



# Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

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Concept Stage | Date Prepared/Updated: 25-Jan-2018 | Report No: PIDISDSC23808



**BASIC INFORMATION**

**A. Basic Project Data**

Country Comoros	Project ID P164584	Parent Project ID (if any)	Project Name Integrated Development and Competitiveness Project (P164584)
Region AFRICA	Estimated Appraisal Date May 15, 2018	Estimated Board Date Jul 25, 2018	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance and Budget	Implementing Agency Ministry of Finance and Budget	

**Proposed Development Objective(s)**

Improving the enabling environment for private sector growth and enhancing the competitiveness of selected value chains in agriculture, tourism, and transport services sectors.

**Financing (in USD Million)**

Financing Source	Amount
International Development Association (IDA)	25.00
IDA Grant	0.00
<b>Total Project Cost</b>	<b>25.00</b>

Environmental Assessment Category B-Partial Assessment	Concept Review Decision Track II-The review did authorize the preparation to continue
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Other Decision (as needed)



## B. Introduction and Context

### Country Context

- 1. The Union of the Comoros (UoC) is a small, densely populated nation comprising three main islands (Grande Comore, Anjouan and Mohéli) with an estimated population of 795,000<sup>1</sup>.** Grande Comore is the largest island, and is home to about half of the country's population and the country's capital, Moroni. Anjouan has the largest population density of 575 inhabitants/km<sup>2</sup> and 42 percent of the population, while Moheli is the smallest and least populated island with 6 percent of the population and 171 inhabitants/km<sup>2</sup>. The population is predominantly young, and continues growing rapidly (2.9% a year), above the economy's capacity to provide meaningful employment. The current forecast is for the population to reach 1 million by 2028 and to more than double by 2050.
- 2. Comoros remains vulnerable to macroeconomic volatility caused primarily by a fragile fiscal situation with very limited space for investment in infrastructure and social sectors.** Economic growth has slowed down recently to 1 percent and the unemployment rate was last estimated to be 19.2 percent<sup>2</sup>. In combination with low economic diversification and competitiveness, these characteristics contribute to large and persistent trade deficits<sup>3</sup>, a narrow export base, and structural dependence on food imports and remittances (15 and 25 percent of GDP, respectively)<sup>4</sup>. In addition, since independence in 1974, Comoros has experienced recurrent political crises and conflicts between the islands. This instability has contributed to a long-term decline in real income per capita and has taken a severe toll on the government's fiscal revenues and ability to deliver quality services.
- 3. Comoros occupies a strategic geographical position between East Africa, Madagascar and the other islands of the Indian Ocean** (Seychelles, Mauritius, Reunion), and is at the heart of the main shipping route of Indian Ocean along the African coast. However, like other small island states, Comoros faces challenges linked to geographic isolation, limited resources, small domestic market, and vulnerability to climate change. International and internal connectivity is weak and transport costs are high, making it difficult for Comoros to leverage its strategic position, integrate in regional and world markets – while also fragmenting its internal markets.
- 4. Poverty remains widespread in Comoros.** According to the most recent Complete Household Survey of 2013-2014 (Enquete 1-2-3), 34 percent of the population lives below the national poverty line, while around 18 percent of the population lives below the international poverty line of US\$1.9 per capita per day (in 2011 Purchasing Power Parity (PPP) exchange rate). There is significant variation between islands, with higher rates of poverty in rural areas, as well as Moheli.<sup>5</sup> With a Gini coefficient of 44.9, inequality in Comoros is also very high. One of the world's poorest countries, Comoros' GNI per capita is \$840<sup>6</sup>.

<sup>1</sup> CIA World Factbook 2016 estimate.

<sup>2</sup> UN Statistics Division <http://data.un.org/CountryProfile.aspx?crName=comoros>

<sup>3</sup> In 2015, Comoros exported \$96.7 million and imported \$257.4 million, resulting in a negative trade balance of -\$160.7 million. Comparable countries (Cape Verde, Mauritius, Samoa, Fiji) also demonstrated negative trade balance.

<sup>4</sup> Remittances from the diaspora accounted for 25% of Comoros' GDP in 2013, exceeding its exports - 15% of GDP (CIA World Factbook 2016).

<sup>5</sup> <http://www.worldbank.org/en/country/comoros/overview>. Rural areas are also characterized by widespread adult illiteracy and a greater share of the population lacking access to social infrastructure.

<sup>6</sup> \$1500 in PPP adjusted terms CIA (World Factbook 2016).



5. **Migratory trends have played a disproportionately significant role in Comoros' economy.** Many Comorians have migrated elsewhere because of the country's weak socioeconomic development and history of political instability. According to United Nations (UN) statistics, in 2012 there were 108,986 Comorians living abroad, mostly concentrated in France and Mayotte (a fourth island in the Indian Ocean which remained part of France after independence). The UoC benefits from large remittances from the Comorian diaspora that are a crucial component of the economy (contributing to a whopping 21 percent of GDP) and are among the highest per capita in the world. Over 90 percent of remittances are estimated to go to the island of Grande Comore, financing consumption, house construction and "grand marriage" – with negligible impact on investment. This situation reduces the opportunity cost of unemployment, particularly among youth, and affects motivation to overcome constraints to self-employment and entrepreneurship.

## Sectoral and Institutional Context

### *Private sector development context and opportunities*

6. **The mainstays of the economy are: (i) the sizable informal private sector, dominated by simple retail commerce and subsistence agriculture, and (ii) the large public sector, including the subsidized public utility enterprises.** The formal private sector in Comoros is relatively insignificant in terms of employment and GDP share, having shrunk over the past decade due to deteriorated market conditions for its main export product (vanilla), and to the prolonged period of progressively worsening investment climate. Domestic private investment remains low, even if increases have been driven in part by Foreign Direct Investment.<sup>7</sup> The formal economy generates around 50,000 jobs, most of them in commerce or education.<sup>8</sup> These jobs correspond to around 20 percent of the active labor force.
7. **Private sector development is constrained by a legacy of weak economic governance and political instability, partly driven by the heterogeneity of island cultures and governance structures exercising differing degrees of self-determination.** Economic activity in the small and fragmented markets has been subjected to capture by a narrow community, with sub-optimal provision of public goods and services for broader good to the Comorian society — effectively crowding out opportunities for sustained private sector led-growth and development. The culture of entrepreneurship that emerged focused solely on simple trade/commerce with little exposure to corporate culture or modern practices of business organization and management. The weak financial literacy that ensued further isolated and delinked the population from opportunities, including the capacity to profit from the supporting diaspora.
8. **The 2018 Doing Business Doing Business (DB) Report, which tracks regulations that apply to small and medium-size companies, ranked the Comoros 158 out of 189 economies.** Also, it ranked below countries in the region, where

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<sup>7</sup> Comoros receives little FDI relative to its GDP. There was a sharp increase in FDI in 2011 and 2012, but the level has not been maintained. This increase was mainly due to the promotion of the Comoros by President Sambi until 2011, notably through the law on economic citizenship of 27 November 2008 (obtaining a Comorian passport for a financial compensation). Comoros Foreign direct investment was \$5.1 million or 0.91% of the GDP, as of 2015 — compared to \$41.3 million or 5.14% of the GDP for Samoa, \$307.9 million or 7.01% of the GDP, for Fiji, \$208.3 million or 1.78% of the GDP for Mauritius as of 2015 and \$180.3 million or 9.70% of the GDP for Cabo Verde as of 2014.

<sup>8</sup> Document-Cadre De Politique de l'emploi Aux Comores 2013 (Draft.)



Mauritius positioned at 25 is leader, and only Madagascar, at 162, is close to the Comoros. The Comoros also ranks lower in the 2018 DB than benchmark countries such as Cape Verde (127), Fiji (101) and Samoa (87).

9. **While burdensome regulations adversely affect market entry, exit, trade, and competition, recent progress has been made with the launch of Comoros National Investment Promotion Agency (ANPI) — including work with the IFC Advisory Services, to reduce the formal regulatory burden in the economy and support MSMEs and entrepreneurship development.** However, the slow uptake in Doing Business reforms shows that advances made are for the most part formal, and full implementation remains a priority going forward. According to the DB2018 report, Comoros introduced only one reform (trading across border)<sup>9</sup>, as opposed to 3 reforms in the DB2017 (registering property, resolving insolvency, and labor market regulation)<sup>10</sup>, two in 2016 (starting a business, getting credit)<sup>11</sup>, and one respectively in 2015 (protecting minority investors) and 2014 (starting a business)<sup>12</sup>. In addition to regulatory simplification and with IFC support, a steering committee and sub-committees for structured Public-Private Dialogue around Doing Business indicators have been created, as have two “one-stop” business registries, a leasing framework and an alternative dispute resolution framework. Besides the work with the IFC, ANPI reports<sup>13</sup> 231 enterprises benefiting from the provisions of the Investment Code and covering a relatively wide range of sectors in the three islands. ANPI has further supported the creation of around 1,000 micro enterprises.<sup>14</sup>
10. **The Union of Chamber of Commerce, Industry and the recently created Chamber of Agriculture, are the interface between the private sector and the government; with the mission of helping businesses with their specific needs at every step of business development.** The UCCIA, with support from the US\$3 Million Kuwait-Financed SME financing scheme (AMIE) for agribusiness and fisheries, and the Qatar-funded MECKs (and with additional development partners, e.g. AFDB), have designed programs to support MSME startups, incubators and the provision of business development services (BDS). The recent establishment of Centre de Gestion Agrée (CGA) for MSME (though not yet formally operational) is a promising initiative.
11. **Moving forward Comoros offers several potential opportunities for private sector-led growth and expansion of its economy.** Targeted support for the development of agriculture and tourism could foster new opportunities for private sector growth beyond the well-established trade and commerce activities. Specific opportunities include: traditional and export-oriented cash crops (vanilla, ylang, cloves) – where targeted support could strengthen

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<sup>9</sup>**Trading Across Borders:** implementing an automated customs data management system, SYDONIA++, which reduced the time for the preparation and submission of documents for both exports and imports.

<sup>10</sup> **Registering Property:** Comoros made transferring a property less expensive by reducing transfer costs; **Resolving Insolvency:** The Comoros made resolving insolvency easier by introducing a new conciliation procedure for companies in financial difficulties and a simplified preventive settlement procedure for small companies. **Labor Market Regulation:** The Comoros reduced the length of notice period and amount of severance payment for redundancy dismissals.

<sup>11</sup> **Starting a Business:** The Comoros made starting a business easier by reducing the minimum capital requirement; **Getting Credit:** The Comoros improved access to credit information by establishing a new credit registry.

<sup>12</sup> **Protecting Minority Investors:** The Comoros strengthened minority investor protections by introducing greater requirements for disclosure of related-party transactions to the board of directors and by making it possible for shareholders to inspect the documents pertaining to related-party transactions and to appoint auditors to conduct an inspection of such transactions; **Starting a Business:** The Comoros made starting a business easier by eliminating the requirement to deposit the minimum capital in a bank before incorporation.

<sup>13</sup> Agence Nationale pour la Promotion des Investissements : « Rapport de 3 années d’activités 2010-2013 »

<sup>14</sup> The 2007 Investment Code is currently being revised, to enhance selectivity, predictability and transparent application of its provisions.



productivity and growth; perishable food products (milk eggs, poultry, fruits, vegetables), which could be developed to respond to the local demand; tourism development driven by anchor investors in Grand Comores, as well as niche and higher end tourism in select sites such as Moheli national park and Anjouan. Furthermore, targeted support to the formalization of the MSME eco-system could sustain the generation of growth and employment in the medium and long run, strengthen economic and social inclusion and foster shared prosperity and poverty reduction. Private sector oriented growth could also foster strong links across the sectors of the economy with a view toward greater diversification, market integration, crowding in private sector funds and remittances, and in developing mechanisms to protect the islands and its inhabitants from natural and economic risks.

**Agriculture sector context and opportunities for private sector growth**

**12. Agriculture is the single largest employer, accounts for most land-use, and contributes to 36 percent of the GDP.**

The sector has led economic activity and growth in all but two years since 2000, and its 36 percent contribution to the GDP is twice as high as the regional average. Although the agriculture sector is large and has grown at 2 percent recently, this growth has been primarily driven by land expansion rather than productivity. In fact, agricultural productivity in Comoros is low compared to other similar countries on almost every metric.

**Table 1. Benchmarking the Performance of the Agriculture Sector in Comoros**

	Comoros	Mauritius	Fiji	Samoa
Growth rate (value-added), %	2	-0.3	-0.3	6.4
Value-added per worker (constant 2010\$)	982	9,653	2,800	4,255
Cereal yield, 1000 kg/ha	1.4	3.8	2.4	
Vegetables yield, 1000 kg/ha	6.6	9.3	11.5	1.2
Fresh Fruit yield, 1000 kg/ha	4.8	8.9	5.5	4.9

Source: World Development Indicators, FAOSTAT, 2014

**13. Subsistence agriculture dominate, with 80 percent of agricultural production being intended for self-consumption.**

Subsistence agriculture using poor inputs on small plots dominates on the archipelago and is linked to failures in the land and credit markets, compounded by poor intra and inter islands connectivity. Aggregate land availability coexists with a poorly functioning land market, and agricultural financing is inadequate and primarily short-term. Cooperatives are nascent, and older producer associations have been unable to link farmers to the credit market and consolidate high quality output consistently, leading to high transaction costs, weak forward and backward linkages along the value chain, and little or no value addition. Relatively higher productivity zones in Moheli and Anjouan are hampered by low intra and inter-island connectivity, segmenting farmers in surplus production areas from growing urban markets.

**14. Commercial agriculture is limited and with about 90 percent of Comoros' export income being generated through only three niche cash crops – vanilla, cloves, and ylang.**

Despite being a world leader in vanilla (6% of world production) and ylang (70 % of world production – ylang aromatic oil is used in the perfume industry), export revenues are less than half the import expenditure in agriculture. In addition, strong exports of vanilla, cloves, and ylang-ylang suffer from the inability to keep up with changing market conditions due to insufficient infrastructure, an adverse business environment, and lack of expertise to overcome longstanding bottlenecks in financing and product/service improvement.



15. **Productivity and yields have stagnated for all major crops, with little or no value addition.** Low productivity is largely due to poor varieties, rudimentary agricultural techniques, sub-optimal amounts of agricultural inputs, and unsustainable agriculture practices resulting in thin, eroded soils with low fertility. High transport costs make agricultural inputs such as seed, feed, fertilizer, and pesticides more expensive and they increase post-harvest losses and commercialization costs. The high cost of electricity and limited inter-island connectivity make it impossible for goods to be processed in one island and be competitive in the urban markets of a different island. A lack of cold storage facilities for perishable agricultural produce at farm gate in production basins and ports hinders access to output markets. Given large price differentials and an eager diaspora, processed food products could potentially be exported to Mayotte and mainland France, but these markets remain untapped due to an inability of small-scale local processors to meet the minimum EU phytosanitary requirements.
16. **Imports of raw and processed food, already high by SIDS standards, have recently surged.** This dynamic puts a burden on foreign exchange reserves, exposes consumers to food price shocks, and further discourages production. Comoros currently imports nearly 70 percent of its food requirement, by volume, and food imports represent 29 percent of its GDP, by value, with rice, chicken and beef regularly featuring in the list of top commodity imports. In 2014 and 2015, prepared vegetables and fruit juice imports also surged, with a combination of minimal agro-processing and growing urban demand contributing to a dominance of international non-perishable and processed products in the local retail sector
17. **Despite the opportunity to substitute the large share of processed food imports in domestic markets, the established Comorian private sector currently display little appetite for investing in large-scale local agro-processing.** The constraints cited by the private sector – predominantly importers, exporters, and small manufacturers – are: (i) inconsistency of supply (quantity, quality and timing), (ii) inability to secure output due to weak law enforcement, (iii) unpredictable customs duties associated with inter-island sea and air transport, and (iv) poor intra-island transport. Hotels and restaurants too do not source local food due to the high transaction costs associated with purchases at weekly markets and travel on poor rural roads. On the other hand, young startups being currently incubated by industry associations have a high share of agribusiness plans and could be supported.

#### ***Tourism sector context and opportunities for private sector growth***

18. **The World Travel & Tourism Council (WTTC) estimates that the tourism sector directly accounted for 4.7% of Comorian GDP in 2016.**<sup>15</sup> To put this into context, corresponding WTTC figures for other Indian Ocean island nations are 5.1 % for Madagascar<sup>16</sup>, 8.4 % for Mauritius<sup>17</sup>, and 22 % for Seychelles.<sup>18</sup> With respect to employment, precise figures are difficult to ascertain, yet the National Tourism and Hospitality Directorate (DNTH) estimates that the hospitality and tourism industry is responsible for approximately 500 jobs, with a ratio of 1.17 jobs per room.<sup>19</sup> Hotels and restaurants represent about 80% of direct jobs, with the remainder spread across other tourism sub-sectors (travel agencies, tour operators, and airlines). Due to the low level of development of sectors linked to tourism, indirect jobs are estimated to be on a one-to-one ratio with direct employment, or at about 500 jobs (the usual ratio in more developed economies and tourism destinations is generally around 3:1).

<sup>15</sup> WTTC (2017) *Comoros: Travel and Tourism Economic Impact*, 2017, WTTC, London.

<sup>16</sup> WTTC (2017) *Madagascar: Travel and Tourism Economic Impact*, 2017, WTTC, London.

<sup>17</sup> WTTC (2017) *Mauritius: Travel and Tourism Economic Impact*, 2017, WTTC, London.

<sup>18</sup> WTTC (2017) *Seychelles: Travel and Tourism Economic Impact*, 2017, WTTC, London.

<sup>19</sup> Abdallah, I. (2011) *Tourisme, Croissance et Reduction de la Pauvrete Aux Comores*, UNDP, April 2011



19. **The tourism sector is far from being competitive as a destination despite comparative advantages notably in term of ecological and cultural diversity of the Comorian islands.** Each of the three islands has its own unique attractions, thereby making inter-island circuits an attractive tourism proposition. Grande Comore is a scenic volcanic island dominated by Mount Karthala (2,361 meters), one of the world’s most active volcanoes. Moroni’s port offers a strong sense of the island’s history and Arab-Swahili heritage. The main market resembles a small version of Zanzibar’s famous Stone Town before its rehabilitation--urban restoration activities could potentially transform this asset into a strong tourism attraction as well. The coastline is fringed with white sand beaches such as Galawa and Maloudja, as well as coral reefs that offer world-class scuba diving and snorkeling opportunities. Lac Salé is a deep salt-water lake formed in a steep-sided volcanic crater. Mohéli, the smallest island of the archipelago, offers pristine beaches such as Nioumachoua, Moimbasa, Sambia, and Itsamia. The relatively unspoilt natural environment plays host to endemic and emblematic marine fauna such dugongs, humpback whales, and sea turtles. Local communities hope to transform the island into an ecotourism destination. Anjouan is called “l’île aux parfums” because of the ylang-ylang tree plantations. The landscape consists of mangroves, mountains, lakes, and plantations. The city of Mutsamudu has the most important medina of UoC, as well as a citadel. The port area could potentially be upgraded to receive cruise ships.
20. **Comorian tourism suffers from an important image deficit (political instability, air crashes) and is largely competed by its immediate neighbors (Mayotte, Zanzibar and Madagascar) who have a similar tourist capital.** Of the three islands in UoC, the greatest amount of tourism development has taken place on the largest island, Grande Comore—particularly in the capital city of Moroni. However, the destination Comoros lives in expectation of a development of its tourism similar to their golden ages in the 90s. This was greatly lead by the resort Galawa - Maloudja Beach (350 rooms), managed by the South African group Sun International, and targeting a clientele of South African tourists subject to the restrictions of anti-apartheid measures. This leisure tourism success lasted almost 10 years and ended with the closure of the complex in 2001. The Comoros has not been included in the Indian Ocean cruise itineraries for several reasons. It retains an image of a high-risk country with significant political instability; port infrastructure is not adequate to accommodate cruise even in the best climatic conditions; cruise lines are not always in contact with local incoming agencies and informed about the possibilities for excursions or ground activities; and visa administrative procedures can be complicated. There are only a few cruise ship calls in Moroni annually. Yachting activities are also limited in the Comoros as very few boats are registered and procedures for foreign registered boats are unclear and vary according to the island and even the officer-in-charge.

**Table 2: International Tourist Arrivals to Comoros (2010 – 2016)**

Year	Arrivals	% growth	Purpose of Travel				Purpose of Travel			
			Leisure	Business	VFF	Other	Leisure	Business	VFF	Other
2010	15 251	33,8%	15,60%	21,30%	52,40%	10,70%	2 379	3 248	7 992	1 632
2011	18 765	23,0%	14,30%	23,30%	52,60%	9,80%	2 683	4 372	9 870	1 839
2012	22 771	21,3%	5,28%	24,79%	66,73%	3,21%	1 202	5 644	15 194	731
2013	21 907	-3,8%	7,13%	15,29%	69,69%	7,89%	1 562	3 350	15 266	1 729
2014	22 760	3,9%	24,04%	22,31%	46,33%	7,32%	5 472	5 078	10 545	1 665
2015	23 614	3,8%	22,40%	24,12%	42,47%	11,01%	5 289	5 696	10 030	2 599
2016	26 842	13,7%	18,68%	19,04%	53,27%	9,01%	5 013	5 111	14 300	2 418

Source: Direction Nationale du Tourisme et de l'Hôtellerie (DNTH), juin 2017



21. **The tourism enabling environment is far from being conducive to substantial development, the existing road and port infrastructure are inadequate, and limited number of sizable accommodations establishments and anchor significant investments in other sectors of the tourism supply chain remains the most significant impediment to tourism growth in Comoros.** Poor connectivity of long-haul and domestic air transport linked to unreliable costly and flight program are negative for the destination. Lack of direct access to Europe, despite the opening of new hubs such as Addis Ababa, and cost of tickets substantially higher than other destinations of the Indian Ocean directly impact competitiveness of the destination as compared to other Indian Ocean countries. Currently, the lack of information and branding, linked to inadequate infrastructure and connectivity keep Comoros as a hidden destination. Additionally, the sector displays weak and unclear institutional capacity. There is weak coordination between public institutions: Vice President in charge of tourism, related "Secrétariat d'Etat au Tourisme", DNTH, and the Tourism Board (ONTC). ONTC is underfunded and ineffective. While Comoros has a Tourism Development Plan, the respective action plan and necessary budget to implement the plan are not available.
22. **An emerging niche tourism sector represents an untapped opportunity for Agribusiness.** Implementation of the existing Tourism Development Plan with a goal of stimulating tourism by attracting more airline carriers and promoting the construction of large hotels could bear fruit for domestic agriculture producers, as an influx of foreign tourists will increase the demand for high-quality local food products. Yet, if the sector remains unable to meet this demand through production of safe, durable food products that comply with international phytosanitary standards, the current upward trend of food exports will remain unabated. In the Eastern Caribbean islands where tourism is more developed, fresh products (fruits and vegetables, seafood etc.) account for about 60 percent of food purchased by hotels; however, most continue to be imported.<sup>20</sup> The potential is to strengthen the tourism sector in the Comoros in order to reach an annual volume of 58,000<sup>21</sup> arrivals in the medium term by increasing the total accommodation capacity to 1,250 rooms (2/3 to international standards), by the establishment of international hotel investors and an improvement in occupancy rates through effective promotion of the destination. The additional annual tourist receipts expected could be of the order of US\$37 million in 2022<sup>22</sup>.
23. **To reach its tourism potential, Comoros will have to overcome several obstacles.** These include: strengthening the institutional and regulatory framework, improving accessibility and connectivity to long-haul and domestic air, improving quality accommodation and reception capacity, improving quality of tourist services and availability of professional inbound tour operators, improving training capacity, increasing visibility on the international market (online and via Tour Operators.)

#### ***Transport sector context and connectivity constraints for private sector growth***

24. **Owing to its geography, safe, reliable, and cost-effective transport services are critical to making Comoros a unified and well-functioning economy.** Geographical dispersion of population in three islands implies the duplication of infrastructure facilities. Thus, despite its small population<sup>23</sup> Comoros has an extensive road network (cf. below), no fewer than four airports (one international and three domestic), and three ports. However, both the quality and

<sup>20</sup> [World Bank \(2015\)](#).

<sup>21</sup> Based on maintaining annual growth rate of 14%.

<sup>22</sup> Average estimated expenditure per passenger US\$1,379 for 2022.

<sup>23</sup> Estimated at 788,000.



reliability of transport infrastructure and services remains unsatisfactory, and this situation is unlikely to improve unless critical structural issues are addressed by the Government of Comoros (GoC).

25. **In Comoros, poor connectivity of transport infrastructure reinforces the geographical isolation of entire communities and hinders the movement of goods and people.** The fragmented provision of services prevents capture of economies of scale and drives up inter-island transport costs, which are quite high compared to other Small Island Developing States (SIDS), and result in sharp price differentials between production and consumption centers. This discourages economic activities, and cause post-harvest losses<sup>24</sup> because the agricultural production areas are poorly connected with the urban consumption areas<sup>25</sup>. Poor rural connectivity limits the marketing of agricultural products, and hinders the development of new sectors such as tourism.
26. **High air travel costs hinder the development of tourism and discourages inter-island travel.** Airports in Comoros play an important part in the country's transport infrastructure. Almost all interisland passenger traffic is by air because of the lack of scheduled sea passenger transport and significant distance between the islands. The low international air traffic to Comoros is attributed to its inadequate airport infrastructure as well as high air transport taxes and costs.
27. **Comoros' air passenger traffic is marginal, the smallest of the Indian Ocean islands.** This is because of the low population and the limited development of tourism<sup>26</sup>. In 2012, Comoros accounted for less than 3% of the region's traffic. The small size of the Comorian air transport market restricts route profitability. Furthermore, in addition to the inadequacy of the airport infrastructures, the following factors limit the integration of Comoros into international air traffic: the lack of dynamism of the tourism sector, and the seasonal nature of air traffic. The limited international air passenger traffic is cause and effect of a vicious cycle. The absence of connections is a disincentive for the growth of passenger traffic, and in turn the lack of demand restricts the propensity to add routes.
28. **Air travel between the three islands of Comoros is particularly expensive.** Air fare is about four to five times higher than the sea rate. Air fares on the domestic network are particularly expensive because of: (a) the lack of air transport capacity; (b) the difficulty of controlling the abnormal sales practices of certain companies; and (c) the impossibility of purchasing tickets on the domestic network from abroad as sales are not available on the most widely used electronic distribution networks.
29. **Comoros' Port infrastructure (Moroni, Mutsamudu, and Mohéli) does not meet minimal standards regarding safety requirements as well as ports operations and management, resulting in high transport costs of goods and passengers.** Overall, the port infrastructure and equipment are not compatible with the type of vessels that are operating in the islands: port facilities have limited berthing capacities, especially for international trade, with limited

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<sup>24</sup> Transporting crops from the field to the collection center is a great challenge in Comoros because of the rugged terrain and the lack of rural connectivity. As a result, produce is often carried by laborers on their heads over several kilometers. This mode of transport is slow, inefficient and costly. Improving the existing rural pathways to allow the use of Non-motorized transport vehicles would be a significant progress.

<sup>25</sup> In Colombia, a reduction in transit time led to a 50 to 200 percent improvement in agricultural productivity (World Bank).

<sup>26</sup> Indian Ocean and West African SIDS are concerned that the fragmentation of the air transport sector and tourism markets may affect regional competitiveness. Consequently, the Indian Ocean Commission introduced the "Vanilla Islands" concept, which aims to seamlessly integrate air transport with tourism mobility among Indian Ocean SIDS and with the rest of the world. (UNCTAD, 2014)



drafting for vessels which are serving the region. Likewise, for passengers, port facilities are not adequate for the sizes of ships used for this activity.

30. **Comoros has an extensive road network that is rapidly deteriorating due to the lack of adequate funding for its rehabilitation and maintenance.** Road is the main mode of transport of goods (intra-islands) and passengers in the country. The network covers a total of 834 km, 508 km of which approximately (i.e., 61%) in Grande Comore, 232 km in Anjouan and 94 km in Moheli. Given the small size of the archipelago (about 1,861 km<sup>2</sup>), the density of paved roads (412 km per thousand km<sup>2</sup>) is impressive compared to a sub-Saharan Africa average of 31. The 2015 Transport Masterplan identified a network of 54 km of rural roads in the three islands. In addition, a network of narrow agricultural unpaved paths provides the first mile of transport from the agricultural fields. Because of the rugged terrain and the poor condition of feeder roads and agricultural paths, transporting crops from fields to collection points is a significant challenge. Produce is often carried by laborers on their heads over several kilometers. This mode of transport is slow, inefficient and costly. Therefore, rehabilitating a priority network of feeder roads and improving the existing rural pathways would provide an opportunity to develop more efficient transport services including Intermediate Means such as carts, tricycles, etc., thus reducing the transport costs of crops from areas of production to consumption centers.

### **Project Rationale**

31. **Against this background, the proposed Integrated Development and Competitiveness Project (PIDC) operation will aim to build foundations necessary to crowd in the private sector, address critical coordination and market failures, and finance public goods with the objective of enhancing the competitiveness in targeted value chains and sectors.** A sustained pattern of private sector led growth will contribute to agglomerate markets across the islands. Project interventions will, in essence, help the public sector play its role as a provider of public goods (infrastructure, investment protection, provider of information and coordination services) and enable market dynamics to foster private sector led growth and development.
32. The project will follow a two-pronged approach:
- Improving the enabling environment for private sector growth. This component would support strategic private sector policy, institutional, and regulatory reform (enabling investment and growth in agriculture, tourism, transport, supporting investment generation),
  - Strengthening the competitiveness of selected value chains. This component would provide direct support to the development of private sector initiative in selected value chains.

### **C. Proposed Development Objective(s)**

Improving the enabling environment for private sector growth and enhancing the competitiveness of selected value chains in agriculture, tourism, and transport services sectors.

Key Results (From PCN)



33. Key results could include: i) Investment generated in targeted sectors; (ii) Increase in beneficiary MSMEs turnover; (iii) Increase in volume of raw and processed agriculture products sold by producer associations and Agri-SMEs (average percentage increase in sales volume); (iv) increase in daily tourist expenditures in products and services.
34. Intermediate indicators could include: i) Increase in regional trade and transit traffic (million metric tons), (ii) Implemented reforms supporting private sector development (iii) Number of successful business plans launched, (iv) Share of SME grants assigned to female-owned firms, (v) Firms benefitting from private sector initiatives.
35. A more focused results framework will be designed during project preparation. In addition, the team will ensure that adequate financial and human resources are allocated to the design and implementation of a thorough M&E framework. During project preparation, a baseline survey will be carried out using a Project Preparation Advance (PPA) and will serve as a basis to agree on specific PDO and intermediate indicators with the Government. In addition, the team will consider impact evaluation to measure the impact of specific interventions.

#### **D. Concept Description**

##### **1. Description**

36. The proposed PIDC Project will be structured as an Investment Project Financing (IPF), funded by an IDA grant in the amount of US\$25 million over a five-year period. The Project will include two complementary components designed to strengthen the enabling environment and MSME competitiveness in priority value chains and sectors (agriculture, tourism, transport) and a component supporting project management. The project's components aim to: i) improving the enabling environment for private sector growth; ii) strengthening the competitiveness of selected value chains (in the agriculture, tourism and transport services sectors); iii) supporting project implementation and coordination.

##### **Component I: Improving the enabling environment for private sector growth (US\$5 million).**

37. The objective of this component is to address policy and investment climate constraints which limit the potential to leverage private sector investment in targeted value chains, and to actively support investment promotion activities in priority sectors. This will include activities such as:
- a. Support the development of a strategy to strengthen air transport services and inter-island connectivity (identification of constraints and opportunities for the development of inter-island transport services, diagnostic, infrastructure requirements, and opportunities to leverage the private sector for the management and financing of key infrastructure);
  - b. Strengthen tourism institutions and enhancing the attractiveness of the region as a more holistic, connected destination (reviewing the tourism institutional framework, both public and private, and the regulatory framework; supporting investment generation, etc.)
  - c. Strengthen regulatory reform, stakeholder coordination and capacity building for local authorities and agriculture value-chain institutions.



- d. Provide targeted assistance to strengthen SME-support institutions and build the capacity with regard to proactive investment promotion

### **Component II: Strengthening the competitiveness of selected value chains (\$17m)**

38. This component will provide direct support to the development of private sector initiative in selected value chains, through two sub-components:

- a. **SME development grant facility (10m).** The first sub-component would be a competitive technical and financial grant facility to promote different segments of private sector development (from upstream conceptualization/needs assessment to downstream implementation, as well as the promotion of productive alliances) in tourism, agriculture, transport services sectors (and the related MSME eco-system). The design of the grant facility will be informed by potential partnerships with MFIs and will consider synergies with financial sector development projects. The project approach will be to facilitate the development of Productive Alliances, a systematic private sector driven model to support value chains and connecting them to markets. Productive alliances have been implemented successfully in many countries in Latin America, as well as other countries in Africa with varying degrees of adaption (including most recently in the World Bank-financed Zambia Agribusiness and Trade project<sup>27</sup>.)
- b. **Targeted rural infrastructure for value chain development (7m).** The second sub-component would consist of select rural infrastructure investments to support targeted value chain development projects (rural infrastructure interventions should be prioritized based on the expected impact of private activity in the targeted value chains.) This subcomponent will support the rehabilitation of a priority network of classified and unclassified rural roads and agricultural tracks in selected areas of Comoros. The links to be rehabilitated will be selected based on agricultural potential (as confirmed through ongoing agriculture value chain analysis)<sup>28</sup>, and other socio-economic criteria (population density, access to social services, etc.) they complement and ensure synergies with ongoing and new investments in the high-priority road networks. The types of interventions will include, among others, spot improvement, gravelling, surface treatment, and periodic maintenance depending on the justified level of service. In addition, this component will support select logistics / market infrastructure (warehousing, storage, and other infrastructure and services for local communities in select value chains). In addition, this subcomponent will support a rural transport service initiative aimed at promoting the development of intermediate means of transport consisting of simpler vehicles such as tricycles, motorbikes, etc. to improve the initial movement of crops from fields to collection points. To promote such transport service, the project could study the necessary incentives for the market to provide the means of transport (temporary customs exemptions on certain parts/small vehicles, etc.). This

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<sup>27</sup> The Productive Alliance model successfully established sustainable commercial linkages for smallholders in Latin America in 21 WBG projects over the last 16 years. The PA is a formal agreement between a group of organized producers and a buyer, for the provision of a certain good, in a specified quantity and quality. Four key elements define the nature of a Productive Alliance, namely: a group of organized producers, a buyer, an investment in production and marketing, and technical assistance. Typically a PA revolves around a business plan that defines the soft (TA) and the hard investments needed to achieve a specific market-driven goal.

<sup>28</sup> E.g. as per the IFFPRI SPAM model used transport projects, Access to markets is defined as the high agriculture potential land (in km<sup>2</sup> of land with an agriculture potential of more than 0.5M\$USD/km<sup>2</sup>/year) at 60 minutes travel time (roughly 5 km walking distance, 1 hours in good condition road and 3 hours in poor condition roads) to the closest market.



activity could also provide technical advice to farmers and rural communities on how to maintain the tracks improved by the project.

### **Component III: Project implementation and coordination (US\$3 millions)**

39. This component will finance the PIU and enable it to implement the project, comply with fiduciary rules and safeguards, and fulfill M/E and impact evaluation commitments.

- Project interventions for each component will be managed and implemented by a PIU, anchored within a Central Ministry such as the Ministry of Finance and Budget or Ministry of Economy (also in charge of Industry, Energy, Tourism, Investment) which has shown strong support and ownership for the integrated project. The PIU will oversee the flow of funds for each component and sub-component, as well as ensure the reporting of information to the Ministry.
- A project Steering Committee will include representatives from central and line Ministries, agencies, and the private sector. The Steering Committee will provide overall strategic oversight to the project, review implementation progress, validate annual work plans and budgets, and facilitate inter-Ministerial coordination (Economy/tourism, Agriculture, Transport). The composition of the Steering Committee will reflect the broad sectoral scope of the project and will promote public-private representation.
- M/E will be the responsibility of the PIU. The Government and World Bank will evaluate progress through regular reporting by the PIU and dedicated implementation support missions. The PIU will collect and present data on PDO-level and intermediate indicators. Data collected will be used to assess the direct and indirect impacts of the various interventions.
- Safeguard management, stakeholder coordination and communication will be critical functions led by the PIU (Environmental & Social Specialists will be hired) with guidance and support from the project Steering Committee. The component will provide capacity building on fiduciary and safeguard aspects of project management.

## **SAFEGUARDS**

### **A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

Comoros Islands, exact project location will be determined during project preparation

### **B. Borrower's Institutional Capacity for Safeguard Policies**

The Borrower's safeguard capacity is weak with limited technical knowledge and skills to conduct environmental assessments. Environmental Directorate department is composed of limited staff and budget and processes for implementing environmental law and oversight and enforcement are weak and often dysfunctional. Also, there is very limited environmental and social experience into ministry of Environment and in the sectorial Ministry and little experience with applying of environmental and social sustainability criteria to project design.

However, there is a track record of World Bank support (infrastructures in CCD project and fishery), which has generated a limited stock of environmental and social specialists, who are able to follow up on environmental and social due



diligence processes on project level, and have experience with the planning and oversight arrangements required by WBG safeguards policies. The borrower technical capacity for this project is weak and technical assistance from consultant firm is necessary to prepare all required environmental and social safeguard during the preparation phase. The proposed project will strengthen the capacity of the PIU in this area. The PIU will be anchored within the Central Coordinating Ministry (Finance, Economy).

**C. Environmental and Social Safeguards Specialists on the Team**

Paul-Jean Feno, Environmental Safeguards Specialist  
Andrianjaka Rado Razafimandimby, Social Safeguards Specialist

**D. Policies that might apply**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	This policy is triggered because the proposed project will support to improve harvest and quality of existing agriculture on selected value chains, to rehabilitate existing feeder roads to access to these agricultural areas and rural infrastructures, and to promote tourism sector. These proposed activities may lead to some adverse social and environmental impacts. The adverse environmental impacts include air, soil and water pollution with the pesticide, loss of vegetation, soil erosion, accident risks, health and safety risks on use of potentially harmful pesticides and other biocide products; propagation risk of HIV/AIDs during the civil works; harm to potential chance finds of physical cultural resources (details will be developed during design of the project). Given the low scale size of the potential social and environmental risks and impacts, and the site-specific nature of the foreseen project activities, the project is rated Category B. The ESMF will be prepared for Bank's review and clearance and disclosed prior decision meeting. The ESMP will identify appropriate codes of practice for different types of subprojects, that can be specified in procurement documents.
Natural Habitats OP/BP 4.04	TBD	This will be determined during project design.
Forests OP/BP 4.36	TBD	This will be determined during project design.
Pest Management OP 4.09	Yes	Pest management may be required given the potential magnitude of the grants/funding and TA for MSMEs in agribusiness. Extension of agribusiness services may require the use of pesticides, fertilizers or other chemicals to boost agriculture productivity, which can create negative effects on the environment. This



		policy supports the integrated pest control approaches, and identifies pesticides that can be financed under the project and develop an appropriate plan of pests to manage the risks. To comply with this policy and to ensure safe pest management. a Plan of Management of Pests and Pesticides (PMPP) will be prepared by the Borrower, cleared by the Bank and publicly disclosed both in the country and to Infoshop prior the decision meeting.
Physical Cultural Resources OP/BP 4.11	Yes	The rehabilitation of existing feeder roads will not lead to the discovery of new physical cultural resources. In fact, no archaeological vestiges will be impacted. For more assurance, the ESMF will make provisions for cultural resources management if it happens this policy is triggered during the implementation phase and include "chance finds" procedures for inclusion in the contractor's EMP.
Indigenous Peoples OP/BP 4.10	No	No indigenous peoples in Comoros
Involuntary Resettlement OP/BP 4.12	Yes	The Involuntary Resettlement (OP/BP 4.12) policy may be triggered due to foreseen low to medium civil works activities (feeder roads, and rural infrastructure) that may require land for temporary or permanent usage. The land acquired for this purpose may lead to loss of assets, sources of income, or means of livelihoods for some households. To ensure that proper mitigation measures are set forth, the Borrower will prepare a Resettlement Policy Framework (RPF), it will be cleared and disclosed prior to Appraisal.
Safety of Dams OP/BP 4.37	No	The Project is not financing any activities related to dams. This policy is not expected to be triggered.
Projects on International Waterways OP/BP 7.50	No	This policy is not triggered.
Projects in Disputed Areas OP/BP 7.60	No	There are no known areas under dispute in the project area.

**E. Safeguard Preparation Plan**

Tentative target date for preparing the Appraisal Stage PID/ISDS

Apr 18, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The relevant safeguards instruments are ESMF, PMPP and RPF which will be prepared for bank's review and clearance, and disclosed prior to Decision meeting. Technical assistance should be hired by the borrower to help them to prepared



the three required safeguard documents. The draft ToR of each document will be prepared for the Bank's review and clearance by the RSA before the launch of the studies. Safeguards expected to be launched by February 2018.

**CONTACT POINT**

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**APPROVAL**

Task Team Leader(s):	Lorenzo Bertolini, Eneida Herrera Fernandes
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**Approved By**

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Country Director:	Mark R. Lundell	09-Feb-2018
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