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Federal Islamic Republic of the Comoros Poverty and Growth in a Traditional Small Island Society

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CURRENCY EQUIVALENTS

Currency unit -- Comorian Franc (CF)

1990	US\$1	=	CF 272
1991	US\$1	=	CF 282
1992	US\$1	=	CF 264
1993	US\$1	=	CF 290
1994	US\$1	=	CF 440 (projected)

MEASUREMENTS

1 meter	=	3.28 feet
1 kilometer	=	0.62 mile
1 square kilometer	=	0.39 square mile
1 hectare	=	2.47 acres

FISCAL YEAR

January 1 - December 31

This report is based on the findings of a mission which visited the Comoros in September 1993. The report was prepared by Ms. Amolo Ng'weno. Mr. John Ngwafon, Mr. Girindre Beeharry and Mr. Jean-Luc Dubois (consultants) contributed to the report. The peer reviewer was Ms. Lynne Sherburne-Benz. Mr. Francisco Aguirre-Sacasa is the Department Director, Mr. David Berk is the Division Chief and Mr. Ulrich Thumm is the Lead Economist for the Department.

ABBREVIATIONS AND ACRONYMS

AIDS	Acquired Immuno Deficiency Syndrome
CASP	<i>Centre d'Appui au Secteur Privé</i> Private Sector Support Center
CEFADER	<i>Centre Fédéral d'Appui au Développement Rural</i> Federal Rural Development Center (agricultural agency of the Ministry of Production)
ESN	Economic Strategy Note
FADC	<i>Fonds d'Appui au Développement Communautaire</i> Community Development Social Fund
GDP	Gross domestic product
GNP	Gross national product
PFP	Policy Framework Paper
PNAC	<i>Pharmacie Nationale Autonome des Comores</i> National Autonomous Pharmacy of the Comoros
UNDP	United Nations Development Program
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations Children's Fund
WHO	World Health Organization

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EXECUTIVE SUMMARY

Economic Structure and Socio-Economic Achievements

- i. GDP per capita in the Comoros has been declining by approximately 2% per year in the 1980s and by 1% in the 1990s, due to the high population growth rate (2.7%) and low rate of economic growth (around 1%). GNP per capita is estimated at about US\$530 in 1992, although after the January 1994 devaluation of the currency this is likely to be revised to about US\$400 per capita. Although not worse than those for other countries of its income group, social indicators are poor, characterized by high rates of illiteracy (about 50% of the adult population) and infant mortality (90 per thousand). Life expectancy is estimated at 56 years. However, the extreme manifestations of poverty (famine, homelessness) are rare, and the great majority of people have access to adequate food, clothing, shelter and water. Although there has been no national income and expenditure survey, data from the 1991 census tend to support the view that poverty is not widespread and severe. A survey planned for 1994/95 should give a better idea of where pockets of poverty may exist and provide a framework for monitoring the poverty situation, including the impact of economic reforms on the living standards of the poor.
- ii. Social services are well distributed over the country (over 90% of people live within 1 hour walk of a health center), but are plagued with quality and efficiency problems. These include inadequate and unreliable execution of the budget for recurrent expenditures. Major reforms are planned in the management of both health and education facilities.
- iii. The main pillars of the economy are agriculture (especially high-value export crops such as ylang-ylang, vanilla and cloves) and, increasingly, tourism. Agriculture is dominated by small-scale farmers, and is highly monetized as most farmers produce export crops. However, agricultural services are weak, including public services of extension as well as private conservation, distribution and marketing. There is a good transport network, but the financial sector is underdeveloped and there is relatively little inter-island trade. Unemployment and underemployment are high as the private sector is small and concentrated in trading; access to credit is difficult and there have, until recently, been a large number of regulations hampering the creation and growth of companies.
- iv. A strong traditional social safety net based on the extended family and village community provides support to village members. The exceptions to this general rule include individuals cast out of society for reasons such as out-of-wedlock pregnancy. Other groups who may be at risk include landless sharecroppers and agricultural workers, particularly on the island of Anjouan. Given the matrilineal inheritance and responsibility structure, women are not thought to be an especially vulnerable group. Remittances from Comorians abroad constitute a major source of investment capital and an important element of the safety net. In order to build on the tradition of community association, the Comorian government has recently created a Community Development Support Fund

(*Fonds d'Appui au Développement Communautaire*) which has implemented community-based projects covering 6% of the country in its first year of operation.

Anti-Poverty Strategy

v. The findings of this report reinforce the Government's Policy Framework Paper (1994-96) as well as the recommendations made by the World Bank in other studies of the Comoros and its economy, in particular the Economic Strategy Note (1993). The foundations of the **poverty reduction strategy** are growth with equity, and improved social services. The Comoros' long-term growth strategy is to enhance growth in the traditional areas of agriculture and services while favoring the creation of manufacturing and higher-technology services such as banking and other business services. This hinges on the success of the present economic reform program which liberalizes regulation of the economy and should provide an incentive to export and business creation, as well as on a well-conceived and effectively-implemented strategy of human resource development, including a deceleration of population growth.

vi. **Growth** would be led by strategic sectors, of which agriculture would be the most important in the short term for its impact on poverty. The Government must also proceed rapidly with structural reforms in other sectors, in order to generate the jobs and rising real wages which will provide an escape from poverty for the bulk of the population. These reforms include improving access to credit, revitalization of export markets and efficient import substitution through the January 1994 devaluation of the currency, and facilitating private sector diversification and entrepreneurship, with an overall effort to lower the barriers which now impede the poor from entering the private sector and from graduating to the formal sector.

vii. **Social services** can be improved through the resolution of efficiency issues, most importantly the rationalization of the personnel structure of the Ministries of Health and Education in favor of more qualified staff distributed better over the various facilities on the three islands; and an improvement in the reliability of payments under the recurrent budgets. In order for the Government and the individual households to be able to afford the necessary quality improvements, the country will have to move more quickly to make the family planning system work properly. Otherwise, the stress on the system of simply providing an adequate quantity of services will overshadow all quality improvements. The Government needs to take stronger action through policy leadership, outreach campaigns, and appropriate staff training and supervision.

viii. **Community-based initiatives** are a dynamic source of investment and public service provision. Government policies should continue to support self-managed development at this level. In order to keep the provision of social goods as cost-effective as possible, the Government should make the maximum use of the market in attaining social objectives. In addition, competitive bidding for government contracts for the provision of consumer items such as rice and petroleum derivatives will result in lower prices and increased welfare.

I. INTRODUCTION

1. This report provides baseline information on poverty, the characteristics of poor families, and the factors which tend to perpetuate poverty across generations. It also describes efforts made by the state to alleviate poverty. This report is based largely on the population census of 1991, produced by the Statistical Office of the Ministry of Finance of the Government of the Comoros, as well as the 1981 census and other reports produced by the Government. A list of these sources and related readings is found in Annex A. The Economic Strategy Note (ESN) produced by the World Bank in 1993 was well received by the Comorian Government and widely discussed; its conclusions are further supported by this Poverty Assessment. The executive summary of the ESN can be found in Annex B. The ESN provides a long-term vision which has been operationalised in the Government's most recent Policy Framework Paper (PFP) (1994-96) reviewed by the World Bank's Board of Executive Directors on March 11, 1994.

A. ECONOMIC BACKGROUND

2. The Federal Islamic Republic of the Comoros consists of three islands located in the Mozambique Channel between Madagascar and the African continent. It gained its independence in 1975. In 1991, according to the population census, the Comoros had a population of 446,817 people. GNP per capita stood at about US\$530 in 1992.¹ After independence, the Comoros concentrated on developing its physical and social infrastructure, with assistance from the international community. The country now has a satisfactory transportation infrastructure and, as shown in Table 1, its key social indicators (life expectancy, infant mortality rate, primary school enrollment) are similar to those of other countries of its income group and somewhat better than average for its geographical region (sub-Saharan Africa).

3. During the first decade after independence, economic growth, mostly generated by public investment, was rapid (6% a year). However, between 1986 and 1990, the growth rate slowed to about 1% a year (well below the estimated population growth rate of 2.7% a year). The economy was in a critical state by the early 1990s, reflected in negative savings, a structural deficit in the balance of payments, a substantial budget deficit (26% of GNP on the average over the period 1986-89) and growing dependence on external assistance, with an external debt that quadrupled between 1980 and 1990.

4. To solve this crisis, in 1990 the Government, with the assistance of the international community including the World Bank and the IMF, embarked on reforms designed to reduce macroeconomic imbalances and restore the basis for growth. The fiscal deficit was lowered to 18% of GNP by 1993. However, growth objectives were not met and the average growth rate in 1991-93 was less than 2%, resulting in continued per

¹ This figure will be revised downward based on the new exchange rate adopted in January 1994. A more realistic value is probably about US\$400 per capita.

capita income declines. A key measure within the overall growth-oriented economic reform strategy was the devaluation of the Comorian Franc (CF) by 33% in foreign exchange terms in early 1994.

Table 1: Comparative social indicators for the Comoros

	Population (thousands)	GNP per capita (US\$)*	Life expectancy (years)	Infant mortality (per 1,000)	Gross primary enrollment (%)	Population growth rate (% p.a.)
Comoros	450	530	56	89	86	2.7
Cape Verde	389	750	68	40	115	2.3
Djibouti	546	n/a	49	115	39	4.7
Madagascar	12,366	210	51	114	93	2.9
Guyana	806	460	65	48	112	0.6
Maldives	229	430	62	55	n/a	3.1
Average low- income countries			62	73	103	1.8
SSA Average			52	99	66	2.9

Source: *Social Indicators of Development 1994*, Bank staff estimates (most recent).

* The GNP per capita of the Comoros will be revised downward to around US\$400 following the January 1994 devaluation.

B. SOCIAL STRUCTURE AND HISTORY

5. The Comoros is composed of people of African and Arabic origin, with some Polynesian influence from nearby Madagascar. It has a mostly matrilineal and matrilocal social structure², except in Anjouan which has a patrilineal inheritance system inherited following conquest by the Shirazis from Persia. Virtually all Comorians are Sunni Muslims. Social recognition continues to depend heavily on the status the family held during the pre-colonial era, during which the country was composed of several (often warring) kingdoms, which had a complex hierarchy of social strata, ranging from princely families to slaves.

6. Women tend to own the physical assets, especially houses and farm land. This has provided some insulation against the ill effects of the very high divorce rate. Census figures indicate an average of more than four marriages per lifetime for both men and women. Children tend to stay with the mother after a divorce, and divorced women made up nearly half of female-headed households in 1991.

7. Like many island countries, the Comoros has a large emigrant population, mostly in France, the Arabian peninsula and neighboring African countries. This population is at least 100,000 people, and their remittances constitute an important

² Under a matrilineal system, inheritance is through the female line. A matrilocal system is one in which the husband moves into the wife's household upon marriage.

addition to the income of many Comorian families, as well as to the national income. Remittances are estimated at about US\$8 million per year, equivalent to the sales of vanilla, Comoros' biggest export (about \$18 per capita and over 3% of GNP).

8. Political life has been eventful since independence in 1975. Since 1989, a process of democratization has been underway with notable achievements including a free press, elected government at all levels, and an active political environment. Nevertheless, frequent changes in the Cabinet have often hindered the implementation of development programs. Elections took place in late 1993, strengthening the Government majority in Parliament.

II. POVERTY PROFILE AND SAFETY NET

9. There has been no representative household survey of incomes and expenditures in the Comoros (see Annex C for more information on the few available statistics, the limited capacity of the statistical office, and on a survey planned for 1994). With the data available, it was not possible to conclusively draw a poverty line. However, unusually for a population census, the census of 1991 recorded several types of information useful in identifying poverty.

10. Despite the shortage of data, it is safe to conclude that the proportion of the population in relative poverty overall is high given the low per capita income and low level of provision of public services of health and education. On the other hand, qualitative research indicates that the severest manifestations of poverty (homelessness, famine) are unusual in the Comoros, and, if they exist at all, are confined to a few small pockets or individuals. In addition, there are no obvious signs of a deterioration in the poverty situation, although this should be monitored to evaluate the short-term impact of the 1994 devaluation and other adjustment measures such as the reduction of the civil service and privatization of state-owned enterprises.

A. WHO ARE THE POOR?

11. Settlement in the Comoros is in tightly knotted rural villages and small towns. The traditional social safety networks well within a village but not across villages. Thus, although villages tend to protect their poorest members, the overall level of poverty can differ sharply by village. Table 2 gives an indication of several social indicators across the three islands.

Table 2: Selected Social Indicators by Island

Averages		Grande Comore	Anjouan	Moheli	Comoros
Social					
N° of marriages per lifetime	male	5.7	3.3	4.3	4.7
	female	5.1	3.0	3.4	4.2
Employment					
% adults working in formal sector		8.6	6.7	11.7	7.7
% adults self-employed		21.0	32.5	27.0	25.8
Education					
Gross primary school enrollment ratio (%)		99.6	70.6	99.9	86.1
% girls in primary school		47	45	46	46
% of land area under:	area (Ha)	101,100	42,400	21,100	164,600
Natural vegetation		31.7	7.8	19.6	24.0
Tree crops**		36.6	71.0	55.6	47.9
Non-tree crops		24.2	18.9	21.3	22.5
Non-ag. use		7.5	2.3	3.5	5.6
Housing					
% households with safe water*		65.5	80.3	73.9	71.8
% households owning own home		88.3	93.1	91.1	90.3

Source: Population Census, 1991, Government of the Comoros, Education statistics from the Ministry of Education, 1994.

- * Indoor or neighbor's running water, private or public cistern, public fountain
- ** Tree crops in Comoros are environmentally sound in the mountainous geography as well as usually consisting of high-value niche exports such as perfume essences, spices and beverages.

12. **Grande Comore** has 233,000 inhabitants (250 per sq. km). It is the richest island with income resulting from the civil service, formal and informal sector, agriculture, and a high level of transfers from migrant residents in France. Strong village and family links appear to provide good protection for the poorest.

13. **Anjouan**, with 188,000 inhabitants (470 per sq. km) is the poorest island due to the high population density, high fertility rate and the small number of emigrants who send remittances from abroad. About 20% of households are landless sharecroppers or squatters, and these are likely to form the bulk of the truly needy in the Comoros. Education rates are noticeably lower in Anjouan than on the other two islands. Localized surveys have shown high malnutrition rates among children. Environmental problems are particularly severe with the erosion of watersheds. Despite the abundance of rivers and water, many villages suffer from water supply problems, partially due to the mountainous terrain.

14. Moheli, with 24,000 inhabitants (120 per sq. km), has more cultivated area per inhabitant. It has been the target of significant migration from other islands, so its remaining natural forest is quickly being depleted. Infrastructure is much less well developed than in the other islands, and other services operate infrequently (e.g. the sole commercial bank opens once every 2 weeks).

Housing and Living Conditions

15. About 30% of the population live in towns of over 5,000 people. Housing materials are usually stone, mud or woven palm fronds. Roofs are thatch or tin. Unfortunately, it was not possible to link information about construction materials to poverty indicators. Virtually everyone owns their own house, and most people have access to safe water and reasonable sanitation. However, the low level of radio ownership (present in only 35% of households) may reveal a degree of isolation which could form one of the obstacles facing the growth of small-scale enterprises (formal and informal). Other housing information can be seen in Table 3.

Table 3: Living Conditions (% households in each situation)

	Grande Comore		Anjouan		Moheli		Comoros Total
	Urban	Rural	Urban	Rural	Urban	Rural	
Housing							
Rent house	20.6	0.3	2.2	0.9	1.4	2.8	3.4
Own house	71.0	93.6	87.1	94.9	91.8	90.4	90.3
Other	8.4	6.1	10.7	4.2	6.8	6.8	6.3
Water source							
Indoor tap	12.4	1.0	52.2	22.2	32.6	7.0	14.5
Neighbor tap	5.3	1.2	26.4	16.8	26.9	3.5	9.5
Private cistern	25.4	49.5	1.2	0.5	0.9	0.6	24.3
Public fountains & cisterns	41.9	7.9	11.7	37.5	27.7	49.7	23.5
Wells & boreholes	5.0	17.1	0.1	0.0	0.1	14.4	8.3
Rivers	1.1	2.8	1.7	15.7	3.1	16.9	6.8
Other	8.9	20.5	6.7	7.3	8.7	7.9	13.1
Sanitation							
Flush toilets	7.2	1.2	4.2	1.4	1.7	2.0	2.4
Latrines	79.9	81.2	76.6	80.8	66.3	54.2	79.0
No toilet	6.2	9.3	11.7	11.3	25.2	37.6	11.3
Other	6.7	8.3	7.5	6.5	6.8	6.2	7.3
Lighting							
Electricity	41.7	10.8	30.7	6.2	23.0	5.1	15.4
Lamps	57.8	89.0	69.1	93.6	76.6	94.6	84.3
Other	0.5	0.2	0.2	0.2	0.3	0.3	0.4
Own radio	54.2	39.9	34.8	21.0	27.3	21.9	34.7

NB: "other" includes "not declared" responses

Source: Population Census, 1991, Government of the Comoros

Employment and Wages

16. Unemployment, underemployment and low productivity are features of poverty in the Comoros as in many other countries. Until the recent devaluation of the Comorian franc, relatively high wages (in foreign country terms) and low productivity had contributed to poverty by making the Comoros uncompetitive in international markets. Table 4 below gives the census results on the employment status of adults. The high level of response in the category of "student" reflects not only the low efficiency of the education system (meaning that many people over age 12 are still in primary school), but also the likelihood that it is more socially acceptable to call oneself a student than to admit to being unemployed. In addition, high unemployment and underemployment may be hidden in the category "self employed."

Table 4: Selected Employment Indicators by Island (% of Adult Population)

Averages	Formal Sector	Self Employed*	Formal Sector	Others**	Housework	Unemployed	Population Over Age 12
Grande Comore	8.6	21.0	25.9	13.2	21.3	10.0	156,654
Anjouan	6.7	32.5	21.1	10.3	21.6	7.8	109,804
Moheli	11.7	27.0	26.3	3.5	25.3	6.2	14,881
Comoros	7.7	25.8	24.0	9.9	23.6	9.0	281,339

* Includes agriculture/farmers

** Apprentice, task worker, unpaid family worker, retired etc.

Source: *Population Census, 1991, Government of the Comoros.*

17. Until the recent devaluation, the average formal sector wage was CF 40,000/month or about \$0.80/hour, compared to less than \$0.15/hour in Madagascar and low wages in other countries (such as Indonesia at \$0.18/hr)³. Even after the devaluation, wage rates are still fairly high and may price the Comoros out of some markets. These high wages have constrained the growth of formal sector enterprises, with the number of formal sector employees growing by about 4% a year in the 1980s, above the population growth rate but not nearly enough to absorb a growing number of school-leavers. Private manufacturing is estimated to employ only 1,000 people, with services employing about 21,000.

B. SOCIAL SITUATION AND TRADITIONAL SAFETY NETS

18. A number of traditional safety nets exist and do a good job of protecting the poor in general. Of these, the extended family constitutes the first and most important. With inheritance and responsibilities passed from mother to daughter, protection of the

³ Source: Bank staff estimates, and *Bobbin*, Sept. 1992.

welfare of the family becomes an important obligation for women. Family members in need of assistance have the right to demand it from their relatives, and those relatives have the obligation to give it. This system is particularly effective in protecting single mothers (and other single women) from severe poverty.

19. Within a village, close links exist which are supported by religious obligations, traditional family roles, and the normal interdependence of a small community. These links remain when village members travel abroad, and remittances are a very important source of investment and a buffer against hard times. These remittances are often directed to the village in general (village development committees and religious associations) in addition to the emigrant's own family.

20. Nonetheless, some people remain outside of these nets and are at particular risk of poverty, which is always partly determined by social standing. The numbers are thought to be small, but these people suffer acute poverty and lack social support and recognition in a country where these form an integral part of the culture. Given the matrilineal system, men without female relatives have been identified as a particularly vulnerable category of the population. Other vulnerable individuals include women who have been cast out of the protective family net (usually due to out-of-wedlock pregnancy or illicit affairs). In the Comoros, divorced women are not subject to the stigma which puts them at risk in other countries. Young female heads of household are unusual, and there are low rates of out-of-wedlock teenage pregnancy.

21. Families descended from pre-colonial slaves may be also subject to discrimination and other social pressures which do not allow them to fully participate in development. However, these cultural structures are being superseded by the growing importance of the "Grand Mariage"⁴, which allows a person of any background to become a respected and prominent member of village society. Consequently, the main factor perpetuating poverty across generations is the low level of education among the poor, particularly girls, which limits their employment and trade options as well as limiting their contact with other classes, and mobility.

22. In terms of support to the poorest, there is not much of a public safety net. Safety net activities include untargeted free food aid, which is being phased out, as well as remaining price controls on staple goods including rice and energy. These latter were introduced at the time of the 1994 devaluation but will be relaxed or phased out over time. An effort is underway to design a targeted system of food aid distribution. Other institutions, including religious organizations (including the Catholic church which has a mission, a school and a nutrition and primary health care clinic) provide additional support to the most vulnerable.

⁴ This is a ceremony by which the couple attain high status in the village as the husband formally joins the wife's family. Thereafter the husband is permitted to address public meetings (women are not allowed to address ceremonial gatherings). It has become a way for any family of sufficient financial means to attain social prominence. The ceremony involves the whole village and requires large gifts.

III. INCENTIVE AND REGULATORY FRAMEWORK

A. MACROECONOMIC ISSUES

23. Per capita GDP declined by an average of 2% per year between 1985 and 1990, although average agricultural growth was 3.4% in 1986-91. In 1989-90 the Government started to make efforts to reverse the slide. Its reform program starting in 1991 was recently extended to 1996. Growth is to be export-led, with increases in per capita income and a more equitable income distribution. In the near term (covered by the current program), growth will be led by agriculture (for domestic and export markets), and tourism. These sectors are all favored by the 1994 devaluation.

24. The Comoros' long-term strategy is to increase growth through increasing productivity in agriculture and developing the small-scale and informal sector, while expanding into new areas such as tourism, export processing and financial and other business services. This growth strategy would generate employment at all levels of the economic structure, and, as productivity and output expands, should lead to rising real incomes. Growth in agriculture, including productivity growth in high-value exports would benefit the small-scale farmers who constitute the bulk of the poor and near-poor.

25. The impact of macro-economic reforms, especially the 1994 devaluation, on the poor is hard to gauge without data on their consumption and income sources. To the extent (probably quite large) that they produce export crops, the poor will benefit directly. They will also benefit from consumers switching from imported rice to domestically-produced starches such as tubers, and from a progressively increasing domestic content of tourism. They will also be positively affected by other changes enhancing the business environment and employment creation, such as improvements in the legal system, trade liberalization, better access to credit and better land tenure. In the long run, the poor are likely to benefit significantly from these reform efforts, and this will enable a growing number of them to escape from poverty. However, in the short run, the poor could be disproportionately hurt by increases in the prices of rice and transport, as the goods and services they produce are largely for domestic consumption and are not undergoing the same price hikes. Government action to offset these increases through greater competition in international purchasing (see Box 3 in Section V below) therefore is likely to be of significant benefit to the poor.

B. SECTORAL ISSUES

26. Economic growth in the Comoros which will have a positive effect on the poor will be growth in agriculture and in the small-scale private sector (including informal enterprises). Employment and productivity growth in the sectors which depend on an appropriate policy environment (macroeconomic policies including an open trade regime and a competitive exchange rate as well as a liberal regulatory framework with ease of

entry and exit) will increase incomes and provide more resources for savings and investment.

27. Agriculture accounts for about 40% of GDP, and aside from a few large plantation owners, takes place on a small scale. In Anjouan large farms have been invaded by squatters and sharecroppers, and about 20% of households have no land at all. Tropical fruits and vegetables are the main agricultural products, as well as export crops such as vanilla, cloves and ylang-ylang. Other specialty agricultural exports (such as coffee, cinnamon and cocoa) have been lost in the 1970s and 1980s as the Comorian economy with an overvalued exchange rate was not able to adjust to international price changes. Households usually own several small parcels of land at different altitudes, which helps them diversify production and risk. Most agricultural work is done within the family; there are few salaried agricultural workers. Techniques are unimproved and productivity relatively low given the climate and soil conditions (Table 5).

28. The agricultural economy is heavily monetized. This will help the benefits of the recent devaluation to reach small-scale farmers directly, but at the same time makes them vulnerable to price changes for purchased items, most importantly rice. It is likely that consumers (including hotels and restaurants) will at least partially switch to domestically-produced starches and vegetables. The magnitude of this switch will determine its impact on the poor. If people buy less of other nutritious foods in order to keep up their rice intake, it could have negative nutritional effects. At the other end, if they switch to tubers and vegetables which are produced by the poor, it would have a positive impact on the incomes of the poor and could help them diversify into new crops (such as potatoes, tomatoes, beans etc.).

Table 5: Agricultural indicators for the Comoros, 1992

% of land area under:	Grande Comore	Anjouan	Moheli	Total
Natural vegetation	31.7	7.8	19.6	24.0
Tree crops*	36.6	71.0	55.6	47.9
Non-tree crops	24.2	18.9	21.3	22.5
Non-agricultural use	7.5	2.3	3.5	5.6
Fishermen	4,500	2,400	1,100	8,000
Farming households in 1987	25,345	14,364	1,988	41,697
% which, producing:				
vanilla	54	43	31	49
cloves	9	53	13	24
ylang ylang	1	23	0	8

Source: Government of the Comoros; World Bank staff estimates

- * Tree crops in Comoros are environmentally sound in the mountainous geography as well as consisting of high-value niche exports such as perfume essences, spices and beverages.

C. PRESSURE ON THE ENVIRONMENT

29. The major environmental problems of the Comoros are closely linked to poverty. The falling productivity of agricultural land is due to the high population growth rate and slow acceptance of improved technologies, which itself is related to the low educational level of most of the adult population. For instance, on Anjouan, where the population is densest, fallow periods have been virtually eliminated. Deforestation is another major problem, with negative consequences for the reliability and supply of water resources. Between 1950 and 1985 about 60% of forest cover has been lost, particularly on Anjouan. Accelerated deforestation has reduced forests on Moheli, by about 60% between 1974 and 1985.

30. The Government is developing a National Environmental Action Plan (to be finalized in 1994) which will spell out measures to protect the Comoros' fragile environment. Some of these measures (such as improving land tenure) will have positive effects both on poverty and on the environment. Overall, however, restored economic growth through both intensification of agriculture and diversification into non-agricultural activities, and a successful family planning program are the only long run options for relieving pressure on the environment.

IV. THE CORE EXPENDITURE PROGRAM

31. Given the smooth functioning of the traditional safety net, and low incidence of the most serious forms of poverty, a public system of targeted transfers does not seem necessary at this time. The priority is, and should be, on improving the accessibility of basic services by attracting clients through the quality and reliability of health and education -- a program of expenditures in core sectors.

32. Since Independence, the Government has been successful in densely covering the country with primary health and education services, which if functioning properly would be sufficient to provide poor children with the tools to raise them out of poverty: literacy and good health. Policies and spending (both absolute amount and distribution between levels of service) have generally been in line with internationally-recommended norms.⁵ However, the results have been disappointing due mainly to unreliable funding of recurrent expenditures, poor management and the pressure of population growth. The effort must now be focused on improving the financing of the sectors, overcoming management problems (especially those related to personnel) and reducing population growth. Major reforms are presently being undertaken in the health sector, and planned in the education sector, which would attempt to achieve these goals within the framework of the Government's economic reform effort, including the reform of the civil service and the fiscal constraints laid out in the economic program.

A. SOCIAL SECTORS

Population, Health and Nutrition

33. A continuing toll of mortality and morbidity due to preventable diseases are the major features of the health sector, as well as problems associated with excessive fertility. Mortality indicators for the country overall are better than the sub-Saharan African averages (see Table 1). The high prevalence of sexually transmitted diseases and low use of condoms represent a major public health threat in the era of AIDS, which has already reached the island. Malnutrition is mainly associated with poor eating habits rather than an absolute lack of food. The need for health education is pronounced. Although family planning services are available at all health facilities, use remains low (with a contraceptive prevalence rate estimated at 4% of couples).

34. Government policy since independence has stressed primary health care, a policy which has been renewed in the strategy for the year 2000. It has achieved some significant successes; 80% of the population lives within 1 hour's walking distance of a health facility, excellent by African standards. Public expenditures on health are estimated at about 9% of total public expenditures, or about 2% of GDP, for a total of US\$7.50 per

⁵ With a few exceptions, such as a high level of spending in the past on "medical evacuations" and foreign "scholarships." However, in agreement with donors, these expenditures are being limited.

capita (see Table 6 below). Under the public sector reform program, overall spending levels are likely to remain roughly constant in real terms through the 1990s, and no new construction of facilities is planned.

Table 6A: Ministry of Health: Budget by Facility Level

Level	Number	1993 recurrent budget (CF million)
Hospitals	5	421
Health Centers	15	217
Health Posts	approx. 65	-
Admin./ Inspection other		224

Source: Government of the Comoros

Table 6B: Ministry of Health: Budget for Salaries

Ministry of Health recurrent budget (CF million)	1992	1993
Salaries	670	589
Non-salaries	68	274

Source: Government of the Comoros

35. Sufficient essential drugs are provided through a reliable system of village pharmacies, which buy from the Autonomous National Pharmacy (PNAC). All pharmacies charge for medicines. The PNAC has access to donor-financed supplies, and manages to be 100% self-financing for recurrent costs. It has complete management autonomy from the Government and aims to break even while ensuring an adequate and continuous supply of essential medicines. Village pharmacies are managed by local committees, with frequent supervision from the PNAC.

36. Health centers are headed by at least a properly trained nurse but there is an overall shortage of qualified paramedical staff. The Ministry employs a falling number of "volunteer nurses" who have only received on-the-job training and who are to be replaced with trained staff who are presently unemployed. Supervision and referral between centers are weak and no system of rotation or in-service training exists.

37. Unfortunately utilization of public health facilities is extremely low, due to the low quality of the services provided. This is due to the poor physical state of many facilities (some lacking a reliable water supply), problems with staff rudeness and lack of training, and the unreliability of supplies other than drugs.

BOX 1: MITSOU DJE HEALTH CENTER -- YOU GET WHAT YOU PAY FOR

In 1991, the community of Mitsoudjé on Grande Comore raised money for the construction and equipping of their local (public) health center, after conducting a survey in the surrounding villages and with support primarily from the UNDP, they decided to institute a new administrative and financial regime.

- All care in the center is paid. The basic consultation fee was set equivalent to the cost of the taxibus to the nearest hospital (then about \$1).
- Other services have other prices. For example, seeing a doctor directly (without being referred by the nurse) would cost FC 1,000 (then US\$5).
- Surveys indicated that rudeness of staff was a major deterrent to attendance. Therefore Mitsoudjé staff were trained in patient relations. For the first six months a "greeter" met new patients at the door to explain the system to them.
- Management is shared by the doctor and a committee of village residents. All staff (including civil servants) are directly responsible to them and can be fired (or at least sent away).
- All medicines are purchased by the patients directly from the Village Pharmacy run by the National Autonomous Pharmacy (PNAC), on a 100% cost-recovery basis. Drugs are available in sufficient quantity and they have not encountered significant problems of unaffordability. All other supplies (office supplies, laboratory reagents) are also in stock.
- Any surplus is used for staff incentives, for recurrent costs, and for some capital expenditures. Bonuses were about 25% of salaries in January 1993. The center receives an annual lump sum transfer from the government similar to the budget of other health centers. There are 18 civil servants and 3 unskilled staff contracted directly by the center.

Early results are largely positive. After one year of operation, consultations tripled to over 600 per month and were continuing to rise by about 10% per month. In early 1993 about half the patients came from outside the normal catchment area of 8,000 people, attracted by the center's good reputation.

Receipts have also been rising about 10% per month and seem likely to be able to cover all recurrent expenses including the salary of the doctor, even at the level initially funded by the UNDP project. An impact assessment in 1993 showed that expenditures on health by the population in the catchment area have decreased since the new system was installed as they no longer have to resort to distant hospitals or private doctors.

However, the center is over-scaled (bed occupancy rates average about 10%) and probably over-staffed, and has not succeeded yet in attracting women to the center for childbirth. Improvements are planned in community outreach as well as in the referral system between the health center upwards to the hospital and downwards to the two health posts of the district.

The Government is now planning to generalize this approach over the whole of the country.

38. The government's policy is to give management autonomy to health facilities, reallocate staff, improve the reliability and appropriateness of public expenditure in the sector, and improve efficiency by involving communities in the management and financing of health facilities. Experiments currently under way (see Box 1 above) indicate

a willingness and ability to pay when services are available, reliable, and of good quality. As part of this effort, cost-recovery will be instituted in all facilities during 1994, and lump-sum budget allocations to the health centers will be negotiated on the basis of a contract between the center and the Ministry of Health, starting in 1995.

Education

39. The goal of education policy is to achieve full primary school enrollment by the year 2000, but drastic efforts will be needed in the second half of the 1990s if this goal is to be achieved. Enrollment ratios fell in the 1980s but have risen lately. The gross primary enrollment ratio in 1993 was 86%. However, the net enrollment ratio (which takes out over- and under-age children) was only 58%. High rates of repetition and dropout mean that on average the government must provide 14 years of schooling per student who reaches the final year of the primary cycle. Quality overall is poor, with only 25% of primary teachers appropriately qualified, and about 20% of primary classrooms having no teacher at all. Shortages of textbooks and school materials also contribute to the poor quality and low utilization of the school system.

40. The gross enrollment ratio in lower secondary was 21% in 1992/93, similar to African averages, but the absolute number of students has been falling since the mid-1980s. Anecdotal evidence suggests that parents do not see the benefits of sending children to secondary education. The gross enrollment ratio in upper secondary was 15%. The proportion of girls in upper secondary falls sharply to 36% after remaining roughly stable (around 45%) through primary and lower secondary education. Post-secondary education available in the Comoros consists of teacher training, agricultural extension training, a business school and the school of health sciences. Students must go abroad for university studies; given its priorities and resource availability, the government has agreed with donors to limit the number of scholarships abroad to those provided by donor funds. A number of private facilities exist, especially at the primary level.

Table 7: Highest Level of Schooling Attained by Adults

Percent reporting	No Formal Schooling	Koranic	Primary	College	Lycée	Higher Education
Men	27.7	34.5	25.3	7.4	2.1	3.1
Urban	18.1	27.8	31.8	12.5	3.7	6.1
Rural	31.6	37.3	26.9	5.3	1.5	1.8
Women	29.2	42.9	19.6	5.6	1.3	1.4
Urban	18.6	38.7	26.1	10.7	2.8	3.1
Rural	33.4	44.5	17.1	3.5	0.6	0.9

Source: 1991 Census of the Population

41. The adult literacy rate is around 50% and is rising only slowly. As Table 7 indicates, only 38% of men and 28% of women have completed primary school or above.

Koranic education consists of pre-primary school, with learning in the Arabic language and script (neither of which are used in the formal schooling system).

42. Through the 1980s and early 1990s, the Comoros has spent a stable amount on education, about 20% of the total budget, or about 4% of GDP (see Table 7). This compares favorably with other countries in the region. However, investment in primary school classrooms in the early 1990s has fallen far short of needs, and funding of recurrent expenditures, especially for school supplies, has fallen far short of budget for several years. The Comoros spends about US\$45 per student in primary school. About 80% of expenditure consists of salaries. Once again, these spending levels should be sufficient to achieve real literacy gains, but the inefficiency and inappropriate staffing of the school system has prevented the country from achieving these goals.

43. There is a shortage of qualified primary school teachers in the classroom, especially in Grande Comore. In the context of the civil service, the Ministry of Education is rationalizing its personnel structure. Within the limits of the reform, the Ministry is redeploying teachers from surplus to deficit areas, and, where appropriate, recruiting new qualified staff and reducing the number of positions filled by unqualified teachers. Other necessary improvements include the timely and reliable payment of budget allocations, and a reduction in public expenditures on external scholarships.

Table 7A: Ministry of Education: Expenditure by Facility Level

Level (public facilities only)	Number of institutions	1993 recurrent budget (millions CF)	Number of students
Primary	262	1,029	73,000
Lower secondary (college)	40	580	8,900
Upper secondary (lycée)	9	337	4,425
Local post-secondary	4	255	400
Scholarships		323	more than 200
Admin./ Inspection other		291	

Source: Government of the Comoros

Table 7B: Ministry of Education: Expenditure on Salaries

Ministry of Education recurrent budget	1992	1993	1994 (draft budget)
Salaries	2,151	2,294	2,500
Goods and services	522	418	400
Transfers, including scholarships	271	271	*385

Source: Government of the Comoros

*Reflects increased domestic currency costs of foreign scholarships

Fonds d'Appui au Développement Communautaire (FADC)

44. The FADC was created to mobilize community resources for the rehabilitation and (in some cases) construction of public works at the village level, as well as to support institutional development of community associations and NGOs. The village must participate at 20% of investment costs (lower rates apply for communities pre-identified as poor), undertake the maintenance and recurrent costs, and the whole community must be involved. In its first year of pilot operation, the FADC registered 157 village associations, touching 30% of the population, and implemented 22 projects on all three islands. 26,000 people contributed to and benefited from these projects (see Table 8). In addition to the Government, the FADC is supported by the World Bank's Population and Human Resources Project, and is hoping to attract other donors.

Table 8: Type of projects financed by FADC in 1993

Island	Type and number of projects	Total cost (CF thousand)	Average percentage paid by community	
Grande Comore	School	3	12,120	19%
	Cistern/water tank	4	5,111	19%
	Health post rehab.	3	7,587	20%
	Rural road	1	17,019	18%
Anjouan	Water supply	3	28,509	25%
	Market	1	9,539	20%
	School	1	4,983	20%
Moheli	School	5	21,280	20%
	Bridge	1	2,427	18%
Total		22	123,634	19%

Source: FADC

45. Although it is too early to judge the long-term success of this effort, the early positive results show that the Comorian population is eager to contribute their own money and labor to development efforts that they feel are of high priority and direct benefit to themselves.

B. INFRASTRUCTURE

46. Comoros has a relatively well-developed infrastructure, including a major port at Anjouan and a more minor one at Moroni. Each island has its own small airport in addition to the international airport at Hahaya on Grande Comore. The road network is quite dense and in relatively good condition. Inter-island traffic takes place by small boat, but this can be time-consuming (requiring several hours) and, in certain seasons, dangerous.

47. Despite this good infrastructure situation, internal trade is below its possible level due mostly to the weakness of domestic institutions for marketing and

distribution, as well as the existence of taxes (most of which are not legal) on inter-island trade. The Comorian government is making efforts to stimulate domestic trade by liberalizing regulation in addition to the 1994 devaluation of the exchange rate.

V. ANTI-POVERTY STRATEGY

48. The Comoros is a poor country where the majority of the population live in a situation of relative poverty or near-poverty. On the other hand, it has a favorable income distribution, with very few people at the extremes of wealth or poverty, as well as a functioning traditional social safety net which is also supported through substantial remittances from abroad. This means that it would be inappropriate for the Comoros to assure a safety net through programs of targeted transfers or subsidies. The major improvements in the poverty picture must come through (a) overall economic growth, with equity; and (b) improved public services to the poor, especially primary education and primary health care.

A. GROWTH WITH EQUITY

49. The Economic Strategy Note (ESN -- the executive summary of which is in Annex B) lays forth a vision of the future for Comoros in 20-25 years. It predicts a competitive agricultural sector concentrated in "niche" exports such as herbs, spices and perfume essences; a diversified tourism sector; an export-processing manufacturing sector; a healthy private service and small business sector; increased specialization between the three islands; and the maturing of community institutions which provide social services, small-scale infrastructure and environmental protection. This vision is fully consistent with the antipoverty strategy of growth with equity which is presented below. In addition, the Comoros has recently taken many of the steps necessary to guide the country towards faster growth and broad-based development (as reflected in the 1994-96 PFP). Therefore, the vision of the ESN may be attainable. The challenge for the Government will be to achieve its short-term goals while maintaining an emphasis on those policies and core expenditures which will reduce poverty and provide the country in 20-25 years with not only the economic base described but with a successful track record of poverty reduction.

Facilitate growth in strategic sectors

50. Sectors with significant long-term growth potential have been identified as agriculture, tourism, manufacturing and commercial services. Of these areas, agricultural growth in particular will benefit the poor (especially export growth for high-value crops and efficient import substitution in tubers and vegetables), as will growth in small-scale manufacturing and services. Systematic problems which must be addressed quickly include access to credit, revitalizing export markets and facilitating diversification and entrepreneurship. The Comoros has already begun reforms in these sectors, but rapid advances are necessary if they are to generate the jobs and rising real wages which are the hallmark of a successfully developing economy. As it implements these policies, the

Comoros need to ensure that barriers are lowered, which now impede the poor (such as minimum volume requirements for exports), in order to enable people to cross into the formal sector and out of poverty. More detail on specific policies for the development of each of the key sectors can be found in the executive summary of the Economic Strategy Note (Annex B).

Use the market to achieve socially desirable outcomes

51. The Government of the Comoros is already a large actor in the economy, and does not have the means nor the ability to perform certain socially desirable functions. The Government should recognize this reality and take more advantage of the domestic and international market to fill the gap. International bidding on government contracts can help to counterbalance the monopoly power of domestic firms. Private companies might be contracted to provide maintenance services. These options are often cheaper to the government than other alternatives (e.g., doing the work itself, subsidizing prices), and frequently would be more efficient. Some would help to improve the competitiveness of domestic industry, as well as (for services contracted out to the domestic private sector) generating private-sector jobs and providing business skills to firms. Box 2 shows how international competitive bidding prevented a rise in local-currency prices for some key goods after the 1994 devaluation, at no additional cost to the government. The same price objective would have cost the Government a large amount if achieved by subsidizing the goods. Other areas include private provision of agricultural services, including information, distribution and marketing.

B. SOCIAL SERVICES

Resolve key efficiency issues

52. The most important problems in the social sectors are the poor quality and unreliability of services, which are a deterrent to public utilization. These problems reflect the low internal efficiency of the Ministries concerned as well as problems with the reliability and timeliness of recurrent expenditures. The Government is undertaking a major reform of the public sector which entails limits on public spending and significant redeployment of personnel. The challenge for the social sectors is to achieve the efficiency gains which would allow them to improve the quality of services based on the same level of expenditure.

Personnel

53. Rapid actions need to be taken to complete the ongoing civil service reform. Unless the Government is willing to take the necessary but difficult step of reducing its unqualified staff, it will be unable to hire the additional qualified staff which it so desperately needs. In addition, personnel need to be redeployed between islands and duty stations. It will not be possible to restore the public's faith in government provided social services unless the personnel reform is substantially accomplished.

**BOX 2: REDUCING THE PRICE OF IMPORTS TO THE CONSUMER:
ALTERNATIVES TO SUBSIDIES**

Case 1: Petroleum: Petroleum prices penetrate deeply into the economy through the cost of transport. The Comoros is 100% dependent on imported petroleum, which is purchased by the state monopoly and arrives twice a year by ship. It is retailed by privately-owned gas stations at a state-determined price.

In 1994, for the first time, instead of negotiating with its traditional suppliers, the Government of the Comoros followed a process of competitive bidding. The price obtained was US\$30 cheaper per ton than the price in 1993, resulting in significant foreign exchange savings to the Government. The price paid by the consumer at the pump will therefore remain much the same as before the devaluation.

Case 2: Rice: Rice is purchased in bulk by the state and distributed within the country by private wholesalers and small-scale retailers. The rice shipment arrives every 6 months. The devaluation came between shipments and prices adjusted instantly in the market to the expected future price of rice (inflated by 50% in local currency). In addition, the international price of rice rose in 1994 due to poor harvests in major producer countries.

In 1994, the state did not purchase the rice directly from bilateral suppliers. Instead, it launched an international bidding process. Despite the rise in international rice prices, the price obtained in 1994 was about the same as that in 1993 (in foreign currency). In addition, the quality was better. Thus the government was able to partially offset the effects of the devaluation and rise in international prices by introducing competition in the market.

Recurrent financing

54. Dramatic improvements could be achieved through drafting the budget in line with new functions and responsibilities, and then honoring these budgets in a timely way. Under the reform program, it has been agreed to maintain the 1992-93 level of actual expenditure with a slight increase toward the outer years of the PFP program 1994-96. The 1994 budget was already much improved, but there are still payment lags which may imperil the reforms. The Government must now move rapidly forward to clear arrears to suppliers, honor 1994 budget allocations, and implement management reforms which will give autonomy to facilities and thus allow them to improve their internal efficiency.

55. Public expenditure programs for health and education are to be prepared for 1995-97 which should improve the ability of the Government to manage expenditures in the social sectors. The health budget will be simplified and de-bureaucratized from 1995 as lump-sum transfers will be made to health centers, and the management of these funds will depend on the facility staff and its Board of Directors which include representatives of the communities. As a complement to public spending, the Government should put additional emphasis on private contracting, co-management with communities,

cost recovery and other means of achieving cost efficiency. Private sector provision of services needs to be further encouraged.

Community-based initiatives

56. Communities in Comoros have demonstrated their cohesiveness, interest in the development process, willingness to pay for services, and ability to take responsibility for management. The Government has a good opportunity to extend the activities where the local communities, and beneficiaries in general, can be involved. The FADC is one such effort, as are reforms in the health sector. Additional community involvement is being discussed for the education sector. Such efforts would provide people with what they want (as opposed to what experts think they should want), and would give the poor an opportunity to build their own future.

Make dramatic efforts on population

57. All the best efforts described above, both those already under way and those recommended or planned for the future, will be undermined if the population growth rate is not substantially reduced. The extra spending necessary for quality enhancement in public services would have to go instead to quantity increases, just to maintain existing low-quality service levels for more people. The infrastructure and supplies are available for family planning, but the Government must now take the lead in making the system work through policy leadership, as well as outreach campaigns and appropriate staff training and supervision.

Monitoring of Living Standards

58. As the growth-oriented strategy takes effect, it will be useful for the Government to monitor living standards and make adjustments accordingly in its public investment program and other policies affecting the poor. In addition, baseline information on the cost of living at the household level will provide a cross-reference for GDP per capita information, and the establishment of a reliable price series. The household survey planned for 1994-95 will provide this baseline, and ongoing monitoring will be needed to identify changes in the living standards of the population, monitor the impact of policies on target groups, and direct investment planning. A major survey every decade would track the progress of the country towards its long-term vision of equitable growth and eventual prosperity.

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ANNEX B: EXECUTIVE SUMMARY: ECONOMIC STRATEGY NOTE, 1993

A STRATEGY FOR SUSTAINABLE GROWTH WITH EQUITY

The Need for Long-Term Strategic Thinking

i. The Comoros is going through a period of economic and political reform unparalleled in its short history as an independent nation since 1975. The economy grew at about 6 percent per annum during the first decade of independence, fueled by ambitious but low-return public investment. When major infrastructure projects were completed by the mid-1980s, real GDP growth slowed to an annual average of 1.2 percent in 1986-92, leading to a decline in per-capita income by 2 percent a year (figure 1). Since 1991, the government has embarked on a program of economic reforms that for the first time could permit it to play a credible and constructive role in the management of the financial and economic affairs of the country. During the same period it has been experiencing the political turbulence associated with the introduction of multi-party democracy into a traditional society with strong and often competing regional, community, and family interests. Successive governments rose and fell at a rapid pace with no single political party in a position to command a majority of parliamentary votes.

ii. In such agitated times the longer-term goals of development and human welfare have tended to be neglected. However, the Comoros can ill afford to postpone decisions on its fundamental long-term options. Its population clock is ticking fast, and the natural environment is coming under rising pressure; in the industrial world public support for development aid is eroding, while the demands for capital throughout the world are expanding; and other low income countries with abundant supplies of labor are aggressively seizing foreign market opportunities. The longer the Comoros defers decisions on the pace and pattern of development, the greater the risk it will revert to long-term economic decline.

iii. This report sets out a vision of the future intended to help fix ideas on long-term objectives and engage the Comorian authorities in a dialogue on policies and actions to enhance economic welfare, alleviate poverty, and preserve the natural environment, guided by a fundamental change in the underlying paradigm. It uses a framework that hypothesizes a doubling of real per-capita incomes within a generation, explores the sources of growth that could achieve that objective, the constraints that would need to be tackled and macroeconomic and sectoral policies to support sustainable, equitable development. The contrary scenario, a continuation of past policies resulting in a steady decline in per-capita incomes, is cited for comparison but not looked into in detail as it is highly undesirable and something the country cannot afford.

iv. Although the government has been able to implement a number of economic policy reforms under difficult political circumstances, the impact has yet to be translated into improved economic performance and welfare. Yet it is urgent that

government adhere to the current program for financial and economic stability, complete the downsizing of the public sector, and the present agenda for fiscal and legal reforms. If the goals of these measures are achieved, by the end of 1995 the economy will be better poised for longer-term growth. However, strategies to support a durable improvement in welfare involve a much broader set of issues which amount to a fundamental change in the country's development paradigm: (i) a shared vision of the future; (ii) a broadening and deepening of the country's human capital, (iii) a system of incentives and a stable enabling environment to support the private sector; (iv) a significant improvement in the competitiveness of the economy, and (v) policies to address the interrelated issues of demographic growth, the natural environment and poverty.

A Vision of the Future

v. The stated objective of the Comorian authorities is to emulate the successful growth experience of island countries in the region or elsewhere through the adoption of appropriate policies aimed at establishing the conditions for export-led growth and significant increases in per-capita incomes. It is the right time to look beyond these conditions at the longer-term future. Where should the arduous process of adjustment lead? Can the country look forward to brighter prospects, better standards of living, more rapid growth? If so, at what rate and with what impact on the quality of life, on economic opportunity, the relief of poverty and the natural environment?

vi. Clearly a continuation of past trends, in large part the result of past policies, is unacceptable. If population were to grow at 3 percent or more and GDP at 2 percent or less, as has been the trend since 1985, real incomes would continue to decline and welfare would deteriorate further from its current modest level. There would be more unemployment, and the capacity of the government to provide health and education to the rising population of youths would come under increasing strain. The government and economy would become increasingly dependent on foreign resources even to maintain lower-quality public services. More people competing to exploit limited land and natural resources would accelerate the degradation of the environment. Such a scenario could well materialize but is by no means inevitable. The Comoros' economy of 500,000 people is manageable; many of the recent cases of accelerated development and poverty alleviation have occurred in small countries in East Asia, the Caribbean and the Indian Ocean, some of them with less natural resources than the Comoros. Common to virtually all of them are open, market-oriented policies that encourage exports and private investment, wise public investment, enhanced labor productivity and work force skills, sound macroeconomic management, and the ability to adapt swiftly to changing circumstances.

vii. A vision of the Comoros 20-25 years into the future would build on effective development of the country's special assets and production potential. There is no doubt that the country has this potential. The efficiency of agriculture can be vastly improved; the extensive and conservative commercial sector can be upgraded and

modernized; manufacturing is virtually absent in today's economy and can be developed for export-oriented growth in selected market niches; and the country has outstanding resources for tourism which are virtually untouched. Accelerated growth would require above all a broad scale, carefully phased and articulated strategy for human resource development including efficient primary education, innovative approaches to vocational training (for example through video correspondence courses), closer linkages with professional associations and the Comorian community abroad, and advanced communications. At the end of the period the Comoros could become much more of a service-based economy (tourism, commercial and data services, financial services) supported by a more dynamic agriculture and rounded out by light manufacturing. In summary, the vision could include:

- (a) An agriculture sector which would be more productive, competitive, and more diversified into high value "niche" export products (herbs, spices, fruits and flowers, new sources of perfume essence);
- (b) A tourist sector expanding initially on Grande Comore and later on Moheli, catering for a diversified range of tastes from full package charter operations, outfitter style eco-tourism and later to full value, individual tourism;
- (c) An export-processing zone consisting of small to medium-scale labor-intensive manufacturing enterprises (garments, shoes, etc.) in Anjouan and Grande Comore;
- (d) A healthy private service and small business sector, formal and informal, engaged in a variety of services and small-scale activities geared to the domestic market and for export;
- (e) Increased specialization among the three islands, in line with points a, b and c above in view of their different resource potentials, and more trade between them; and
- (f) The maturing of community institutions at the level of villages and towns in the provision of social services, small-scale infrastructure (markets, common energy and water services) and protection of the environment.

viii. Over the 15 year period 1995-2010, there is sufficient potential in agriculture, services and manufacturing to achieve average annual growth of about 5 percent, with an acceleration to 6 percent p.a. in the last five years. Even assuming the Comoros could maintain real growth of 6 percent p.a. thereafter the target of doubling per-capita incomes by the year 2020 could only be achieved with a further reduction in the rate of population growth to 1.5 percent p.a. or less (figure 2). Nevertheless, by the year 2010 the Comoros should have a substantially more diversified economic base, oriented towards the export of services and light manufactures to complement the agricultural

sector, with increased specialization among the three islands. Realization of this growth path would place the Comoros in the range of successful economies in terms of investment effort but still below most of them in export performance. For the Comoros, an acceleration of exports in goods and services to 9 percent per year would already be a major achievement; higher exports might still be feasible but would require an even greater shift into services and manufacturing.

Overall Strategy Orientation and Fundamental Choices

ix. **A Change in Paradigm.** The change in orientation required to realize this vision is so fundamental that it calls for a new development paradigm, a new framework of commitment on the underlying options facing the nation: increased savings as opposed to higher consumption, enabling environment for a dynamic private sector as opposed to direct government intervention, expanded employment as opposed to excessive wages for the employed, accelerated exports as opposed to protection of the small domestic market, clear eligibility criteria for special promotion schemes as opposed to one-on-one bargaining. Once the Comoros has confirmed its stance on these long-term options, the instruments of economic and social policy at the macro, sectoral and local levels would need to be durably focused on their achievement. Given the small size of the country and a homogeneous population, the Comoros' economy is manageable and the Government should take on the challenge to emulate the successful growth experience of other small island economies.

x. To accelerate growth, policy should move the economy into active engagement in economic relations across the board with other countries in the region and the rest of the world. Market information, sources of investment capital, state of the art business practices, and information on technology should be gathered, cultivated and adapted to the Comorian conditions and possibilities. At home economic policy would be oriented to promote a vital private market economy to stimulate entrepreneurship, job creation and economic efficiency. The general policy conditions to support sustainable development in an open, market economy are: (i) political and social stability; (ii) financial stability based on rigorous macroeconomic management; (iii) transparency and predictability in the regulatory and legal frameworks; (iv) rising productivity of land, labor and capital; (v) competitiveness to expand trade in foreign markets and ensure efficient pricing at home; (vi) enhanced savings and investment; (vii) opportunities for the poor to advance out of poverty, including reduced population growth; and (viii) preservation of the environment and natural resource base.

xi. The role of the State in line with the envisioned "paradigm change" will be to remain efficient in the delivery of public economic and social services and to prepare and implement coherent, transparent and predictable policies in support of the private sector. Comoros needs a small but strong government to institute a regime of sound economic management. If the current adjustment program is carried out rigorously, the public administration will become smaller and more efficient. This will result in reducing

total government expenditures from the current 35 percent level to about 25 percent of GDP or less. The 25 percent level appears more reasonable in a market economy with broader participation of the private sector.

xii. **Macroeconomic Stability.** As a result of the Comoros' adherence to Franc Zone currency arrangements, macroeconomic policy is exclusively applied through fiscal and monetary measures. A fiscal policy consistent with the above orientation would progressively reduce **total public expenditure** (capital and current) to about 25 percent, a level well below the average share of 33 percent of GDP foreseen in the 1993-95 program. Under these circumstances, the **tax effort** needs not be raised much above the 18 percent foreseen during 1993-95 to reduce the dependency of the budget on foreign financing and limit the use of foreign savings to the financing of investment. At the end of the period, 15 years hence, under the scenario assumptions for exports, imports and GDP growth, total net foreign financing of the economy would be markedly less than the recently observed 20 percent of GDP, and more of it could take the form of direct investment and loans and credits to the private sector. Domestic inflation has been kept low in the Comoros, running about 3 percent p.a., and should continue to be kept below the rate of international inflation. The financial stability implicit in such a scenario would be an encouragement to the private sector; it would also be beneficial to the poor whose limited purchasing power would be preserved from erosion.

xiii. **Restoring Competitive Conditions.** Although it is a step in the right direction, it is not likely that internal adjustment will substantially improve the competitiveness of the Comorian economy during 1993-95 sufficiently to support the target rate of economic growth because the process of internal adjustment by its nature is a lengthy one. The source of real economic growth is improved productivity. However, more productive labor can raise incomes and living standards in the Comoros only if the potential increases in output can find markets. At present very few Comorian products are competitive on either local or foreign markets. The cost of labor in the Comoros is three times higher than in Madagascar, twice that of India, and about half that of Mauritius, where productivity is estimated to be about four times higher. Electricity cost in the Comoros is among the highest in the region. In the Comoros, the currently prevalent real exchange rate as measured by the relation of the prices of tradables to non-tradables ultimately translates into overpricing of labor. It will take many years for internal adjustment with price increase for non traded goods and services markedly lagging the increase for traded goods to restore competitive conditions and boost incentives to increase output and employment. In the meantime, the economy will be performing below its production potential, and the gains which could be realized from higher production and incomes would be lost.

xiv. The countries competing successfully in world markets, for example Mauritius, have adopted policies of internal and external adjustment that allow the price of labor valued in foreign currency to approach more closely its productivity while at the same time striving for higher productivity. It will be difficult if not impossible for the Comoros to achieve similar results without following a similar path. The overvaluation of

labor and other non-tradables in the Comoros could be corrected by increasing the price in local currency of the reference currency, the French franc. However, once the initial misalignment is corrected the government would still have to manage internal demand prudently to prevent the costs of production from rising to the new higher price level of tradables, and persist in the strategies for productivity improvement and cost containment in transport and energy. Lastly, because of the significant benefits of belonging to the French franc area the Comoros would want to ensure that such a step receives the full endorsement and support of its currency partner.

Public Expenditures, Poverty Alleviation and Environmental Sustainability

xv. **Public Expenditures Priorities.** In line with the long-term development vision of the Comoros, public expenditures would have to focus on human resource development, reduction of population growth, infrastructure to support the market economy and exports, poverty alleviation and environmental protection. For this pattern of public expenditure to make its full contribution to economic transformation and accelerated growth, expenditures for low priority purposes would need to be eliminated or cut back, budget execution and control to be strengthened, and appropriate policies in each sector to be in place before new budget allocations would be authorized.

xvi. **Human Resource Development.** Upgrading human resources in the Comoros could contribute to increased labor productivity, and combined with stable macroeconomic policy could improve the country's external competitiveness. National policy will need to focus on improving the quality of primary education and basic health services, upgrading vocational training (including specialized technical skills and better farming techniques) guided by a long-term vision of export-led and private-sector based economic development, upgrading the skills of school teachers and health technicians. Meanwhile, professional and managerial skills should be improved. It is critical for the Government to ensure that services budgeted are actually delivered and to attend to the efficiency of expenditure in the social sectors, which is still not the case today. The Government has accepted the principle of local responsibility in these sectors for decision making, resource mobilization and cost recovery at the community level; there should be no turning back from this posture.

xvii. **Reduction of population growth.** High population growth is one of the most critical problems that the Comoros faces today -- increasing pressure on demand for social services, employment, and an already fragile ecosystem. To slow population growth, action will have to be taken to ensure the availability of family planning services to all individuals in all income groups. Leadership at all levels of government and within the religions, health and education establishments, information services, school curricula, and programs of popular participation should deliberately and persistently stress the urgency of reducing family size and provide facilities to do so.

xviii. **Infrastructure.** Energy, transport, communications and water supply are potential constraints on accelerated, export-led growth in the Comoros. To cope with the long-term development vision, efforts will have to be made to maximize capacity utilization of the existing infrastructure and to improve communication services. Better transport policies would need to be formulated to bring about more efficient management of transport infrastructure. For example, to improve air transport, Air Comoros should be restructured to provide more inter-island flights at a lower cost. With respect to maritime transport, shipping and port management would be best handled by private companies. As for road infrastructure, the Comoros has invested a lot to build a good paved road network that now needs to be maintained. Road maintenance would also benefit from more active private sector participation. In telecommunications, improvement in service is essential and international telephone lines should be increased, again with greater reliance on private operators.

xix. **Poverty Alleviation.** In the Comoros, as in most other countries, the poorest families get the least use out of public services. They tend to be illiterate, are not reached by public health campaigns, and likely to make their children work rather than attend school. The number of poor people able to take advantage of higher level of health and education services is relatively limited. The severity of poverty in the Comoros is identifiable in high malnutrition rates in some areas, but homelessness and starvation are rare, owing largely to the traditional safety net provided by the extended family. The poor in the Comoros are probably net consumers of tradable goods, which are subject to price increases relative to non tradables (in particular labor). The best policy to improve the lot of the poorest is to support them in becoming net producers of tradables, through human resource development and an incentive system that encourages employment and production. The effects of policies designed to improve price incentives for producers of tradables may have to be offset to provide relief to the poorest. But first the poorest must be identified and second, protection from price hikes should be limited to safeguards on the types of goods they consume. In the Comoros, targeted relief programs can best be handled at the community level and they should be focused on supplementing the supply of "inferior" goods, i.e., those for which demand lessens as income levels rise. While education and health services will help raise poor Comorians out of poverty in the long run, government at all levels should be mobilized to ensure their access to these services immediately. Accelerated growth is the only assured means to generate the resources and provide the employment opportunities to alleviate the generalized poverty associated with low per-capita incomes.

xx. The **natural environment** of the Comoros is already in grave jeopardy in some regions of the country (Anjouan, parts of Grande Comore) and needs protection from future degradation in others (Moheli). Among the overt symptoms are the excess exploitation of fragile soils leading to soil erosion, the clearing of land for agriculture and disappearance of forests on steep mountain slopes, the drying up of inland streams, the exploitation of coral reefs, and the aging and non-replacement of tree crop plantations. The Government has taken steps to control soil erosion but they will be dwarfed by the increasing population pressure. It is crucial that the government reinforces measures to

reduce population growth and adopts an integrated conservation strategy to protect the fragile ecosystem and develop local capacity to manage environmental issues. The government needs to (a) put in place an entity with expertise and competence in environmental matters required for environmental assessment, effective environmental planning and monitoring; and (b) establish a comprehensive policy, and environmental legislative framework, including a National Environment Action Plan (NEAP). National seminars to sensitize the population on the environmental issues are also essential.

Key Sector Issues

xxi. **Agriculture.** Agriculture will remain the main source of potential growth in the foreseeable future. The recent Agriculture Strategy Study, undertaken with UNDP and Bank assistance, identified important opportunities to rationalize farming systems, intensify production, review land use rights in the context of a new national land tenure and titling policy, diversify into high-value export crops (herbs, spices, exotic fruits and flowers), improve marketing, and conserve natural resources. Small scale fishing is a highly efficient activity for home consumption, urban markets and inter-island trade and has good growth potential, albeit sensitive to the cost of capital and imported technology. Deep sea and high-tech fishing is likely to remain beyond the reach of the Comoros in the medium term, but regional cooperation initiatives may hold promise in the long term.

xxii. The main long-term policy priority in agriculture is land reform and the settlement of rural property rights to remove the uncertainty associated with the conflicting and insecure claims to land which have arisen out of the Comoros' heritage of Muslim law, family and community traditions, and colonial past. The reform calls for: (i) obligatory registration of claims and rights to land; (ii) equitable transfer of State-held parcels to individual farmers; (iii) the redistribution of rights of use in underutilized land; (iv) the resolution of competing claims to land at the local level; and (v) the codification of real property law and new land legislation on public domains, forests and pasture lands. The process is expected to take several years under the administration of a duly constituted, credible Land Reform Authority; priority attention would, however, be given to the settlement of claims on certain former estates which are underutilized or illegally occupied.

xxiii. **Tourism** is a potentially dynamic source of growth in the Comoros, and the logic of island specialization has prompted the scenario of a substantial but phased program of development based on private initiative, beginning with the expansion of hotel capacity on Grande Comore and moving in time to the establishment of holiday tourism on Moheli. An overall strategy for tourism development consistent with the country's vision of the future is needed. In its absence, expansion of the sector could be costly in terms of the environment, and the absorption of energy and water supplies. Key issues to be addressed are: (i) the desired pace of expansion of hotels and tourist facilities; (ii) the quality of tourism to be encouraged and the phasing of quality over time; (iii) the demand for inputs of goods and services from the Comorian private sector and policies to increase economic linkages; (iv) the cost and availability of access to the Comoros; (v) the choice

of markets and the roles of government and the private sector in promoting tourism; (vi) the acceptability of substantial tourist development on Moheli; and (vii) the need for zoning and other land use limitations in determining the location of hotels, beach and other tourist facilities.

xxiv. **Manufacturing.** The small size of the domestic market and the burgeoning population will require active public policies to help move the processing and service sectors into production for export. It is not too soon for the government to begin to look into the successful experience of other countries, such as Mauritius, of creating a "policy zone" for exports, perhaps initially in Anjouan which has a deep water port, where the population density is highest and people of working age will be under the most pressure to find work. A typical preferential policy regime for exports involves partial or complete tax exemptions from payment of import duties on capital and intermediate goods used in processing for export, tax holidays and/or reductions in the payment of corporate income tax, guaranteed repatriation of capital, profits and dividends, availability of credit from the banking system, tax treaties with the countries of corporate origin, and various other amenities. Countries which have experienced success with preferential regimes for exports also have flexibility in their exchange rate policies. Finally, in countries in East Asia that have succeeded with preferential treatment of exports, the gains in employment and output have far outweighed the budgetary revenues foregone through the tax preferences.

xxv. **Commercial and Financial Services.** Policies to support the development of services are similar to those to encourage manufacturing, namely an enabling environment that is stable, transparent and favorable to the market. Vocational training in the use of computers and information systems in travel, commerce, insurance and finance built on the existing service sector should help position the Comoros to play a part in the rapidly growing market for services. Convertibility of the currency, freedom of capital movements, and a financial system that is linked to the industrial world are important advantages of the Comoros' membership in the Franc Zone and should facilitate commercial and financial relations abroad, particularly with the large community of the Comorians resident in France.

Preparing for Sustainable and Equitable Development

xxvi. The first and most urgent step on the agenda towards a change in the development paradigm is for the government to complete the on-going adjustment program in order to restore macroeconomic stability and a climate of confidence that will encourage the private sector, including foreign business, to invest in the Comoros. Implementation of the adjustment program will have to focus on actions to: (i) reinforce budgetary discipline and reduce the budget deficit by containing the wage bill and improving revenue collection; (ii) complete the action plan for civil service reform, including a major reduction in the size of the public administration and appropriate training program for the remaining civil servants to increase efficiency; (iii) accelerate

privatization, liquidation, and restructuring of the remaining state enterprises; (iv) adopt a regulatory framework that would promote private investment; and (v) strengthen capacity for economic management, especially public expenditure programming. In parallel, it would seem most appropriate that the country's longer-term future be visualized and discussed along the lines of this report to put the current economic program into perspective and give the different actors (and indeed the population at large) a better sense of direction. Priorities for action in preparing the Comoros for a sustained growth path fall in four critical areas: (i) improved business environment to foster private sector development; (ii) human resource development including strong population policies to reduce demographic growth; (iii) better maintenance of infrastructure; and (iv) environmental protection.

xxvii. **The Government's Role under the new Paradigm.** Government will remain a major agent of economic change in the Comoros, but progressively the private sector should become the principal actor in the economy. To give room for the private sector to grow, the government will need to withdraw from all commercial and productive activities, and eventually from services such as education and health -- which are now being provided more effectively by private schools and regional community services. The Comoros needs a small but strong government that can play a dynamic role in supporting market-oriented development, maintaining a climate of economic and social stability, and implementing policies to develop human resources and priority infrastructures.

xxviii. **Driving Towards Policy Decisions through Broader Debate.** To make and implement the strategic choices, the government will need to internalize the long-term development vision of accelerated growth with equity. Because the issues involved are of national significance, it may be appropriate to form a high level commission to prepare for broader national debate of the country's future economic orientation. The debate should involve key economic agents, i.e., the public administration and legislative bodies to provide the rationale for subsequent administrative reforms, as well as the private sector to enhance confidence. Subsequently, the commission would translate the views articulated in the national debate into easily understandable policy statements which will be widely disseminated to the population, including local communities, enterprises, and non-governmental organizations (NGOs).

xxix. **Formulating Operational Action Plans.** Once the Comoros has made strategic choices on policy options, the challenge is to translate the longer-term policy decisions into medium-term action plans, with specific measures and a timetable for implementation. Such action plans could also form the basis for support from the main donors.

xxx. **Mobilizing external support.** Although the scenario outlined in this report projected an improvement in domestic savings, the Comoros will continue to depend on external assistance, albeit -- it is hoped -- on a declining basis relative to the country's GDP. The donors community will need to continue its assistance in support of the country's economic program and local capacity building. In turn, the Comorian

authorities will need to make determined efforts to complete the structural reforms and specific programs and actions on population, poverty, and environment issues, and agriculture and land tenure rights within the framework of a recently adopted agriculture strategy; and to improve the implementation of projects and the operations and maintenance of past investment. Equally important, authorities need to demonstrate an increased ability for sound economic management to make good use of new external resources, by redirecting investment and other expenditures to priority areas.

ANNEX C: STATISTICAL SYSTEM

1. The Bureau of Statistics is a small office in the Ministry of Planning. In addition to the census, it is supposed to produce regular price indices, but these are only available for Moroni and are based on a very small pilot sample (of 60 households). The long delays which occurred in producing the 1991 census results were due to a combination of weak staff training, outmoded equipment and weak demand from Government users. Other statistics are produced by other government departments including, in particular, the Ministry of Education, and the CEFADER (Agricultural agency of the Ministry of Production). These statistics are of a generally good quality but are not regular.

2. A household consumption and expenditure survey is planned in 1994. This will form the basis of a system of monitoring inflation, poverty and other social and economic variables. Results are expected towards the end of 1994. This survey will help to identify groups which may be in a particularly vulnerable position, and identify their needs. Ongoing monitoring of the situation of these groups can then be achieved through Government agencies or smaller, more frequent surveys.

3. Poverty Indicators Used in this Assessment

4. The population census 1991 was published in September 1993. Prior to its publication, the Government had made available to the Bank the census data on which the tables in this report are based. Subsequent to releasing the data to the Bank, the Government made additional corrections which were incorporated in its published report.

5. The data discrepancy related to double-counting of polygamous households, which resulted probably from the fact that the wives do not live in the same compound but would retain their own household after marriage. It was decided that there was no reason to suppose a strong bias in any of the major indicators in this report as a consequence of this data discrepancy.

6. Another data problem was encountered was that it was not possible to combine information on living conditions (housing, presence of comfort goods) with that on income or education. Thus it was not possible to draw up an overall index which will give a clearer idea of the living standards of the population and the geographical or employment characteristics of poorer groups.

7. Although there was some wage data provided, it did not cover the self-employed sector, nor household expenditure. It was therefore not possible to have an idea of the standard of living of the self-employed, who may constitute a major portion of the poor.