

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

May 9, 2017
Report No.: AB7889

Operation Name	CI - DPO2 on Fiscal Mgmt, Educ. & Energy
Region	AFRICA
Country	Cote d'Ivoire
Sector	Central government administration (40%); Public administration- Industry and trade (15%); Education (10%); General energy sector (20%); Agriculture (15%)
Operation ID	P163284
Lending Instrument	Development Policy Lending
Borrower(s)	REPUBLIC OF COTE D'IVOIRE
Implementing Agency	Ministry of Economy and Finance
Date PID Prepared	May 9, 2017
Estimated Date of Appraisal	
Estimated Date of Board Approval	October 31, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

In recent months, Côte d'Ivoire's recent economic performance has remained relatively strong by both historical and regional standards even though the economy has been affected by a series of domestic and external shocks. Since the end of the political crisis in 2012, growth had averaged almost 9 percent per year – one of the best performances in the Sub-Saharan Africa region but it has gradually decline to 7.8 percent in 2016 and is forecasted to reach only 6.8 percent in 2017. The main drivers have continued to be agriculture output, due to good weather and government support, as well as the rapid expansion of communication, transport, finance services as well as construction activity supported by an ambitious public investment program. Yet, the external environment has proved less favorable since early 2016 with the gradual decline of the cocoa prices on the international market and the tightening of the monetary policy by the BCEAO, which has made more difficult for the Government to borrow on the regional market. Concurrently, on the domestic front, several claims by the military forces and civil servants have led to increased spending by the Government and a readjustment of the program agreed with the IMF in December 2016. More importantly, those events have reminded that Cote d'Ivoire remains vulnerable to political tensions that may be exacerbated by the perspective of the Presidential elections scheduled in 2020. This uncertainty may slow down private investment.

The challenge for Côte d'Ivoire will be to maintain a rapid and sustainable economic growth rate in the coming years but also tackle poverty, which has remained high. Although poverty declined from 51 percent in 2011 to 46.3 percent in 2015, this decline is modest compared with the impressive rate of economic growth of 9.3 percent during this period. Poverty continues to be overwhelmingly concentrated in rural areas, which are home to 70 percent of poor households even though recent increases in both farm-gate prices for cocoa and cashew have led to a gradual improvement in the wellbeing of small

producers. Despite this recent improvement, inequality and poverty in Côte d'Ivoire remain critical issues that need to be addressed by the Government with a sense of urgency.

The proposed DPO series is closely aligned with the 2016-2020 National Development Plan and an integral element of the World Bank Country Partnership Framework. It was prepared in close coordination with other partners, including the International Monetary Fund (IMF). It also incorporates lessons from previous budget support operations in Côte d'Ivoire by focusing on critical drivers of change such as the provision of energy, education, and the effectiveness of fiscal policy. The overall risk is considered moderate while 'Institutional capacity' and 'Political environment' risks are rated substantial, but remain manageable.

II. Proposed Objective(s)

The proposed DPO series aims at supporting the Government in its overall effort to promote sustainable and inclusive growth as well as to increase the economy resilience to both domestic and external shocks over the next few years. The Government's strategy was well defined in the recently adopted National Development Plan (NDP) for the period 2016-2020, which was presented to the international community at the Consultative Group meeting organized in Paris in May 2016.

The proposed series deliberately focuses on a sub-set of critical challenges linked to fiscal policy, education, and energy. This selectivity was based on the combination of the Government's priorities, the recent findings of the Systematic Country Diagnostic (SCD) and other analytical work, and the lessons derived from previous budget support's operations in Côte d'Ivoire and in other low-income countries. Other 2016-2020 NDP priorities, in particular job creation and private sector development, are being – and will continue to be – supported by other World Bank Group (WBG) operations, including the regional DPO on trade facilitation between Burkina Faso and Côte d'Ivoire as well as several investment projects aimed at improving Côte d'Ivoire's competitiveness in priority sectors such as agriculture and industrial transformation.

III. Preliminary Description

To support the Government's reforms in the areas of fiscal management, education, electricity, and the cocoa sector, the series is organized around four pillars:

- ***Pillar 1: enhancing tax revenue collection and public procurement.*** The Government needs to increase domestic revenue in order to finance its ambitious program of infrastructure and social sectors and to maintain public debt at a manageable level. Concurrently, the efficiency of public spending must be improved, especially complex and non-transparent procurement procedures that lead to unnecessary delays and costs.
- ***Pillar 2: strengthening the efficiency and equity in the education sector.*** In spite of recent efforts, education outcomes are lagging in Côte d'Ivoire compared to regional peers. International experience suggests that improving the efficiency and equity of the national education system is a prerequisite to skill development and ultimately job creation for the fast growing young population.
- ***Pillar 3: improving the performance of the electricity sector and enhancing private sector participation.*** Access to electricity remains low in Côte d'Ivoire and the sector has become a fiscal burden. The sector's technical and commercial performance needs to be improved, and more effort

made to develop the country's considerable renewable energy potential via PPPs. Very little investment in system upgrades took place in the decade prior to 2010, maintenance was neglected while demand continued to grow despite sluggish economic growth. This considerably stretched the power system's ability to deliver acceptable service to users. In addition, the State-owned enterprises (SOEs) operating in the sector have been under financial stress, due inter alia, to reluctance to adjust prices in line with rising costs and the sector has relied upon significant budgetary subsidies for a considerable period. Finally, access to electricity in rural areas, where to the majority of the poor live, remains relatively low.

- ***Pillar 4: consolidating the management and transparency in the cocoa sector.*** This strategic sector remains critical for the Ivoirian economy as it is the country's first foreign exchange earner and impact on approximately four million people. The recent decline in the cocoa prices on the international market has raised concerns on the management of the sector. The main emphasis of the DPO series will be on the implementation of regular and transparent audits to identify and correct existing weaknesses in the sector's institutional framework and mitigate the risks for all its stakeholders, including small producers.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

None of the prior actions or expected results supported by the proposed DPO series are expected to have adverse poverty or social impacts. In fact, the reform measures are expected to have positive impacts on both poor and non-poor households by improving the availability of public resources, enhancing the efficiency of their use, contributing to economic growth, and expanding income opportunities.

Prior actions related to domestic resource mobilization and public procurement are expected to have positive indirect effects on poverty by increasing the Government's fiscal space and its ability to implement socially beneficial programs. The broadening of the tax base will enhance domestic revenue mobilization and improve equity, especially as regards direct taxes. However, since VAT is a tax on consumption, prices of goods purchased from informal or small retailers could increase slightly and affect poor households' disposable income.¹ Successful implementation of actions related to the public procurement system will lead to efficiency gains in revenue spent, which may ultimately be used for poverty reduction or improvements in social indicators. The team will undertake the relevant analytical work during the preparation of the second operation to estimate the impact on the poor from the additional VAT. Social protection measures through social safety nets such as conditional cash transfers could be explored and implemented by the Government in order to mitigate the adverse impact.

By focusing on the quantity and quality of education services, the proposed DPO aims at improving opportunities for poor. In Côte d'Ivoire as in most countries around the world, higher education outcomes are one of the main determinants of long-term economic growth and poverty alleviation.² The prior action targeting the assignment of students to public and private schools should have a positive direct effect on the poor. The revision of the assignment criteria intends to make sure that students from poor households are retained in public schools closer to their home instead of paying additional costs that may be required when they are assigned to private institutions. The measures aiming at reducing high

¹The World Bank, in close collaboration with the Government, will conduct an analysis of the distributional impact of the tax system and public spending in the next few months.

²Full details can be found the World Bank's Systematic Country Diagnostic for Côte d'Ivoire, 2015.

grade repetition rates should also benefit poor households, including through the implementation of remedial classes. Lastly, the revision of parameters used to allocate teachers across regions should help reduce the teacher/student ratio in poor regions. In all these measures, specific attention is being – and will continue to be – given to girls’ performance.

Improving the performance of the electricity sector should have a series of positive impacts, both direct and indirect, on poor households. The most visible impact should be an increase in access to electricity that will improve living conditions of households. Such improved access would also boost firms’ productivity, leading to their expansion as well as to higher demand for labor over time. Although the realignment of tariffs with production costs may impact existing customers negatively in the short term, its magnitude is limited because poor customers have extremely limited access to electricity. Concurrently, the reduction in Government transfers to the electricity sector (which were necessary before the tariff adjustment) will release budgetary resources that can be allocated to pro-poor.

Addressing the current weaknesses in the management the cocoa sector will lead to several direct and indirect benefits for poor people in Côte d’Ivoire. The direct benefits would be significant for producers as a higher and more stable farm gate price would help increase and stabilize their revenues. In a recent study, it has been estimated that for each 10 percent variation in the cocoa farm gate price, the welfare gains vary between 6 and 7.5 percent. Those gains would be higher for poor producers, who are more inclined to produce cocoa and to depend more on the revenues associated to this commodity.³ The indirect benefits would mainly arise for the expected increase in government revenue (as the result of less mismanagement) that can be used to finance additional public services and infrastructure.

The proposed DPO series is also expected to have a positive impact on gender equality. Reforms under pillar 2 will contribute to correct gender disparities through a better resource allocation in basic and secondary education in order to facilitate girls’ access to social services.

Environment Aspects

The reforms supported by the proposed operation are not likely to have significant negative effects on the country’s environment, forests, or other natural resources. The reforms being supported aim primarily to strengthen economic governance at the national level. Any adverse environmental effects are expected to be minor and manageable through the existing World Bank framework. Measures aiming to improve PFM are not expected to have any environmental impact.

The World Bank produced a new Country Environmental Analysis (CEA) for Côte d’Ivoire in 2014, which examined issues in the forestry, mining, urban development, and environmental governance sectors. The study concluded that: (i) in the face of climate change and increasing pressure on the country’s ecosystems, sustainable natural resource management is key to ending extreme poverty and promoting shared prosperity; (ii) the existing mechanisms for collecting environmental data are weak and are not effectively used in the formulation of sectoral policies; (iii) there is limited collaboration between the Ministry of Environment, Urban Environment, and Sustainable Development and the ministries responsible for forestry, water resources management, fisheries, agriculture, mining, and energy; and (iv) environmental and natural resources management lacks sufficient funding on the part of both the Government and its development partners as environmental management accounts for an estimated 0.2 percent of the national budget. Its recommendations include: (i) assisting the Government in developing a green growth strategy within which financial resources can be allocated across sectors; (ii)

³ For more details, see World Bank, *Welfare and Poverty Impacts of Cocoa Price Policy Reform in Côte d’Ivoire*, Poverty and Equity Group, May 2016.

establishing a national environmental information system; and (iii) strengthening collaboration between sector ministries through coordinated programs.

V. Tentative financing

Source:	(\$m.)	
BORROWER/RECIPIENT	0.00	
International Development Association (IDA)	125.00	
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	125.00

VI. Contact point

World Bank

Contact: Jacques Morisset
Title: Program Leader
Tel: +225 22 400 419
Fax: +225 22 400 461
Email: jmorisset@worldbank.org

Borrower

Contact: Mr. Adama Kone
Title: Minister of Economy and Finance
Tel: +225 20 30 25 25
Email: adcoulibaly@hotmail.com

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>