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Report No: PGD387

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED GRANT

IN THE AMOUNT OF SDR 14.9 MILLION (US$20 MILLION EQUIVALENT) TO THE

UNION OF THE COMOROS

FOR THE

COMOROS FIRST FISCAL MANAGEMENT AND RESILIENT GROWTH DEVELOPMENT POLICY FINANCING

September 6, 2023

Macroeconomics, Trade and Investment
Eastern and Southern Africa Region

The Union of the Comoros

GOVERNMENT FISCAL YEAR

January, 1 – December, 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of August 16, 2023)

Currency Unit: Comorian Franc (KMF)

KMF 452 = US$1.00

ABBREVIATIONS AND ACRONYMS

AFD	French Development Agency – *Agence Française de Développement*	LOFE	Budget system law - *Loi des Opérations financières de l'Etat*
AfDB	African Development Bank	NPL	Non-performing Loan
AML/CFT	Anti-money laundering and countering the financing of terrorism	NTM	Non-tariff measure
BCC	Central Bank of Comoros, *Banque Centrale Des Comores*	ONICOR	National Rice Import and Marketing Office, *Office National d'Importation et de Commercialisation du Riz*
CPF	Country Partnership Framework	PCE	Emerging Comoros Plan - *Plan Comores Emergent*
DNCMP	National Directorate of Public Procurement Control, *Direction nationale du contrôle des marchés publics*	PEFA	Public Expenditure and Financial Accountability Assessment
DPF	Development Policy Financing	SDFP	Sustainable Development Financing Policy
DPO	Development Policy Operation	SDR	Special Drawing Rights
ECF	Extended Credit Facility	SMP	Staff Monitored Program
FIMARG	Fiscal Management and Resilient Growth	SNPSF	Société Nationale des Postes et Services Financiers
GRS	Grievance Redress Service	SOE	State-Owned Enterprise
IMF	International Monetary Fund	SSN	Social Safety Net
IT	Indicative Trigger	TSA	Treasury Single Account

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THE UNION OF THE COMOROS

Comoros First Fiscal Management and Resilient Growth (FIMARG-1) Development Policy Financing

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The Comoros First Fiscal Management and Resilient Growth (FIMARG) Development Policy Financing Grant was prepared by an IDA team led by Steve Loris Gui-Diby (Senior Economist, EAEM2) and Etienne Sannicolo (Financial Sector Specialist, EAEF2) under the guidance of Zviripayi Idah Pswarayi Riddihough (Country Director, AECS2), Hassan Zaman (Regional Director, EAEDR), Marco Hernandez (Practice Manager, EAEM2), and Boubacar Sidiki Walbani (Resident Representative, AEMKM); and consisting of Adria M. Vargas Santos, Alberto Portugal, Alex Pio, Ana Cristina Hirata Barros, Andry Herizaka Rakotoarisoa, Blandine Marie Wu Chebili, Claudia Cardelli, Cyrille Valence Ngouana Kengne, Francis Muamba Mulangu, Fanjaniaina Prisca Mamitiana, Hajarivony Andriamarofara, Ibrahim El-ghandour, Jean Nicolas Arlet, Julia Rachel Ravelosoa, Justin Marie Bienvenu Beleoken Sanguen, Maharavo Harimandimby Ramarotahiantsoa, Mampionona Amboarasoa, Mamadou Tanou Balde, Mariana M. Montiel, Nagaraju Duthaluri, Paavo Eliste, Shane Sela, Sarah Bashford Lynagh, Sidy Diop, Sylvain Rambeloson, Tamara Bah, Tsiry Andriantahiana, and Zubair Khurshid Bhatti. The team is grateful to Rohan Longmore and Natasha Sharma, peer reviewers at the concept stage, and Souleymane Coulibaly and Vincent De Paul Tsoungui Belinga, peer reviewers at the Regional Operation Committee stage. The team expresses its gratitude to the many people involved—in the World Bank and on the side of the Government of Comoros—in putting this operation together.

SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Operation ID	Programmatic	If programmatic, position in series
P179763	Yes	1st in a series of 3

Proposed Development Objective(s)

The program development objectives (PDOs) are the following: (i) enhance debt management and public expenditure efficiency; (ii) strengthen resilience to shocks; and (iii) improve state-owned enterprises governance and performance.

Organizations

Borrower:	Union of the Comoros
Implementing Agency:	Ministère des Finances, du Budget et du Secteur Bancaire / Ministry of Finance, Budget and Banking Sector

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Financing	**20.00**

DETAILS

World Bank Group Financing

International Development Association (IDA)	20.00
IDA Grant	20.00

IDA Resources (US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	0.00	20.00	0.00	0.00	20.00
Total	**0.00**	**20.00**	**0.00**	**0.00**	**20.00**

PRACTICE AREA(S)

Practice Area (Lead)

Macroeconomics, Trade and Investment

Contributing Practice Areas

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Appraisal Document

OVERALL RISK RATING

Overall Risk	Substantial

RESULTS		
Indicator Name	**Baseline**	**Target**
Results Indicator #1. Percentage of new public and publicly guaranteed loans, loan guarantees, and on-lent credit, which were issued or signed after a government technical review.	0 (2021)	90 (2023-2026)
Results Indicator #2. Number of high spending ministries and SOEs using exclusively the "Comores Marchés Publics" platform for their procurement activities for all procurements above US$3 million.	0 (2021)	At least three ministries and one state-owned enterprise (2025)
Results Indicator #3. Volume of ordinary rice imported by the private sector (in percentage of total imported ordinary rice).	0 (2022)	50 (2026)
Results Indicator #4.1. Number of vulnerable households in the social protection registry.	30,000 (2022)	50,000 (2026)
Results Indicator #4.2. Percentage of women-led households benefiting from social safety net programs.	33 (2022)	50 (2026)
Results Indicator #. The National Disaster Resilience Fund is operational with available capital to address climate events.[1]	No (2023)	Yes (2026)
Results Indicator #5. Share of state-owned enterprises that provide to the Ministry of Finance and publish data to allow for the monitoring of operational and financial performance.	0 (2022)	80 (2026)
Result indicator #6. Level of BPC's solvency ratio, as established by the central bank.	NA (2023)	10 (2026)
Results Indicator #7. Percentage of renewable energy production in the Comoros' energy mix	5 (2022)	21 (2026)

[1] Numbering will be added in the next operation (DPF2).

IDA PROGRAM DOCUMENT FOR A PROPOSED *GRANT* TO THE
UNION OF THE COMOROS

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Financing (DPF) operation is the first in a series of three for Comoros, supporting reforms that aim to enhance fiscal management and strengthen resilience to shocks**. The operation takes the form of an International Development Association (IDA) grant to the Union of Comoros amounting to SDR 14.9 million (US$20 million equivalent). The program development objectives are to: (i) enhance debt management and public expenditure efficiency; (ii) strengthen resilience to shocks; and (iii) improve state-owned enterprises governance and performance. The DPF is aligned with the country's national development plan—*Plan Comores Emergent* (PCE)—and contributes to the objectives of the FY20-FY24 World Bank Group's Country Partnership Framework (CPF).

2. **Over the past four decades, economic growth in Comoros has been modest due to macroeconomic and governance weaknesses and low private investment**. Real GDP growth averaged 2.6 percent during 1980–2022, and since the 1980s GDP per capita has remained stagnant around US$1,350 (constant 2010 US$). This low level of growth has neither delivered poverty reduction nor promoted inclusiveness. The growth model has relied heavily on public and private consumption, with a heavy presence of state-owned enterprises (SOEs) in key economic sectors.[2] Productivity growth has been marginal, partly due to limited fiscal space to realize productive capital investments and increase human capital. Private investment has also been limited by the shallow banking sector, which is characterized by high credit risks and substantial risks for financial stability.. Comoros is highly exposed to shocks, and it has limited ability to cope with them..[3]

3. **Comoros' SOEs operate across several sectors, but they have been underperforming and now represent substantial fiscal risks.** There are at least 13 SOEs operating in different sectors, including trade and wholesale, transport, telecommunication, energy, pharmaceutical, water, hotel, communications (written press and broadcasting), and financial sectors. However, the quality and reliability of their goods and/or services are limited, and they are increasingly weighing on public finances. Comoros' SOEs, which contribute up to 43 percent of Government revenues, saw their net income dropping by more than two-thirds between 2017 and 2020. Net income from eight major SOEs (excluding the state-owned bank), for which data are available and with a consolidated nominal valued added that represented around 7.4 percent of GDP in 2020,[4] fell from US$7.0 million in 2017 to around US$2.1 million in 2020. In the banking sector, a systemic state-owned bank accumulated about Euro 8.1 million of financial losses between 2016 and 2020, resulting in an insolvency. SOEs underperformance primarily stems from structural issues such as weak governance, weak oversight, underpricing, and overstaffing. Their poor financial performance has been accompanied by an increase in domestic public debt—from around 0.9 percent of GDP in 2016 to 6.6 percent in 2022—as companies have been borrowing to offset their losses in the absence of formal subsidy schemes (except for SONELEC).

4. **To turn things around, the authorities aim to address macro-fiscal vulnerabilities and promote a resilient economic expansion.** The authorities satisfactorily completed an IMF Staff Monitored Program that covered the period July 2021 to February 2022, which aimed at raising fiscal revenue, strengthening governance, reducing vulnerability to corruption, and enhancing the management of SOEs and public finances. During the next four years, with the support of the IMF, the authorities are taking steps to create fiscal space, improve financial stability, and advance governance reforms to improve public financial management (PFM) and further reduce corruption. Supported by the Sustainable Development Financing Policy (SDFP), the authorities have improved their debt management by enacting a debt management law in 2023, and by

[2] See Annex 6 for more details on Comoros SOEs, size, fiscal linkages, and risks.
[3] World Bank. 2023. The Union of Comoros Country Economic Memorandum: Boosting Growth for Greater Opportunities, Washington DC: World Bank.
[4] This nominal value added is concentrated in four major SOEs - *Société Comorienne des Hydrocarbures* [Comorian Hydrocarbons Company] (48 percent), *Comores Telecom* (18 percent), *Office National d'Importation et de Commercialisation du Riz* [National Rice Import and Marketing Office] (18 percent), and *Société Nationale de l'Electricité des Comores* [Comoros National Electricity Company] (SONELEC) (10 percent).

maintaining a zero-ceiling on non-concessional borrowing since July 2021. The authorities have also taken steps to restructure an insolvent state bank to improve financial stability with the support of the World Bank, IMF, and the French Development Agency (AFD). In December 2022, the Government launched a medium-term recovery plan (2022–26) to speed-up the economic recovery[5] and continue to implement the PCE.

5. This DPF series lays foundations for a resilient economic expansion in Comoros. Considering the current macroeconomic challenges facing Comoros, enhancing fiscal management and governance is essential to create the fiscal space needed to improve public service delivery for better economic and social outcomes, and building resilience to future shocks. Therefore, the first pillar of the operation supports efforts to enhance debt management and public expenditure efficiency through the enactment of the first debt management law and the use of e-Government Procurement (e-GP) in public procurement. The second pillar includes reforms to strengthen Comoros social, financial and food resilience against exogeneous and climatic shocks through increased efficiency of the social protection program, the creation of a disaster risk resilience fund, and the lifting of a state monopoly on the importation of rice to strengthen food security. The third pillar includes reforms to improve the governance and performance of state-owned enterprises (SOEs), including through increased transparency of SOEs financial statements, the restructuring of a major state-owned bank which represents a systemic financial stability risk, and the enactment of a renewable energy law which will support access to low-cost sources of energy and improve the financial performance of the energy utility company. The reforms supported by this operation will strengthen macroeconomic environment and address key vulnerabilities that reduce growth opportunities in Comoros. The DPF series aims to promote a resilient economic expansion, complementing ongoing World Bank support in energy, finance, and social protection.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

6. The economy of Comoros has expanded at a modest pace, but growth has generally been driven by private consumption, which has heightened the country's exposure to rising import prices and other exogenous shocks. Growth was expected to reach 3.6 percent in 2022, but a sharp increase in global commodity prices thwarted Comoros' economic recovery, as the economy expanded by only 2.6 percent. Numerous members of the diaspora community came to celebrate "*grands mariages*"[6] (big weddings) in the third quarter of 2022, further increasing consumer demand. However, recent growth has not been inclusive. Poverty reduction stalled in 2022, with the poverty rate remaining broadly constant at 39 percent.[7] Private consumption showed signs of accelerating its expansion in the first quarter of 2023, supported by substantial remittances, while a strong harvest caused a surge in exports of ylang-ylang and cloves.

7. The country's heavy dependence on imports in a context of rising global prices pushed headline inflation to record levels in 2022 while base effects and structural issues will keep inflation elevated in 2023 despite a marginal decline. As international energy and food prices rose, the Government increased the price of hydrocarbon products by 25–44 percent in May 2022, the price of electricity by 50.0 percent in June 2022, and the price of ordinary rice by 33.3 percent in July 2022 (see Section 4).[8] Despite the incomplete pass-through of global commodity prices to Comoros as the Government still subsidizes and controls some prices, the inflation rate averaged 12.4 percent in 2022 (the highest level since the mid-

[5] The medium-term recovery plan is a framework for the operationalization of the PCE in 2022–26. The recovery plan is built based on the priorities identified from the different pillars of the PCE, which are likely to provide appropriate responses to the challenges and issues arising from the pandemic. It focuses on agriculture, fishing, transport, and energy while preserving macroeconomic stability.
[6] "*Grands mariages*" are a unique cultural tradition in Comoros and an important determinant of social status.
[7] The poverty rate is measured at the poverty line for lower-middle-income countries.
[8] Ordinary rice refers to rice imported by ONICOR with 10 percent brokenness.

1990s) and remained at 20.2 percent in the first quarter of 2023. In addition to inflation due to external factors, diminished maritime connectivity, including rising freight charges, and an inadequate supply of key products such as ordinary rice, which is supplied by a state monopoly, contributed to inflation.[9]

8. Rising import bills widened the current account deficit in 2022 and the first quarter of 2023, but the external position remained broadly sound. The deficit was mostly financed by concessional borrowing, while the country's external position remained sound. Increasing food and energy prices pushed the current account deficit from 0.5 percent of GDP in 2021 to 2.4 percent in 2022. As Comoros has few natural resources and a structural trade deficit, its economy is highly sensitive to import prices. Moreover, the 13 percent depreciation of the euro against the U.S. dollar weakened the Comorian franc, and the increase in freight costs also weighed on the current-account deficit. Nevertheless, Comoros' overall external position remained sound. International reserves declined by 14.4 percent, from 329.3 million (8.6 months of imports) in 2021 to US$281.8 million (6.7 months of imports) at end-2022, due to rising commodity prices and the low disbursement rate of externally funded investment projects. As gross domestic demand increased on the back of sizeable remittances and increased public capital expenditure, the trade deficit increased by 22.7 percent in the first quarter of 2023, and net foreign assets declined by 16.4 percent (y-o-y) to US$212.8 million in the first quarter of 2023.

9. Amid rising inflationary pressures, the Central Bank of Comoros (*Banque Centrale des Comores*, BCC) maintained its relatively tight monetary policy stance. After lowering the mandatory reserve requirement in 2020 to mitigate the risk of potential liquidity stress in the financial sector during the COVID-19 pandemic, the BCC raised the requirement to 12.5 percent in January 2022 and 15 percent in June 2022 to curb lending. The BCC also conducted monthly liquidity-absorbing operations in the third quarter of 2022 and has increased the minimum lending and saving interest rate to 2.5 percent since August 2022.[10] The central bank continued to conduct liquidity-absorbing operations in the first quarter of 2023 with the ceiling of the operation increasing to KMF 10 billion in 2023Q1 from KMF 2.5 billion in June 2022. However, low domestic credit to the private sector, which averaged just 14.4 percent of GDP during 2011–20, limits the effectiveness of these measures.[11]

10. The financial sector remains shallow and subject to multiple risks. In 2021, total banking assets and total bank credit represented 35 and 16 percent of GDP, respectively. In June 2022, over two-thirds of deposit-taking institutions were in breach of solvency requirements, and one private bank has been placed under the resolution regime in 2022. Nonperforming loans (NPLs) have exceeded 23 percent of total loans in recent years, though improvements since 2021 brought this share down to 17 percent at end-June 2022. Liquidity indicators mask large differences across institutions. Due to increased borrowing by SOEs, credit to the public sector rose from 0.7 percent of GDP at end-2020 to 3.8 percent at end-2022, raising the risk of contingent liabilities and strengthening the sovereign-bank nexus.[12] The biggest risk facing the financial sector remains the financial situation of the National Postal and Financial Services Corporation (*Société Nationale des Postes et Services Financiers*, SNPSF), a systemically important postal bank that has been insolvent for over a decade. The proposed operation will support the restructuring of the SNPSF through the creation of the new Postal Bank of Comoros (*Banque Postale des Comores*, BPC) in close coordination with the IMF program (see Section 4). The sovereign-bank nexus also remained strong because the Government has participations - which range between 34 percent and 100 percent of the capital - in three banks (out of five), and there is another private bank under the resolution regime. The financial sector's other vulnerabilities, particularly the ones related to money laundering and financing of terrorism, are

[9] The Comoros Liner Shipping Connectivity index (LSCI) has been on a downward trend since 2020 (6.5), reaching its lowest level (4.6) in 2022.

[10] This is the first time the BCC has used these monetary instruments to absorb liquidity, and it also aims to develop the interbank market with the use of these instruments. The new debt-management law could help to create a T-bill.

[11] The Comoros franc exchange rate against the US dollar declined by 13.9 percent in June 2022 (y-o-y), which tends to increase inflation, particularly given that the country's imports mostly come from countries using dollars or products priced in dollars (e.g., rice and oil).

[12] SOE debt is guaranteed by the central administration in Comoros. However, the government has not regulated the issuance of public guarantees. Trigger #1 of DPF2 regulates the issuance of public guarantees.

being addressed by concurrent World Bank-financed operations, in particular the Comoros Financial Inclusion Project (P166193).

Table 1: Key Macroeconomic Indicators, 2019–26

	2020	2021	2022e	2023f	2024f	2025f	2026f
(Annual percent change, unless indicated otherwise)							
National accounts and prices							
GDP at constant prices	-0.2	2.1	2.6	3.0	3.5	4.0	4.3
CPI (year-average)	0.8	0.0	12.4	10.3	3.0	2.1	2.0
Money and credit							
Broad Money	11.5	20.1	8.1	9.2	7.3	5.8	5.7
Domestic Credit to the Private Sector	-2.8	9.7	15.0	11.1	8.1	9.3	9.7
(Percentage points)							
Sectoral Contributions to Real GDP Growth							
Private Consumption	3.4	0.9	0.2	1.7	2.8	3.1	3.1
Government Consumption	0.5	0.6	0.7	1.4	-0.3	0.6	1.1
Gross Fixed Investment	-3.1	1.8	0.4	1.6	1.5	1.5	0.4
Exports	-7.5	4.2	2.9	-0.6	0.7	0.9	1.0
Imports	-3.5	2.7	1.5	1.1	1.3	2.1	1.2
(In percent of GDP unless otherwise indicated)							
Fiscal accounts							
Expenditures	18.8	19.8	18.2	21.8	19.4	18.2	17.6
Revenues	18.3	17.0	14.2	15.5	14.8	15.1	16.0
General Government Balance	-0.5	-2.8	-3.9	-6.3	-4.6	-3.1	-1.7
General Government Debt	26.1	29.8	33.7	40.7	43.8	45.2	44.5
External Public Debt	23.2	24.7	27.1	33.5	37.3	38.8	38.4
External Sector							
Current Account Balance	-1.9	-0.5	-2.4	-5.2	-5.1	-4.5	-4.5
Terms of Trade	-0.1	-15.1	-4.4	22.1	2.8	1.7	2.8
Gross International Reserves (in US$, end of period)	292.2	329.3	281.8	328.1	359.2	368.1	377.0
In months of imports of goods and services	8.4	8.6	6.7	7.7	8.2	8.1	7.9
Gross International Reserves, incl. exceptional funds							
In millions of U.S. dollars	292.2	329.3	281.8	345.3	407.0	445.8	484.1
In months of imports of goods and services	8.4	8.6	6.7	8.1	9.3	9.8	10.1
Memo items							
GDP nominal in US$ (millions)	1,217.8	1,285.3	1,236.7	1,339.6	1,400.7	1,482.2	1,571.6
Exchange rate (per USD, average)	431.1	415.7	466.8				

Note: e: estimated; f: forecasted. Source: National authorities, IMF and World Bank estimates.

11. In 2022, slow progress on tax reforms, the underperformance of SOEs, and measures adopted to shield households from rising prices increased the fiscal deficit. A decline in Government revenues widened the fiscal deficit from 2.8 percent of GDP in 2021 to 3.9 percent in 2022 (Table 2). The authorities cut spending by 1.5 percentage points of GDP between 2021 and 2022, but these efforts failed to offset a decline in revenues of 2.6 percentage points of GDP. Current expenditures accounted for 63.2 percent of total spending in 2021-22, with the public wage bill and transfers accounting for 27.1 percent and 19.5 percent, respectively. A drop in transfers due largely to the phasing out of pandemic response programs, combined with foreign-financed maintenance projects and a contained public wage bill, helped reduce current spending. In 2022, the Government attempted to boost the liquidity of the SOE responsible for importing rice by exempting it from turning over the consumption taxes it collected between August and December 2022. Slow progress on the implementation of tax reforms—including reforms related to the deployment of cash registers or tax exemptions on specific goods—also contributed to weak tax collection. SOEs continue to sell rice, hydrocarbon fuels, and electricity below market values, offsetting their losses through unpaid tax liabilities. The SOE responsible for selling hydrocarbon fuels has an outstanding debt estimated at 4.9 percent of GDP, of which unpaid taxes represent 54 percent. The fiscal deficit has been mainly financed through concessional borrowing and disbursements from existing projects. Initial data from the first quarter of 2023 suggest that the deficit has increased by 25.9 percent y-o-y to KMF 3.9 billion, driven by a 114.6 percent y-o-y increase in capital expenditures and a 16 percent y-o-y increase in spending on goods and services.

Table 2. Key Fiscal Indicators 2019–26 (% of GDP, unless otherwise indicated)

	2020	2021	2022e	2023f	2024f	2025f	2026f
Total Revenues and Grants	**18.3**	**17.0**	**14.2**	**15.5**	**14.8**	**15.1**	**16.0**
Tax Revenues	7.7	8.6	7.7	8.0	8.3	8.7	9.0
Taxes on Goods and Services	1.5	2.1	1.4	1.8	1.8	1.8	1.9
Direct Taxes	1.4	1.8	1.4	1.5	1.6	1.6	1.7
Taxes on International Trade	3.0	1.4	1.0	1.1	1.2	1.3	1.4
Other Taxes	1.8	3.3	3.8	3.6	3.7	3.9	3.9
Non-Tax Revenues	1.5	1.7	2.1	1.7	1.6	1.7	1.7
Grants	9.0	6.8	4.5	5.8	5.0	4.8	5.3
Expenditures	**18.8**	**19.8**	**18.2**	**21.8**	**19.4**	**18.2**	**17.6**
Current Expenditures	10.7	12.8	11.2	12.5	10.3	10.5	10.6
Wages and Compensation	5.2	5.3	5.0	5.1	4.9	5.0	5.1
Goods and Services	2.6	2.2	2.4	2.6	2.3	2.3	2.4
Interest Payments	0.2	0.3	0.2	0.3	0.4	0.4	0.3
Current Transfers	1.8	4.2	3.3	3.7	2.0	2.1	2.2
Other current expenditures	0.8	0.8	0.4	0.7	0.7	0.7	0.7
Capital Expenditures	7.8	7.0	6.9	9.3	9.1	7.7	7.0
Primary Balance	-0.3	-2.5	-3.7	-6.0	-4.2	-2.7	-1.3
Overall Balance	**-0.5**	**-2.8**	**-3.9**	**-6.3**	**-4.6**	**-3.1**	**-1.7**
Government Financing	**1.0**	**2.7**	**3.6**	**4.1**	**3.1**	**1.4**	**0.0**
External (Net)	1.0	1.6	2.5	5.0	4.2	2.2	0.2
Domestic (Net)	0.0	1.2	1.1	-0.9	-1.2	-0.8	-0.2

Note: *Includes foreign-financed project maintenance and technical assistance. e: estimated; f: forecasted.
Source: National authorities, IMF, and World Bank estimates.

12. The growth of domestic guaranteed debt to SOEs and the disbursement of existing non-concessional loans increased the public debt stock in 2022. In addition to the on-lending of the SDR allocation and statutory advances, a significant increase in SOE loans from commercial banks to finance their losses pushed domestic public debt from 0.9 percent of GDP in 2016 to 6.6 percent in 2022.[13] Due to the continuous disbursement of existing loans and SOEs' financial difficulties, the public debt stock reached 33.7 percent of GDP at end-2022. Although the public debt is assessed as sustainable, the risk of debt distress has been high since 2021. Moreover, as the Government faced tightening liquidity constraints and the Debt Service Suspension Initiative expired, external arrears increased from US$6.0 million at end-2021 to around US$7.2 million at end-2022.[14] However, the accumulation of arrears did not trigger debt distress because they represented less than 1 percent of GDP at end-2022.

13. Improved debt management has helped contain the increase in the public debt. The modest increase in new loans, excluding unaudited domestic arrears, reflects the improvement in debt-management practices since July 2021 achieved through the implementation of priority policy actions under the IDA Sustainable Development Financing Policy (SDFP). The Ministry of Finance has maintained a moratorium on contracting new non-concessional external loans since July 2021, and the Government streamlined the review and approval process for new loans by creating a debt-management

[13] The IMF SDR allocation (2021) has been recorded as a loan from the central bank to government.
[14] Out of which US$5.2 million (72 percent of total external arrears) is owed to BADEA.

committee to advise the minister of finance (FY22-PPA3). Supported by the SDFP, the Government has enacted a debt-management law that addresses issues related to the signing of loan agreements and requires SOEs to transmit quarterly data reports on external and domestic debt to the Ministry of Finance (FY23-PPA2).

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

14. Driven by private consumption and public investment, economic growth is projected to accelerate over the medium term. As softening global prices ease inflationary pressures, remittance-fueled private consumption is expected to support a continued economic expansion. Public investment in the construction of the *El Maarouf* hospital and the *Galawa* hotel, as well as the construction or restoration of roads, should significantly contribute to the recovery, and the GDP growth rate is projected to rise to 3.3 percent in 2023-24 and 4.0 percent in 2025. The banking system's capacity to finance the private sector could be improved by operationalizing the leasing law by 2024, potentially creating a partial credit guarantee scheme in 2023-24,[15] and reducing information asymmetry by establishing an enhanced credit registry at the BCC. Private investment is also expected to increase, as a foreign firm plans to invest US$34 million to restart the operations of a fishery SOE. However, the impact of these changes may not materialize before 2025. On the supply side, the service sector will remain the key growth driver and could benefit from the outcomes of energy reforms being supported by the proposed program. A resilient energy infrastructure will also foster productivity increase in the fisheries sector and it could pave the way for value addition through the creation of processing facilities.[16] The agriculture sector could increase its contribution to growth if food prices continue to rise and externally financed projects succeed in building resilient agricultural production capacity and facilitating market access. In fact, the Government plans to diversify production by increasing access to training and equipment and by rehabilitating strategic rural roads in production areas.[17] Diaspora tourism will continue to support the growth of services, while additional international tourists are expected to visit Comoros after the completion of the *Galawa* hotel as it will enhance Comoros attractiveness. Through reforms aiming at operationalizing the tourism tax and improving the tourism institutional framework, Comoros could have resources to promote the country as a tourist destination.

15. Due in part to an enhanced monetary policy framework, inflationary pressures are expected to decline in the medium term. Headline inflation is projected to slow to an average of 10.3 percent in 2023 as commodity-price growth moderates, then fall to an average of 2.6 percent over 2024-25 as the impact of the recent shock fades. The country will also benefit from well anchored inflation expectations which are based on the credibility of the fixed exchange rate regime (the Comorian Franc is pegged to the Euro).[18] In addition, the BCC plans to improve its monetary policy framework by creating a marginal lending facility in 2024 to absorb and inject liquidity as required. The marginal lending facility will be a first step toward creating a monetary market, as the current monetary policy framework is mainly based on the reserve requirement, which limits its effectiveness.

16. Financial stability is projected to improve with the restructuring of the SNPSF and a strengthened banking supervision. As noted above, the reforms supported by this operation (see Section 4) are expected to lower systemic risk in the financial sector by facilitating the creation of a new postal bank, the BPC, which will receive the viable assets and liabilities of the insolvent SNPSF, along with sufficient capital. The unhealthy assets will remain in the current SNPSF that will become an asset management company. In parallel, the Comoros Financial Inclusion Project (P166193) is helping to strengthen banking oversight (including regarding the fight against money laundering and financing of terrorism), and the IMF is working with the BCC to develop a time-bound recapitalization plan for all banks that are in breach of their capital

[15] The Guarantee Institute is a joint initiative between the French Development Agency, the banking sector, the government, and the private sector.
[16] Constraints identified by World Bank (2023). Comoros Country Economic Memorandum.
[17] The AFIDEV project started in 2021 and is executed with support from Expertise France (EUR 20 million).
[18] After the devaluation of the Comorian Franc in 1994, Comoros recorded single-digit inflation rates between 1995 and 2021.

adequacy ratios. The BCC is also expected to bolster its crisis preparedness and resolution framework with support from the IMF. The planned modernization of the credit registry over 2023–25 should help to reduce information asymmetry, which contributes to the accumulation of NPLs. NPLs will be also addressed with the support of a joint commission that reports to the President of the Union.[19] Risks arising from sovereign exposure will be mitigated through measures to improve SOE governance, enhance their financial performance, and strengthen fiscal management.

17. The fiscal deficit is projected to narrow to 3.1 percent of GDP by 2025 due to higher Government revenues and contained public spending. The waning impact of the exogeneous shocks of the past three years is expected to reduce the need for a fiscal policy response to support the recovery in 2023–25. During this period, tax revenues are projected to increase as the authorities: (i) reorganize the tax administration to focus on core objectives and exclude land management; (ii) create a tax policy unit to lead the reform process; (iii) streamline exemptions on consumption taxes;[20] (iv) broaden the tax base through improved data reconciliation and enhanced cooperation between the public administration, major SOEs, and the private sector; (v) improve tax verification through better taxpayer monitoring and the expanded use of IT systems;[21] (vi) increase payment security by requiring that tax payments be made through a commercial bank account and remitted to the Treasury Single Account (TSA); and (vii) assess tax expenditures and streamline exemptions. Transfers to SOEs are projected to decline significantly as commodity prices ease, and SOE supervision is expected to improve with the implementation of the Prior Actions supported by the proposed DPO series. Increased public expenditure efficiency will be partially achieved through the deployment of an e-procurement system in 2023–25 (see Section 4), while the creation of the General Financial Inspection (Department) within the Ministry of Finance in 2023 will improve internal audits.

18. The projected fiscal consolidation and growth trajectories are assessed as credible because of the origin of the fiscal deficit in 2023 and the economic importance of private consumption, respectively. The consolidation of 3.2 percent of GDP between 2023 and 2025, largely reflects a decline in current expenditures by 2.0 percentage points of GDP and in public investment by 1.6 percentage points of GDP, the latter of which appears backloaded due to the scheduled completion of *El Maarouf*. The rest stems from phasing out one-off spending such as domestic outlays related to the African Union Presidency and presidential election, as well as transfers and subsidies intended to mitigate the impact of shocks in 2022. While public investment is expected to decline, private consumption, fueled by remittances, is projected to increase by an average of 3.1 percentage points in 2023–26 and approach its historical average before the 2022 price shock. The growth of private consumption is expected to continue to contribute about 71 percent to Comoros' economic expansion over the medium-term.

19. The current account deficit is expected to widen in 2023-24 as the authorities complete major investments, then stabilize in 2025-26. The deficit will be financed primarily by new concessional financing and existing loans. International oil prices are projected to fall as investments in energy-efficient electricity generation continue, but the current-account deficit is expected to widen from 2.4 percent of GDP in 2022 to 5.2 percent in 2023-24. The projected increase in the current-account deficit in 2023-24 reflects efforts to accelerate the construction of the *Galawa* hotel and the *El Maarouf* hospital, which, along with resurgent economic activity, will continue to drive up the import bill during 2023–25. By 2025, however, following the opening of the *Galawa* hotel and the development of related tourism activities, tourism receipts are expected to start increasing, and the current account is projected to decline thereafter.

20. International development partners are expected to cover most of Comoros' projected financing needs of US$39.3 million in 2023. An external financing gap of US$119.9 million is projected for 2023–25 (Table 3), which will also be

[19] It is a joint commission which comprises: the ministry of justice, ministry of finance and the central bank. It delivered recommendations that helped to draft court decisions and resulted into a decline in NPLs in 2020-21.

[20] In February 2023, the authorities streamlined the list of products exempted from the consumption tax. It has been limited to only eight products: fresh or frozen meat, meat and edible offal of poultry, fish, ordinary rice, cereal flour, sugar, medicines, and infant formula.

[21] Measures (i), (ii), (iv), and (v) are consistent with the IMF structural benchmarks on domestic resource mobilization. The implementation of domestic resource mobilization reforms will be supported by technical assistance provided by the European Union/French Development Agency through the existing investment project, as well as by the IMF through AFRITAC-South.

financed primarily by international financial institutions. Foreign reserves (including exceptional financing sources) are projected to reach US$445.8 million in 2025, representing about 9.8 months of imports, well above the international standard of three months.

Table 3. Balance of Payments Financing Requirements and Sources (in US$ million)

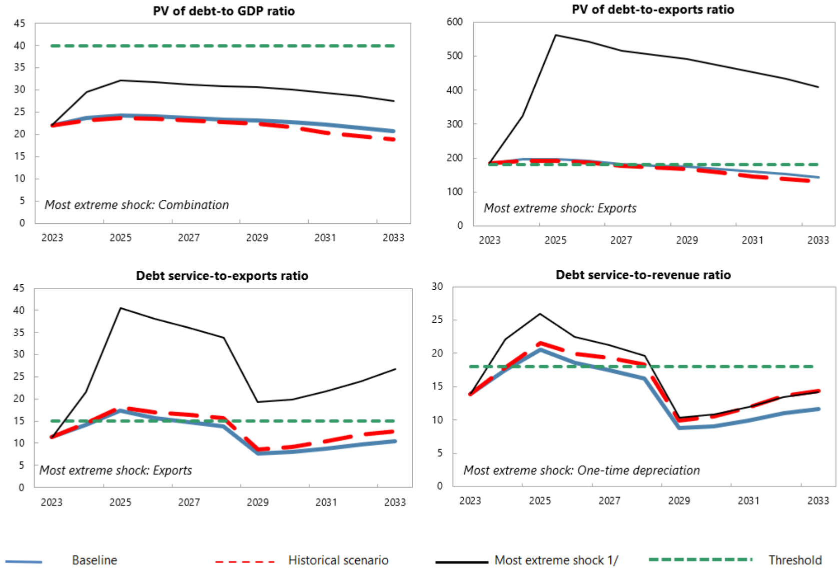
	2020	2021	2022	2023	2024	2025	2026
Total financing requirements	**118.1**	**46.7**	**-14.5**	**127.8**	**124.5**	**104.7**	**109.9**
Current account deficit	23.5	5.9	29.6	70.1	71.8	66.9	70.5
External debt amortization	2.7	3.8	3.4	13.2	17.6	25.1	26.4
Change in gross reserves (increase=+)	92.0	37.1	-47.5	44.5	35.1	12.7	13.0
Total financing sources	**84.1**	**53.6**	**60.5**	**88.5**	**85.8**	**62.8**	**74.5**
Capital account	34.7	28.9	37.3	35.2	40.8	42.4	61.6
Financial account	49.3	24.7	23.2	53.3	45.0	20.4	12.9
Errors and omissions	20.7	91.5	-27.4				
Additional financing sources				***39.3***	***38.7***	***41.9***	***35.4***
IMF	-	-	-	9.5	9.5	9.5	9.6
Bilateral (France)	-	-	-	8.0	4.0		
World Bank				20.0			
Others	-	-	-	1.8	25.2	32.4	25.8
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Source: World Bank and IMF.

21. A joint World Bank-IMF DSA prepared in May 2023 suggests that Comoros is at high risk of external and overall public debt distress, though both types of debt are currently sustainable. The high risk of debt distress reflects the impact of short-maturity non-concessional loans contracted during 2018–21, including a loan to finance the development of the tourism sector. While the present value of the external-debt-to-GDP ratio is still below the threshold and is projected to decline, three out of four external debt burden indicators breach their respective thresholds under the baseline scenario: the debt service-to-exports and debt service-to-revenue indicators breach their threshold in 2025–26, and the present value of the debt-to-exports ratio continuously breaches its threshold over 2023–27 before falling below the threshold thereafter (Figure 1). Comoros faces substantial contingent liabilities, estimated at 12.5 percent of GDP, due to the mounting debts of SOEs and unaudited domestic arrears. The debt stock is assessed as sustainable because the breaches of external debt indicators are relatively modest, and the planned fiscal consolidation should improve debt dynamics over the forecast horizon. The assessment is contingent on several policy actions, including: (i) progress on domestic resource mobilization and a gradual but sustained fiscal consolidation over the medium term; (ii) no additional non-concessional borrowing; and (iii) enhanced financial oversight of SOEs.

22. The public debt stock is expected to increase in 2023–25, but the authorities plan to implement a prudent debt-management policy. Driven by the completion of the *Galawa* hotel and the implementation of other development projects, the public debt is projected to increase from 33.7 percent of GDP in 2022 to 45.2 percent by 2025. In 2023–26, the Government will start repaying previously contracted non-concessional loans and an IMF loan, and external debt amortization is projected to increase from US$3.4 million in 2022 to US$26.4 million by 2026. With the implementation of the SDFP, Comoros is expected to maintain the moratorium on non-concessional loans that has been in place since July 2021 while improving debt management. The issuance of a decree to streamline borrowing processes and establish a technical debt management committee (FY22-PPA3) has already strengthened debt management, and the enactment of the debt management law (Section 4) will further improve the latter. In addition, the Government has started to engage with its creditors to clear external arrears and plans to implement a clearance strategy for domestic arrears following the completion of an audit that began in 2022.

Figure 1. Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2023–33



Source: IMF-WB Debt Sustainability Analysis (May 2023).

23. Comoros faces domestic and external headwinds that could affect the macroeconomic outlook. External risks include declining remittances due to slower growth in advanced economies, especially France, as well as imported inflation and possibly food insecurity if restrictive trade policies are implemented, production fails to meet expectations, or supply chains are disrupted in countries of origin of imported products. Domestic risks stem from natural disasters and climate change, rising fiscal risks, and institutional weaknesses. Comoros is vulnerable to volcanic eruptions and various extreme weather events, and the country has limited fiscal resources to respond to shocks. Policy risk is also an important factor, as vested interests could slow or reverse the implementation of key reforms. While the completion of the Galawa hotel and El Maarouf hospital are expected to boost growth, there are risks related to their completion and operationalization, as well as governance and fiscal risks arising from the associated debts. Finally, despite anticipated progress on strengthening SOE oversight, fiscal stability risks are projected to remain substantial as claims on SOEs increase and the Government retains a stake in several commercial banks.

24. Despite the presence of significant downside risks, the macroeconomic policy framework is considered adequate for the proposed DPF. This assessment reflects the policies supported both by the DPF series and by the ongoing IMF program, as well as the Government's track record of adequate debt management, including the moratorium on non-concessional borrowing in place since July 2021. The authorities are expected to pursue prudent macroeconomic policies, including conservative policies designed to preserve the credibility of the monetary agreement with the Bank of France. The authorities have completed the IMF Staff Monitored Program (SMP), and a new IMF program was approved in June 2023 to enhance domestic resource mobilization, contain expenditures, address financial-sector vulnerabilities, clear arrears, and further the SOE reform agenda. These programs will complement the DPF series and strengthen the macroeconomic framework both during and beyond the implementation period. To mitigate shocks related to climate change and natural disasters, the authorities are preparing a disaster risk management bill, and the DPF will help strengthen the country's preparedness by establishing a disaster risk fund and other institutions to manage the impact of shocks (Triggers of DPF2 and DPF3).

2.3. IMF RELATIONS

25. The implementation of the IMF SMP between July 2021 and February 2022 was broadly satisfactory, and an IMF ECF program was approved in June 2023. Most of the SMP objectives were met. The authorities achieved 12 out 14 quantitative targets and substantially overperformed on the key tax-revenue target. As of end-February 2023, two of eight structural benchmarks related to reforms to restructure the SNPSF and address corruption had not been met. Between February 2022 and February 2023, the authorities made significant progress in restructuring the SNPSF and completed all requirements under the anti-corruption benchmark. Further reforms will be supported by the ECF program, including measures to: (i) create fiscal space to increase spending on development needs while mitigating risks to debt sustainability through increased revenue mobilization and structural fiscal reforms; (ii) strengthen the financial sector, including by restructuring the SNPSF; and (iii) advance governance reforms to improve public financial management and further reduce corruption. World Bank joined several technical meetings with the Government for the preparation of the ECF and invited the IMF to selected meetings during the consultations with the Government for the DPF. The staff of both institutions continue to hold bilateral exchanges on the macroeconomic framework and policy actions, and to ensure that the reforms in the two programs are complementary and within the Government's capacity to implement during the required timeframe.

3. GOVERNMENT PROGRAM

26. Government priorities are defined in the PCE, the National Development Strategy covering the period 2019–30, and a Medium-term (2022-26) Recovery Plan has been approved in December 2022. The PCE is organized around five strategic pillars, five essential catalysts, and three necessary conditions. The five strategic pillars are: (a) developing tourism and crafts; (b) promoting the blue economy; (c) establishing Comoros as a financial hub for the Indian Ocean; (d) modernizing agriculture for food security; and (e) leveraging industrial niches to diversify the economy. The five essential catalysts are: (i) a stable political and institutional framework and associated reforms; (ii) sound infrastructure; (iii) adequate human capital; (iv) structural reforms to ensure a competitive environment; and (v) the digital revolution. Finally, the three necessary conditions to achieve the PCE's objectives are a sound macroeconomic framework; resilience to climate change and disasters; and a renewed framework for policy dialogue. A medium-term recovery plan has been prepared for the period 2022–26, and it focuses on improving agriculture, fishing, transport, and energy while preserving macroeconomic stability.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

Link to Government Program

27. The proposed operation is consistent with the PCE and aims to enhance debt management and public expenditure efficiency, strengthen resilience to shocks, and improve state-owned enterprises governance and performance. The proposed operation supports a set of policy actions designed to: (i) enhance debt management and public expenditure efficiency; (ii) strengthen resilience to shocks; and (iii) improve state-owned enterprises governance and performance. The proposed DPF series is closely aligned with multiple pillars of the PCE, especially those focused on promoting Comoros a financial hub, investing in human capital, maintaining a sound macroeconomic framework, and bolstering resilience to climate change and disasters.

28. Finally, the Fiscal Management and Resilient Growth (FIMARG-1) DPF is aligned with the Government's commitments under the Paris Agreement. The DPF-supported reform program is consistent with the country's National Determined Contribution (NDC), under which Comoros aims to reduce its emissions by 23 percent (excluding land use, land-use change, and forestry) and increase its CO_2 absorption by 47 percent by 2030. Further details on how the DPO series supports the objectives of the Paris Agreement are presented in Annex 5. The DPF is also aligned with the environmental objectives of the PCE, which envisages Comoros as "a country resilient to shocks in all dimensions of sustainable development." Prior Actions #1, #5, #2, #4, #6, and #7 are not likely to cause a significant increase in greenhouse gas emissions or create any persistent barriers to emissions reduction. Prior Action #2 will significantly reduce the use of paper by digitizing procurement processes, which will lower emissions, though it may generate a small amount of e-waste. Prior Action #3 could increase emissions or hinder emissions-reduction efforts by encouraging imports of ordinary rice, given the emissive elements that exist in the value chain expansion. Prior Action #3 is expected to support value chain developments through an enhanced participation of private firms and to reduce the number of public actors participating to the value chain, but it will not introduce or reinforce barriers to transition to better technologies. Climate risks are not expected to pose a significant threat to the operation, and Prior Actions #4 and #3 will promote the country's resilience to climate risk by improving the Government's fiscal preparedness to address natural disasters while strengthening food security. Through its impact on the decrease in the use of fuel as an energy source, Prior Action #7 will contribute to the reduction in green gas emissions, including by complementing the implementation of the Comoros Solar Energy Access Project (P177646).

Operation Description

29. The DPF series is based on three program development objectives (PDOs), which aim to (i) enhance debt management and public expenditure efficiency; (ii) strengthen resilience to shocks; and (iii) improve state-owned enterprises governance and performance. The supported reforms are organized under three pillars that reflect the PDOs, with each pillar encompassing two to three specific policy areas.

- ***Pillar 1:*** **Enhance debt management and public expenditure efficiency.** Policy areas: (1.1) enhancing debt management to promote fiscal sustainability; and (1.2) strengthening public procurement.
- ***Pillar 2:*** **Strengthen resilience to shocks.** Policy areas: (2.1) opening key economic sectors to private participation to reduce risks of food insecurity; (2.2) improving the efficiency of existing social protection programs; and (2.3) enhancing the country disaster risk finance framework; and.
- ***Pillar 3:*** **Improve state-owned enterprise governance and performance.** Policy areas: (3.1) strengthening SOE supervision and management; (3.2) restructuring a state-owned systemic financial institution (SNPSF); (3.3) fostering renewable-energy development to enhance the performance of the state-owned energy company (SONELEC).

Lessons Learned

30. The design of the proposed DPF series builds on lessons learned from current and past World Bank engagements in Comoros, including previous DPF operations. The DPF series is based on best practices from World Bank assessments such as the DPF Implementation Completion and Results Report Reviews from 2014, 2015 and 2022, which include a report on Comoros' Emergency COVID-19 Response DPF, as well as the 2018 Comoros Risk and Resilience Assessment. These assessments highlight key institutional weaknesses and gaps in human capital as major constraints on the design and implementation of reforms. In addition, recent field data from the 2022 DPF Implementation Completion and Results Report show a deterioration in the Government's capacity to monitor and evaluate the implementation of the DPF program. To address these issues, the proposed operation: (i) targets a limited number of policy areas that enjoy broad governmental consensus and commitment to reforms; (ii) complements policy reform with institutional capacity-building efforts and sector-specific technical assistance by the World Bank and its development partners; and (iii) establishes realistic targets and timetables for reform implementation. Based on those factors, some reforms are only planned for DPF2 (disaster risk financing), and the matrix size has been adjusted for each operation.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Enhance debt management and public expenditure efficiency.

DPF1 Prior Action #1*. To improve debt management, the Recipient, through the Parliament, has mandated: (i) the use of new procedures for signature of loan agreements, and the issuance of public guarantees; and (ii) SOEs to submit quarterly reports on external and domestic debt data to the Ministry of Finance.*
DPF2 Indicative Trigger #1. *To improve debt management, the Recipient, through its Council of Ministers, has regulated the issuance of public guarantees and on-lent credit by defining (i) limits and priorities, and (ii) evaluation and monitoring procedures, as evidenced by a presidential decree.*

31. Rationale. Debt management in Comoros is weak, with the most recent debt-management performance assessment assigning a "D" to all dimensions, meaning that the minimum standards are not met. In addition, the May 2023 DSA highlights the existence of vulnerabilities due to potential unknown SOE debt and related contingent liabilities. According to the organic Law on Financial Operations of the State (*Loi des opérations financières de l'Etat,* LOFE), the Minister of Finance is responsible for signing loans and guarantees, but prior to FY22 such loans and guarantees were often presented to the Minister of Finance as a fait accompli. A 2022 presidential decree streamlined the borrowing process and established a technical debt-management committee (PPA3-FY22), representing important initial steps to improve debt management. However, the 2022 decree does not provide substantial guidance in key areas such as the development of a medium-term debt management strategy, the issuance of public debt, or the reporting of debt contracts and services by SOEs.

32. Substance. A critical first step in improving debt management is to establish a stronger institutional framework. The law No. 22-014/AU of December 27, 2022 reinforced the debt-management measures included in the LOFE which does not provide details on key procedures for debt management, and it goes beyond the 2022 decree by: addressing issues related to the signing of loan agreements; the issuance of Government guarantees; the use of public debt proceeds; the servicing of public debt; debt restructuring and retrocession; and transparency, control, monitoring, and sanctions associated with debt management. For the first time in Comoros, a law requires SOEs to present regular quarterly reports to the Ministry of Finance on their debt stocks and debt-service obligations. This Prior Action was a SDFP PPA for FY23. The **Indicative Trigger for DPF2** is the approval of a regulation on the issuance of public guarantees and on-lent credit.

33. Expected Results. The implementation of this law and subsequent bylaws is expected to strengthen debt management and mitigate the risk of public debt distress.

DPF1 Prior Action #2*. To improve public spending efficiency, the Recipient, through its Parliament and President, has mandated the use of the "Comores Marchés Publics" for public procurement procedures.*
DPF 2 Indicative Trigger #2*. To ensure the oversight and accountability of public procurement, the Recipient, through its Council of Ministers, has issued a regulation mandating the National Directorate of Public Procurement Control to comply with the Public Procurement Law by prior and post reviewing the procurements through the "Comores Marchés Publics" platform or manual procurement system based on its new organigram and improved institutional framework, as evidenced by a presidential decree.*

DPF3 Indicative Trigger #2*. To strengthen efficiency of the procurement system, the Recipient, through its Council of Ministers, has made the use of the e-GP system mandatory for all public procurements performed by public entities under the public procurement law No. 22-0011/AU of June 23, 2022, including the oversight by the Direction Nationale de Contrôle des Marchés Publics (DNCMP) through the "Comores Marchés Publics" platform in the exercise of its mandate as evidenced by a presidential decree.*

34. Rationale. Public procurement in Comoros faces several governance challenges, including weak transparency and disclosure practices. The Government has established a legal and institutional framework for its public procurement system that broadly conforms to international standards. However, a significant share of Government bids is not competitive, procurement processes are lengthy, and the system for redressing complaints is inefficient. During 2016–21, the National Directorate of Public Procurement Control (*Direction nationale du contrôle des marchés publics*, DNCMP) lacked the capacity to review contracts. In 2020, recorded open tenders amounted to just KMF 543.4 million for two contracts, and no data are available on restricted tenders, highlighting the lack of transparency in the procurement system. To strengthen public procurement, the Government, with support from the World Bank, is developing an e-Government procurement (e-GP named "*Comores Marchés Publics*") platform to record all steps in the process, from appraisal to the award of bids. The development of this system follows a modular approach, and the current version of the system was procured through the Regional Communications Infrastructure Program (P118213). This platform will help policymakers reassert control over budget execution while improving the transparency of the procurement process. However, the current institutional framework is based on a 2011 Law on Public Procurement and the Delegation of Public Services (Law N°11-027/AU), which needs to be updated to ensure the authorities can deploy the platform across the public administration.

35. Substance. To strengthen procurement transparency, the Government adopted Law No. No. 22-011/AU of June 23, 2022, which amended and supplemented Law N°11-027/AU to allow free access to the procurement system, ensure the equal treatment of bids, improve transparency, and affirm the right of citizen control of markets. The implementing decree promotes sound and transparent management of public expenditures and greater oversight of the procurement process. This public procurement code covers all procurement methods and public entities, including SOEs. The Government will ensure that firms, individuals, and civil society have free access to procurement opportunities and contract awards on the recently developed "*Comores Marchés Publics*" platform. The authorities are mobilizing additional resources, including from development partners, to roll-out the e-GP platform and the later could be operational in 2024. The **Indicative Trigger (IT) for DPF2** is the issuance of a rule mandating that the DNCMP perform ex ante and ex post reviews through the "*Comores Marchés Publics*" system based on its organigram and its improved institutional framework.[22] The **IT for DPF3** is the mandatory use of the "*Comores Marchés Publics*" platform for public procurements subject to the procurement law.

36. Expected Results. Improved governance and transparency in the procurement system will reduce opportunities for the misuse of public funds while promoting private-sector participation in the procurement process. Requiring that the DNCMP use the e-GP platform to conduct its ex-ante reviews is especially critical to increase expenditure efficiency while improving fiduciary control.

Pillar 2: Strengthen resilience to shocks.

***DPF 1 Prior Action #3**. To promote private sector participation in the supply of rice in domestic markets, the Recipient, through the President, has allowed the import of rice by the private sector.*
***DPF2 Indicative Trigger #3**. To foster private sector development, the Recipient, through its Ministry of Economics, has issued regulations mandating procedures to ease access to rice importation licenses, as evidenced by a ministerial regulation.*
***DPF3 Indicative Trigger #3**. To reduce non-tariff barriers and facilitate trade, the Recipient, through its Ministry of Agriculture, has issued a regulation making compulsory the use of transparent and standardized sanitary and phytosanitary procedures for the importation of ordinary rice as evidenced by a ministerial regulation.*

37. Rationale. Rice, Comoros major staple food, is barely produced in country, though Comorians consume an average of 281 grams of rice every day, translating to an annual requirement of just over 81,000 MT, which is below the current level of importation (About 67,000 MT). Currently, while there are private firms interested to operate on the rice market, the importation of ordinary rice is a state monopoly that has been granted to the National Office for Rice Importation and Trading (*Office National d'Importation et de Commercialisation du Riz,* ONICOR), and it was created to ensure an adequate supply of rice. However, recent shortages on the domestic market (between July and September 2022) have demonstrated the limitations of this market model, as shortages had fueled price increases for substitutable products such as luxury rice, with ordinary rice only being available on the black-market during shortages. With an average monthly income of about KMF 55,493 (about US$113), ordinary rice consumption is estimated to represent about 12.1 percent of

[22] The current institutional framework of the DNCMP will be assessed and revised. The terms of reference of each position will be prepared to discharge the role of oversight body as provided by the public procurement law and its related implementing decrees.

the household consumption. In addition, a firm-level survey shows that 73 percent of Comorian firms report being affected by non-tariff measure.[23] NTMs such as quotas, public monopolies, sanitary and phytosanitary measures, and technical barriers raise production, export, and import costs, thereby increasing consumer prices. In addition, Comoros is highly vulnerable to climate change, including drought that could weigh on agricultural productivity. Climate shocks can result in the destruction of crops, with a notable impact on food security, and affect fruit production and pasture areas. In addition, more than 40 percent of villages are in areas that are vulnerable to flooding and 22 percent are exposed to soil erosion and landslides.

38. Substance. To promote private sector participation in the supply of ordinary rice in domestic markets, the proposed Prior Action consists of an amendment to Law No. 82-17, which created an SOE and a state monopoly for the importation of ordinary rice. Based on the favorable legal opinion No. 004/2023/CS from the Supreme Court, the Presidential Decree No. 23-060/PR dated June 30, 2023, dismantled the state monopoly on the importation of ordinary rice. This policy action helps to complement ONICOR's efforts to supply ordinary rice to the domestic market, and it will contribute to increased food security. The private supply of ordinary rice could reduce the likelihood of shortages, as the average consumption of ordinary rice per capita is about 71 kg per year in Comoros, and it can be a substitute product when crops have been damaged by climate-related events. The private sector could also provide less expensive products, as ONICOR's intermediation would not be required, which could reduce the price by 12 percent, everything else being equal.[24] The **IT for DPF2** is the reduction of the cost and time to obtain licenses for the importation of ordinary rice that would ensure a level playing field between ONICOR and future private importers, and the **IT for DPF3** is the reduction of non-tariff measures through transparent standardized sanitary and phytosanitary procedures for the importation of ordinary rice.

39. Expected Results. The DPF measures will ensure an adequate supply of ordinary rice, which is a staple product consumed by most Comorians, to Comoros' markets. The elimination of state monopoly is a market creation measure. Increased involvement of the private sector in supplying ordinary rice is expected by the end of the DPF series.

***DPF1 Prior Action #4**. To improve the efficiency of social protection system to respond to shocks affecting vulnerable households, the Recipient, through the President and the ministry of health, solidarity, social protection and gender promotion, has instructed social safety net stakeholders to use guidelines for key social safety net programs which focus on vulnerable population and female-headed-households.*

***DPF2 Indicative Trigger #4**. To improve the efficiency of social protection programs, the Recipient, through its Council of Ministers, has issued regulations (i) mandating the Commissariat for Gender, Solidarity and Social Protection to be the main coordinator of the non-contributory social protection sector and social safety net programs and ensure the effectiveness of the delivery system at national and regional level; (ii) requiring stakeholders to share information on social safety net programs with the Ministry of Health, Gender, Solidarity and Social Protection; and (iii) mandating the publication, through the Ministry of Health, Gender, Solidarity and Social Protection, of information related to the use of funds related to social protection programs managed by all governmental entities as evidenced by a presidential decree.*

***DPF3 Indicative Trigger #4**. To improve the financing and implementation of social protection programs, the Recipient, through its Ministry of Finance and Budget has prioritized the execution of social protection expenditure by defining [specific criteria in cash management] as evidenced by an annex in the budget law.*

40. Rationale. Due to successive shocks, the national poverty rate has remained at around 39 percent since 2020[25], and the poverty rate is especially high among female-headed households. For instance, 48.5 percent of women-led monogamous households are below the poverty line, while they only represent 19.6 percent of all households. By contrast, 45.3 percent of monogamous households led by men are below the poverty line, while they represent 59.6

[23] Centre du Commerce International (2016). « Les Comores : Perspectives des entreprises ». Genève: Centre du Commerce International.

[24] World Bank (2022). The Union of Comoros Accession to the World Trade Organization (WTO): Opportunities and Challenges. Washington DC: World Bank.

[25] The poverty rate is measured at the lower-middle-income threshold of US$3.65 in 2017 purchasing-power-parity terms.

percent of households. However, due to their low capacity and administrative fragmentation, Comoros' social protection programs fail to efficiently support low-income households. In recent years, the Government has made significant efforts to expand social safety net (SSN) programs, but these remain fully funded by international donors. SSN interventions are poorly coordinated, and the coverage of permanent (i.e., non-emergency) programs remains low at less than 10 percent of the population. An estimated 54 percent of the Comorian population is exposed to natural disasters, yet the COVID-19 crisis and Cyclone Kenneth exposed the SSN system's limited capacity to address national emergencies.

41. Substance. To strengthen resilience to shock and promote adaptive social protection system as well as to improve the efficiency of social protection programs, the Government has created a social registry, and the Council of Ministers, through the Presidential Decree No. 23-063/PR dated July 5, 2023, makes the use of the coordination manual compulsory for all SSN stakeholders. The ministerial decree No. 23-040/A/15/08/2023 dated August 15, 2023, adopted the manual which describes coordination mechanisms, the different elements of service delivery (including targeting via proxy means tests, registration, the payment system, the grievance-redress mechanism, etc.), the priority SSN programs, and the allocation and use of SSN funds. The manual also includes provisions on the delivery of SSN programs, particularly in response to crises such as pandemics, economic or climate-related shocks, or natural disasters. Efforts to improve the SSN system includes new methods for identifying vulnerable women and the expansion of existing programs to provide targeted cash transfers in areas vulnerable to food insecurity and climate shocks. The **IT for DPF2** is the issuance of a presidential decree that: (i) designates the Commissariat for Solidarity, Social Protection and Gender Promotion as the coordinator of all non-contributory SSN programs; (ii) requires stakeholders to share information on programs with the Commissariat; and (iii) formally requests that the Ministry of Health, Gender, Solidarity and Social Protection publish information on the use of funds across all SSN programs managed by Government entities. The **IT for DPF3** is the Ministry of Finance's clarification and prioritization of social protection expenditures as it implements the budget law.

42. Expected Results. The aim is to enhance Government capacity to coordinate the sector and make Comoros less dependent on donor support for its SSN programs. This is expected to increase coverage and identify poor and vulnerable households, including those most vulnerable to climate change and other shocks more precisely and quickly, especially as household beneficiaries are incorporated into the Single Registry. It is also expected to promote gender-sensitive social safety net programs, particularly the percentage of women-led households receiving cash transfers will increase in urban and rural areas. The expansion of SSN programs is projected to increase their coverage to about 50,000 households by 2026 as well as to improve domestic resource mobilization for their implementation. The implementation of these policy reforms will also support efforts to enhance the capacity for targeting future investment towards the poor and vulnerable.

***DPF2 Indicative Trigger**. To strengthen financial resilience against natural disasters, the Recipient has established inter-ministerial committee for the fight against natural disasters and adopted a national disaster risk financing strategy.*

***DPF3 Indicative Trigger**. To increase financial resilience against natural disasters, the Recipient, through the Council of Ministers, has issued a regulation establishing a National Disaster Resilience Fund and defined its operating rules which comply with best practices in terms of governance and transparency, as evidenced by a presidential decree.*

43. Rationale. The Union of the Comoros is exposed to a wide range of natural disasters and is one of the most vulnerable countries in the world to climate change, which adversely affects its development and exacerbates existing social and economic vulnerabilities. Considering the cost of natural disaster shocks (damages following Cyclone Kenneth in 2019 were estimated between US$80 and US$118 million, representing 10 percent of GDP), a strategic approach to the financial management of disasters is critical. However, the country has currently no national strategy to coordinate the public response in a timely manner and manage the financial impact of natural disasters while supporting public service delivery before and after a disaster event. The proposed measures under the new DPO series will support the authorities in improving the country's disaster preparedness by strengthening disaster risk finance. The proposed measures are also strategic as they will support the preparation of a Regional Disaster Risk Finance Project (REPAIR), which will address the lack of financial preparedness in the region by avoiding overreliance on ex-post financing instruments which divert funds from needed investments in health, education, and social protection. The Government of the Union of Comoros has already expressed its interest in joining this regional project through an official letter sent in June 2023. The measures supported by this DPO series will ensure that the authorities design and adopt a national strategy to financially address the risk of disasters. This strategy will include the establishment and operationalization of an institution in charge of channeling the funds to response to disasters, including those provided by the REPAIR project.

44. Substance. To improve the financial preparedness of Comoros to deal with natural disasters, the Government will take steps to improve its financial response in case of natural disasters. The proposed sequence consists of two actions to be undertaken by the Government, with support from the Directorate of Civil Security (*Direction Générale de la Sécurité Civile, DGSC)*, which were included in the 2015 National Disaster Risk Reduction Strategy but were never implemented. The first action of **IT for DPF2** is to adopt a national disaster risk financing strategy, designed by the established inter-ministerial committee to fight natural disasters. This strategy will decide on pre-arranged financial mechanisms for providing adequate financial resources immediately at the onset of a disaster to reduce financial, physical, social, and human losses from disasters. The **IT for DPF3** complements this first trigger by supporting the operationalization of the National Disaster Resilience Fund, which currently only consists in a budget line, by streamlining procedures to improve fund allocation, management, utilization, and transparency. The creation of this fund will be supported by technical assistance from the REPAIR project under preparation (see previous paragraph) – This project will help the authorities in designing the governance and procedures of this new delivery mechanism to improve efficiency and transparency of shock response. Once established, funds from the REPAIR project will be channeled through this National Disaster Resilience Fund to ensure rapid and transparent support to vulnerable households and firms.

45. Expected Results. The design and adoption of a national disaster risk financing strategy and the operationalization of a national disaster resilience fund, will improve the preparedness and resilience of the country to natural disaster events and ensure a consistent and efficient flow of funds to vulnerable households and firms, following disasters and climate-related shocks.

Pillar 3: Improve state-owned enterprises governance and performance.

DPF1 Prior Action #5. *To improve the governance of SOEs, the Recipient, through the President, has instructed all SOEs to report their financial performance to the MoF's department for the management of state holdings and the monitoring of the financial performance of public enterprises, and have their financial statements audited.*

DPF2 Indicative Trigger #5*. To reduce fiscal risks emanating from SOEs, the Recipient, through its Council of Ministers, has enacted a law that defines procedures to oversee and monitor SOEs' performance and mandates SOEs to mainstream climate change risks in their operation, and report on them, as evidenced by the adoption and publication of the law on the Official Gazette.*

DPF3 Indicative Trigger #5*. To strengthen the accountability of SOEs, the Recipient, through its Council of Ministers, has approved and submitted to Parliament an annual report on the financial and operational performance of SOEs, as evidenced by the report, and the transmission letter of the secretary general of the Government to Parliament.*

46. Rationale. SOEs play an important role in the Comorian economy, but most suffer from performance issues that contribute to significant fiscal risks. Credit to SOEs rose from 0.7 percent of GDP at end-December 2020 to 3.3 percent at end-December 2022. SOEs have historically contributed about 43 percent of Government revenues, and their value added represented at least 7.4 percent of GDP (nominal terms) in 2020. In recent years, deteriorating SOE performance has weakened their contributions to fiscal revenue, while poor commercial performance has contributed to the accumulation of large contingent liabilities, creating a substantial risk to debt sustainability. Due to institutional and regulatory gaps, SOE managers face little public oversight of their operational and financial performance.

47. Substance. To more effectively monitor and mitigate fiscal risks arising from SOEs, and formulate plans that improve SOEs performance, the Government adopted the presidential decree No. 23-068/PR dated July 11, 2023 which mandates SOEs to report their financial positions to the Ministry of Finance and have their financial statements audited on an annual basis. The Government had established a committee to oversee the financial performance of SOEs in 2018, but it failed to accomplish its core objectives. The Ministry of Finance has created a directorate to oversee SOEs in 2023, and this operation will contribute to the implementation of this directorate's mandate by ensuring the compliance of SOEs chief executive officers. This SOE directorate has a clear mandate, and this institutional change would enable structured and regular collection and sharing of financial, administrative and performance data and information by SOEs. The **IT for DPF2** is the enactment of a law on SOE which is expected to address many key concerns and gaps in the current legal framework. It will bring enhancements to performance management, financial reporting and transparency, and board structures and functioning. The **IT for DPF3** is the preparation of an annual report on the financial and operational performance of SOEs and the launch of a public dialogue based on the report.

48. Expected Results. The supported reform will improve the management and oversight of SOEs by the Ministry of Finance while enhancing the transparency of SOE financial and operational performance.

DPF1 Prior Action #6*. To reduce financial stability risks, the Recipient, through MoF and Treasury, has restructured the Société Nationale des Postes et Services Financiers ("SNPSF") and created Banque Postale des Comores ("BPC") by: (i) issuing a debt instrument to BPC which is consistent with the recapitalization plan defined over a four-year period (2022/2025).*

DPF2 Indicative Trigger #6*. To reduce financial stability risks, the Recipient, through its Central Bank, has granted a banking license to BPC as evidenced by the publication of a decision of the Board of the Central Bank of the Comoros.*

DPF 3 Indicative Trigger #6*. To certify that BPC complies with the main banking regulations, the Recipient, through its Central Bank, has finalized an on-site inspection report certifying that (') BPC's solvency ratio complies with the Banking Law; and (ii) all governance committees provided for in BPC statute have met and minutes were issued in 2023 and 2024, as evidenced by the Central Bank of the Comoros' inspection report.*

49. Rationale. The structural undercapitalization of the Comorian banking sector, caused by a low credit activity and high levels of non-performing loans (NPLs), constitute a significant source of vulnerability for the economy. In the banking sector, SNPSF is a public bank which hosts 20 percent of banking deposits, including civil servants' salaries, and has faced major operational difficulties for many years. SNPSF constitutes the biggest risk to financial stability, as being insolvent and loss making for more than 10 years. The authorities decided to restructure SNPSF (instead of liquidation) in 2021 as it is a systemic institution which provides services that are important for financial inclusion, including the receipt of remittances from the diaspora. Its recapitalization and restructuring are urgent to reduce the risk of a systemic banking crisis and to strengthen the reputation of the Comorian financial sector. The recapitalization cost of this bank is estimated at about US$21.3 million (about 1.8 percent of GDP in 2022). In September 2020, the President adopted Decree No. 120-20 (included as a Prior Action in the last emergency DPO), allowed for the institution to be split into two entities: the Post Office and the *Banque Postale des Comores* (BPC). The current SNPSF will become an asset management company for the unhealthy part of its balance sheet after the transfer of its good assets to BPC. The proposed measures under the DPO series will enable the authorities to comply with the presidential decree and ensure that the new bank (BPC) has an appropriate governance structure and enough capital to comply with the Comorian banking law. In additional, the restructuring will avoid a disorderly liquidation of SNPSF and will preserve its essential public functions related to financial inclusion as BPC will benefit from the current network of post offices to provide the remote population with financial services. With the highest number of local branches (19 in total across the three islands), BPC will also have the potential of ensuring continuity of financial services to the rural population during natural disasters. The SNPSF restructuring strategy has been elaborated in close collaboration with the IMF since 2020 and the actions proposed under the DPO series, and the IMF ECF program are well aligned and complementary.

50. Substance. To reduce financial stability risks, the measures support the authorities in creating BPC with a strong governance and risk-management framework, and with sufficient capital to operate and fulfil its financial inclusion mission. Beside the creation of a legal entity by registering BPC in the commercial registry (Proof of registration certified by the commercial court), the proposed Prior Action ensures the commitment of the state (the shareholder) to fully recapitalize BPC before 2025 (Treasury bond of May 10, 2023), which is essential to make sure it is compliant with Comorian law at the end of the DPO. The implementation of this Prior Action is a major step that will significantly improve financial stability. The **IT for DPF2** is the issuance of a banking license to BPC, which would allow the new entity to operate as a banking institution in the country. The issuance of this banking license involves BPC preparing and submitting a license application, fulfilling all the requirements provided by the banking law (especially related to the governance and risk management framework). The **IT for DPF3** is the completion of an inspection report by the BCC, certifying that BPC is fully compliant with the banking law, in particular provisions related to governance, credit risk monitoring, and the solvency ratio.[26]

51. Expected Results. The creation of a new postal bank (BPC) that is fully compliant with the country's banking law is expected to: (i) protect depositors of the current SNPSF in case of a liquidity crisis; and (ii) reduce systemic risk in the financial sector. The Prior Action will contribute to enhanced financial stability in Comoros, which is a condition to attract potential investors and promote sustainable economic growth.

DPF1 Prior Action #7*. To promote the production of electricity from renewable energies, the Recipient, through the Parliament, has strengthened the legal framework necessary for opening the market to the private sector for the production and marketing of the electricity produced from renewable energy sources.*

DPF 2 Indicative Trigger #7*. To promote the development of the production of renewable energy, the Recipient, through its Council of Ministers, has (i) adopted the least-cost development plan (LCDP), and (ii) mandated SONELEC to follow this plan and prioritize the renewable energy in the distribution grid according to this plan, as evidenced by a presidential decree.*

DPF3 Indicative Trigger #7*. To support an energy mix reorientation towards renewable energies, the Recipient, through its Ministries of Finance and Energy, has issued a regulation mandating the use of new standardized purchase contracts for all independent power producers, as evidenced by a presidential decree.*

52. Rationale. In 2021, Comoros' installed generation capacity was estimated at 44 MW, including 37.3 MW of small-scale diesel generators (25 MW in Grande Comore, 8.3 MW in Anjouan, and 4 MW in Mohéli), and about 6.9 MW of renewable energies capacity. The country's dependency on diesel-based thermal generation is reflected in high service costs and a high average end-user electricity tariff that are below cost recovery levels. Investment in renewable energy can enhance energy security and affordability and improve financial sustainability in the sector. Therefore, the authorities recently prepared a power sector master plan aimed to increasing the share of renewable energy from the current 16 percent of installed generation capacity to 30 percent by 2033.

53. Substance. To accelerate private sector growth in the production and sale of renewable electricity, the Government enacted a law on renewable energy that defines the legal framework needed. The law applies to all energy sources and activities related to renewable energy carried out by public or private actors in Comoros, both on private property and in the public and private domain of the state. This Prior Action is aligned with the goals of the Paris Agreement in terms of adaptation, resilience, and mitigation goals. The **IT for DPF2** is to improve the performance of SONELEC by: (i) adopting the least-cost development plan (LCDP); and (ii) mandating SONELEC to prioritize renewable energy in the distribution grid. The **IT for DPF3** is the mandatory use of a standard power purchase agreement for all independent power producers.

54. Expected Results. The percentage of renewable energy in Comoros' energy mix is expected to increase in the medium term.

Table 4: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Operation Pillar 1: Enhance Debt Management and Public Expenditure Efficiency	

[26] The Comoros banking law complies with international standards and has been designed with the support from the IMF (AFRITAC-South).

Prior Action #1. Enhancing debt management to promote fiscal sustainability	The *Comoros Debt Management Reform Plan* (World Bank 2020); The *Comoros Debt Management Performance Assessment* (World Bank 2016).
Prior Action #2. Strengthening public procurement	The *2022 Comoros Public Expenditure Review* (World Bank 2023)
Operation Pillar 2: Strengthen Resilience to Shocks	
Prior Action #3. Opening key economic sectors to private participation to reduce risks of food insecurity	*The Union of Comoros Accession to the World Trade Organization. Opportunities and Challenges* (World Bank 2022).
Prior Action #4. Improving the efficiency of existing social protection programs	World Bank Policy Notes (2014; 2016) and the National Social Protection Policy (2016); The *Poverty & Social Safety Nets in Comoros* (World Bank 2021)
Operation Pillar 3: Improve State-Owned Enterprises Governance and Performance	
Prior Action #5. Strengthening SOE supervision and management	The *2022 Comoros Public Expenditure Review* (World Bank 2023)
Prior Action #6. Restructuring a state-owned systemic financial institution (SNPSF)	The *Comoros Financial Sector Diagnostic* (World Bank 2021)
Prior Action #7. Fostering renewable-energy development to enhance the performance of the state-owned energy company (SONELEC)	*Document 2.2 Stratégie Sectorielle à 20 ans [Document 2.2 20-year Sectorial Strategy]* (European Union 2013); and *Développement des statistiques du bilan énergétique et d'un modèle de système énergétique pour l'Union des Comores [Development of energy statistics and an energy system model for the Union of Comoros] (*UNECA 2018)

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

55. The proposed operation is aligned with the CPF focus areas, specifically economic recovery, and inclusive growth as well as crisis response and resilience.[27] The operation is relevant to the World Bank goals, and it is aligned with the Eastern and Southern Africa (AFE) priorities by supporting universal access to electricity and human capital development. The CPF is based on the priorities identified in the World Bank Systematic Country Diagnostic (2019) and is aligned with the Government's PCE. Beside the PCE which was approved in December 2018, a medium-term recovery plan was approved in December 2022 to further its implementation. 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 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.

56. Policies supported by this DPF series are complemented by World Bank supported investment projects and technical assistance. The proposed policy reforms will complement the implementation of investment projects in the World Bank's Comoros investment portfolio, such as: Comoros Solar Energy Access Project (P177646), Shock Responsive and Resilient Social Safety Net Project in Comoros (P179291), Food Systems Resilience and Program for Easter Africa Project (P177816), and Comoros Financial Inclusion Project (P166193). Additional technical assistance will be provided through the implementation of the SDFP and the upcoming Regional Emergency Preparedness and Access to Inclusive Recovery Project (P181014).

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

[27] Country Partnership Framework, Report No. 145699-KM, discussed by the World Bank Executive Directors on June 17, 2020.

57. The Government of Comoros held consultations with stakeholders on key priorities and reforms that would support the implementation of its economic recovery plan. The Government prepared a recovery plan in 2022, and it held consultations with relevant private entities to reflect on the reforms and priorities laid out in the plan. The reform agenda was also discussed at the ministerial level and during a Government forum with senior officials to ensure ownership and relevance of reforms. In June 2023, the Government held additional consultations on the reform program with representatives from civil society and the private sector (unions and banks). The participants welcomed the reform agenda and expressed the need to be more involved in the implementation of reforms, particularly the ones related to the rice market and public procurement. The banking sector expressed the need to safeguard financial stability, as ONICOR has an estimated outstanding debt of US$13 million toward the domestic banking sector.

58. The operation is being prepared in coordination with other development partners. The World Bank is working closely with the IMF and other donors, including the African Development Bank (AfDB) and the AFD, and it has consulted other development partners such as the United Nations Development Program and the European Union. For instance, the AfDB will be supporting debt management through a dedicated project, and the IMF is providing technical assistance to enhance SOE supervision. For the creation of the new postal bank, there has been strong coordination between the IMF and the AFD, with the latter contributing to the new postal bank capital.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

59. Prior Actions #4, #3, and #7 are expected to have a positive impact on poverty reduction, while other DPF measures are expected to have a largely neutral impact on the poor. Most of the Prior Actions' effect on poverty reduction will likely be neutral, as they aim to adopt laws and regulations to promote efficient debt management and SOEs, improve Government procurement systems, and launch the new postal bank. On the other hand, by adopting a better proxy means test formula, Prior Action #4 will improve social protection programs' poverty targeting and increase the number of poor households covered by them, resulting in positive poverty impacts. Increasing social protection in a country vulnerable to shocks, such as Comoros, is an important tool to reduce the vulnerability of households to fall into poverty. Moreover, Prior Action #3 would have a positive but disproportionate impact on per capita income across income deciles through potential lower prices and an increase in the consumer surplus. Results from technical assistance provided by the World Bank to determine the poverty impact of liberalizing ordinary rice imports revealed that while rice imports (by the private sector) would negligibly reduce poverty, they would disproportionally affect poorer households more than their non-poor counterparts. Finally, 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.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

60. Two Prior Actions have a positive/negative environmental impact (#2 and #7), Prior Action #5 has a positive impact and Prior Actions #3 could possibly have a negative impact, or neutral (#1, #4 and #6) impact on the environment. Annex 7 assesses the country's legal and regulatory framework to manage environmental impacts, as well as the country systems for assessment and management of environmental risks and impacts**.** The system in place to monitor environmental and social key issues will be strengthened. Prior Action #5 will have a significant positive impact on Comoros' environment, forests, and natural resources as SOEs' performance monitoring and reporting shall 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 #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. However, the promotion of renewable energy sources could also entail significant adverse impacts such as land use changes, biodiversity loss, involuntary resettlement, and reduced community health and safety, depending on the locations of projects. To address these potential impacts, renewable energy investments will be subject to prior environmental assessments as required by the renewable energy law which is supported by the current Comoros DPO. Prior Action #2 is likely to generate limited quantities of e-waste, but it will have a positive impact on the country's environment and natural resources by significantly reducing paper usage and waste and by supporting the transition to the e-GP system. Quantity of e-waste to be generated is not known at this stage but this will be handled by Integrated Solid Waste Management Project, an ongoing project funded by Italian Ministry of the Environment, Land and Sea. It focuses the recycling and reuse of waste materials. The promulgated public procurement law includes a section on general environment, social, health and safety (ESHS) requirements for the procurement process in Comoros. In addition, the expected digitalization of public procurement procedures shall incorporate environmental performance criteria and workplace occupational issues in the various stages of the procurement and contracting processes and this shall contribute to in mainstreaming ESHS in various sectors. Prior Action #3 could lead to new investment to build warehouses and ensure the supply of rice. However, potential for negative effects would be minimized as these investments are governed by the Decree No. 01-052/CE of 19 April 2001, which requires an environmental assessment for agribusiness investments.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

Analytics Underpinning

61. The Public Expenditure and Financial Accountability Assessment (PEFA), prepared jointly by the Government and the World Bank in 2016, shows that the country's foundation for PFM remains very weak. There has been no significant progress since the 2013 PEFA assessment, with 15 of 31 indicators receiving a rating of D and only two receiving a rating of A or B. The report identified several critical gaps in the areas of budget reliability, transparency of budget execution, accounting and reporting, external scrutiny, and audit capacity, and it shows that procurement control and oversight entities remain weak. Nevertheless, the report mentions slight improvements in PFM related to the creation of the TSA in 2015. The Government, under the leadership of the Ministry of Finance, implemented a PFM reform strategy in 2010–19, which represented a comprehensive response by the authorities to address weaknesses in the PFM system, as identified by previous PEFA assessments and recommendations from development partners. The implementation of the PFM reform strategy has been supported by technical assistance from development partners.

62. The Country Policy and Institutional Assessment, updated in 2022, shows that there has been no significant progress on addressing the major weaknesses identified in the 2016 PEFA. Fiscal management suffers from weak PFM, including weak spending controls and lack of transparency in budget execution. Internal control mechanisms exist but are ineffective. Sanctions are not applied when procedures are not respected. Fiscal reporting has continued to deteriorate. For example, quarterly and annual reports are still not available on the Ministry of Finance's website for five years in a row. The Integrated Financial Management Information System has been implemented since 2017 but is not properly used. Additionally, there is no mechanism to ensure follow-up on oversight institutions' recommendations. According to the Open Budget Index 2021, the legislature and supreme audit institution in Comoros provide weak oversight during the budget process, with a composite oversight score of 33 out of 100.

FIDUCIARY ASPECTS

Public Financial Management System

63. Comoros's financial management system remains weak, as evidenced by the results of the 2016 PEFA and the 2021 Country Policy and Institutional Assessment. As a result, most foreign assistance and external borrowing rarely use the country's PFM system. Despite the creation of the TSA, data on external funding are not systematically recorded in the budget due to poor coordination between the Treasury and the budget department. Uncomplete documentation of the Government budget is made available to the public in printed form or on an external website. The Government is committed to continue financial management reform efforts, especially by extending the coverage of the TSA to all transactions related to extrabudgetary entities and foreign-financed projects. With the support of the European Union and the FDA, the Government is developing a new PFM strategy and action plan, including the revision of budget preparation procedures as well as budget monitoring. While the Government is committed to improving the PFM system, fiduciary risk is deemed substantial, especially since progress to date has been slow. As an additional mitigating measure, the grant will be deposited in a dedicated account that will be audited by a private external audit firm. Besides, to meet the budget transparency requirements of BP 8.60 (Bank Procedures 8.60), the Government will publish the budget documentation within 12 months, in printed form or on an external website. [28]

64. The BCC's legal framework and governance arrangements need to be strengthened. Comoros' legal framework has not changed since 2010 and falls short of best practices. In addition, the BCC's governance modalities related to oversight and daily management remain weak. As a small central bank, the BCC continues to encounter capacity constraints. Its FY 2020 and FY 2021 financial statements were audited in accordance with International Standards on Auditing, and audit opinions were unmodified 'clean.' Existing external audit arrangements are broadly satisfactory. The IMF Country Report No. 23/143 dated April 2023 highlighted significant progress made by the BCC in implementing the 2020 safeguards assessment recommendations.[29] These included improving the external and internal audit mechanisms, enhancing the audit committee's oversight, and adopting International Financial Reporting Standards (IFRS) effective December 2021. However, delay remains in amending the BCC Law to enhance BCC autonomy.

65. Comoros' public procurement system faces several governance challenges, including weak transparency and disclosure practices. To improve the efficiency of public spending, the Government signed Decree No. 22-085/PR promulgating Law No. 22-011/AU of June 23, 2022, amending and supplementing Law No. 11-027/AU of December 29, 2011, on Public Procurement and Delegation of Public Services. This law describes the shift from conventional procurement processes to e-procurement, and the specific provisions for online tenders. However, the e-procurement system has not yet been piloted due to lack of funding. Both the country's regulatory body (*Autorité de Régulation des Marchés Publics*, ARMP) and control body (*Directeur National de Contrôle des Marchés Publics*, DNCMP) are operational. With the support of development partners, the authorities plan to deploy the e-procurement system in the medium-term and to ensure its use by ministries and SOEs.

Fund Flow Arrangements

66. Grant disbursement will follow World Bank procedures for DPOs. Under these procedures, financing proceeds will be disbursed against satisfactory implementation of the development policy program and the maintenance of a satisfactory macroeconomic framework. The proposed grant will consist of a single tranche in the amount of SDR 14.9 million (US$20 million equivalent) to be made available upon effectiveness and disbursed based on a withdrawal application. Upon notification by IDA of effectiveness, and with the submission by the recipient of a withdrawal application, the proceeds of the operation will be deposited into a dedicated account that is part of the country's foreign

[28] Bank Procedures 8.60 (BP 8.60) refers to a World Bank Operational Manual on DPF.
[29] IMF Country Report No. 23/143 - Second Review under the Staff Monitored Program – Press Release and Staff Report (April 2023).

exchange reserve account at the BCC. The Government will ensure that, upon the deposit of the proceeds into said account, an equivalent amount is credited in its budget management system, in a manner acceptable to IDA. The Government will provide a letter to the World Bank within 30 days of receiving the grant proceeds written by the accountant general confirming that: (i) the accounts used to deposit the grant proceeds are part of the country's official foreign exchange reserves; and (ii) the equivalent in Comorian franc of the grant proceeds has been reflected in both the budget and in the Government's accounts on the date reflected.

67. The financial support provided under this operation is not intended to finance goods or services in the standard negative list. If the proceeds of the grant are used for ineligible purposes, as defined in the financing agreement, IDA will require the recipient, promptly upon notice from IDA, to refund an amount equal to the amount of said payment to IDA. Amounts refunded to IDA upon such request shall be cancelled.

Accounting and Auditing

68. The accounting of the grant proceeds will be the responsibility of the Accountant General (*direction générale de la comptabilité publique et du trésor*) at the Ministry of Finance. Government procedures will be followed to administer and account for the grant proceeds and related payments. At the request of IDA, an audit of the dedicated account will be carried out, and the result of the audit will be furnished to IDA within four months of the request. Considering the limited capacity of the Chamber of Account (*Section des Comptes au sein de la Cour Suprême*), a legally registered, private, and independent audit firm meeting appropriate international standards will be contracted to perform the audit, in accordance with the terms of reference agreed upon with the Government. All audit costs will be borne by the Government. The Government of Comoros, with the support of the Chamber of Account will agree with the IDA on the terms of reference of the audit, and the recruitment will be conducted by the Government of Comoros.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

69. Program monitoring and evaluation. The Ministry of Finance will be responsible for monitoring reforms, reporting progress, and coordinating actions with all ministries and entities. The Ministry of Finance will provide an annual report to IDA on implementation progress measured against the agreed upon reform program. The overall reform program will be also continuously reviewed by the Government in close coordination with regular World Bank implementation support missions to ensure continued implementation of the program within an adequate macroeconomic policy framework. While the statistics system of the country is weak, the DPF has selected readily available indicators that the Government already produces to facilitate monitoring.

70. *Grievance Redress.* Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank DPF may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Project-affected communities and individuals may submit their complaint to the World Bank's independent Accountability Mechanism. The Accountability Mechanism houses the Inspection Panel, which determines whether harm occurred, or could occur, because of World Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention and World Bank management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank's Accountability Mechanism, please visit https://accountability.worldbank.org.

6. SUMMARY OF RISKS AND MITIGATION

71. The overall risk rating of this operation is substantial. The major risks to the operation's ability to achieve its development objective are political and governance, macroeconomic, institutional capacity for implementation and sustainability, and fiduciary risks.

72. Political and governance risks are substantial. Comoros has faced political and governance crises over the past 20 yearsThe next presidential elections scheduled for 2024 could generate tensions and affect the implementation of various programs, but the authorities plan to take mitigating measures. The socioeconomic impacts of the COVID-19 pandemic and ongoing inflation have compounded social frustration. The World Bank will continue its close collaboration and coordinate its actions with development partners, such as the United Nations, the African Union, and the European Union. However, the risk of policy reversal should not be underestimated, particularly regarding key reforms that are being supported by this DPO (e.g., SNPSF reform).

73. Macroeconomic risks are substantial. The significant socioeconomic impact of the COVID-19 crisis on Comoros and global challenges could translate into longstanding inflation affecting food and energy products, slowing down growth and reducing fiscal revenues. Lower remittances due to less favorable growth outcomes in advanced economies could have an adverse impact on the population. A deterioration of the macroeconomic outlook could worsen the already fragile financial sector, which includes three banks facing structural undercapitalization. Mitigating factors include the Government's policy actions in response to the economic impact posed by the current macroeconomic context, some of which are supported by this operation, particularly measures to improve SOE governance and debt management as well as to restructure SNPSF. Prudent fiscal policies, including to preserve the credibility of the monetary agreement with the Bank of France, would lessen the effects of macroeconomic risks. In addition, the IMF is expected to support a reform agenda through the approved ECF program, and it will contribute to reducing debt sustainability risk by restoring discipline in PFM.

74. Institutional capacity for implementation and sustainability risks are substantial. Weak institutional capacity could impede the implementation of sector strategies and reform measures supported by this program. In addition, limited cross-institutional cooperation can affect policy implementation. The risks of policy reversal are substantial, and they could affect the sustainability of the program outcomes. The operation seeks to mitigate this risk by: (a) coordinating with other donors and, when possible, leveraging interventions; (b) relying on ongoing World Bank-funded investment projects that provide significant technical assistance and capacity building interventions in areas supported by this DPF; and (c) ensuring that dialogues involve detailed discussion about the implementation requirements for each policy action. More generally, increased World Bank presence in the field will help stakeholders identify and offset institutional risks more effectively.

75. Fiduciary risks are substantial. The overall fiduciary risks to this operation arising from Comoros's PFM system, including weak spending controls and lack of transparency in budget execution, and its foreign exchange environment controlled by the BCC are substantial. These risks are being mitigated as the BCC has recently reinforced its audit oversight and control by improving the external and internal audit mechanisms, enhancing the Audit Committee's oversight, and adopting IFRS. As additional mitigating measures, the grant will be deposited in a dedicated account that will be audited by a private external audit firm. Moreover, the reforms supported by the proposed operation (for example, debt management, public procurement, SOE governance and performance) will further help mitigate these risks. The Government of Comoros will also improve the budget transparency by publishing the budget within 12 months.

Table 5: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers					
Prior Actions under DPF 1	**Indicative Triggers for DPF 2**	**Indicative Triggers for DPF 3**	**Indicator Name**	**Baseline**	**Target**
Pillar 1--- Enhance debt management and public expenditure efficiency					
Prior Action #1. To improve debt management, the Recipient, through the Parliament, has mandated: (i) the use of new procedures for signature of loan agreements, and the issuance of public guarantees; and (ii) SOEs to submit quarterly reports on external and domestic debt data to MoF; as evidenced by the Presidential decree No. 23-004/PR dated January 9, 2023 enacting Law No. 22-014/AU of December 27, 2022 and published on the official gazette No.01 dated January 2023.	**Indicative Trigger # 1**. To improve debt management, the Recipient, through its Council of Ministers, has regulated the issuance of public guarantees and on-lent credit by defining (i) limits and priorities, and (ii) evaluation and monitoring procedures, as evidenced by a presidential decree.		**Results Indicator #1**. Percentage of new public and publicly guaranteed loans, loan guarantees, and on-lent credit, which were issued or signed after a Government technical review.	0 (2021)	90 (2023-2026)
Prior Action #2. To improve public spending efficiency, the Recipient, through its Parliament and President, has mandated the use of the *“Comores Marchés Publics”* for public procurement procedures, as evidenced by the Presidential decree No. 22-085/PR dated October 13, 2022 enacting Law No. 22-011/AU of June 23, 2022 and published on the official gazette No. 10 dated October 2022 and Presidential decree No. 23-080/PR dated August 15, 2023 and published on the official gazette “Edition Special” dated August 2023.	**Indicative Trigger #2.** To ensure the oversight and accountability of public procurements, the Recipient, through its Council of Ministers, has issued regulations mandating the National Directorate of Public Procurement Control to comply with the Public Procurement Law by prior and post reviewing procurements through the e-GP system or manual procurement system based on its new organigram	**Indicative Trigger #2.** To strengthen the efficiency of the procurement system, the Recipient, through its Council of Ministers, has made the use of the e-GP system mandatory for all public procurements performed by public entities under the public procurement law No. 22-0011/AU of June 23, 2022, including the oversight by the Direction Nationale de Contrôle des Marchés Publics (DNCMP) through e-GP in the exercise of its mandate, as	**Results Indicator #2.** Number of high spending ministries and SOEs using exclusively the “Comores Marchés Publics” platform for their procurement activities for all procurements above US$3 million.	0 (2021)	At least three ministries and one SOE (2025)

Prior actions and Triggers					
Prior Actions under DPF 1	**Indicative Triggers for DPF 2**	**Indicative Triggers for DPF 3**	**Indicator Name**	**Baseline**	**Target**
	and its improved institutional framework, as evidenced by a presidential decree.	evidenced by a presidential decree.			
Pillar 2--- Strengthen resilience to shocks					
Prior Action #3. To promote private sector participation in the supply of rice in domestic markets, the Recipient, through the President, has allowed the import of rice by the private sector, as evidenced by the issuance of Presidential decree No. 23-060/PR dated June 30, 2023, published on the official gazette "Edition Special 2023" dated August 2023, and by the issuance of the legal opinion No. 004/2023/CS by the Supreme Court dated June 28, 2023.	**Indicative Trigger #3**. To foster private sector development in the supply of ordinary rice in domestic markets, the Recipient, through its Ministry of Economics, has issued regulations mandating procedures to ease access to rice importation licenses, as evidenced by a ministerial regulation.	**Indicative Trigger #3**. To reduce non-tariff barriers and facilitate trade, the Recipient, through its Ministry of Agriculture, has issued regulations making compulsory the use of transparent and standardized sanitary and phytosanitary procedures for the importation of ordinary rice, as evidenced by a ministerial regulation.	**Results Indicator #3**. Volume of ordinary rice imported by the private sector (in percentage of total imported ordinary rice).	0 (2022)	50 (2026)
Prior Action #4. To improve the efficiency of social protection system to respond to shocks affecting vulnerable households, the Recipient, through the President and the ministry of health, solidarity, social protection and gender promotion, has instructed social safety net stakeholders to use guidelines for key social safety net programs which focus on vulnerable population and female-headed-households as evidenced by the issuance of Presidential decree No. 23-063/PR dated July 5, 2023, published on the official gazette "Edition Special" dated August 2023, and the issuance of the ministerial decree No. 23-040/A/15/08/2023 dated August 15, 2023, published on the official gazette "Edition Special" dated August 2023.	**Indicative Trigger #4.** To improve the efficiency of social protection programs, the Recipient, through its Council of Ministers, has issued regulations: (i) mandating the Commissariat for Gender, Solidarity and Social Protection to be the main coordinator of the non-contributory social protection sector and social safety net programs and ensure the effectiveness of the delivery system at the national and regional level; (ii) requiring stakeholders to share information on social	**Indicative Trigger #4.** To improve the financing and implementation of social protection programs, the Recipient, through its Ministry of Finance and Budget, has prioritized the execution of social protection expenditure by defining specific criteria in cash management, as evidenced by an annex in the budget law.	**Results Indicator #4.1.** Number of vulnerable households in the social protection registry. **Results Indicator #4.2.** Percentage of women-led households benefiting from social safety net programs.	30,000 (2022) 33 (2022)	50,000 (2026) 50 (2026)

Prior actions and Triggers					
Prior Actions under DPF 1	Indicative Triggers for DPF 2	Indicative Triggers for DPF 3	Indicator Name	Baseline	Target
	safety net programs with the Ministry of Health, Gender, Solidarity and Social Protection; and (iii) mandating the publication, through the Ministry of Health, Gender, Solidarity and Social Protection, of information related to the use of funds related to social protection programs managed by all governmental entities, as evidenced by a presidential decree.				
	Indicative Trigger #.[30] To strengthen financial resilience against natural disasters, the Recipient has established inter-ministerial committee for the fight against natural disasters and adopted a national disaster risk financing strategy.	**Indicative Trigger #.** To increase financial resilience against natural disasters, the Recipient, through the Council of Ministers, has issued a regulation establishing a National Disaster Resilience Fund and defined its operating rules, which comply with best practices in terms of governance and transparency, as evidenced by a presidential decree.	**Results indicator #** The National Disaster Resilience Fund is operational with available capital to address climate events.	No (2023)	Yes (2026)
Pillar 3--- Improve state-owned enterprises governance and performance					
Prior Action #5. To improve the governance of SOEs, the Recipient, through the President, has instructed all SOEs to report their financial performance to the MoF's department for the management of state holdings and the	**Indicative Trigger #5**. To reduce fiscal risks emanating from SOEs, the Recipient, through its Council of Ministers, has enacted a law	**Indicative Trigger #5**. To strengthen the accountability of SOEs, the Recipient, through its Council of Ministers, has approved and submitted to	**Results Indicator #5**: Share of state-owned enterprises that provide to the Ministry of Finance and publish data that allow the monitoring of	0 (2022)	80 (2026)

[30] Numbering will be added in the next operation (DPF2).

Prior actions and Triggers					
Prior Actions under DPF 1	**Indicative Triggers for DPF 2**	**Indicative Triggers for DPF 3**	**Indicator Name**	**Baseline**	**Target**
monitoring of the financial performance of public enterprises, and have their financial statements audited, as evidenced by the issuance of Presidential decree No. 23-068/PR dated July 11, 2023 and published on the official gazette "Edition Special" dated August 2023.	that defines procedures to oversee and monitor SOEs' performance and mandates SOEs to mainstream climate change risks in their operation and report on them, as evidenced by the publication of the law on the Official Gazette.	Parliament an annual report on the financial and operational performance of SOEs, as evidenced by the report and the transmission letter of the secretary general of the Government to Parliament.	operational and financial performance.		
Prior Action #6. To reduce financial stability risks, the Recipient, through MoF and Treasury, has restructured the *Société Nationale des Postes et Services Financiers* ("SNPSF") and created *Banque Postale des Comores* ("BPC") by: (i) issuing a debt instrument to BPC which is consistent with the recapitalization plan defined over a four-year period (2022/2025), as evidenced by the treasury bond of May 10, 2023; and (ii) registering BPC as a company in the trade registry, as evidenced by the proof of registration certified by the commercial court of Moroni on May 13, 2023.	**Indicative Trigger #6.** To reduce financial stability risks**,** the Recipient, through its Central Bank, has granted a banking license BPC, as evidenced by the publication of a decision of the Board of the Central Bank of the Comoros.	**Indicative Trigger #6.** To certify that BPC complies with the main banking regulations, the Recipient, through its Central Bank, has finalized an on-site inspection report certifying that: (i) BPC's solvency ratio complies with the Banking Law; and (ii) all governance committees provided for in the BPC statute have been met and minutes were issued in 2023 and 2024, as evidenced by the Central Bank's inspection report.	**Results Indicator #6** Level of BPC's solvency ratio, as established by the central bank.	NA (2023)	10 (2026)
Prior Action #7. To promote the production of electricity from renewable energies, the Recipient, through the Parliament, has strengthened the legal framework necessary for opening the market to the private sector for the production and marketing of the electricity produced from renewable energy sources, as evidenced by Presidential decree No. 23-079/PR of August 15, 2023 enacting Law No. 23-017/AU of July 27, 2023 published	**Indicative Trigger #7.** To promote the production of renewable energy, the Recipient, through its Council of Ministers, has: (i) adopted the least-cost development plan; and (ii) mandated SONELEC to follow this plan and prioritize renewable energy in the distribution grid,	**Indicative Trigger #7.** To support an energy mix reorientation toward renewable energies, the Recipient, through its Council of Ministers, has issued a regulation mandating the use of new standardized purchase contracts for all independent power producers, as evidenced by a presidential decree.	**Results Indicator #7**. Percentage of renewable energy production in the Comoros' energy mix	5 (2022)	21 (2026)

Prior actions and Triggers					
Prior Actions under DPF 1	Indicative Triggers for DPF 2	Indicative Triggers for DPF 3	Indicator Name	Baseline	Target
on the official gazette “Edition Special” dated August 2023.	as evidenced by a presidential decree.				

RESULTS INDICATORS BY PILLAR

Baseline	Closing Period
Enhance debt management and public expenditure efficiency	
Percentage of new public and publicly guaranteed loans, loan guarantees, and on-lent credit, which were issued or signed after a Government technical review (Percentage)	
Jan/2021	Dec/2026
0	90
Number of high spending ministries and SOEs using exclusively the “Comores Marchés Publics” platform for their procurement activities for all procurements above US$3 million. (Number)	
Jan/2021	Dec/2025
0	3
Strengthen resilience to shocks	
Volume of ordinary rice imported by the private sector (in percentage of total imported ordinary rice) (Percentage)	
Dec/2022	Dec/2026
0	50
Number of vulnerable households in the social protection registry (Number)	
Dec/2022	Dec/2026
30000	50000
The National Disaster Resilience Fund is operational with available capital to address climate events (Yes/No)	
Aug/2023	Dec/2026
No	Yes
Percentage of women-led households benefiting from social safety net programs (Percentage)	
Dec/2022	Dec/2026
33	50
Improve state-owned enterprises governance and performance	

Share of state-owned enterprises that provide to the Ministry of Finance and publish data that allow the monitoring of operational and financial performance (Percentage)	
Dec/2022	Dec/2026
0	80
Level of BPC's solvency ratio, as established by the central bank (Number)	
Aug/2023	Dec/2026
NA	10
Percentage of renewable energy production in the Comoros' energy mix (Percentage)	
Dec/2022	Dec/2026
5	21

ANNEX 2: FUND RELATIONS ANNEX

Press Release NO. 23/194
IMF Executive Board Approves US$43 Million Extended Credit Facility Arrangement for the Union of the Comoros

- The IMF Executive Board approves SDR 32.04 million (about US$43 million) 4-year ECF arrangement for Comoros. This decision will enable an immediate disbursement equivalent to SDR 3.56 million (about US$4.73 million).
- The ECF-supported program will help preserve Comoros' macroeconomic stability and implement the authorities' plans for fiscal consolidation, financial sector stabilization, and governance and anti-corruption reforms.
- Program measures aim to reduce economic and institutional fragilities and create fiscal space for needed investments in human and physical capital. Continued support from Comoros' international partners, both in terms of financing and capacity development, will be critical for the success of the program.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) today approved a 4-year arrangement under the Extended Credit Facility (ECF) of SDR 32.04 million (about US$43 million) for the Union of the Comoros. The Executive Board's decision allows for an immediate disbursement of SDR 3.56 million (about US$4.73 million).
The ECF arrangement follows the completion of the Staff-Monitored Program in April 2023 and represents the first financing engagement with the IMF since 2013. The ECF arrangement is expected to catalyze additional bilateral and multilateral financial support for Comoros' reform program.

Successive external shocks in recent years have exacerbated already fragile economic conditions in Comoros. The surge in global commodity prices and transportation costs during 2022 severely impacted households' purchasing powers in this import-dependent island economy and substantially worsened the fiscal outlook. These shocks have coincided with increased fiscal and debt service needs, as well as the expiration of pandemic-era support and retrenchment in international aid, which have significantly tightened financing constraints.

The ECF arrangement helps preserve the reform momentum started under the SMP and aims to address sources of fragility in Comoros, including low domestic revenue, an under-capitalized banking sector, and governance weaknesses. Key policy commitments include (i) mobilizing domestic revenue supported by reforms to strengthen tax and customs administration and streamline tax exemptions; (ii) completing the restructuring of the state-owned postal bank SNPSF and enhancing the Central Bank's banking supervision and resolution capacities; and (iii) strengthening governance through public financial management and anti-corruption reforms.
At the conclusion of the Executive Board's discussion, Ms. Antoinette Sayeh, Deputy Managing Director, and Acting Chair, made the following statement:

"Comoros has experienced several shocks, including a natural disaster, in recent years. The multiplicity of these shocks has adversely affected economic growth and fiscal sustainability while hampering the Government's ability to implement needed reforms. The country faces significant development challenges stemming from low fiscal revenue, insufficient public investment in human and physical capital, and vulnerability to shocks. Institutional fragility is manifest in weak governance and limited policy implementation capacity.

To address long-term structural issues, the Comorian authorities have embarked on a reform program supported by the IMF and other international partners. This Extended Credit Facility (ECF) arrangement, which builds on progress under the recently completed Staff-Monitored Program, is the first Upper Credit Tranche-quality arrangement with the IMF in ten years.

Under the ECF program, the authorities aim to tackle long-term structural weaknesses such as inadequate fiscal revenue, an undercapitalized banking system, and corruption vulnerabilities, which are obstacles to the government's ability to invest in human and physical capital and the private sector's ability to thrive. Fiscal consolidation to reduce debt sustainability risks and create space for development spending will be underpinned by fiscal structural reforms to mobilize domestic revenue. To improve financial sector stability, the authorities are committed to strengthening banking supervision and resolution capacities while restructuring the postal bank Société Nationale des Postes et des Services Financiers (SNPSF) to limit fiscal contingent liabilities going forward. Continued efforts to strengthen governance and accountability, including the adoption of the revised anti-corruption law, will be key to improve the overall business climate.

Strong and timely support from donors, complemented by IMF disbursements, is critical. Given the sizeable financing needs over the coming years, the authorities need to intensify their effort to mobilize financial support, including through good progress in the reform implementation. The reform program and financing supported by the ECF will continue to play a catalytic role."

ANNEX 3: LETTER OF DEVELOPMENT POLICY

3A. Official version of the letter

UNION DES COMORES
Unité-Solidarité-Développement
****

MINISTERE DES FINANCES, DU BUDGET ET DU SECTEUR BANCAIRE

LE MINISTRE

N:23_113 MFBSB|CAB

جمهورية القمر المتحدة
وحدة – تضامن – تنمية
****

وزارة المالية والميزانية والقطاع المصرفي

مكتب الوزير

Moroni le 10 juillet 2023

Monsieur Ajay Banga
Président du Groupe de la Banque mondiale
Washington DC
Etats-Unis

***Objet** : Lettre de politique de développement relative à l'opération de financement de politiques de développement de la Banque mondiale en faveur de l'Union des Comores*

Monsieur le Président,

L'économie de l'Union des Comores a été gravement affectée par une multitude de chocs exogènes successifs ces dernières années. Après le cyclone Kenneth en 2019, suivie de la pandémie de COVID-19, la guerre en Ukraine a accentué la détérioration des indicateurs macroéconomiques, provoquant une dégradation des termes de l'échange. La flambée des prix des produits de base au niveau international, accentuée par l'appréciation du dollar américain par rapport à l'Euro, a assombri les perspectives budgétaires, affaibli les résultats financiers des entreprises publiques et entraîné un taux d'inflation à deux chiffres, niveau historique le plus élevé, affectant notamment les ménages les plus pauvres. En dépit de cet environnement économique très contraint, le Gouvernement poursuit la politique de reformes imprimée dans son plan de développement, soutenu par la conclusion d'un programme FEC avec le FMI et la Banque Mondiale. Cette politique vise notamment à relever les défis de son économie :

- Elargir son marché
- Equilibrer ses échanges commerciaux
- Elargir son espace budgétaire
- Financer son développement.

Cette stratégie est déclinée dans le PCE autour de cinq socles stratégiques pour la transformation structurelle de son économie qui sont le Tourisme et artisanat, l'Economie bleue, les Services financiers et logistiques, l'Agriculture, les Niches industrielles et cinq catalyseurs pour accélérer la transformation structurelle de son économie, portant sur la Gouvernance politique et administrative, les infrastructures, le capital humain, le climat des affaires et le numériques.

Dans cette dynamique, le Gouvernement s'est résolu à mettre en œuvre un programme de relance économique qui requiert la mise en œuvre de réformes économiques et financières.

A cet effet, depuis juin 2023, le Gouvernement a conclu un programme avec le Fonds Monétaire International au titre de la Facilité Elargie de Crédit (FEC). Dans l'objectif d'approfondir notre agenda de réformes, le Gouvernement s'est aussi résolu à mettre en œuvre un programme de réformes soutenus par la Banque Mondiale. Les politiques menées visent à créer un environnement favorable à la réalisation d'une croissance inclusive, soutenue et résiliente à travers la mise en place d'un cadre macroéconomique adéquat.

A cet effet, le Gouvernement sollicite de la Banque Mondiale, un financement de politiques de développement d'un montant équivalent à 20 millions de dollars E-U pour soutenir la mise en œuvre de ces réformes et clore le gap de financement qui résulte des efforts du Gouvernement à assurer la stabilité bancaire et financière. Ces ressources permettront de couvrir un gap de financement estimé à 39,3 millions dollars E-U en 2023 qui est partiellement couvert par le FMI avec un apport de 9,5 millions dollars E-U et d'autres partenaires tels que la France.

Dans la présente lettre de politique de développement, le Gouvernement décrit (i) les perspectives économiques et (ii) présente les objectifs de développement du pays à court et moyen terme qui s'appuient sur un programme de réformes structurelles visant à :

- Améliorer la viabilité des finances publiques ;
- Renforcer la résilience ; et
- Faciliter le développement du secteur privé pour la diversification de l'économie.

1) <u>Perspectives économiques</u>

Après un taux croissance du produit intérieur brut (PIB) estimé à 2,6% en 2022 du fait de l'impact direct et indirect de la guerre en Ukraine, nous projetons une croissance de l'ordre 3% en 2023 qui sera portée par une reprise de la consommation privée et des investissements publics dans le secteur du tourisme et de la santé. Au cours de la période 2023-2025, afin de réaliser une croissance moyenne de 3,5%, nous mettrons aussi en œuvre des activités et des réformes qui viseront à accélérer la croissance dans les secteurs du tourisme et de l'agriculture. **S'agissant du secteur tourisme**, nous mettrons en place les institutions qui accompagneront le financement et développement du secteur en : (i) définissant l'organisation et les attributions du secteur ; (ii) fixant les modalités de collecte et de répartition de la taxe de promotion et de développement touristique en consultation avec le secteur privé ; et (iii) créant un sous-compte au sein du compte unique du Trésor (CUT) et en établissant un programme de remise automatique des fonds de la taxe de promotion et de développement du tourisme aux parties prenantes du secteur. Concernant **le secteur agricole**, nous prévoyons de mettre en œuvre des projets visant à améliorer la productivité des agriculteurs.

Le Gouvernement est résolu à mettre œuvre une politique budgétaire prudente, et à renforcer la stabilité extérieure. Au niveau de la politique budgétaire, bien que des efforts seront déployés pour augmenter les recettes fiscales en 2023, le déficit primaire intérieur devrait passer de 1,9% du PIB en 2022 à 2,4% en 2023 du fait des dépenses de financement d'investissements pour la construction de routes, de l'hôpital El-Maarouf et des charges de restructuration du secteur bancaire.

Nous commencerons à assainir les finances publiques en 2024, en vue de contenir le déficit budgétaire de 3,6% du PIB en 2022 à 1,7% en 2026. Au niveau extérieur, l'assainissement des finances publiques et la réalisation d'une croissance inclusive devraient nous permettre à terme d'améliorer la stabilité extérieure de l'Union des Comores.

2) Améliorer la viabilité des finances publiques

Dans le cadre du programme soutenu par une FEC conclu avec le FMI, nous améliorerons la **viabilité des finances publiques** en augmentant les recettes fiscales et en améliorant la gestion des finances publiques à travers la mise en œuvre de la feuille de route visant à élargir la couverture et l'efficacité du compte unique du Trésor (CUT). De plus, l'Union des Comores s'engage à financer son développement avec des dons et emprunts concessionnels qui sont conformes au plan d'emprunt de l'analyse de viabilité de la dette de mai 2023, et à ne pas accumuler de nouveaux arriérés intérieurs nets et des arriérés extérieurs. Nous achèverons l'audit des arriérés intérieurs, y compris les arriérés croisés entre les entreprises publiques et le gouvernement d'ici la fin 2023. Ces réformes seront complétées par la mise en place d'institutions de lutte contre la corruption.

Au titre du programme de réformes soutenues par la Banque mondiale, nous améliorerons la viabilité des finances publiques en nous focalisant sur les problématiques liées à la gestion de la dette publique, la gouvernance des entreprises publiques et l'efficience des dépenses publiques. Ces réformes sont complémentaires à celles faisant partie du programme FEC.

Nous avons renforcé le cadre régissant **la politique d'endettement public** en promulguant la loi portant sur la gestion de la dette en janvier 2023 (**mesure préalable 1**). En outre, au vu des demandes de garanties publiques émanant des entreprises publiques et de l'importance de la transparence sur la dette publique, nous nous engageons à réglementer l'émission de garanties publiques et de prêts rétrocédés, et à mieux organiser la publication des statistiques portant sur la dette publique d'ici 2024.

Concernant **la gestion des entreprises publiques**, nous allons renforcer leur supervision en créant une direction spécifique au sein du ministère des finances, du budget et du secteur bancaire, et nous avons demandé à toutes les entreprises publiques de rendre compte de leur performance financière (**mesure préalable 2**). En 2024-2025, nous nous engageons à renforcer le cadre institutionnel qui régit la gouvernance des entreprises publiques en promulguant une loi sur les entreprises publiques, et en préparant et en publiant le premier rapport portant sur les performances financières des entreprises publiques.

S'agissant de l'efficience des dépenses publiques, la Direction nationale du contrôle des marchés publics (DNCMP) et l'Agence de régulation des marchés publics (ARMP) travailleront en étroite collaboration pour la **digitalisation des procédures de passation de marché public** (**mesure préalable 3**) via un système e-GP qui sera complètement intégré dans la chaîne d'exécution des dépenses publiques. En 2024-2025, nous nous engageons à requérir de la DNCMP qu'elle se conforme à la loi portant sur les marchés publics en procédant à un examen préalable et postérieur des marchés par le biais du système e-GP, sur la base de son nouvel organigramme et de son cadre institutionnel amélioré ; et à rendre obligatoire l'utilisation du système e-GP pour toutes les entités publiques en vertu de la loi sur les marchés publics.

3) Renforcer la résilience

L'incidence de la pauvreté en Union des Comores et l'exposition élevée de notre pays aux catastrophes naturelles nécessitent que nous renforcions notre capacité à fournir des services de protection sociale, et de renforcer notre capacité de réponse aux catastrophes naturelles. Aussi, le Gouvernement a préparé, avec l'assistance des partenaires de développement, un guide méthodologique pour les principaux programmes de protection sociale. **Afin d'améliorer l'efficience et l'efficacité de la protection sociale**, après la mise en place du registre social national pour les bénéficiaires de programmes de protection sociale réalisée en 2020, nous allons rendre obligatoire l'utilisation de ce document de référence pour tous les acteurs du secteur (**mesure préalable 4**). En 2024-2025, nous nous engageons à approfondir cette réforme en (i) mandatant le Commissariat au genre, à la solidarité et à la protection sociale en tant que principal coordinateur du secteur de la protection sociale non contributive et des programmes de filets de sécurité sociale et en garantissant l'efficacité du système de prestation au niveau national et régional ; (ii) en demandant aux parties prenantes de partager des informations sur les programmes de filets de sécurité sociale avec le ministère de la santé, du genre, de la solidarité et de la protection sociale ; et (iii) en demandant la publication, par l'intermédiaire du ministère de la santé, du genre, de la solidarité et de la protection sociale, d'informations relatives à l'utilisation des fonds liés aux programmes de protection sociale gérés par toutes les entités gouvernementales. Pour avoir une mise en œuvre effective des programmes de protection sociale, le ministère des finances et du budget, donnera la priorité à l'exécution des dépenses de protection sociale en définissant des critères spécifiques dans la gestion de la trésorerie. En outre, **pour répondre efficacement aux catastrophes naturelles**, nous prévoyons de mettre en place un comité interministériel ainsi qu'un fonds national d'urgence qui seront régis par des règles qui respectent les meilleures pratiques internationales en termes de gouvernance et de transparence.

4) <u>Faciliter le développement du secteur privé pour diversifier l'économie</u>

Afin de faciliter le développement du secteur privé, notre programme de réformes se focalise sur la facilitation du commerce international, la stabilité financière et le développement des énergies renouvelables en Union des Comores.

L'Union des Comores est résolument engagée à renforcer son **intégration dans le commerce international**. Aussi, avons-nous entrepris d'abroger le monopole d'Etat qui entravait l'importation, par le secteur privé, du riz ordinaire destiné à la consommation populaire (**mesure préalable 6**). Cette réforme majeure sera suivie de mesures additionnelles pour faciliter l'entrée des acteurs du secteur privé sur le marché du riz ordinaire, et l'amélioration de la transparence portant sur les mesures phytosanitaires. En outre, s'agissant de l'Office national d'importation et de commercialisation du riz ordinaire (ONICOR) aux Comores, le Gouvernement a mis cette entreprise publique sous administration provisoire et un rapport d'inspection a été préparé. Nous nous engageons à préparer un programme de réformes à l'attention de cette entreprise publique pour réduire les risques budgétaires et les risques portant sur le secteur bancaire. Nous continuerons à dialoguer avec la Banque mondiale sur ces questions et solliciterons les appuis nécessaires des différents partenaires de développement pour parachever cette réforme.

S'agissant du **secteur financier**, dans le cadre du programme de réformes avec la Banque mondiale, nous nous engageons à restructurer la Société nationale des postes et services financiers (SNPSF) en créant une nouvelle banque – Banque postale des Comores- dotée d'un capital adossé à un instrument financier et des ressources issues des appuis de nos partenaires (**mesure préalable 7**), en obtenant une licence bancaire et nous assurant que la nouvelle banque respecte tous les critères de la loi bancaire à l'horizon 2026. Par ailleurs, dans le cadre du programme avec le FMI, notre action portera sur l'amélioration de l'environnement opérationnel des banques, le renforcement de la supervision bancaire et du filet de sécurité financier, la stabilisation du secteur bancaire et la mise en place d'un marché de titres publics.

Concernant **le développement des énergies renouvelables**, au vu de l'importance de l'accès régulier à l'électricité à un coût raisonnable, le Gouvernement souhaite encourager le développement des énergies renouvelables aux Comores par l'adoption d'un cadre institutionnel qui favorise la production et la commercialisation de l'électricité issue de ces sources d'énergie (**mesure préalable 8**). Aussi, le Gouvernement s'engage à adopter un plan de développement à moindre coût et à requérir de la Société nationale d'électricité qu'elle injecte en priorité dans le circuit l'électricité produite à partir d'énergies renouvelables. De plus, nous développerons des contrats normalisés qui seront la base des accords de vente-achat entre la SONELEC et les producteurs indépendants d'électricité.

Ces reformes s'inscrivent dans les secteurs prioritaires retenus dans le plan de relance post-Covid (2022-2026) dans le cadre du redressement socioéconomique du pays. Il s'agit entre autres, de la Gouvernance économique et administrative, de l'Energie, de la Protection sociale et de la Réforme des entreprises publiques.

A travers ces reformes d'envergure, le Gouvernement comorien vise le redressement socioéconomique nécessaire à la relance de son économie et vise aussi à redonner aux populations les moyens de résister aux effets néfastes des chocs.

Avec la mise en place de ce programme de réformes, le Ministère des Finances préparera un rapport annuel sur les progrès de la mise en œuvre des réformes et leur impact à l'attention de l'Association internationale de développement (IDA) du Groupe Banque Mondiale.

Monsieur le Président,

Le Gouvernement est convaincu que la mise en œuvre de ce programme permettra d'atteindre les objectifs du cadre macroéconomique avec une croissance durable, solide et inclusive, et que les orientations et les engagements susmentionnés contribueront nécessairement à renforcer le cadre de notre coopération. A cet effet, l'Appui budgétaire de la Banque Mondiale sera essentiel pour soutenir les interventions clés.

Nous autorisons la Banque Mondiale à publier cette lettre de politique de développement et la lettre de décaissement dans le cadre de l'opération d'appui budgétaire au profit de l'Union des Comores.

Nous vous prions d'agréer, Monsieur le Président, l'expression de notre haute considération.

MZE ABDOU MOHAMED CHANFIOU

3B. Unofficial Translation of the LDP

Subject: Development policy letter for the World Bank's development policy financing operation of the Union of the Comoros

Mr. President
The economy of the Union of the Comoros has been seriously affected by a multitude of successive exogenous shocks in recent years. After Cyclone Kenneth in 2019, followed by the COVID-19 pandemic, Russia's invasion of Ukraine exacerbated the deterioration of macroeconomic indicators, causing a deterioration in the terms of trade. The surge in international commodity prices, exacerbated by the appreciation of the US dollar against the euro, has clouded the fiscal outlook, weakened the financial performance of state-owned enterprises and led to double-digit inflation, the highest level in history, particularly affecting the poorest households. Despite this very constrained economic environment, the Government is pursuing the policy of reforms set out in its development plan, supported by the conclusion of an ECF program with the IMF and the World Bank. This policy aims in particular to meet the challenges of its economy:

- Expanding your market
- Balancing trade
- Expanding its budgetary space
- Financing its development.

This strategy is broken down in the PCE around five strategic bases for the structural transformation of its economy which are tourism and handicrafts, blue economy, financial and logistics services, agriculture, industrial niches and five catalysts to accelerate the structural transformation of its economy, focusing on the Political and administrative governance, infrastructure, human capital, business climate and digital.

1. In this context, the Government has resolved to implement an economic recovery plan that requires the implementation of economic and financial reforms. To this end, since June 2023, the Government has concluded a program with the International Monetary Fund under the Extended Credit Facility (ECF). In order to deepen our reform agenda, the Government has also resolved to implement a reform program supported by the World Bank. The policies pursued aim to create an enabling environment for the achievement of inclusive, sustained and resilient growth through the establishment of an adequate macroeconomic framework.

2. To this end, the Government is requesting from the World Bank development policy financing equivalent to US$ 20 million to support the implementation of these reforms and close the financing gap resulting from the Government's efforts to ensure banking and financial stability. These resources will cover a financing gap estimated at US$39.3 million in 2023 that is partially covered by the IMF with a contribution of US$9.5 million and other partners such as France.

3. In this development policy letter, the Government describes (i) the economic outlook and (ii) presents the country's short- and medium-term development objectives based on a structural reform program aimed at:

- Improve the sustainability of public finances;
- Building resilience; and
- Facilitate private sector development for economic diversification.

1) Economic Outlook

4. After an estimated gross domestic product (GDP) growth rate of 2.6 percent in 2022 due to the direct and indirect impact of the Russia's invasion on Ukraine, we project growth of around 3percent in 2023, which will be driven by a recovery in private consumption and public investment in the tourism and health sector. During the period 2023-2025, in order to achieve an average growth of 3.5percent, we will also implement activities and reforms that will aim to accelerate growth in the tourism and agriculture sectors. **With regard to the tourism** sector, we will set up the institutions that will accompany the financing and development of the sector by: (i) defining the organization and activities of the sector; (ii) laying down the modalities for the collection and distribution of the tourism promotion and development tax in consultation with the private sector; and (iii) creating a sub-account within the Treasury Single Account (CUT) and establishing a program for the automatic remittance of tourism promotion and

development tax funds to industry stakeholders. In **the agricultural sector**, we plan to implement projects to improve farmers' productivity.

5. **The Government is committed to prudent fiscal policy and to strengthening external stability**. In terms of fiscal policy, although efforts will be made to increase tax revenues in 2023, the domestic primary deficit is expected to increase from 1.9 percent of GDP in 2022 to 2.4 percent in 2023 due to investment financing expenditures for road construction, El-Maarouf Hospital and restructuring charges in the banking sector.

6. We will start consolidating public finances in 2024, with a view to containing the budget deficit from 3.6 percent of GDP in 2022 to 1.7 percent in 2026. At the external level, the consolidation of public finances and the achievement of inclusive growth should ultimately enable us to improve the external stability of the Union of the Comoros.

2) <u>Improving the sustainability of public finances</u>

7. Under the ECF-supported program with the IMF, we will improve **fiscal sustainability** by increasing tax revenues and improving public financial management through the implementation of the roadmap to expand the coverage and effectiveness of the Treasury Single Account (CUT). In addition, the Union of the Comoros commits to financing its development with grants and concessional borrowing that are in line with the borrowing plan of the May 2023 debt sustainability analysis, and not to accumulate new net domestic arrears and external arrears. We will complete the audit of domestic arrears, including cross-arrears between SOEs and the government by the end of 2023. These reforms will be complemented by the establishment of anti-corruption institutions.

8. As part of the World Bank-supported reform agenda, we will improve fiscal sustainability by focusing on issues related to public debt management, governance of state-owned enterprises, and efficiency of public spending. These reforms are complementary to those in the ECF program.

9. We strengthened **the public debt policy** framework by enacting the Debt Management Act in January 2023 (**Prior Action 1**). In addition, in light of requests for public guarantees from SOEs and the importance of transparency on public debt, we commit to regulate the issuance of government guarantees and on-lending loans, and to better organize the publication of public debt statistics by 2024.

10. Regarding the **management of SOEs**, we will strengthen their supervision by creating a specific directorate within the Ministry of Finance, Budget and Banking, and we have asked all SOEs to report on their financial performance (**Prior Action 2**). In 2024-2025, we commit to strengthening the institutional framework that governs the governance of SOEs by enacting a law on SOEs, and by preparing and publishing the first report on the financial performance of SOEs.

11. With regard to the efficiency of public spending, the National Directorate for the Control of Public Procurement (DNCMP) and the Public Procurement Regulatory Agency (ARMP) will work closely together for the **digitalization of public procurement procedures** (**prior action 3**) via an e-GP system that will be fully integrated into the public expenditure execution chain. In 2024-2025, we commit to require the DNCMP to comply with the Public Procurement Law by conducting a prior and post-procurement review through the e-GP system, based on its new organizational chart and improved institutional framework; and to make the use of the e-GP system mandatory for all public entities under the Law on Government Procurement.

3) <u>Building resilience</u>

12. The incidence of poverty in the Union of the Comoros and the high exposure of our country to natural disasters require us to strengthen our capacity to provide social protection services, and to strengthen our capacity to respond to natural disasters. Accordingly, the Government, with the assistance of development partners, has prepared a methodological guide for the main social protection programs. **In order to improve the efficiency and effectiveness** of social protection, following the establishment of the national social register for beneficiaries of social protection programs in 2020, we will make the use of this reference document mandatory for all actors in the sector (**Prior action 4**). In 2024-2025, we commit to deepen this reform by (i) mandating the Office

of the Commissioner for Gender, Solidarity and Social Protection as the main coordinator of the non-contributory social protection sector and social safety net programs and ensuring the effectiveness of the delivery system at national and regional level; (ii) requesting stakeholders to share information on social safety net programs with the Ministry of Health, Gender, Solidarity and Social Protection; and (iii) requesting the publication, through the Ministry of Health, Gender, Solidarity and Social Protection, of information on the use of funds related to social protection programs managed by all government entities. In order to have effective implementation of social protection programs, the Ministry of Finance and Budget will give priority to the execution of social protection expenditure by defining specific criteria in cash management. In addition, to **respond effectively to natural disasters**, we plan to set up an inter-ministerial committee and a national emergency fund that will be governed by rules that respect international best practices in terms of governance and transparency.

4) Facilitating private sector development to diversify the economy

13. To facilitate private sector development, our reform agenda focuses on international trade facilitation, financial stability and renewable energy development in the Union of the Comoros.

14. The Union of the Comoros is resolutely committed to strengthening its **integration into international trade**. We have therefore undertaken to repeal the State monopoly which hindered the importation by the private sector of ordinary rice for popular consumption (**Prior Action 6**). This major reform will be followed by additional measures to facilitate the entry of private sector actors into the regular rice market, and to improve transparency on phytosanitary measures. In addition, with regard to the National Office for the Import and Marketing of Ordinary Rice (ONICOR) in the Comoros, the Government has placed this public company under provisional administration and an inspection report has been prepared. We commit to prepare a reform agenda for this state-owned enterprise to reduce fiscal and banking sector risks. We will continue to engage with the World Bank on these issues and seek the necessary support from the various development partners to complete this reform.

15. With regard to the financial **sector**, as part of the reform program with the World Bank, we are committed to restructuring the National Post and Financial Services Company (SNPSF) by creating a new bank – Banque Postale des Comores – with capital backed by a financial instrument and resources from the support of our partners (**Prior Action 7**), by obtaining a banking license and ensuring that the new bank meets all the criteria of the banking law by 2026. In addition, under the program with the IMF, we will focus on improving the operating environment for banks, strengthening banking supervision and the financial safety net, stabilizing the banking sector, and establishing a government securities market.

16. With regard to the development of renewable energies, in view of the importance of regular access to electricity at a reasonable cost, the Government wishes to encourage the development of renewable energies in the Comoros by adopting an institutional framework that promotes the production and marketing of electricity from these energy sources (**Prior Action 8**). The Government is therefore committed to adopting a low-cost development plan and to requiring the National Electricity Company to inject electricity produced from renewable energies into the circuit as a matter of priority. In addition, we will develop standardized contracts that will form the basis of sale-purchase agreements between SONELEC and independent power producers.

These reforms are part of the priority sectors selected in the post-Covid recovery plan (2022-2026) as part of the country's socio-economic recovery. These include Economic and Administrative Governance, Energy, Social Protection and Reform of Public Enterprises.

Through these far-reaching reforms, the Comorian Government aims at the socio-economic recovery necessary for the revival of its economy and also aims to give the population the means to withstand the adverse effects of shocks.

17. With the implementation of this reform agenda, the Ministry of Finance will prepare an annual report on the progress of the implementation of the reforms and their impact for the International Development Association (IDA) of the World Bank Group.

Mr. President

The Government is convinced that the implementation of this program will make it possible to achieve the objectives of the macroeconomic framework with sustainable, robust and inclusive growth, and that the above-mentioned orientations and commitments will necessarily contribute to strengthening the framework of our cooperation. To this end, World Bank Budget Support will be essential to support key interventions.

We authorize the World Bank to publish this development policy letter and the disbursement letter as part of the budget support operation for the Union of the Comoros.

Please accept, Sir, the expression of our highest consideration.

[Signature]
MZE ABDOU MOHAMED CHANFIOU

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar 1: Enhance debt management and public expenditure efficiency		
Prior Action #1: Enhancing debt management to promote fiscal sustainability	**Neutral**	**Neutral**
Prior Action # 2: Strengthening public procurement	**Positive**, Modernization will significantly reduce paper usage, and procurement law and the digitalization of procurement procedures will incorporate ESHS considerations and contribute to mainstream ES considerations in key development sectors	**Neutral**
Pillar 2: Strengthen resilience to shocks		
Prior Action # 3: Opening key economic sectors to private participation to reduce risks of food insecurity	**Negative** if it could lead to new businesses such as construction of new storage warehouses and Government measures including investments to improve the domestic rice industry.	**Positive**
Prior Action #4: Improving the efficiency of existing social protection programs	**Neutral**	**Positive**
Pillar 3: Improve state-owned enterprises governance and performance		
Prior Action #5: Strengthening SOE supervision and management	**Positive** *(reporting formats and KPI consider climate change, workplace safety and environmental indictors)*	**Neutral**
Prior Action #6: Restructuring a state-owned systemic financial institution (SNPSF)	**Neutral**	**Neutral**
Prior Action #7: Fostering renewable-energy development to enhance the performance of the state-owned energy company (SONELEC)	**Positive/Negative** (renewable energies provide environmental, social and health benefits and could also lead to negative environmental and occupational health risks if adequate measures and actions are not in place.	**Positive**

ANNEX 5: PARIS ALIGNMENT

Program Development Objective(s): The program development objective (PDO) is to (i) enhance debt management and public expenditure efficiency; (ii) strengthen resilience to shocks; and (iii) improve state-owned enterprises governance and performance.	
Step 1: Taking into account our climate analysis (e.g., Country Climate and Development Reports or Explanation: CCDRs), is the operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?	**Answer:** Yes. **Explanation: This DPF is consistent with Comoros' climate strategies.** The majority of prior actions presented in Pillar I and Pillar II appear to be neutral in relation to the country's climate commitments and are not expected to impact their achievement. The Government updated in November 2021 its Nationally Determined Contribution (NDC), which now commits to an emissions reduction target of 23 percent (excluding Land Use, Land Use Change and Forestry) and an increase of CO2 absorption by 47 percent by 2030. It was designed to be aligned with the national strategy of Comoros Emerging Plan (PCE) 2030, which intends to create "a country resilient to shocks in all dimensions of sustainable development". The country does not yet have published LTS, NAP nor CCDR. The operation is considered as having low mitigation and adaptation risks from a Paris Alignment perspective**.**
Mitigation goals: Assessing and reducing the risks	
Prior Action 1: Enhancing debt management to promote fiscal sustainability.	
Pillar Objective 1: Enhance debt management and public expenditure efficiency	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No **Explanation:** This PA does not have any impact on GHG emissions and can be considered neutral.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	**Answer:** No **Explanation:** the PA will introduce more transparency in public finances and does not have an impact on transition efforts of the country.
Step M3: Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	**Answer:** N/A **Explanation:** N/A
Conclusion for PA1:	This PA does not have any impact on mitigation efforts and GHG emissions.
Prior Action 2: Strengthening public procurement	
Pillar Objective 1: Enhance debt management and public expenditure efficiency	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No **Explanation:** the use of e-GP system in public procurement procedures will prevent from the use of papers and transportations of documents for almost all transactions. Therefore, the mandatory use of the e-GP platform will significantly decrease GHG emissions.

Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	**Answer:** No **Explanation:** In addition to more efficiency and more transparency in public spending, this prior action will contribute to remove barriers to transition to the country's low-GHF emissions development pathways
Step M3: Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	**Answer:** N/A **Explanation:** N/A
Conclusion for PA 2:	Prior Action 2 will significantly reduce the use of papers and transportations of documents by digitizing public procurement processes for almost all transactions. The mandatory use of the e-GP platform will contribute to decrease GHG emissions although the prior action could generate a small amount of e-waste
Prior Action 3: Opening key economic sectors to private participation to reduce risks of food insecurity	
Pillar Objective 3: Strengthen resilience to shocks	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** Yes **Explanation:** The increase is likely not to be significant, but they have responded "yes" given the emissive elements that exist within value chain expansion.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	**Answer:** No **Explanation:** This PA is expected to support value chain developments through an enhanced participation of private firms, but it will not introduce or reinforce barriers to transition to better technologies. GHG emissive infrastructure are not expected to be engaged.
Step M3: Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	**Answer:** N/A **Explanation:** N/A
Conclusion for PA3:	Risk of potential increase in GHG emissions stemming from support to import of food product.
Prior Action 4: Improving the efficiency of existing social protection programs.	
Pillar Objective 2: Strengthen resilience to shocks	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No **Explanation:** This PA is about improving the efficiency of social protection and may improve resiliency of the population (see next section of PA assessment) but does not have any impact on GHG emission.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition	**Answer:** No **Explanation:** same comment

to the country's low-GHG emissions development pathways?	
Step M3: Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	**Answer:** N/A **Explanation:** N/A
Conclusion for PA4:	This PA is neutral in terms of GHG emission.
Prior Action 5: Strengthening SOE supervision and management	
Pillar Objective 3: Improve state-owned enterprises governance and performance	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No **Explanation:** this PA intends to improve SOE governance and won't impact GHG emission. It is considered neutral.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	**Answer:** No **Explanation:** same explanation.
Step M3: Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	**Answer:** N/A **Explanation:** N/A
Conclusion for PA5:	This PA does not have any impact on mitigation efforts and GHG emissions.
Prior Action 6: Restructuring a state-owned systemic financial institution (SNPSF)	
Pillar Objective 3: Improve state-owned enterprises governance and performance	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No **Explanation:** this PA intends to restructure a financial institution and will not induce any additional GHG emission.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	**Answer:** No **Explanation:** same comment
Step M3: Is the risk of the prior action introducing or reinforcing significant and persistent barriers being	**Answer:** N/A **Explanation:** N/A

reduced to low after mitigation measures have been implemented?	
Conclusion for PA6:	This PA is neutral in terms of GHG emission.
Prior Action 7: Fostering renewable-energy development to enhance the performance of the state-owned energy company (SONELEC)	
Pillar Objective 3: Improve state-owned enterprises governance and performance	
Step M2.1: Is the prior action likely to cause a significant increase in GHG emissions?	**Answer:** No **Explanation:** This PA will have a positive impact on GHG emission by supporting renewable energy.
Step M2.2: Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	**Answer:** No **Explanation:** This PA will have a positive impact on GHG emission by supporting renewable energy.
Step M3: Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	**Answer:** N/A **Explanation:** N/A
Conclusion for PA7:	This PA will support the reduction of GHG emissions.
Mitigation goals: Conclusion of the Paris Alignment Assessment for the Program	
Adaptation and resilience goals: assessing and managing the risks	
Prior Action 1: Enhancing debt management to promote fiscal sustainability.	
Pillar Objective 1:	Enhance debt management and public expenditure efficiency
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No **Explanation:** The prior actions under this pillar intend to improve debt management and financial performance of SOEs. Their contribution to the PDO will not be adversely impacted by risks from climate hazard.
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level considering climate adaptation good practices applicable to the country context?	**Answer:** N/A **Explanation:** N/A
Conclusion for Prior Action 1	Neutral impact on climate adaptation
Prior Action 2: Strengthening public procurement.	
Pillar Objective 1:	Enhance debt management and public expenditure efficiency

Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No **Explanation:** The prior actions under this pillar intend to improve debt management and financial performance of SOEs. Their contribution to the PDO will not be adversely impacted by risks from climate hazard.
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level considering climate adaptation good practices applicable to the country context?	**Answer:** N/A **Explanation:** N/A
Conclusion for Prior Action 2	Neutral impact on climate adaptation
Prior Action 3: Opening key economic sectors to private participation to reduce risks of food insecurity.	
Pillar Objective 3:	Strengthen resilience to shocks
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No **Explanation:** Given the prior action's capacity to enable private sector development, the prior action's contribution to the development objective will not be impacted by climate risks.
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level considering climate adaptation good practices applicable to the country context?	**Answer:** N/A **Explanation:** N/A
Conclusion for Prior Action 3	PA3 will strengthen resilience of the country against climate hazard risk as climate shocks can destroy crops, affecting fruit production and pasture areas, with a notable impact on food security. Imported rice can be a substitute product when crops have been damaged by climate related events. By liberalizing the importation of ordinary rice, this action intends to address regular shortages and price inflation of ordinary rice by enabling new potential private channels to provide affected populations with required food, further strengthening food security on the islands.
Prior Action 4: Improving the efficiency of existing social protection programs.	
Pillar Objective 2:	Strengthen resilience to shocks
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No **Explanation:** The prior actions under this pillar intend to improve the capacity of the country to adapt to climate change
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level considering climate adaptation good practices applicable to the country context?	**Answer:** N/A **Explanation:** N/A
Conclusion for Prior Action 4	Pillar 2 will have a positive impact on climate adaptation as it intends to support the country's resilience to climate shocks. In DPF2 and DPF3, Triggers 5.1 and 5.2 will contribute to promote the country's resilience effort against climate risk by improving the level of financial preparedness of Comoros to address natural disasters. A better coordination at the national level and the creation of a national emergency fund to address natural disasters will ensure the fundings can be available and channeled to

	the impacted communities. Prior Action 4 will support Comoros' adaptation goals as climate vulnerable populations can also be targeted directly by the social protection system. The social safety net intervention is consistent with Comoros' NDC and particularly the Comoros National Adaptation Plan (NAP) under preparation that prioritizes the needs of vulnerable groups and localities with high exposure to climate and disaster risks (such as droughts and floods).
Prior Action 5: Strengthening SOE supervision and management.	
Pillar Objective 3:	Improve state-owned enterprises governance and performance
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer** No **Explanation:** The prior actions under this pillar intend to improve debt management and financial performance of SOEs. Their contribution to the PDO will not be adversely impacted by risks from climate hazard.
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level considering climate adaptation good practices applicable to the country context?	**Answer:** N/A **Explanation:** N/A
Conclusion for Prior Action 5	Neutral impact on climate adaptation
Prior Action 6: Restructuring a state-owned systemic financial institution (SNPSF)	
Pillar Objective 3:	Improve state-owned enterprises governance and performance
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No **Explanation:** This prior action is related to the restructuring of a financial institution and have no direct impact on climate adaptation.
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level considering climate adaptation good practices applicable to the country context?	**Answer:** N/A **Explanation:** N/A
Conclusion for Prior Action 6	PA6 is neutral in terms of climate adaptation.
Prior Action 7: Fostering renewable-energy development to enhance the performance of the state-owned energy company (SONELEC).	
Pillar Objective 3:	Improve state-owned enterprises governance and performance
Step A2: Are risks from climate hazards likely to have an adverse effect on the prior action's contribution to the Development Objective(s)?	**Answer:** No **Explanation:** This PA intends to promote the development of renewable energy. Risks from climate hazards will not have adverse effect on this PA's contribution to the PDO.
Step A3: Does the design of the prior action reduce the risk from climate hazards to an acceptable level considering climate adaptation good practices applicable to the country context?	**Answer:** N/A **Explanation:** N/A
Conclusion for Prior Action 7	PA 7 is neutral in terms of climate adaptation
Adaptation and resilience: Conclusion of the Assessment for the Program	

OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSEMENT: that new financing flows provided by the DPO series to the country will be consistent with the objectives of the Paris Agreement and with a country's pathway towards low GHG emissions and climate-resilient development. This DPO is consistent with Comoros' climate strategies and Comoros' Nationally Determined Contribution (NDC). The operation is considered as having low mitigation and adaptation risks from a Paris Alignment perspective. All the prior actions presented in Pillar I, Pillar II and Pillar III are Paris Aligned and most of them appear to be neutral in relation to the country's climate commitments and are not expected to impact their achievement.

ANNEX 6: OVERVIEW OF COMOROS STATE-OWNED ENTERPRISES

1. **Comoros SOEs operate in a variety of sectors, represent a significant part of the economy, and have historically contributed to substantial Government revenues**. The companies are used as public policy instruments aiming at providing goods and services at affordable prices. The country has thirteen SOEs present in trade and wholesale (e.g., rice and hydrocarbon products), transport, telecommunications, water and energy, banking, pharmaceutical, and communications (including written press and news broadcasting) sectors. Based on closed-to-exhaustive SOEs data, it is estimated that they contribute to around 43 percent of the Government budget and their nominal value added represented about 7.4 percent of GDP in 2020. Nonetheless, this nominal value added is concentrated in four major SOEs - SCH (48 percent), Comores Telecom (18 percent), ONICOR (18 percent), and *Société Nationale de l'Electricité des Comores* (SONELEC) (10 percent).[31]

2. **Weak governance added to the successive exogeneous shocks have significantly weakened Comoros SOEs financial situation**. For the eight state-owned enterprises with available data, total net income, although positive, declined from KMF 3,148 million in 2017 to KMF 927 million in 2020. In 2017-20, without SCH, SOE's total net income would have been negative – SONELEC, ONICOR and *Aéroport Des Comores* (Aiport Comoros) have been the major contributor to losses. Moreover, out of the 13 SOEs, only 3 have been sporadically paying dividend to Government. Comoros SOEs which are in a monopolistic position (except for Comores Telecom) and have two major legal forms are poorly managed. Performance oversight has been ineffective with board of directors not fulfilling their mandate, and other supervision committees or mechanisms not operating effectively despite an attempt to centralize them in 2018. The board of directors do not have an influence on the appointment of key managers (including the CEO and the key financial officer) and the appointed chief executive officers have too much autonomy in the management and recruitment of staff.[32] Most of the SOEs do not have audited accounts from independent auditors, they are poorly controlled and there are important discrepancies between data reported by SOEs and the Directorate of Budget. In addition, the administered price regime imposed on SOEs, particularly in utilities sectors and food supply chain are weighing on their performances. While there is generally no formal mechanism to financially offset SOEs that carry a significant public policy burden, only SONELEC benefits from a formal subsidy from the Government.

3. **Weak SOEs' performance weigh on fiscal sustainability through lower Government revenues**. Not only did the contribution of SOEs to total taxes collapsed from KMF 39.4 billion in 2017 to KMF 7.2 billion in 2020, but their mismanagement is also associated with declining Government revenues. Tax exemptions provided to SOEs and the unpaid tax liabilities (in the absence of a proper subsidy mechanism to offset their losses) are weighing on Government revenues. For example, the SOE responsible for hydrocarbons has outstanding debt estimated at 4.9 percent of GDP, out of which 54 percent represents an unpaid tax liability. While the SOE wage bill has soared in recent years, SOEs weak financial performance is also driven by the implementation of Government policy on the tariffs and prices of goods and services provided by

[31] The remaining SOEs are the following: *Comores Câbles, Aéroport des Comores, Autorité portuaire des Comores, Société nationale d'exploitation et de production des eaux, COM'AIR, OCOPHARMA, ORTC, AL-Watan, SNPSF*.
[32] Staffing and salaries are not properly managed according to company needs, consequently average SOE salaries are well above those of other civil servants, and some SOEs are highly overstaffed.

those firms, as the Government policy aims at ensuring public goods and services are affordable. However, SOEs are not remunerated for the implementation of those policies.

4. **SOEs also represent a source of risks to debt sustainability**. SOEs are contributing significantly to contingent liabilities. Persistent fragilities in a context of poly-crisis are increasing the likelihood of the materialization of the contingent liabilities. Comoros domestic public debt has been rising since 2019, reaching 6.6 percent of GDP in 2022 (from 0.9 percent in 2016). The deterioration of SOEs financial performance, particularly those involved in food and energy supply (ONICOR, SCH, SONELEC) in addition to BCC's on-lending of the SDR are the primary drivers of domestic public debt increase. As Government subsidies (in addition to unpaid tax liabilities) are not enough to offset SOEs and foreign financing are challenging, they are turning to domestic financial markets, deepening the sovereign bank nexus and associated risks. Contingent liabilities shock is estimated at 12.5 percent of GDP reflecting among others SOEs underperformances and higher than expected level of domestic arrears that also involve SOEs. The recapitalization of one of the most important SOEs (SNPSF) is also contributing to fiscal financing gap (15.6 percent of the total in 2023-25).

ANNEX 7: OVERVIEW OF COMOROS ENVIRONMENTAL REGULATIONS AND POLICIES

Comoros' environmental laws, regulations, and policies are generally in place. Over the past 20 years, the Government has made significant strides in developing its framework for environmental management and mainstreaming environmental sustainability into decision-making processes, starting with the framework Law on the Environment (N°095 -007 of 19 June 1995) and its subsequent decree (No. 01-052/CE of 19 April 2001) pertaining to environmental impact assessments. The Directorate-General of Environment (DGE) is responsible for environmental impact assessments and decision-making at the national level and across the three regional offices (located on each island). The legal framework does not require a systematic environmental assessment for policies or plans. Sector-specific frameworks and licensing processes for management of renewable energy sector investments are under development. The authorities are finalizing a Renewable Energy Law. Article 29 of this draft law requires a prior environmental assessment for any renewable energy investments. The Decree No. 01-052/CE of 19 April 2001 governs EIAs and requires an environmental assessment for agribusiness investments, and the DGE shall ensure that all new agribusiness investments and Government measures including investments to improve the domestic rice industry comply with the Decree. However, Comoros' systems for managing environmental risks associated with development initiatives and ensuring environmental compliance are constrained by limited human and financial resources available at the national, island, and local level. Significant capacity building at all levels of governance is thus required. To address these gaps and reinforce compliance, (i) the digitalization of public procurement procedures shall incorporate environmental performance criteria and workplace occupational issues in the various stages of the procurement and contracting processes; and (ii) other World Bank-financed operations shall support technical capacity building and joint environmental compliance monitoring missions related to managing environmental risk and natural resources, including the Comoros Post-Kenneth Recovery and Comoros Inter-Island Connectivity Project (P173114), which incorporates ESF capacity building and natural resources management (related to coral reefs and natural habitats); and the ongoing Comoros Solar Access Project (P177646), effective since October 2022.

ANNEX 8: PRIOR ACTIONS, WORLD BANK PORTFOLIO AND TECHNICAL ASSISTANCE

Prior Actions	Investment project financing and existing technical assistance
Pillar 1: Enhance debt management and public expenditure efficiency	
Prior Action #1 and triggers #1: Enhancing debt management to promote fiscal sustainability	World Bank programmatic ASA from MTI (including Global Debt Management team, and SDFP engagement)
Prior Action # 2 and triggers #2: Strengthening public procurement	Regional Emergency Preparedness and Access to Inclusive Recovery Project (P181014)
Pillar 2: Strengthen economic resilience to shocks	
Prior Action # 3 and triggers #3: Opening key economic sectors to private participation to reduce risks of food insecurity	Food Systems Resilience and Program for Easter Africa Project (P177816)
Prior Action #4 and triggers #4: Improving the efficiency of existing social protection programs	Shock Responsive and Resilient Social Safety Net Project in Comoros (P179291)
Triggers #: Disasters risk financing	Regional Emergency Preparedness and Access to Inclusive Recovery Project (P181014)
Pillar 3: Improve state-owned enterprises governance and performance	
Prior Action #5 and triggers #5: Strengthening SOE supervision and management	Existing IMF technical assistance World Bank policy dialogue
Prior Action #6 and triggers #6: Restructuring a state-owned systemic financial institution (SNPSF)	Comoros Financial Inclusion Project (P166193)
Prior Action #7 and triggers #7: Fostering renewable-energy development to enhance the performance of the state-owned energy company (SONELEC)	Comoros Solar Energy Access Project (P177646)