



The World Bank

Union of the Comoros Development Policy Financing Series (P179763)

Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 08-May-2023 | Report No: PIDC34805



BASIC INFORMATION

A. Basic Project Data

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|---|---|--|---|
| Country Comoros | Project ID P179763 | Project Name Union of the Comoros Development Policy Financing Series (P179763) | Parent Project ID (if any) |
| Region EASTERN AND SOUTHERN AFRICA | Estimated Board Date Nov 13, 2023 | Practice Area (Lead) Macroeconomics, Trade and Investment | Financing Instrument Development Policy Financing |
| Borrower(s) Ministère des Finances, du Budget et du Secteur Bancaire | Implementing Agency Ministère des Finances, du Budget et du Secteur Bancaire | | |

Proposed Development Objective(s)

The program development objective (PDO) is to support the Government's effort to: to achieve a robust, resilient, and inclusive economic growth by: (i) strengthening fiscal management and resilience; and (ii) enabling private sector development.

Financing (in US\$, Millions)

SUMMARY

| | |
|-----------------|-------|
| Total Financing | 20.00 |
|-----------------|-------|

DETAILS

| | |
|----------------------------------|-------|
| Total World Bank Group Financing | 20.00 |
| World Bank Lending | 20.00 |

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Comoros is a small and lower middle-income country and recent exogenous shocks have deteriorated prospects of accelerating poverty reduction in the near term. Based on the national poverty line (KMF 41,495 or US\$99), an estimated



44.8 percent of the population is poor, and statistical analyses show that this level has not changed since 2014.¹ Cyclone Kenneth and the COVID-19 pandemic hampered efforts to reduce the poverty rate because of the implementation of pandemic-related containment measures, and the sluggish economic growth. Comoros' economy has also been significantly impacted by Russia's invasion of Ukraine and recent inflation. The expected strong recovery in 2022 was thwarted by the international context. The economy grew by 2.3 percent only in 2022 (up from 2.1 percent in 2021) as rising global food and energy prices have weighed on private consumption, which is Comoros' main growth driver on the demand side. Due to imported inflation, headline prices have increased to record levels, reaching an average of 12.5 percent for the year 2022, up from an average of 1.4 percent in 2011–2020. The increase in food prices is expected to disproportionately affect low-income households.

While recent exogenous shocks exhibit Comoros vulnerabilities, Comoros growth has been slow because of macroeconomic and governance weaknesses, and low private investment. The country has been stuck in a low-growth trap for over 40 years, with growth averaging about 2.6 percent of real GDP in 1980–2022, with a stagnant US\$1,348.3 income per-capita (constant 2010 US\$). This low level of growth has neither delivered poverty reduction nor promoted inclusiveness, and it has made the country less resilient to shocks. This low economic performance can be explained by an unbalanced growth model which heavily relies on public and private consumption, and with state-owned enterprises being major economic actors. Besides structural issues, Comoros' macroeconomic situation worsened because of a high risk of debt distress and increased fiscal needs. Comoros' risk of debt distress was reassessed from moderate to high in September 2021 due to challenging economic conditions, non-concessional loans contracted in 2018-2020, and costs related to the restructuring of a major commercial state-owned bank, *Société Nationale des Postes et Services Financiers* (SNPSF).

Relationship to CPF

The proposed operation is aligned with the CPF focus areas, specifically economic recovery and inclusive growth as well as crisis response and building resilience. The CPF is based on the priorities identified in the World Bank Systematic Country Diagnostic (2019) and is aligned with the government's PCE (*Plan Comores Emergent*). The DPF also builds on policy dialogue structured around analytical work, including the 2022 Public Expenditure Review, 2022 Country Economic Memorandum, analyses on Comoros accession to the World Trade Organization, technical assistance (reports), and other current and prospective World Bank engagements outlined in the CPF. The CPF focuses on four objectives: (1) building human capital; (2) supporting disaster recovery and resilience; (3) improving the business environment and governance; and (4) improving connectivity. The Comoros' DPF will contribute to the CPF's Focus Area I on crisis response and building resilience by strengthening institutions, particularly the social safety nets (SSN), which should support disaster recovery and resilience (*Objective 2 – Focus Area I*). Under the CPF's Focus Area II on economic recovery and inclusive growth, the operation will contribute to the improvement of the business environment and governance (*Objective 3 – Focus Area II*). All Prior Actions, except the one on social protection, contribute to the CPF's Objective 3.

C. Proposed Development Objective(s)

The DPF series' program development objectives are to strengthen fiscal management and resilience, and enable private sector development.

Key Results

¹ World Bank. 2021. Poverty and Equity Assessment Report, Washington DC: World Bank.



In line with these objectives, the key expected results of this operation are as follows. Under Pillar 1, key results include a more efficient debt management, an improved financial and operational performance of SOEs, a higher public spending efficiency based on improved government procurement systems, and a strengthened capacity of national SSN programs to reduce household vulnerabilities. Under Pillar 2, key results include a liberalization of ordinary rice imports, the creation and licensing of the new postal bank (LBP), the development of renewable energy, a better national framework to reduce the risk of money laundering, and a better governance of the tourism sector.

| Indicator Name | Baseline | Target |
|--|---------------|--|
| Results Indicator #1.1. Percentage of new debt and public guarantees that result in debt distress. | 0 (2022) | 0 (2026) |
| Results Indicator #1.2. Difference between the stock of external debt and the LIC-DSA threshold (% of GDP) | Xxx (2023) | Xxx (2026) |
| Results Indicator #2. Share of state-owned enterprises that provide and publish data that allow for the monitoring of operational and financial performance. | 0 (2022) | 75 (2026) |
| Results Indicator #3. Number of high-spending ministries and state-owned enterprises that exclusively use the e-GP platform for their procurement activities. | 0 (2021) | Three ministries and one state-owned enterprise (2025) |
| Results Indicator #4.1. Number of households in the social protection registry. | 30,000 (2022) | 50,000 (2026) |
| Results Indicator #4.2. Percentage of women receiving cash transfers in urban and rural areas. | 55 (2022) | 70 (2026) |
| Results Indicator #5: Volume of ordinary rice imported by the private sector (in percentage of total imported ordinary rice). | 0 (2022) | 15 (2026) |
| Results Indicator #6. Level of LBP's solvency ratio (in percentage) as established by the Central Bank | NA (2023) | 10 (2026) |
| Results Indicator #7. Percentage of renewable energy in the Comoros energy mix. | xx (2022) | xx (2026) |
| Results Indicator #8. Number of suspicious transaction reports processed by the financial intelligence service in a year. | 13 (2022) | 30 (2025) |
| Results Indicator #9. Percent of the tourism development tax that has been received by public tourism institutions. | 0 (2022) | Xxx (2026) |

D. Concept Description

The proposed Development Policy Financing operation will be the first in a series of three over the period 2023–2025 for Comoros, with a focus on fiscal management, governance, and inclusive growth. The pillars of the program are fully supporting the Government of Comoros in its efforts to achieve a robust, resilient, and inclusive economic growth by: (i) strengthening foundational institutions for inclusive growth; and (ii) enabling private sector development. The associated legal and policy reforms are aligned with the national development plan – *Plan Comores Emergent* (PCE). The PCE includes actions to strengthen political and institutional framework, develop human capital, and accelerate digitization. All these actions are conditioned by a sound macroeconomic framework and a better resilience, which the DPF series' program



intends to contribute to build.

The Program highlights policy reforms in sectors that are critical to shift the country toward a sustainable development by strengthening institutions for inclusive growth, and fostering structural reforms to foster private sector development. Pillar 1 aims to strengthen fiscal management and resilience, and intends to do it by (i) strengthening debt management and transparency for fiscal sustainability through the promulgation of a new debt management law; (ii) improving SOE supervision and performance through the creation of an oversight unit and the appointment of management personnel and board members; (iii) digitalizing public procurement to improve public spending efficiency; and (iv) by enhancing and increasing the efficiency of social protection through the a better coordination of the implementation of the main social safety net programs. Pillar 2 aims to enable private sector development, by (i) opening key economic sectors to the private sector by reducing trade barriers and liberalizing ordinary rice imports; (ii) strengthening financial stability through the licensing of a new postal bank (LBP) with a strong governance and sufficient capital and an improved framework to combat money laundering; (iii) drafting a new law on renewable energies opening up the market to private sector for the production and sale of renewable energy ; and by (iv) creating the foundation for developing the tourism sector through an improved governance and organization of the sector.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

Several prior actions in this program are expected to have a positive social impact while the remaining are expected to be neutral. Prior Action #4 will improve poverty targeting and increase the number of poor households covered by social protection programs and result in positive poverty impacts. Prior Action #5 would have a positive but disproportionate impact on per capita income across income deciles through potential lower prices for ordinary rice. Prior Action #7 is expected to reduce electricity costs, which in turn could increase disposable income for the poor in the short term and allow firms to create more jobs in the medium term (as lower electricity costs would increase their productivity). However, since poor households consume less electricity than their non-poor counterparts, Prior Action #7 is expected to favor non-poor consumers, as they allocate a relatively larger share of their income to electricity expenditure.

Environmental, Forests, and Other Natural Resource Aspects

While several Prior Actions have positive (#1, #2, #3, and #7) or neutral (#6 and #8) impacts on the environment, the impact of #5 and #4 will be negative, and the impact of #9 is subject to the implementation of additional policies. Prior Actions #1 and #2 will have a significant positive impact on Comoros' environment, forests, and natural resources if SOEs' (i.e., SCH, ONICOR, SONELEC, and Comoros Telecom) performance monitoring and reporting include key performance indicators that address climate-related financial risks and opportunities, staff members' health and safety, and environment protection trends and targets. Prior Action #3 is likely to generate a small amount of e-waste but will likely have a positive impact on the country's environment and natural resources by significantly reducing paper usage. Prior Action #7 could have a significant positive impact on the environment, forests, and natural resources, as the generation of electricity is highly dependent on imported diesel, which has a significant environmental impact. Prior Action #5 could lead to new investment to build warehouses and ensure the supply of rice, and Prior Action #4 could result in more SSN activities. While Prior Action #9 could lead to the construction of more tourism facilities, it could also encourage the maintenance of natural ecosystems through environmentally friendly practices that ensure the sustainable use of natural resources.



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APPROVAL

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Approved By

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| Country Director: | Zviripayi Idah Pswarayi Riddihough | 26-May-2023 |
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