeze on new hiring, except for the social sectors. Expenditure on goods and services will be kept below 2004 levels, equivalent to a saving of ½ percent of GDP, mainly by reducing the number of overseas missions. There will be a freeze on security outlays over the next three years through the redeployment of security personnel. Also, there will be strict enforcement of the regular commitment procedures for public spending, by restricting expenditure made by cash advances to a maximum of 3 percent of total current expenditure (a maximum of CF 900 million by end-2005).

[10] This new tax will lighten the burden on the sector in a low price environment. In 2003, the export tax yielded about 0.6 percent of GDP. It has been suspended from April 2004 onward.

21. **The government is also determined to reform and strengthen fiscal management starting in 2005** with measures consisting mainly of an overhaul of tax services, improved expenditure management, control of the wage bill, and securitization of the **pension** fund. The main measures planned are described in the box below.

Fiscal administration reform in 2005

- Merge the tax administration into one single General Tax Directorate, to be assisted by the regional directors representing the autonomous islands;
- Maintain the single customs administration and subcontract customs services to a private provider, with performance requirements;
- Introduce a revenue-monitoring system in the General Tax Directorate, including a taxpayer census, strict enforcement of deadlines for filing returns under the General Tax Code, and better inventory of fiscal stamps, passports, and visas on hand;
- Reinforce the agencies responsible for auditing public finances and corporate taxes;
- In light of the adoption of the organic law on the civil service by Parliament, preparation of an action plan to streamline the civil service, specifying the number of civil servants and contractual staff assigned to each level of government (with the assistance of the World Bank);
- Strengthen the rules governing public procurement, in particular prevailing laws and practices for tendering, with a view to reduce arbitrariness;
- With the help of the World Bank, overhaul and harmonize the budget nomenclature at all levels, and introduce a computerized real-time mechanism to monitor expenditures;
- Close the autonomous and budgetary accounts at the Treasury.

22. **This budget would avoid an accumulation of new domestic arrears, and creates room for the payment of current obligations to multilateral creditors.** The strict **compliance** with the transfer of shared revenues and automatic redistribution according to the agreed quotas will result in a more predictable cash flow that will facilitate the timely payment of domestic obligations. We will continue our on-time payments to IDA, IFAD, IsDB, and the OPEC Fund. Also, we will endeavor to pay current obligations to other multilateral creditors, particularly the AfDB. Pending our eligibility for debt relief under the enhanced HIPC Initiative, we will initiate negotiations with our bilateral creditors for rescheduling until a comprehensive solution is reached at the decision point.

23. **Under these assumptions, the overall fiscal deficit (on a payment order basis, including grants) would be limited to 0.5 percent of GDP**. Despite an accumulation of arrears to bilateral creditors, there will be an exceptional financing gap of CF 0.6 billion (US$1.5 million). We anticipate that this financing gap can be fully covered through additional concessional assistance to be provided following the donors' conference planned for October 2005.

24. **The government is aware of the need to implement measures for safeguarding the solvency of the pension fund**. It will request assistance from the International Labor Organization to carry out a financial and actuarial audit of the fund. Also, the autonomous island of Anjouan will perform an accounting adjustment for contributions between 1998 and 2004, and the fund will cover pension payments for Anjouan starting in 2005.

25. **We are also committed to finding a sustainable way to clear domestic arrears.** Specifically, the government will endeavor to mobilize external financing to clear back wages owed to civil servants over a two year period (2006-2007), with equal treatment for the three islands and the Union. We also intend to audit the government debt due to private enterprises, and negotiate the settlement of that debt by end-2005. Finally, we plan to offset the cross-debts between the government and the public enterprises, and clear the balance in 2005.

C. Financial Sector and Monetary Policies

26. **The discipline required by our membership in the franc zone has enabled us to contain inflation, and maintain a stable exchange rate and an adequate level of foreign reserves despite major fiscal imbalances**. This exchange rate regime has served us well. We fully recognize that it limits our monetary policy options, that are further constrained by the fact that our financial system comprises only one commercial bank and two modest microfinance networks. Within these constraints, the central bank is seeking to facilitate a gradual revival of the credit market, in particular by using its rediscount window. To facilitate this task, the government will guarantee the autonomy and independence of the central bank.

27. **The central bank will continue its efforts to enhance the effectiveness of the financial system and to strengthen bank supervision**. To instill competition, it will promote the opening of new commercial banks specializing in financing the productive sectors. In keeping with the decree of July 2004, it will reinforce the supervision program for microfinance institutions. The one-year banking license extended to the Comoros Development Bank yielded satisfactory results, and its extension will be examined in early 2005. Renewal will depend both on continued restructuring of the bank and the creation of a satisfactory management training program. The bank license requested by the new National Financial and Postal Services Company (SNPSF) will only be granted once the necessary rules are in place and the officials have been given training in banking. In the meantime, the SNPSF will endeavor to extend the new postal checking service to a larger public.

D. External Debt Management

28. **External debt management has improved steadily**. We received assistance from Debt Relief International (DRI) in 2004 to help the National Debt Directorate improve the recording of debt data, train personnel to use the Debt Pro analytical software, and gauge progress on the debt management procedures manual. These advances will make it possible,

especially in preparation for the HIPC Initiative, to identify all external debts of the government and public and parastatal enterprises.

29. **The government is very much aware of the need to better control and limit the contracting of new external debt**. Any government or government-guaranteed external borrowing will be subject to prior approval by the Finance Minister of the Union, and the autonomous island governments may under no circumstances contract or guarantee external loans. We will also consult closely with the IMF staff to ensure that all external debt contracted or guaranteed would be concessional, as defined in the TMU (paragraph 4). Moreover, for the full duration of the staff-monitored program, the government shall not contract or guarantee any nonconcessional external debt.

E. Structural Reforms and Governance

30. **The government intends to embark on a fast-track program of structural reforms**. With the support of the World Bank and other donors, we plan to resume the program for divestment of public enterprises. Specifically, the government intends to privatize the Comorian Hydrocarbons Company (SCH) and Comoros Telecom by the end of 2005. In addition, it will consider abolishing the ONICOR monopoly on rice imports and replacing it with a private sector co-operative.

31. **The government attaches great importance to improving governance and the judiciary**. The government will vigorously fight all forms of corruption. In particular, to promote the rule of law and its impartial enforcement, following the recent adoption by the National Assembly of the organic laws on the justice system, the Supreme Court, and the status of magistrates, starting in 2005, the government will begin extensive reforms of the judiciary, and strengthen the powers of the courts as part of the interim PRSP action plan.

F. Statistics

32. **Work remains to be done to improve our database of socio-demographic and macroeconomic** statistics**.** For this purpose, we have decided to provide the General Planning Directorate with new support structures and experienced managers from other administrations. We have submitted a request to the IMF for technical assistance for a comprehensive review of our statistical apparatus, most notably for fiscal and balance of payment statistics. This review will serve as a basis for setting up a medium-term action plan.

33. To take into account the government decentralization, the Union will introduce statistical frameworks for compiling, collecting, and disseminating data from the islands. Action will focus on the development of these frameworks, regular data transmission, and the training of statistical officers.

G. Program Monitoring

34. **To monitor the program, quarterly quantitative indicative targets have been set for:** (a) the domestic primary fiscal balance; (b) government domestic revenue; (c) the wage

bill; (d) expenditures made by cash advances; (e) accumulation of new domestic payments arrears; (f) contracting or guaranteeing nonconcessional government external debt; (g) short-term external debt, and; (h) accumulation of new public sector external payments arrears to multilateral institutions (Table 1). Structural indicative targets have also been established (Table 2). Program implementation will be reviewed in May and September 2005.

35. **To secure the cooperation of the four territorial entities in program implementation, a four-party committee will be created to monitor the program.** The committee will be made up of the finance ministers from the three islands and the Union or their deputies. On a technical level, the Treasurers-Paymasters General of each entity will take part in monitoring the operations of the special account (payments and appropriations), to ensure transparent management and mutual agreement with respect to redistribution among the entities.

Table 1. Comoros: Quantitative Indicative Targets Under the Staff-Monitored Program 1/
January-December 2005
(In millions of Comorian francs, cumulative since the beginning of the fiscal year)

	2005			
	March Indicative Targets	June Indicative Targets	September Indicative Targets	December Indicative Targets
(a) Floor on the domestic primary fiscal balance	2,081	2,759	2,620	2,694
(b) Floor on total domestic revenues	7,427	13,621	19,082	24,756
(c) Ceiling on the wage bill	2,933	5,866	8,800	11,732
(d) Ceiling on expenditures made by cash advances	200	425	665	900
(e) Ceiling on the accumulation of new domestic arrears	0	0	0	0
(f) Ceiling on new nonconcessional external debt contracted or guaranteed by the State 2/	0	0	0	0
(g) Ceiling on new short-term external debt contracted or guaranteed by the State 2/	0	0	0	0
(h) Ceiling on accumulation of debt service arrears towards multilateral creditors	0	0	0	0

1/ The definitions of the indicative targets and the adjusters are provided under the Technical Memorandum of Understanding (TMU).
2/ Excluding trade credits.

Table 2 – Comoros: Structural Indicative Targets of the 2005 Staff-Monitored Program

Sector	Measure	Deadline
Fiscal	Transfer of shared revenues to the special account with the Central Bank of the Comoros and strict application of the revenue sharing mechanism based on the quotas.	Continuous
Legal environment	Adoption by Parliament of the final version of the organic law on the distribution of the competencies	End-February 2005
Fiscal	Amend prevailing laws and practices for tendering with a view to strengthen public procurement rules.	End-June 2005
Fiscal	Preserve the single customs administration and subcontract customs services to a private provider, with performance requirements.	End-June 2005
Fiscal	Harmonize all levels of budget nomenclature, and introduce computerized system for real-time monitoring of the expenditures.	End-September 2005
Fiscal	Offset the debts of the government and the public and parapublic enterprises, and clear the balance.	End-December 2005
Structural	Privatize the Comorian Hydrocarbons Company.	End-December 2005
Structural	Privatize Comoros Telecom.	End-December 2005

COMOROS

Technical Memorandum of Understanding for the Staff-Monitored Program covering 2005

1. This technical memorandum of understanding (TMU) contains the definitions of the indicative targets of the Comoros staff-monitored program (SMP) covering 2005 and describes the reporting requirements under that program. The TMU is an integral part of the documents that govern the IMF staff's monitoring of the Comoros' program.

I. Definitions

A. External Debt

2. As specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 24, 2000, for purposes of the program, "debt" will be understood to mean current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being the following:

- **loans**: advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' or suppliers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- **suppliers' credits:** contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

- **leases**: arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this memorandum, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

3. Under this definition of debt, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt

are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

B. Concessionality of External Debt

4. Debt is considered concessional if it has a grant element equivalent to 35 percent or more using the available currency-specific commercial interest reference rate (CIRR).

C. Domestic Debt

5. The domestic debt includes all current—and unconditional—obligations arising from a contractual agreement concluded or guaranteed by the governments of the Comoros with a resident partner, as the counterpart to an interest that may take the form of assets (including cash) or services and by virtue of which the obligor must subsequently make one or several payments in the form of assets (including cash) or services in repayment of the principal and/or interest arising from the contractual obligation.

D. Cash Relief from External Debt Rescheduling

6. For the purpose of the program, the only debt relief that will be considered is one that leads to an effective reduction in programmed debt service. This excludes debt relief given on debt that has been in drawn-out rescheduling/restructuring negotiations with creditors and for which no debt service has been paid in the past year, and for which no provision in debt service has been explicitly made in the fiscal program.

E. Governments

7. Unless otherwise noted, the governments is meant to include the government of the Union of the Comoros and the governments of the three autonomous islands. Local governments are excluded from the definition of government. The units covered under this definition of governments are consolidated for the needs of the program.

F. Privatization Receipts

8. For the purpose of this memorandum, privatization receipts will be understood to mean all monies received by the government through the sale or concessioning of a public company, organization, or facility to a private company or companies, organization(s), or individual(s). To the extent possible, receipts should be presented on gross basis; if costs are incurred in the sale or concessioning, they should be recorded separately as expenditure.

II. Quantitative Benchmarks

A. Floor on Domestic Primary Fiscal Balance

Definition

9. The consolidated domestic primary fiscal balance (payments order basis) is calculated as total government revenue, excluding foreign grants and privatization proceeds (counted as financing), less expenditure, excluding interest payments, and foreign-financed technical assistance and investment expenditure. The domestic primary balance will be adjusted for current expenditures financed through external resources, by adjusting revenues upward in an amount equivalent to the external resources used to finance current expenditure.

Indicative target

10. The target on the domestic primary fiscal balance applies to the Union government. The floor on the domestic primary fiscal balance, cumulative from the beginning of the 2005 calendar year, is set at Comorian francs (CF) 2,081 million at March 31, 2005, CF 2,759 million at June 30, 2005, CF 2,620 million at September 30, 2005, and CF 2,694 million at December 31, 2005. These floors represent a benchmark at end-March, end-June, end-September and end-December 2005.

Reporting deadlines

11. Data on the primary fiscal balance (payment order basis) will be forwarded monthly by the Ministry of Finance and the Budget of the Union government within 30 days following the end of each month.

B. Floor on Domestic Revenue

Definition

12. Consolidated domestic revenue consists of all tax and nontax revenue included in the TOFE.

Indicative target

13. Responsibility for achieving the floor on the domestic revenue rests with both the Union government and the autonomous island governments. The floor on the domestic revenue, cumulative from the beginning of the 2005 calendar year, is set at Comorian francs (CF) 7,427 million at March 31, 2005, CF 13,621 million at June 30, 2005, CF 19,082 million at September 30, 2005, and CF 24,756 million at December 31, 2005. These floors represent a benchmark at end-March, end-June, end-September and end-December 2005

Reporting deadlines

14. Data on domestic revenue will be forwarded monthly by the Ministry of Finance and the Budget of the Union government within 30 days following the end of each month.

C. Ceiling on the Wage Bill

Definition

15. The consolidated wage bill includes all wages and salaries, premia for social insurance and pensions, indemnities, bonuses and other payments directly related to public sector employment. Included in the wage bill are the wage expenditures of the civil service, governorates, the military and security personnel, and the Caisse de Retraite des Comores (CRC).

Indicative target

16. Responsibility for achieving the ceiling on the wage bill rests with both the Union government and the autonomous island governments. The ceiling on the wage bill, cumulative from the beginning of the 2005 calendar year, is set at Comorian francs (CF) 2,933 million at March 31, 2005, CF 5,866 million at June 30, 2005, CF 8,800 million at September 30, 2005, and CF 11,732 million at December 31, 2005. These ceilings represent a benchmark at end-March, end-June, end-September and end-December 2005.

Reporting deadlines

17. Data on the wage bill will be forwarded monthly by the Ministry of Finance and the Budget of the Union government within 30 days following the end of each month.

D. Ceiling on expenditures made by cash advances

Definition

18. Expenditures made by cash advances include all expenditures paid without prior commitment or payments order.

Indicative target

19. Responsibility for achieving the ceiling on expenditures made outside of normal procedures rests with both the Union government and the autonomous island governments. The ceiling on expenditures made outside of normal procedures, cumulative from the beginning of the 2005 calendar year, is set at Comorian francs (CF) 200 million at March 31, 2005, CF 425 million at June 30, 2005, CF 665 million at September 30, 2005, and CF 900 million at December 31, 2005. These ceilings represent a benchmark at end-March, end-June, end-September and end-December 2005.

Reporting deadlines

20. Data on expenditures made outside of normal procedures will be forwarded monthly by the Ministry of Finance and the Budget of the Union government within 30 days following the end of each month.

E. Non-accumulation of Domestic Payment Arrears

Definition

21. Domestic payment arrears are defined as follows:

- For all obligations having a contractual due date, the arrear arises by non-payment on the due date;

- For expenditures that are treated through the normal procedure, the non-payment, in cash, by bank transfer, or any other legal means of settlement, including through compensations, within 90 days from the date when the payment order was issued, generates an arrear;

- Tax credits confirmed by the proper authorities after review, and not paid within 60 days from the date of confirmation, are considered arrears;

- All other obligations arising from unexpected events or from a decision of the proper public authorities, such as indemnities for expropriations, public enterprise restructuring associated with social plans, whose payments have not been made within the timeframe specified in the subsequent legal acts, are considered arrears.

Indicative target

22. The governments of the Union and the autonomous island governments will not accumulate any domestic payment arrears on a net basis in 2005. This nonaccumulation is an indicative target to be observed continuously.

Reporting deadlines

23. Data on outstanding balances, accumulation, and repayment of domestic arrears will be reported by the Ministry of Finance and the Budget of the Union government within 30 days following the end of each month.

F. Ceiling on Nonconcessional External Borrowing Contracted or Guaranteed by the Governments

Indicative target

24. The Union government undertakes not to contract or guarantee any foreign loans maturing in one year or more, with a grant element of less than 35 percent (as defined above). This indicative target applies not only to debt as defined in point 9 of the

Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF's Executive Board on August 24, 2000,[11] but also to commitments contracted or guaranteed for which value has not been received. However, this indicative target does not apply to financing granted by the Fund and to debt contracted in the context of rescheduling agreements. This obligation is an indicative target to be observed continuously. As of December 31, 2004, the stock of external debt with maturity of one year or more is estimated at US$290 million.

Reporting deadlines

25. Details on any government loan (terms of the loan and creditors) must be reported by the Ministry of Finance and the Budget of the Union government within 30 days of the end of each month. The same requirement applies to guarantees extended by the governments.

G. Short-term External Debt of the Government

Indicative target

26. The Union government undertakes not to contract or guarantee any new external debt with a contractual maturity of less than one year. This indicative target applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF's Executive Board on August 24, 2000,[12] but also to commitments contracted or guaranteed for which value has not been received. Excluded from this indicative target are normal import-related commercial credits and changes in deposits from international bodies. This obligation is an indicative target to be observed continuously. As of December 31, 2004, the governments had no short-term external debt.

Reporting deadlines

27. Details on any new government short-term external debt (terms of the loan and creditors) must be reported by the Ministry of Finance and the Budget of the Union government within 30 days of the end of each month. The same requirement applies to short-term guarantees extended by the governments.

H. Non Accumulation of External Payments Arrears to Multilateral Creditors

Definition

28. External arrears of the governments to multilateral creditors consist of all debt-service obligations to these creditors (principal and interest) arising in respect of loans contracted or guaranteed by the governments that are due but not paid on the due date,

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[11] See paragraph 2.

[12] Ibid.

and unpaid penalties or interest charges associated with these arrears. Excluded from this indicative target are arrears resulting from the non-payment of debt service whose rescheduling is being negotiated. In summary, the stock of arrears due to a multilateral creditor should at no time surpass the outstanding stock at end-2004, unless rescheduling proceedings have been initiated.

29. The stock of external debt service arrears to multilateral creditors as of end-December 2004 (in millions of U.S. dollars) was: US$30.3 million to the African Development Bank (of which US$20.4 million to the African Development Fund), US$0.2 million to the European Union/European Development Fund, US$26 million to the Arab Bank for Economic Development in Africa (BADEA), US$3.5 million to the OPEC Fund, and US$1.1 million to the Islamic Development Bank.

Indicative target

30. Under the program, the Union government undertakes not to accumulate new external payment arrears to multilateral creditors, with the exception of external payment arrears arising from government debt being renegotiated with these creditors. This nonaccumulation is a performance indicator to be observed continuously.

Reporting deadlines

31. Data on outstanding balances, accumulation, and repayment of external payment arrears will be reported by the Ministry of Finance and the Budget of the Union government within 30 days of the end of each month.

III. MONITORING OF THE STRUCTURAL BENCHMARKS

Indicative targets

32. The transfer of shared revenues to the special account with the Central Bank of the Comoros and the strict application of the revenue sharing mechanism based on the quotas constitutes an indicative target to be observed continuously.

33. The adoption by Parliament of the final version of the organic law on the distribution of the competencies constitutes an indicative target by **February 28, 2005**.

34. The strengthening of public procurement rules and overhaul of prevailing laws and practices for tendering constitutes an indicative target by **June 30, 2005**.

35. Preserving the single customs administration and subcontracting customs services to a private provider, constitutes an indicative target by **June 30, 2005**.

36. The overhaul and harmonization at all levels of the budget nomenclature, and introduction of a computerized system for real-time monitoring of the expenditure chain, with the assistance of the World Bank, constitutes an indicative target by **September 30, 2005**.

37. Offsetting the debts of the government and the public and parapublic enterprises, and clearing the balance constitutes an indicative target by **December 31, 2005**.

38. The privatization of the Comorian Hydrocarbons Company constitutes an indicative target by December **31, 2005**.

39. The privatization of Comoros Telecom constitutes an indicative target by **December** 31**, 2005**.

Reporting deadlines

40. The information concerning the implementation of these structural benchmarks will be reported to the Fund within two weeks following their scheduled implementation date.

IV. INFORMATION AND DATA TO BE PROVIDED TO THE IMF

41. The Comorian authorities will provide Fund staff with the following information and data according to the schedule provided, either directly (e-mail or facsimile) or by airmail. Barring any agreement to the contrary, the data will take the form mutually agreed by the authorities and the IMF. The fiscal data, monetary data, external debt data, the consumer price index, and any information on important legislative and/or other developments will be provided not later than one month after the date to which they pertain.

Monthly:

- The monetary survey, and the monthly balance sheets of the BCC and the commercial bank;
- Classification of commercial bank loans by economic sector;
- Interest rates;
- TOFE data on a cash and payments order basis, the related detailed tables on revenue, and a table showing the link between the payments order and cash basis for expenditures;
- External public debt operations (debt contracted and publicly guaranteed, settlement of external payments arrears, and debt service paid, broken down between interest and principal;
- Consumer price index; and
- Imports and exports, production of electricity, tourist arrivals, and any other indicators of economic activity that may be available on a monthly basis.

Quarterly:

- Production of major products (vanilla, cloves, ylang-ylang)

Annually

- National accounts data
- Balance of payments

42. Moreover, information on important measures adopted by the government in the economic and social areas that would have an impact on program developments, changes in legislation, and any other pertinent legislation will be reported to Fund staff on a timely basis for consultation or information, as appropriate.