Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 26-Oct-2022 | Report No: PIDA34082

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Cote d'Ivoire	P178064	Cote d'Ivoire First Investment for Growth DPO (P178064)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
WESTERN AND CENTRAL AFRICA	08-Dec-2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Republic of Cote d'Ivoire	Ministry of Economy and Finance		

Proposed Development Objective(s)

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

Financing (in US$, Millions)

SUMMARY

Total Financing	400.00

DETAILS

Total World Bank Group Financing	400.00
World Bank Lending	400.00

Decision
The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **After a strong rebound in 2021, Côte d'Ivoire's economy is facing headwinds due to increasing inflationary pressures and higher borrowing costs.** Thanks to fiscal stimulus, a rapid emergency response and contained domestic contagion of COVID-19, real GDP growth declined but remained positive at 2 percent in 2020 and bounced back to 7 percent in 2021. However, the fiscal deficit and public debt increased during the same period, by 2.8 and 4.5 percentage

points (ppts) of GDP and inflation reached a 10-year high at end 2021 due to supply-chain and weather disruptions. Against this backdrop, the impact of the war in Ukraine is putting an additional strain on public finances. CIV has tried to contain rising food and fuel prices with subsidies and price caps estimated to cost close to 1 percent of GDP in 2022. It also negotiated a civil servant wage and benefits increase to avoid the erosion in purchasing power, estimated at roughly 0.4 percent of GDP per year between 2023 and 2026. At the same time, tax revenue is expected to underperform due to the deceleration of economic activity and the suspension of fuel excises, used as a price stabilization mechanism; while rising external borrowing costs are limiting its capacity to access international markets, requiring a shift towards more concessional and domestic financing sources. The additional financing needs for 2022 increased by 1.3 ppts of GDP, while real economic growth is expected to decelerate to 5.7 percent (2.8 percent in per capita terms).

2. **To sustain high economic growth in the medium term, Côte d'Ivoire needs to address key constraints to structural transformation and human development.** It has been one of fastest-growing economies in sub-Saharan Africa (SSA) for almost a decade, with real GDP growth averaging 8.2 percent annually over 2012–19 (5.7 percent in per capita terms) thanks to political stability, sound macroeconomic policies and new sources of growth (in services and industry). Over 2011-19, the poverty rate using the national poverty line declined from 55 to 39.5 percent. Amidst rising global uncertainties, Côte d'Ivoire faces a renewed imperative: addressing structural bottlenecks to enable efficient allocation of resources and sustain inclusive growth. Total factor productivity (TFP) has remained flat since 2017.[1] Low quality of service delivery and spatial disparities prevent human capital accumulation and weaken the social contract.[2] Going forward, better leveraging private investment, greater capital deepening, improvements in human capital, and increased resilience to climate risks will be important to achieve the 2030 objective.

3. **Investment needs to increasingly drive economic development and job creation, but remains constrained by weak foundations.** Gross investment has significantly increased since 2012, but remains below SSA averages, lower middle-income economies and levels needed to sustain high growth. In particular, Côte d'Ivoire stands out for its relatively low private investment rate. Against this backdrop, it will need to bring gross domestic investment at a permanently higher level in a context of limited fiscal space that requires accelerating the transition towards a private sector led-growth model. Reducing allocative inefficiencies created by market distortions is central to attract private investment and enhance the use of production factors. Competition is perceived as weak in Ivorian markets. There is a relatively high perceived level of operational business risk related to the lack of a level playing field, a perception that has not changed over the past five years. Limited competition in key sectors, notably transport, financial services and telecom, undermines private sector investment. At the same time, macroeconomic stability hinges on greater revenue mobilization, due to the low levels of tax revenue-to-GDP (below that of SSA and WAEMU averages) that constrain public investment and borrowing capacity.

4. **Investing in quality human capital will be crucial for empowering a young and rapidly growing population to fill productive jobs.** Côte d'Ivoire's human capital is insufficient for its per capita GDP level. It is estimated that the next generation will be 38 percent as productive as they could have been had they enjoyed full health and education (Human Capital Index 2020). While levels are improving for younger generations, many children still lack proficiency in basic skills. Increasing the quality of human capital is especially important given a young and rapidly growing population is pressing towards the labor market. Strengthening the basic education system as well as professional education - Technical, Vocational Education and Training (TVET) - are priorities. Supply-side constraints to higher quality basic education are marked by geographical disparities due to poor management of incentive schemes and teacher allocation. In almost 40 percent of schools, teachers' allocation is not based on student numbers. TVET is nascent, still needing to develop its institutional and legal framework despite its potential. Finally, expanding health coverage is one of the governments' most urgent necessities. Currently, only 12 percent of the population is enrolled in the government's flagship universal

[1] World Bank 2022, Côte d'Ivoire Country Economic Memorandum.
[2] World Bank (forthcoming), Systematic Country Diagnostic Update.

insurance scheme. Large out-of-pocket expenses (40 percent of total) and other barriers to access suggest a large share of the population is excluded from the formal health system, thereby threatening its financial viability.

5. **The sustainable use of natural resources and economic resilience in face of climate change is increasingly important for long-term economic growth and wealth accumulation.** During 1995-2018, growth almost entirely came through capital accumulation and the extensive use of natural capital, rather than through sustained productivity growth.[3] As a result, declining renewable capital has been the main cause of stagnant wealth per capita (as in Nigeria, Burkina Faso, and Benin). Aggressive deforestation for cacao production – its main export crop, today accounting for 70 percent of exports - has been one of the main culprits. This model however has reached its limits due to the increasing impact of climate change to which Côte d'Ivoire's development path is intrinsically linked as a result of the significant vulnerabilities in agriculture, forests, infrastructure, water, and health systems. CIV ranks 142 among 181 countries in most extreme climate vulnerability (181 being the most vulnerable). Supporting more sustainable agricultural production (also to assure continued international market access), greater coastal resilience and combatting deforestation for more inclusive and sustainable medium term growth requires protecting natural resources and changing current practices.

6. **The macroeconomic policy framework is adequate for the proposed operation**. While the economy remains vulnerable in face of uncertainty surrounding COVID-19 and the impact of the war in Ukraine on global food and fuel prices, the macroeconomic and structural policies being pursued by the authorities should help growth in CIV to gradually recover over the medium term. The PND should continue underpinning the reform agenda to increase private sector participation in the economy and reduce key gaps in human capital and infrastructure. Prudent fiscal policy in recent years coupled with monetary policy anchored by West Africa Economic and Monetary Union (WAEMU) and private investment in key sectors should further support medium-term growth. The government is committed to reverting to the WAEMU fiscal deficit target of 3 percent of GDP by 2025. Debt management is assessed as sound and well structured. The external debt reprofiling operation carried out in 2021 was successful in smoothing debt service and demonstrates the authorities' active debt portfolio management capacity and commitment to debt sustainability. Public debt is sustainable, and the risk of overall and external debt distress is moderate, according to the joint World Bank/IMF 2022 DSA.

Relationship to CPF

7. **This DPF operation is well aligned with the World Bank Group (WBG) identified priorities in CIV.** The Systematic Country Diagnostic (SCD) update identified three main development pathways: (1) improving agricultural productivity and rural incomes; (2) Job creation through private sector-led growth; and (3) Human capital Development through improved service delivery and better social spending. Building on these, the CPF under finalization is now focusing on three High-Level Outcomes (HLO): (1) Improved human capital; (2) Reduced spatial disparities and strengthened resilience; (3) Jobs created through private sector-led growth. The DPF operation is also in alignment with Pillar 4 of the WBG COVID-19 response, Strengthening policies, institutions and investments for building back better. The authorities have continued to strengthen debt management and transparency through the Performance and Policy Actions (PPAs) under the Sustainable Development Finance Policy (SDFP).

C. Proposed Development Objective(s)

[3] Lower income economies often rely more heavily on depleting natural capital for total wealth creation as human and physical capital remains relatively unproductive Nonetheless, the per capita level of natural capital could increase. Ghana's share of human capital in total wealth has increased, while its natural capital share has decreased. However, its natural capital per capita rose from US$6,000 to a peak of US$9,000 during the 2004–14 commodity boom and dropped again to US$6,000 in 2018. World Bank. 2021. The Changing Wealth of Nations 2021: Managing Assets for the Future.

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

Key Results

8. 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 non-tax revenues. The reforms supported in pillar 2 are expected to correct dysfunctions in teacher allocation and reduce disparities between regions by instituting a regionalized teacher recruitment system and personnel allocation based on the pupil/teacher ratio, 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, and to reinforce climate change resilience by strengthening the environmental regulatory framework.

D. Project Description

9. **The First Investment for Growth Development Policy Financing supports reforms to strengthen private and public investment, human capital accumulation and environmental sustainability.** The proposed operation is the first in a programmatic series of three single-tranche DPFs in close alignment with the National Development Plan 2021-25 (PND). It amounts to an International Development Association (IDA) Credit of EUR XX million (US$400 million equivalent). It supports Côte d'Ivoire (CIV)'s medium term inclusive growth objective of becoming an upper middle-income economy by 2030, which entails doubling real Gross Domestic Product (GDP) per capita and halving poverty to 20 percent from 39.5 percent in 2018.

10. **Against this backdrop, the First Investment for Growth DPF supports reforms to lay the foundations for sustainable and inclusive, investment-driven growth.** The reform program is based on three pillars:

- Pillar 1: reforms will improve the sectoral competition policy and regulatory framework, notably in network sectors such as transport, finance and telecom, vital inputs across the economy and for consumers. At the same time, to structurally and sustainably create fiscal space needed for public investment, to ensure debt sustainability and to maximize crowding in of private investment, reforms will focus on revenue mobilization.
- Pillar 2: reforms in this pillar aim at strengthening the quality of basic education across regions, alleviating skills mismatch in labor markets through more effective professional skills systems, and promoting a more robust, sustainable, and inclusive health insurance to ensure equitable access to healthcare.
- Pillar 3: reforms are focusing on supporting traceable, sustainable cocoa production assuring continued market access of exports (EU) and ensuring rural livelihoods, as well as a robust environmental regulatory framework economy wide and with a special attention to climate vulnerable coastal areas.

E. Implementation

Institutional and Implementation Arrangements

11. **As with the previous DPF in Côte d'Ivoire, the Ministry of Economy and Finance (MEF) is responsible for managing the operation.** Day-to-day monitoring and evaluation of the program and all outcome indicators will be the responsibility of an inter-ministerial economic team appointed by the MEF and composed of the Directorate General of the Economy, the Directorate of the Budget and Finance, and the Directorate General of Planning. The team will be

chaired by the MEF Council of Ministers Director and will coordinate the activities of all government agencies involved in program implementation. This arrangement has proved satisfactory for previous DPFs. The government will provide bi-annual progress reports to the IDA based on the performance indicators in the results framework. The status of the overall reform program will be reviewed by the government in coordination with regular IDA missions to ensure that the macroeconomic policy framework remains adequate.

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

Poverty and Social Impacts

12. 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. The estimated poverty and social impacts are developed below, and a detailed quantitative analysis is presented in Annex 5.

13. **Reforms under Pillar 1 are expected to foster well-functioning competitive markets, with positive impacts on household welfare.** Even though Côte d'Ivoire has made significant efforts promoting competition, key sectors such as transport and telecommunications remain concentrated. Competitive markets promote economic growth, productivity, and innovation, inducing welfare gains through lower prices.[4] Poorer households tend to be disproportionately affected by market concentration, as they face more limited access to markets, tend to consume more homogenous goods and are less able to substitute consumption. Thus, fostering competition could not only help promote economic growth, productivity, and innovation, but also induce welfare gains through lower prices. A microsimulation model suggests that lower prices of mobile communication services (Prior Action 1) are associated with a 3.2 percent increase in welfare, as measured by per capita expenditure. However, households in higher consumption quintiles would experience the largest gains in both absolute and relative terms, compared to households in lower quintiles. Moreover, the promotion of competition in the market of freight transportation (Prior Action 2) is also expected to have positive, albeit indirect, effects on households' welfare, when accompanied by the competition enhancing policies prescribed in this Pillar.

14. **The Prior Actions grouped under Pillar 2 are expected to promote the accumulation of human capital by improving the quality of basic education, strengthening vocational training, and inducing effective health coverage across Côte d'Ivoire**. The reforms under Pillar 2 aim at improving human capital by enhancing the quality of basic education, strengthening vocational training, and promoting effective health coverage across Côte d'Ivoire. Policies to enhance the recruitment of local teachers (Prior Action 4) aim to address regional disparities, with potential benefits on educational outcomes in the medium run. For welfare effects to materialize, complementary interventions currently programmed are needed (e.g., improving teacher incentives and qualifications, accountability, outreach with local stakeholders) as well as continuous efforts to build a conducive learning environment and reducing the gender gap in school staff. Because training and hiring of teachers, under the new framework, will be localized, it is expected that it will contribute to reducing gender gaps in teachers recruitment and eventually the overall teachers workforce as women face higher mobility barriers than men. Similarly, promoting an institutional framework to make vocational and technical training more accessible (Prior Action 5) is expected to improve employability, raise productivity, and support higher earnings in labor markets. A simulation exercise suggests that labor income Gini would decrease, while the average labor derived income of employed youth at the national level could rise. Moreover, attention to gender equality in the implementation of the reforms can re-enforce the positive impact of the vocational education reform supported by the operation. In addition, supporting the simplification of the enrollment requirements to the universal health insurance

[4] Kitzmuller, M, and M. Martinez Licetti. 2012. "Competition Policy: encouraging thriving markets for development." Viewpoint, Public Policy for the Private Sector note 331, Washington, D.CL World Bank Group; World Bank; Organization for Economic Co-operation and Development. 2017. "A Step Ahead: Competition Policy for Shared Prosperity and Inclusive Growth. Trade and Development, Washington, DC: World Bank; Rodríguez-Castelán, E. A. Malásquez, C., A. Araar, and R. Granguillhome Ochoa. 2020. *Welfare and Competition (WELCOM): A Simulation Approach (English)*. Poverty and Equity Note, no. 27, Washington, D.C.: World Bank Group.

program (Prior Action 6), is expected to lower the barriers to access health insurance coverage, helping mitigate the negative effects of health shocks.

15. **The reforms promoted in Pillar 3 are expected to strengthen the resilience and adaptation capacity to climate change of key sectors of the economy, such as cocoa, through established legal frameworks.** There could be small but positive welfare effects from ensuring certified farmers (Prior Action 7) have access to fair wages, potentially lowering rural poverty rates, but the evidence on the social and environmental effects derived from commodity certification programs is mixed.[5] Finally, while Prior Action 8 is not expected to have direct welfare effects, it could have potential indirect positive effects through ex-ante risk mitigation. Natural disasters can push people into poverty in the short term and limit long-term poverty reduction, and poor households are disproportionately affected by climate related shocks compared to better-off households. However, since climate shocks affect women and men differently, the response framework would need to consider these different vulnerabilities.

Environmental, Forests, and Other Natural Resource Aspects

16. **Most actions will have positive environmental and social effects; with potential adverse effects that are adequately mitigated against.** Two actions could have adverse effect. First, the expansion of access and the affordability of health care thanks to the National Health Insurance Scheme require considering how the government will manage medical waste (including legal, institutional, and implementation) and OHS in health facilities throughout the country. . In response, the government has prepared a national Medical Waste Management Plan (2020-25) supported by the IDA-funded SPARK Health Project (P167959) and currently under implementation. Second, strengthening the enforcement of the regulatory framework related to sustainable cocoa production and improving the sector's governance (*Prior Action 8*) may have environmental and social consequences. For example, the eviction of farmers settled in protected forests without compensation or livelihood alternatives. Any activity related to the production of sustainable cocoa beans that meet the appropriate production, traceability, and certification requirements that could have adverse impacts on the environment or communities will be assessed and mitigated through the environmental national legislation, good international industry practice, and eventually support from the World Bank project (P168499). Finally, reforms on the health sector will requirement the management of personal information. A data protection framework is in place and is considered strong. It is based on Data Protection Law no 2013-450. ARTCI has oversight to implement the regulatory framework and follows through its procedures, and has a sanctioning capability. The West Africa Unique Identification for Regional Integration and Inclusion (WURI) Program - (P161329) is supporting the strengthening of the framework.

G. Risks and Mitigation

17. **The overall risk rating for the operation is assessed as substantial.** Political and Governance, Macroeconomic, and Stakeholder risks are judged more significant and are briefly discussed.

18. **Political and governance risks are moderate. Contrary to the previous operation, political and governance risks are moderate given that tensions after the Presidential elections in October 2020 have eased.** At the start of his new mandate, President Ouattara appointed a new Minister for National Reconciliation and reiterated his invitation to the opposition for dialogue. The political and social situation in Côte d'Ivoire has been calm since the inclusive legislative elections of March 2021. The 5th round of national political dialogue, which resumed in December 2021 under PM Patrick Achi's leadership, ended on March 4th with broad participation of political parties and civil society organizations. The moderate risk is qualified by the increasing regional insecurity, due to the instability affecting three of Côte d' Ivoire's neighbors, Burkina Faso, Guinea and Mali.

[5] For a full literature review please refer to Blackman, A. and J. Rivera. 2010. "The Evidence Base for Environmental and Socioeconomic Impacts of "Sustainable" Certification. Environment for Development Discussion Paper 10-10; Oya, C., F. Schaefer, D. Skalidou, C. McCosker, L. Langer. 2017. "Effects of certification schemes for agricultural production on socio-economic outcomes in low- and middle-income countries: a systematic review. A Campbell Systematic Review 2017:3.

19. **Macroeconomic risks are substantial.** The medium-term outlook is broadly positive, but headwinds are strong in the short term. Growth will be adversely affected by the global inflationary pressures stemming from higher commodity and fuel prices and supply-side disruptions caused by the war in Ukraine. As a result, the convergence to the regional (WAEMU) fiscal deficit target of 3 percent of GDP has been delayed to 2025 but no official WAEMU communication has guaranteed support for the elongated return to the regional norm. Delayed fiscal consolidation and higher risks to debt sustainability can compromise the achievement of greater domestic revenue mobilization targets, but also key public investments to implement reforms in human capital and environmental/agriculture sustainability. While the peg to the euro and participation in the regional economic and monetary union represent a macroeconomic anchor, delayed fiscal consolidation, and limited fiscal space to absorb a large response to an external shock, tightening international and domestic financing conditions and increased debt vulnerabilities, justify a substantial risk, despite the strong track record and commitment of the Ivorian authorities to macroeconomic stability. The World Bank and IMF will also continue to closely monitor the macroeconomic situation and engage with the authorities to support their reform efforts.

20. **Stakeholder risks are substantial** and reflect the difficult political economy of many of the reforms involving vested interested in the private sector, notably on the cocoa sector, and in transport and telecommunications where the introduction of competition policies is expected to increase market contestability. Similar, 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 that remain opposed to higher levels of taxation. Finally, reforms in the areas of health and education touch on sensitive sectors that are unionized such as teachers and doctors. The politization of the CMU adds to these risks as main opposition parties have been vocal against the reforms. These risks are mitigated by the strong sectoral engagement, consultation processes and the ownership of the government on the reform program supported by the DPF series.

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APPROVAL

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