

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC65361

Project Name	Financial Sector Development (P151507)
Region	AFRICA
Country	Cote d'Ivoire
Sector(s)	Banking (30%), Microfinance (30%), General finance sector (20%), Payments, settlements, and remittance systems (15%), SME Finance (5 %)
Theme(s)	Other Financial Sector Development (55%), Financial Consumer Protection and Financial Literacy (20%), Corporate governance (15%), State-owned enterprise restructuring and privatization (10%)
Lending Instrument	Investment Project Financing
Project ID	P151507
Borrower(s)	Ministry of Economy and Finance
Implementing Agency	Ministry of Economy and Finance
Environmental Category	C-Not Required
Date PID Prepared/ Updated	26-May-2016
Date PID Approved/ Disclosed	26-May-2016
Estimated Date of Appraisal Completion	04-Oct-2016
Estimated Date of Board Approval	15-Dec-2016
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. Since 2012, Cote d'Ivoire has made a remarkable transition from crisis to relative stability. Cote d'Ivoire emerged from a decade of instability in 2012. Although some of the root causes of the conflict remain, economic transformation is ongoing jointly with a reconciliation agenda. The presidential elections were held peacefully in October 2015 and confirmed the incumbent. Measures were implemented since 2012 to improve social cohesion such as compensation to war victims and release of political prisoners.

2. Economic growth has been strong. The 2012-2015 average annual growth was almost 9 percent and is projected to be around 8 percent over 2016-2017. Part of this performance is explained by the catch up effect but also by the booming agricultural sector helped by high prices,

good climate, and the sustained effort by the authorities to enhance productivity gains in the cashew nuts and cocoa value chains. GDP growth benefited from improved government access to international capital markets after the debt reduction under the HIPC initiative in 2012, positive term of trade development in the coffee/cacao sector, and accommodative monetary policy. Inflation has remained controlled, under the 2 percent target within WAEMU, while the external balance improved thanks to stronger exports and the recent decline in oil prices that contributed to reduce the country's energy import bill.

3. After a rapid increase over the past few years, the central government's public debt is expected to stabilize around 45 percent of GDP in 2016 with an overall fiscal balance estimated at 3.7 percent of GDP. The central government accounts for a quarter of GDP while efforts to reduce the number of state-owned enterprises and restructure remaining ones are ongoing. The authorities have implemented a very ambitious infrastructure investment effort since 2012, with a pronounced shift of public expenditures toward investment. Partnerships with the private sector have been increasingly used in priority sectors, such as roads.

4. In spite of robust economic growth, poverty remains high. 46.3 percent of the population lived below the national poverty line (1.23 USD per day according to the findings of the 2014 Living Standards Monitoring Survey). Poverty is overwhelmingly rural, with pronounced differences between the north (69 percent poverty rate) and the south (25 percent).

5. Cote d'Ivoire belongs to the West Africa Economic and Monetary Union (WAEMU). The region comprises 8 countries sharing a common currency the West Africa Franc (FCFA). Financial sector laws are regional and uniform; the regional Central Bank (BCEAO) has been the regulator and supervisor of the financial system since 1990.

Sectoral and Institutional Context

6. The country's financial sector remains relatively small and bank centric. As of December 2015, the sector included 26 banks (4 public), 2 specialized financial institutions, 61 licensed micro-finance institutions, 3 mobile network operators offering mobile money products, and 21 insurance companies. Banks manage 80 percent of financial sector assets. The capital adequacy for the banking system was 9 percent as of September 2015, with non-performing loans (NPLs) at around 11 percent (driven upwards by outliers) and a coverage ratio of 71 percent. A regional deposit insurance fund is being set up by the BCEAO, both for banks and Microfinance institutions (MFIs).

7. From a low depth, the financial system is catching up. The depth of the Ivorian financial sector is behind peers. In December 2015, the ratio of credit to GDP stood at 23 percent and that of deposit to GDP at 29 percent. However, credits and deposits have been growing extremely rapidly in 2015 (+ 29 and 23 percent respectively), particularly in the last quarter.

8. Financial inclusion remains low, although access to transaction accounts is increasing with the uptake of mobile money. According to the Global Findex, in 2014, only 15 percent of the Ivorian adult (15+) population reported to have an account at a bank or another type of financial institution. This ratio increases to 34 percent with mobile accounts, which grew from 1.5 million in 2010 to 9.8 million in 2015; however, only one-third of these accounts are reportedly active.

9. The authorities have adopted strategies to support sound financial inclusion. In 2013, the

country adopted a National Financial Inclusion Strategy (NFIS) and in 2014 a Financial Sector Development Strategy. Both aim at increasing access to financial services while promoting stability. In 2014, the authorities adopted a plan to restructure the state-owned banking sector, which is being implemented. In 2015, a specific unit attached to the Ministry of Finance was created by decree to implement the financial sector strategies.

10. Despite positive developments in the financial sector, there are challenges: (i) the restructuring of state-owned banks is ongoing and, if not properly implemented, would present undue fiscal risks, risks to financial stability or negatively impact ongoing efforts to strengthen public interventions; (ii) the main cooperative microfinance network (UNACOOPEC) remains in poor financial and operational condition, which could significantly affect its large customer base (650,000 members); and (iii) some sectors and rural areas remain underserved. The observed rapid financial deepening would not suffice to address these challenges. The project (and associated technical assistance) would support ongoing national and regional initiatives to tackle these issues through strengthening the sector and increasing responsible access to financial services. It would be aligned with the authorities' identified priorities and provide relevant lessons for other WAEMU countries

Relationship to CAS

11. The WBG Country Partnership Framework dated August 2015 covers the period FY16-FY19. Focus Area 1 of the CPF calls for strengthening institutions and the environment for a revitalized private sector. It states that the WBG will continue to support reforms in the governance of the financial sector, and strengthen the capacity of financial institutions to promote investments in key sectors. This includes both restructuring banks and microfinance institutions, and improving access to financial services. Two progress indicators of the CPF are the restructuring of the state-owned banks and of the UNACOOPEC.

12. Cote d'Ivoire has been included as one of 25 focus countries in the Universal Financial Access (UFA) agenda. In 2015 the WBG committed to help extend access to financial services via transaction accounts by 2020 to 1 billion adults who are financially excluded. Cote d'Ivoire is one the 25 focus countries where 78 percent of the world's unbanked adult population lives. To this end, technical assistance has been mobilized via the FIRST (financial sector reform and strengthening initiative) and FISF (financial inclusion support framework) trust funds.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective is to support the government of Cote d'Ivoire to foster sound financial inclusion.

Key Results (From PCN)

PDO level indicators:

BNI and UNACOOPEC have been restructured to achieve financial soundness, a viable business model and sound governance.

The percentage of adults having access to an account has increased from 2014.

III. Preliminary Description

Concept Description

15. The proposed PDO supports the financial sector strategy of the government that involves restructuring public banks and the cooperative network as well as fostering sound financial inclusion. The project is expected to have two components:

Component 1: Sound financial intermediation for selected institutions

16. The project would support the restructuring of the Banque Nationale d'Investissement (BNI), the main public bank that is expected to remain state-owned, and of the UNACOOPEC. It does not have a broad financial stability objective but aims to address legacy issues that hinder financial inclusion. Currently, both institutions have serious governance problems and capital deficiencies if impaired assets were accounted for based on international standards. UNACOOPEC was placed under conservatorship in 2013 and little progress has been made to achieve financial soundness. BNI is the 8th largest bank in Cote d'Ivoire with over 100,000 clients but is plagued by impaired loans and non-performing government exposures. The project is supported by a FIRST grant which provides technical assistance to frame the restructuring strategies.

17. A restructured BNI is expected to support funding to key economic sectors. Currently the mandate of the BNI is not clear. It is a former investment bank, which has moved recently to SME finance to fill a gap, without adequately managing the associated risks. The restructuring would entail strengthened governance, including through a clarification of its business model, to ensure viable operations going forward and a complementarity with the rest of the financial system.

18. The UNACOOPEC is a critical actor for financial inclusion. It uniquely covers the entire territory of Cote d'Ivoire, with 131 points of service and 650,000 members, reaching about 16 percent of the population. Yet its business model is not viable and focused on salaried workers and retirees. It is highly dependent on the implementation of public credit programs. The objective of the restructuring under the loan would be to restore financial soundness and improve governance so as to better serve the needs of populations that are excluded from the formal system, mainly in rural areas.

19. The funding for this component will be determined based on restructuring strategies chosen by the government. As the project is not expected to cover all the funding needs for restructuring, the team will agree a funding plan with the government by appraisal.

Component 2: Responsible financial access

20. The project would help increase responsible access to financial services. This would be achieved via the digitalization of government payments on a pilot basis, and the promotion of consumer protection and agent banking. As financial regulation is elaborated at the regional level, the project would not support regulatory reforms, however a FISF technical assistance is expected to support an enabling framework for consumer protection and for retail agents, which could be piloted in Cote d'Ivoire.

21. The digitalization of government payments would help unbanked beneficiaries of government payments / payers to access a transaction account (as well as improve the efficiency of

tax collection). The Payment Aspects for Financial Inclusion (PAFI) taskforce highlights that large, recurrent payment streams such as Government payments, both disbursed and received, including payments of taxes, have an impact on financial inclusion. The team has identified the Tax Authority as a suitable partner to pilot the digitalization. Taxes are only paid in cheques or cash, while most government payments to suppliers, civil servants and pensioners are made electronically. The project would finance the equipment required for the digitalization of tax payments, while FISF would provide advisory services. It is expected to particularly benefit micro and small enterprises which pay their taxes in cash at their municipalities.

22. The project would support measures to protect consumers of financial services. The legal and regulatory framework for consumer protection is narrow and focus on a usury rate, with no redress mechanisms. As the unbanked get access to financial services, they may fall prey to predatory practices and over-indebtedness. The project would support the creation of an institution to promote financial consumer protection according to international best practices, focused on transparency of financial services and complaint handling. This institution would provide redress to customers of financial services.

23. The project may also support the development of retail agents for financial services on a pilot basis. Evidence shows that retail agents can help enhance financial inclusion by reaching underserved populations. However, agent-related risks need to be correctly supervised and mitigated (consumer protection, anti-money laundering, risk management). Subject to an enabling regional framework for agents to be developed by the regional central bank (BCEAO), the project would support the implementation of a pilot program, building on the development of agents for mobile payment services.

24. The project is expected to be structured as a result-based IPF, with an input-based financing component. This is underpinned by the need to support reforms over the medium term, compared to the DPO instrument. The restructuring of BNI and UNACOOPEC is expected to be supported by disbursement-linked indicators, while the other activities would be implemented through input-based financing

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		✗	
Natural Habitats OP/BP 4.04		✗	
Forests OP/BP 4.36		✗	
Pest Management OP 4.09		✗	
Physical Cultural Resources OP/BP 4.11		✗	
Indigenous Peoples OP/BP 4.10		✗	
Involuntary Resettlement OP/BP 4.12		✗	
Safety of Dams OP/BP 4.37		✗	
Projects on International Waterways OP/BP 7.50		✗	
Projects in Disputed Areas OP/BP 7.60		✗	

V. Financing (in USD Million)

Total Project Cost:	30.00	Total Bank Financing:	30.00
Financing Gap:	0.00		
Financing Source			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			30.00
Total			30.00

VI. Contact point

World Bank

Contact: Cedric Mousset
 Title: Lead Financial Sector Speciali
 Tel: 458-9234
 Email: cmousset@worldbank.org

Contact: Caroline Marie C. Cerruti Hailey
 Title: Sr Financial Sector Spec.
 Tel: 5327+6447 /
 Email: ccerruti@worldbank.org

Borrower/Client/Recipient

Name: Ministry of Economy and Finance
 Contact: Issa Fadiga
 Title: Special Advisor to the Minister
 Tel: 22520208156
 Email: issa.fadiga@egouv.ci

Implementing Agencies

Name: Ministry of Economy and Finance
 Contact: Issa Fadiga
 Title: Adviser to the Minister
 Tel: 22520208156
 Email: issa.fadiga@egouv.ci

VII. For more information contact:

The InfoShop
 The World Bank
 1818 H Street, NW
 Washington, D.C. 20433
 Telephone: (202) 458-4500
 Fax: (202) 522-1500
 Web: <http://www.worldbank.org/infoshop>