Appraisal Environmental and Social Review Summary

Appraisal Stage

(ESRS Appraisal Stage)

Date Prepared/Updated: 04/29/2020 | Report No: ESRSA0761
BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comoros</td>
<td>AFRICA</td>
<td>P166193</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Project Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comoros Financial Inclusion Project</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Practice Area (Lead)</th>
<th>Financing Instrument</th>
<th>Estimated Appraisal Date</th>
<th>Estimated Board Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance, Competitiveness and Innovation</td>
<td>Investment Project Financing</td>
<td>4/14/2020</td>
<td>7/1/2020</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Borrower(s)</th>
<th>Implementing Agency(ies)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministre des Finances, du Budget et du Secteur Bancaire</td>
<td>Banque Centrale des Comores</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Proposed Development Objective(s)</th>
<th>Proposed Development Objective(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To increase access to and usage of financial services for adults.</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Financing (in USD Million)</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Project Cost</td>
<td>20.00</td>
</tr>
</tbody>
</table>

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

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.

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), 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.

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.

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).

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).

D. Environmental and Social Overview
D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]
The Project Development Objective (PDO) is to increase access to and usage of financial services for adults. 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. The project will be implemented in the three small islands of the Union of the Comoros, which are Ngazidja, Mwali, and Ndzouani. Union of the Comoros is an island nation with an estimated population of 832,347 in 2018, of which half of the population is under the age of 15. Typical of small island states, Comoros faces geographical isolation, is densely populated, and has limited resources, a small domestic market, a narrow export base, and a high dependence on food imports and remittances. In comparison with most African countries, Comoros is relatively homogeneous in ethno-linguistic and religious terms. Nevertheless, there are significant socio-cultural differences in Comorian society (mainly between the three islands) that constrain national solidarity and reinforce inter-island political and economic competition.

D. 2. Borrower’s Institutional Capacity
The Ministry of Finance (MOF) will be the signatory of the IDA Credit, but the Banque Centrale des Comores (BCC) will be the governmental entity responsible for project implementation. The Project Management Unit (PMU) will be the structure already in place at the BCC. The BCC does not have any capacity in Environmental and Social Framework (ESF). Given the expanded scope of the Environmental and Social Framework (ESF) and the client’s unfamiliarity with the new ESF, the project need to hire a Environmental and social specialist to support the implementation of E&S measures described into the ESF documents such as the Environmental and Social Commitment Plan (ESCP), the Labor Management Procedures (LMP) and the Stakeholder engagement Plan (SEP).

II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC) Low

Environmental Risk Rating Low
The environmental risk classification (ESRC) for the Project is low under the World Bank ESF because there is negligible or minimal environmental risks associated with the project and negligible impacts likely to be generated from the project activities, which include proposed financial reform to update legal and regulatory and technical assistance with financing of equipment and materials. The project will have limited rehabilitation of infrastructures under Sub-component 1-3, mainly the rehabilitation of existing data center emergency room to house Equipment and material at the Central Bank of Comoros (CBC).

Social Risk Rating Low
The social risk classification for the Project is low under the World Bank ESF because the social risks associated with and impacts likely to be generated from the project activities are likely to be minimal or negligible. It is expected that these project activities will have essentially positive social impacts to reduce population vulnerability and security through the improvement of the financial system and services. In fact, the project will contribute to improve population security in their localities with the payments system in Comoros which is predominated by using of cash
across all sectors of society and the economy. There are limited proposed rehabilitation of infrastructures which could lead for negative risks Occupational Health and safety of workers, community health risk (HIV/STI) due to labor influx (even minor), which will be site specific and manageable. However there are no identified key social risks related to land access, cultural heritage. Furthermore, in line with the WB GBV Good Practice Note, the Bank has undertaken a GBV risks screening of potential risks and impacts induced by the project and the GBV risk has been rated as low. One potential risk is the potential exclusion of vulnerable groups from fully participating/benefiting from access to and usage of financial services (under component 1). Specific measures have been developed in the SEP. The Client capacities and institutional and legal framework on social risk management and the variety of issues covered under this ESF stream do not yet duly respond to ESF requirements.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

The project does not involve any activities that have significant environmental nor social risk or could generate significant and irreversible environmental or social impacts. The aim of the project is to strengthen the financial sector with reform to update legal and regulatory frameworks and technical assistance with financing of equipment and material. It does involve limited rehabilitation of physical infrastructure which will be site specific and will have limited risks. Thus no key environmental and social risks related to physical and geographical issues biodiversity; land access, occupational and community health, cultural heritage, have been identified. Environmental and social risk and impacts that have been identified during the preparation of the project mission are: weak capacity of the client to assess and manage environmental and social risks and impacts, in relation to ESS1; potential risks related to labor conditions (working hours, wages, Occupational Health and Safety) in relation to ESS2; need to conduct an energy audit and prepare an energy efficiency plan to address resource efficiency related to the operation of the data center in relation to ESS3; minor potential risks of spread of infection diseases (STI/HIV), limited risk of Gender Based Violence (GBV) in relation to ESS4 due to labor influx (even minor); potential neglect of vulnerable groups like women, people with disabilities, or people in remote areas in relation to ESS10. ESS5, ESS6, ESS7, ESS8 and ESS9 have been assessed as currently not relevant.

Mitigation measures have been planned to manage the identified risks related to ESS1. 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); and (iv) an accessible and operational Grievance Mechanism (GM) and a checklist Environmental and Social Management Plan will be implemented for the minor rehabilitation of the premises of the Central Bank of Comoros (CBC) to house IT equipment and materials. An energy audit will be conducted to identify opportunities for energy efficiency.

ESS10 Stakeholder Engagement and Information Disclosure

Stakeholder engagement is a critical tool for social and environmental risk management, project sustainability and success. Project activities require real commitment of different stakeholders. In its component 2 the project plans to establish a National Payment Council and a formalized collaboration between the telecom regulator and the central
Bank (BCC). Success of such collaboration requires identification of the clear interests of all parties and the implementation of accountability system, as well as the establishment of an effective monitoring mechanism which is often missing in the implementation of previous projects.

Mitigation measures have been planned to manage the identified risks related to ESS10. In consultation with the Bank, the BCC prepared a draft Stakeholder Engagement Plan (SEP) which involve all identified stakeholder of the project, including most influential stakeholders as well as most vulnerable, which will be cleared and disclosed as early as possible, and prior to Appraisal. The client will seek stakeholder feedback and opportunities for proposed future engagement, ensuring that all consultations are inclusive and accessible (both in format and location) and through channels that are suitable in the local context. If major changes are made to the SEP, a revised SEP should be publicly disclosed. The borrower will engage in meaningful consultations with all stakeholders throughout the project life cycle paying particular attention to the inclusion of vulnerable and disadvantaged groups. BCC will provide stakeholders with timely, relevant, understandable and accessible information, and consult with them in a culturally appropriate manner, which is free of manipulation, interference, coercion, discrimination and intimidation. As part of the environmental and social assessment the BCC will maintain, and disclose, a documented record of stakeholder engagement, including a description of the stakeholders consulted, a summary of the feedback received and a brief explanation of how the feedback was taken into account, or the reasons why it was not.

Grievance mechanism (GM). The project has developed as part of the SEP a project specific GM, proportionate to the potential risks and impacts of the project.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

ESS2 is currently assessed as relevant as the Project will require the recruitment of direct workers (PIU worker, and technical assistant), contracted worker (number not yet well defined), and other contractors which will raise the importance of the respect of the right of the workers. This is also a need for fair recruitment as the administration in the Comoros is reputed for recruitment tainted with a system of favoritism, nepotism and conflict of interest. The Union of Comoros has a clear legal framework governing the right of workers (the law of 18 February 1984 which established the Labor Code). This code preserves the worker’s essential interests (trade union rights, employment contract, health and safety). In addition to this national framework, the project will implement measures to ensure non-discrimination and promote gender sensitivity in the recruitment process of workers. Therefore, requirements of Paragraphs 9 to 30 (working conditions and management of worker relationships, protecting the work force, grievance mechanism, occupational health and safety (OHS)) of ESS2 will apply to direct workers; requirements of Paragraphs 9 to 33 of ESS2 will apply to contracted workers; requirements of Paragraphs 17 to 20 (Protecting the Work Force) will be applied to prevent child labor and forced labor.

The Borrower has developed and will implement (i) Labor Management Procedures (LMP) and (ii) worker’s Grievance Mechanism (GM) which will capture all workers complaints and (iii) will launch sensitization program related to the availability of worker’s Grievance Mechanism (GM) and to the respect of code of conduct to prevent and address any harassment, intimidation and/or exploitation within the project. All staff hired by the project will be required to sign and adhere to the standardized code of conduct.
ESS3 Resource Efficiency and Pollution Prevention and Management

ESS3 is relevant for the project. Indeed, the project does not expect to finance any civil works or other activity which involve use or production of chemical products, or development and emissions of hazardous and non-hazardous chemical pollutants in the solid, liquid, or gaseous phases, nuisance odors, noise, vibration, radiation, electromagnetic energy, and the creation of potential visual impacts. A Solid Waste Management Plan for the limited civil works related to rehabilitation of existing data center emergency room will be implemented by the enterprise with disposal site for waste materials to be approved by the municipality. The project should conduct an energy audit and prepare an energy efficiency plan to address resource efficiency related to the operation of the data center in six months after effectiveness.

ESS4 Community Health and Safety

ESS4 is assessed as relevant to the Project. Indeed, it is identified limited risk of Gender Based Violence (GBV), and minor potential risks of spread of infection diseases (STI/HIV) due to labor influx (even minor) during rehabilitation of the premises of the CBC to house IT equipment and materials.

To manage and mitigate the identified risks related to ESS4, the project has integrated into ESCP, and Stakeholder Engagement Plan (Plan de Mobilisation des Parties Prenantes, PMPP) training for communities on STI/HIV, GBV but also on child protection. The project will prepare, adopt and implement a Gender-based Violence (GBV) sensitization activities. The project will ensure that the code of conduct is included into all bidding documents and all worker’s contracts. The project will ensure that a GM adapted to GBV is operationalized for the project.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

ESS5 is not relevant for the Project. Indeed, the project does not have any components that require land acquisition or resettlement, either temporary or permanent, or restrictions on land use.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

ESS6 is not currently relevant to the Project. The project will not finance activities which could impact forests or other natural resources.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

ESS7 is not relevant to the Project. Based on information available at concept stage, there are no groups that meet the ESF criteria for Indigenous Peoples/Sub-Saharan Historically Underserved Traditional Local Communities in the project area of influence.
ESS8 Cultural Heritage
ESS8 is not relevant for the Project. There will not be any activities in the project which will have impact on cultural heritage.

ESS9 Financial Intermediaries
ESS9 is not relevant for the project. There are no specific activities related to Financial intermediaries.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways  
No

OP 7.60 Projects in Disputed Areas  
No

III. BORROWER’S ENVIRONMENTAL AND SOCIAL COMMITMENT PLAN (ESCP)

<table>
<thead>
<tr>
<th>DELIVERABLES against MEASURES AND ACTIONS IDENTIFIED</th>
<th>TIMELINE</th>
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<tbody>
<tr>
<td>ESS 1 Assessment and Management of Environmental and Social Risks and Impacts</td>
<td></td>
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<tr>
<td>Update, adopt, and implement the Environmental and Social Commitment Plan (ESCP);</td>
<td>08/2020</td>
</tr>
<tr>
<td>Update, adopt, and implement the Environmental and Social Management Plan (ESMP) Check list (or environmental and social screening tools) for the minor rehabilitation of the premises of the Central Bank of Comoros (CBC) to house IT equipment and materials.</td>
<td>08/2020</td>
</tr>
<tr>
<td>ESS 10 Stakeholder Engagement and Information Disclosure</td>
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<tr>
<td>Update, adopt and implement the SEP</td>
<td>08/2020</td>
</tr>
<tr>
<td>ESS 2 Labor and Working Conditions</td>
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<tr>
<td>Finalize, adopt, and implement the Labor Management Procedures (LMP)</td>
<td>08/2020</td>
</tr>
<tr>
<td>ESS 3 Resource Efficiency and Pollution Prevention and Management</td>
<td></td>
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<tr>
<td>Conduct an energy audit and prepare an energy efficiency plan to address resource efficiency related to the operation of the data center.</td>
<td>12/2020</td>
</tr>
<tr>
<td>ESS 4 Community Health and Safety</td>
<td></td>
</tr>
<tr>
<td>The project will prepare, adopt and implement a GBV sensitization activities. The project will ensure that the code of conduct is included into all bidding document</td>
<td>12/2020</td>
</tr>
</tbody>
</table>
ESS 5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement
Not relevant

ESS 6 Biodiversity Conservation and Sustainable Management of Living Natural Resources
Not relevant

ESS 7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities
Not relevant

ESS 8 Cultural Heritage
Not relevant

ESS 9 Financial Intermediaries
Not relevant

B.3. Reliance on Borrower’s policy, legal and institutional framework, relevant to the Project risks and impacts

Is this project being prepared for use of Borrower Framework? No

Areas where “Use of Borrower Framework” is being considered:
Not applicable

IV. CONTACT POINTS

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Borrower: Ministre des Finances, du Budget et du Secteur Bancaire

Implementing Agency(ies)
Implementing Agency: Banque Centrale des Comores
V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

Task Team Leader(s): Nicholas Timothy Smith, Brinda Devi Dabysing

Practice Manager (ENR/Social) Senait Nigiru Assefa Cleared on 23-Apr-2020 at 15:29:9 EDT