



1. Project Data:		Date Posted : 08/14/2003	
PROJ ID: P000606		Appraisal	Actual
Project Name: Small Enterprise Dev	Project Costs (US\$M)	7.66	6.71
Country: Comoros	Loan/Credit (US\$M)	5.14	4.93
Sector(s): Board: PSD - General industry and trade sector (50%), Micro- and SME finance (17%), Law and justice (17%), Central government administration (16%)	Cofinancing (US\$M)		
L/C Number: C2632			
	Board Approval (FY)		94
Partners involved : None.	Closing Date	06/30/2001	12/31/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

The project was designed to support the government's private sector promotion strategy through long -term financing and technical support to small scale enterprises (SSEs), improvement of the business environment as well as the introduction of incentives for profitable investments, and institutional strengthening and capacity building .

b. Components

The project had four components and several sub-components as follows: (1) a line of credit component, in the amount of US\$2.5 million, was to provide long-term resources to finance sound private investments through participating financial intermediaries (PFIs); (2) an enterprise development fund (EDF) (US\$0.85 million), managed by the Center for Assistance to the Private Sector (CAPS) or any other institution, was to enhance management capacity and productivity of SSEs through specialized training and assistance programs including : (i) 10 specialized short-term interventions to provide advice to groups of 10 entrepreneurs with similar problems, (ii) 50 man-months of assistance by an engineer and a financial analyst, including 6 man-months for the CASP's principal technical advisor, and (iii) training for banks in medium and long-term lending. (3) A legal and judicial reform component (US\$0.85 million) was to improve business laws and their application through : (a) consolidation, publication and dissemination of existing commercial and business laws, including the rehabilitation of the publication of the Official Journal, (b) review of the commercial code and other commercial and business legislation with the view to revising the legislation governing (i) ownership of property, (ii) establishment, registration and operation of companies, (iii) liquidations, bankruptcies and company reorganizations, and (iv) investment and labor; (c) establishment of a commercial court jurisdiction in the islands of Moroni and Anjouan; (d) training for lawyers and magistrates, particularly in commercial and business laws, and (e) revised judicial procedures to accelerate and streamline the judicial process . And (4) an institutional strengthening and capacity building component (US\$0.40 million) was to provide support to the Ministry of Finance to oversee project implementation, and undertake studies that would guide the establishment of a transparent fiscal framework conducive to investment, including tax reform, the formulation of a strategy for developing tourism and promoting exports, while continuing the process of privatization and public enterprise restructuring.

Some project components were modified in the course of implementation as follows : a technical assistance sub-component, designed to align Comoros's business laws with the Uniform Acts of the Organization for the Harmonization of Business Law in Africa (OHADA), was included in the legal and judiciary reform component; and the line of credit component was closed .

c. Comments on Project Cost, Financing and Dates

The project was extended twice, closing on December 31, 2002, 18 months beyond the original closing date of June 20, 2001. Only half of the line of credit was utilized, whereas the EDF, the legal and judicial reform, and institutional strengthening-capacity building components were allocated more resources than planned at appraisal, reflecting the shift in emphasis away from investment financing that occurred during project implementation . Disbursements under

the credit were suspended between 1995 and 1997 in response to delays in servicing IDA debt and, again, from 1998 to 2000 as a result of the secessionist crisis. About US\$0.1 million will be cancelled.

3. Achievement of Relevant Objectives:

The objective of supporting SSE investment through participating financial intermediaries was not achieved owing in part to the secessionist crisis, which had adverse economic consequences, and also to management problems at the Development Bank of Comoros (BDC), the main PFI. As a result of mounting financial problems, BDC had to close and the remaining balance in the line of credit was reallocated to other activities. BDC has since implemented a business plan, which improved its financial position, but its restructuring has yet to be undertaken. Significant progress was made under the Enterprise Development Fund component, which provided technical assistance and management training to a large number of SSEs. The objective of improving business laws and their application, including ensuring their conformity with OHADA Uniform Acts, was largely achieved. Nominal taxes were reduced and DGI professionals were trained to help strengthen tax administration. However, although some divestiture was completed and a legal framework for privatization was adopted, implementation of measures aimed at removing constraints linked to public enterprises was uneven, marked by delays in decision-making. In addition, there was no progress in developing sectoral policies for tourism and exports.

4. Significant Outcomes/Impacts:

Strengthened legal and judicial framework; liberalized air transportation; completed divestiture from maritime transport activities and hotel industry; reduced tax-related distortions through implementation of a tax reform plan; studies by the Ministry of Finance to help establish a transparent and effective fiscal framework conducive to investment; and enhanced capacity of private entrepreneurs to prepare feasible and bankable projects.

5. Significant Shortcomings (including non-compliance with safeguard policies):

Incomplete and delayed state divestiture from productive activities and public enterprise restructuring; limited investment financing; capacity of banks to provide long-term lending to SSEs remained inadequate, and tourism strategy and export promotion policy were not formulated. As a result of these shortcomings, and also because of the political crisis linked to the secessionist movement, the objectives of establishing a general environment conducive to private sector development and providing adequate financing for private sector investment could not be achieved.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Moderately Unsatisfactory	Although the overall environment for private sector development was not improved as envisaged and the line of credit component was unsuccessful, substantial legal reforms were implemented, the Judiciary was strengthened, and some progress was made in the areas of privatization and tax reform.
Institutional Dev.:	Modest	Modest	
Sustainability:	Unlikely	Unlikely	
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Unsatisfactory	Unsatisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

(1) A strengthened financial sector must underpin a strategy to provide financing in support of private sector investment. (ii) In countries with a history of political instability and a poor track record on reforms, assistance targeted at strengthening institutions and capacity building are more likely to achieve satisfactory outcomes than complex sector policy reform projects.

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The ICR is clearly written and informative. It effectively reviews implementation under the various components of the project. However, the rationale for some of the ratings could have been better argued.