Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 27-Oct-2023 | Report No: PIDA36488

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Cote d'Ivoire	P179006	Cote d'Ivoire Second Investment for Growth DPF (P179006)	P178064
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
WESTERN AND CENTRAL AFRICA	07-Dec-2023	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 equitable access to health and education services; (3) promote the sustainable use of natural resources.

Financing (in US$, Millions)

SUMMARY

Total Financing	300.00

DETAILS

Total World Bank Group Financing	300.00
World Bank Lending	300.00

Decision
The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **The Second Investment for Growth Development Policy Financing (DPF) is the second in a programmatic series of three single-tranche DPFs, closely aligned with Côte d’Ivoire’s National Development Plan** 2021-2025 (*Plan National de Développement*, PND). The proposed operation combines a credit in EUR of the amount equivalent to US$300 million. The operation supports key reforms for advancing Côte d’Ivoire’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.

2. **This DPF responds to medium term growth challenges that have been amplified during recent global crises.** Before COVID-19, for almost a decade, Côte d'Ivoire was one of the fastest-growing economies in sub-Saharan Africa (SSA). Between 2012-19, real GDP growth averaged 8 percent and 5.4 percent in per capita terms, thanks to political stability and sound macroeconomic policies. The poverty rate using the national poverty line declined from 44 to 39.5 percent between 2015-18.[1] Recent global crises have, however, emphasized the imperative of addressing structural bottlenecks to enable an efficient allocation of resources and sustain inclusive growth. Total factor productivity has remained flat since 2017 and formal private sector employment represents less than 15 percent of total.[2] Limited competition in key enabling sectors - transport, financial services, and telecom - undermines private sector investment.[3] Low quality of service delivery and spatial disparities prevent human capital accumulation and weaken the social contract.[4] Further, high levels of coastal erosion fragilize coastal areas which generate more than 60 percent of value-added, while aggressive deforestation further amplifies climate change and compromises the sustainability of cocoa production, the main export crop.

3. **In the short term, the DPF supports fiscal and debt sustainability.** While growth was relatively resilient in 2020, with a strong rebound in 2021, fiscal vulnerabilities have risen since the onset of the global COVID-19 crisis, aggravated by the impact of Russia's invasion of Ukraine on global inflation and commodity prices. The fiscal deficit (incl. grants) more than doubled over 3 years, from 2.3 to 6.8 percent of GDP between 2019 and 2022, due to additional expenditures through price caps and subsidies, high capital expenditure levels and security spending due to insecurity in the northern region, while efforts on domestic revenue mobilization have remained below expectation. Public debt has increased significantly from just about 40 percent of GDP in 2019 to almost 60 percent of GDP in 2022. Rising external borrowing costs are limiting Côte d'Ivoire's capacity to access sustainably international markets in the short-term. Recognizing the need to increase fiscal space, and maintain debt sustainability, Côte d'Ivoire entered a 40-months ECF/EFF arrangement with the IMF in June 2023.

Relationship to CPF

4. **This operation is aligned with World Bank Group (WBG) priorities in Côte d'Ivoire**. The Systematic Country Diagnostic update[5] identified three main development pathways that have resulted in three High-Level Outcomes (HLO) in the Country Partnership Framework[6] (CPF FY23-FY26), focusing on: (1) Improved human capital; (2) Reduced spatial disparities and strengthened resilience; (3) Jobs created through private sector-led growth; and directly aligned with the PDO of this operation. The DPF is also aligned with the findings of the Climate Change and Development Report, CCDR (P179533). Côte d'Ivoire has continued to strengthen debt management and transparency through the successful completion of all Performance and Policy Actions (PPAs) under the Sustainable Development Finance Policy (SDFP).

C. 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 equitable access to health and education services; (3) promote the sustainable use of natural resources.

Key Results

5. 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

[1] The surveys in 2015 and 2018/19 are not directly comparable due to methodological differences and have been adjusted for that purpose.
[2] Côte d'Ivoire Country Economic Memorandum (CEM, World Bank 2022).
[3] Côte d'Ivoire Country Private Sector Diagnostic (CPSD, World Bank 2020).
[4] Systematic Country Diagnostic (2022), Report Number: 169415-CI.
[5] Report Number: 169415-CI.
[6] Report Number: 179288-CI.

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; to revert deforestation through the support of agro-forestry and reforestation efforts; and to reinforce climate change resilience by strengthening the environmental regulatory framework.

D. Project Description

6. The reform program is based on the following three pillars:

- **Pillar 1: Strengthen competition in key enabling sectors and domestic revenue mobilization (DRM).** Reforms will improve the sectoral competition policy and regulatory framework, notably in network sectors such as transport and telecom, vital inputs across the economy and for consumers. At the same time, to create fiscal space structurally and sustainably, to ensure debt sustainability and to maximize crowding in of private investment, structural reforms will focus on improving medium-term tax collection capacity.

- **Pillar 2: Expand equitable access to health and education services** Through the reinforcement of the quality of basic education, alleviation of skills mismatch in labor markets through more effective professional skills systems, and promotion of a more robust, sustainable, and inclusive health insurance. 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 (HCI 2021).

- **Pillar 3: Promote the sustainable use of natural resources.** Support traceable, sustainable cocoa production and 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. The sustainable use of natural resources and economic resilience in face of climate change are intrinsically linked and central to inclusive and sustainable growth and wealth accumulation. Côte d’Ivoire ranks 142 among 181 countries in most extreme climate vulnerability (181 being the most vulnerable).

E. Implementation

Institutional and Implementation Arrangements

7. **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.

8. **As with the previous DPF in Côte d'Ivoire, the 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 The government will provide bi-annual progress reports to the IDA based on the performance indicators in the results framework.

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

Poverty and Social Impacts

9. **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**.

10. **The policies supported by the first pillar aim to enhance competition in key enabling sectors of the economy as well as foster domestic revenue mobilization.** The adoption of a new electronic communications bill (PA#1) is expected to strengthen competition in the sector, contributing to increase access and affordability of mobile telecommunication services, and potentially increasing market opportunities and access to financial services. These dynamics are expected to foster a reduction in prices of mobile services and is projected to increase household's relative welfare by 1.9 percent. In addition, promoting competition in the transport sector (PA#2) is expected to have positive impacts on wellbeing by reducing total transportation costs (as long as the stronger competition translates into lower transport costs) conducting to lower consumer prices. Based on the CEQ methodology, the simplification of the Personal Income Tax (PIT) system and its progressiveness (PA#3) suggests that this policy would increase tax collection and enhance the inequality-reducing impact of the current PIT structure. Under the reform scenario, the incidence of the PIT among the two highest deciles is expected to increase with respect to the current base scenario (2018) and the concentration of the PIT would augment for the top decile, suggesting that households at the highest decile would end up paying a higher share of the total PIT government revenues.

11. **The objective of the second pillar is to expand equitable access to health and education services through 3 main PAs.** PA#4 adopts annual evaluations of public and private educational institutions and teachers. Teacher evaluations have become a common practice in many developing countries to improve the quality of education. In principle, teachers' evaluation and training policies can help ensure that teachers possess relevant skills and knowledge required to deliver quality education. However, evidence on the impacts of the evaluation of educational institutions on students' outcomes is mixed and their effectiveness tends to rely on complementary policies. In addition, reforms under PA#5 aimed at strengthening vocational trainings are expected to improve employability, raise productivity, and support higher earnings in labor markets. The effects on employment and earnings among the youth of improving vocational education are expected to be positive but mild. We simulate a 5-percentage point increase of youth enrolled in TVET and our results suggest that the labor income Gini decreases by up to 2 points, while the average labor derived income of employed youth at the national level could rise as much as 1.67 percent (upper bound estimates). Moreover, PA# 6 is expected to have a positive impact on well-being by helping mitigate the impact of health shocks that disproportionally affect the most vulnerable. This policy might also have indirect positive welfare impacts by improving worker's productivity.

12. **The third pillar aims to promote the sustainable use of natural resources**. PA#7 promoting the national traceability and certification system will increase farmers' welfare by increasing the market price and therefore income, while ensuring access to EU markets. In practice, certification schemes need to be complemented by other measures to reduce poverty. 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 is expected to potentially reduce the negative impacts of natural disasters on poverty and social impacts.

Environmental, Forests, and Other Natural Resource Aspects

13. **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.

14. **Most actions will have positive environmental and social effects.** Two actions could have adverse effect. First, the digital development action supported by PA#1 may create hazardous waste and electronic waste. Second, the expansion of access and the affordability of health care thanks to the National Health Insurance Scheme (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.

G. Risks and Mitigation

15. **The overall risk rating for the operation is assessed as moderate.** Macroeconomic and stakeholder risks are judged more significant and are briefly discussed.

16. **Downside risks to the current macroeconomic baseline are substantial.** The medium-term outlook is broadly positive, but headwinds are strong in the short term. Protracted inflationary pressures and prolonged tighter-than-expected financial conditions in international markets would increase fiscal and debt sustainability risks, notably restricting financing options for a potential planned liability management operation (LMO) in 2024. Delayed fiscal consolidation and higher risks to debt sustainability can compromise the achievement of greater DRM 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. Heightened regional insecurity spillovers could undermine investor confidence and weigh further on the budget if additional security spending were needed. Risks are mitigated through the ongoing political process, including the developing of the MTRS and commitments to fiscal consolidation, under the WAEMU criteria, and debt management reforms. The World Bank and IMF that continue to closely monitor the macroeconomic situation and engage with the authorities to support their reform efforts; with the IMF program providing an anchor.

17. **Stakeholder risks are substantial** and reflect the difficult political economy of many of the reforms involving vested interested in the private sector. 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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APPROVAL

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