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Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 31-Oct-2024 | Report No: PIDDA00118

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Cote d'Ivoire	P180234	Cote d'Ivoire Investment for Growth DPF3/PBG/D4D	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
WESTERN AND CENTRAL AFRICA	15-Nov-2024	Macroeconomics, Trade and Investment	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency		
Republic of Cote d'Ivoire	Ministry of Finance and Budget		

Proposed Development Objective(s)

The Program Development Objective (PDO) of the proposed operation is to: (1) strengthen competition in key enabling sectors and domestic revenue mobilization; (2) expand equitable access to health and education services; (3) promote the sustainable use of natural resources.

Financing (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Financing	**1,216.66**

DETAILS

Total World Bank Group Financing	**850.00**
World Bank Lending	300.00
World Bank Guarantees	550.00
Total Non-World Bank Group Financing	**916.66**
Private Capital and Commercial Financing Amount	916.66
of which Private Capital	916.66

Decision

The review did authorize the preparation to continue

Explanation

B. Introduction and Context

Country Context

1. **This is the third Development Policy Financing (DPF) operation (in a series of three) supporting growth and investment in Côte d'Ivoire and the Policy-Based Guarantee (PBG) will enable the government to implement a Liability Management Operation (LMO) and secure a sustainability linked loan (SLL).** The operation includes an International Development Association (IDA) credit of EUR XX million (US$300 million equivalent) and an International Bank of Reconstruction and Development (IBRD) Policy Based Guarantee (PBG) of EUR 500 million (US$XX million equivalent). The PBG, expected to mobilize EUR 800 million in commercial financing (at 60 percent guarantee coverage), will enable the government to conduct two sequential transactions (Annex 8). The first transaction would be the first component of a debt for development swap program. As part of the program, part of the PBG would facilitate a LMO by which the government would contract a commercial loan in 2024 to buy back around EUR 400 million of expensive commercial debt. This LMO would improve the country's debt amortization profile and put Côte d'Ivoire's debt trajectory firmly at a moderate risk of external debt distress. The government intends to invest the generated fiscal space in scaling up education sector development outcomes. The second component of the debt for development swap program would be an ongoing Program for Results (PforR) in the education sector. The PforR would be used to monitor the achievement of the more ambitious education outcomes.[1] Taken together, the PBG-supported LMO and the PforR would constitute **the first application of the new WB-IMF framework for debt for development swaps.**[2] The second transaction supported by the PBG utilize the remaining portion of the PBG to secure a Sustainability Linked Loan (SLL) in 2025 to tap into the new Environmental, Social, and Governance (ESG) investor segment in line with its commitment to environmental sustainability.

2. **One of the fastest-growing economies in sub-Saharan Africa pre-pandemic, Côte d'Ivoire's growth model has shown signs of exhaustion.** Between 2012-19, real Gross Domestic Product (GDP) growth averaged 8 percent (5.4 percent in per capita terms) on the back of sound macroeconomic policies and political stability. The poverty rate using the national poverty line declined from 44 to 39.5 percent between 2015-18.[3] Over the last 3 years, however, faced with global and regional headwinds, real GDP growth has remained below pre-pandemic levels (6.4 percent in 2021-24) and while poverty rates have declined, the number of poor people has increased due to demographic growth and stagnation in rural poverty reduction.[4]

[1] The Côte d'Ivoire Strengthening Basic Education System Operation (P177800) will be used for monitoring of debt for development swap commitments. The operation will be restructured separately to show higher ambition in disbursement linked indicators.
[2] World Bank. Debt for Development Swaps: An Approach Framework (English). Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/099080524122596875/BOSIB170e4732504619bc417c0d0996ec21
[3] The surveys in 2015 and 2018/19 are not directly comparable due to methodological differences and have been adjusted for that purpose.
[4] The poverty rate edged down from 39.4 percent in 2018 to 37.5 percent in 2021, but the absolute poverty-stricken population rose to 11.2 million due to demographic growth. Poverty reduction in urban areas, including a 3.2 percent drop in Abidjan, contrast with a mere 0.2 percent decrease in rural regions.

C. Proposed Development Objective(s)

The Program Development Objective (PDO) of the proposed operation is to: (1) strengthen competition in key enabling sectors and domestic revenue mobilization; (2) expand equitable access to health and education services; (3) promote the sustainable use of natural resources.

Key Results

3. The proposed measures in pillar 1 are expected to stimulate the development of Fintech, reduce the price of freight and the asymmetry of information between shippers and carriers, and to enhance fiscal space for public investment by optimizing the collection of fiscal revenues. The reforms supported in pillar 2 are expected to correct dysfunctions in teacher allocation and reduce disparities between regions by instituting a needs-based pupil/teacher allocation, improve the number of female teachers, improve the quality of technical and vocational education and training systems and reduce gender skills gaps, increase enrollment in the CMU national health insurance scheme and strengthen its sustainability. In Pillar 3, reforms are expected to ensure sustainable investment in cocoa production by promoting and guaranteeing the production of sustainable cocoa beans that meet production, traceability, and certification requirements facilitating export to the EU; to revert deforestation through the support of agro-forestry and reforestation efforts; and to reinforce climate change resilience by strengthening the environmental and coastal areas' regulatory framework.

D. Project Description

4. **The proposed operation brings together a suite of WBG financial instruments, technical assistance, and knowledge to maximize development outcomes for Côte d'Ivoire, while supporting the country in reinforcing debt sustainability and mobilizing private capital.** The LMO is expected to ease liquidity pressures in 2025-2027, leading to over one percentage point (pp) reduction in the debt service-to-revenue ratio from its peak of 2025[5] (Figure 1). In addition, it creates fiscal space that the government intends to use to finance more ambitious outcomes in the education sector through their own budget process. Côte d'Ivoire ranks among the lowest internationally and below average for sub-Saharan Africa (SSA) on the Human Capital Index at 0.38. This innovative debt for development swap program approach helps the government mobilize private capital for development and prioritizes transparency and accountability in the use of resources, while applying country systems for implementation and results, in strong alignment with the national priorities. The remaining portion of the PBG will facilitate issuance of an SLL in early 2025, building on WBG's ongoing technical assistance to support the development of Côte d'Ivoire's sustainability financing framework, environmental and social key performance indicators (KPIs). The PBG portion enabling the SLL will be made available subject to the issuance by the second-party opinion (SPO) provider of a satisfactory SPO in respect of the key performance indicators outlined in the sustainability-linked financing framework.

5. **This operation is underpinned by a strong reform program supported under the third in a series of DPF operations aligning with Côte d'Ivoire's inclusive growth objective of becoming an upper middle-income economy.** Policy and institutional reforms supported by the program address structural bottlenecks to enable efficient allocation of resources and sustain inclusive growth under growing climatic threats in line with government priorities and identified in recent World Bank diagnostics.[6] Supported reforms under Pillar 1 of the operation focus on strengthening competition in key enabling sectors, notably financial services, telecom, and transport, and domestic revenue mobilization. Reforms under Pillar 2 aim at expanding equitable access to health and education services through the reinforcement of the quality of education, alleviation of skills mismatch in labor markets through more effective professional skills systems, and

[5] The buyback assumes a target of external commercial loans maturing between 2029 and 2033 and carrying variable interest rates, with a total cost currently higher than 8 percent p.a. Replacing these loans with the PBG-backed one is expected to generate savings in net present value terms of up to EUR 60m using a discount rate of 7.7% or Cote d'Ivoire's yield curve. The PBG-backed commercial loan is assumed to have a maturity of 15 years, 6 years grace period and interest at 6%.

[6] Notably the Country Private Sector Diagnostic (CPSD), Systematic Country Diagnostic Update (SCD, World Bank 2022), the Country Economic Memorandum (CEM, World Bank 2022), the Public Finance Review (PFR, World Bank 2023), and the Country Climate and Development Report (CCDR, World Bank 2023).

promotion of a more robust, sustainable, and inclusive health insurance. Finally, reforms under Pillar 3 promote the sustainable use of natural resources. High levels of coastal erosion fragilize coastal areas which generate more than 60 percent of value-added, while aggressive deforestation amplifies climate change and compromises the sustainability of cocoa production, the main export crop. The reforms support traceable, sustainable cocoa production ensuring rural livelihoods, containing deforestation due to aggressive agricultural practices, as well as strengthening the environmental regulatory framework economy-wide, with a special attention to climate vulnerable coastal areas. Finally, by enabling debt, environmental and social sustainability - through the financial structuring of the facilitated debt for development (D4D) swap and the SLL- this operation further complements the objectives set out by the supported reform agenda.

E. Implementation

Institutional and Implementation Arrangements

6. **Several investment and results-based projects are direct complements to this operation and provide financial and institutional capacity-building in mutually reinforcing areas to ensure sustainability in the reform agenda.** Reforms to regulate market competition in key upstream sectors are complementing the work of the Effectiveness for Improved Public Services PforR (P164302); the Competitive Value Chains for Jobs and Economic Transformation Project (P172425); the Côte d'Ivoire Digital Acceleration Project (P180059) and the Greater Abidjan Port - City Integration project (P159697) and the teams are coordinating closely to ensure synergies between the regulatory reforms, investments, and capacity building. Similarly, the Strengthening Primary Education System Program (P177800) – which includes follow up regulations - and the Youth Employment and Skills Development Project - Phase 3 (P1728000) are supporting the supply of primary education and TVET, while the SPARK-Health project (P167959) enhances the operationalization of the CMU program. A new MPA, the Health, Nutrition, and Early Childhood Development Program for UHC (P179550) directly focuses on improving the quality of service delivery under the CMU. Finally, the Forest Investment Project, phase 2 - (P175982) is promoting the sustainability of forests and the integration of the agroforestry strategy with that of National Sustainable Cocoa Traceability and Certification System. And the West Africa Coastal Areas resilience investment project (P162337) is actively engaged on coastal management.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

7. **The policy reforms under the proposed operation are expected to support long term economic growth and have positive impacts on household welfare and social inclusion.**

8. **The policies supported by the first pillar aim to boost competition in key enabling sectors of the economy and to improve domestic revenue collection.** Key measures include implementing decrees to enhance competition in telecommunications (PA#1), which is expected to contribute to lower prices and increase welfare (i.e., promotion of competition in the mobile communication market is expected to foster a reduction in the prices of mobile services and to increase household's relative welfare by 1.9 percent (household consumption)) and promoting competition in transport (PA#2) which is expected to translate into lower costs for consumers. In addition, the reduction of exemptions on luxury items proposed by PA#3 is not predicted to have significant impacts on poverty, while the compulsory use of TresorPay/TresorMoney is not expected to increase the tax burden.

9. **The objective of the second pillar is to expand equitable access to health and education services.** The policies under the second pillar promote access to health and education services and are expected to enhance female education attainment, improve labor market outcomes, and support the provision of health services. Policies aimed at reducing transaction costs for women's re-enrollment in teaching schooling after pregnancy, such as those promoted by PA#4, are expected to have a positive impact on female education by increasing the share of women among teachers which has been correlated with lower girls' dropouts and reduced GBV, potentially reducing gaps in labor market outcomes. In

addition, reforms under PA#5 aimed at better integration of the education and technical/vocational sector are expected to have positive impacts on labor market outcomes. However, the positive effects on employment and earnings are expected to be mild. Moreover, PA# 6 streamlining access to healthcare and potentially enhancing the coverage of services is expected to have a positive impact on well-being by helping mitigate the impact of health shocks that disproportionally affect the most vulnerable, and women in particular (given that prenatal/postnatal services and birth assistance). Finally, this policy might also have indirect positive welfare impacts by improving worker's productivity.

10. **The third pillar aims to promote the sustainable use of natural resources, and it is not expected to have significant welfare impacts in the short run.** PA#7 is expected to support rural development and improve the livelihoods of cocoa-growing communities, by enhancing the impact of the infrastructures and social services financed through the FIMR. Agroforestry practices promoted by PA#8 are expected to indirectly improve farmers' welfare by mitigating vulnerability to climate change, diversifying income sources, fostering farm productivity, and contributing to food security. Finally, PA#9 aims to protect coastal areas, potentially reducing the negative impacts of natural disasters on poverty and social impacts of communities living in these areas.

Environmental, Forests, and Other Natural Resource Aspects

11. **Côte d'Ivoire is among the most vulnerable countries in face of climate change, including rising temperatures, rainfall variation and volatility, flooding, and the rise of sea levels (CCDR 2023).** The country's coastline is one of the longest in West Africa, around 2/3 of which is at risk of coastal erosion. This and the rise of sea levels are a direct risk for 7.5 million people (30 percent of the country's population) as well as for 80 percent of economic activity. Overall, climate change could plunge an additional 2-6 percent of households into severe poverty. Without a much greater effort to mitigate and manage climate change, the progress made in terms of economic development will be at risk and could also roll back recent progress in fighting poverty.

12. **Most actions will have positive environmental and social effects.** Two actions could have adverse effect: the digital development action supported by PA#1 may create hazardous waste and electronic waste (PA#1) and the expansion of access and the affordability of health care thanks to the CMU (PA#6) require considering how the government will manage medical waste (including legal, institutional, and implementation) and OHS in health facilities throughout the country. Reforms on the health sector will require the management of personal information. These actions are mitigated against by the existence of sound regulatory framework that is being strengthened with support from the World Bank and other donors. The implementation of the regulations needs to be done carefully through project implementation, particularly on issues that impinge on livelihood and welfare of vulnerable groups or where e- waste, hazardous or medical waste are an issue. The Ministry of the Environment, Sustainable Development and Ecological Transition (MINEDDTE) is responsible for setting policy guidelines on environmental issues and ensuring compliance with national environmental standards, and the framework (including the ANDE capacities) as assessed in DPF1 and DPF2 remains appropriate.

G. Risks and Mitigation

13. **The overall risk rating for the operation is assessed as substantial given its scope that requires sustained macroeconomic stability in a complex regional and global environment.**

14. **Macroeconomic risks are substantial.** Macroeconomic risks have significantly diminished since last year, thanks to credible fiscal consolidation supported by an IMF program and World Bank engagement. Both external and fiscal deficits are projected to further decrease. Nevertheless, risks remain substantial due to the volatility of terms of trade, fluctuations in commodity prices, and global and regional geopolitical factors. Increased regional insecurity could erode investor confidence and strain the budget if additional security expenditures become necessary. Delays in oil and gas production could negatively impact the current account balance and pressure reserves. Lastly, a slower-than-anticipated monetary easing cycle in the US and EU would keep financing costs high, reducing the capacity to refinance external debt in the medium term. These risks are mitigated through ongoing policy processes, including strong commitments to fiscal

consolidation and debt sustainability, as evidenced by the latest debt sustainability analysis (October 2024). Côte d'Ivoire maintains access to international markets on relatively favorable terms. The World Bank and IMF remain closely involved in monitoring the macroeconomic situation and supporting the authorities' reform efforts, with the IMF program serving as a stabilizing anchor and remaining on track.

15. **Political risks are assessed as substantial due to the upcoming elections in a context of regional instability.** However, the political environment remains stable. Last regional and municipal elections held on September 2, 2023, faced no incident with the ruling party registering a landslide victory. Most observers see Côte d'Ivoire as playing a stabilizing role in the region.

16. **Stakeholder risks are judged substantial and reflect the difficult political economy around reforms.** On Pillar 1, in transport and telecommunications where the introduction of competition policies is expected to increase market contestability these are expected to be significant and are mitigated by the consultation process. Similarly, tax policy reforms in the medium term are challenging and require strong coordination among the different public sector agencies and ministries involved; and the acceptability of private operators. Second, reforms in the areas of health and education touch on sensitive sectors that are unionized such as teachers and doctors. Finally, on the cocoa sector, the reforms require the coordination of the CCC with other stakeholders, transparency, and information sharing. These risks are mitigated by the strong sectoral engagement, consultation processes, coordination with other donors on key reform areas – notably the EU on the cocoa sector - and the ownership of the government on the reform program supported by the series.

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