

**PROGRAM INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: 95978  
April 21, 2015

<b>Operation Name</b>	Comoros Second Economic Governance Reform Grant
<b>Region</b>	AFRICA
<b>Country</b>	Comoros
<b>Sector</b>	Central government administration (70%); Public administration- Energy and mining (10%); Transmission and Distribution of Electricity (10%); Public administration- Agriculture, fishing and forestry (10%).
<b>Operation ID</b>	P150924
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	GOVERNMENT OF COMOROS
<b>Implementing Agency</b>	Vice-Presidency in charge of Finance of the Union of the Comoros
<b>Date PID Prepared</b>	April 21, 2015
<b>Date of Appraisal</b>	March 20, 2015
<b>Estimated Date of Board Approval</b>	June 2, 2015
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.
<b>Other Decision</b> <i>{Optional}</i>	

**I. Key development issues and rationale for Bank involvement**

1. **Comoros is a small and fragile state with a narrow economic base, widespread poverty and thin institutional capacity.** Years of political instability contributed to acute underinvestment in services, infrastructure, skills, institutional capability and the productive sectors of the economy. The economy has relied primarily on the export of a few agricultural commodities, and has been subject to terms of trade and price shocks associated with global market fluctuations. These factors have contributed to widespread poverty and unemployment in Comoros, particularly amongst women. Recent data on poverty are unavailable given that the last household survey was conducted in 2004<sup>1</sup>, when poverty was estimated to affect one out of two individuals. Poverty was observed to be primarily concentrated in rural areas, but recent urban migration may have further exacerbated poverty in crowded urban suburbs. Remittances from the Comorian diaspora have emerged as a major pillar of the economy, simultaneously supporting both household welfare and the external position. Demographic forces will exert further pressures on the economy with the population projected to grow by 50 percent and the labor force expected to double over the next 15 years.

<sup>1</sup> Access to data on poverty, inequality, vulnerability, the cost and access to services is limited in Comoros. The latest poverty estimates date back to 2004. A household budget survey is currently in being carried out by the Comoros statistics institute. The results are due to be ready in mid-2015.

2. **The recent period of stability has enabled Comoros to implement a set of ambitious reforms that have allowed it to reach the HIPC completion point, but significant challenges remain.** The return of political stability in recent years has been instrumental for building more stable institutions, and has opened a window of opportunity for reform. Since 2009, Comoros has implemented a series of macro-stabilization and structural reform programs with support from development partners, securing gains in fiscal consolidation and macroeconomic stability, making advances in public financial and debt management reforms, and initiating a process for reforming state-owned enterprises. These measures enabled the country to reach the completion point in December 2012, and allowed it to benefit from debt cancellation under the HIPC and MDRI initiatives. They have also supported recent improvements in economic conditions, with growth in 2013 marking an eight year high at 3.5 percent. Despite this progress, significant challenges impede economic development, poverty reduction and shared prosperity in Comoros. The fiscal position continues to be fragile with limited room for maneuver and is supported by weak public finance management (PFM) systems. Transparency and accountability continue to be key constraints to the development agenda. Moreover, growth and job creation continue to be held back by a high cost environment, particularly in relation to securing reliable access to electricity and connectivity through modern telecommunication services. Pressures relating to these factors, particularly difficulties in the electricity sector, reduced the rate of economic growth to 3 percent in 2014.

3. **The completion of this program is expected to deepen economic management reforms, and contribute to reducing poverty.** The reforms supported by this program include the liberalization of the telecoms sector, the adoption of a detailed recovery framework for the energy sector, the introduction of a single treasury account (TSA), and an improved legal framework for the management of debt. The operation will also deepen transparency and accountability in Comoros by improving the comprehensiveness of budget documents and strengthening the legal framework for combatting corruption. These reforms will play a key role in supporting the implementation of Comoros' National Strategy for Accelerated and Sustainable Growth (SCADD).

## II. Proposed Objective(s)

4. The development objective of this development policy operation (DPO) series is to strengthen economic management, promote transparency, and improve the performance of the electricity and ICT sectors.

## III. Preliminary Description

5. **The proposed operation supports the implementation of the government's reform program.** It is aligned with the strategic direction on the SCADD and other key strategies underpinning the government's reform program. This operation is designed to: (i) strengthen economic management by: improving treasury processes and introducing a TSA, adopting a law for enhancing debt management, and updating the methodology for Comoros' national accounts; (ii) advance the transparency and anti-corruption agenda by: increasing the comprehensiveness of the budget, and strengthening the legal framework for combating corruption; and (iii) support structural reforms in the electricity and ICT sectors.

#### IV. Poverty and Social Impacts and Environment Aspects

6. **Improving public finance management and transparency will indirectly contribute to improved poverty and social outcomes in Comoros.** An effectively executed budget is an important pre-requisite to a functioning public finance system that is able to allocate resources to national development priorities. Effective treasury management, which is one of the main PFM reforms supported by this operation, supports the system's ability to maximize the use of scarce budget resources and enhance the budget's ability to respond to social and developmental needs. Moreover, an improved governance framework, driven by anti-corruption measures, will support openness and help to limit the leakage of funds. Taken together, improvements in economic management and accountability targeted by this programmatic DPO will help the government to move forward with the implementation of the SCADD and allocate the scarce resources available to priority areas of social development.

7. **Energy reforms are expected to have positive social impact by increasing the reliability of electricity services in Comoros.** This will particularly be the case for vulnerable households, small businesses, small health facilities and schools in rural areas that currently have very low levels of supply and cannot afford to run individual generators. At the same time, the utilities' commercial recovery (that includes improved billing and collection of all the electricity generated and the work to reduce fraud and non-payment of electricity) will require more of the population to pay electricity bills than is currently the case. The Electricity Sector Recovery Project includes a Poverty and Social Impact Analysis (PSIA) to assess the impact on the poor – in particular related to better billing and better enforcement of payment. The PSIA will also seek to better understand policies that could be modified to achieve the expected results and limit negative impacts on the poor.

8. **Reforms in the telecoms sector will improve access to ICT and reduce costs, thereby providing wide social benefits and reducing costs faced by the poor.** The absence of competition in Comoros' telecoms sector has been directly associated with the relatively high costs of telephony, and the low access to internet services. The reforms supported by this DPO series to liberalize the telecoms sector and introduce competing service providers will reduce communications costs and increase Comorian households' access to ICT services. Lower communication costs will be of social and poverty benefit in the Comoros context given the important role that connections with family members and remittances from abroad play in the economic welfare of households.

9. **The policy actions supported by this operation are not likely to have significant positive or negative effects on the environment, forests, and natural resources.** The policies addressed by this operation focus on institutional reforms without any expected short-term direct or indirect environmental impact. The energy reforms are related to the Electricity Sector Recovery Project, which is limited to funding studies and the acquisition of electricity meters, management information systems, hardware, and software equipment in the commercial and technical areas of utility operation. Thus, no significant adverse environmental or social impacts are anticipated under the project. Climate change and disasters are not considered to be significant risks relating to this operation.

## V. Tentative financing

Source:	(\$m.)
Borrower/Recipient	0
International Development Association (IDA)	3.0
IBRD	0
Others (specify)	0
Total	3.0

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