
*2024 -
January*

UNION OF THE COMOROS

Components: Revenue and Spending

Modules: RM II – Revenue Administration

*UNION OF THE COMOROS***PROJECT SUMMARY**

COUNTRY: Union of the Comoros (COM)

LEAD DEPARTMENT: Fiscal Affairs Department

REGION: AFR

PROGRAM ID: (To be filled out by Secretariat)

PLANNED DATES: 2/01/2024 – 4/30/2027

FUNDING PROGRAM TITLE: GPFP – Union of the Comoros

PROJECT MANAGER(S): M. Anthony Ramarozatovo – R2

RM II/REVENUE ADMIN: M. Anthony Ramarozatovo – R2

PROJECT LEAD MANAGER: M. Anthony Ramarozatovo – R2

ESTIMATED BUDGET: \$2,274,622

BUDGET FOR ENDORSEMENT: \$623,637 (through FY25)

Contents

I. Project Purpose.....	4
II. Background	5
III. Project Level Description	5
A. Project Scope	5
Table 1. Summary of Objectives covered by the Proposal.	6
B. Country engagement.....	6
C. Delivery Modalities	7
D. Coordination / Cooperation	7
IV. Risk Assessment and Mitigation.....	8
V. CD Delivery Plan	9
Table 2. Summary of Indicative CD Delivery	9
Table 3. FY24 [Q4] and FY25 workplans	9
VI. Program Financials	10
ANNEX: REVENUE MODULE II / REVENUE ADMINISTRATION	11
A. Program Objectives	11
B. Expected Results	12
C. Targeted Logical Framework: REVENUE ADMINISTRATION RM II	13

*UNION OF THE COMOROS***I. PROJECT PURPOSE**

The authorities have expressed interest in a new CD project to continue FAD's supported reforms to increase revenue collection and modernize tax and customs administrations. The four-year ECF-program adopted in June 2023, which aims to support the fiscal consolidation efforts to create fiscal space to fund poverty and development needs and reduce debt sustainability risks, is underpinned by structural reforms designed to mobilize more revenue. The low tax revenue to GDP ratio, expected to reach 8 percent in 2023, should grow by 0.3 percentage points each year until 2027.

This revenue CD program will help the Comorian tax and customs administrations enhance domestic revenue by strengthening revenue administration management and governance arrangements, core tax administration functions, and customs administration functions. To accomplish this, the project will assist in developing a phased reform strategy while strengthening reform management capacity. Foundational improvements in the tax core processes including tax accounts management, filing and payment, and tax debt management coupled with the development of a compliance improvement plan will support increased tax compliance. Improvements in customs will include the development of standard operating procedures that are effectively applied during the clearance process, improved tariff classification, and strengthened control of duty exemptions and suspensions.

The three-year project has been discussed with the authorities, and the medium-term objectives and outcomes were agreed upon. The estimated budget for this three-year project is **\$2,274,622**, but endorsement is requested for \$623,637 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

UNION OF THE COMOROS

II. BACKGROUND

Comoros is a fragile, small developing state that continues to face development challenges rooted in economic and institutional weaknesses. The country exhibits typical challenges of a high risk of debt distress; low fiscal revenue; dependency on imports, remittances, and external aid; governance weaknesses; very weak administrative capacity; and corruption in the public sector. Annual growth averaged below 3 percent over the past decade is insufficient to reduce poverty.

The IMF's ECF arrangement aims to support the implementation of the national development plan, *Plan de Relance*, launched in 2022, which sets out a more focused vision, aimed at socioeconomic recovery and strengthening foundational sectors such as agriculture, transport, energy, and education. This ambitious development plan requires the mobilization of more tax revenue in the years to come.

The stronger-than-expected tax revenue performance in the first half of 2023 is mainly due to the removal of certain tax exemptions and tax administration efforts to improve the large taxpayer's management. The planned fiscal consolidation in 2024 hinges on continued domestic revenue mobilization efforts underpinned by reforms to broaden the tax base and fight against fraud.

The authorities are undertaking various tax and customs reforms under the current ECF and as part of their accession to the World Trade Organization (WTO). They include: (i) the establishment of the general directorate of taxes; (ii) the operationalization of the large and medium taxpayers' office; (iii) the interconnection of the tax and customs databases; and (iv) the implementation of a risk management in customs clearance. The authorities are also working to accede to the WTO by 2024. As part of the process, they have committed to gradually unwinding border taxes to simplify the customs' tariff structure and undertaking reforms to bring its trade regime align with WTO rules.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

Against this background, the project is aligned with the authorities' priorities and the ECF program which aims to increase reform implementation capacities, improve the governance arrangements, and strengthen the tax and customs administration core functions. As part of the Country Strategy Note (CSN) for the ECF program, the authorities have agreed to strengthen DRM and CD will be deployed to: (i) develop a multi-year reform implementation plan; (ii) strengthen reform management capacities; (iii) develop a tax compliance improvement plan; (iv) modernize tax procedures; (v) strengthen taxpayers filing and obligation payment's monitoring; (vi) improve tax outstanding debts management; (vii) help properly implementing the customs tariff; (viii) introduce standard customs operating procedures; and (ix) strengthen the control of exemptions and suspensive regime.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM II / Revenue Administration	- Strengthen Revenue Administration Management and Governance Arrangements. - Strengthen Core Tax Administration Functions. - Improve Customs Administration Functions.

- **Strengthening revenue administration management and governance arrangements.** The support provided will enhance the tax administration's capacity to manage the ongoing reform program and to implement the compliance improvement plan compliance more effectively. In addition, the CD project will also help to improve governance arrangement by aligning tax procedures with modern standards.
- **Strengthening core tax administration functions.** This project will also provide continued support to the foundational reforms that are critical to increase tax revenue collection. As identified during the last HQ mission (September 2023), a compliance program cannot be fully effective unless the tax administration clearly knows its taxpayer base, has a clearer picture of compliance by the taxpayer population and can fully identify the stock of tax arrears. This foundation will serve to build sound compliance monitoring programs and enforcement to name a few.
- **Improving customs administration functions.** CD will help strengthen customs control during the clearance process and ensure accuracy of declarations by notably implementing properly the customs tariff classification and introducing standard operating procedures in customs offices. The project will also help strengthen the monitoring and control of widespread duty exemptions and suspensions with the view to eliminate abuse and reduce revenue leakage.

The most essential CD recommendations already made through a prior CD project, are included as commitments/conditionalities in the ECF program. In addition to the follow-up on CD implementation by FAD and the results-based management reporting, regular discussions with the authorities are conducted by the IMF area department team to seek progress in implementing CD recommendations, based on a rolling stocktaking of recommendations and their implementation.

B. Country Engagement

Comoros benefited from an intensive capacity development (CD) program, from both IMF headquarters and AFRITAC South (AFS). Over the past few years, the CD activities covering domestic revenue mobilization have focused on: tax administration reorganization, taxpayers registration, large and medium taxpayers' management, compliance improvement plan, tax debt management, customs goods valuation, customs clearance procedure, post-clearance audit, customs risk analysis and control selectivity, management and control of exemptions, customs offences database, customs key performance indicators, and regulatory framework of control of excise duties on oil products. The authorities always collaborate effectively with the CD missions and appreciate the Fund's responsiveness and availability to deliver high quality CD in-person or remotely upon request.

The authorities consider that Fund CD has improved their capacity and helped implement several reforms in core tax and customs administration functions and revenue administration management. Nonetheless, the implementation of CD recommendations has been slow overall. The key

UNION OF THE COMOROS

obstacles to quicker implementation of recommendations appear to be the very weak capacities, lack of ownership at the highest levels and insufficient oversight by the Minister of Finance and Budget.

C. Delivery Modalities

The CD delivery modalities will mainly be in-person activities due to the low capacity of the country, necessitating a more hands-on approach. Given the administrative organization of Comoros, visits are also planned to the two other islands (Ndzuwani and Mwali). Virtual deliveries will be used to provide efficiencies to on-the-ground support, including pre-engagement meetings and post follow-up meetings. The following CD activities will be delivered as a package comprising of the following:

- **Headquarters-led (HQ) missions and Staff visits** to provide strategic recommendations, regular follow-up, progress assessment, inspect LTX, support STX on the ground, coordination with other CD providers, and adjust reform implementation action plans.
- **Short-term expert (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 of revenue administration. STX visits will be coordinated with the AFS work plan.
- **Long-term expert (LTX)** currently based in Port-Louis, Mauritius, to provide hands-on support and respond to authorities' needs in real time will devote his/her time: 80 percent for Comoros and 20 percent for Madagascar during the 2024 calendar year. From January 2025, the LTX will be relocated to Moroni, Comoros, near the ministry of finance and work exclusively for Comoros, provided that the authorities have demonstrated their commitment to implementing recommendations made.
- **Training and peer-learning (IL)** to help country authorities embed the advice provided, learn from regional good practice and benefit from face-to-face and online learning.

D. Coordination / Cooperation

The activities included in this proposal reflect FAD's assessment of specific CD needs for consolidating revenue administration reforms. AFRITAC South will align its FY25/27 workplan to complement this project. The coordination and phasing of AFS activities with the current one, will be further strengthened through proactive and shared planning activities with the authorities.

The proposed activities will also be coordinated with the work of other partners. Through the *Projet d'appui à la gouvernance financière* (PAGF), the European Union and France (AFD) are providing support to: (i) stabilize the tax IT system (SIGIT); (ii) interconnect tax and customs IT systems with the UNCTAD support; (iii) develop a tax officers' Code of ethics; (iv) improve the desk-audit performance; (v) train tax officers on taxation fundamentals; (vi) publish the tax code; (vii) crosscheck customs and tax data; and (viii) revamp the tax administration website. These activities complement the current GPFP project. There are other development partners providing specific support to include: the World Bank, the African Development Bank, WCO, UNCTAD, and UNDP.

IV. RISK ASSESSMENT AND MITIGATION

Module	Description	Probability	Impact	Mitigation Measures
External climate/conditions				
Revenue Administration (RM II)	The tax administration is located on three islands with little means of communication. It poses problems in terms of information sharing, work supervision and financial reporting.	Medium	Medium	Engaged with the staff of the local branch of tax administration located in Ndzuwani and Mwali. Ensure CD plans include sufficient training for the two islands' staff.
Political Support				
Revenue Administration (RM II)	Lack of political support for reforms inhibits resources being allocated that are needed to enhance the performance and restore the credibility of the tax administration.	Medium	High	Engage regularly with the Minister to ensure ownership of reforms. Ensure CD on revenue is focused on the ECF program and engage with the AD team to align SB with the CD recommendations.
Management and Technical Staff Support and Commitment				
Revenue Administration (RM II)	Commitment by the DG has been gained but that of his staff is still weak. Several regional appointments, and reform's ownership by managers on the two of three islands is still low.	Medium	High	Engage pro-actively with management and technical staff, including in Ndzuwani and Mwali, and explain the importance of the tax administration reform plan and strengthening tax risk management.
Resource Adequacy				
Revenue Administration (RM II)	Insufficient technical capacity and human resources necessary to implement reforms are limited. Limited operating resources and working conditions not adapted.	High	High	Ensure CD plans include sufficient training and prioritize CD to risks areas where resources are limited. Engage regularly with the minister to ensure ownership of reforms.
Other risks				
Revenue Administration (RM II)	Multiple donors are providing intense technical assistance on tax area and contradictory recommendations, or overlaps may arise as a result.	Low	Low	Take an active role, with the support of the IMF local office, in engaging with other donors to ensure support is well coordinated or organize joint mission.
Revenue Administration (RM II)	Supervision of work on the other two islands is inadequate, due to the lack of interconnection of the IT systems and the influence of local authorities.	Medium	Medium	Ensure that the IT system (SIGIT) is interconnected, developed a clear job description, and engaged regularly with the local authority during CD missions.

V. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY24	FY25	FY26	FY27	Grand Total
RM II - Revenue / Revenue Administration					
HQ-led CD mission (incl. LTX)	-	1	1	1	3
STX visits	-	3	3	2	8
LTX Advisor Visits (FY-24 and 25)	2	6	-	-	8
Staff visit	1	1	1	1	4
Interactive Learning (in-person workshop)	-	1	1	1	3
STX Remote	1	-	-	-	1

Table 3. FY24 [Q4] and FY25 workplans

Timing	Activity	CD Delivery	Proposed Topics of CD
RM II - Revenue / Revenue Administration			
FY24 – Q4	Follow-up	Staff visit (FB)	Reform strategy and strategic management framework
FY24 – Q4	Follow-up	1 LTX visit (FB)	Taxpayers filling and payment obligations
FY24 – Q4	Follow-up	1 LTX visit (DS)	Taxpayers filling and payment obligations
FY24 – Q4	Follow-up	1 STX visit (DS)	Customs' clearance procedures and tariffs classification
FY25 – Q1	Follow-up	2 LTX visits (FB)	Taxpayers filling and payment obligations
FY25 – Q2	Diagnostic	HQ (FB)	Reform strategy and strategic management framework
FY25 – Q2	Follow-up	1 STX visit (FB)	Taxpayer's services initiatives
FY25 – Q2	Follow-up	1 LTX visits (FB)	Taxpayers filling and payment obligations
FY25 – Q2	Follow-up	1 LTX visits (DS)	Taxpayers filling and payment obligations
FY25 – Q3	Follow-up	2 LTX visits (FB)	Taxpayers filling and payment obligations
FY25 – Q3	Follow-up	1 STX visit (FB)	Customs' clearance procedures and tariff classification
FY25 – Q4	Follow-up	Staff visit (FB)	Reform strategy and strategic management framework
FY25 – Q4	Follow-up	1 STX visit (FB)	Taxpayer's services initiatives
FY25 – Q4	Learning	Workshop	Taxpayer's services initiatives

UNION OF THE COMOROS

VI. PROGRAM FINANCIALS

	FY24 Q4	FY25	FY26	FY27	TOTAL (USD)
Direct Delivery	53,350	529,489	783,694	759,282	2,125,815
Module RM I - Tax Policy	0	0	0	0	0
Module RM II - Revenue Administration	53,350	529,489	783,694	759,282	2,125,815
Module SM I - Spending Policy	0	0	0	0	0
Module SM II - Managing Public Finances	0	0	0	0	0
Subtotal	53,350	529,489	783,694	759,282	2,125,815
Trust fund management fee (7%)	3,734	37,064	54,859	53,150	148,807
TOTAL	57,084	566,553	838,553	812,432	2,274,622

The estimated budget for this three-year project is \$2,274,622, but endorsement is requested for \$623,637 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

ANNEX I. REVENUE MODULE II - REVENUE ADMINISTRATION

A. Program Objectives

In support of Comoros' need for enhanced domestic revenue mobilization, this new project will help the Comorian tax and customs administrations to strengthen revenue administration management and governance arrangements, strengthen core tax administration functions, and improve customs administration functions:

- Help develop phased tax administration reform strategy and strengthen governance arrangements that will support the authorities' medium-term tax revenue objective. To this end, the project will assist the tax administration in developing a strategic reform plan and strengthening reform management capacity. A support will be also provided in developing a compliance improvement plan and aligning the core tax procedures with modern standards.
- *To further strengthen foundational core processes aiming to improve taxpayer's compliance.* This work will focus on strengthening the core areas of tax accounts management, filing and payment, and tax debt management. The selected areas, which complement the other CD providers activities, were discussed, and agreed with the authorities in September 2023.
- To improve customs administration performance by ensuring an effective application of the procedures during the clearance process and strengthening the post-clearance audit program. Support will be provided to introduce standard operating procedures, improve the tariff classification, and strengthen the control of widespread duty exemptions and suspensions.

In particular, CD activities will focus on:

- Developing a multi-year reform implementation plan, with supporting resource plan.
- Strengthening reform management capacity, including dedicated resources.
- Implementing a compliance improvement program to mitigate main tax risks.
- Applying and widely communicating tax procedures aligned with modern standards.
- Improving management of filing compliance and increasing on-time filing ratio.
- Increasing on-time payment ratio and improving tax arrears management.
- Using automated cross-checking tax and customs data to verify return information.
- Strengthening self-assessment to declare goods at customs and applying clearance procedures based on international standards and improving the tariff classification of goods.
- Strengthening the framework to control exemptions and suspensive regimes.
- Improving legal base and procedures to exchange information with the tax administration.

B. Expected Results

The project is expected to achieve the following outcomes:

- Capacity for managing reforms increased due to adoption and institutionalization of an effective reforms management framework.
- Corporate priorities better managed through effective risk management.
- Tax and customs laws and procedures simplified and better aligned to best practice.
- The integrity of the taxpayer base and ledger is strengthened.
- A larger proportion of taxpayers meet their filing obligations as required by law.
- A larger portion of taxpayers meeting their payment obligations as required by law.
- Audit, and other verification programs more effectively ensuring accuracy of reporting.
- Foreign trade operators better comply with their reporting and payment obligations.
- Control during the clearance process more effectively ensures accuracy of declarations.
- Audit and anti-smuggling programs more effectively ensure enforcement of customs laws.

C. Targeted Logical Framework – REVENUE ADMINISTRATION

Objective	
Strengthen revenue administration management and governance arrangements	
Outcome(s)	Indicator(s)
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized.	Reform management capacity in place for reform implementation, including dedicated resources. Multi-year reform implementation plan, with supporting resource plan, adopted and well communicated.
Corporate priorities are better managed through effective risk management.	Better mitigation of risks through a compliance improvement plan (TADAT 2019 POA2-4).
Tax laws are updated, simplified, and better aligned with modern standards.	Administrative provisions are modernized, harmonized, and consolidated under a tax procedures code.
Objective	
Strengthen core tax administration functions	
Outcome(s)	Indicator(s)
The integrity of the taxpayer base and ledger is strengthened.	Knowledge of taxpayer base and potential taxpayers improved through robust taxpayer registration policies and procedures (TADAT 2019 POA1-2).
A larger proportion of taxpayers meet their filing obligations as required by law.	On-time filing ratio improved (TADAT 2019 POA4-12).
A larger proportion of taxpayers meet their payment obligations as required by law.	On-time payment ratio improved (TADAT 2019 POA5-17). Management of tax arrears improved (TADAT 2019 POA8-28).
Objective	
Improve customs administration functions	
Outcome(s)	Indicator(s)
Customs control during the clearance process more effectively ensures accuracy of declarations.	Effective application of procedures based on international standards and the tariff classification of goods improved.
Audit and anti-smuggling programs more effectively ensure enforcement of customs laws.	Framework to control special regimes and exemptions strengthened.