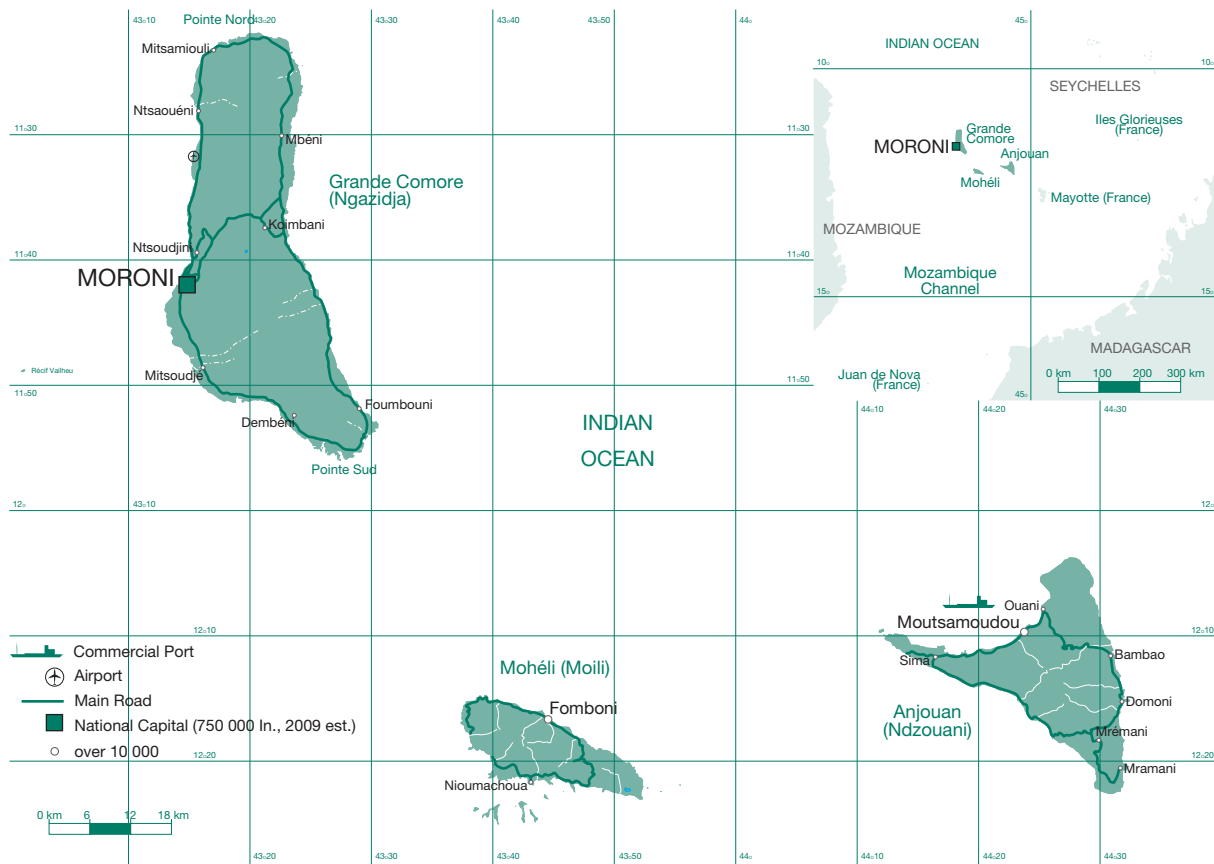


Comoros

2011



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This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Comoros

Overview

The Union of the Comoros is an archipelago of three islands (Grande Comore, Anjouan and Moheli), with an undiversified economy and few natural resources. The country has suffered from chronic political instability for a number of years, with repeated coups and secessionist leanings among the islands, and this troubled political climate has hampered its economic and social development.

The Comorian economy has not yet recovered from the consequences of this period of instability, nor from the global recession of the last few years. In 2010, the real gross domestic product (GDP) growth rate was 2.1%, up from 1.1% in 2009. Growth was driven by public investment, the strengthening of the financial sector and the buoyancy of construction, financed by remittances from the Comorian Diaspora.

New measures to increase fiscal resource mobilisation raised tax revenue slightly from 10.4% of GDP in 2009 to an estimated 10.6% in 2010. Total expenditure amounted to 22.7% of GDP, as against 22.1% in 2009. The executed budget exhibited a primary surplus of 4.6% of GDP in 2010 (0.6% in 2009), as a result of the rise in tax revenue and grants.

The country's external position remained poor in 2010, as the current account deficit widened to an estimated 10.2% of GDP despite substantial transfers from expatriates. This trend can be attributed to the increased deficit in the services account, a slight dip in exports and a sharp increase in imports of consumer and capital goods. The current account deficit should average 12% of GDP in 2011-12.

In 2010, the government of Qatar hosted a conference on development and investment in Comoros that elicited pledges estimated at more than USD 500 million notably from the Gulf countries. Qatar provided EUR 20 million of budget support that enabled Comoros to pay off wage and pension arrears.

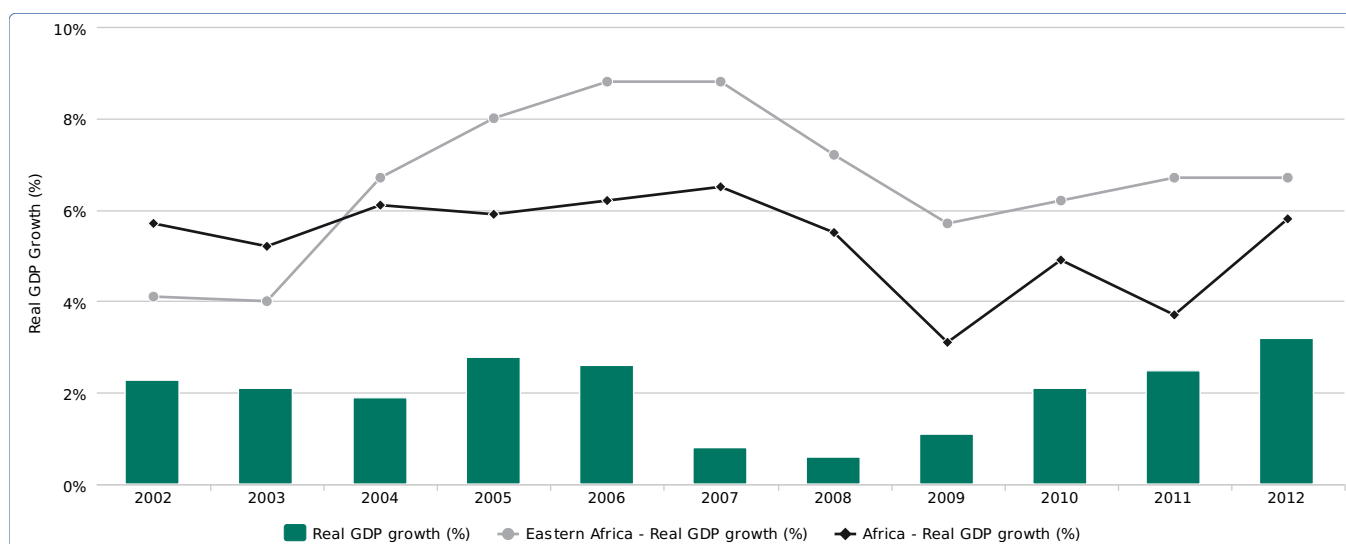
Remittances from expatriates, which are a key source of finance and support for the Comorian economy, remained dynamic in 2010 despite the unfavourable international climate. These transfers were facilitated by the opening of branch offices of the Comorian post office in France.

As a result of the reform programme supported by an Extended Credit Facility (ECF) from the International Monetary Fund (IMF) in July 2010, the Comoros reached the decision point of the Heavily Indebted Poor Countries (HIPC) Initiative. The interim debt reduction granted by creditors eased the pressure on Comoros' public finances.

The business climate remained much the same in 2010 as in 2009 – Comoros is still ranked 159th out of 183 countries in the World Bank's *Doing Business* report – but the stabilisation of the political situation and initiatives to clean up the business environment are expected to bring some improvement. Domestic lending rose moderately. This cautious monetary policy is conducted under the terms of the monetary co-operation agreement with France. In 2010, the mandatory reserve requirement of the Central Bank of Comoros (BCC) was increased from 25% to 30% to offset the increase in money supply. This decision was taken to avert the possibility of an inflationary surge following the substantial grants provided to clear the government's wage arrears.

Constitutional reforms and the improvement of the political climate made it possible to carry the 2010 electoral process through to completion. The election brought Vice-President Ikililou Dhoinine to the presidency. The transfer of powers by President Ahmed Sambi should take place by 26 May 2011 at the latest. The economic situation in 2011 will depend on whether the political transition goes smoothly, as well as on structural reforms and public and foreign investment.

Figure 1: Real GDP growth (E)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932403952>

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	1.1	2.1	2.5	3.2
CPI inflation	4.8	2.9	3	2.8
Budget balance % GDP	0.6	4.1	-3.1	-3.6
Current account % GDP	-7.6	-10.2	-11.7	-12.2

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932406308>

Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2009
Agriculture, forestry, fishing & hunting	42	44.7
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	-	-
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	4.1	3.9
of which hydrocarbon	-	-
Electricity, gas and water	1.6	1.5
Electricity, water and sewerage	-	-
Construction	6.3	5.7
Wholesale and retail trade, hotels and restaurants	25.8	26.6
of which hotels and restaurants	-	-
Transport, storage and communication	5.2	4.8
Transport and storage, information and communication	-	-
Finance, real estate and business services	-	-
Financial intermediation, real estate services, business and other service activities	-	-
General government services	14.4	12.4
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	0.6	0.5
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department; national authorities (DNS).

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932407277>

The Comorian economy continues to show little dynamism. After the political instability and global recession of

the last few years, it is gaining strength only slowly. Real GDP growth increased from 1.1% in 2009 to 2.1% in 2010. The economy remains dependent on public and foreign investment, the real estate sector, which is boosted by remittances from emigrants, and the expansion of the financial sector and agricultural output. Vanilla, cloves and ylang-ylang, the main cash crops, bring in most of the country's foreign exchange and employ more than 80% of the Comorian working population.

The main factors affecting growth in 2010 were the postponement of planned investments in the hotel sector, a fall-off in external demand for cash crops and the political tension that arose as the president's term of office neared its end.

The Comorian economy is dominated by services and agriculture, which account respectively for 45.2% and 44.7% of GDP. Industry and construction contributed only 10.1% of GDP (2009 figures).

The agricultural sector had a lacklustre year in 2010. Vanilla production, still feeling the effects of the crisis that has affected this sector for a number of years, fell to 30 tonnes, compared to an average of 200 tonnes in the 1990s. Producer prices hit a historical low, leading many growers to abandon this segment in favour of food crops.

Production of cloves, which tends to be cyclical, began a rising phase in 2010. The quantity produced is evaluated at more than 3 000 tonnes, as against 1 700 tonnes in 2009. This increase is due to the fact that prices held up well and to strong demand from Asia.

Comoros is the world's leading producer of ylang-ylang, the essential oils of which are highly prized by the perfume industry. This segment is feeling the effects of the global crisis on the luxury products industry. Output is estimated to have stabilised at 45 tonnes in 2010, the same level as in 2009, whereas it stood at about 60 tonnes in the late 1990s. The price decline observed in 2009 eased but there was no indication of a reversal of the downward trend.

Despite the potential of the Comorian agricultural sector and the many initiatives undertaken to support it, food production continues to be hampered by the low level of mechanisation and difficulties in transporting and preserving food products.

The collapse of exports in the last few years and the global recession have weakened the country's external position. Exports dropped very slightly (-3%) from the level observed in 2009, while imports increased sharply (+23%). In the first half of 2010, imports of oil products rose by 27% year-on-year in value terms. Despite the recovery of the construction sector, cement imports declined by 15% in volume and 28% in value, owing to the inventories accumulated in 2009.

Increased power generation enabled the secondary and tertiary sectors to sustain their activities in 2010, although their contribution to GDP did not increase appreciably with respect to 2009. The secondary sector's GDP contribution stagnated at 11% in 2010 and is forecast to rise slightly to 12% in 2011-12. Industrial output was up owing to the buoyancy of the construction sector since 2009 and the increased production of electric power in the main cities.

Port and energy infrastructure benefited from investments in 2010, including the acquisition of generators that now ensure continuous electricity supply in the capital city of Moroni and its surrounding areas, as well as in the other two islands. The ports of Moroni and Mutsamudu have been dredged, allowing high-tonnage cargo ships to enter. The capacity of the hotel sector increased with the opening of International Karthala Hotel and the proliferation of family-owned boarding houses, particularly on Anjouan. Nonetheless, the number of completed infrastructure projects remains low.

Tourism is not exploited to its full potential. In 2010, its performance was lower than forecast owing to the postponement of investments. The reconstruction of the Galawa Beach hotel complex has been transferred to Qatari industrialists, but this project, estimated at USD 70 million, is not yet under way. The estimated EUR 110 million project of the Kuwaiti group, Comoro Gulf Holding, to develop the cliff overlooking Moroni has not started either. The delays in the implementation of these projects are due to the recent international financial crisis and the political uncertainty reigning in Comoros. The tourism sector, which is identified as a growth driver in the country's strategy, has set an objective of raising its capacity from 500 to 2 000 beds by 2014 and creating 2 500 jobs.

Owing to the volume of imports and the high proportion of expatriates, transport is a key sector in the Comorian economy. It is handicapped, however, by the narrowness of its market and the country's geographical isolation. The airline Yemenia Air, which was obliged to reduce its service after the crash of an aircraft inbound from Sanaa in June 2009, resumed normal traffic to Moroni in 2010. It even provided transport for Comorians making the pilgrimage to Mecca. Air Austral began to provide service between France and Comoros via Réunion Island. Comoros Islands, an airline financed by Comorian and Dubai investors, started direct flights between

Dubai and Moroni in 2010. The development of these activities offers new prospects for potential investors in Comoros.

The communication sector did not display the dynamism expected of it in 2010. The East African Submarine System (EASSy) fibre-optic cable, scheduled to start operating in 2010, will finally come into service in 2011. A new project to interconnect the member islands of the Indian Ocean Commission (Comoros, Madagascar, Mauritius, the Seychelles and La Réunion) is under way. A new private operator, a subsidiary of Comoro Gulf Holding, will soon enter the mobile telephony market. The communication infrastructure contributed by these projects will help to reduce the country's isolation and, eventually, to lower its telecommunications prices, which are among the highest in the world.

Generally speaking, investment was focused on road and port infrastructure. Private investment did not live up to its promise in 2010, because of the recent global crisis and the electoral uncertainties in Comoros. However, the improvements in the political situation and the business climate leave room for hope of an investment recovery in the future.

Total consumption declined in 2010 with respect to 2009, its contribution to real GDP growth shrinking by 2.2 percentage points. This drop was due to the fall-off in public consumer spending and to the fact that the payment of wage arrears had little impact, as households used these payments to pay off their own debts. In addition, the huge decline of arrivals from the Comorian diaspora in 2010 hurt the trade sector, which makes nearly half of its annual turnover during the summer holidays.

The upward trend in imports continued (up from 27.8% of GDP in 2009 to 29.2% in 2010), while exports remained very low, falling slightly from 2.0% of GDP in 2009 to 1.9% in 2010. The dip in exports was due to stagnant world prices for Comoros' cash crops (cloves, vanilla and ylang-ylang) and to inadequate support structures. Negotiations are under way aimed at boosting production and exports of these products; India, in particular, seems interested.

The partnership between Comoros and the emerging countries took on a new dimension in 2010. Within the framework of the Arab League, the countries of the Arabian peninsula and of the Gulf Cooperation Council are supporting the country's development efforts. The agreements signed at the Doha conference in July 2010 contained commitments estimated at more than USD 500 million.

Unemployment is a widespread problem in Comoros, with an average unemployment rate estimated at 14.3%. The global recession had only a minor impact on the labour market, since it had little effect on the trade, hotels and restaurants, construction and education sectors, which employ 54% of tertiary sector workers. With support from the International Labour Office, the Comorian government has introduced a national employment strategy called the Decent Work Country Programme for 2010-11, combined with a series of measures to strengthen national employment organizations.

In the context of a gradually recovering global economy and a better political climate, the economic prospects of Comoros are positive. Real GDP growth should pick up, reaching 2.5% in 2011 and 3.2% in 2012. The Union should benefit from firm prices for its cash crops, a pick-up in private investment (particularly in the tourism sector) and an improved business climate. Inflation should remain moderate as a result of Comoros' membership of the Franc Zone and expected low increases in food and oil prices. However, the political transition in progress and the pursuit of structural reforms under the three-year ECF agreement will detract from the economy's performance in 2011. For example, further political instability could reduce both foreign direct investment and external aid.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	12.2	12.9	27.3	6.5	6.9	4	1.2	1.3
Public	5.4	5.9	50	7.6	6.7	3.3	0.7	0.7
Private	6.8	7	8.3	5.2	7.1	0.7	0.4	0.6
Consumption	98.3	105.7	-1.8	2.9	3.3	-2.2	3.3	3.8
Public	15.9	13.5	-14.5	0.3	3.3	-2.8	0	0.5
Private	82.3	92.2	0.6	3.4	3.4	0.6	3.3	3.3
External sector	-10.5	-18.6	-	-	-	0.3	-1.9	-1.8
Exports	15.7	12.7	3.1	4.8	6.1	0.5	0.8	1
Imports	-26.2	-31.3	0.5	5.8	5.9	-0.2	-2.7	-2.9
Real GDP growth rate	-	-	-	-	-	2.1	2.5	3.2

Source: Data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932408246>

Macroeconomic Policy

The goals of Comoros' macroeconomic policy are in line with the medium-term budget strategy for 2009-12, as defined by the three-year reform programme supported by the ECF, and national development policy.

The central bank raised the mandatory reserves requirement from 25% to 30%. The inflation rate was moderate in 2010 (estimated at 2.9%), thanks to the easing of world prices for energy and food products. Comoros' external position has not improved in recent years.

The current account deficit is expected to widen further as a result of the worsening trade deficit. One of the major events in 2010 was reaching the HIPC decision point on debt reduction for Comoros.

Fiscal Policy

Comoros' restrictive fiscal policy is aimed at stabilising the economy and laying the foundations for sustained growth, while at the same time improving fiscal management by trying to match spending to available revenue so as to avoid over-runs. This policy is part of the reform programme supported by the IMF's ECF. Comoros does not have a modern planning and budget management tool such as a medium-term expenditure framework. Budgetary aggregates generally improved in 2010 following the adoption of an amending budget.

Despite institutional weaknesses, revenue collection was relatively efficient in 2010. Tax revenue is estimated at 10.6% of GDP, up from 10.4% in 2009. Public resource mobilisation improved slightly owing to the enhanced efficiency of the tax and customs administration and the implementation of new measures, including the creation of a unified general tax directorate and a 5% increase in the tax on oil products.

Total expenditure amounted to 22.7% of GDP in 2010, as against 22.1% in 2009. This slight increase was due in part to election-related expenditures. Current expenditure fell from 17.3% of GDP in 2009 to 16.1%, while capital expenditure rose from 4.5% of GDP in 2009 to 6.6% as a result of public investments in energy and port infrastructure. Non-priority expenditures were closely monitored as the treasury committee, which oversees the legality of expenditures, began to function more smoothly.

Management of the wage bill and its impact on economic and financial imbalances is an important issue for Comoros in the context of the economic convergence of the Franc Zone countries. Wages and salaries absorb more than 83% of tax revenue, a level far higher than the 35% recommended by the IMF. In 2010, the wage bill remained at 8.6% of GDP. The wage hike for teachers granted in 2010 should be put into effect in 2011, but otherwise the year should see stronger measures aimed at reducing the wage bill to a level compatible with medium-term budget viability.

In 2010, the primary budget surplus improved to an estimated 4.6% of GDP, up from 1.1% in 2009, owing to restrictions on public spending and a rise in grants. The overall surplus, including grants, is estimated to have risen from 0.6% of GDP in 2009 to 4.1% in 2010. Budget execution in the first half of 2010 was generally in line with the goals of the reform programme supported by the ECF. Total revenue collection exceeded the announced target, while spending was kept under control, resulting in substantial savings. In the first half of 2010, Comoros achieved its targets for seven of the ten performance indicators imposed by the programme, enabling it to reach the HIPC decision point and enjoy bilateral debt reduction through the Paris Club.

Comoros does not produce enough food to feed its population. The recent upward trends in food and oil prices therefore affected domestic prices and public finances, as expenditure on goods and services increased. The reversal of this price trend since 2009 has enabled the country to keep inflation to a moderate level and helped to ease the balance-of-payments deficit.

Despite the improvement in monetary aggregates, implementation of fiscal policy is still hampered by the overly restricted tax base, the political climate and resistance to structural reforms.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	20.9	20.4	24.6	22.7	26.8	20.2	20.1
Tax revenue	14	10	10.7	10.4	10.6	10.4	10.5
Oil revenue	-	-	-	-	-	-	-
Grants	4.2	7.7	10.9	9.3	13.2	6.7	6.6
Other revenues	2.7	2.7	3	3	3	3	3
Total expenditure and net lending (a)	24.6	22.5	27.2	22.1	22.7	23.3	23.7
Current expenditure	18.7	16.3	17.6	17.3	16.1	16.4	16.5
Excluding interest	17.7	15.8	16.8	16.8	15.5	16	16
Wages and salaries	8.3	9.1	9.2	8.6	8.6	9.1	9.1
Goods and services	6.1	3.2	4.8	3.8	3.4	3.4	3.5
Interest	1	0.5	0.7	0.5	0.5	0.4	0.4
Capital expenditure	5.9	6.2	9.7	4.5	6.6	6.9	7.2
Primary balance	-2.7	-1.5	-1.9	1.1	4.6	-2.7	-3.1
Overall balance	-3.7	-2	-2.6	0.6	4.1	-3.1	-3.6

a. Only major items are reported.

Source: Data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932409215>

Monetary Policy

Monetary policy is characterised by moderate expansion of domestic lending. This cautious policy can be attributed to the pursuit of both a domestic objective (price stability and regulation of the money market) and an external objective (maintaining an adequate level of foreign exchange reserves).

As a member of the Franc Zone, Comoros operates under a regime of fixed parity between the Comorian franc (KMF) and the euro, at the rate of EUR 1 to KMF 492. Monetary policy is conducted within the framework of the co-operation agreement with France, based on the latter's unlimited guarantee of the currency emitted by the BCC. The central bank uses two instruments to implement monetary policy: lending and deposit rates and the mandatory reserve requirement.

The goal of domestic price stability, which is one of the economic convergence criteria of the Franc Zone, offers little leeway for monetary financing of fiscal deficits. Inflation, which is largely imported, was moderate in 2010, at an estimated 2.9% compared with 4.8% in 2009, because of the easing of transport prices for imports of oil and food products. The inflation rate excluding food and energy products recorded a similar decline.

The main monetary policy initiative came in July 2010, when the central bank raised the mandatory reserve requirement imposed on banks and financial institutions since 2006 from 25% to 30%. This decision was aimed at preventing an inflationary surge in the wake of an increase in the money supply.

In the first half of 2010, the consolidation of external holdings and a rise in domestic credit caused by increased lending to the private sector expanded the money supply by more than 11% with respect to the same period in 2009. As a result, the external coverage ratio declined.

Lending rates remained unchanged in 2010, ranging from 7% to 14%. The minimum deposit rate for regulated

deposits has been 1.75% since July 2009. Given the trend in inflation, real interest rates are negative. The central bank's other rates, including the rediscount rate and deposit rates (mandatory and free), are indexed to the Euro Overnight Index Average (EONIA) rate, which is the deposit rate for interbank deposits in the euro area.

To keep an adequate level of foreign exchange reserves – 65% of which are deposited with the French treasury in accordance with the statutes of the central bank – at least 20% of deposit liabilities must be covered by external holdings.

The BCC does not have a credit restriction policy. Each bank makes its own lending policies, while observing the applicable regulations, particularly where prudential ratios are concerned. In the non-bank sector, the central bank controls the activity of financial intermediaries specialising in transfers and manual currency exchange. It plans to extend its control to the insurance sector in the near future, but no measures are currently planned for other financial institutions, such as pension and provident funds.

In 2011, monetary policy will stick to the goals of price stability and an acceptable level of foreign exchange reserves. Given the growth outlook in the euro area, the BCC's interest rates will remain relatively low. Monetary and price trends in Comoros will continue to be determined by the fact that the exchange rate is anchored to that of the Franc Zone.

External Position

The country's external position, as indicated by the performance of the current account, has not improved over the last few years. The current account remains structurally in deficit owing to Comoros' low level of exports and strong dependence on the outside world for food products.

In 2010, the current account deficit widened to 10.2% of GDP (7.6% in 2009), owing to: heavy imports of construction equipment, household appliances and energy products; the decline in cash crop exports owing to the drop in production volumes in the 2009/10 season, particularly in the vanilla segment; and to a slowdown in trade among the three islands and between Comoros and the Near and Middle East.

The positive balance of the current transfer account was not enough to offset the trade and services deficits. Current transfers in 2010 are estimated at 21.8% of GDP, up from 20.1% in 2009. The increase was due in part to remittances from the diaspora, driven by strong social demand for traditional wedding ceremonies and emigrants' participation in community development. At the time of writing, the international financial crisis had not had much impact on current transfers in Comoros.

Despite the cautious monetary policy and moderate inflationary pressures, the current account deficit is projected to swell further owing to the appreciation of the Comorian franc, itself a consequence of the depreciation of the euro and the worsening of the terms of trade. Unless a restrictive fiscal policy and import controls are introduced, the deficit should increase to an average of 12% of GDP in 2011 and 2012.

Exchange rate stability, due to the anchoring of the Comorian currency to the euro, affects international competitiveness and investment. As of end December 2010, foreign exchange reserves were estimated at six months' worth of imports. These reserves, which are sustained primarily by allocations of special drawing rights (SDR) from the IMF and aid from development partners, are expected to increase in 2011.

No significant changes occurred in foreign trade in 2010. Exports fell 3% by value in relation to 2009 despite an upward trend in cloves and ylang-ylang. World prices had little effect on food imports, as domestic demand for these is sustained by regular remittances from expatriates.

Comoros has been a member of the free trade area of the Common Market for Eastern and Southern Africa since 2006. In 2010, the country mainly imported capital goods, intermediate products and consumer products from within this area. This free trade agreement has only a slight effect on Comoros' trade performance: since it exports so little, the country derives little benefit from customs duty exemptions. Moreover, the reforms entailed by accession to this trade agreement have yet to be undertaken. In October 2007, Comoros obtained observer status at the World Trade Organization (WTO). This status is expected to change in the coming years.

Owing to the persistent crisis affecting exports products, especially vanilla, Comoros and its emerging partners, particularly India, are negotiating aid-for-trade agreements in a bid to revive exports through customs duty exemptions and technical assistance.

The geographical structure of trade was confirmed in 2010. Europe remains the main destination for Comorian exports (56% in 2009), while the share of the Gulf Cooperation Council in imports increased in 2009 to 32%, compared to 23% for Europe. Imports from the Gulf increased in 2010 because Kuwait began to supply the country with oil and gas following termination of the contract with the oil company Total.

The capital account showed a positive balance, with both direct and portfolio investments. It helped to offset the deficit in current transactions. The main investments were made by emerging Arab partners, primarily in tourism and social sectors.

In accordance with its poverty reduction and growth strategy paper (PRGSP), Comoros is implementing a reform programme associated with the ECF. The IMF's engagement is estimated at SDR 13.6 million (USD 20.0 million), which amounts to more than 150% of Comoros' IMF quota. The whole of this financing package is to be disbursed by September 2012, subject to examination of the completion criteria. China has pledged CNY 40 million to finance the construction of a hospital with capacity for more than 100 beds on the island of Anjouan.

Comoros is over-indebted. The composition and structure of its debt remained largely unchanged in 2010 with respect to 2009. The external debt stock is estimated at USD 213 million, equivalent to 343% of exports. Multilateral and bilateral creditors hold 75% and 25% of outstanding debt respectively. Following examination of the reform programme supported by the ECF, Comoros reached the HIPC decision point in 2010, and the resulting debt relief granted by creditors is estimated at USD 145 million. This interim debt reduction has enabled Comoros to free up budget resources and ease cash-flow constraints caused by debt service payments.

Comoros is expected to reach completion point in 2012 and could at that time benefit from irrevocable debt reduction and, under the Multilateral Debt Relief Initiative, from cancellation of its eligible debt by the IMF, the International Development Association (IDA) and the African Development Fund (ADF). To achieve this, the country must maintain macroeconomic stability, implement its poverty reduction strategy and improve management of public finances.

Table 5: Current account (percentage of GDP)

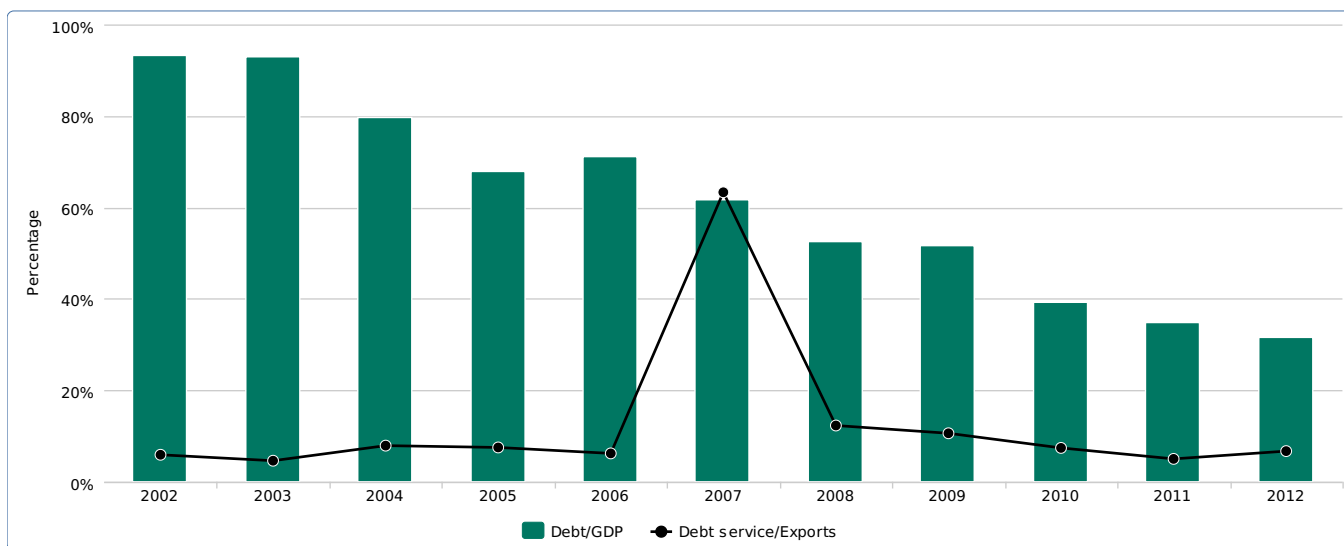
	2002	2007	2008	2009	2010	2011	2012
Trade balance	-13.5	-24.7	-33.4	-25.8	-27.3	-27	-26.5
Exports of goods (f.o.b.)	7.8	3	1.3	2	1.9	2.2	2.6
Imports of goods (f.o.b.)	21.3	27.7	34.7	27.8	29.2	29.2	29.1
Services	-1.2	-2	-2.5	-1.6	-4.3	-3.5	-3.2
Factor income	0.8	0.4	0	-0.4	-0.4	-0.3	-0.1
Current transfers	12.8	18.8	24.4	20.1	21.8	19	17.6
Current account balance	-1.1	-7.6	-11.6	-7.6	-10.2	-11.7	-12.2

Source: Data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932410184>

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932403952>

Structural Issues

Private Sector Development

The economic and social development of Comoros faces considerable structural barriers, which need to be gradually eliminated in order to ensure that the country has a healthy and sustainable economy, like those of its Indian Ocean neighbours Mauritius and the Seychelles.

Private sector development is hampered by structural factors: an unfavourable business climate, a lack of reliable infrastructure and a services sector that cannot meet the requirements of a modern economy. Other barriers include the narrowness of the local market, which limits the possibilities for scale economies, a low-skilled labour force and the lack of a business culture.

According to the World Bank's *Doing Business* report, the business climate in Comoros remained unchanged in 2010 with respect to 2009. The country is still ranked 159th out of 183 countries evaluated. One example of the reasons for this poor ranking is that a potential investor in Comoros must negotiate a maze of about a dozen procedures, as compared to only two in some neighbouring countries. Similarly, the report notes that Comoros' position has deteriorated in areas such as paying taxes and transfers of ownership when starting a business. In this regard, the National Investment Promotion Agency (ANPI), a one-stop shop that is supposed to reduce the time and cost of starting a business and help investors obtain building permits and entry licences, is still not operational for lack of funding and competent staff.

Efforts to improve the business climate were nonetheless continued in 2010. Relations among chambers of commerce, employers' organisations and the government are regarded as encouraging. More than 50 businesses were created in 2010, mainly in construction, agri-food and tourism, as a result of information obtained from employers and government. Business creation was facilitated by the provisions of a new investment code, designed to be more attractive so as to encourage private initiative and assure legal protection for investments.

The business climate should improve more substantially in 2011 and 2012 via the "Integrated Framework" programme which aims to improve the business environment and promote entrepreneurship. The programme is funded by several organisations, including the United Nations Development Programme (UNDP) and the WTO. In December 2010, with financial and technical support from partners, the Comorian government officially inaugurated a website called "e-régulations Comores", which provides potential investors with rapid and detailed access to the administrative procedures and rules contained in the investment code. The priorities of this programme include assistance to businesses and the effective implementation of the one-stop shop within the ANPI. The reformed public procurement code, which was supposed to be promulgated in 2010, is still being drafted.

The Comorian banking system has undergone considerable change in recent years. The Banque pour l'industrie et le commerce (BIC) held a *de facto* monopoly for most of the last decade, but today there are four banks, two decentralised financial institutions (the *Mutuelles d'épargne et de crédit ya Komor* [MECK] and Sanduk networks) and three financial intermediaries.

The banking system went through an expansionary phase in 2010, as a result of the increasing influence of Tanzania's Exim Bank and the strengthened position of the Banque de développement des Comores.

The expansion of the banking system opened up new opportunities for the private sector on the financial markets. When loans extended by microfinance institutions are included, domestic lending increased by 40% in 2010 (against 34% in 2009). The postal service, SNPSF, opened branch offices in Marseille and Paris to facilitate emigrants' remittances. Other financial institutions are preparing to offer products for real estate financing.

The Banque de développement has converted into a commercial bank and consolidated its position. This change has accelerated the reopening of its capital to private investors and paved the way for an increase the volume of financeable projects in the microfinance sector.

Although small, the Comorian financial system is fairly flexible. The central bank clearing house has improved its handling of the various means of payment. The clearing system has been operational since 2006 for cheques and since 2009 for electronic transfers. Investment in electronic money handling continued with the installation of automated telling machines by the post office bank to facilitate consumer transactions.

The BCC's supervision of the banking system is based on prudential regulations (solvency, exposure diversification, mandatory reserves, downgrading of doubtful loans, etc.) that are applicable to all financial institutions and intermediaries.

Despite the expansion of banking activities, the average term of loans is only 24 months. Loans are generally provided for small businesses and traders. Access to long-term credit is fairly limited. In 2010, the Banque de développement, faced with much higher credit demand than expected, was able to meet it thanks to two credit lines provided by the Agence française de développement (AFD).

The global recession has had relatively little impact on Comoros' banking system and economic activity owing to its membership of the Franc Zone, which served as a safety net, and to substantial remittances from the diaspora. Expatriate Comorians, who make up half the country's population, either earn their livelihoods from activities such as restaurants and caretaking, or use *tontine* systems of joint ownership of property, which have generally been spared by the global crisis.

Other Recent Developments

As part of its ten-year strategy, the government has undertaken a huge programme of public finance reforms in recent years. The goal is to give the country a public finance management system that is transparent, meets international standards and respects the resource allocation and prerogatives of the federal and island authorities.

The first component of this programme provides for tax code reform and a charter for recognised taxpayers (*Charte du contribuable vérifié*). The aim is to improve collection of taxes and customs revenue by strengthening the joint investigation and research unit of the revenue and customs services, optimising the automated customs data system ASYCUDA ++ and undertaking more rigorous checking of civil service records. The authorities aim to reduce the wage bill, notably through reform of the state at the presidency, National Assembly and embassies.

Considerable efforts have been made recently in the information and communication sector. The programmes of the national television station have been broadcast by satellite since May 2010, an innovation which is much appreciated by emigrant Comorians in France, who can now receive news and pictures of their home country directly.

The central bank is aware of the future challenges created by this reform programme and is considering setting a usury ceiling and an overall effective rate applicable throughout the banking system, while at the same time allowing more competition so that bank rates are set freely by the market. It is also working to establish a credit reference agency in order to raise the quality of credit. An international tender call has been carried out for the feasibility study for this project.

The authorities have also formulated strategies for reforming publicly owned utilities, namely the public enterprises responsible for telecommunications (Comoros Télécoms), oil product imports (Société comorienne des hydrocarbures) and power supply (MAMWE). The government plans to issue calls for expressions of interest in 2011 with the objective of involving the private sector in the management of these public enterprises with technical support from the International Finance Corporation. These reforms should help to address administrative inertia and assure that the economy has a regular supply of energy and reliable telecommunications services at competitive prices.

Comoros abounds in biodiversity resources, on which it has based a participatory sustainable development programme. However, these resources are endangered by overpopulation (Anjouan has a population density of 450 inhabitants per km², one of the highest in Africa) and poverty, which exert growing pressure on an already fragile and degraded ecosystem. The latest environmental indicators estimate the surface area of protected ecosystems at 404 km², while deforestation is limited to 500 ha per year.

On the environmental protection front, the British non-governmental organisation Bristol Conservation receives funding for a project on Anjouan aimed at protecting forests and their biodiversity (notably the Livingstone's fruit bat, an endangered species). Bristol plans to appeal to other partners.

The operations of the French Global Environment Fund in Comoros provide support for projects aimed at protecting biodiversity and combating the greenhouse effect. For example, the fund is financing a project to develop green tourism on the island of Mohéli and to form environmental protection associations. The project seeks to improve and diversify tourist services, promote eco-sites and provide support to associations that take initiatives to protect the environment.

In the productive sector, reforms have been undertaken to create a propitious environment for agricultural development, with technical and financial support from the International Fund for Agricultural Development, the United Nations' Food and Agriculture Organisation, the AFD and the UNDP. Projects undertaken include anti-erosion schemes, reforestation and the use of intensive agriculture for food crops. In the case of livestock production, the measures taken consist of training for veterinary officials and breeders and efforts to improve the health of livestock. The goal of these agricultural reforms is to boost production so as to reduce imports of

food products.

To this end, the production and marketing chains of locally produced food products have benefited from several initiatives, including the multiplication of potato and banana planting stock by regional bodies such as the Arab Authority for Agricultural Investment and Development, with funding from the European Union (EU). In September 2010, the national farmers' union (Syndicat national des agriculteurs comoriens) received EUR 1.6 million in funding for its project to strengthen and diversify the Comorian agricultural sector (PREDIVAC).

In the fisheries sector, the EU and Comoros renewed their agreement on fishing in Comorian territorial waters. The fee paid by the EU is to be used to strengthen the sector's institutional framework and enhance its professionalism. In December 2010, Japan and Comoros signed a financial protocol of USD 3 million to restart the national fisheries school on Anjouan, which had been closed when the island was shaken by separatist unrest.

Emerging Economic Partnerships

Partnership with the emerging countries dates back to the independence of Comoros in 1975. China was one of the first developing countries to offer assistance to the new state. Co-operation between China and Comoros has steadily expanded and diversified ever since, and it now covers health, education and infrastructure.

Partnership with the Arab countries was a natural consequence of the admission of Comoros to the Organisation of the Islamic Conference and the Arab League. The 2006 election of Ahmed Sambi, the first Arabic-speaking president of Comoros, was a turning point in the country's partnership with emerging countries. This new dimension was confirmed in 2010 with the holding of a donors' conference in Doha and the appeal for investment in Comoros issued by the Arab League summit in Sirte.

The commitments given at the Doha conference totalled over USD 500 million, of which 58% was pledged by the Gulf countries (43% by Qatar alone) and 28% by the Islamic Development Bank (IDB). The Doha conference was noteworthy in that it succeeded in involving not only the participating countries' governments but also their civil society organisations and private sectors.

The aftermath of the conference looks promising. The Arab League and the government of Comoros have undertaken to set up a specific follow-up mechanism. The IDB plans to establish a trust fund as an instrument for co-ordinating Arab countries' co-operation activities, with the aim of capacity building for the Comorian planning department and investment promotion by the IDB. The establishment of an Islamic bank in Comoros is also under consideration.

China is one of the first countries to have fulfilled the promises of the Doha conference, by signing two major contracts with the Comorian government. The first concerns the financing of the inter- and intra-island fibre-optic cable network; the second, the construction of the National Tourism Office, the cornerstone of which has already been laid.

These contributions should help to revive the Comorian economy. However, the political and social crisis that is shaking the Arab world may well prevent some countries in the region from living up to their commitments.

Political Context

After years of political instability and severe crises, the Union of the Comoros has recently made noteworthy progress towards political normalisation. The constitutional amendments adopted in 2009 have brought more coherent management of the economy. Under the rotating presidential system (the presidency is held by a native of each of the islands in turn), the successor to President Sambani is from Moheli, the smallest island in the archipelago.

Political dissent revived in early 2010 over the end of the current president's term of office and the election schedule. These tensions were calmed by the signature of an agreement on the organisation of elections for the president of the Union and the island governors, and these elections were eventually held in late 2010. They were considered by the international community to be generally free and fair, and the candidate of the presidential majority party, Vice-President Ikililou Dhoinine, was elected with over 65% of the vote. Candidates supported by the presidential majority also won the gubernatorial elections in Grande Comore and Anjouan. For the opposition, the incumbent governor of Moheli was re-elected. The 2010 presidential elections were widely seen as a convincing test of the democratic process, although the opposition complained of fraud.

According to the electoral agreement, the transfer of powers should take place by 26 May 2011 at the latest. The election of the current vice-president means that there should be continuity in the country's economic policy and in its priorities with regard to development and international co-operation. Despite the improved political climate and the election of the new president, there is still some risk of political unrest, particularly over the schedule of the actual transfer of powers to the president-elect.

The year 2010 was marked by strikes called by the teachers' and educational advisers' unions. Their demands were satisfied, and they obtained an increase in their salary scales. The way in which these measures are implemented in the civil service should have a strong effect on the labour relations climate in 2011.

In the Corruption Perceptions Index published by Transparency International in late 2010, Comoros was ranked 35th among sub-Saharan African countries and 154th overall. The budget execution process is not transparent yet in Comoros.

The written press consists of only a few periodicals but it is relatively independent. Along with the Internet, radio and international news programmes relayed by satellite, the press is one of the media that inform the Comorian people about the management of public affairs.

Social Context and Human Resource Development

Poor economic performance and political instability have hampered Comoros' efforts to meet its development challenges. With a per capita GDP of USD 870 in 2009, Comoros is classified among the least advanced countries. Its population in 2010 was estimated at 684 000, according to the country report on the Millennium Development Goals (MDGs).

According to the 2004 household survey, 37.0% of households and 44.8% of individuals are living below the poverty line. The poverty index varies from one island to another, but it is always highest in rural areas. The Comorian authorities forecast that poverty is likely to continue to spread because of the economy's poor performance in recent years.

The demographic situation in Comoros is explosive. The average population density of 309 inhabitants per km² exerts strong pressure on the available land. The mean size of Comorian households is 6.3 persons. Human development is central to the government's strategy and one of the pillars of the PRGSP.

Life expectancy at birth is 69 years. Women, who make up 50.4% of the population, live mostly in rural areas. The maternal mortality rate is estimated at 381 women per 100 000 live births. The country's demographic structure is strongly marked by the very high proportion of young people (53% of the overall population), which entails huge challenges for education, health and employment.

The UNDP's 2010 *Human Development Report* gave Comoros a Human Development Index score of 0.428, which casts doubt on its ability to attain the MDGs. Some progress has been made, however. According to the report, Comoros can potentially achieve six of the seven goals. However, while there is some chance of reaching four of them (reduction of extreme poverty and hunger, education for all, reduction of infant mortality and improvement of maternal health), the other two (environmental protection and child malnutrition) are out of reach at the moment.

Comoros spends more on education than on health, owing to the cost of the recently founded University of the Comoros. Education indicators showed good performance in 2010. The gross enrolment ratio is estimated at 102.2%, as against 100.0% in 2009, while the net enrolment ratio rose very slightly, from 76.1% in 2009 to 76.5%. The gender parity index (girls/boys) has ranged between 0.9 and 1.0 in recent years.

Rates of vaccination coverage in 2009 were considerably higher than in 2008, standing at 89% for BCG, 83% for DTC and 78% for smallpox. The quality of health infrastructure is suffering from lack of investment which is preventing failing facilities from being replaced. The rate of HIV/AIDS prevalence remains relatively low, at an estimated 0.8%.

Unemployment rates vary from island to island, but the average rate is estimated at 14.3%. Unemployment is widespread in Comoros, but the global recession has had only a limited impact on the labour market.

Comoros' external debt is a serious barrier to its development. Analysis of the sustainability of the current debt indicates that the country is at high risk of over-indebtedness and thus unable to bear any new debt. For this reason, the financing supplied to Comoros by the ADF and IDA is entirely in the form of grants.