

Strengthening Governance and Reducing Vulnerability to Corruption in Comoros

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ABSTRACT

As of 2020 Comoros faced governance weaknesses in several areas that are critical for macroeconomic performance, including administrating the civil service, managing fiscal operations, ensuring the rule of law, and implementing AML/CFT measures. Addressing these challenges would help spur inclusive growth and yield significant development gains, including by lowering vulnerability to corruption, increasing revenue mobilization, and reducing the reliance on volatile windfall revenue.

INTRODUCTION

Comoros is a small, poor, and fragile three-island state with limited natural resources and weak connectivity to the rest of the world, but with high potential for future development. The authorities hope to transform Comoros into a dynamic emerging market over the next decade by strengthening human capital, infrastructure, and governance and by reducing the scope for corruption. However, pronounced fragility arising from the presence of two interlocking vicious circles—institutional and economic fragility—has been putting the realization of these hopes at risk.

Over the past decades, political instability, weak governance and institutions, and low capacity for policy implementation have pointed to institutional fragilities. Since independence from France in 1975, Comoros's history has been marked by inter-island tensions and conflicts, which have led to political instability illustrated by a series of coups and secession attempts during the 1990s. Tensions lessened in the early 2000s as a result of the rotation of the presidency among the islands, but reintensified following a 2018 constitutional reform that allowed President Azali Assoumani to be reelected in 2019. The country also faces significant challenges in the areas of rule of law, regulatory framework, fiscal governance, and anticorruption and AML/CFT. These challenges have had a

dampening effect on business activity and economic growth. The pervasiveness of corruption also diverts resources away from spending on the eradication of poverty and other social priorities. The capacity for policy implementation has been further constrained by an insufficient focus on merit for civil service hiring and promotion (World Bank Group 2020), which constitutes another governance challenge. Results include weak outcomes in many areas of government activity, including persistently low fiscal revenue mobilization and weak institutional capacity.

Economic fragility, on the other hand, has manifested itself in severe constraints on domestic resources and pronounced vulnerability to shocks. Comoros's fiscal challenges have included weak revenue, a reliance on volatile one-off revenues, a high public wage bill, and drains from weakly supervised state-owned enterprises (SOEs), which have restricted public investment and social spending. The government budget also depends heavily on volatile aid inflows. Between 2005 and 2015, the ratio of external grants to total expenditure was slightly above 46 percent (excluding assistance under the HIPC, this number is still high at an average of 39 percent). Together with the government's limited access to financial markets, revenue volatility has resulted in recurring liquidity shortfalls that have led to abrupt cuts in priority spending and arrears to domestic and external creditors. Comoros is also highly vulnerable to natural disasters, as seen when Cyclone Kenneth wrought substantial damage in April 2019.

This chapter discusses Comoros's governance challenges and makes recommendations for addressing them. After a short overview of Comoros's governance strategy, and its legislative framework and architecture, it focuses on four substantial macrocritical governance challenges: (1) fiscal management, (2) the rule of law, (3) anticorruption and AML/CFT, and (4) the management of the civil service. The chapter also estimates the economic and political costs associated with these challenges and proposes a set of reforms after each section.

GOVERNMENT EFFORTS TO ADDRESS GOVERNANCE AND CORRUPTION CHALLENGES

Many of Comoros's legislative, legal, and institutional foundations to address governance challenges are less than a decade old. For example, the government adopted Comoros's National Anti-Corruption and Prevention Strategy in 2012. The strategy aims to strengthen fiscal controls and enhance public accountability and transparency through advances in the criminal justice system, the streamlining of legislative procedures, and capacity improvements in the Public Procurement Authority and the Accounts Section of the Supreme Court.

Several laws set the legal framework for anticorruption efforts in Comoros, but many of their elements are not implemented:

- *Anticorruption law*: In July 2008 the National Assembly passed the law on the transparency of public, economic, financial, and social activities (promulgated in June 2011). The law requires asset declarations for senior public

officials, defines criminal activity under the penal code, and specifies the role of the National Commission of Prevention and Fight against Corruption (NCPFC). Moreover, a September 2012 decree was issued to reinforce the objectives of the anticorruption law by strengthening the legal requirements of asset declarations for public officials to increase accountability. However, the law has not been operational since 2016, due to the dissolution of the NCPFC, which was itself accused by the current administration of corruption and ineffectiveness.

- *Anti-money laundering and fighting terrorism law*: In June 2012 the National Assembly adopted a law in the fight against money laundering and the financing of terrorism (promulgated in August 2012). The law defines the offenses and specifies the preventative measures that financial and credit institutions are mandated to implement. It also spells out the terms of reference of the Financial Intelligence Service. However, the latest analysis reports by the Intergovernmental Action Group against Money Laundering in West Africa (GIABA) identify several shortcomings in the legal framework for AML/CFT, including administrative weakness to mitigate the potential for criminal activity in the registration of offshore accounts and granting of economic citizenship; the omission of some offenses in the Comorian Criminal Code (including human trafficking, migrant smuggling, and environmental crimes) as designated by the Financial Action Task Force of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG); and noncompliance with obligations relative to the criminalization of terrorism financing, as set forth by the 1999 United Nations Convention for the Suppression of the Financing of Terrorism.
- *Public-private partnership law*: In December 2017 the National Assembly adopted a law that specifies the legal framework of public-private partnerships (PPPs). The law was promulgated in January 2018. It specifies the types of contracts permissible under the PPP framework, the institutional framework, and the rules governing contract awards.

A range of institutions were set up to implement the laws and to support other efforts to address the country's governance challenges:

- *The National Committee to Fight against Money Laundering and Terrorism Financing*. This committee has the following objectives: (1) define the AML/CFT national policy, (2) propose any legislative, regulatory, or administrative reform necessary to achieve its objectives, (3) coordinate the various actions to be implemented in accordance with international bodies, (4) ensure permanent monitoring of progress made in the field, (5) monitor the commitments made by the country at the international level, and (6) define the necessary vocational training actions.
- *The Financial Research Service (SRF)*: This service receives and analyzes suspicious reports relating to money laundering and the financing of terrorism. The SRF works in close collaboration with the central bank and may use

correspondents in the police, gendarmerie, customs, state judicial, and other agencies involved in detecting infractions of laws relative to AML/CFT.

- *The National Directorate for Controlling Public Contracts and Public Service Delegation (NDCPCPSD)*: Article 7 of Law 17-019/AU (December 2017) introduced the NDCPCPSD as the entity overseeing PPP contracting operations.
- *The Public Procurement Regulatory Authority (PPRA)*: The PPRA presides over disputes under PPP contracts (Article 7, Law 17-019/AU, December 2017).
- *The Public-Private Partnership Support Unit*: This unit is the state technical entity presiding over the identification of suitable PPP projects (Article 8, Law 17-019/AU, December 2017).
- *The Ad Hoc Tender Committee*: This committee is responsible for preparing tender documents, evaluating tenders, and selecting candidates (introduced in Article 9, Law 17-019 /AU, December 2017).

Despite the setup of the legal and institutional framework, challenges to governance and combating corruption persist. Progress is constrained by administrative weakness and lack of political will in some cases. Capacity constraints include insufficient resources and a weak judicial system to oversee enforcement. The following section discusses ongoing challenges to governance in Comoros and suggests some reforms going forward.

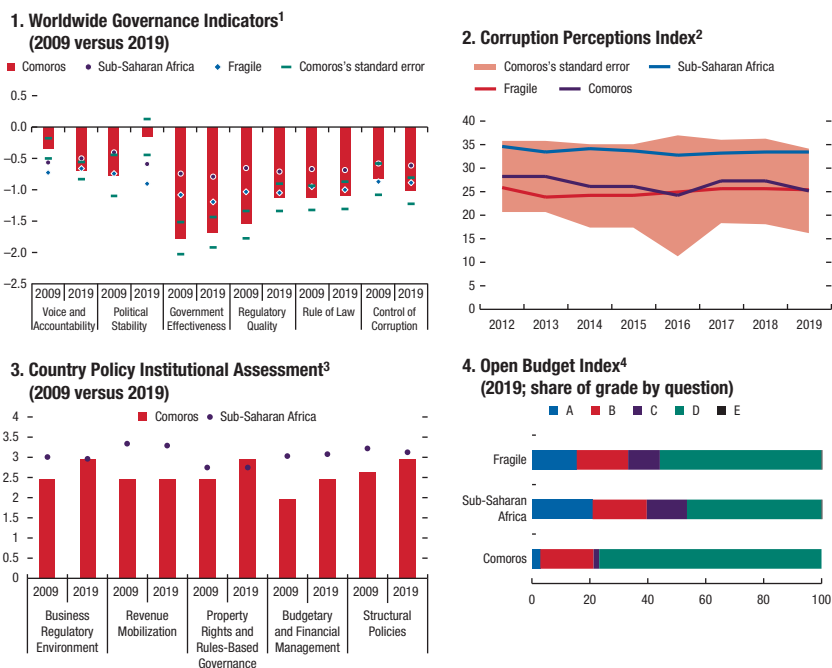
MACROCRITICAL GOVERNANCE CHALLENGES AND SUGGESTIONS FOR REFORM

Although Comoros performs well below the sub-Saharan African average and other fragile countries, recent developments and trends point to some progress over the years, as seen both in the Worldwide Governance Indicators (WGI) and in the Country Policy Institutional Assessment (CPIA). However, the country's performance has deteriorated across some areas, including voice and accountability and control of corruption (Figure 10.1).

Governance Issues in Managing Fiscal Operations

As highlighted in Chapters 1 and 2, weak governance in fiscal operations can drain public resources, and Comoros is no exception. Weak compliance in revenue administration is associated with high rates of tax evasion in Comoros. Large tax exemptions and investment incentives can further erode the tax base. Complex processes and the lack of transparency undermine the credibility and effectiveness of public financial management. Overoptimism in revenue and expenditure forecasts and the lack of a medium-term budget framework result in a weak multiyear perspective, thus harming effective planning decisions. Substantial leakages in the budget accrue from overpricing of low-quality products and services in the public procurement process, insufficient enforcement of

Figure 10.1. Comoros: Governance Indicators



Source: Worldwide Governance Indicators; Transparency International Corruption Perception Indicators; World Bank Country Policy and Institutional Assessment; International Budget Partnership; and IMF staff calculations.

Note: Use of these indicators should be considered carefully, as they are derived from perceptions-based data.

¹ The WGI estimates give scores on aggregate indicators, in units of a standard normal distribution (ranging from -2.5 to 2.5).

² The CPI uses a scale of 0 (highly corrupt) to 100 (very clean).

³ The CPIA ranges from 1 (low) to 6 (high).

⁴ The Open Budget Index score measures the extent to which key budget documents are made available to the public in a timely and comprehensive manner, with responses grouped as "A" (good accessibility of data) to "D" (no accessibility of data).

expenditure controls, and lack of transparency in reporting requirements. The following paragraphs discuss some of these challenges in more detail.

Revenue mobilization and public financial management in Comoros suffer from a pronounced lack of transparency due to the complexity of laws that hold back compliance (Table 10.1). Complex processes and a tax system that allows untransparent and arbitrary decisions, and discourages business registration and tax compliance, adversely affect domestic revenue generation. As a consequence, the number of active taxpayers in Comoros remains very low, with only 256 active taxpayers being followed in the Medium-Taxpayers' Office (almost all located in the capital, Moroni), while fragile country norms for economies of comparable size

TABLE 10.1

Comoros: Impact of Governance Weaknesses on Fiscal Management ¹		
Category	Weak Governance and Corruption Transmission Channels	Application to Comoros
Public Resources		
Revenue Administration	<ul style="list-style-type: none"> • Weakened compliance culture leading to high rates of tax evasion. • Large tax exemptions and investment incentives erode the tax base. 	<ul style="list-style-type: none"> • Tax revenue stood at only 8.3 percent of GDP in 2018 due to excessive exemptions, complexity in the tax system contributing to taxpayer noncompliance, a large informal sector, and weak administration.
Natural Resource Wealth	<ul style="list-style-type: none"> • Insufficient transparency around petroleum licensing and negotiation of production-sharing arrangements. 	<ul style="list-style-type: none"> • Recent news coverage of heightened public concerns about a lack of transparency about possible oil exploration and production-sharing agreements.
Public Financial Management		
Budget Credibility	<ul style="list-style-type: none"> • Overly optimistic revenue and expenditure forecasts. • Lack of a multiyear perspective due to lack of medium-term budget framework. 	<ul style="list-style-type: none"> • Overly optimistic revenue and investment spending forecasts, contributing to budget overruns and arrears accumulation. • High volume of in-year spending reallocations. • Absence of a medium-term budget framework and lack of budget alignment with the Comoros development strategy. • Inter-Island redistributive and allocational issues.
Wages and Pensions Transparency	<ul style="list-style-type: none"> • Leakages: ghost workers and pensioners, resulting in a deadweight loss. • Bloated, inefficient civil service that crowds out socioeconomic spending. 	<ul style="list-style-type: none"> • A large civil service and high public wage bill that crowds out other priority spending. • A civil service payroll that has not yet been fully audited for ghost workers and pensioners.
Public Procurement and Public Expenditure Controls	<ul style="list-style-type: none"> • Leakages: overpricing of low-quality products and services, resulting in wasted resources and lack of value for money. • Insufficient enforcement of expenditure controls, giving rise to off-budget commitments. 	<ul style="list-style-type: none"> • Expenditure controls remain weak (see PEFA assessments), allowing misallocation of public resources, extrabudgetary commitments, and a buildup of arrears.
Public Investment Management	<ul style="list-style-type: none"> • Investment decisions that lack transparency and are based on bribes and patronage—including bid-rigging, kickbacks, and conflicts of interest. 	<ul style="list-style-type: none"> • While the government's investment plan could provide clearer assessments of the rates of return of envisaged projects, little is known about the transparency of investment spending.
Treasury Financial Management	<ul style="list-style-type: none"> • Theft from unmonitored accounts outside the TSA. • Embezzlement enabled by weak financial controls. 	<ul style="list-style-type: none"> • Continued use of an "investment account" in parallel with the TSA facilitates off-budget expenditures and limits transparency.
Extrabudgetary Funds and Public Enterprises	<ul style="list-style-type: none"> • Lack of transparency and compliance with fiscal reporting requirements. • Misappropriation of budget and own funds. 	<ul style="list-style-type: none"> • Fees and charges below cost-recovery levels, insufficient accountability in the absence of performance contracts, and cross-arrears between the state and SOEs reduce and undermine transparency.
Foreign Assistance, External Borrowing, and Public Debt		
Debt, Aid, and Other Foreign Inflows	<ul style="list-style-type: none"> • Diversion of funds by bureaucrats. 	<ul style="list-style-type: none"> • Large Comorian citizenship and passport scandal reinforcing concerns regarding AML/CFT and reportedly leading to large-scale misappropriation of funds.

¹ This table builds on Figure 2.3 from IMF (2019, p. 42).

and macroeconomic characteristics suggest that 1,500–2,000 taxpayers would be more appropriate. The relative lack of transparency also characterizes revenue from SOEs, which are put under financial strain by below-cost recovery tariffs, thereby limiting their ability to contribute to government revenue. Weak oversight and cross-arrears between SOEs and the government further limit the scope for transparency. Overly ambitious budgeting through 2018 also undermined the transparency and credibility of public financial management by creating large deviations between budget forecasts and realized revenue and spending. Low scores in the 2019 Open Budget Survey and PEFA assessments (for 2016) point to the low levels of transparency in Comoros relative to comparators.

Sustainably improving revenue mobilization, based on realistic and attainable budgetary targets, is key for financing Comoros's medium- to long-term development goals without endangering debt sustainability. Broadening the tax base and thereby increasing the tax ratio to develop more predictable budgetary financing sources will aid the execution of Comoros's ambitious investment program, which underpins the country's development strategy. At the same time, it will help to improve the execution of investment expenditure and limit the recourse to potentially unsustainable external borrowing. Simplification and better application of tax and customs laws offer substantial potential for quick wins. In the meantime, strengthening the framework for internal controls—including the control environment, authorization, and approval procedures (for example, mandating the use of payment vouchers for all procurement transactions), risk assessment, and monitoring—and adoption and enforcement of sanctions for extra-budgetary spending would help prevent further accumulation of arrears.

Challenges in Upholding the Rule of Law

The rule of law, particularly the enforcement of contracts, remains fragile in Comoros. The judicial system is weak and cases tend to linger in the courts for years, and judgments are frequently not enforced. The causes of judicial sector weakness likely include some combination of insufficient funding and political interference.

To overcome this weakness, the authorities should strengthen the effectiveness of the judiciary in protecting property rights and enforcing contracts and create an enabling environment for private investment through regulatory reform. In addition to curtailing political influence, actions could include seeking a judicial system diagnosis from a credible outside partner, enhancing funding of the judicial system, improving staffing in a low-cost manner by complementing the corps of professional judges with laymen judges, and strengthening arbitration options.

Anticorruption Efforts and AML/CFT Measures

Comoros's implementation of anticorruption measures faces significant challenges. The NCPFC has been dismantled, leaving a gap in the architecture and increasing the ambiguity regarding the obligation for senior public officials to declare their assets to the Commission. GIABA, to which Comoros belongs, has

identified important shortcomings in Comoros's fight against money laundering and the financing of terrorism, and has asked the authorities to adopt a time-bound action plan to strengthen the legal framework, to amend the penal code to adequately criminalize money laundering and the financing of terrorism, and to amend the AML/CFT law to strengthen customer due diligence.

To address additional weaknesses within the legal framework for AML/CFT, financial institutions should be expressly required to report transactions that may be related to money laundering and proceeds of corruption or to suspected financing of terrorism. (This is currently not the case, as the framework only requires reporting of transactions of funds of unlawful origin.) Adjusting the laws to prevent the misuse of legal persons (for example, companies) and arrangements (for example, trusts) for money laundering and corruption and ensuring that information on the beneficial owners of these persons and trusts is available to competent authorities will also be critical.

Implementation of the framework for AML/CFT will also be critical. The SRF, which oversees implementation of AML/CFT laws, and the central bank's Supervision of Financial Institutions Unit have extensive capacity building needs. Overcoming these gaps is key in the process of strengthening the implementation of the framework for AML/CFT. In addition, strengthening the asset declaration regime for high-level officials—including by requiring publication of the declarations and reoperationalizing the anticorruption commission or creating a similar body and bolstering its powers to promote investigations of acts of corruption—will be important.

While the government has formulated and begun implementing an action plan for addressing deficiencies in efforts regarding AML/CFT (including the promulgation of a revised penal code in May 2021), effectiveness of the national regime remains weak, and stronger efforts are needed. Substantial additional efforts are required to address deficiencies regarding AML/CFT by promptly implementing the outstanding recommendations of the GIABA and ensuring the effectiveness of the national regime for AML/CFT.

Governance Issues in Managing the Civil Service

Finally, civil service management in Comoros suffers from hiring and promotion decisions based in part on considerations other than merit (such as patronage), contributing to skills mismatch, high turnover, and weak accountability (World Bank 2019). These challenges in turn impede results in many areas of public administration, including in key areas such as revenue mobilization, public financial management, and education services. Success in improving governance of the civil service will enable better performance in all areas of government activity. Capacity development efforts by international development partners have suffered from implementation challenges. In addition, ghost workers on the payroll undermine transparency in public sector wages and pensions.

The authorities are undertaking initial steps to strengthen the civil service and should broaden and deepen these efforts. Initial attempts to address absenteeism

and detect and remove ghost workers and recover wages paid to them have begun. The authorities are considering strengthening hiring through an entrance exam in all parts of the civil service, as is already the case at the central bank; strengthening the training of civil servants by creating a school of administration; and enhancing performance management. These efforts should be strengthened and broadened.

CONCLUSION

The potential for reform and consequent development gains is large, despite persistent weaknesses in Comoros's political and economic environment. Fragilities in public financial management, civil service, and the legal and regulatory frameworks have long constrained the business climate and economic growth in the island nation. Initial actions taken by the government must be followed by a commitment to reform and by efforts to increase resource mobilization. A robust strategy to improve governance in Comoros can bring higher revenues, provide more legal and institutional transparency, and reduce leakages in the system—all crucial elements for strong and sustainable economic development.

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