

Comoros



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Brief History:

Comoros, officially the Union of the Comoros, is an island nation in the Indian Ocean, located off the eastern coast of Africa on the northern end of the Mozambique Channel between northern Madagascar and northeastern Mozambique. The nearest countries to the Comoros are Mozambique, Tanzania, Madagascar, and the Seychelles. At 2,235 km² (863 sq mi), the Comoros is the third smallest African nation by area; and with a population estimated at 798,000 it is the sixth smallest African nation by population (though it has one of the highest population densities in Africa), and is the southernmost member state of the Arab League. Its name derives from the Arabic word qamar ("moon").

The country officially consists of three of the four main islands in the volcanic Comoros archipelago: Ngazidja, Mwali, Nzwani, and Mahoré. However, the government of the Union of the Comoros, or its predecessors since independence, has never administered the island of Mayotte, which France administers and considers a French overseas community. Mayotte was the only island in the archipelago that voted against independence from France, and France has vetoed United Nations Security Council resolutions agreeing with Comorian sovereignty over the island. Control has never passed to the Comoros.

The archipelago is notable for its diverse culture and history, as a nation formed at the crossroads of many civilizations. Though in the contested island of Mayotte the sole official language is French, the "Union of the Comoros" has three official languages: Comorian (Shikomor), Arabic and French.

The "Union of the Comoros" is the only state to be a member of each of the African Union, Francophonie, Organisation of the Islamic Conference, Arab League, and Indian Ocean Commission, among other international organizations. However, it has had a troubled history since independence in 1975, marked by an inordinate number of 20 coups d'état.

Economy:

Economic growth and poverty reduction are major priorities for the government. Unemployment is considered very high at a rate of 20%. Agriculture, including fishing, hunting, and forestry, is the leading sector of the economy and contributes 40% to GDP, employs 80% of the 144,500 people in the labor force (1996 est.), and provides most of the exports. Comoros is the world's largest producer of ylang-ylang, and a large producer of vanilla. Other prominent industries include tourism and perfume distillation. Services and industry contribute the remaining 56% and 4% to GDP, respectively. High population densities, as much as 1000 per square kilometer in the densest agricultural zones, for what is still a mostly rural, agricultural economy may lead to an environmental crisis in the near future, especially considering the high rate of population growth. The Comoros' 2008 est. GDP and GDP per capital were \$778.6 million and \$1,100, respectively. 2008 est. real GDP growth and inflation were 1% and 3%, respectively.

Comoros has an inadequate transportation system, a young and rapidly increasing population, and few natural resources. The low educational level of the labor force contributes to a subsistence level of economic activity, high unemployment, and a heavy dependence on foreign grants and technical assistance.

The government is struggling to upgrade education and technical training, to privatize commercial and industrial enterprises, to improve health services, to diversify exports, to promote tourism, and to reduce the high population growth rate.

The Comoros claims the Banc du Geyser and the Glorioso Islands as part of its exclusive economic zone.

Banking System:

The financial system of the country is small and concentrated in the banking sector, comprising Banque des Comoros (the central bank), one commercial bank (Banque pour l'Industrie et le Commerce des Comores) and one development bank (Banque de Développement des Comores). As exhibited in the two tables below, Comoros' banking assets represent a relatively small percent of GDP (9%) and are not as important to the economy as the central bank is. As of calendar year end 2007, the central bank had more than two times the assets (48,067mm vs 23,331mm Comorian Francs) of the commercial banking sector. The government has stated that it intends to increase competition in the banking sector. Exim Bank Tanzania plans to open a subsidiary while a Kuwaiti investor has shown a keen interest in opening a Merchant Bank in Comoros. Neither of these two banks is yet operational. Another commercial bank, the Banque de la Reunion, was licensed in 2002 to operate in Comoros, but it has yet to start operations.

Access to credit for entrepreneurial activities in Comoros is hindered by the small and underdeveloped financial sector. Overall, the financial system lacks an effective regulatory framework that can facilitate dynamic business investment. Two of the country's three islands, Anjouan and Moheli, reportedly have attempted to develop an offshore financial services sector as a means to finance government spending.

Monetary Analysis of Comoros

(In Millions of Comorian Francs)

Year Ending	2007
Net foreign assets	41,727
Central bank	39,670
Assets	39,879
Liabilities	-209
Commercial Bank	2,057
Assets	4,541
Liabilities	-2,484
Net domestic assets	-9,417
Domestic credit	15,347
Net credit to government	5,642
Bank financing	5,148
Credit to government	5,982
Government deposits	-835
Claims on public enterprises	45
Credit to private sector ¹	9,794
Other items (net)	-24,764
Broad money	32,310
Money	24,494
Currency in circulation	13,493
Demand deposits	11,001
Quasi-money	7,816

¹ Excludes bankers' acceptances.

Sources: Central Bank of the Comoros

Summary Statement of the Bank & Commerce

(In Millions of Comorian Francs)

Year Ending	2007
Reserves	8,706
Cash	160
Deposits at the Central bank	8,547
Foreign assets	4,541
Claims on government	309
Claims on private sector	9,775
Unclassified assets	0
Bills to be collected	1,640
Assets=liabilities	23,331
Assets / GDP ¹	9%
Demand deposits	9,357
Time and savings deposits	7,851
Time deposits	723
Savings deposits	7,037
Blocked account ²	91
Government deposits ³	279
Foreign liabilities	2,484
Unclassified liabilities	0

¹ 2007 GDP was 266,604.78 MM Comorian Francs (\$737.70 MM)

² Deposits required by the Bank for Industry and Commerce for imports under letter of credit.

³ Principally the Stabilization Fund for Export Earnings.

Island economies are typically characterized by significant informal activity, in part due to the small domestic markets but also due to the lack of institutional capacity to effectively regulate the various economic sectors. Comoros is no exception to this general rule as exhibited by its very high self-employment as % of non-agricultural employment (61%). According to Read and Staines (2004), the size of the informal sector reflects the ease with which formal businesses can enter and grow within the economy, and claim that the business entities have a greater contribution to the economy if they operate in the formal sector. Given

Comoros' large informal sector and the lack of growth in the banking, formal businesses seem to have a very difficult time to enter and grow within the Comoros economy.

Insurance Companies and Other Financial Institutions:

Micro-finance institutions generally account for about 20% of lending in the banking sector. Comoros has a small insurance sector, but information is very scarce for this sector. Protection of property rights is weak, and registration of real property is time-consuming and expensive. Although women do not have the same legal protection as men, traditional custom grants women favorable inheritance and property rights. The judicial system is ineffective, contracts are weakly enforced, and courts are relatively inexperienced in commercial litigation. Despite an adequate legal regime for the protection of intellectual property rights, the government lacks the capacity and resources to enforce copyright violations.

Central Bank and Its Role in the Economy:

Banque des Comoros is Comoros' central bank and regulates and supervises the entire financial sector. It also manages foreign exchange control, and capital transfers need prior authorization from various government agencies.

Stock Market:

Comoros does not have a stock market.

Fixed Income Markets:

Comoros does not have a formal fixed income market. It relies mainly on external financing, and at the end of 2007 the external debt-to-GDP ratio was about 60 percent, above the HIPC and low-income debt sustainability threshold.

Foreign Investment:

Against a backdrop of constant political instability and lackluster export performance, economic activity has been subdued. Until 2006, there was limited progress in building up institutional capacity, which has prevented effective reform. Moreover, dilapidated economic and social infrastructures and a poor business environment have discouraged private sector initiative and kept foreign direct investment at bay. Consequently, real GDP growth averaged a modest 2.1 percent for 2000–07, and per capita income has steadily declined.

Foreign Exchange:

The Comorian Franc (KMF) is pegged to the Euro at KMF 491.96775 / 1 EUR. Exchange rates are officially quoted on the basis of the fixed rate of the Comorian Franc for the Euro and

the Paris exchange rate for other currencies. The Comoros has an arrangement with the French treasury through an Operations Account. With the exception of transactions relating to gold, the country's exchange control measures do not apply to France or to other countries whose banks of issue are linked to the French Treasury by an Operations Account (i.e. WAEMU and CEMAC). Forward cover against exchange rate risk is authorized by the central bank and is provided to traders for up to three months by a commercial bank that is authorized to conduct such transactions.

SOURCES

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