

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

October 4, 2017
Report No.: 120643

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	October 4, 2017
Estimated Date of Appraisal	
Estimated Date of Board Approval	December 5, 2017
Corporate Review Decision	<i>Proceed to Appraisal/Negotiations</i>

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 7.68 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. 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 Côte 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 spending 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 have led 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 by enhancing private sector participation and diversification.*** Access to electricity remains low in Côte d'Ivoire, especially in rural areas, and the sector remains fragile financially and, therefore, a fiscal risk for the Government. The sector's technical and commercial performance needs to be improved by upgrading and maintaining the existing generation and distribution system and by developing the country's considerable renewable energy potential, including through PPPs. Because of very little

investment in system upgrades over the decade prior to 2010, maintenance was neglected while demand continued to grow despite sluggish economic growth. Concurrently, the State-owned enterprises (SOEs) operating in the sector have been under financial stress, due inter alia, to their poor performance in collecting revenue from electricity bills, which has prevented them to pay the suppliers in full and on time. The level of arrears in the publicly owned electricity company (CIE-Energy) has been growing rapidly in recent months.

- ***Pillar 4: consolidating the management of the cocoa sector*** In Côte d'Ivoire, this sector accounts for approximately one third of foreign earnings, 12 percent of the State revenue and affect directly and indirectly 4 million people. The recent drop in cocoa prices on international markets have negatively impacted on the production and commercialization processes in the country. Because part of this negative impact is possibly linked to governance weaknesses in the management of the sector, the DPO series is supporting the Government's effort to implement regular and transparent audits with the objective to ensure the proper implementation of the sector's institutional framework and, so, 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 grade repetition rates should also benefit poor households, including through the implementation of

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.

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

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.

V. Tentative financing

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

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