



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 26-Oct-2020 | Report No: PIDA30765



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Comoros	P174260	Comoros Emergency DPO for Covid-19 response (P174260)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA EAST	17-Dec-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Ministry of Finances	Ministry of Finances		

Proposed Development Objective(s)

The objectives of the proposed operation are to i) protect the poor and vulnerable by supporting the immediate COVID-19 response and, ii) help the economic recovery and support reforms that will enhance resilience in the future.

Financing (in US\$, Millions)

SUMMARY

Total Financing	10.00
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DETAILS

Total World Bank Group Financing	10.00
World Bank Lending	10.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

The proposed Comoros COVID-19 Response Development Policy Operation (DPO), in the amount of US\$10 million, is a stand-alone single-tranche operation to support relief measures and structural reforms recently adopted to alleviate the short term effects of pandemics and enable economic recovery. Government’s immediate relief response to the COVID -19 pandemic was composed by (i) measures to protect lives and households’ incomes and enable the survival of



otherwise viable firms and jobs; and (ii) reforms that will enhance Comoros' growth prospects and the country's resilience to future shocks. The DPO will also help the Government meet emerging fiscal and external financing gaps resulting from the pandemic, as the country experiences lower remittance inflows, a reduction in export earnings (mainly from tourism), larger public expenditures and lower fiscal revenues.

While the spread of the virus in Comoros seems to be contained so far, economic activity has slowed with adverse impacts on fiscal and external balances. Prior to the COVID-19 crisis, Comoros was still recovering from the Cyclone Kenneth (April 2019), with GDP growth having fallen to 1.9 percent in 2019 as a result, from 3.6 percent in 2018. The pandemic will likely offset the positive impacts from reconstruction efforts after the cyclone, with real GDP growth expected to contract sharply to -1.4 percent in 2020. The COVID-19 crisis is likely to significantly reduce household incomes and affect the poor disproportionately. Job destruction and decline in labor earnings will affect those working in trade, tourism and transport, in a context of already high unemployment (especially among the youth). Limited fiscal space, incipient social safety networks and a shallow financial sector limit the Government's capacity to respond to the crisis and reach vulnerable households – especially in the mostly informal primary and commerce sectors, where most of the poor is employed.

In the context of the large shock to the economy, the impacts of which are still unfolding, the macroeconomic policy framework underlying this operation is assessed to be adequate. This assessment assumes sustained progress toward political stability, as well as maintenance of policies to preserve the current macro-fiscal stability (including the monetary agreement with the Bank of France that have contributed to fairly conservative fiscal policies) and the recent improvement in budget credibility (as in the recent 2020 budget law). This assessment also takes into consideration the Government's ability to successfully manage the economic consequences of past disasters, including Cyclone Kenneth last year. While public and external debt remain sustainable, continued efforts to strengthen debt management and improve transparency will be needed. This operation supports initial actions in this regard and will be completed by the IDA's Sustainable Development Finance Policy (SDFP) actions.

Relationship to CPF

A new Comoros CPF (FY2020–FY2024), which was approved by the Board in July, provides the overarching framework for this operation. The CPF is based on the priorities identified in the SCD (2019) and is aligned with the Government's Vision 2030 (PCE). This long-term strategy builds on the shorter-term Updated National Development Strategy (SCA2D), covering 2018–2021, which was approved in December 2018. The CPF focused on four objectives: (1) Building Human Capital, (2) Supporting Disaster Recovery and Resilience, (3) Improving Business Environment and Governance, and (4) Improving Connectivity. The support provided in this emergency operation relates to these objectives. Policy reforms related to health and social protection in this operation contribute to the CPF Objective 1. Crisis support provided to firms and reforms on financial development, SNPSF (*Société Nationale des Postes et des Services Financiers*)'s restructuring, and custom reforms pursued through this operation are consistent with Objective 3 of the CPF. The debt transparency reform contributes to strengthening macroeconomic management, which is a priority area under the SCD (2019). Debt transparency also plays a key role in the SDFP and the Debt Service Suspension Initiative (DSSI).

C. Proposed Development Objective(s)

The objectives of the proposed operation are to i) protect the poor and vulnerable by supporting the immediate COVID-19 response and, ii) help the economic recovery and support reforms that will enhance resilience in the



future. The operation will provide emergency financing to assist the Government's response to the COVID-19 pandemic, whilst also supporting structural and governance reforms, some of which have been fast tracked in response to the pandemic. This DPO will also help the government to meet the emerging fiscal and external financing gaps as Comoros experiences lower remittance inflows and a reduction in export earnings from the pandemic.

Key Results

The proposed operation is expected to contribute to social and economic relief through an effective response to the pandemic and lay the foundation for stronger resilience in the medium term. The relief response measures will support households by improving the efficiency of the customs clearance process (in particular of medical products) and reducing the price of medical supplies and essential food products. In addition, another relief measure included in the program will reduce firms' cash flow pressures this year. The operation is also targeting medium term resilience and inclusion by improving the efficiency of current cash transfers programs, supporting the development of digital payments, improving debt transparency, and taking critical step towards financial stability.

D. Project Description

The proposed operation will support the Government's relief response to the social and economic impacts of the COVID-19 crisis, whilst increasing future resilience by supporting longer term structural measures. The operation is structured around two strategic pillars: 1) Protecting Poor and Vulnerable Households, and Enhancing the Resilience of Firms; (2) Strengthening Policies and Institutions for Rebuilding Better. The first pillar aims to help households cover their essential food and medical needs, to enhance the capacity to implement COVID-19 response and to increase responsiveness and efficiency of future social safety net programs, and to ensure liquidity for firms and protect productive assets. The second pillar aims to accelerate SNPSF's restructuring process, to facilitate the development of mobile payments, to enhance debt transparency, to facilitate and increase efficiency in the custom's clearance of imports of food and medical supplies.

The proposed operation supports the Government's emergency response to the pandemics as well as structural reform measures to foster a resilient recovery. The relief policy actions are aligned with the government's announced response measures to address the social impact of COVID-19 by providing households and firms with an immediate support. Longer term measures represent a sub-set of the broader Government's long-term agenda, the Emerging Comoros Plan (PCE), which, in turn, addresses some of the structural obstacles for economic transformation and jobs in Comoros.

E. Implementation

Institutional and Implementation Arrangements

Program monitoring and evaluation. The MoF will be responsible for monitoring reforms, reporting progress, and coordinating actions with all ministries and entities. The MoF will provide biannual reports 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 supervision missions to ensure continued implementation of the program within an adequate macroeconomic policy framework. While the statistics system of the



country is weak, the DPO has selected readily available indicators that the Government already produces to facilitate monitoring. In addition, policy implementation under this DPO will be supported by a number of WB projects and technical assistance (Social Safety Net Project, P150754; Financial Inclusion project, P166193; Post-Kenneth Recovery and Resilience, P171361) and regular macroeconomic and debt dialogue.

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

Poverty and Social Impacts

Pillar 1 and 2 support measures that increase Comoros' preparedness to manage the outbreak and strengthen the supply of necessary medical materials to help respond to the pandemic. Despite the agricultural sector accounts for about 30 percent of the Comorian economy, the country meets most of its food needs through imports. Policy actions #1 and #7 (under Pillar 1 and 2, respectively), namely, to reduce the price of medical supplies and essential food products and to facilitate cross-border trade, support measures that strengthen the food supply chain which is key to minimize severe negative effects on food security of the population, particularly of the poor. The decree establishing the creation of a national social registry (policy action #2 under Pillar 1) will improve the coordination of existing social safety net programs with positive effect on the poor in the medium term. The decree is expected to strengthen coordination efforts of donors and provide a legal framework that can result in increased efficiency in the management of cash transfers programs. Beneficiary households receiving multiple assistance under different programs will be reduced and resources will be best targeted to those in need and lacking assistance, particularly in light of the COVID-19 pandemic as well as in case of future emergencies.

Prior actions under Pillar 2 will support the economic recovery while building resilience for future generations. The approval of a draft law of electronic payment services (policy action #5), under Pillar 2, can facilitate aid transfers as well as the development of mobile money payments. This type of payments enable faster money transfers and can also help to reduce the spread of COVID-19 by decreasing the need for face-to-face interactions at banks or post offices. Access to mobile phones is relatively high among the poor with about 2 in 3 poor households owning one or more mobile phones as of 2014. Finally, the restructuring of SNPSF (policy action #4) will have a positive effect on the poor. Civil servants (all receiving their salaries in an SNPSF account) are allowed to obtain advances from SNPSF, while waiting for their salary to arrive. In the past, this practice has been very beneficial, especially for low-skilled/low-paid civil servants (who are more vulnerable to shocks), given the frequent delays in the payments of wages by the Government. A sudden collapse or a chaotic restructuring of SNPSF could result in a large decrease in the number of branches, especially in rural areas. Ensuring sustainability of SNPSF will allow civil servants to continue to benefit from advances and will avoid large closure of branches, with both factors expected to have a positive impact on the poor.

Environmental, Forests, and Other Natural Resource Aspects

The policies and reforms supported through the proposed operation are not likely to result in substantial negative or positive impacts on the environment or natural resources of Comoros, however, some actions to mitigate impacts of COVID-19 may have limited direct or indirect environmental effects. Policy actions #1 and #7 (under Pillar 1 and 2, respectively) that aims to facilitate trade and imports of medical equipment and supplies and essential food products, may result in an increase in the volume of medical and other types of wastes. Comoros has adopted a National Medical Waste Management Plan which includes specific provisions for infectious wastes, such as those that may be generated through testing and treatment of COVID-19 patients. The implementation of the plan, which is supported through the WB's Health



Project (P166013) will address and mitigate these potential additional medical wastes. The establishing of a national social registry in support of social safety nets programs (policy action #2), under Pillar 1, is likely to have positive impacts through improved coordination and synergies for safety nets supporting and building the resilience of households depending on natural resources, among others. This may allow for a reduction of pressure on natural resources during and after shocks affecting these communities, such as a pandemic, but also natural disasters.

G. Risks and Mitigation

The overall risk rating of this operation is Substantial. The major risks to the operation’s ability to achieve its development objective are (i) political and governance, (ii) macroeconomic, (iii) institutional capacity for implementation and sustainability, and (iv) fiduciary risks. These risks will be mitigated, respectively by (i) WB’s increased presence in the field, including the WB Resident Representative stationed in Moroni, that enables the establishment of a more effective line of dialogue and partnership, helping evaluate and mitigate these risks and assist better in capacity building. (ii) Government’s policy actions in responding to the economic impact posed by the COVID-19 outbreak, some of which are supported by this operation. Prudent fiscal management and continued monitoring during the health crisis (specially under the DSSI monitoring framework) would lessen the effects of those macro risks. This program, together with policy actions associated to the SDFP, will also help mitigate debt sustainability risks by working closely with the Government by supporting a reform agenda that includes improvements in debt transparency. The IMF is expected to support this reform agenda initially with a Staff-monitored Program. (iii) Coordinating with other donors and, when possible, leveraging interventions; relying on ongoing WB-funded investment projects that provide significant technical assistance and capacity-building interventions in areas supported by this DPO; ensuring that dialogue involved detailed discussion about the implementation requirements for each policy action; and ensuring that the program is anchored in realistic expectations and that the reforms are anchored in concrete sector strategies. (iv) Continued donor assistance in PFM and public administration reforms and the monitoring setup that will be implemented with the IMF’s technical assistance for the DSSI. As an additional mitigating measure, the grant will be deposited in a Designated Account, which will be audited by a private external audit firm. Other risks are considered moderate or low.

CONTACT POINT

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APPROVAL

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Approved By

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