I. Project Context

Country Context

1. Côte d’Ivoire’s prolonged period of political instability and conflict resulted in a deterioration of governance and transparency. With frequent changes in government, political and security concerns, and the absence of an approved budget often until mid-year, the standard budget cycle was disrupted and public financial management processes and procedures suffered. An increasing share of public expenditures (over 50 percent in 2006) was executed outside regular budget procedures using discretionary treasury advances, a major part of oil revenue stayed off-budget, and quasi-fiscal levies on cocoa were not used to benefit producers as intended.

2. Poverty rates have steadily increased since 1985. Poverty was reduced from about 38 per cent to 32 per cent as a result of the brief economic recovery of the mid-1990s. However, the poverty rate began to climb after 1998 back up to 38 per cent by 2003. A household living standard survey (HLSS) in 2008 revealed that absolute poverty had further increased to a rate of 49 per cent. According to these data, between 1985 and 2008, the poverty rate has gone from 10 per cent to
nearly 50 per cent.

3. Poverty has increased most dramatically in rural areas and in the Center, North and West (CNW) zone, highlighting issues of geographic inequality. Rural poverty has grown steadily, from 49 per cent in 2002 to 63 percent in 2008. The regions with the highest incidence of poverty are the North--where poverty has nearly doubled during the crisis, from 40 per cent to 77 per cent—followed by the West, the Center-West and the North-West. By comparison, poverty in Abidjan is estimated at 21 per cent. 60 percent of cocoa growers are poor (compared to the overall 2008 poverty headcount of 43 per cent using the national poverty line in 2008) and cocoa-farming households account for about 28 per cent of poor Ivorians.

4. Since mid-2011, Côte d’Ivoire has regained political stability. After a decade of political crisis and conflicts, presidential election took place in October 2010, and following a civil war that led to the death of over three thousand people, the elected President was sworn in on May 2011. The Parliament was inaugurated on April 12, 2012, the three branches of government are now fully functional, and the administration is deployed all over the country. The Dialogue, Truth, and Reconciliation Commission, designed to promote social cohesion and political reconciliation, is functional, although progress has been slow.

5. The economy is recovering well. After a decline of GDP by 4.7 percent in 2011 following the 2010/11 crisis, GDP grew by 9.5 percent in 2012 with a projected rate of 8.7 percent in 2013 (IMF 2013). Average inflation was contained at 1.3 percent in 2012, down from 4.9 percent the previous year. The 2012 overall fiscal deficit narrowed sharply to 3.4 percent of GDP from 4.3 percent of GDP in 2011 and was financed through domestic financing of about 1.2 percent of GDP, budget support and net debt relief from development partners (approximately 2 percent of GDP). There was also a significant effort to improve tax collection since the second half of 2011: tax revenues reached 17.6 percent of GDP in 2012 and 17.5 percent of GDP in 2011, respectively (up from 17.0 percent in 2010).

6. Côte d’Ivoire is behind schedule to reach most of the MDGs. Gender parity in school, halting the spread of HIV/AIDS and access to an improved source of water are three MDGs that could be attained by 2015. Otherwise, nearly all social development indicators have stagnated or deteriorated. The impact is reflected in a high child mortality rate of 127 deaths per 1,000 children, though this has improved from the rate of 151/1,000 in 1990; and one of the highest maternal mortality rates in the region, with 543 mothers dying for 100,000 births. This rate is an improvement over the 1995-estimated rate of 1,200 deaths per 100,000 births. However, the MDG of 300/100,000 is unlikely to be achieved by 2015 3. The immunization rate has been declining since 2006 and polio has re-emerged. The primary education completion rate has been around 47 per cent since 1985 and illiteracy rates are high. Reaching the MDG of 12 per cent poverty by 2015 is highly unlikely.

7. The Government has set up the National Development Plan (NDP) for the period 2012-2015 to transform the country into an emerging economy by 2020. The NDP is underpinned by an ambitious social and development agenda, centered on private and public investments. However, without reconciliation, security and good governance, the transformational and ambitious goals set in the NDP will be difficulty to achieve.
Sectoral and institutional Context

8. The first PEMFAR review completed in 2008 led to the first set of PFM reforms. It was carried out jointly by the Bank, the IMF, the African Development Bank (AfDB), and the European Commission (EC). And it identified a number of shortcomings and recommended relevant policy reforms and institutional development in the areas of budget comprehensiveness and transparency, budget preparation and execution, reporting, controls and procurement. The Original Project was initiated on the heels of the first PEMFAR review to address these shortcomings and led to a number of achievements.

9. Progress has also been achieved in the following areas: (i) budget preparation and monitoring of debt, (ii) reduction treatment delays in the chain of expenditures (SIGFIP), (iii) improved public information on budgetary allocations and execution, (iv) enhanced external controls, and (v) timely adoption of budget execution review laws.

10. The scores of the 2013 PEFA show stronger overall results than the 2008 assessment in all three categories of performance indicators, i.e. budget credibility, budget comprehensiveness and transparency, and budget cycle. Twenty-one indicators out of 31 have improved; 7 have remained unchanged; and 3 have deteriorated (of which 2 concern donor practices).

11. Despite the progress, the PFM system still faces challenges as revealed by PEMFAR II. These include: (i) persistence of large arrears; (ii) insufficient controls and consolidation at different levels of government; (iii) inadequate macroeconomic framework to forecast the level of revenues; (iv) absence of multi-year budgeting; (v) incomplete reporting on budget execution; (vi) and weak internal and external controls.

12. The PEMFAR II major recommendations are to: (i) improve efficiency and transparency in budget preparation and execution and sharing of information; (ii) strengthen the interface between the budget execution information system, the procurement information system, treasury accounting and payroll; (iii) extend the government’s financial management information system (SIGFIP) to local branches of government throughout the country; (iv) monitor the implementation of a global Medium-Term Expenditure Framework (MTEF); (v) improve external auditing mechanisms by promulgating the organic law creating the Auditor- General’s Office, appointing the judges and clearing the backlog of the audit of Budget Review Acts and State Accounts; (vi) improve internal audit systems and procedures; (vii) implement WAEMU guidelines; (viii) strengthen public procurement practices and set up the National Public Procurement Regulatory Authority (ANRMP); and (ix) fight corruption.

13. As a follow up to the PEMFAR recommendations and other diagnostics done on some specific areas of PFM, the Government and the donors have elaborated a general strategic plan for PFM reforms. Among key actions proposed to be undertaken in the short and medium-term are: (i) the implementation of the WAEMU PFM guidelines, particularly those related to multi-year program budgeting; (ii) systems interconnection; (iii) development of decentralized local public finance management; (iv) strengthening of the management and control of public enterprises; and (v) increasing significantly the capacity of the auditing and control bodies.

14. Implementation of the WAEM PFM guidelines needs to accelerate. The deadline for full compliance of these sub-regional guidelines, which consist of 7 directives, has been set up for 2017.
So far only the directive on the adoption of the budget organic law (Loi Organique de la loi des Finances – LOLF) has been met. The Government, with the help of donors, is making efforts to develop medium-term expenditure frameworks and program budgeting. Still, there is a lack of a sequenced operational plan to guide the implementation of the WAEMU PFM guidelines.

15. The development of a full integrated financial management information system is critical to improve the transparency, accountability, and performance of PFM. Côte d’Ivoire has already many sophisticated systems, but unfortunately they are not for most cases interconnected. Instead of setting a new enterprise system that will encompasses different modules of PFM, a more pragmatic and potentially less costly approach currently adopted by the Government is to do a gradual interconnection of systems until all of them are inter-connected. It is in this fashion that efforts are being pursued to interconnect: (i) the treasury system (ASTER) with the customs system (SYDAM); (ii) ASTER with the fiscal system (GUOAR); (iii) ASTER with the budget system (SIGFIP); (iv) SYDAM with GUOAR; and (v) SIGFIP with the procurement system (SIGMAP). The civil service human resources system (SIGFAE) is now fully operational across the country and interfaces well with the payroll system (SOLDE) in the Ministry of Finance.

16. To enhance local governance and hence create opportunities for sustained economic growth across the country and not just at the central level, a robust public financial management is required. The development of the decentralized local PFM system (SYGESCOD) is being piloted in eight localities and should soon be deployed in major localities.

17. The connection of the public enterprise individual information systems (RICI-EPN) to a central system in the Ministry of Finance needs to be strengthened. The government makes transfers to public enterprises, but it is not always clear how these enterprises, which garner significant revenues from their services, are managed. Thus, the government seeks to ensure more accountability and efficiency of the public enterprises through the centralization and closer monitoring of their operations.

18. The performance of the control and audit entities has been a perennial challenge for the government. It is one of the areas that registered the lowest score on the PEFA and where no improvement was made between 2008 and 2013. The government is seeking to significantly enhance their capacity and improve their performance.

Cocoa Sector

19. Côte d’Ivoire is the world’s largest cocoa producer, with an average production of 1,300,000 tons of beans per year. Cocoa accounts for one quarter of its exports and public revenues. Approximately 700,000 smallholder families (about 6 million people) depend on the sector for their main source of income. Cocoa is produced by about 500,000 producers and the sub-sector is an essential pillar of the rural economy. However, inadequate producer incentives and poor management of the sector’s agencies have limited cocoa’s contribution to rural growth and poverty reduction. An estimated 60% of cocoa farmers live below the poverty line and indeed they account for some 28% of all the poor in Côte d’Ivoire.

20. In November 2011, the government reformed the cocoa sector with the creation of the Council of Coffee and Cocoa (CCC). The main objective of the reform is to ensure good earning of revenues by cocoa producers through the payment of a minimum of 60 percent of the international
price.

21. The lack of professionalism and organization has been a major handicap for the small producers in optimizing their revenues and creating economic opportunities. Often the price by a professional exporter to a producer does not reflect the guaranteed price (i.e. 60 percent of the international price). This begs the need for producers to regroup into strong cooperatives and professionalize in order to generate more revenues.

22. The CCC is promoting the professionalization of producers and institutionalization of stronger cooperatives with the adoption by the cooperatives of the the new OHADA Uniform Act. The new OHADA legal requirements of 2010, which has been delayed in the implementation, is intended to transform cooperatives, which up to now were set up in a very informal manner, into a sort of commercial enterprises that must legally register with the Court and follow normal governance mechanisms including reporting, accountability, and transparency. A deadline (October 2014) has been set up by CCC for cooperatives that want to participate in the 2015 cocoa campaign to comply with the OHADA requirement.

II. Proposed Development Objectives
    A. Current Project Development Objectives – Parent
    The project development objective (PDO) is to contribute to strengthen Government's capacity to (i) enhance efficiency and transparency in the use of public resources; (ii) manage the development of its hydrocarbon resources in an environmentally and socially sound and sustainable manner; and (3) foster governance and efficiency in the cocoa sector.

    B. Proposed Project Development Objectives – Additional Financing (AF)
    The project development objective (PDO) is to enhance transparency and efficiency in the management of public finances and improved governance and efficiency in the cocoa sector.

III. Project Description
    Component Name
    Strengthening Public Financial Management
    Comments (optional)
    This component aims to improve results in the areas of: (i) revenue management, budget preparation, and execution; (ii) local public finance management; (iii) management of public enterprises; and (iv) performance of control units.

    Component Name
    Enhancing Professionalism and Capacity of Producers in the Cocoa Sector
    Comments (optional)
    This component aims at supporting the efforts of the Ivorian Government to foster governance, transparency and efficiency in the cocoa sector, and improve producer incomes.

    Component Name
    Project Implementation, M&E and Communication
    Comments (optional)
    The objective of this component is to support the Project Coordination Unit (PCU), monitoring and evaluation, communication, and outreach activities.
IV. Financing (in USD Million)

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V. Implementation

1. The current institutional arrangements will be maintained in the proposed additional financing project. These arrangements include: (i) the existing Monitoring and Steering Committee (MSC), which has the responsibility for the overall project oversight, (ii) the Project Coordination Unit (PCU), which implements and monitors day-to-day project activities including procurement, disbursement and financial management, and its Project Technical Committee (PTC), and (iii) the Ministerial Focal Points (MFP) in the two beneficiary ministries (Finance and Agriculture), which has the responsibility for implementing their respective components. The effectiveness of the existing implementation arrangements and the significant capacity of the PCU, in particular, are considered optimal for the implementation of the additional financing. Indeed, the PCU has developed an excellent track record for project implementation and its strong reputation has resulted in it being conferred with responsibility for other projects.

2. Funds flow arrangements would be largely the same as before, with the project having one Designated Account located at the Central Bank of West African States (BCEAO) and one Project Account in a commercial bank, which is managed by a Public Accountant appointed by the Ministry of Economy and Finance in coordination with the PCU. Discussions with the Ministry of Finance will be held to finetune the arrangements as required in a mutually acceptable manner.

3. In terms of results monitoring, current arrangements of the Project have been satisfactory. The additional financing will nonetheless support activities to further strengthen the monitoring and evaluation capacity of the project. The results of PEMFAR II provide the input necessary to strengthen the PFM results framework.

4. Outreach and communications are important factors to the success of the project and the implementation of the overall PFM reform program. The Additional Financing will provide funding to scale up communication and outreach in the project.

VI. Safeguard Policies (including public consultation)

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VII. Contact point

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