

I. COUNTRY REFORM PROGRESS

Domestic revenue mobilization is the cornerstone of the four-year arrangement under the IMF's Extended Credit Facility (ECF) adopted by the IMF Executive Board in June 2023. Comoros is a fragile, small developing state marked by political instability, weak institutions, and government implementation capacity that is substantially weaker than the sub-Saharan African average. The arrangement, which came on the heels of the completion of the Staff-Monitored Program (SMP) in April 2023, is Comoros' first financing engagement with the Fund in 10 years. The program aims to support economic recovery and secure medium-term macroeconomic stability, and debt sustainability based on a credible fiscal consolidation plan, and structural reforms to reduce vulnerabilities in the banking sector, reduce corruption risks, and improve public sector governance and transparency.

Tax-to-GDP ratio in Comoros, which has stagnated at around 8 percent of GDP for several years, is one of the lowest in sub-Saharan Africa. Fiscal performance through end-June 2024 shows some weakness in revenue. Tax revenue in 2024H1 fell by 0.3 percent of GDP y/y mainly driven by a drop in personal and corporate income taxes and excises. The decline reflects in part a base effect as one-off factors, such as the strong post-COVID-19 import demand, had boosted tax revenue in 2023H1. The shortfall also reflected disruptions from the post-elections unrest, the health and weather shocks during the first half of 2024, and the contraction in imports.

Broadening the tax base and modernizing the tax payment system must be accelerated. The use of data from the SIGIT-SYDONIA interconnection has enabled the tax administration, with support from the IMF's Fiscal Affairs Department (FAD), to identify new taxpayers and several potential fraud cases. Within this framework and through new data sources (electricity and water suppliers, targeted census, etc.), the tax administration intends to increase the number of large and medium-sized taxpayers by 20 percent over the course of 2025. Combating the use of fraudulent tax identification numbers (TINs), in collaboration with the General Directorate of Customs, will also help the General Directorate of Taxes limit tax evasion and facilitate the recovery of tax arrears, which have been growing steadily over the years. Efforts to broaden the tax base, such as the tax administration establishment of new tax offices across the country, are in progress.

Customs administration reforms can unlock substantial revenue potential. Weekly meetings on customs operations across the three Islands, improved monitoring of the application of tariff specification codes on key revenue-generating imports, strengthened risk management and audit selection, and ongoing training of customs officers have helped maintain customs revenue despite the drop in import volumes. With support from IMF HQ and AFRITAC South (AFS), the customs administration has completed the arrears report identifying taxpayers with outstanding customs duties under the suspensive regimes as of June 30, 2024. To consolidate gains in revenue mobilization and trade facilitation, the customs administration should continue to strengthen core customs procedures, including, inter alia, deactivating in SYDONIA all TINs not recognized by the tax administration, and strengthening processes for monitoring exemptions and suspensive regimes in SYDONIA.

II. PROJECT DELIVERY HIGHLIGHTS

RM II: Revenue Module II – Revenue Administration
Key Progress in FY25: <i>Tax.</i> New taxpayers have been identified and a program of controls drawn up using data from the interconnection of tax (SIGIT) and customs (SYDONIA) IT systems and database, and a large and medium taxpayers compliance improvement plan was developed jointly with AFS. The number of active large or medium taxpayers have increased by 5 percent at end June 2024. <i>Customs.</i> Assistance to fully implement the tariff in SYDONIA was provided and a joint mission with AFS to help to identify customs duties arrears from suspensive regime and set up a task force to collect them before the end of 2024. Next Steps: <i>Tax.</i> Support the implementation of the tax audit and tax base expansion plan and help define the scope of the electronic invoicing project. <i>Customs.</i> Help for strengthening the monitoring of suspensive regime and exemption in SYDONIA, including the handling and payment recording of oil products.

III. LOGICAL FRAMEWORK

Country – Comoros		
RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 2
Outcome	Rating	Narrative
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized.	1 Not Achieved	In view of the very limited capacity of the tax administration, priority has been given for the time being to strengthening essential functions, including broadening the tax base.
Corporate priorities are better managed through effective risk management.	2 Partially Achieved	A compliance improvement plan targeting large and medium-sized taxpayers is in place.
Tax and/or customs laws are updated, simplified, and better aligned with modern standards and international protocols.	1 Not Achieved	In view of the very limited capacity of the tax administration, priority has been given for the time being to strengthening essential functions, including broadening the tax base.
RM II: Objective - Strengthened core tax administration functions (SDG 17.1) – TAD		Rating - 2
Outcome	Rating	Narrative
The integrity of the taxpayer base and ledger is strengthened.	2 Partially Achieved	As a result of census work in the field and the cross-referencing of information and data with customs, new taxpayers have been taxed and registered in the tax authorities' database. The number of active large or medium taxpayers have increased by 5 percent at end June 2024.
A larger proportion of taxpayers meet their filing obligations as required by law.	2 Partially Achieved	Large and medium taxpayer's TCA and PAYE withholding returns submitted at due date increased slightly during the first semester of 2024.

A larger proportion of taxpayers meet their payment obligations as required by law.	2 Partially Achieved	The number of large and medium taxpayers paying TCA and PAYE withholding increased slightly during the first semester of 2024.
RM II: Objective - Improved customs administration functions (SDG 17.1) - CAD		Rating - 2
Outcome	Rating	Narrative
Customs control during the clearance process more effectively ensures accuracy of declarations.	2 Partially Achieved	Implementation of the tariff in the IT customs system is in progress.
Audit and anti-smuggling programs more effectively ensure enforcement of customs laws.	2 Partially Achieved	A task force has been set up and trained, jointly with AFS, to collect arrears due to special regimes, before the end of 2024, as part of achieving the ECF program structural benchmark.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
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	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		
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	Engage regularly with the Minister to ensure ownership of reforms. Ensure CD on revenue is focused on the ECF program and engage with the IMF's African Department team to align structural benchmarks with the CD recommendations.
Management and Technical Staff Support and Commitment		
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	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		
RM II: Insufficient technical capacity and human resources necessary to implement reforms are limited.	High	Ensure CD plans include sufficient training and prioritize CD to risk areas where resources are limited.
Other Risks		
RM II: Multiple donors are providing intense technical assistance on tax area and contradictory recommendations, or overlaps may arise as a result.	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 missions.
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.	High	Ensure that the IT system (SIGIT) is interconnected, a clear job description is developed and the local authority is regularly engaged during CD missions.

V. PROJECT MANAGERS CONTACT INFORMATION

Project Manager	Module PM	E-mail
M. Anthony Ramarozatovo (FADR2)	M. Anthony Ramarozatovo (FADR2)	ARamarozatovo@imf.org