



# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 28-Apr-2020 | Report No: PIDA27222

**BASIC INFORMATION****A. Basic Project Data**

|  |  |   |   |
|--|--|---|---|
| Country<br>Comoros                                   | Project ID<br>P166193  | Project Name<br>Comoros Financial Inclusion Project | Parent Project ID (if any)                                      |
| Region<br>AFRICA                                     | Estimated Appraisal Date<br>14-Apr-2020                                | Estimated Board Date<br>01-Jul-2020                 | Practice Area (Lead)<br>Finance, Competitiveness and Innovation |
| Financing Instrument<br>Investment Project Financing | Borrower(s)<br>Ministre des Finances, du Budget et du Secteur Bancaire | Implementing Agency<br>Banque Centrale des Comores  |   |

## Proposed Development Objective(s)

To increase access to and usage of financial services for adults.

## Components

Component 1: Increasing Access to and Usage of Financial Services  
Component 2: Project Management

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

|                           |       |
|---------------------------|-------|
| <b>Total Project Cost</b> | 20.00 |
| <b>Total Financing</b>    | 20.00 |
| <b>of which IBRD/IDA</b>  | 20.00 |
| <b>Financing Gap</b>      | 0.00  |

**DETAILS****World Bank Group Financing**

|   |       |
|---|-------|
| International Development Association (IDA) | 20.00 |
| IDA Credit                                  | 20.00 |



Environmental and Social Risk Classification

Low

Decision

The review did authorize the team to appraise and negotiate

## B. Introduction and Context

### Country Context

- 1. The Union of the Comoros is an island country off the coast of East Africa in the Mozambique Channel, whose geography presents challenges to economic prosperity.** Comoros is the 26<sup>th</sup> smallest country in the world by land area with an estimated population of 873,724 in 2019, of which approximately 40 percent of the population is under the age of 15. Typical of small island states, it faces geographical isolation, is densely populated, has limited resources, a small domestic market, a narrow export base, and a high dependence on food imports and remittances. Its limited natural resources and small local market make economic diversification difficult and more susceptible to shocks.
- 2. Historical political instability has weakened the country's development, but the recent return of stability lays the way for political and economic development.** Comoros is among the 36 countries and territories listed as a fragile state by the World Bank Group (WBG), with one of the lowest Country Policy and Institutional Assessment (CPIA) ratings, 2.81 in FY19, on par with countries such as Afghanistan (2.68) and Burundi (2.91). Since independence in 1975, the country has been affected by multiple coup d'états, inter-island confrontations, and separatist threats. The islands have experienced political stability in the last decade, due in part, to constitutional reforms in 2009 which improved relations between the islands. The newly adopted constitution in July 2018 changed the political landscape by turning the country into unitarian state and allowing any elected President to run for a second five-year term.
- 3. Due to its geographical challenges and political instability, the economy faces economic challenges and lacks diversification.** Inflation rates have been relatively stable and low (in fact negative between 2010 and 2017) compared to peers, as the Comorian Franc (KMF) is pegged to the Euro.<sup>i</sup> This peg does not appear to have resulted in a competitiveness loss, as the KMF is deemed either moderately overvalued or broadly in line with medium-term fundamentals and desirable policies.<sup>ii</sup> With a USD 1,280 GNI per capita,<sup>iii</sup> the economy grew at two percent on average between 2015-2017, but economic growth is insufficient given population growth. Among others, key binding constraints on growth can be attributed to: weak macroeconomic management and domestic revenue mobilization, poor state-owned enterprise performance, low financial sector intermediation and foreign direct investment (less than one percent of GDP), a weak enabling business environment, and low-quality education. The private sector is small, largely informal, and fragmented, with limited value addition. Comoros is also an import economy, in which imports' share to GDP represent 28.6 percent while exports cover only one-third of total imports. Exports are concentrated in three goods: vanilla,



cloves, and ylang-ylang. Fueled by a large diaspora (one out of six Comorians lives abroad), remittances represent around 12.1 percent of GDP in 2018<sup>iv</sup> and play a catalytic role, but they inhibit long-term economic growth,<sup>v</sup> as among others it distorts incentives for economic productivity. Given the small size of the private sector, most formal workers are in civil service, with strong interpersonal ties and patronage-based recruitment. The over enlarged civil service captures a significant share of public expenditures, and the wage bill consumes three-fourths of tax revenues, leaving few resources for development needs.<sup>vi</sup> Although some tax administration measures took place in recent years, tax revenue collection remains very low at an average of 7.1 percent of GDP for the period 2011-2017, compared with the average for Sub-Saharan Africa (15.9 percent of GDP).

4. **While poverty has declined in recent years, spatial and geographical inequalities persist.** The poverty rate declined from 54 to 38.1 percent between 2004 and 2014, primarily due to economic growth and strong remittance inflows.<sup>vii</sup> One-fourth of the poor are clustered just below the poverty line. 75 percent of the poor are self-employed, of which half depend on agriculture (mostly comprised of subsistence farmers), and poverty is more prevalent in rural areas (49.9 percent compared to 31 percent in urban areas). Wage workers and non-farming businesses are less likely to be poor, and many households are dependent on remittances (which are likely to significantly decline due to the impact of COVID-19 on the diaspora in France) to meet basic needs, reflecting the state of poverty and the shortage of employment opportunities to promote household self-sustenance.
5. **As a result, Comoros has undertaken a number of steps to promote socio-economic development in the country.** It's Poverty Reduction Strategy Paper Strategy for Accelerated Growth and Sustainable Development (SCADD; 2015-2019) is being updated to reflect the new government's aim to promote growth through investments in electricity, roads, and telecommunications. A new Country Partnership Framework with the WBG is being developed to determine areas of cooperation and priority.
6. **The Government is working with development partners to support economic development.** The Government recently undertook efforts supported by an IMF staff monitored program (SMP: October 2016-March 2017) to increase revenue mobilization, reduce expenditures, improve the supply of electricity, and bolster the financial sector by resolving issues around the state-owned financial institution, Société Nationale des Postes et des Services Financiers (SNPSF). It has also been working with other development partners to strengthen the financial sector, including: the French Development Agency on the credit registry, French authorities and AFRITAC South on banking supervision, and, with the Common Market for Eastern and Southern Africa (COMESA) and Comité de Liaison Anti-Blanchiment de la Zone franc (CLAB) on future assistance on Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT). This project supports countries benefitting from their membership in regional groups, e.g., participation in the COMESA regional payment system where the central bank settlement system is essential. With regards to the SADC regional system, financial institutions participate directly and settle through accounts held at the SARB, the monitoring of which will be facilitated by the planned ATS+ system under the project.
7. **Hurricane Kenneth and COVID-19 have provided additional challenges to Comoros' economic development.** Growth slowed to 1.9 percent in 2019 (from 3.4 percent in 2018), reflecting the impact of cyclone Kenneth that caused damages to the agricultural sector, with higher fiscal spending and private remittances attenuating adverse effects. The economic effects of COVID-19 will slow down progress in poverty reduction, mainly via the expected drop in remittances, with over one out of three Comorians



projected to be below the \$3.2 a day poverty line in 2020. The initially expected positive impact on economic activity from the reconstruction efforts after cyclone Kenneth would be more than offset by the negative impact of COVID-19, reducing economic growth to 0.6 percent in 2020. The expected large drop in remittances and tourism (both heavily linked to France's economy, a country highly impacted by the health crisis) would have a wide negative effect on domestic demand and exports, respectively. The decrease in household demand for goods and services will depress economic activity and lead to unemployment. Thus, this shock would heavily affect most economic sectors, with trade and tourism-related sectors among the ones expected to be hit the hardest.

### Sectoral and Institutional Context

8. **The Comorian financial sector is small and concentrated with a significant role of the state.** The financial sector comprises four banks, four microfinance institutions (MFIs), three financial intermediaries, including SNPSF, and three recently licensed electronic money issuers, which have not yet commenced operations. The total assets of the financial sector represent around 25 percent of GDP. The Comorian state continues to hold a significant stake in the capital of two private banks. The state also remains the sole shareholder in SNPSF though it has recently expressed interest in potentially opening up to private investor capital and has so far has proven unable to attract any investor. The three largest financial institutions account for 57 percent of financial sector deposits and 61 percent of assets. This concentration of deposits and loans in few institutions increases their systemic importance to the financial sector and strengthens the necessity to bolster banking supervision to prevent banking crisis.
9. **Financial inclusion is dampened by financial sector stability challenges centered around persistently high and increasing Non-Performing Loans (NPLs) and low profitability.** NPLs stands at 24 percent of loans at end-October,<sup>viii</sup> with a provisioning coverage close to 60 percent and one state-owned bank with more than 55 percent of their exposures classified as NPLs. Comoros' persistently high NPL stock reflects two main factors: 1) considerable proportion of legacy loans that turned sour during the vanilla sector crisis of the early 2000s which remain partially unresolved, along with other bad loans that are yet to be written-off by holding institutions;<sup>ix</sup> 2) a few well-connected debtors in Comoros' undiversified economic structure account for the large proportion of NPLs. Recovery of these doubtful loans is particularly difficult in the absence of specialized financial courts and rigorous enforcement of judicial decisions. This adversely impacts financial institutions' willingness to grant long term loans that are deemed too risky without a stronger judicial system, which provides lenders with real guarantee enforcement in case of credit default. NPLs are likely to increase with economic slowdown induced by COVID-19. Financial sector stability is an essential prerequisite to financial inclusion as people use formal payment and financial systems, only if they have confidence in their ability to provide an efficient service, and also protect their funds and transactions. The fragility of the financial sector remains a strong impediment to usage of financial services. See Annex 1 for more details.
10. **Financial institutions' negative profitability is another major constraint for the sector.** Though four institutions perform well (two commercial banks and two MFIs), half of institutions are in the red, including SNPSF (which is insolvent and reported a loss of KMF 898 in 2017, and around KMF 900 in 2018<sup>x</sup>), one MFI, and two commercial banks. The financial sector reported net profitability of 744 million KMF after adjusting for losses of 1,305 KMF million (USD 346,324)<sup>xi</sup> as at end 2018, though the situation has improved compared to 2016 (520 KMF million). It should be noted that the accounting position of several commercial banks was adversely impacted in 2017 and 2018 by the strengthening (as per new BCC regulation of 2015) of the amount of provisions required to cover doubtful exposures, automatically reducing their level of net income. The



financial sector reported in 2017 a Return on Assets (ROA) of less than 1 percent and a ROE of -3.6 percent.<sup>xii</sup> These challenges have resulted in the financial sector persistently being unable to fulfill its role of financial intermediation; partly due to an increase of risk aversion, as illustrated by the lack of long term loans (only five percent of loans granted in 2017).

11. **The serious and lasting financial difficulties faced by the systemically important SNPSF constitute a main financial risk for the economy.** SNPSF (see Annex 1 for more info) plays a critical role in financial inclusion as it hosts government and SOE accounts and it is also the institution through which government and military salaries are paid. SNPSF, however, has faced major operational difficulties for many years. In December 2017, the authorities injected the first tranche (KMF 3.5 billion) of their three-year rescue plan, using funds from a BCC statutory advance facility.
12. **To ensure that efforts toward greater financial inclusion are not threatened by financial crises, Comoros needs enhanced banking supervision.** This requires significant bolstering to ensure BCC can effectively monitor risks in the financial system. Government has made strides in adopting a revised Banking Law in 2013, which was complemented in 2015 by BCC regulations that strengthened the overall framework for internal control and prudential requirements. Significant work remains to be done in banking supervision, as illustrated by the lack of accurate risk indicator analysis performed by BCC, weak quality of data produced and reported by financial institutions, and limited on-site inspections conducted. The Department of Banking Regulation and Supervision (DSBR) has limited staff (less than eight people) and lacks the appropriate tools to perform adequate oversight. The home-grown supervision tools currently used are largely ineffective and can only support rudimentary analysis. Building trust in the financial sector is a prerequisite for financial stability, but will require a significant increase of the capacities and skills of BCC.
13. **In this context, access to financial services, a critical driver of business investment and household livelihood strategies, is extremely limited, and lags behind most benchmarks.** Only nine percent of adults have an account at a bank, while 32 percent do at MFIs.<sup>xiii</sup> Comoros lags behind peers and the Sub-Saharan and all LICs medians in bank account access with just 136 bank accounts per 1,000 adults, while the Sub-Saharan and the LIC medians are 332 and 186, respectively.<sup>xiv</sup> MFIs reach approximately 325 persons out of 1,000. Access is limited, in part, due to there being only 166 access points, including 44 SNPSF branches. With only three bank branches per 100,000 adults, Comoros lags behind the Sub-Saharan median (5) and Cabo Verde (33), but is on par with the LIC median of 3;<sup>xv</sup> see Annex 1 for more info. Other key factors contribute to limited access to bank accounts, including limited competition between the small number of financial institutions. Consumer demand for banking services is dampened by limited trust in the sector and the lack of appropriate financial instruments.
14. **While Comoros has made some advances in the financial sector regulatory framework, there is a large outstanding agenda in financial sector development, which diminishes the potential of the sector to support economic development and poverty reduction.** In 2014, Comoros established a credit registry, but the data available is not comprehensive or always reliable. As a result, financial institutions are not fully utilizing its information to address NPL issues and facilitate sound credit origination. BCC is also not using the credit registry to support its prudential supervision functions. In 2017, BCC launched its National Payment Systems Strategy with support from the World Bank, which aims to establish an Automated Transfer System (ATS+) and national retail payment switch.



15. **There is currently no tiered financial account scheme with differing Know Your Customer (KYC) requirements which correspond to the level of risk and fees associated with each tier.** Account opening requirements are often too difficult for the population to meet, as most do not have the requisite ID, proof of residence, or photos, which are expensive to obtain. With 38.2 percent of Comorians below the poverty line, which is more concentrated in rural areas, the fees and the distance from financial institutions serve to reduce the uptake of financial services. With the introduction of a tiered system, consumers could open basic transaction accounts (BTAs) that have transaction limits with minimal or traditional forms of ID, helping to overcome some of the barriers to account ownership. The roll out of BTAs, of which mobile money wallets is one type, is critical to facilitating DFS penetration into more impoverished and rural areas, as it enables consumers to open accounts for the first time, or more easily via digital means, and to then have the account to receive and disburse digital payments. BTAs have the potential to be an important feature of the landscape with the roll out of mobile money and pending regulations on the right to an account.
16. **Several factors explain why cash remains the primary method of payment across all levels of society and economic sectors.** At an institutional level, the payment landscape is critically underdeveloped, perpetuating reliance on cash transactions, which are costly, inefficient, and risky. Usage is driven primarily by the lack of payment alternatives made available at retail level (e.g., mobile money, cards, online payments, etc.). Point of Sale (POS) devices are essentially used in hotels and travel agencies, leaving the retail market fully cash-based. Innovation in the banking sector is also limited as banks have not invested in modernizing payment services. Despite BCC efforts to allow Non-Bank Financial Institutions (NBFI), such as e-money institutions and MFIs to issue payment instruments, the regulatory framework for fintech has yet to enable the digital transformation of the financial sector. Thus, BCC has attempted to limit extensive cash usage by requiring the use of non-cash payments for transactions equal to or above one million KMF (USD 2,358);<sup>xvi</sup> however, cash usage is still high.
17. **BCC lacks an automated payment system for interbank financial transactions despite the quasi-readiness of financial institutions.** Three of four banks have a core banking system and are in a position to participate in an ATS; see Annex 1. All four banks rely on SWIFT payment solutions to process transactions, have data centers as a back-up, and either use fiber optic or VSAT connections for network connection. The lack of an ATS for interbank transactions, increases the risk for errors and stretches settlement delays due to their manual handling. The two largest MFIs, which are licensed by the BCC to issue payment instruments also have effective core banking systems and rely on VPN and fiber optic networks. SNPSF processes the majority of salary and pension payments manually. It has invested in a core banking system (which is below quality standards) and a switch to facilitate payment processing, however, in the absence of an interbank platform, settlement of transactions can take several days.
18. **Investment in modern payment systems infrastructure is needed.** To reduce the use of cash and improve the efficiency of payments, BCC can automate interbank transfers through a an ATS+. An ATS+ combines Automated Clearing House (ACH) (e.g., automatic salary deposit into a bank account or monthly bill deductions from a bank account) and Real Time Gross Settlement (RTGS) functionalities (i.e., large and real time payments, such as for large business transactions to ensure payment). The ATS+ has an instant funds transfer functionality (IFT) that can easily process remittances. BCC needs a core banking system and fiber optic network access to ensure the systems can function optimally. See Annex 1 for more info on the case of Papua New Guinea, as its financial sector digitalized.





19. **BCC also lacks the proper infrastructure to engage in straight through processing of checks, which exposes the financial system to several risks, including fraud.** It has established the “Système de Compensation Comorien” (SYCOCO), a traditional system to manually clear checks. SYCOCO is the only interbank clearing mechanism in the country and processes an average of 5,000 checks a month valued at KMF 19.7 billion (USD 49.4 million). The existing banks and microfinance networks are members of SYCOCO and have check formulas with MICR lines, however, there is currently no automation in the processing and clearing of checks.
20. **The retail financial infrastructure is limited and not interoperable.** This is due to the existence of closed loop private networks of automated teller machines (ATMs) and electronic POS, making access to payment services difficult, costly, and inefficient. There are only 37 ATMs and 28 POS devices with only 34,000 cards in circulation. There were 4.9 ATM per 100, 000 adults in 2017, down one point from a year before.<sup>xvii</sup> Bank branches are even less widespread than ATMs, with an average of 3.1 bank branches for 100,000 adults. There is also no interoperability of ATM and POS networks, unless one uses international cards (Visa or Mastercard). Hence, there is a need to facilitate the interoperability of digital payments across institutions through a national retail payment switch, particularly with the anticipated take off of mobile money, agent banking, and fintech.
21. **The mobile money industry has yet to take off, with only three licensees four years after the regulation was adopted.** Mobile money subscriptions are extremely limited, with MTCV beginning operations as the first e-money issuer in Comoros in 2018. Mobile money is ripe for taking off with 54.9 per 100 people having a mobile subscription, while only nine and 32 percent of adults have an account at a bank and MFIs, respectively, highlighting the potential to close the gap between phone and accounts. The recent liberalization of the industry with the entrance of TELMA and in tandem with the introduction of a digital ID, could also contribute to potential mobile money uptake.
22. **Digitizing remittances represent an enormous potential for account ownership uptake.** In the context of a lack of convenient and widely-available digital payment instruments, payout of remittances continues to be made by cash, which can be time consuming and costly (cost of transport and fees), while also presenting a risk (due to the need to transport cash). The value of the remittances received reached 3 billion francs (USD 7.5 million) per month over the period April 2017 to April 2018;<sup>xviii</sup> due to the large diaspora. At the end of 2018, remittances received accounted for 12.1 percent of Comoros' GDP. Hence the need to build an acceptance network for the digital transfer of remittances directly to consumers, which requires an account, is significant.
23. **MFIs in Comoros have the largest outreach, however, services are delivered manually.** MFIs serve about three out of ten individuals. In volume, the largest network (Union des Meck) serves close to 55,000 clients (representing more than 10 percent of adults) and has approximately 30 percent of outstanding loans. It is mostly concentrated in Moroni and has been successful in collecting savings, essentially comprised of migrants' funds. Approximately 75 percent of the loan portfolio is comprised of loans under 500,000 KMF (1,176 USD). The 90-day risk portfolio at end December 2017 was minimal at 3 percent, below the limit of 10 percent, which indicates a good repayment rate and a healthy portfolio. They process thousands of salary payments and pensions as well as utility bills for clients. It also has a core banking system reliant on fiber optics and LAN. The SANDUK network consists of 61 service points grouped together in regional unions across the islands.





24. **MFIs are capable of digital transformation in Comoros and this is essential to financial inclusion, but services are hampered by the lack of innovative strategies with other providers such as banks, telecom operators and/or e-money issuers, which limits further outreach to the unbanked.** MFIs are currently not accessible through ATMs, POS, or mobile money. Discussions between the telecom network operator, TELMA, and the Union des MECK, hold the promise to deliver various financial services through mobile wallets. While larger MFIs have acquired core banking systems, the smaller microfinance groupings, lack rudimentary IT systems to join the digital wave. Furthermore, limited experience on digital development among MFI management teams further impedes digital transformation in this sub-sector that is critical to financial inclusion.
25. **SNPSF, the Comoros pension fund (CRC- Caisse des Retraites des Comores), and treasury, could participate in the national payment systems, and are key drivers for enhanced financial inclusion.** Government still pays out expenses in cash, revealing significant potential for the digitization of government to person (G2P) payments. CRC has about 12,000 members, with a portion of them not having an account, meaning they are paid in cash. The majority of public servants hold an account, and are paid by wage transfer. Several businesses in Comoros are paid in cash by the government. This unveils significant potential for digitization of government payments via a payment platform. There is a need, however, to unleash this potential through increased involvement of financial institutions in salary processing. Indeed, the sustainability of the future payment system depends heavily on all financial institutions having the opportunity to process government payments, including salaries.
26. **There is also a gender gap in access to financial services and financial literacy for women farmers.** Women play a critical role in agricultural production in Comoros while socially constructed roles also place a burden on them as care takers and income earners. In rural areas where poverty is higher, the need to rectify these gender disparities to facilitate women's empowerment to support their families is critical. The gender disaggregated data for literacy show a gender gap that is smaller than the SSA averages, but the primary enrollment gap is larger.
27. **Comorian cooperatives rely heavily on cash payments in the absence of electronic payments.** Cooperatives working on cloves, ylang-ylang, and vanilla value chains, remain reliant on cash, which can imply additional costs for them, intermediaries, and buyers. The process of accessing such cash, distributing it, and depositing it, also requires time, which can be burdensome. The reliance on cash to pay farmers also presents a security risk, as cooperatives, farmers, and traders, must withdraw large sums of money to make payments, and when farmers are paid, it also known that they are traveling back home with sums of money that may represent a significant portion of their year's income.

### C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To increase access to financial services and to promote financial stability and integrity.



## Key Results

### PDO Statement

To increase access to and usage of financial services for adults.

### PDO Level Indicators

- **Access to financial services:**
  - Number of transaction accounts per 1,000 adults
  
- **Usage of financial services:**
  - Number of digital retail transactions per 1,000 adults

28. The project will achieve the PDO level indicators through investments and TA, which facilitate access to the financial sector and its usage. The project will invest in financial infrastructure, financial literacy, support for basic BTAs, and digitalization of financial institutions and payment streams. The project will also support improving financial stability and integrity to foster confidence in and thus demand and usage of the financial sector through investments in supervisory IT to bolster risk-based supervision, enhancing BCC's risk-based supervision capacity through a resident advisor, and implementing recommendations from the National Risk Assessment (NRA) and capacity building on the financial analysis of suspicious transactions.

### Intermediate Indicators

- **Access to financial services:**
  - Number of transaction accounts per 1,000 adult women
  
- **Usage of financial services:**
  - Number of financial institutions connected to the ATS+
  - Number of risk-based supervision manuals, processes, and tools adopted
  
- **Community Engagement Indicator**
  - Percentage of complaints received through the grievance redress mechanism, which are addressed

## D. Project Description

29. **This project is designed to support financial sector development that is consistent with inclusive growth.** The project aims “To increase access to and usage of financial services for adults” through investments and support to improve payment systems, access to financial services, and institutional capacity of the supervisor to promote financial sector stability and integrity. Component 1 supports Increasing Access to and Usage of Financial Services through Automating Interbank Transactions and Develop Digital Payment Interoperability, Facilitating Access and Usage of Digital Financial Services, and Enhancing Financial Stability and Integrity to Facilitate Usage of to Financial Services. Moreover, to make/receive digital payments, adults and businesses need accounts, thus the project will help finance both the systems to make digital payments and physical obtainment of accounts. Component 2 will bolster project management.



- a. **Sub-component 1.1: Automate Interbank Transactions and Develop Digital Payment Interoperability** will lead to building the foundation for an efficient and inclusive financial system. The sub-component will automate interbank transactions (checks and wires), hence, it will finance the establishment of the ATS+ and TA to support its procurement, and to establish and build its unit's capacity. It also aims to establish and develop digital payment interoperability by financing the national retail payment switch (see Annex 1 for table on differences of ATS+ and switch), its operating costs in the initial year, TA for its procurement, creation of its unit, capacity building for stakeholders (BCC and participants, including the switch implementation committee),<sup>xix</sup> and its implementation. Lastly, the sub-component will provide support infrastructure for the national payment system, which includes network access, data centers and emergency sites, a core banking system for BCC, and sub-component management and procurement support.
  - b. **Sub-component 1.2: Facilitate Access and Usage of Digital Financial Services** through: the design and implementation of a financial and digital literacy program with a sub-focus on women; support to and monitoring of financial institutions' efforts to provide access to BTAs; hardware and software for financial institutions to develop agent banking and merchant networks; hardware and software with operating cost support and capacity building for the digitalization of financial institutions; support to government and institutions with large reoccurring transaction flows, including agriculture, remittances, and any COVID-19 related transfers, to support digital payments; hardware and software for the CRC, and capacity building; and payment system regulatory and oversight framework support.
  - c. **Sub-component 1.3: Enhance Financial Stability and Integrity to Facilitate Usage of Financial Services** through increased confidence in the financial sector. On stability, the project will finance a banking application for automated reporting and risk analysis to help BCC conduct its financial surveillance, as well as training on how to utilize the system, a resident advisor to assist DSBR, including in building risk-based supervision capacity, and a diagnostic and upgrade of the public credit registry. On integrity, the project will finance TA to enhance the integrity of the financial system as informed by the NRA that is being conducted. As it is likely that the NRA will conclude with recommendations with a wide ranging scope, only reforms specific to the integrity of the financial system will be supported in this IPF. Additionally, the project will finance capacity building for the reinforcement of the financial analysis of suspicious transactions by banks and the Financial Intelligence Unit (FIU).
  - d. **Component 2 will support project management and consultants to support project implementation and Monitoring and Evaluation (M&E), along with support for the management of the payment systems' governance bodies.** Moreover, it will finance: a project coordinator; procurement consultant; accounting, audit, and environmental and social safeguard support; BCC capacity building in DFS; and M&E support. It will also provide financing for capacity building for the National Payments Council (NPC).
30. **Project implementation will take place in a sequenced manner.** Due to the number of activities under this financial sector development project and the limited capacity of BCC, it is critical the project's activities are sequenced. To begin, the Project Preparation Advance (PPA) will finance critical activities to build the capacity of BCC to implement through the establishment of a Project Implementation Unit (PIU) and requisite operating costs, along with initiating activities to establish the requisite network and systems to facilitate electronic payment systems development. Under the project, it is envisioned that the payment system activities will begin with the investments in the network, data center, and core banking application, to ensure the requisite IT systems are in place for the successful implementation of the ATS+. The switch will be



implemented last. The project can provide support for facilitating access and usage of financial services throughout. Financial stability activities will be done in parallel to the payment system investments, as they will be undertaken by a different team at BCC. Additionally, as the NRA will likely not be completed until the end of 2020, much of the financial integrity work (not including the capacity building on suspicious transactions) will begin in 2021.

31. **The project is in line with the principles of Maximizing Finance for Development (MFD).** The project seeks to finance investments, which have not been made by the private sector and which will crowd in new investments from new and existing financial sector actors. For example, the investment in the switch will open the door for financial sector actors (private and public) to invest in the country to offer a new array of products and services. The switch would enable third party processors (e.g., PayPal) to work with: 1) remittance providers and local financial service providers, including mobile money, to facilitate the digital termination of inward remittances into accounts instead of people needing to physically collect cash from access points; and 2) financial institutions to transfer money across financial institutions for people to people transactions or people to business, etc. Such arrangements require participating financial services to invest in integrating their platforms onto the national switch, establishing agents/offices, advertising, and tailoring the solutions to the local context, among others. Additionally, the revenue generated from these transactions will also generate revenue (from user fees) for participating financial institutions and the BCC who operates the switch. Furthermore, by facilitating digital transactions, the switch should incentivize more private businesses to also join the digital eco-system. Crowding in of investments will likely come in years two to five of the project.
32. **This project supports the development of a digital economy.** The project investments in the ATS+ and switch will facilitate the development of digital and interoperable payments, including government and business payments, and the development of the DFS sector with innovative financial solutions. Additionally, project activities on financial literacy will help boost demand from consumers for these services to help increase access to accounts. The project also seeks to work with other World Bank projects, such as the Regional Communications Infrastructure Program (RCIP4) project, to facilitate connectivity to forthcoming investments in the fiber optic network, and the Integrated Development and Competitiveness project, which it can complement through the digitization of the latter's grants to farmers, among other possibilities.
33. **This project will help support the economic response and recovery for COVID-19.** The BCC will invest in the core payment systems infrastructure to facilitate digital payments to support disaster response payments, such as for health workers or grants for impacted MSMEs. The project can also help facilitate the digital termination of remittances to reduce their cost through its legal and regulatory work, specifically on e-commerce, to allow among others, for digital verification and signature. The project will also contribute to mitigating the turmoil in the financial sector likely resulting from COVID-19's economic impact through enhanced anticipation, monitoring, and handling of potential banking crises. In parallel, FCI TA is supporting development of a banking resolution framework.



**Project Overview**

**To increase access to and usage of financial services for adults**

**Component 1: Increasing Access to and Usage of Financial Services**

**1.1: Automate Interbank Transactions and Develop Digital Payment Interoperability**

- Digitize bank transfers through ATS+
- Facilitate digital interoperable payments through switch
- Switch operating costs
- Subscription to the fiber optic network or VSAT
- BCC data center, emergency site, and core banking system
- Sub-component management and procurement
- TA: procurement, establish ATS+ and switch units, BCC and participants' capacity building (including switch implementation group), and supervise switch implementation

**1.2: Facilitate Access and Usage of Digital Financial Services**

- Financial and digital literacy campaigns
- Support to facilitate and monitor financial institutions' efforts to provide access to BTAs
- Hardware and software for FIs to develop agent banking and merchant networks
- Hardware and software with operating cost support, and TA, for FIs' digitalization
- Support to Government and institutions with large reoccurring transaction flows to support digital payments
- Hardware and software for the CRC, and capacity building
- Regulatory and Oversight framework support

**1.3: Enhance Financial Stability and Integrity to Facilitate Usage of Financial Services**

- Bank supervision application for financial surveillance
- Resident advisor to help in capacity building for on-site and off-site banking supervision
- Diagnostic of the Public Credit Risk Registry and assistance on its improvement
- TA to enhance the integrity of the financial system as informed by NRA
- Capacity building for the reinforcement of the financial analysis of suspicious transactions by banks and the FIU

**Component 2: Project and Payment Systems' Management**

**Sub-component 2.1: Project Management**

- Project coordinator
- Procurement consultant
- Accounting, audit, and environmental and social safeguard support
- BCC Capacity Building
- M&E Support
- Steering committee capacity building
- National Payment Council development and capacity building



Project Budget

|  |           |
|--|-----------|
| <b>Component 1 : Increasing Access to and Usage of Financial Services</b>                | <b>18</b> |
| 1.1: Automate Interbank Transactions and Develop Digital Payment Interoperability        | 9.5       |
| 1.2: Facilitate Access and Usage of Digital Financial Services                           | 5         |
| 1.3: Enhance Financial Stability and Integrity to Facilitate Usage of Financial Services | 3.5       |
| <b>Component 2: Project Management</b>   | <b>2</b>  |
| 2.1 Project Management   | 2         |
| <b>Total</b>   | <b>20</b> |

Note: The following is a more detailed description of the PAD based on current information, research, and client dialogue, but there may be lessons learned, unforeseen opportunities, and changes in technical and strategic areas, which impact the design of the project.

**Component 1: Payment System Infrastructure Development and Financial Inclusion (USD 18 million)**

**Sub-component 1.1 Automate Interbank Transactions and Develop Digital Payment Interoperability (USD 9.5 million)**

- 34. **The project will support the implementation of an ATS+, which is critical to the digitization of interbank transactions.** This project aims to specify, procure, and implement an ATS+. The ATS+ will allow financial institutions that hold an account with BCC, i.e., banks and deposit-taking microfinance institutions,<sup>xx</sup> to be connected to one another via an electronic platform. The ATS+ provides irrevocable clearing and settlement of transactions between central banks and participants efficiently and reliably. It handles high volumes of both high-value and low-value payments, such as credit transfers, direct debits and checks, and combines efficiency and reliability of service with sound position maintenance and intraday liquidity management facilities. Besides the real-time gross settlement of high-value payments, the ATS+ is an electronic clearing system that enables files of low-value payment instructions, including truncated checks together with their scanned images, to be exchanged among financial institutions.
- 35. **The ATS+ functionalities include:** 1) the clearing and settling an array of inter-bank electronic payments, i.e., credit transfers and direct debit instructions; 2) automated transfer, clearing, and settlement mechanism for large value and retail interbank transactions, which includes domestic and international wires and checks; and 3) processing instant payments and instant funds transfers (IP or IFT); i.e., functionalities 2 and 3 can facilitate various types of government payments, including COVID-19 related payments. An ATS+ would increase the efficiency of daily liquidity management by banks through the provision of real-time settlement account information reporting and monitoring. An ATS+ will minimize payment system risk by managing liquidity on both an individual bank basis and system-wide.
- 36. **In order to facilitate the establishment of an ATS, BCC will require capacity building support.** To implement an ATS+, BCC will require assistance in establishing an ATS+ unit and require capacity building for its staff. In particular, as the ATS+ is a new technological solution, it will also be important for BCC to have support in



getting the system live and then managing it and helping drive usage until BCC has built the requisite capacity to do so. Additionally, BCC will require support for the procurement of the ATS+ given its technical nature.

37. **This subcomponent will support the interoperability of digital payments.** The national retail payment switch will create an interoperable and interbank payment network with interconnected ATM, POS/MPOS devices, e-commerce, kiosks and mobile money terminals. The availability of DFS is critical to increasing access to financial services, as customers will be able to transact through a variety of payment instruments: cards, mobile money wallets, NFC, stickers payment or QR codes, regardless of their financial service providers. The switch will improve the customer experience through time savings and cost reduction. It is also envisaged that the switch will induce further development of payments through increased private sector involvement given the new payment services regulation soon to allow NBFIs (e-money issuers and MFIs) to connect to the national switch. These developments will provide a wider range of payment instruments for shopping, accessing salaries, utility bills, and person to person transfers, etc.
38. **The financial sustainability of the national switch is critical and relies highly on financial and institutional arrangements.** For cost effectiveness purposes, it is proposed that the switch platform be hosted and operated by the BCC, which will alleviate fixed costs (office space, utilities, etc). It is also recommended that the operating costs of running the platform be borne by both the participants and BCC. At financial level, revenues will be derived from annual membership contributions, commissions on transactions, and project management, etc. Volume will be driven by the introduction of mobile money transactions, value added services, agency banking, digitization of government payments and remittances. The platform could be launched in 2021 with seven to nine participants, including TELCOs (pending mobile money licenses) with an estimated start up volume of 12,000. With the hypothesis that the main participants connect in the first two years, revenues could lead to sustainability over three years. Thus, the project will help finance initial deficits of up to USD 1 million in the first three years.
39. **In order for the switch to be sustainable, investments in supporting activities will be required.** The capacity of managing the national retail payment switch will need to be built. Additionally, BCC will require support in the procurement of the switch, ranging from developing the bidding documents for the selection of the provider. As with the ATS+, BCC requires assistance in enabling the switch to become operational, drive usage, and manage it, until it has developed the capacity to do so. In shallow financial systems, it is critical for central banks to finance the switch, as otherwise the private sector would need to charge high fees to cover the investment costs. Over time, the BCC will dilute its ownership shares of the switch with the private sector acquiring them. The project will finance support for a switch implementation committee to help ensure that while BCC will initially own the switch, the requisite body for national switch-related dialogue, coordination, and management (including establishing fees), is in place by the time of the switch's launch and to help pave the way for BCC to dilute its ownership.
40. **BCC currently lacks the requisite supporting infrastructure to facilitate the implementation of an ATS+ and switch.** BCC lacks the connectivity to operate an ATS+ and switch. In light of this, the project aims to support BCC's subscription to the fiber optic network. The project will also envisage VSAT options as a back-up. In this arrangement, the main network line will use fiber optic connections and the local radio loop for the backup line. There is also a need to rehabilitate the current data center emergency room with a view to making it a main site and in compliance with international standards. There is also a need to establish a backup site outside BCC premise, as part of the World Bank's RCIP4 project. BCC also lacks a robust core banking system to support national payment systems development and for other functions. As all transactions that are





processed, routed, and cleared through the switch will be sent to the ATS+ for final settlement, it is essential that BCC has the requisite core banking system to facilitate these transactions. BCC will also require consultancy services to guide and implement this component.

**The following activities will be funded under subcomponent 1.1:**

- ATS+ hardware and software
- Consultancy services to support procurement, and establish BCC's ATS+ team and building their capacity
- National retail payment switch hardware and software
- Operating cost of running the platform
- Consultancy services to: i) support for procurement activities, ii) establish BCC switch unit, iii) build capacity of BCC and for participants, including via switch implementation committee, and iv) supervise implementation
- Subscription to the fiber optic network
- BCC data center and an emergency site
- BCC Core banking system
- Consultancy services to help manage switch implementation and procurement

***Sub-component 1.2: Facilitate Access and Usage of Digital Financial Services (USD 5 million)***

41. **This subcomponent will support the design and launch of a financial and digital literacy program to help increase the demand and adoption of financial services.** The financial literacy efforts likely through collaboration with the ministry of education will bolster financial capacity to increase awareness on account ownership and financial goals, change financial decision making, and improve understanding of financial products terms and conditions in order to minimize credit risk, among others. Through increased financial capacity, Comorians and businesses will be in a better position to demand responsible financial services and products, i.e., increase account access, which is necessary to make/receive digital payments. Given women's lower levels of financial inclusion and likely financial literacy, there will also be a focus on women to help promote account ownership parity with men.
42. **This subcomponent will help financial institutions in reaching consumers.** There is a critical need to anticipate linkages between the proposed national payment system and consumers, particularly the last mile customer, given the lack of experience with DFS in Comoros. Proposed investments in an ATS+ and the national retail payment switch, are not likely to achieve optimal volume without the inclusion of the broader population, i.e., agricultural and low-income families. While the ATS+ will provide interbank services, remote services to lower income populations can be delivered via alternative channels, such as BTAs. In addition to building consumer capacity to demand financial products and services through the financial literacy program, reaching the last mile customer will require support for financial institutions to provide BTAs and services tailored to the needs of the poor. Additionally, to ensure financial institutions are rolling out the BTA, it is imperative that BCC has the requisite tools and resources (i.e., capacity and administrative costs to supervise) to monitor how institutions are offering such products and not turning away potential clients. These efforts would also complement the Bank's Integrated Competitiveness and Innovation Project's matching grants to farmers, as this would enable farmers to demand and open their first formal account with a financial institution, and payments could be made electronically to the individual farmer's BTA.



43. **This subcomponent will also address the need to improve and expand agent/merchant networks for country-wide availability of financial services.** It will support financial institutions in establishing agent and merchant networks. With the adoption of the agent banking regulation, financial institution will have set and clear conditions on the hiring procedure of agents. The project will specifically support acquisition of hardware and software necessary to build agent and merchants networks, such as POS terminals or other IT for FIs that are willing to expand their services in underserved areas. The project will also help equip merchants with low cost and secure digital payment acceptance devices, i.e., QR codes mechanisms, NFC devices, and MPOS.<sup>xxi</sup> The agents will help extend BTAs account openings.
44. **This subcomponent will facilitate the digitalization of NBFIs to broaden the delivery of financial services to the unbanked and electronic payments.** It is critical to support NBFIs to facilitate DFS growth given they have the largest outreach, while ensuring they are financially and operationally capable of managing such system for the successful implementation of the project. As with financing the establishment of agents, support for digitalizing NBFIs should be made through project steering committee reviewal of proposals with clear and transparent criteria and selection. This will address the lack of capacity both in terms of internal systems and the adoption of innovative delivery channels to reach the unbanked. Through connecting to the payment systems as direct or indirect participants, this component will provide NBFIs with the means to fully participate in the financial sector and embrace digitization to enhance their outreach. For MFIs to connect to the payment systems, they need enhanced core banking systems, as well as front end services to adopt innovative delivery channels and services, such as digital wallets, and prepaid cards, as well as digital credit services. General capacity support on DFS will also be provided for the sector.
45. **The project will support institutions with large reoccurring transaction flows.** As international and domestic remittances and agriculture form large reoccurring payments flows, their digitization (i.e., termination onto bank accounts or mobile wallets) is essential to ensuring both consumers are participating and benefitting from a digital economy, but also that the country's payment systems have sufficient volume to ensure their viability. Thus, this project will help finance capacity building and hardware/software to facilitate digitization of remittances and agricultural payments and potentially other areas as informed by a mapping of payments, including government payments. This work on digitization of agricultural payments, will complement the World Bank's Integrated Development and Competitiveness project which will finance the development of a horizontal platform for crops and livestock by connecting farmers and cooperatives to suppliers, transporters, and processors, among others. This IPF can support the Integrated Development and Competitiveness project by financing the digital payment functionality of this agricultural platform, which would also generate information for credit scores in the agricultural sector.
46. **This subcomponent will support the digitization of government payments.** This component will support digitizing payments for CRC and other government payments, as informed by a mapping of government payments. Support will be in the form of assessments for optimal software and hardware to process pensions and salaries. This subcomponent will allow the CRC to modernize IT systems to benefit the national payment system through added volume. Lastly, capacity building sessions will be provided to CRC in order to strengthen adoption of digital skills.
47. **The project will help provide BCC with the resources to update and advance the financial sector regulatory and oversight frameworks.** The Bank is currently providing TA to amend the payment systems regulatory framework/eco-system through work on the: i) amending the banking act and/or introducing a payments system law; ii) amending the e-money law, iii) developing agent banking regulations, iv) developing



regulation for the right to an account; and v) developing a payment systems oversight framework and corresponding implementation plan. Additionally, WB TA has supported the development of a decree for the establishment of a NPC. While it is envisioned that most of the aforementioned regulatory work will be supported by Bank-executed TA, some of these items will require support under the project in the future. To ensure BCC has the adequate resources to address regulatory developments as they arise, this sub-component is allocating resources accordingly. For example, there is need for a comprehensive law on e-commerce (which includes e-banking), to allow among others, for digital verification and signature. Such a legal instrument can also help facilitate the digital termination of remittances through its legal and regulatory work on areas like e-signatures and digital verification among others.

**The activities below will be funded under this subcomponent:**

- Design and implementation of a financial and digital literacy program with a sub-focus on women
- Capacity building and administrative costs to support and monitor financial institutions' efforts to provide access to BTAs
- Hardware and software for financial institutions to develop agent banking and merchant networks
- Hardware and software with operating cost support, and capacity building, for the digitalization of NBFIs to support digital payments
- Support to government and institutions with large reoccurring transaction flows, including agriculture and remittances, to support digital payments. This exercise will include a mapping of government payments.
- Hardware and software for the pension fund, and capacity building
- Regulatory and oversight framework TA

***Sub-Component 1.3: Enhance Financial Stability and Integrity to Facilitate Usage of Financial Services (USD 3.5 million)***

48. **The actions provided under this sub-component will be supported by a Bank FIRST-funded TA project (P170412), focused on building BCC's capacity as a supervisor and resolution authority (see Annex 1).** This TA focuses on addressing the current state of distress of the financial system through support to BCC's DSBR regarding SNPSF and the drafting of a new banking resolution framework to help strengthen BCC's corrective action powers). The IPF and TA are complementary and the Resident Advisor, will ensure overall coherence of the actions of both projects.
49. **This sub-component will support the acquisition of a bank supervision application to assist DSBR in implementing a risk-based supervision approach and better assessing the soundness of all financial institutions.** Facilitating prudential reporting by banks and MFIs and improving financial analysis by supervisors (which is currently performed using excel spreadsheets transmitted by financial institutions to DSBR) is critical to enhancing supervision. Considering this, the project will finance the acquisition of a supervision application to support on-going supervision of credit institutions and better anticipation of risks stemming from their activities through thorough financial and prudential analysis. This application will also help timely and tamper-proof regulatory reporting and automated report generation allowing supervisors to focus more on risk analysis. A regional solution such as BSA (Bank Supervision Application), implemented in a number of Sub-Saharan African countries, was presented to DSBR's supervisors in 2017 and could be an option for the DSBR, though other options will be discussed during the tender process. The Resident Advisor



will have a critical mission of assisting the DSBR in mastering the new banking application and could design additional supervisory tools as needed.

50. **The project will finance a Resident Advisor for BCC's DSBR to lead and coordinate capacity building of on-site and off-site banking supervision for a period of three years.** Technical advisors have assisted DSBR occasionally in the past, such as with the drafting of 12 prudential regulations issued in 2015. However, DSBR has never been subject to daily support an extended period enabling the roll out of robust risk-based banking supervision. The expected role of the Resident Advisor under the project is broad and would encompass: (i) drafting and implementing a three year strategic supervisory plan, including a NPLs reduction strategy in the financial sector; (ii) adopting a robust risk-based supervision approach through a multi-year off- and on-site supervision plan; (iii) providing training to banking supervisors following the integration of the new BSA and designing additional supervision tools as needed; (iv) assisting DSBR in the definition of its missions and regarding the functioning of the supervisory unit; and (v) ensuring the follow-up of the actions provided under the FIRST project, in particular, the adoption and implementation of a new banking law with an updated resolution framework and BCC corrective powers.
51. **There is a need to support the strengthening of the Public Credit Risk Registry (CDRIP) to improve BCC's ability to monitor the risks in lending portfolios and financial institutions' capacity to leverage data to better manage their portfolio credit risks.** CDRIP is not providing reliable, up-to-date, and trustworthy information as it does not fully reflect lenders' activities, financial institutions do not use the CDRIP for portfolio monitoring purposes, and DSBR cannot leverage this data to fulfill its macroprudential function by providing relevant cross sectional and cyclical information. Therefore, there is a need for a diagnostic to identify weaknesses in the existing platform and identify potential room for improvement in terms of the data collection process, built-in facilities assuring data consistency and quality, and generation of reports on consumers and business entities, etc. If developed properly, the credit registry should provide historical credit data that is needed to conduct stress tests and other Early Warning indicators, which are essential tools for prudential risk supervision. An improved registry will also help provide financial institutions with a holistic picture of the levels of over-indebtedness and NPLs in the market, enabling them to better manage the risks within their portfolios, and eventually resulting in lower default rates and more confidence to lend.
52. **To help build authorities' capacity to address AML/CFT risks and threats and the loss of correspondent banking relationships, this sub-component will finance the implementation of some of the recommendations of the AML/CFT report adopted by the Zone franc authorities and drafted by a Bank team, and the AML/CFT recommendations of the NRA<sup>xxii</sup>.** Given the potentially wide ranging scope of the action plans from these reports, only reforms specific to the integrity of the financial sector will be financed under this IPF to ensure that authorities: start developing the requisite legislation for the identification of beneficial owners of legal persons, implement a risk based approach to financial supervision, and demonstrate an increase of suspicious transaction reporting.
53. **The NRA will be completed in 2020 and will inform the design of additional technical assistance activities, which will aim to enhance the integrity of the financial system so as to alleviate the conditions for the loss of correspondent banking.** This is likely to include training for personnel from the various sectors dealing with AML/CFT issues, as well as the development of a methodology of risk-based supervision for supervisors. Among other activities, this will likely include BCC's development of a risk-based approach for supervision, which could include assistance in designing: a risk cartography of the sector, a reorganization of the supervision function, a guidance manual for supervisors, and legal reforms to ensure the transparency of



legal structures and beneficial ownership – the latter would require legislation and regulatory drafting assistance to change the laws on commercial registries. There is also a broader need for capacity building to support the reinforcement of the financial analysis of suspicious transactions by banks and the FIU, including training of financial analysts, which requires the organization of one or more training workshops for the FIU's financial analysts, compliance officers in banks, and law enforcement.

**The activities below will be funded under subcomponent 1.3:**

- Bank supervision application for financial surveillance
- Resident advisor to help in capacity building for on-site and off-site banking supervision
- Diagnostic of the Public Credit Risk Registry and assistance on its improvement
- TA to enhance the integrity of the financial system as informed by NRA
- Capacity building for the reinforcement of the financial analysis of suspicious transactions by banks and the FIU

**Component 2: Project and Payment Systems Management (USD 2 million)**

***Subcomponent 2.1: Project Management (USD 2 million)***

54. **BCC requires project management support to help ensure successful project implementation and M&E.** While BCC has a Project Management Unit (PMU), they do not have experience implementing Bank projects and, and thus with Bank financial management and procurement. Additionally, the BCC PMU has limited personnel for project implementation who have other full-time responsibilities. In light of this, the project will hire a project coordinator to help oversee and drive the implementation of the project under BCC's project manager. The project will hire a Financial Management and a procurement consultant to help with the overall financial management and procurement to ensure that they meet World Bank procurement guidelines; the procurement consultant would work with other consultants supporting procurement of the ATS+ and switch. BCC's project implementation unit also requires accounting, including IT, and audit support, along with environmental and social safeguards, as it does not have sufficient in-house capacity. As electronic payment systems are a new area for BCC, it is important that in addition to their capacity building from the various project consultants, that BCC builds key capacity building in this field through trainings and peer country visits. BCC will likely need support for data collection to conduct project M&E and a financial inclusion survey(s), as the last one was completed by FINDEX in 2011. Furthermore, the project will support the operationalization of the project steering committee to ensure effective project implementation.
55. **This sub-component also aims to provide support for the development of the higher-level NPC.** In the context of new and increasing numbers of non-bank financial providers competing with banks and the rise of various regulatory bodies overseeing digital payments (including the Telecom regulator), there is a need to ensure these various actors are cooperating at the management levels. Thus, there is need to establish an NPC whose mandate is to foster innovation, competition, and collaboration in the following areas: a) governance and stakeholder engagement, b) coordination and implementation, c) research and surveillance, and d) advisory, policy, and enforcement.

**The activities will be funded under subcomponent 2.1:**

- Project coordinator



- FM consultant
- Procurement consultant
- Consultancy services for accounting, audit, and environmental and social safeguards, and operations
- Accounting software
- BCC capacity building
- Data collection support: M&E and financial inclusion survey(s)
- Project steering committee capacity building<sup>xxiii</sup>  
National Payment Council development and capacity building

Legal Operational Policies

|   | Triggered? |
|---|------------|
| Projects on International Waterways OP 7.50 | No         |
| Projects in Disputed Areas OP 7.60          | No         |

Summary of Assessment of Environmental and Social Risks and Impacts

The environmental and social risk classification for the Project is low under the World Bank ESF. The risk classification is low because the environmental and social impacts likely to be generated from the project activities are likely to be minimal or negligible. Based on the project description, no environmental issues are related to the proposed reform to update legal and regulatory framework and TA with financing of equipment and material. The ESRC is considered to be Low. In line with ESF requirements, the Borrower has developed: i) an Environmental and Social commitment plan (ESCP) which could be adjusted during the project life keeping with the evolution of environmental and social risks and impacts; ii) a draft Stakeholder Engagement Plan (SEP); iii) a draft Labor Management Procedures (LMP); iv) an accessible and operational Grievance Mechanism (GM); and (v) an environmental and social screening tools (Environmental and Social Management Plan or ESMP check list) for the minor rehabilitation of the premises of the BCC to house IT equipment and materials. Public consultations with financial sector stakeholders took place prior to the Decision Meeting to inform the aforementioned work (in addition to the broader project) and the project will develop a communication strategy to share information related to the Project by informing the public about the Project’s objectives, activity, expected impact and results. The strategy and tools will be tailored according to the targeted audiences.

E. Implementation

Institutional and Implementation Arrangements

56. **BCC will be entity responsible for project implementation.** A Project Implementation Unit (PIU) will be the structure put in place at BCC: The financial management of the project will be the BCC General Secretariat’s responsibility, which will undertake accounting services and issue financial reports, procurement, and monitor contracts. It has been identified that that BCC’s PMU structure in place needed some reinforcements



to host the project (accounting, human resources, and internal audit); for which project resources have been provided to support BCC.

57. **BCC will also have to recruit a project coordinator and a procurement officer to be financed by the project as well as appoint staff to help constitute the PIU.** In this regard and with respect to the procurement implementation procedures (e.g., Systematic Tracking of Exchanges in Procurement (STEP) and the Project Procurement Strategy for Development (PPSD)), the Bank team has organized trainings on the use of STEP and will do so for the procurement regulation requirements, as soon as the personnel concerned have been hired and are in place.
58. **A PPA is currently being implemented to finance activities to enable BCC to start the project.** The PPA covers an array of activities, including: the PPSD, the Project Operations Manual, environmental and social safeguards, various costs to finance the establishment of the PIU, study tours, a consultant to commence work on the network and core banking requirements to facilitate introduction of the ATS+ and switch, and other operational costs. The team has also explored how to ensure the project team in Comoros can function given the challenges related to COVID-19 and it has been decided to finance wifi for the PIU to ensure business continuity through remote working.

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**APPROVAL**

|                      |  |
|----------------------|--|
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|----------------------|--|

**Approved By**

|   |              |             |
|---|--------------|-------------|
| Environmental and Social Standards Advisor: |              |             |
| Practice Manager/Manager:                   |              |             |
| Country Director:                           | Rasit Pertev | 30-Apr-2020 |

**Sources**

- <sup>i</sup> The KMF is pegged to the Euro at 491.97 Francs = 1 Euro.
- <sup>ii</sup> IMF 2014, 2016, and 2018.
- <sup>iii</sup> 2017, Atlas method. Note the figure is line with revised GDP figures.
- <sup>iv</sup> WB figures.
- <sup>v</sup> Andriamihaja, Cinyabuguma: Understanding fragility in Comoros, remittance and exchange rate trap.
- <sup>vi</sup> IMF Country Report, June 2018.
- <sup>vii</sup> Based on Lower middle-income poverty rate (\$3.2 in 2011 PPP). If the International poverty rate (\$1.9 in 2011 PPP) is used, the figure is 18.1 percent.
- <sup>viii</sup> IMF.
- <sup>ix</sup> According to article 17 of the 2015 regulation on loan classification and provisioning, financial institutions had three years to comply with the new text by writing off their old and fully provisioned doubtful exposures.
- <sup>x</sup> The final loss for 2018 is still to be validated by the auditors.
- <sup>xi</sup> All USD figures are calculated using end of year exchange rates with the exception of figures without specific dates, such as KMF limit in a law, in which case the August 31, 2018 exchange rate is used.
- <sup>xii</sup> ROA figures from IMF; ROE calculated from BCC data.



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xiii IMF

xiv Finstats 2018.

xv Finstats 2018. Note: The Finstats database only includes bank branches not for SNPSF and MFIs.

xvi Regulation No15-026/PR (2015).

xvii According the IMF Financial Access Survey (FAS).

xviii BCC.

xix Establishment of the switch implementation committee is a legal covenant.

xx The legal framework in Comoros allows MFIs to issue cheques and hold a settlement account with the Central Bank

xxi Mobile terminals are more cost effective and solar versions can be used in rural areas where electric power is not available.

xxii The NRA exercise commenced in October 2019 and to be completed by December 2020.

xxiii Establishment of the project steering committee is a legal covenant.