

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

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UNION OF THE COMOROS

**Poverty Reduction and Growth Strategy Paper—
Joint Staff Advisory Note**

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And the International Monetary Fund

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I. OVERVIEW

1. **This first full Poverty Reduction Strategy Paper (Poverty Reduction and Growth Strategy Paper, PRGSP) prepared by the Government of Comoros was officially adopted on September 10, 2009.** It builds on the strategy laid out in the interim PRSP (I-PRSP), which was presented to the Boards of the International Development Agency (IDA) and the International Monetary Fund (IMF) in May 2006. The full PRGSP adds useful building blocks, in particular (i) an effort to cost the proposed poverty reduction programs, including those aimed at facilitating the achievement of the MDGs; and (ii) an examination of cross-cutting issues, such as the quality of statistics and information for policy design and monitoring, Information and Communication Technologies development, gender and human rights. This note provides comments and advice from the staffs of the World Bank and IMF on the updated PRGSP with a focus on its implementation mechanisms; the note also puts forward options for strengthening Comoros' poverty reduction strategy going forward, through annual progress reports (APRs).

2. **The PRGSP provides a good basis for the design and monitoring of growth and poverty reduction policies in Comoros.** For a fragile state, where a rapid succession of political upheavals has hampered policy formulation and implementation over so many years, completing a full PRGSP is in and of itself a noteworthy achievement. Since the early 2000s, the PRGSP framework has been instrumental in anchoring the national reconciliation process and guiding the authorities in the gradual formulation of a development vision for the country. Beyond these intrinsic qualities, the updated document: (i) provides a comprehensive poverty diagnosis that underpins and motivates Comoros development program for the period 2010–14; (ii) articulates a development strategy for the country that is reasonably focused; (iii) is based on a cross cutting approach that links the macro framework

and sectoral interventions; and (iv) makes allowance for future revisions to be made as more and new data become available.

3. The PRGSP sets an ambitious policy agenda, with which staffs broadly concur, focused on achieving the following objectives:

- a. Stabilizing the economy and laying the foundations for sustained and equitable growth by strengthening public finance and improving infrastructure provision;
- b. Strengthening key sectors of the economy with the highest growth and poverty reduction potential: tourism, agriculture and fishing;
- c. Improving governance and social cohesion;
- d. Improving human development outcomes, particularly in healthcare and education, through better social service delivery; and
- e. Promoting environmental sustainability and civilian security.

Staffs especially welcome the emphasis on good governance as a *sine qua non* condition for long term development, as well as the integration of gender and human rights issues among cross-cutting themes to be addressed in each priority sector of intervention.

4. Both the I-PRSP and full PRGSP are the result of a thorough and inclusive participatory process. At the height of the separatist crises, the PRGSP process remained one of the last channels of dialogue and national consensus. The process was managed by a steering committee and brought together numerous stakeholders—representatives of civil society, traditional and religious leaders, NGOs and development partners—through sectoral working groups (chaired by the relevant Secretary General in each ministry) and a series of participatory workshops held at regular intervals. An important feature of the PRGSP preparation process, particularly in the context of a conflict-prone environment, was the involvement of insular authorities through local branches of the Planning Directorate, maintained even during separatist crises.

5. Despite these qualities, the PRGSP has some significant weaknesses, which will need to be tackled in the context of the APR. In particular, the proposed strategy may be overly ambitious, given the country's limited capacity and poor track record of implementation of the I-PRSP, and too costly given the levels of funding that can likely be mobilized internally or externally. Consequently, the staffs recommend that the authorities identify a restricted number of priority interventions and focus on their implementation.

6. The Joint Staff Advisory Note discusses the PRGSP in several key dimensions. These include the poverty diagnostics that underpin the proposed strategy (section II), macro-economic scenarios and policies (section III), structural policies (section IV), programs for human development (section V), governance (section VI) and, finally, arrangements for implementation and monitoring of progress over time (section VII).

II. POVERTY DIAGNOSTICS

7. **The PRGSP is underpinned by a broadly adequate analysis of the poverty situation in Comoros**, based on the results of a comprehensive household expenditure survey (*Enquête Intégrée auprès des Ménages*) carried out in 2004, as well as a qualitative survey on perceptions of well being, fielded in 2002. The earlier surveys point to pervasive poverty in the country, with a poverty incidence of close to 45 percent at the national level¹. This however masks significant regional and local disparities. The incidence of poverty is markedly higher on the island of Anjouan and in rural areas, which are home to 79 percent of Comoros' poor households. In the absence of more updated poverty indicators, the full PRGSP assumes the incidence of poverty to have increased since 2004. A major quality of the document is the presentation of the incidence of monetary poverty across different socio-economic categories in the population. It shows a sharp contrast between “protected wage earners”, who are at the top of the ladder, and those at the bottom, including micro-entrepreneurs in the informal economy and fishermen. This distinction provides significant insights into what a poverty/vulnerability targeting policy could look like. Incidentally, it also suggests the need for a deeper discussion around issues of informality, with important ramifications for, notably, fiscal policy and safety nets design and implementation.

8. **The inclusion of perceptions of poverty is particularly welcome.** The analysis of how people experience destitution—and obstacles to improving their socio-economic conditions—is an interesting complement to the purely monetary indicators of poverty. The analysis shows, for instance, that food security and access to employment are recurrent concerns among Comoros' poor. Notwithstanding this, the PRGSP's analysis of poverty perception would have benefitted greatly from providing a ranking of people's perceptions of: (i) dimensions of poverty; and (ii) bottlenecks to accessing social services, which are essential for shaping the authorities' policy priorities.

9. **The assumption that poverty and inequality trends can be simply extrapolated from overall growth patterns appears somewhat simplistic.** While the poor performance of the economy as a whole would suggest a worsening of poverty and inequality in recent years, the analysis would be enriched by a comprehensive review of developments in other relevant factors. Especially noteworthy in this respect would be: (i) an assessment of the poverty and inequality incidence of growth based on past patterns; (ii) a review of specific policies that may have influenced poverty outcomes in the last years; (iii) an evaluation of the impact of external shocks (particularly the recent food, fuel and financial crises); and (iv) an analysis of the potential shifts in the sectoral composition of growth in recent years.

10. **The full PRGSP rightly points to persistent political instability as a major bottleneck to sustained economic development in Comoros.** However, the document does

¹ The poverty line is defined at approximately US\$800 per capita year.

not explain the underlying reasons for recurrent political conflicts in the country, making it difficult to determine whether these obstacles can be overcome in the medium term, and gauge the potential impact of recent amendments to the constitution in this key area. This is particularly important since persistent political strife over the years is deemed a main cause of slow development and poor implementation of the I-PRSP.

11. **The document underscores the significant role played by diaspora remittances in supplementing household incomes and consumption, acting as an informal safety net.** However, the paper could have usefully provided a more detailed analysis of remittances' amounts and uses. Furthermore, it falls short of considering emigration as a development strategy in its own right, looking for instance at the types of skills demanded not only by the domestic labor market but also by receiving countries, or at the potential to leverage the expertise of the Diaspora in a co-development framework.

III. MACROECONOMIC SCENARIO AND POLICIES

12. **Despite offering a more realistic macroeconomic outlook than the I-PRSP, the baseline scenario under the full PRGSP is overly optimistic.** It targets an average real GDP growth of 4.3 percent for the period 2010-2014, against 3.1 percent under the authorities' program supported by the IMF under the Extended Credit Facility, and a historical five-year average of 1.3 percent during 2003-08.² The projected strong growth performance is in stark contrast with the slow pace of structural reforms spelled out in the PRGS' action plan, especially regarding the restructuring of public utilities and the much needed improvements in the investment climate. As a result, the PRGSP scenario also features a relatively low growth dividend on investment. Staffs encourage the authorities to adjust the PRGSP baseline scenario during the first APR, ensuring that its growth and public investment targets are made more realistic. In the same vein, staffs underscore the need for, and reiterate the recommendation in the I-PRSP JSAN regarding the benefits from comprehensive alternative scenarios and appropriate contingencies for such risks as shortfalls in aid disbursements, delays in implementing reforms, or balance of payments shocks.

13. **The authorities estimate the cost of the five-year strategy at 1.4 billion USD, nearly all to be funded with assistance from donors.** This comes down to an annual average of US\$265 million (49 percent of GDP), likely much beyond the country's implementation capacity. In comparison, annual average cost of the I-PRSP programs amounted to US\$100 million (20 percent of GDP). The high cost of the full PRGSP reflects the updated strategy's all-encompassing embrace, underscoring the need for a better ranking and prioritization of envisaged poverty reduction programs, which staffs urge the authorities to outline in the first APR. This would ensure implementation of a small subset of most promising initiatives. Effective project prioritization would also allow for quick adjustments

² Under the I-PRSP, real GDP growth was projected to reach 7 percent by 2008.

in response to changing financing conditions. The first APR could also provide a more detailed discussion of the potential sources for covering a resource gap estimated at 9 percent of GDP under the PRGSP, before the potential impact of HIPC Initiative debt relief. To prevent deterioration in debt sustainability, this gap will have to be filled mostly with grants or highly concessional loans.

14. **The updated PRGSP’s fiscal policy program is broadly adequate, but needs to spell out the measures underpinning its budget consolidation objectives.** Staffs agree that fiscal consolidation, improved management of public expenditures, comprehensive debt relief, and an ambitious streamlining of the civil service personnel are key conditions for achieving lasting macroeconomic stability and strong pro-poor growth. Within this general framework, the full PRGSP calls for a gradual reduction in the primary deficit (albeit at a relatively slow pace), and an increase in the share of pro-poor and pro-growth expenditures. The PRGS’ action plan sets measurable targets pertaining to revenue mobilization, public expenditure, and fiscal coordination across the Union and the islands. However, beyond the general policy orientation it provides, the document falls short of outlining specific policy measures and programs that would help Comoros achieve the projected fiscal objectives. This will have to be done in the first APR, drawing from medium-term PFM measures and policies that are either already identified or under preparation in the country’s ECF-supported program. In particular, staffs underscore the need for reforms aimed at (i) further enhancing the efficiency of tax and customs administration; (ii) strengthening expenditure execution and tracking, including through computerization of the civil service payment roster and adoption of organic staffing frameworks that set ministerial personnel at levels compatible with medium-term budget viability; and (iii) improving public procurement systems and practices. The PRGSP makes a strong case for redistributive policies, underscoring the need for tackling vulnerabilities in the weakest population groups, although the corollary of such an ambition—a comprehensive pro-poor fiscal strategy—is not well articulated in the document. Staffs encourage the authorities to address this shortcoming in the period ahead by developing PRGSP-compatible medium-term expenditure frameworks with technical support from donors.

15. **The PRGSP rightly notes the adverse impact of real exchange rate appreciation on external viability.** While the exchange rate peg under the Franc Zone arrangement provides an important anchor of stability, sustained currency appreciation in the recent past underscores the need for steadfast implementation of structural reforms to contain competitiveness losses and related adverse growth repercussions. Areas of focus include (i) the public utilities (Comores Telecoms, Société Comorienne des Hydrocarbures, the Electricity Company—MAMWE), (ii) financial intermediation to support growth, and (iii) weak governance and infrastructure.

IV. STRUCTURAL POLICIES

16. **The PRGSP identifies three main sectors—agriculture, fisheries and tourism—that have the potential to generate sustained economic growth.** It notably calls for improved farmers’ access to agricultural inputs, the expansion of storage facilities for the fishing industry, and a significant increase in the number of hotel beds, so critical for sustained tourism development. While broadly sharing the government’s analysis of the potential growth-supporting poles, staffs urge the authorities to better articulate the respective roles of the public and private sectors under the proposed strategy. Faced with severe capacity and financing limitations, the government can hardly get involved in merchant activities, but should focus on creating an enabling environment for enhanced private sector activity. In this perspective, the approval of the new investment code and one-stop shop for business registration, that is currently scheduled for 2011 and 2013, respectively, ought to be expedited and considerably brought forward. Bold government action is especially needed in these areas; given Comoros’ low private investment rates and the very high cost of opening a business in the country—twice the average for Sub-Saharan Africa, according to the World Bank’s 2010 *Doing Business Survey*.

17. **The PRGSP seeks to overhaul Comoros’ growth-supporting infrastructure—energy, roads, telecommunications—with a combination of revamped regulatory frameworks, privatization of utilities and increased public and private sector capital spending.** In this context, key state-owned enterprises, MAMWE (energy generation and distribution), SCH (fuel import and storage) and Comoros Telecoms (telecommunications) are to be gradually privatized over the period 2010–12. The proposed action plan for regulatory reforms in these sectors will take longer, with key new laws and institutions projected to become fully operational only in 2013–2014. Staffs encourage the authorities to speed up reforms in these sectors, given their critical role in underpinning the country’s ambitious growth objectives, including within well defined public-private partnership programs. These would notably provide clearer indications on the design and implementation mechanisms for envisaged infrastructure rehabilitation programs and projects—such as the proposed national energy management and efficiency program or the much needed increase in fuel storage capacities.

V. HUMAN DEVELOPMENT

18. **Staffs welcome the document’s strong emphasis on investing in human capital development.** The PRGSP’s poverty diagnosis points to high rates of return to education in Comoros, and underscores the very important role of access to health and education in the population’s perception of poverty. Echoing these realities, the PRGSP outlines a remarkably integrated vision of human capital development for which the authorities should be commended. The proposed human capital development framework spells out a long-term strategy with key targets and benchmarks. Staffs encourage the Government to draw from it, and develop a prioritized action plan with specific short-to-medium term reforms aimed at

addressing the weaknesses identified in the education and health sectors. In the short term, emphasis ought to be put on delivery of basic services with a view to addressing major issues of *access and quality*.

19. **In the area of education, the focus on primary and secondary education ought to be strengthened.** The updated PRGSP's education strategy covers all teaching levels, and emphasizes the importance of the tertiary phase, as well as of expanding technical and vocational training. However, it does not articulate plans to match the training provided with the needs of the labor market. Also, although significant progress has been made in recent years, enrollment rates at the primary and secondary levels continue to be low. Moreover, the quality of education remains a significant challenge, as notably signaled by a very high rate of illiteracy at the secondary level, and implied by a persistent deficit of operating resources for schools. Given the severe budgetary constraints, the staffs call for greater emphasis on basic education as the principal priority, with the other education levels being gradually developed as additional resources become available. The authorities are to be commended for establishing a monitoring system for public sector education expenditures (under the first strategic axis “Stabilize the economy and lay the groundwork for strong and equitable growth”). However this could be improved further, notably with the addition of indicators of education expenditure composition.

20. **The strategy correctly identifies efforts to improve reproductive health, combat malaria and malnutrition as principal health-support programs. It recognizes difficulties in accessing basic health services as a critical challenge for Comoros.** The staffs fully agree with this assessment, but also urge the authorities to better outline constraints and challenges facing the country's health system, in particular the lack of qualified health personnel, important shortcomings of the pharmaceutical sector resulting in low availability of expensive medicines, and lack of maintenance of existing medical equipment. In general, the PRGSP's health sector targets are ambitious, with no clear indication of either priority actions or sequencing of needed reforms. In some cases, the health indicators are either not fully relevant or of limited use (such as, the use of prevalence of malaria in a country where it is endemic). In addition, outcomes on many of the indicators are likely to be influenced by a variety of other factors largely independent of performance in the health sector. Staffs urge the authorities to gradually address these issues in the annual progress reports for the updated PRGSP.

21. **Finally, for both health and education, the document could have addressed the role—actual and potential—of the private sector in service provision.** The document glosses quickly over the significant share of services delivered by and received in the private sector. The importance of the private sector is in part a reflection of shortcomings of public provision. But a forward looking strategy could also envisage ways in which public and private providers could complement their undertakings in the provision of quality services to the population.

VI. GOVERNANCE AND SOCIAL COHESION

22. **Reflecting the findings of the PRGSP-based participatory consultations as well as comments from development partners, the updated poverty reduction strategy includes a substantive discussion of governance issues and bottlenecks in Comoros.** The authorities are especially to be commended for their candid discussion of the reaches of corruption in the country. Broad areas singled out for strengthening include: (i) the institutional framework for government and its importance for national reconciliation; (ii) the judiciary and national anti-corruption institutions; and (iii) the fight against terrorism.

23. **The updated PRGSP identifies a critical link between the national institutional set up, its administrative organization, and Comoros' record in national reconciliation.** It emphasizes the role of decentralization in promoting accountability in, and power-sharing for, local communities; all of which would help relieve inter-entity tensions and facilitate progress toward national reconciliation. It is however unclear how coherent the proposed strategy is with recent efforts to re-centralize core state functions to ensure adequate policy design and implementation at the national level, including in the critical area of public finance management. The document could usefully lay out a strategy or propose guiding principles aimed at steering the decentralization process and ensuring that national reconciliation is not achieved at the expense of administrative efficiency or financial responsibility.

24. **The poverty reduction strategy paper tackles weaknesses in the judiciary and issues of corruption candidly.** However, the document offers few perspectives—beyond training of magistrates—on possible options and priorities for reform. It could usefully draw from the many reform options available in this area, such as development of community awareness campaigns and ombudsman institutions; detailed measures to improve expenditure tracking and transparency; and other initiatives aimed at enhancing investor confidence.

25. **The authorities recognize that social protection has a fundamental role to play in ensuring social cohesion and stability.** For that reason, the updated PRGSP takes up the issue of social protection within its broader discussion on governance. However, the analysis does not fully consider the challenges associated with implementing efficient social protection programs in an environment of tight budget constraints and high levels of economic informality. In this respect a discussion of social protection targeting strategies would be most useful, if only to ensure that the expansion of social security does not benefit those who are already relatively well off, but focuses on the most vulnerable members of society.

VII. IMPLEMENTATION AND MONITORING

26. **The PRGSP envisages a complex institutional framework for PRGSP monitoring and evaluation.** This includes four separate oversight organizations, a number of sectoral technical groups (GTS) and island-level monitoring committees (COPSED).

Given Comoros's weak institutional capacity, staffs consider that the effective management of such a multi-layer institutional arrangement may be difficult. Staffs therefore recommend that the monitoring and evaluation of PRGSP activities be placed under the primary responsibility of the Technical Steering Committee (PRGS-TSC). Operating from the National Planning Commission, the PRGS-TSC is to be working with both the Technical Secretariat for PRGS Monitoring and Evaluation and the Ministry of Finance's Economic and Financial Reform Monitoring Committee (CREF)—which is already aggregating relevant macroeconomic data.

27. **Monitoring of the PRGS is to be undertaken along three main areas of focus: (i) monitoring of developments in selected performance and poverty indicators; (ii) monitoring of program execution; and (iii) evaluation of policies and programs implemented.** Efforts in the first area may be hampered by lack of up-to-date poverty indicators, which precludes development of a reliable baseline database against which future progress can be measured. Under the circumstances, staffs welcome the authorities' recognition of the urgent need for Comoros to undertake a new household survey, and call on donors to provide financial and technical support.

28. **The PRGS recognizes the failings of the I-PRSP.** Concurring with staffs' assessment, it regrets the detrimental poverty impact of Comoros' political instability in the last years. Going forward, assuming further consolidation of recent gains in political stability, the success of the new PRGSP will require better-quality statistics, enhanced human capacity and increased accountability across monitoring agencies. The document could benefit from a comprehensive discussion of specific measures and resources required to achieve these improvements.

VIII. CONCLUSION AND ISSUES FOR DISCUSSION

29. **Comoros' development goals and reform agenda under the full PRGSP are ambitious.** The challenge for the authorities will be to translate some of the general policy orientations into specific reform measures; and overcome inter-agency and inter-island coordination and cooperation failures that in the past have limited the effectiveness of the government's poverty reduction strategy. As additional resources become available, including by debt relief, another major hurdle will be to ensure that public funds are effectively allocated toward pro-poor and pro-growth interventions and managed in a transparent and efficient way. Comoros expects its development partners to play a critical role in the strengthening of public financial management and the effective monitoring and evaluation of the updated PRGS.

30. **While the full PRGSP offers a good policy frame of reference, it could have also provided:**

- a. More details regarding the central role of public sector reform in addressing development challenges beyond public finance, particularly in the areas of governance, private sector development and social service delivery;
- b. A better assessment of difficulties encountered in the implementation of the I-PRSP. A comprehensive review of these difficulties would have helped better gauge the country's implementation capacity, and facilitated a much needed prioritization of proposed poverty-reducing initiatives. The analysis would also have permitted development of more realistic estimates of external assistance prospects.

31. To enhance the effectiveness of the PRGS, staffs have singled out several key areas in need of adjustment in the context of the first APR.

- a. The cost of the updated strategy is well above and beyond financing levels Comoros can reasonably be expected to mobilize from domestic and external sources over the relevant reform period. This underscores the need to focus on a smaller number of projects, giving priority to actions aimed at removing the most binding constraints to growth and poverty alleviation.
- b. In a number of key areas—macroeconomic policies, structural reforms, healthcare—the strategy (and the accompanying action plan) outlines ambitious agendas with an array of medium-term targets. Implementation will require the authorities identifying near-term specific underpinning reform actions, consistent with implementation capacity and mobilized financial resources.
- c. In the case of structural and human development policies, the strategy should spell out more explicitly the role of the private sector, and outline a policy agenda that best incentivizes the private sector to work towards achieving the sector objectives under the PRGS.
- d. Successful monitoring requires a streamlining of the institutional arrangements for data collection and reporting, as well as speedy completion of a new household survey to provide a reliable baseline data base.

32. In considering the PRGSP and associated JSAN, Executive Directors' views are sought on whether they agree with the main areas identified by staffs as priorities for strengthening the PRGSP and its implementation.