PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: 43610

Project Name	Cote d'Ivoire: Economic Governance and Recovery Grant–EGRG
Region	AFR
Sector	Public administration (40%), energy and mining (20%), agriculture (20%), finance (20%)
Project ID	P083583
Borrower(s)	REPUBLIC OF COTE D'IVOIRE
Implementing Agency	Ministry of Economy and Finance
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1. Country and Sector Background

Côte d'Ivoire, a medium sized country with a population of 18.4 million, is the largest economy in West African Economic and Monetary Union (WAEMU) and is critical to the overall recovery of the sub-region. Given its size (accounting for 40 percent of GDP in the WAEMU), its relatively high income per capita (US$870 in 2006 as per the Bank's Atlas method), central location and infrastructure, including the port of Abidjan which is an important hub for the landlocked neighboring countries, Côte d'Ivoire has an important economic influence over the rest of the region. With its large immigrant population, Côte d'Ivoire has also been an important source of immigrant worker remittances for the neighboring countries. The country is the largest supplier of cocoa in the world and has a relatively diversified agricultural economy as well as a basic agro-processing industry. Despite its natural resources, however, the civil war in 2002-3 and subsequent years of stalemate in the peace process have taken a heavy toll on the economy and social outcomes. As a result, Côte d'Ivoire now ranks 166th out of 177 countries in terms of human development, according to the UNDP's 2007 Human Development Report, considerably lower than what would be expected, given its income level.

Côte d'Ivoire has been undergoing a prolonged period of political instability since a military coup broke out in December 1999. After efforts to promote national reconciliation gained momentum, the country was again thrown into turmoil in September 2002. The crisis began as an armed uprising by mutinous soldiers faced with likely demobilization. It then escalated into a full-blown rebellion with political overtones. The country was split in two parts, with the rebel forces (*Forces Nouvelles, FN*) holding the north and west and the Government in control of the broad southern and central regions, with French (Operation Licorne) and UN forces acting as a buffer between the two. Several attempts were made to resolve the situation, beginning with the Marcoussis Accord in January 2003. However, progress in restoring peace and political stability, after faltering under successive transition governments, stalled for over five years.

On March 7, 2007 a power sharing agreement (Ouagadougou Accord) was reached between President Gbagbo and Soro, the head of the ex-rebel Forces Nouvelles (FN), under the auspices of Compaoré, the President of Burkina Faso. The Accord, which received the support of the international community, sets out a roadmap for disarmament, demobilization and reintegration (DDR), the dismantling of militias, reunification of the country, and preparations for elections for 2008. A new transition Government, with FN leader Soro as prime minister, was formed in early April 2007; an integrated command center for the army and rebel forces was set up; the "confidence zone" was eliminated; and prefects for all districts and judges for the nationality identification hearings were appointed. This would permit the start of the cantonment of armed forces, the dismantling of militias, the identification of the population and the re-installment of the prefectural administration and decentralization of national administration. Bank support has been limited since Côte d'Ivoire fell in arrears with IDA. Reengagement with the donor community and external support is needed to reestablish the conditions for a resumption of growth, provide the most basic social services to the population, and support the peace process.

2. Operation objectives

The objectives of the proposed Economic Governance and Recovery Grant (EGRG) are to: support Côte d'Ivoire in its post-conflict economic and social recovery. Given the complex post-conflict environment and past governance and transparency issues facing the government, this objective is pursued by supporting government-owned reforms to improve governance, transparency and efficiency in public expenditure management as well as advance structural reforms aimed at strengthening governance and transparency in the key sectors of the economy (energy, cocoa and financial sector). This strategy would lead over time to strengthened fiscal sustainability, improved economic governance and enhanced transparency of State institutions and processes. This operation is designed in accordance with OP 8.60, invoking the exceptions which take account of special post-conflict and crisis situations.

3. Rationale for Bank Involvement

The proposed grant would support the full normalization of relations between Côte d'Ivoire and the World Bank, and is also the first Development Policy Operation (DPO) aimed at supporting the development strategy of the Government of Côte d'Ivoire in the context of a multi-donor re-engagement process based on the Ouagadougou Peace Accord of March 4, 2007.

4. Financing

Source:		
BORROWER/RECIPIENT		0
IDA Grant		US$308m
	Total	US$308m

5. Institutional and Implementation Arrangements

The Ministry of Economy and Finance will be responsible for overall implementation of the proposed EGRG. Day-to-day monitoring and evaluation of the program will be the responsibility of the General Director of the Economy (DGE), the General Director of the Budget (DGB), and the General Director of Planning (DGP). This economic team will be placed under the supervision of the cabinet Director of the Minister of Economy and Finance. This arrangement was mandated by the strength and continuity of the economic team and the policy dialogue.

6. Benefits and Risks

The Grant would assist Côte d'Ivoire in supporting governance and transparency reforms and laying the basis for economic and social recovery. Normalization of relations with the World Bank would (i) set the stage for provision of regular IDA resources; (ii) facilitate Côte d'Ivoire's efforts to reestablish relations with the rest of the international community, including both other creditors and donor agencies; and (iii) pave the way for Côte d'Ivoire to access debt relief under the HIPC and MDRI initiatives. It is expected that this will lead to an increase in the level of support for social and economic development activities in Côte d'Ivoire, which in turn is expected to help improve a fragile security situation and ease tensions in the region. Furthermore, it is also expected that normalization, and access to new resources and debt relief, would help stimulate private sector investment in Côte d'Ivoire.

In addition, the EGRG is expected to have a significant positive impact on poverty reduction. Specifically, efforts to improve the capacity of the State to implement its budget priorities and enhance transparency in public sector resource management would improve the quality of pro-poor spending and increase the country's absorption capacity for external resources. Strengthening governance and transparency in the cocoa sector would improve the livelihood of a large section of the population (which relies on this cash crop as a dominant source of earnings). Improving governance and transparency in the energy sector would help improve government revenues (which could be used for increased expenditures for basic social services) and contribute to more transparent utilization of resources in this sector. Reforming the financial sector would help strengthen the financial situation of institutions affected by the crisis and improve the soundness of the banking sector, and of microfinance institutions which benefit the poorer and more vulnerable part of the population. The grant would also help fund the provision of basic public services with a beneficial impact on the poor.

The proposed operation is of **high risk.** The six principal risks are: (i) **security risk** stemming mainly from the fragility of the peace process, a possible resurgence of political tensions or delays in Disarmament, Demobilization and Reintegration (DDR); (ii) **vested interests** and political intervention in the cocoa, energy and financial sectors which could stall reforms; (iii) **macroeconomic risk**, if the government fails to adhere to a responsible medium-term macroeconomic framework; (iv) **fiduciary risk** arising from failure to suppress corruption or failure of the government to make effective and efficient use of the fiscal space made available by budget support; (v) **external risks** stemming mainly from the well known vulnerability of the Côte d'Ivoire economy to vagaries of weather and commodity price fluctuations; and (vi) **implementation capacity risk**, arising from the loss of professional cadre in recent years and weakened institutional capacity and coordination:

While mitigation of the security risk falls outside of the direct scope of this operation, it is expected that continued international support for the peace process, including through the ongoing World Bank Post-Conflict Assistance Project (US$120 million), should help mitigate this risk. To reduce vested interests' resistance to reform, steps are being taken to increase transparency in the collection and use of cocoa quasi-fiscal levies and restructure the cocoa sector agencies and set the stage for more transparent and accountable practices in the financial and energy sectors. Close coordination with the IMF, AFDB and bilateral donors and intensified sector dialogue will help ensure that top priority is given by the Government to the reform of these sectors. The macroeconomic risk is mitigated by ongoing close economic monitoring and coordination by the Bank, the IMF and other donors, and an acceleration of the HIPC timetable, provided that overall performance is fully satisfactory on the part of the government. Fiduciary risk is mitigated through the focus of the operation on measures to improve public financial management, the ongoing Public Expenditure Management and Financial Accountability Review (PEMFAR) and further technical assistance and capacity building provided by the Bank and other donors. External risks are being addressed by supporting the Government stabilization and economic recovery program. The implementation capacity risk is mitigated through the provision of extensive technical assistance from the Bank and other donors in the areas covered by the proposed operation, including through an ongoing PEMFAR, a planned Governance and Institutions Technical Assistance project; a LICUS Trust Fund grant and other activities.

7. Poverty and Social Impacts and Environment Aspects

The EGRG builds on the findings of the June 2006 World Bank report "Côte d'Ivoire – Contribution to the analysis of poverty" and the World Bank's 2007 Poverty Diagnostic that found poverty increasing against the backdrop of continued decline in per capita income.[1] There are likely positive distributional effects from the improved public financial management and key reforms in the cocoa, energy and financial sectors. Specifically, efforts to improve the capacity of the State to implement its budget priorities and strengthen public financial management would enhance efficiency, transparency and accountability in public resource use, and increase the country's absorption capacity for external resources. Strengthening the governance and transparency in the cocoa/coffee sector is expected to improve the livelihood of a large sector of the population which relies on these cash crops as a dominant

[1] Report No. 36625-CI.

source of earnings. Improving governance and transparency in the energy sector should strengthen Government revenues which could be used for increased expenditures for basic social services. Reforming the financial sector would help re-launch SMEs, which have been severely affected by the crisis; strengthening the microfinance institutions should benefit the poorer and more vulnerable part of the population. The grant would also help fund the provision of basic public services with a high beneficial impact on the poor. However, detailed knowledge of the specific distributional implications of reforms is lacking. Given the emergence of Cote d'Ivoire from conflict and limited government capacity, and the need for a quick Bank response, the Bank will support work to assess the distributional impact of these reforms through an ongoing Social Assessment; this work will also assess constraints, opportunities, and broader social risks from the current post-conflict situation.

The specific reforms supported by the proposed development policy grant are not likely to have significant immediate effects on the country's environment, forests and other natural resources. The reforms supported aim primarily to strengthen economic governance at the national government level. However, the operation touches on two sectors, energy and cocoa, that have very significant associated environmental risks. Given the emergence of Côte d'Ivoire from conflict and limited government capacity, and the need for an unusually quick response from the Bank, there has not been sufficient time or country capacity to adequately address environmental risks (as per the post-conflict exception under the OP8.60), and instead the Bank will support work to assess environmental risks either as part of its program of analytical work or under a future Bank-financed project. This work will include: (i) the preparation of an audit of environmental risks associated with the electricity and petroleum sector, and (ii) an analysis of the impact of the measures proposed by Government to strengthen the cocoa sector on forestry, biodiversity, and more broadly on land use.

8. Contact point

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