

## Comoros

Despite the ongoing debt crisis in the euro area, the Comorian economy grew by an estimated 2.7% in 2012, up from 2.6% in 2011.

Given the lack of any significant growth in exports, domestic demand will continue to be the main driver of growth, which is forecast to reach 3.2% in 2013 and 3.8% in 2014, albeit with an expected deterioration of the current-account deficit.

Natural resources are the source of major potential for the Comorian economy, but because there has been no structural change, the resources are not sufficiently exploited to make any real contribution to growth.

### Overview

The economy of the Comoros grew by an estimated 2.7% in 2012, despite the ongoing euro-area crisis. This growth was driven by strong agricultural exports, continued strong foreign direct investment (FDI) in the transport sector (roads and ports) and domestic demand, supported by remittances from emigrants. The expected recovery of public investment in economic and social infrastructure (energy, water, transport, health and education) after the Comoros reached the completion point of the Heavily Indebted Poor Countries (HIPC) Initiative should boost private investment, which is forecast to grow by 9% in 2013 and 2014.

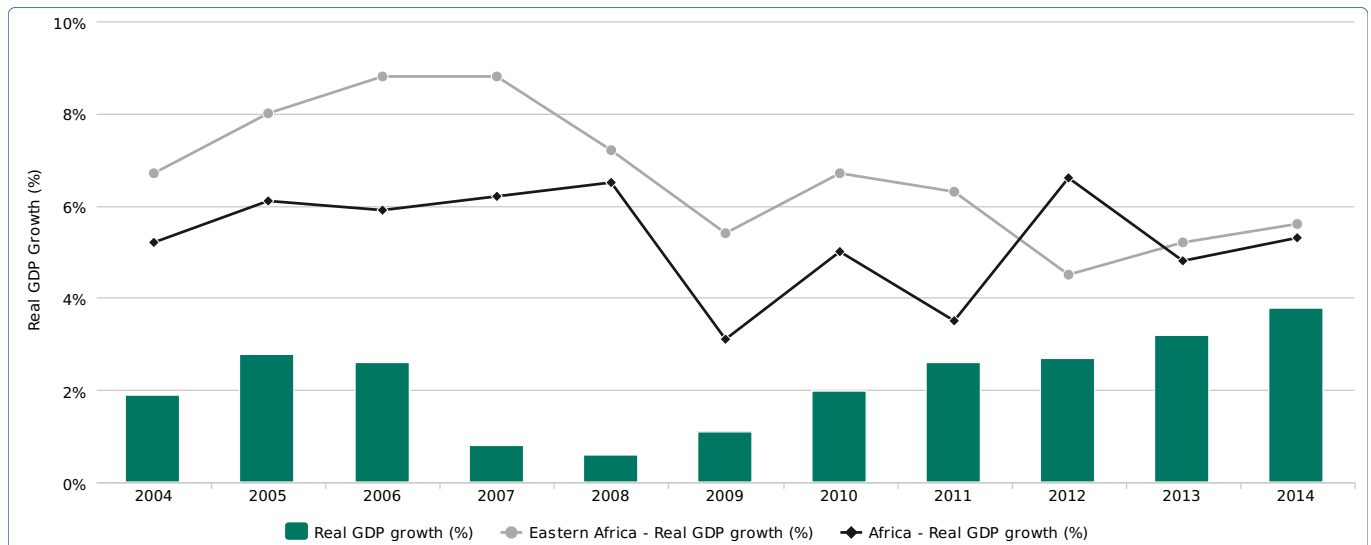
If, however, the Central Bank of the Comoros (BCC) does not conduct a strict monetary policy to control prices, growth could generate inflation, since domestic demand is expected to remain steady thanks to remittances from emigrants and imports of capital goods for infrastructure rehabilitation.

For growth to continue, the business climate will need to improve significantly. In the World Bank's *Doing Business* report for 2013, the Comoros had the same rank as in 2012: 158<sup>th</sup> out of 185 countries. It did gain twelve places in the ranking for registering property and three places for business start-up,<sup>1</sup> but it lost places in almost all other rankings. The climate could, however, begin to improve in 2014 thanks to technical assistance from the International Finance Corporation (IFC).

The stimulus policy focused on economic and social infrastructure and the improvement of human capital should boost employment among unskilled youths. However, a proactive policy to train the local workforce and thus boost employment is unlikely to be implemented before 2014.

Unlike the other Indian Ocean island economies (Mauritius and Seychelles), the Comorian economy has not yet truly begun a structural change. The Comoros is highly unstable politically, it suffers from insufficient budgetary resources and the authorities lack a long-term strategic vision on sustainable development and optimal management of natural resources. Consequently, the main resources that fuel its economy - land, biodiversity and marine resources - are deteriorating at an ever faster rate.

Figure 1: Real GDP growth 2013 (East)



Figures for 2012 are estimates; for 2013 and later are projections.

Table 1: Macroeconomic indicators

	2011	2012	2013	2014
<b>Real GDP growth</b>	2.6	2.7	3.2	3.8
<b>Real GDP per capita growth</b>	1.5	1.6	2.1	2.7
<b>CPI inflation</b>	6.8	5.6	3	2.7
<b>Budget balance % GDP</b>	-1.8	-2.3	-3	-3.4
<b>Current account % GDP</b>	-13.6	-14.7	-15.8	-17.3

Figures for 2012 are estimates; for 2013 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932808101>

## Recent Developments & Prospects

Table 2: GDP by Sector (percentage of GDP)

	2007	2010
<b>Agriculture, forestry &amp; fishing</b>	-	-
<b>Agriculture, hunting, forestry, fishing</b>	40.8	39.6
<b>Construction</b>	5.2	5
<b>Electricity, gas and water</b>	1.6	1.5
<b>Electricity, water and sanitation</b>	-	-
<b>Extractions</b>	-	-
<b>Finance, insurance and social solidarity</b>	-	-
<b>Finance, real estate and business services</b>	1.6	3.7
<b>General government services</b>	-	-
<b>Gross domestic product at basic prices / factor cost</b>	100	100
<b>Manufacturing</b>	4.1	5.2
<b>Mining</b>	0	0
<b>Other services</b>	0.5	0.5
<b>Public Administration &amp; Personal Services</b>	-	-
<b>Public Administration, Education, Health &amp; Social Work, Community, Social &amp; Personal Services</b>	13.6	12.4
<b>Public administration, education, health &amp; social work, community, social &amp; personal services</b>	-	-
<b>Social services</b>	-	-
<b>Transport, storage and communication</b>	5	4.6
<b>Transportation, communication &amp; information</b>	-	-
<b>Wholesale and retail trade, hotels and restaurants</b>	27.6	27.5
<b>Wholesale, retail trade and real estate ownership</b>	-	-

StatLink  <http://dx.doi.org/10.1787/888932809089>

Affected by the continuing debt crisis in the euro area, pressures on energy and food prices as well as fluctuations in global economic activity, GDP growth in the Comoros was estimated at 2.7% in 2012, up from 2.6% in 2011. As in previous years, growth in 2012 was driven by continued domestic demand due to current unrequited payments from the Comorian diaspora and public investment on roads financed by income from the Economic Citizenship Act (*Loi sur la citoyenneté économique*, LCE).

The LCE was introduced in 2008 to boost investment by granting Comorian nationality and a Comorian passport to all immigrants of Arab origin wishing to invest in the Comoros. The legislation also envisaged granting Comorian nationality to stateless persons from Kuwait in exchange for financial compensation estimated at USD 200 million. The LCE has aroused much controversy because of the lack of transparency concerning the origin and management of its resources and its negative impact on the private sector of the Comoros.

Agriculture, livestock farming and fisheries (39.6% of GDP) and services, especially retail (27.5% of GDP), were the main growth drivers in 2011. The secondary sector made only a small contribution to the economy (10%), since there is no real local industrial network and there are major structural constraints on production

(uncompetitive factor costs and energy costs, lack of access to finance, etc.).

The write off of the country's multilateral debt (349% of revenue) after it reached the completion point of the HIPC Initiative and the resulting drastic reduction in its debt service payments<sup>2</sup> should free up fresh resources and raise public investment by a projected 8.6% of GDP in 2013 and 9.1% in 2014. This huge reduction in the debt load coupled with the planned implementation of projects supported by the Gulf states as part of the commitments made by the Doha Conference in March 2010 (agribusiness, fisheries, transport, financial sector, tourism) and the continuation of large amounts of development aid in key sectors such as energy could change the structure of the Comorian economy in the short and medium term. Based on this scenario, GDP is forecast to grow by 3.2% in 2013 and 3.8% in 2014.

## Macroeconomic Policy

### Fiscal Policy

Having reached the completion point of the HIPC Initiative at the end of 2012 and faced with the need to comply with the strict public-finance indicators set by the International Monetary Fund (IMF), the Comorian government's fiscal policy is centred on improving revenue, controlling the wage bill and maintaining the level of capital expenditure. Revenue for 2012 is estimated at KMF 57.76 billion (Comorian francs), up 30.1% from 44.38 billion in 2011 thanks to a marked increase in external revenue.<sup>3</sup>

Salaries accounted for 33.6% of public spending, down from 37.2% in 2011. Attempts to reinforce public finance management (PFM) since 2009 with the support of technical and financial partners coupled with a proactive policy towards mobilising public resources resulted in much higher revenue collection. Revenue from personal and corporate income taxes increased by 22.1% and revenue from sales taxes increased by 43.2%. Customs revenue, however, fell by 12.7% due to the drop in the number of cargo landings caused by the May 2012 floods and repeated maintenance problems at the Moroni port.

The cancellation of debt under the Multilateral Debt Relief Initiative (MDRI) and significant budget support<sup>4</sup> should lead to a new budget cycle for the Comoros in 2013. Working budgets should become less restrictive and more operational, favouring investment over functioning costs and creating the conditions for a broader tax base.

Similarly, faster reform of public enterprises and their subsequent privatisation from 2014 as part of the Extended Credit Facility (ECF) should gradually reduce government spending on the operating expenses of public enterprises. These government transfers totalled KMF 4.1 billion in 2012, or 7.3% of public expenditure and 23.0% of the public wage bill. If economic conditions remain favourable, the government continues its policy of mobilising domestic revenue and priority is given to spending on investment, the Comoros should have a budget surplus in 2013 and 2014.

Table 3: Public Finances (percentage of GDP)

	2009	2010	2011	2012	2013	2014
<b>Total revenue and grants</b>	24.1	29.4	21.3	21.6	21.7	22.1
<b>Tax revenue</b>	11.1	11.4	12.4	12.7	13.1	13.4
<b>Oil revenue</b>	-	-	-	-	-	-
<b>Grants</b>	9.9	14.7	7.1	7.1	6.8	6.9
<b>Total expenditure and net lending (a)</b>	23.5	24.5	23.2	23.9	24.7	25.4
<b>Current expenditure</b>	18.4	16.8	15.5	15.9	16.1	16.3
<b>Excluding interest</b>	17.9	16.1	15	15.5	15.7	15.9
<b>Wages and salaries</b>	9.2	9.1	8.6	8.7	8.6	8.6
<b>Interest</b>	0.6	0.7	0.5	0.4	0.4	0.3
<b>Primary balance</b>	1.2	5.6	-1.4	-1.9	-2.7	-3
<b>Overall balance</b>	0.6	4.9	-1.8	-2.3	-3	-3.4

Figures for 2012 are estimates; for 2013 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932810077>

### Monetary Policy

As a member of the franc zone, the Comoros does not have an independent monetary policy. In 2012, monetary policy focused on stemming inflation and supplying liquidity to the economy proportionately to its growth rate. The money supply grew by 6.1% and credit to the economy by 11.3%. Net government claims, however, fell by 58.2%, despite an 11% rise in bank lending to the economy. Liquid savings, meanwhile, increased by 7.4%. Net external assets grew by 10.6% thanks to the large amount of revenue created by the

implementation of the LCE.

In the short term, government debt to the banks should be contained so as to not affect finance to the private sector. The required reserve ratio remains the main tool to regulate liquidity. This ratio was raised to 30% in 2010 before being lowered back down to 25% in 2011 in response to the gradual decline in demand for credit amid persistent excess liquidity in the banking system.

How the ratio changes in future will depend on the willingness of the BCC to continue meeting the liquidity needs of the economy while maintaining price stability and preserving the macroeconomic framework. Lending rates for credit operations, which range from 7% to 14%, and interest on savings, which start at 1.75%, were unchanged in 2012.

### **Economic Cooperation, Regional Integration & Trade**

Foreign trade continued to deteriorate in 2012. Agricultural exports had mixed results, confirming their cyclical nature. A tailored strategy is therefore needed to make these exports an effective development tool for the country and its producers while supporting a measured debt policy.

Clove exports enjoyed strong foreign demand and a 23% increase in value. Vanilla, on the other hand, saw an 11% drop in export value for a similar volume of production. Except for premium quality products, there was a decline in both the quantity (-37%) and value (-22%) of ylang-ylang essential oils as a result of the crisis in the euro area, which is the main export market for this product, used in the perfume and cosmetics industry.

The CIF (cost, insurance and freight) value of imports grew by 11% in 2012 as the unit prices of imported goods rose, despite a 2% reduction in their volume. The largest increases were for food products (sugar, meat, fish, flour, dairy products) (+17%), petroleum products (+68%) and pharmaceuticals (+122%).

The trade balance is forecast to deteriorate further in 2013 and 2014. Imports are expected to rise thanks to new investments in infrastructure and domestic demand that will remain strong; exports, meanwhile, are expected to stagnate at around 2.4% of GDP. The current account deficit rose to an estimated 14.7% of GDP in 2012, up from 13.6% in 2011. The balance is forecast to remain negative in 2013 and 2014.

Efforts by the Comoros towards regional integration remained hesitant in 2012. Although the country joined the Common Market for Eastern and Southern Africa (COMESA) in 2006, trade with other countries in the region is still limited because the government has no clear strategy to boost exports or help exporters. If no strategy is created, trade with the region will continue to be minimal in 2013 and 2014. Most exports will still be to the European Union (57%), while most imports, especially oil (35% of imports), will continue to come from the Gulf states, particularly from Kuwait. One must therefore question the international-trade strategy of the Comoros and whether it makes use of its partnership with COMESA.

Table 4: Current Account (percentage of GDP)

	2004	2009	2010	2011	2012	2013	2014
<b>Trade balance</b>	-15.5	-30.1	-32.4	-29.3	-30.6	-31.2	-32.1
<b>Exports of goods (f.o.b.)</b>	5.6	2.3	2.5	2.6	2.6	2.5	2.3
<b>Imports of goods (f.o.b.)</b>	21.1	32.3	34.9	31.8	33.1	33.7	34.4
<b>Services</b>	-1.4	-5.4	-5.9	-4.6	-4.2	-3.6	-2.7
<b>Factor income</b>	-1	0	-0.6	-0.3	-0.2	-0.1	-0.1
<b>Current transfers</b>	12.3	26.2	28.5	20.6	20.3	19.1	17.6
<b>Current account balance</b>	-14.4	-9.2	-10.4	-13.6	-14.7	-15.8	-17.3

Figures for 2012 are estimates; for 2013 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932811065>

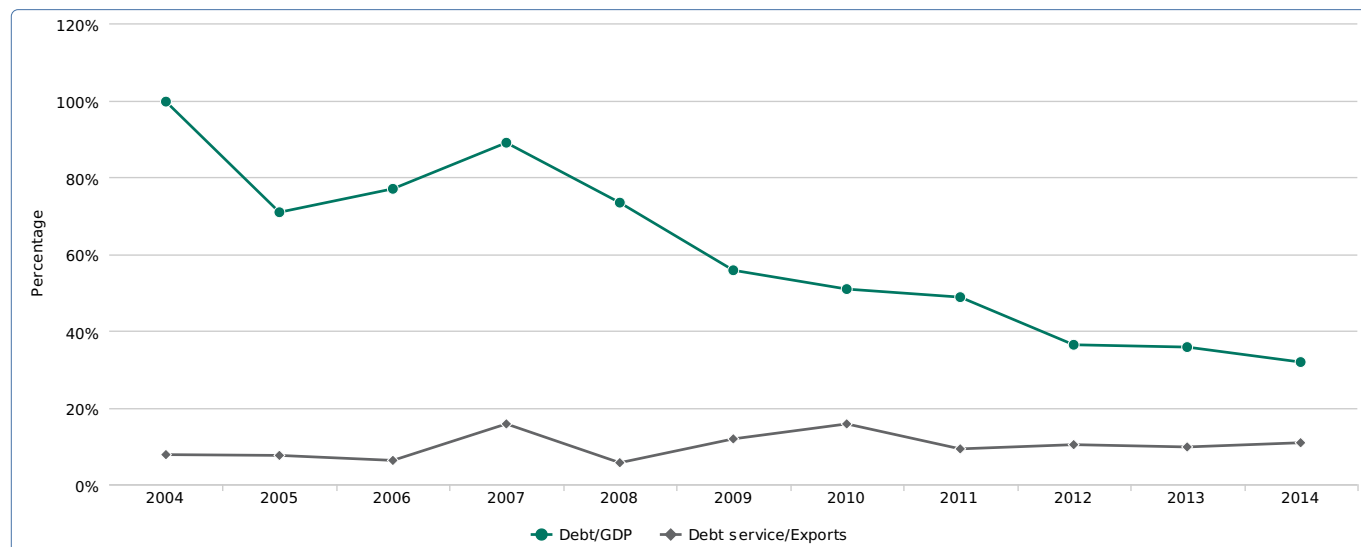
### **Debt Policy**

The Comoros reached the completion point of the HIPC Initiative on 17 December 2012, opening the way for its multilateral debt to be cancelled under the MDRI, so the country's debt ratios should improve drastically in the short and medium term. The debt-to-exports ratio was cut from 343% in 2009 to 143% in 2012. Over the next five years this ratio is forecast to fall to 58%.

Analysis of the long-term viability of the debt, however, suggests that after it receives relief under the MDRI the Comoros will still be vulnerable to external economic shocks. The government's commitment to maintaining

fiscal discipline and growing its revenue and its ongoing structural reforms of public enterprises should help keep the long-term debt of the Comoros sustainable. Nevertheless, although the external debt crisis may be resolved, it should not hide the recurring issue of the country's ongoing domestic debt, which currently totals KMF 13 billion. This colossal debt is the equivalent of 7.5% of GDP or 57% of domestic revenue. New budget resources available in the first quarter of 2013 could encourage the government to enter negotiations with its main lenders to clear part of its domestic debt.<sup>5</sup>

Figure 2: Stock of total external debt and debt service 2013



Figures for 2012 are estimates; for 2013 and later are projections.

## **Economic & Political Governance**

---

### **Private Sector**

Despite the IFC's technical assistance, the private sector's position continued to worsen in 2012. The Comoros dropped down one place to 158<sup>th</sup> out of 183 countries in the World Bank's *Doing Business* report. Various factors make it difficult for the business climate to improve. These include the absence of strategic dialogue between the government and private stakeholders, the absence of infrastructure to support the economy, especially transport and energy infrastructure, the limited access to financial services (medium- and long-term credit, guarantee funds) and non-financial services (consultancy, accounting, training, etc.), and the unskilled workforce.

The investment-promotion agency (ANPI) set up at the beginning of 2010 has so far had little effect on private-sector development as a result of its unsatisfactory institutional positioning and lack of operating resources. The one-stop counter that was supposed to facilitate and accelerate business start-up is not yet operational.

### **Financial Sector**

The banking sector has boomed since 2008, with two new banks opening – Exim Bank and Banque Fédérale du Commerce (BFC). The Comoros also has a microfinance sector. The sector consists of two particularly active networks, Sanduk and Meck, and helps increase the coverage of national finance systems across the country and improve access to credit and savings for most of the population.

In terms of market share, the banks hold 44.3% of deposits, followed by the microfinance institutions with 34.4%. The four main banks cover 59.7% of the financing of the economy, compared to 28.5% for the two microfinance networks. Bad debt continued to diminish in 2012 to reach 12.7% of all outstanding debt.

### **Public Sector Management, Institutions & Reform**

Since taking office in June 2011 the government has taken several positive steps to improve governance and financial transparency. These measures include setting up an anti-corruption commission and cancelling a number of public contracts that the outgoing government awarded to foreign investors without calling for tenders, including the award of a licence to operate Moroni port to the Gulfcom group.

Some progress was made in 2012 in reforming and modernising the state with the support of development partners. Notable improvements were made to PFM and an auditing department was created within the Supreme Court. Reform of public enterprises was manifested by the international tender for the privatisation of Comores Telecom. Privatisation of the state telecommunications company was one of the conditions for reaching the completion point of the HIPC Initiative. The privatisation or concessioning of the main state-owned enterprises is set to continue in 2013 and 2014 to make the Comorian economy more competitive, particularly the energy sector.

### **Natural Resource Management & Environment**

The archipelago is rich in marine and terrestrial biodiversity, but is vulnerable to various threats.

The soils are fragile and subject to erosion. Extensive farming has resulted in poor land use. The main cities and most of the population are concentrated around the coasts. Population growth is putting increasing pressure on the land. Anjouan, for instance, has one of the highest population densities in Africa, with 450 inhabitants per square kilometre. Environmental legislation is outdated or inadequately enforced. With no regulations to protect against climate risks, infrastructure is built less than six metres above sea level.

In 2006, the Comoros adopted a national climate-change adaptation plan (*Plan national d'adaptation au changement climatique*), which constitutes the reference framework for sustainable environmental policy. The plan's implementation, however, has been suspended until funds from donors are disbursed.

### **Political Context**

Over the past three years, the Comoros has made notable progress towards political normalisation. Despite a few problems, the political climate remained stable in 2012. The present government is the one appointed by President Ikililou Dhoinine in June 2011.

Although he seeks to preserve the established institutional balance of the Comoros, the new president has shown a clear desire to distance himself from his predecessor. He has taken measures to improve transparency in economic management and implement key reforms to fight corruption and improve economic and financial governance.



## **Social Context & Human Development**

---

### ***Building Human Resources***

It is difficult to judge the progress the Comoros is making towards achieving the Millennium Development Goals (MDGs) because there are no monitoring mechanisms. In health and education, the trends are fairly positive. In 2011, the net enrolment rate in schools was slightly higher than in 2010 at 77.3%. The ratio of girls to boys in schools is currently between 0.9 and 1. While this ratio is satisfactory, it is still not ideal.

The vaccination rate for the main endemic diseases such as tuberculosis and cholera was an estimated 80.3% in 2011. Health infrastructure has deteriorated, however, because too little has been invested in rehabilitating facilities and replacing defective equipment. HIV/AIDS prevalence remained at a relatively low 0.8%, but this figure should be treated with caution given the lack of recent epidemiological surveys. Moreover, cases of malnutrition-related childhood diseases and leprosy were detected on the island of Anjouan in 2011.

### ***Poverty Reduction, Social Protection & Labour***

The Comoros has a growth and poverty reduction strategy (GPRS) for 2009-14, which is the main tool that guides public action in this area. The authorities estimate that about 37% of households and 44.8% of people live below the poverty line. These figures, however, vary from one island to another and poverty is generally higher in rural areas. Government-funded social-protection programmes for the poorest people are limited due to major budgetary constraints. The state subsidises a range of consumer staples, including rice and oil.

Efforts to reduce poverty are hindered by the very high birth rate, which affects the allocation of household incomes. The average household in the Comoros has 6.3 people. Remittances from emigrants (22.5% of GDP in 2012) play a key role as a social buffer. This is especially true in rural areas, where they help to compensate for the absence of local public services like schools and dispensaries and support household revenues and needs.

### ***Gender Equality***

There are still gender inequalities in the Comoros. The last gender-related development index (GDI) was published in 2007. It measured the respective positions of men and women in the fields of education, health and revenue and the Comoros received a score of 0.571, compared to 0.576 for the Human Development Index (HDI).

Women work much less, earn much lower salaries and own much fewer businesses and less land and property than men. The level of dependency of women heads of family, who represent 50.4% of the population, is 3.9% versus 3.4% for men. The participation of women in economic activity is 17.4% compared to 32.8% for men. Women, however, are the main beneficiaries of loans granted by the microfinance sector.

But they are not very prominent in politics. Officially, policy and legislation encourage equality between men and women, but the legislation is not sufficiently enforced because there are no specific follow-up mechanisms.

## Thematic analysis: Structural transformation and natural resources

---

Although the Comoros is a small archipelago measuring 1 660 km<sup>2</sup>, natural resources constitute a major potential for the Comorian economy. Good average rainfall (1 500-8 000 mm) provides surface water and groundwater to develop hydroelectric power. There is also sufficient solar radiation to run thermal and photovoltaic power stations. Finally, energy can be generated from geothermal reservoirs around the Karthala and La Grille volcanoes.

The country also enjoys a rich natural heritage and biodiversity, which it could potentially use as part of an ambitious, environmentally friendly tourism strategy. Such a strategy could combine top-quality infrastructure with small ecotourism units based on the model adopted by English-speaking East African countries such as Kenya and Tanzania (mainland and Zanzibar).

Agriculture, livestock and fisheries is the main contributor to the economy of the Comoros. The country is one of the world's leading producers of several cash crops: ylang-ylang (50 tonnes in 2011), bourbon vanilla<sup>6</sup> (40 tonnes in 2011) and cloves (4 500 tonnes in 2011). Because cash-crop prices fluctuate so much, with no stabilisation mechanisms, Comorian farmers have gradually turned to the more profitable food crops instead.

Agriculture in the Comoros consists of small, traditionally run family farms. Productivity is extremely low because farmers use outdated technologies, lack training, do not have access to credit and because the limited public resources available are not used efficiently. There is no land registry and land management is dictated by individual rather than collective interests, which holds back land consolidation, the first step towards modernisation and development of a commercial focus.<sup>7</sup>

Demersal and pelagic species provide the Comoros with waves of potential fish resources estimated at 33 000 tonnes a year.<sup>8</sup> The sector provides about 16 000 direct and indirect jobs and has an impact on more than 10% of the population. It contributes an estimated 21% to GDP and provides 5% of government revenue in foreign currency through European Union payments for licences to European fishing companies. Most fishing is done on a small scale, but some semi-industrial fishing also takes place. Like agriculture, however, the fisheries sector receives too little government support.

Since the Comoros gained independence in 1975, there has been no structural change to the economy. Agriculture and services (small-scale retail, banking services) still make up the bulk of economic activity. Industrial activities are still a bare minimum. Almost all domestic consumption (95%) is imported. The country's membership to the franc zone and the strong Comorian franc favour imports over local goods. Moreover, low taxes on imports and the absence of financial incentives to support investors hinders the development of local manufacturing based on rational exploitation of natural resources, especially in the agribusiness sector.

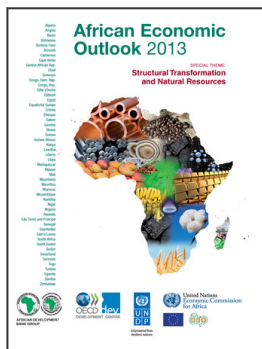
In addition to the lack of structural changes there is no long-term perspective<sup>9</sup> and a lack of institutional and regulatory frameworks for sectors of the economy to support and guide them in exploiting natural resources in a sustainable manner. Without a strategic vision, the economic foundations of the economy of the Comoros (especially agriculture and fisheries) will be unable to envisage the professionalisation and modernisation needed to boost growth and create jobs.

### Notes

---

1. The Comoros improved its business start-up ranking from 171<sup>st</sup> in 2012 to 168<sup>th</sup> in 2013.
2. The debt sustainability analysis by the IMF, World Bank and African Development Bank (AfDB) forecasts a debt-to-exports ratio of 58% for the period 2013-18.
3. Mainly from the LCE.
4. Especially the IMF, World Bank and AfDB.
5. 77% of arrears for civil-service salaries from 1995 to 2008.
6. The other two producers are Madagascar and Réunion.
7. The land problems are less of an issue on Anjouan, especially on the Nioumakélé plateau, the island's main agricultural production area, where pooling land is traditional as part of hedging practices.
8. This figure was an estimate made by the Food and Agriculture Organization of the United Nations (FAO) in 1970 based on water productivity estimates in regions similar to the Comoros. The figure has never been updated.
9. The planning commission (*Commissariat général au Plan*) does not currently have the means to carry out this mission for which it is responsible.





**From:**  
**African Economic Outlook 2013**  
Structural Transformation and Natural Resources

**Access the complete publication at:**  
<https://doi.org/10.1787/aeo-2013-en>

**Please cite this chapter as:**

OECD, *et al.* (2013), "Comoros", in *African Economic Outlook 2013: Structural Transformation and Natural Resources*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/aeo-2013-19-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to [rights@oecd.org](mailto:rights@oecd.org). Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at [info@copyright.com](mailto:info@copyright.com) or the Centre français d'exploitation du droit de copie (CFC) at [contact@cfcopies.com](mailto:contact@cfcopies.com).