



## **Project Proposal for**

**COMOROS**

**January 2025**

Component: Revenue

Module: RM I – Tax Policy



**PROJECT SUMMARY****COUNTRY:** Comoros**LEAD DEPARTMENT:** FAD**REGION:** AFR**PLANNED DATES:** FY25-27**FUNDING PROGRAM TITLE:** Comoros – GPFP Revenue Module I&II**PROJECT MANAGERS:** Sébastien Leduc (Tax Policy, FADT1, Lead)**ESTIMATED BUDGET** \$ 370,597**PROJECT AMENDMENTS:****PURPOSE****SC APPROVAL****AMENDMENT 1** Adding tax policy module

January 2025

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## I. PROJECT PURPOSE

### **Country request and relevance/importance**

Comoros has expressed a keen interest in receiving capacity development (CD) to strengthen revenue mobilization. On October 15, 2024, the Minister of Finance, Budget and Banking Sector sent an official letter soliciting FAD's support for a medium-term engagement on tax policy. During the 2024 Annual Meetings, the Minister reiterated his interest in, and commitment toward, such engagement. This CD will provide much-needed assistance to the Comorian authorities, particularly in enhancing revenue mobilization. Additional tax revenues are crucial for helping Comoros absorb upcoming losses from the unwinding of certain border taxes and for regaining fiscal sustainability. CD will also play an essential role in improving budget transparency.

### **Description of Modules**

The new project will focus on providing CD to the Ministry of Finance, Budget and Banking Sector on tax policy (Tax Policy, RM I), with the key underlying objectives being to improve the quantity and quality of public revenues raised through taxes, help build capacity in the area of tax policymaking, and support fiscal transparency. CD support is expected to help Comoros improve its tax policy design incrementally over the medium-term through sound, coherent and sustainable reforms.

The estimated budget for this two-year project is \$370,597, and endorsement is requested for the full amount through FY27.

## II. BACKGROUND

### Macro-fiscal situation

Comoros must build momentum toward fiscal sustainability. The country's domestic primary balance outturn for 2023 was -2 percent of GDP, slightly weaker than the -1.8 percent projected at the time of the first ECF review in January 2024. Despite post-election unrest, the cholera pandemic, and severe weather events during the first half of 2024, the domestic primary balance for 2024 is projected to improve and outperform the program target, largely on account of under-execution in investment spending. Meanwhile, the June 2024 Quantitative Performance Criteria on tax revenues was missed by a small margin, reflecting weakening activity and evidencing the need to anchor revenue reforms in a medium-term agenda. Indeed, with a tax ratio of only 8.2 percent of GDP, Comoros has a low revenue base that is insufficient to meet the country's fiscal needs. Moreover, as part of its commitments linked to WTO accession, Comoros agreed to unwind certain border taxes, which will heighten pressures for domestic revenue mobilization. IMF staff have determined that a path toward moderate risk of debt distress by 2028 would require a steady increase in tax revenues of at least 0.3 percentage points of GDP per year. Without external technical support, this remains an ambitious target considering the country's weak capacity and fragile and conflict-affected state (FCS) status.

### Country engagement and alignment to reform priorities

N/A.

### III. PROJECT MODULES - DESCRIPTION

This proposal will provide CD support to Comoros in the area of tax policy. FAD CD will support improvements within the strategic objectives presented in Table 1.

**Table 1. Summary of Objectives covered by the Proposal**

| Component | Module            | Objective                                                                                                                   |
|-----------|-------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Revenue   | RM I / Tax Policy | <ul style="list-style-type: none"> <li>• Improve Tax Policy Design</li> <li>• Improved transparency and outreach</li> </ul> |

#### A. RM I – Tax Policy

##### Scope

Recent ECF program review missions have consistently identified domestic revenue mobilization as a key priority for the country. Two structural benchmarks were retained, including the setting up of a new tax policy unit (TPU) (structural benchmark met by end-September 2024 with FAD assistance) and the conducting of a tax expenditures analysis (structural benchmark for end-October 2025). Authorities are cognizant of the need to mobilize additional tax revenue and are committed to achieving the structural benchmarks, but face a shortage of technical expertise in tax policymaking. Consistent with recent communications with the Minister of Finance, Budget and Banking Sector, the core of the CD program is expected to revolve around supporting authorities in achieving their structural benchmarks (e.g., tax expenditure analysis and reporting), increasing tax revenues, and assisting authorities in building capacity on tax policy.

##### Program Objectives

The tax policy module will build on the most recent CD engagement and closely assist Comorian authorities in producing a tax expenditures report and identifying suitable options for tax policy reform. The new project will provide tailored CD in these areas, in support of various objectives including strengthening institutional settings, building capacity among technical staff, and motivating changes to existing tax policies among senior staff. Our approach to CD delivery—e.g., in terms of topics, modalities and outputs—will remain flexible to ensure that the project meets authorities’ needs and expectations on an ongoing basis.

### **Expected Results (outcomes)**

The project will assist authorities in identifying and prioritizing tax policy reforms by conducting analyses and building capacity. Some of the expected outcomes from the project include:

- Increased fiscal transparency through the publication of tax expenditure reports;
- The transfer of knowledge to the newly created TPU so as to accelerate its ability to fulfill its mandate effectively;
- Increase in tax revenue, which is a key priority for the country;
- Improved coherence within the tax policy framework to ensure that public policy objectives are being achieved in an efficient manner; and
- A more equitable tax system, where horizontal and vertical equity is improved.

## **IV. ORGANIZATIONAL ARRANGEMENTS**

### **A. Country Engagement**

Historically, there has been limited engagement with Comoros on tax policy. In April 2021, a mission conducted a general diagnostic of the Comorian tax system. However, due to travel bans associated with the COVID-19 pandemic, the mission was held remotely which significantly hindered effective engagement with country officials. This impacted our ability to gather relevant insights and information and convey our analysis and recommendations. After a brief hiatus, collaboration resumed in September 2024 with a desk review of authorities' draft plans for a new TPU, which was a structural benchmark under the ECF program with the IMF. This mission benefited from strong collaboration with country counterparts, who were engaged and receptive to accommodating most of our recommendations.

### **B. Delivery Modalities**

The program will prioritize in-person activities due to the country's limited capacity and the need for a more hands-on approach. Virtual deliveries may nonetheless be considered where they could increase the efficiency of in-person mission (e.g., as pre-mission preparatory work) or when travel is either impossible (e.g., conflict in schedule) or unjustified given task at hand (e.g., where a mere desk review would suffice given the nature of the work at hand).

The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, ensure short-term expert (STX) work is aligned to plans, coordinate with other CD providers, and adjust reform implementation plans.
- **STX** visits to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas. The project will seek to use French-speaking experts.
- **Workshops**, during the HQ missions, staff visits, or STX visits, to share experiences, provide stakeholders with a view of progress achieved and challenges faced, and discuss with the managers and staff their views on the reforms and particular technical subjects.

### C. Coordination / Cooperation

| Partner                                           | Coordination Type                                     | Coordination Area                                               | Frequency |
|---------------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------------|-----------|
| IMF's area department and resident representative | Sharing of information, insights, and recommendations | Tax policy – priorities, recommendations, and status of reforms | Regular   |

## V. RISK ASSESSMENT AND MITIGATION

| Category/Module                                              | Description                                                                                                                                                         | Risk Assessment | Mitigation Measures                                                                                                                                                                                                                                                                                                            |
|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>EXTERNAL CLIMATE/CONDITIONS</b>                           |                                                                                                                                                                     |                 |                                                                                                                                                                                                                                                                                                                                |
| <b>RM I - Tax Policy</b>                                     | World economy, security in the region, etc.                                                                                                                         | Medium          | Factor authorities' priorities into our work program and remain flexible in delivering the workplan.                                                                                                                                                                                                                           |
| <b>POLITICAL SUPPORT</b>                                     |                                                                                                                                                                     |                 |                                                                                                                                                                                                                                                                                                                                |
| <b>RM I - Tax Policy</b>                                     | Obtain needed leadership from Budget and/or Finance Ministers and sufficient buy-in from the whole government to enact meaningful reforms in the National Assembly. | Very High       | Engage constructively with high-level officials to ensure that they appropriate themselves of proposed reform options and that their views are considered and reflected into our analysis and recommendations. Work closely with country team.                                                                                 |
| <b>MANAGEMENT AND TECHNICAL STAFF SUPPORT AND COMMITMENT</b> |                                                                                                                                                                     |                 |                                                                                                                                                                                                                                                                                                                                |
| <b>RM I - Tax Policy</b>                                     | Buy-in and commitment by our direct counterparts at the Budget Ministry.                                                                                            | High            | Engage constructively with counterparts to ensure that they appropriate themselves of reform options and that their views are considered in the analysis and recommendations. Remain agile and build the CD program based on their needs and preferences. Ensure frequent communication, including regular in-person missions. |
| <b>RESOURCE ADEQUACY</b>                                     |                                                                                                                                                                     |                 |                                                                                                                                                                                                                                                                                                                                |
| <b>RM I - Tax Policy</b>                                     | Resource adequacy in Budget ministry, including number of staff and skillset.                                                                                       | Medium          | Sequence CD and reform proposals to align with country capacity. Offer complementary CD in the form of follow-up engagements or support in legal drafting. Coordinate closely with the revenue administration division.                                                                                                        |
| <b>OTHER RISKS</b>                                           |                                                                                                                                                                     |                 |                                                                                                                                                                                                                                                                                                                                |
| <b>RM I - Tax Policy</b>                                     | None identified.                                                                                                                                                    | -               | -                                                                                                                                                                                                                                                                                                                              |

## VI. CD DELIVERY PLAN

**Table 2. Summary of Indicative CD Delivery**

| CD Modalities<br>(Remote or Field-based CD) | FY25 | FY26 | FY27 | FY28 | FY29 | Grand<br>Total |
|---------------------------------------------|------|------|------|------|------|----------------|
| <b>RM I – Tax Policy</b>                    |      |      |      |      |      |                |
| HQ led CD mission                           | -    | 1    | 1    | -    | -    | 2              |
| STX visits                                  | 1    | 1    | 1    | -    | -    | 3              |

Note:

- In-person delivery was chosen in all instances because of low capacity, authorities' expected preference for such a modality, and the need to build and maintain relationships.
- Collectively, the blend of CD delivery proposed over the duration of this project/program reflects the optimal balance of in-person, remote, and hybrid activities needed to achieve the project/program outcomes taking into account the needs of the country and the resources available.

**Table 3. First year workplan**

| Timing                   | CD Modality           | Proposed Topics of CD                       |
|--------------------------|-----------------------|---------------------------------------------|
| <b>RM I – Tax Policy</b> |                       |                                             |
| Q4/FY25                  | Field-Based work - FB | Tax expenditures                            |
| Q1/FY26                  | Field-Based work - FB | Follow-up: Tax expenditures and TPU support |
| Q2/FY26                  | Field-Based work - FB | Options for revenue mobilization            |

## VII. PROGRAM FINANCIALS

| Module                         | FY 25           | FY26             | FY27             | TOTAL (USD)      |
|--------------------------------|-----------------|------------------|------------------|------------------|
| <b>Direct Delivery</b>         |                 |                  |                  |                  |
| RM I - Tax Policy              | \$79,749        | \$127,974        | \$138,629        | \$346,352        |
| <b>Subtotal</b>                |                 |                  |                  |                  |
| Trust Fund Management Fee (7%) | \$5,582         | \$8,958          | \$9,704          | \$24,245         |
| <b>TOTAL</b>                   | <b>\$85,331</b> | <b>\$136,932</b> | <b>\$148,333</b> | <b>\$370,597</b> |

Note: The estimated budget for this project is \$370,597 and endorsement is requested for this full amount through FY27. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

## VIII. TARGETED LOGICAL FRAMEWORK

### A. RM I – Tax Policy

| Objective                                                                                                       |                                                                            |
|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| <b>Improve Tax Policy Design - TPD</b>                                                                          |                                                                            |
| Outcome(s)                                                                                                      | Indicator(s)                                                               |
| Increased/decreased revenue quantity                                                                            | Laws implementing amendments to raise revenues are passed                  |
|                                                                                                                 | Revenue change                                                             |
| Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures | Adopt legislation that reduces economic distortions.                       |
| Improved distributional fairness across taxpayers due to amended tax rates or base                              | Laws implementing amendments aimed at greater horizontal equity are passed |
|                                                                                                                 | Laws implementing amendments aimed at greater vertical equity are passed   |
| Objective                                                                                                       |                                                                            |
| <b>Strengthen Policy Monitoring, Evaluation, and Institutions - TPM</b>                                         |                                                                            |
| Outcome(s)                                                                                                      | Indicator(s)                                                               |
| Improved transparency and outreach                                                                              | Tax expenditures are published                                             |