

**AFRICAN DEVELOPMENT BANK  
AFRICAN DEVELOPMENT FUND**



**UNION OF THE COMOROS**

**PROPOSAL FOR ARREARS CLEARANCE UNDER THE ARREARS CLEARANCE  
PROGRAMME AND POST-CONFLICT COUNTRY FACILITY**

**DECEMBER 2007**

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## ACRONYMS AND ABBREVIATIONS

ABEDA	Arab Bank for Economic Development in Africa
ACWG	Arrears Clearance working Group
ADB	African Development Bank
ADF	African Development Fund
AFD	Agence Française de Développement
BWI	Bretton Woods Institutions
DDR	Demobilization, Disarmament and Reinsertion
DSA	Debt Sustainability Analysis
EC	European Commission
EDF	European Development Fund
EIB	European Investment Bank
EU	European Union
EUR	Euro
GDP	Gross Domestic Product
GECL	General Counsel and Legal Services
HDI	Human Development Index
HIPC	Highly Indebted Poor countries Initiative
IDA	International Development Association
IFI	International Finance Institution
IMF	International Monetary Fund
ISP	Interim Strategy Paper
KMF	Comoro Franc
LICUS	Low Income countries
MDRI	Multilateral Debt Relief Initiative
MDRP	Multi-donor Demobilization and Reinsertion Programme
NPV	Net Present Value
NTF	Nigeria Trust Fund
PCC	Post-conflict Countries
PCCF	Post Conflict Country Facility
PCSC	Post-Conflict Steering committee
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SAP	Structural Adjustment Programme
SDR	Special Drawing Rights
UA	Unit of Account
UNDP	United Nations Development Programme
UNO	United Nations Organization
UNS	United Nations System

**CURRENCY UNIT OF THE UNION OF COMOROS**

Franc Comorien (Comoros Franc) - KMF

**FISCAL YEAR**

1 January – 31 December

**CURRENCY EQUIVALENTS**

At 31 October 2007

1 UA =	1.08804	EUR
1 UA =	1.57188	USD
1 UA =	535,281	KMF

## EXECUTIVE SUMMARY

1. Following the establishment of the post-conflict country assistance programme, the Bank Group Board of Directors in July 2004 approved a general policy framework to support Post-Conflict countries (PCC) in clearing their arrears owed to the Bank Group. The guidelines for the framework require that proposals for assistance submitted entail: (i) sustainable normalization of relations with the Bank Group; (ii) positive net transfers in favor of the PCC; (iii) case-by-case approach in close collaboration with other IFI (International Finance Institutions) and the donor community; and, (iv) coherence with key Bank Group financial practices and policies. In line with these principles, this paper proposes a specific arrears clearance programme for Comoros, within the general policy framework for settlement of PCC arrears to the Bank Group.

2. The different crises suffered by Comoros have seriously eroded the country's economic, political and social fabric. This chronic instability, as well as the archipelago's structural handicaps (being far from the major trade routes, scarce natural resources and very limited development of infrastructure) and the poor diversification of the economy have resulted in the marked deterioration of the country's economic situation, as seen in the steady decrease of per capita income and the significant decline in public finances. As a consequence, the country's debt has become unsustainable (Ratio of debt to export of 419% and 2.8 times the HIPC reference threshold of 150%), leading to massive accumulation of internal as well as external debt arrears for a total exceeding 45% of GDP. From the social standpoint, the decline in purchasing power will impoverish the population, therefore lowering living standards.

3. After a lengthy reconciliation process, Comoros is gradually returning to peace. A key highlight of the success of the process was the organization in April 2006 of free and fair presidential elections leading to the first democratic handover of power in the country's history. The new government sees this as an opportunity to establish a general framework to resolve the crisis and begin implementation of a plan to restore a sound economic basis with the assistance of donors.

4. Having successfully carried out the Staff Monitored Programme with IMF, Comoros in April 2007 went on to conclude an agreement with the Fund concerning a reform programme supported by a Poverty Reduction and Growth Facility (PRGF). This programme aims to enable the authorities to continue building their management capacity, particularly with regard to public finances and structural reforms. The International Community has clearly signaled its interest in reengaging with Comoros; this will require agreement across the donor community concerning arrears. All the main donors with the exception of the Bank Group have concluded arrears clearance agreements with the Union. The settlement of the arrears to the Bank will thus pave the way for conclusion of the PRGF and enable Comoros to secure substantial debt reduction within the frameworks of the HIPC Initiative and the MDRI.

5. Management has determined that the country meets the conditions of eligibility for an arrears settlement programme, in line with the general policy concerning PCC arrears to the Bank Group. Firstly, the Archipelago meets the five eligibility criteria for post-conflict countries. The authorities have made great progress in restoring peace in the Union and have strengthened governance, revived their economy and also resettled the displaced populations.

Further, the BWI have classified the country as a PCC. This was confirmed by the June 2007 dialogue note, whereby the Boards of both the IMF and the World Bank approved Comoros' eligibility for assistance under the facility.

6. Secondly, the Comoros Union has fulfilled the specific conditions for receiving financial aid under the PCCF. The country qualifies for debt relief under the Highly Indebted Poor Countries (HIPC) Initiative. It is satisfactorily carrying out structural and policy reforms in conjunction with the IFIs and the donors. Lastly, it has taken the necessary steps to assume its share of the financing of the arrears owed to the Bank Group and worked with the Bank to mobilize a sufficient number of donors to finance the clearance operation. A PCCF resource allocation will make it possible to conclude the financing plan for this programme. The PCC arrears clearance framework requires a three-way sharing of the financing between the country concerned, the donors and the PCCF. These contributions are determined on a case-by-case basis. The arrears as at 31 October 2007 stand at UA 21.94 million (UA12.48 million for the ADB window and UA9.47 million for the ADF window).

7. Thirdly, in the specific case of Comoros, and given the country's situation and the need to avoid further delays in re-engaging the international community, the appropriate solution would involve maximum flexibility in favor of Comoros in applying the Post Conflict Country Facility (PCCF). On this basis, Management requests the Boards of Directors to approve:

- i. the evaluation whereby Comoros meets the criteria for financial assistance under the PCCF;
- ii. the flexible terms warranted by Comoros' exceptional situation, in accordance with the PCCF Guidelines, specifically the limitation of the country's share of the financing to a symbolic 1%; the postponement of the original deadline of end- December 2003 to end December 2007; and the coverage of an increased part of the burden by PCCF in order to guarantee the success of the operation;
- iii. a grant of UA 12.48 million<sup>1</sup> out of the ADF PCCF resources, to close the financing gap in the proposed arrears clearance plan;
- iv. a grant of UA 2.73 million<sup>2</sup> out of the ADB PCCF resources, to close the financing gap in the proposed arrears clearance plan; and
- v. the lifting of the sanctions imposed on Comoros as soon as ADB and ADF receive instruments that they deem acceptable as evidence of the irrevocability of the donors' financial commitments.

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<sup>1</sup> 31 October 2007 exchange rate

<sup>2</sup> 31 October 2007 exchange rate

## **I. INTRODUCTION**

1.1 This document presents the process for the clearance of arrears owed by the Union of the Comoros to the African Development Bank (ADB) in the context of the overall reengagement plan of the country's development partners. The objective of the proposed arrears clearance under the Post Conflict Country Facility (PCCF) is to enable Comoros to obtain assistance under the Highly Indebted Poor Countries Initiative (HIPC), in order to revert back to a sustainable debt position. Assistance from the PCCF is a crucial stage in the overall reengagement process which aims at normalizing the country's relations with its development partners with a view to resuming the partners' normal activities.

1.2 The PCCF guidelines stipulate that the PCC arrears settlement programmes should be guided by four core principles. They should: (i) lead to a sustainable normalization of relations with the Bank Group; (ii) demonstrate additionality and lead to positive net transfers to the PCC; (iii) have flexibility in their implementation and accordingly be designed on a case-by-case basis, in close collaboration with other IFI and the donor community; and (iv) be compatible with the practices and financial policies of the Bank Group.

1.3 In accordance with these guidelines, this proposal has been formulated by the Arrears Clearance Working Group (ACWG) and examined by the Post-Conflict Steering Committee (PCSC). It has also been examined and approved by the Comorian authorities. It will be followed up by an Interim Strategy Paper (I-CSP) on Comoros, which will fine-tune the proposed reengagement programme in the light of the country's economic and socio-political situation.

1.4 This paper will examine the situation in Comoros, the context of the reengagement programme as well as the prospects of debt relief under the HIPC initiative; the preliminary conditions necessary for benefiting from a PCCF programme, the country's eligibility; the proposed clearance plan; and finally a conclusion and Management's recommendations to the Board.

## **II. THE CONTEXT OF REENGAGEMENT**

### ***2.1. SOCIO-POLITICAL AND ECONOMIC CONTEXT***

#### ***Political Context***

Since its independence on 6 July 1975, the Comoros Union has only recently found the political stability needed for socio-economic development. The long period of instability brought about a gradual deterioration of institutions, infrastructure and the economy. The crisis related to the island of Anjouan, which was fighting for independence in 1997, has no doubt been the most serious. Box 1 shows the main events highlighting Comoros' political instability in chronological order. Now, after years of political crisis, the country is back on the road to stability. In 2001, the Union of Comoros adopted a new constitution following the secession crisis. The World Bank as well as other donors were involved in the national peace and reconciliation process, providing support for capacity building in the public sector and assistance to disadvantaged populations. The PRSP discussions brought together the authorities of the three islands and other partners. The African Union participated actively in the national reconciliation process and played a key role in promoting dialogue with the illegal authorities of Anjouan Island.

***The social context: a teeming population and marked geographic differences***

2.1.1 With its population of 750 000 inhabitants, which increases at an annual rate of 2.1% and is thus likely to double in 33 years, Comoros' HDI ranking is 132nd out of 177 countries. 45% of the population was living below the poverty line in 2004. According to surveys, this rate was 54.7% for 2005, confirming the continued social deterioration due to the repeated crises. Even if the measures taken by the authorities start to yield positive results, it should be noted that, with its limited means, the country cannot meet the populations' needs without the help of the international community.

***An economy that is looking up, but remains very fragile***

2.1.2 The economy of the Comoros Union is characterized by a duality between a rather unproductive agricultural sector geared towards subsistence agriculture, which makes up 40% of GDP and accounting for 2/3 of total employment, and a tertiary sector dominated by import trade which contributes to about 50% of GDP. The contribution of the secondary sector however remains marginal. This low level of economic diversification translates into extreme vulnerability to external shocks and a growing debt burden, causing public deficits that are difficult to contain. The current fragility of the economy is basically due to the burden left by years of crisis.

**Box 1: Comoro: Three Decades of Instability drawing to a Close**

July 1975 Self-determination referendum. Comoros becomes independent; Mayotte the fourth island of the archipelago chooses to remain French.  
 August 1975 President Ahmed Abdallah is deposed by Ali Soihih. Beginning of the revolution  
 May 1978 Abdallah back to power. Ali Soihih assassinated  
 November 1989 assassination of 'Ahmed Abdallah by a member of his presidential guard.  
 September 1995, President Djohar is ousted. Transition. Election of President Taki.  
 July 1997 Start of Anjuan secession crisis. The insurgents proclaim independence on 3 August, demanding to remain «attached to France». End August, forces loyal to President Taki attempt an unsuccessful landing.  
 December 1998 mini civil war at Mutsamudu (Anjouan). The «comité de salut public » (Public Salvation Committee) headed by lieutenant-colonel Abeid gains the upper hand and in June 1999, Abeid governs the separatist island alone.  
 April 1999, Colonel Assoumani Azali, Head of the Comoros army overthrows President Tadjidine Ben Saïd Massonde, the successor of Taki, who died in 1998. He wishes to «resolve the Anjuan crisis by peaceful means».  
 February 2001 signing of the Fomboni reconciliation agreements (Moheli) between Colonels Azali and Abeid. Outline of a solution to Anjouan problem.  
 Anjuan, August 2001; Colonel Mohamed Bacar overthrows Abeid.  
 December 2001 Constitutional referendum: Federal Islamic Republic of Comoros becomes the Union of the Comoros.  
 March- April 2002 Assoumani Azali wins Union Presidential election.  
 May 2002 Island Elections: victories of Mze Abdou Soulé el-Bak at Ngazidja, Mohamed Bacar at Anjuan and Mohamed Saïd Fazul at Mohéli.  
 December 2003 Signing of Moroni agreements, ending competence dispute between the Union and Ngazidja.  
 May 2006, election of Mr. Sambi to the office of President of Comoros  
 July 2007, island presidential elections satisfactory on the whole, however Anjouan Island process contested by International Community and Union Government  
 November 2007, internal conflict being resolved with strong support from the African Union.



## ***GDP Trends***

2.1.3 The Comoros Union has experienced limited economic growth compared to other fragile countries. Between 2002 and 2005, average GDP growth rate in constant terms was 1.7%, giving a per capita GDP of -0.4%. For 2006, growth is estimated at 1.2% in real terms, thus corresponding to a 0.9% reduction of GDP per capita, but is expected to fall to 1% in 2007. With export agriculture representing 51% of GDP per capita and a poorly structured secondary sector, Comoros is very much vulnerable to fluctuations in terms of trade for its 3 products, namely vanilla, cloves and Ylang Ylang. The limited growth also reflects the constraints of a small economy, high transport costs, a high population density, occasional volcanic eruptions, deforestation and the international oil price hike.

**Table 1**  
**Selected Macroeconomic Indicators**

	2002	2003	2004	2005	2006	Proj. 2007	Proj. 2008
Real GDP Growth (%)	4.1	2.5	-0.2	4.2	1.2	-1.0	1.6
Real per capita GDP Growth (%)	2.0	0.3	-2.3	2.1	-0.8	-3.0	-0.5
Inflation (IPC) (%)	3.5	3.8	4.5	3.6	3.8	3.0	3.0
Domestic primary balance (% GDP)	1.1	0.5	-0.5	1.1	-1.2	-2.4	0.7
Overall balance (cash basis) (% GDP)	-2.9	-1.9	-0.3	-0.5	-1.7	-2.7	-0.7
Current account balance (% GDP)	-1.4	-3.1	-2.8	-3.3	-4.5	-3.7	-4.8
Gross international reserves (months of imports)	12.5	11.3	9.4	8.2	7.3	6.1	5.1
Total external Debt (% GDP)	84.2	81.1	80.5	71.5	70.5	58.6	52.6
Debt service as % of g&s exports	14.7	14.0	17.6	16.8	18.6	20.8	14.4

Source : Comorian Authorities, IMF, November 2006, WEO – October 2007

2.1.4 The Franc Zone has been the main source of stability of Comoros' economy. It accounts for the satisfactory level of international reserves, the maintenance of a one-digit inflation, and the disciplined budgetary policy. Public finances remain constrained by the high wage bill and the lack of access to financing, which explain the limited social outlays and public investments, regardless of their extreme importance and the chronic accumulation of public sector salary arrears. Over the period 2002-2007, inflation has risen by 3.8%. The falling export earnings and the decline in external aid flows have resulted in a major decline in net assets, despite increased transfers from the diaspora. For the banking system, the crisis in the vanilla market have curtailed the system's capacity to intervene in the economy and consequently led to a fall in liquidity.

## ***The Budgetary Situation***

2.1.5 The budgetary situation improved in 2005, with a rise in the domestic primary surplus and a net decrease of the civil service salary arrears for the first time since many years. However, the beginning of 2006 was marked by a drastic deterioration of public

finances. Revenue fell by 13%, compared to the same period in 2005, largely as a result of the weakening of customs administration and conflicts on the allocation of responsibilities between the Union and the respective islands. Domestic revenue averaged 15.5% of GDP in line with the regional average, whereas total expenditure stood at 21.5% of GDP, with wages representing approximately 9%. At end-December 2006, the internal debt arrears stock was estimated at 31.3 billion Comoro francs (FC), which is about 140% of domestic revenue. The salary arrears alone were estimated at FC 9.1 billion (29 % of the total), which is 41% of domestic revenue.

2.1.6 Despite these apparent difficulties, the measures taken by the Comorian authorities to restore the budgetary balance have started to yield positive results. The improvement of the fiscal situation and the settling of disputes on the division of responsibilities between the central government and those of the islands have brought about a more efficient collection of fiscal revenue. The revenue sharing agreement between the Union and the islands allowed for an improvement in the country's overall fiscal situation, even if the results still by far fall short of the Union's needs

### ***External Debt- a major Constraint to development***

2.1.7 Public external debt at end December 2006 was estimated at USD 280 million, of which 140 million were arrears. The debt stock (including arrears) represented 27% of GDP (8.1% for the Bank Group). Multilateral debt represented 82% of the total stock against 18% for bilateral debt. Among the multilateral parties, the World Bank (WB) was the major donor, accounting for 49.8% of the outstanding multilateral debt, followed by the Bank Group, which accounted for 28.7% of the debt. Except some cases of temporary delay, Comoros has no arrears with the WB. The debt service level for debts accumulated in 2006 was USD 7.5 million (18.6% of the earnings from the export of goods and services), half of which has actually been settled through total payment of the IDA maturities and part payments to the Bank Group.

### ***Positive signs in relation to governance***

2.1.8 On institutions and governance, the years of political instability have weakened the legitimacy of the State and its economic and social management institutions. This situation has been aggravated by the dispute on allocation of responsibilities between the islands and the Union government. The duplication of administrative structures in the Union and the islands has resulted in heavy administrative procedures and slow decision making. The strengthening of functions and of the entities in charge of public resource mobilization and management as well as their capacity building to handle political interference are critical elements for institutional development and good governance. The encouraging measures applied by the country include the agreement between the islands and the Union on a resource-sharing and management mechanism and the adoption of a consolidated budget, along with the harmonization of the accounting and budgetary procedures for the Union and the islands and the implementation of measures to improve transparency of public finance management and rationalization of the public services.

## **2.2. RESTORING COOPERATION WITH THE DONORS**

2.2.1. An external debt level estimated at 297 million US dollars at end-October 2007, which represents 63% of GDP and 506% of exports, is a major impediment to all the

development efforts of a country such as Comoros. Its incapacity to service its debt service has brought about a major accumulation of arrears vis-à-vis almost all multilateral and bilateral creditors. The arrears accumulation and the long period of political instability have caused a significant decline in external aid. To attain a sustainable external position, Comoros will require a concerted international effort to achieve a marked reduction of its debt, including measures under the HIPC Initiative and the MDRI. Since 2006, the country has stepped up its efforts to normalize its relations with international partners.

### ***Cooperation with IMF***

2.2.2. Having successfully concluded a Staff- Monitored Programme with the IMF, Comoros in April 2007 reached an agreement with the Fund for the implementation of a programme to be supported by the Poverty Reduction and Growth Facility (PRGF). This programme seeks to enable the Comorian authorities to continue building their management capacities, namely in public finance and structural reforms. The International Community has already shown its strong interest in reengagement with Comoros and the IMF and intends to set up a PRGF as soon as possible. The conclusion of the PRGF will enable the archipelago to benefit from a substantial debt reduction under the HIPC Initiative and the MDRI. A major obstacle to a final agreement with IMF on the implementation of the programme remains the clearance of Comoros' arrears to the Bank Group.

### ***Cooperation with the World Bank***

2.2.3. The World Bank 2004-2006 strategy for Comoros had two main objectives (i) maintaining basic social services; (ii) bolstering the national reconciliation process. The first goal was implemented through a credit of USD 13.3 million which targeted health and drinking water access at the grassroots level. The initial loan was supplemented with an additional financing of 5 million US dollars that was approved in December 2006. Regarding the support to national reconciliation and to institutions, several grants have been mobilized from different trust funds, such as the IDF (International Development Fund), LICUS (Fragile States) and PCF (Post Conflict Fund) to strengthen public resource management. Encouraged by the success of its 2004-06 strategy, the World Bank has already started the formulation of a new strategy for 2007-08 with the same objectives. The amount allocated under this new programme is approximately USD 6.8 million.

### ***Cooperation with the European Union***

2.2.4. Throughout its long-standing crisis, Comoros has benefited from the assistance of the European Union in finding solutions to the country's problems. From July 2002, the European Union entered into an active cooperation with Comoros within the framework of the 9th EDF. The ongoing projects of the 8<sup>th</sup> EDF and the balance of the previous EDF, which have been exceptionally brought forward, represent 45 million Euros. With these funds, the Commission has formulated a micro-project programme and an emergency aid programme (climatic vagaries, eruptions of the Karthala). Under the 9th EDF, the European Union has committed 16 million Euros (2005-2010) to improve the overall educational system. The Union has also devoted 10.25 million euros to assist the country with its decentralization effort. Additional resources of 3.12 million euros have been made available to Comoros for health, drinking water and sanitation projects. An additional assistance of 5 million euros is envisaged for the peace programme. The 10th EDF covering 2008-2013 will involve an amount of FC18 billion.

### *United Nations System*

2.2.5. Through UNDP, the United Nations has maintained a permanent presence in Comoros to help the country solve its serious crisis. The UNDP's action has been formulated within the framework of a cooperation programme (2003-2007). It is funding capacity building for formulation of poverty reduction strategies as well as governance, participation in international conferences, HIV/AIDS control and environmental preservation. It has also made an important contribution to the implementation of the «Comoros Transitional Programme» by coordinating the 3.3 million USD trust fund, which France is actively supporting.

### *France*

2.2.6. France has maintained its assistance to Comoros throughout the long period of crisis. The resumption of the ADP flows, following their reduction by almost 2/3 in the 90s, has been made possible by the national reconciliation and the strengthening of democracy observed since the Fomboni Agreements. This resumption has been gradually confirmed with the holding of the presidential and then the legislative elections, the transitional measures adopted at the Beit Salam Conference in 2003 and the establishment of the institutions envisaged in the constitutions of the Union and the islands. These progress enabled France to mobilize efforts to assist the Comoros Union in resuming cooperation with the Donor Community: the lifting of the suspension of cooperation with the European Union in July 2002, the establishment of a trust fund in conjunction with UNDP, the adoption of the World Bank interim strategy (PRSP) in 2003 and an IMF staff-monitored programme in early 2005. France prepared the 5th joint commission (April 2005) with Comoros officials and has facilitated the signing of decentralized regional cooperation agreements

## **2.3. BANK GROUP ACTIVITIES**

2.3.1. The Bank Group started its operations in Comoros in 1977. A total of 12 operations have been approved for an amount of UA 64.72 million for financing 9 projects, a reform programme and two studies. The sector that has the largest share of these commitments is transport, with 40.6% of the amount. Next are agriculture (29.9%), reforms (12.10%), education (9.53%) and public utilities (7.82%). Of the 12 projects approved, 7 have been completed and 5 cancelled. The commitment, excluding cancellations, is UA 40.52 million, of which UA 9.67 million is for the ADB window, which has been fully disbursed. There are no ongoing project.

2.3.2. In addition to its efforts in support of Comoros' arrears clearance, the Bank Group has contributed to the preparation of the Interim Poverty Reduction Strategy Paper (PRSP), a made possible with the return of the political situation to normal. This document lays down a plan of action for Comoros for the period 2006-2009 and has been validated through a series of consultations involving all the islands in 2005. Meeting the I-PRSP objectives will require the pursuit of reforms to raise the efficiency of the fiscal administration, improved coordination between the institutions of the different islands and the implementation of measures to revive investment and ensure substantial private sector growth (judicial reforms in the water, electricity, transport, telecommunications and hydrocarbon sectors). To be eligible for the resources of the Poverty Reduction and Growth Facility on the basis of the Full-fledged PRSP, Comoros requested an IMF Staff-monitored programme in order to draw up a summary plan to restore the credibility of its economic management, reorganize public

finances and start structural reforms. The country's average annual financial needs are estimated at around 38.8 billion FC (approximately 140 Euros per capita), which represents over 20% of GDP.

#### **2.4. DEBT RELIEF UNDER THE HIPC INITIATIVE**

2.4.1. Given the country's persistent difficulties in meeting its debt service obligations, all prospects of reengagement with Comoros are linked to substantial debt reduction through the HIPC Initiative. At end December 2006, the total volume of its debt was 280 million USD, of which 66 million was owed to the African Development Bank. The country has settled its arrears to the IMF, IDA and WB, but remains in arrears with the Bank Group. Arrears to the Bank Group currently stand at UA 21.94 million (12.48 for the ADB window and 9.47 for the ADF window).

2.4.2. According to the rules laid down for the HIPC Initiative, in order to reach the decision point, eligible countries must settle their arrears to IFI, including the Bank Group. One of the main objectives of the arrears clearance programme presented by this paper is to assist the Comoros in fulfilling that condition. In addition to clearing the arrears to IFI, countries seeking debt relief at the HIPC decision point are required to meet the following conditions (i) sustainable macroeconomic stability, underpinned by satisfactory performance under the IMF-supported PRGF; (ii) presentation and satisfactory implementation over a period of one year of an I-PRSP; and (iii) satisfactory evolution of the political and security situation, including the consolidation of the peace process. Comoros is making consistent progress in all these areas.

### **III. THE COUNTRY'S ELIGIBILITY**

#### **3.1. DESIGNATION AS A POST-CONFLICT COUNTRY**

3.1.1. The PCCF guidelines state that countries will qualify as PCC eligible for PCCF relief if they meet the following conditions: (i) an acceptable level of peace, (ii) significant efforts in promoting and putting in place good governance mechanisms; (iii) resumption of normal economic activities; (iv) marked progress with regard to resettlement of populations, disarmament and reintegration of ex-servicemen; and, (v) recognition of efforts achieved by the international community, namely the United Nations, the African Union and the BWI.

3.1.2. Regarding these different conditions, it is observed that the peace process, the resumption of economic activities and resettlement are well underway. With regard to governance, progress will continue to be made in strengthening public finances, fighting corruption and capacity-building in the public sector. The international community assesses the country's situation positively, commending the progress made towards political stabilization and the strengthening of institutions.

3.1.3. These different points have been developed in the Dialogue Paper presented on 28 June 2007. The Boards then designated Comoros as a post-conflict country, making it eligible for the clearance of its arrears through the PCCF mechanism.

### **3.2. ELIGIBILITY FOR AN ARREARS CLEARANCE PROGRAMME**

3.2.1. In addition to the designation of Comoros as a PCC, the Bank Group guidelines enumerate six criteria to be met in order for a PCC to benefit from an arrears settlement programme and qualify for financial assistance under the PCCF<sup>3</sup>. The following paragraphs review the status of Comoros with regard to each of the six criteria.

#### **i. The Comoros are potentially eligible for the HIPC Initiative<sup>2</sup>**

3.2.2. The Bank Group guidelines clearly state that only HIPC countries that have not yet reached the decision point are eligible for assistance through an arrears clearance programme. As indicated in paragraph 2.4, the Union of the Comoros is eligible for debt relief within the framework of the Enhanced HIPC Initiative; however due to its arrears, situation, especially to the Bank, the country could not yet access to such debt relief.

#### **ii. Coordinated Reengagement Process**

3.2.3. The ADB Group guidelines state that, in order to be viable, the arrears clearance programmes will only be conducted in the context of a coordinated reengagement process with other development partners. As described in further details in section 2.2 of this document, Comoros is undertaking reform programmes in conjunction with its development partners: (i) the IMF, following the satisfactory conduct of a Staff Monitored Programme, will follow with a PRGF contingent on the clearance of arrears to the multilateral banks, including the Bank Group; (ii) the World Bank was able to reengage with the country in 2004 to prevent the collapse of the social system and pave the way for the reconciliation process; (iii) the EC has an arrears clearance and reengagement programme underway; and (iv) the Paris Club donors, with the clearance of the arrears accumulated, and debt rescheduling and relief. All these programmes are aimed at enabling the Comoros to finance its development objectives and to qualify for a significant debt reduction under the HIPC Initiative. There is a certain degree of optimism within the International community concerning the progress made by Comoros, which appears to be such as to offset the heavy heritage of years of islands conflicts and economic crisis. This optimism has been affirmed by the IFI and friends of Comoros present at the meeting on arrears settlement organized by the Bank in November 2007 in Paris.

#### **iii. Non-discriminatory Debt Service**

3.2.4. The Bank Group guidelines state that the arrears clearance programmes are only undertaken when the beneficiaries show evidence of non-discriminatory debt to the Bank Group in comparison to other privileged creditors (IFI). Indeed, Comoros has given the World Bank priority in clearing the limited amount of arrears it owed to that institution in 2004. However, this was only possible precisely through the positive net transfers that the World Bank put in place, to assist the country at the height of its economic crisis. At the time, ADB had not come up with a solution for arrears settlement and the critical public finance situation has not allowed Comoros to fully cover its payments falling due in recent years. Nevertheless, as shown under paragraph (v), below, Comoros has made a mighty effort to make payments to the Bank within the limits of its financial means.

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<sup>3</sup> Board Documents Ref- ADB/BD/WP/2003/147/Rev.1/Approval/Add.1 and ADF/BD/WP/2003/184/Rev.1/ApprovalAdd.1, page 7

#### **iv. Financial Viability**

3.2.5. The Bank Group guidelines provide for arrears clearance programmes intended to ensure the beneficiary countries long-term financial sustainability. A key factor in this context is the existence of an appropriate financing plan enabling the country to attain the HIPC decision point without the risk of re-accumulating arrears. The country's high debt service level is a major impediment and the maintenance of financial viability poses a challenge, particularly in the short term.

3.2.6. In order to continue receiving the support of the International donor community, and reach the HIPC decision point, Comoros needs to further improve its macroeconomic performance in general and its budget management in particular. It should be noted that, since the arrears clearance would make the country eligible for the HIPC Initiative, the impact of the debt repayment on public finances would be significantly diminished in future. The arrears settlement is also expected to make the country eligible for the PRGF, which would without doubt bring a certain level of discipline into the repayment of external debts and enable the country to draw up an appropriate financing plan. In addition, the implementation of the PRGF would significantly stimulate direct foreign investment in favor of Comoros. It is important to stress that the recent progress made in the Comoros political situation with the resolution signed at Addis Ababa in November 2007, the efforts to stabilize the fiscal situation and the revenue sharing mechanism among the different islands are expected to continue, therefore further strengthening the budgetary situation in the entire country. Concerning public expenditure, the Government has agreed to contain the wage bill. Reforms are already underway to rationalize expenditure and improve transparency.

#### **v. Maximum Effort to Settle Arrears using Domestic Resources**

3.2.7. The Bank Group guidelines stipulate that prospective beneficiaries must show evidence that they have made a maximum reasonable effort to settle their debts to the Bank Group. Despite its resource flow problems, the country resumed its repayments in 2005 making regular payments for a total of UA 1.15 million – 1.25 million euros). These payments, even though they only partially covered the maturities, made it possible to reduce and somewhat stabilize the arrears. This clearly illustrates the authorities' determination to enable the Bank's reengagement and remove the obstacles to a net resource transfer and debt relief.

#### **vi. Maximum Effort to Mobilize Resources from Donors**

3.2.8. The Bank Group guidelines stipulate, lastly, that the beneficiary countries must show evidence that they have made a maximum effort to mobilize adequate resources from donors to settle their arrears to the Bank Group. Comoros worked in close collaboration with the Bank Group and the other IFI to solicit financial aid from potential donors. The efforts were rewarded by the financial support for an amount of UA 6.63 million provided by donors for the settlement of Comoros arrears. In particular, Comoros succeeded in rallying the support of France, the European Commission, Norway, Kuwait, the United Kingdom, Denmark, Switzerland, Mauritius, the Arab League and Algeria. Table 13 of Annex 6 gives a detailed description of contributions pledged by donors for the proposed programme.

3.2.9. Based on the above evaluation of the six criteria specified in the guidelines, Management concludes that the Comoros are eligible for the arrears clearance programme proposed in this document, including financial aid out of the PCCF.

#### **IV. COMOROS ARREARS CLEARANCE PROGRAMME**

##### **4.1. COMOROS' ARREARS TO THE BANK GROUP AND MATURITIES**

4.1.1. Under sanctions since January, the Union of Comoros accumulated arrears for an amount of UA 21.94 million (12.48 for the ADB window and 9.47 for the ADF window). The ADB arrears account for 56% of the total and relate to the Mutsamudu Port Project loan.

4.1.2. Annex 4 provides a more detailed analysis of Comoros' arrears to the Bank Group.

**Table 2:  
Arrears to the ADB Group**

*At 31 October 2007, in UA million*

	<b>ADB</b>	<b>ADF</b>	<b>Total</b>
Principal	5.47	6.41	11.88
Charges	7.01	3.05	10.06
<b>Total</b>	<b>12.48</b>	<b>9.47</b>	<b>21.94</b>

##### **4.2. PROPOSED ARREARS CLEARANCE PROGRAMME**

4.2.1. The Bank Group Guidelines provide for the settlement of arrears in accordance with a burden sharing agreement between three finance sources, namely the PCC, the donors and the PCCF. The amounts and payment schedules of each of the parties to the agreement are determined on a case- by- case basis in line with resource flow projections for each PCC, giving priority to clearance of arrears and lifting of sanctions as rapidly as possible.

4.2.2. As clearly explained in paragraph 2.1.5, the public finance situation is extremely precarious. In accordance with the PCCF guidelines, it is essential to grant Comoros the necessary flexibility by (i) limiting the country's share of the burden to a symbolic 1%; (ii) postponing the initial cut-off date of end-December 2003 to the end of December 2007; and, (iii) increasing the burden share of the PCCF, so as to maximize the chances of success of the operation.

##### **i. A Symbolic Contribution**

4.2.3. Given its extremely strained financial situation, the country is only able to make at most a symbolic contribution to its arrears settlement. The PCCF guidelines provide for specific tripartite burden-sharing determined on a case-by-case basis, to avoid any risk of moral hazard or setting a precedent to be used for other eligible countries. The country's budgetary and financial situation is one of marked insolvency (Par. 2.1). Moreover, Comoros, unlike other post conflict countries, has no oil, nor mining and forestry resources enabling it to rapidly revive its economy following the normalization of the socio-political situation and the return of the development partners. Comoros is still very dependent on external financing



and that situation makes it necessary to redirect all domestic resources towards the objectives of poverty reduction and economic development. Since poverty has precisely been a key factor in the country's political conflicts, it would not be reasonable to expect a contribution exceeding 1% of the arrears from Comoros, since that could trigger a return to the country's precarious situation. These elements together justify the establishment of its contribution at 1% (one per cent). The donors and the PCCF would thus share the remaining 99%.

**ii. A later cut-off date**

4.2.4. The PCCF guidelines approved set the cut off date at 31 December 2003. For the first two countries that benefited from PCCF assistance, Burundi and Congo, which cases were treated early in 2004, such cut off date could be considered adequate. However, if this cut-off date is maintained in the case of Comoros, the country will be required to cover the debt service of UA 4.60 million falling due between December 2003 and December 2007. (See details in table 4, below)

4.2.5. Again, the country's difficult financial situation does not allow it to honor such payment. In line with the approach adopted for the Central African Republic in 2006, it is proposed to postpone the Comoros' cut off date to end December 2007 and to include all the amounts due and in arrears at that date (4).

**iii. A larger share for the PCCF**

4.2.6. Given the greatly reduced period for mobilization of donor contributions and in order to maximize the chances of success of the operation, Management proposes that the Bank covers a part of the amount that would normally be expected from Comoros partners. By raising its contribution to 69.3% of the arrears, the Bank would make it possible to limit the amount to be mobilized from the donors to only UA 6.5 million.

4.2.7. The amount to be financed would thus be UA 21.94<sup>5</sup> million, as explained in Table 4 below.

4.2.8. Taking into account the payments received from the Comoros to honor its debt of UA 0.22 million and the irrevocable contributions received or pledged by donors, amounting to UA 6.52 million (See details in Table 13 of Annex 6), Management proposes a grant of UA 15.21 million out of the PCCF resources, to fill in the financing gap for settlement of the arrears of Comoros. The UA 15.21 million proposed out of the PCCF resources would represent 69.3% of Comoros' total arrears stock at 31 December 2007. Table 3 and Table 4 summarize the proposed financing plan.

**Table 3  
Burden Sharing**

	<b>Amount</b>	<b>Percentage</b>
Comoros	0.22	1.0%
Donors	6.52	29.7%
PCCF	15.21	69.3%
<b>Total</b>	<b>21.94</b>	<b>100.0%</b>

<sup>4</sup> The billing dates for Comoros are 1 January, 1 March, 1 July and 1 September of each year

<sup>5</sup> 31 October 2007 exchange rate

**Table 4**  
**Determination of Comoros' Contribution and Payment Deadline**

<i>UA Million</i>	Share	Deadline		<u>Difference</u>
		<u>Dec.-2003</u>	<u>Dec.-2007</u>	
<b>Contributions to be financed</b>	<b>100.0%</b>	<b>17.34</b>	<b>21.94</b>	<b>+ 4,60</b>
PCCF	69.3%	12.02	15.21	+ 3,19
Donors	29.7%	5.15	6.52	+ 1,37
Comoros (i)	1.0%	0.17	0.22	+ 0,05
Maturities up to end 2007 (ii)		4.60	-	-
<b>Total Comoros: (i)+(ii)</b>		<b>4.77</b>	<b>0.22</b>	<b>- 4.55</b>

4.2.9. In addition to the need to ensure integral financing of arrears clearance programmes, the Bank Group guidelines expressly rule out operations that can be considered as “refinancing” or “circular”. The Comoros arrears clearance financing plan has been drawn up in compliance with this aspect. The payments received from the country and donors will be used to settle arrears to ADF. The ADF balance and the ADB arrears will be covered by the PCCF. As indicated in Annex 6, the Bank Group contribution will derive entirely from PCCF resources: in a separate account for ADF<sup>6</sup> to clear ADB arrears in the amount of UA 12.48 million; in a separate account for ADB<sup>7</sup> to clear the ADF arrears in the amount of UA 2.73 million. These resources will be utilized exclusively to assist the country in settling its arrears.

### **4.3. IMPLEMENTATION PLAN**

4.3.1. The implementation of the Comoros arrears clearance plan will begin once this proposal is approved by the Bank Group Board of Directors. The Legal Services Department (GECL) will then prepare the PCCF grant protocols for signature by the Comoros Government and the Bank Group institutions. In accordance with the guidelines, it is proposed to lift sanctions against the Comoros as soon as the irrevocable financing commitments are formally received from all donors. The Board of Directors' approval of the Interim Strategy Paper for Comoros will enable the Bank Group to rapidly resume the normal aid programmes in favor of the country, jointly with the IBW and the donor community. In the first quarter of 2008, all the donors except EC will have paid their contribution; it will thus be possible to finalize the arrears settlement. It is proposed that PCCF advance the funds necessary for the immediate lifting of sanctions, considering that the irrevocable commitment of the European commission will suffice to carry through the operation for clearance of the arrears to the Bank Group.

<sup>6</sup> The specific ADF Account under the PCCF was initially funded with an UA 100 million grant from ADF-X resources. ADF/BD/WP/2005/06

<sup>7</sup> The specific ADB Account under the PCCF was funded with UA 100 million from three net income allocations for 2003, 2004 and 2005

#### **4.4. PROSPECTS OF RESUMPTION OF ADF FINANCING OPERATIONS AND POSITIVE NET TRANSFERS**

4.4.1. The Bank Group reengagement strategy will be contained in an interim strategy document to be presented to the ADB Group Board in March 2008. This document will be the outcome of broad consultations with the Government of the Union of Comoros and development partners. It will state how the resources allocated under ADF XI (estimated at UA 7 million) and those from the Fragile States Facility can be optimally applied. It will basically reflect the priorities defined in the Poverty Reduction Strategy Paper.

4.4.2. The Bank Group's stated policy objective of ensuring positive net transfers in favor of Comoros will be carried through. The net transfers will turn positive from 2008, given the symbolic amount required of the Comoros Union for the debt service and the arrears clearance. The disbursements for the operations to be identified in the strategy framework are expected to be made from July 2008. The net transfers should also improve considerably in so far as the HIPC debt relief conditions are favorable<sup>8</sup>. Once the Comoros Union meets the conditions for the HIPC interim debt relief at the decision point, its debt service payments to the Bank Group will be considerably reduced, making it easier to ensure positive net transfers.

## **V. CONCLUSIONS AND RECOMMENDATIONS**

### **5.1. CONCLUSION**

5.1.1. Since it gained independence, the union of the Comoros has experienced chronic political instability which has thwarted its efforts at creating the conditions for economic and social development in a viable political and institutional context. The most recent conflict, triggered by the Island of Anjuan's secession attempt, stretched over a long period and entailed huge economic costs for the country. With the support and assistance of the international Community, the national reconciliation has seen substantial progress, despite numerous set backs. The country's unity has been preserved though a federal state system granting the islands autonomy, and the fiscal resource sharing mechanism. From the economic standpoint, the limited growth of the Comorian economy reflects a fragile country with various natural disadvantages, a narrow and undiversified productive base, a heavy external debt and economic and financial governance requiring far-reaching reform. Comoros has entered into a process of dialogue with multilateral and bilateral partners based on the poverty reduction strategy paper prepared using an exemplary participatory approach. It has also begun discussions with IMF on a Poverty Reduction and Growth Facility. Conclusion of this programme will enable Comoros to be granted a substantial reduction of its debt under the HIPC Initiative and the Multilateral Debt Relief Initiative.

5.1.2. In Management's view, the Union of the Comoros has fulfilled all the criteria set out in the Bank Group guidelines and is thus entitled to benefit from an arrears clearance programme and receive financial aid from the PCCF. The proposed arrears clearance programme provides for burden sharing between the three sources of finance, namely the

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<sup>8</sup> Without the HIPC debt relief, the Comoros' debt service concerning the Bank will be UA 1.2 million in 2008. Should Comoros reach the decision point in the third quarter of 2008, its Bank Group debt service will be reduced from 2009, making the country's debt more sustainable.

country, the donors and the PCCF. The country's particular socio-economic circumstances and extreme budgetary pressure warrant a flexibility that other eligible countries can not claim *de facto*. Based on the Boards' recommendations to assist Comoros in turning its precarious situation around, this flexibility is perfectly in line with the PCCF principles in requiring only a symbolic payment of Comoros. The country has already paid its contribution to the clearance of the arrears to the Bank, amounting to UA 0.22 million. In addition, Comoros has worked closely with the Bank Group to mobilize UA 6.5 million from donors towards the proposed arrears clearance programme. An allocation of UA15.2 million from the PCCF resources will make it possible to conclude the said programme.

## **5.2. RECOMMENDATIONS**

### **5.2.1. In light of the foregoing:**

- i) The Boards of Directors are requested to approve the evaluation whereby Comoros meets the criteria for financial aid under the PCCF;
- ii) The Boards of Directors are requested to approve in accordance with the PCCF Guidelines, the flexible terms warranted in view of Comoros' exceptional situation, specifically the limitation of the country's share of the financing to a symbolic 1%; the postponement of the original deadline of end- December 2003 to end December 2007; and the coverage of an increased part of the burden by PCCF in order to guarantee the success of the operation;
- iii) The ADF Board of Directors is requested to approve a grant of UA 12.48 million<sup>9</sup> out of the PCCF resources, to close the financing gap in the proposed arrears clearance plan;
- iv) The ADB Board of Directors is requested to approve a grant of UA 2.73 million<sup>10</sup> out of the PCCF to close the financing gap in the proposed arrears clearance plan; and
- v) The Boards of Directors are requested to approve the lifting of the sanctions imposed on Comoros as soon as ADB and ADF receive instruments that they deem acceptable as evidence of the irrevocability of the donors' financial commitments.

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<sup>9</sup> 31 October 2007 exchange rate

<sup>10</sup> 31 October 2007 exchange rate

### Comoros Projected Resources

1. Table 5 below shows the key elements of Comoros' external debt repayment capacity from 2002 to 2008. According to the projections, Comoros will only be able to honor all its debt service obligations up to decision point thanks to the mechanisms or flows that will provide it sufficient resources to do so. The proposed arrears clearance operation should thus lead to sustainable reengagement in the country. These projections do not take account of any debt relief under the HIPC Initiative, a factor that will significantly improve Comoros resource outlook.

**Table 5: State Plan and Financial Operations (2002 – 2008)**

Comoros: State Consolidated Financial Operations, 2002-2008							
(million Comoro Francs)							
	2002	2003	2004	2005	2006	007 proj.	2008 proj.
Total Income and grants	26.929	25.482	26,434	30,509	29,534	28,475	32,952
Fiscal Receipts	18.038	19.622	19,407	17,797	1,726	15,894	19,648
Non-fiscal receipts	3.483	2.713	3,038	6,175	4,295	3,682	4,024
External grants	5.408	3.147	3,989	6,537	7,978	8,899	9,280
Total expenditure	31.699	30.347	28,847	30,425	33,599	34,268	34,212
Current primary expenditure	19.949	18.831	20,658	20,911	22,165	22,939	20,922
Wages	10.703	11.493	12,631	12,872	13,205	15,720	13,835
Goods and Services	7.909	5.297	6,038	5,160	5,568	4,965	4,893
Transfers	1.338	2.041	1,989	2,879	3,394	2,254	2,193
Interest	1.335	1.431	1,282	1,182	1,144	788	856
investment expenditure	7.597	7.578	6,301	6,902	7,832	7,835	8,722
Domestic finance	131	2.785	2,539	1,411	1,250	556	1,519
External finance	7.466	4.793	3,762	5,491	6,182	5,893	6,360
Domestic primary balance	1.441	719	(752)	1,650	(1,859)	(3,919)	1,232
Overall balance (commitment basis)	(4.771)	(4.865)	(2,413)	85	(4,065)	(5,793)	(1,260)
Arrears variation	969	2.226	1,862	(272)	1,436	1,360	-
Overall balance (cash basis)	(3.802)	(2.638)	(426)	(736)	(2,628)	(4,433)	(1,260)
Financing	5.575	3.453	829	1,118	2,691	2,591	(2,712)
Domestic	(613)	120	567	1,279	2,247	1,073	(855)
External	6.189	3.333	262	(161)	445	1,519	(1,858)
Errors and Omissions	(1.774)	(814)	(403)	381	(63)		.....
<b>Memo item</b>	Indicators as percentage of GDP						
Total income	16.4	15.8	15.6	15.7	13.6	12.1	14
Total expenditure	24.2	21.5	20.1	19.9	21.2	21.3	20.3
Domestic primary balance	1.1	0.5	-0.5	1.1	-1.2	-2.4	0.7
Total balance (commitment basis)	-3.6	-3.4	-1.7	0.1	-2.6	-3.6	-0.7
Total balance (cash basis)	-2.9	-1.9	-0.3	-0.5	-1.7	-2.7	-0.7

Source: Comoros authorities. IMF. November 2007

### Comoros External Debt Structure

1. Table 6 below presents the composition of the Comoros' public external debt, including the loan amount outstanding and arrears at end December 2006.
2. The country's debt is primarily owed to multilateral creditors (82%). The World Bank alone accounts for 41% of the total external debt. The non-Paris Club debt makes a preponderant share of the bilateral debt and will receive particular attention under the HIPC Initiative.
3. The Bank Group accounts for 47% of arrears to the multilateral creditors. This shows how urgent it is for the Bank to find a solution to the problem of Comoros' arrears, in order to allow for a global reengagement of the donor community.

**Table 6: Breakdown of Comoros' External Debt**

*Debt Stock at 31/12/2006 (USD)*

Creditors	Arrears-Principal	Arrears-interest	Debt Outstanding <sup>1</sup>	Debt Stock <sup>2</sup>
<b>Multilaterals</b>				
ADB	9 353 619	10 107 335	0	19 460 954
ADF	7 954 359	4 143 936	34 397 098	46 495 393
ABEDA	18 325 700	8 169 279	0	26 494 978
IDB	71 745	31 965	685 577	789 287
IFAD	3 863 240	589 824	4 860 478	9 313 542
FIDA	351 690	71 981	8 413 119	8 836 790
AID	0	49 697	114 544 115	114 593 812
OPEC	3 084 449	484 440	0	3 568 889
<b>Total 1</b>	<b>43 004 801</b>	<b>23 648 457</b>	<b>163 289 514</b>	<b>229 553 645</b>
<b>Bilateral</b>				
A. Dhabi	543 039	260 400	0	803 439
AFD	6 289 136	0	2 864 736	9 153 872
China	201 389	0	0	201 389
Kuwait Fund	13 038 993	3 544 366	9 448 345	26 031 705
Saudi Fund	9 233 725	4 748 544	0	13 982 269
Mauritius	0	0	1 000 000	1 000 000
<b>Total 2</b>	<b>29 306 282</b>	<b>8 553 310</b>	<b>13 313 081</b>	<b>51 172 674</b>
<b>Grand total</b>	<b>72 311 083</b>	<b>32 201 767</b>	<b>176 602 596</b>	<b>280 726 319</b>

<sup>1</sup> Debt outstanding is the principal amount not yet due.

<sup>2</sup> Debt Stock: the debt outstanding plus arrears of the principal and of the interest.

Source: Union of the Comoros, National Debt Department



### Comoros Arrears to the Bank Group

2. Table 8, below presents a breakdown of Comoros' arrears to the Bank Group at 31 October 2007 and 31 December 2007, compared to 31 December 2003.

**Table 8: Comoros' Arrears Since December 2003\***

(UA million\*\*)

	31 December 2003	31 October 2007	Projection: 31 December 2007
<b>ADB</b>	11.28	12.48	12.48
<b>ADF</b>	6.07	9.47	9.47
<b>Total</b>	<b>17.34</b>	<b>21.94</b>	<b>21.94</b>

Source: Bank Group (FFCO).

\* Since certain figures have been rounded, the actual total may differ from the amount indicated.

\*\* Based on 31 October 2007 exchange rate.

3. Table 9 below presents the breakdown by window of Comoros' arrears to the Bank Group at 31 October 2007. The principal in arrears represented 54% of the total arrears, compared to 46% for the interest. Comoros' arrears are mostly to the ADB window (57%), with the arrears to the ADF window representing 43% of the total. The country has no arrears to NTF.

**Table 9: Breakdown of Comoros' Arrears by Window at 31 October 2007\***

(UA million\*\*)

	Principal	Interest	Total
<b>ADB</b>	5.47	7.01	<b>12.48</b>
<b>ADF</b>	6.41	3.05	<b>9.47</b>
<b>Total</b>	<b>11.88</b>	<b>10.06</b>	<b>21.94</b>

Source: Bank Group (FFCO).

\* Since certain figures have been rounded, the actual total may differ from the amount indicated.

\*\* Based on 31 October 2007 exchange rate.

4. The Table below shows the foreign exchange breakdown of Comoros' arrears to the Bank Group at 31 October 2007. 35% of the total arrears were denominated in Yen, 22% in USD, 19% in euros and 24% in other currencies.

**Table 10: Currency Breakdown of Comoros' Arrears as at 31 December 2007\***

(UA million\*\*)

	JPY	USD	EUR	others	Total
<b>ADB</b>	5.99	2.56	0.11	3.81	<b>12.48</b>
<b>ADF</b>	1.63	2.34	4.00	1.50	<b>9.47</b>
<b>Total</b>	<b>7.62</b>	<b>4.90</b>	<b>4.11</b>	<b>5.31</b>	<b>21.94</b>

Source: Bank Group (FFCO).

\* Since certain figures have been rounded, the actual total may differ from the amount indicated.

\*\* Based on 31 October 2007 exchange rate.



### Comoros Projected Debt Service to Bank Group

5. Table 11 below presents the projections concerning Comoros' servicing of its debt to the Bank Group between 2008 and 2011. These projections are based on the exchange rates at 31 October 2007 and they assume that the arrears have been settled according to the programme presented in this proposal

**Table 11: Projections Concerning Servicing of Debt to the Bank Group\***  
(UA million\*\*)

Year	2008	2009	2010	2011
<b>ADB</b>	0.22	-	-	-
<b>ADF</b>	0.97	0.96	0.96	0.95
<b>Total</b>	<b>1.19</b>	<b>0.96</b>	<b>0.96</b>	<b>0.95</b>

Source: Bank Group (FFCO).

\* Since certain figures have been rounded, the actual total may differ from the amount indicated.

\*\* Based on 31 October 2007 exchange rate.

### Financing Plan for Comoros Arrears clearance

1. Table 12 below summarizes the financing plan for Comoros' arrears clearance programme. The first line shows the sources of finance, starting with: the Bank Group Post-conflict Country Fund (PCCF), payments made by Comoros and donor contributions.

2. The following rows show the utilization of the funds earmarked under the financing plan. As Bank Group refinancing is ruled out, the PCCF resources will be from a distinct ADF account and will be used to settle ADB arrears. Since there are no limitations concerning the utilization of payments by the PCC and the donors, the payments by Comoros and its partners are being used to settle arrears to ADF. The PCCF contribution through the ADB window will be used to clear the balance of the arrears to ADF.

**Table 12 : Arrears Settlement Financing Plan**  
(UA million\*)

Sources	PCCF ADB	PCCF ADF	Total PCCF	Comoros	Donor	Total
	1	2	3=1+2	4	5	6=3+4+5
Total Sources	<b>2.73</b>	<b>12.48</b>	<b>15.21</b>	<b>0.22</b>	<b>6.52</b>	<b>21.94</b>
ADB arrears		12.48	12.48			<b>12.48</b>
ADF Arrears	2.73		2.73	0.22	6.52	<b>9.47</b>
<b>Total Utilization</b>	<b>2.73</b>	<b>12.48</b>	<b>15.21</b>	<b>0.22</b>	<b>6.52</b>	<b>21.94</b>

\* Source: Bank Group (FFMA Using 31 October 2007 exchange rates)

6. Table 13 presents contributions to the Comoros' arrears clearance programme as pledged by donors. The amounts pledged by donors in foreign currency are given in UA using the 31 October 2007 rates.

**Table 13: Donors' Pledges**  
(in million units of the different currencies)

Donor	Currency	Amount	Amount (UA)**	Conditions
European Commission	EUR	1.50	1.38	Reaching HIPC Dec. Point
Algeria	USD	0.10	0.06	None
France	EUR	1.50	1.38	None
United Kingdom	USD	1.02	0.65	None
Switzerland	USD	0.50	0.32	None
Denmark	DKK	0.60	0.07	None
Norway	USD	2.00	1.27	None
Mauritius	USD	0.30	0.19	None
Arab League	USD	0.25	0.16	None
Kuwait	EUR	1.24	1.14	None
<b>Total</b>			<b>6.63</b>	

Source: Bank Group (FFMA)