

## IDA AT WORK

## Côte d'Ivoire—Emerging from Crisis

Côte d'Ivoire is the world's top exporter of cocoa and raw cashew nuts, a net exporter of oil, and has a sizeable manufacturing sector. It is the largest economy in the West African Economic and Monetary Union (WAEMU), accounting for 40 percent of the Union's GDP. The country's influence on the sub-region is also significant due to its size (19 million people), its relatively high income per capita (US\$960 in 2007), and its role in transit trade for landlocked neighboring countries.

While the country boasts enormous potential, years of crisis, economic mismanagement and poor governance have taken a heavy toll on the economy and social outcomes, transforming the once-model African nation into a fragile state blighted by high levels of poverty (reaching nearly 50 percent in 2008 compared to 10 percent in 1985), a breakdown in key institutions and social capital, and the slow deterioration of basic social and economic infrastructure.

Country Indicators	1995	2008
Real GDP growth (%)	-0.1 (1997–2007)	2.3
GNI per capita (US\$)	660	960 (2007)
Poverty incidence (% , national threshold)	21	48.9
Gross primary school enrollment rate (%)	37	56
Under-five child mortality (per 1,000)	143	125 (2005)
Maternal mortality (per 100,000)	690 (2000)*	810 (2005)
Access to improved water source (% population)	71	61
Population (million)	15	19.3

Sources: World Development Indicators 2009, World Bank; Côte d'Ivoire National Institute of Statistics 2008 Household Survey; \*WHO Country Health Systems Fact Sheet 2006 .

In 2004, two years after the internal armed conflict that triggered the country's crisis, the International Development Association (IDA), the World Bank's fund for the world's poorest countries, suspended its operations in Côte d'Ivoire when the country fell into payment arrears. Today, two years after the signing of the 2007 Ouagadougou Political Accords that established a road map for the country's recovery, and a year after IDA resumed financial support to the government, Côte d'Ivoire stands once again to become a driving force in the region provided there is continued progress with the peace process, elections, and national unification—as well as reforms to improve the management of public resources and investment in people.



## COUNTRY ACHIEVEMENTS

### From a Leader to Fragile State

**For 20 years after independence in 1960, Côte d'Ivoire was an economic force.** With growth rates of 7 percent per year, fueled by cocoa, coffee, and cotton exports, it was widely expected to become one of the most developed sub-Saharan African countries.

But in the mid 1980s, the miracle collapsed following a decline in the terms of trade, an overvalued exchange rate, financial difficulties resulting from ambitious public investments and large external borrowing.

Notwithstanding the 1994 CFA franc devaluation and a short period of economic recovery in the mid-1990s, the country continued to grapple with the emerging impact of years of economic mismanagement, unregulated immigration, conflicts over land ownership, and a difficult transition from autocracy to democracy following the death of President Houphouët-Boigny in December 1993.

The September 2002 armed conflict that split the country into two, with the center-north-west (CNW) zone occupied by the rebel *Forces Nouvelles* (FN), deepened the crisis. With the government unable to regain control

of the CNW, an uncertain situation emerged with neither outbreak of war nor peace.

The conflict claimed hundreds of lives and thousands more were displaced. Government revenues fell, and with them investment and social spending, as scarce resources were directed to military purposes. Donor support was suspended while domestic and external arrears mounted. Capital flight rose substantially; many key members of the business community left the country; and private investment dropped. Governance deteriorated and corruption flourished as individuals took advantage of lawlessness and a dysfunctional judiciary. Roadblocks and racketeering by armed groups which extorted payments from the population and further depressed trade and commerce.

**The years of conflict and instability took a heavy toll** on social indicators, and several million people were pushed into poverty. Infrastructure and basic services for health and education, once well above regional standards, declined, especially in the CNW zone. Although the economy showed some resilience to the crisis due to sustained cocoa and expanding cashew production, in addition to an increase in oil production, Côte d'Ivoire had by 2004 become more of a risk to regional stability than the region's engine of growth.

## The road to recovery

The signing of the Ouagadougou Political Accords (OPA) in 2007 established a transition government and set a new roadmap for demobilization and disarmament. It also called for the redeployment of the civil service in the CNW zone; identification of a group to resolve nationality issues; and for elections to be held in 2008.

A new transition government, with FN leader Guillaume Soro as prime minister, was formed in April 2007. Adherence to the peace process paved the way for Côte d'Ivoire to emerge from the crisis and normalize relations with the international community. Vital elements in the country's stabilization will be the holding of free and fair elections; disarmament and demobilization; full reunification; the strengthening of state institutions; and a return to the rule of law.

### Consolidating peace and reunification.

Despite some delays, progress has included the establishment of an integrated command center for the army and FN forces, appointment of prefects for all districts, and judges for nationality identification hearings. In addition, the majority of local government representatives, mayors, *préfets* and *sous-préfets*, have returned to their positions, notably in the CNW zone.

Disarmament and demobilization began in 2008 and has mainly consisted of regrouping FN troops in the CNW. By October 2008, more than 11,000 of the estimated 36,000 FN combatants had been regrouped, though disarmament and demobilization has moved more slowly than expected.

The national identification program has enrolled some 6.5 million eligible voters to participate in presidential elections planned for late 2009. Although the figure falls short of the original enrollment target of 8 million, all political parties have agreed for these elections to proceed. In addition, the security situation has improved steadily and roadblocks and racketeering have been significantly reduced.

### Strengthening economic governance and creating fiscal space for greater investment in people.

As the political normalization process continued in 2008, the economy registered a modest recovery. Output growth in 2008 was estimated at 2.3 percent, driven by an increase in oil output, an improving investment climate, and the reunification of the country.

The government also restored discipline to budget preparation and adoption, with the 2008 budget adopted by presidential ordinance in December 2007 and the 2009 budget before end-December 2008. Significant revenue collection efforts and overall expenditure restraints resulted in a modest primary basic surplus in 2007 (0.6 percent of GDP) and 2008 (0.3 percent). Social sector spending targets were met for 2008, although they continue to be modest.

In addition, the government made important progress by clearing its arrears to most external creditors, including to the World Bank Group in early 2008 and to the African Development Bank (AfDB) group in March 2009. Both institutions resumed their operations in the country.

Most importantly, Côte d'Ivoire reached the HIPC Decision Point in March 2009, a critical milestone toward reducing external debt and freeing up resources for poverty reduction and growth spending. Upon reaching the HIPC Completion Point, Côte d'Ivoire will qualify for relief under the Multilateral Debt Relief Initiative, which is expected to include a reduction in the nominal debt service (principal and interest) to IDA and the African Development Fund by US\$1,692.6 million and US\$311.6 million, respectively.

## **IDA CONTRIBUTIONS**

The establishment of a transitional government to implement the Ouagadougou Political Accords paved the way for IDA to reengage with Côte d'Ivoire. On April 1, 2008, IDA's Board discussed an 18-month Interim Strategy for Côte d'Ivoire covering FY2008-2009, and approved a US\$308 million development policy grant, of which US\$273 million financed the country's back payments due to IDA (Côte d'Ivoire also paid US\$241 million in overdue debt service to IDA).

Prior to the clearance of IDA arrears, a series of small grants from trust funds for fragile states allowed IDA to offer assistance on strategic and sensitive matters such as the reintegration of child soldiers, community rehabilitation in the FN-controlled zone, and the employment of youth-at-risk. In 2007, IDA's Board approved on an exceptional basis a US\$120 million grant for a Post-Conflict Assistance Project (PCAP).

Following the clearance of IDA arrears, the Board approved another US\$127 million in grant financing for emergency urban infrastructure, HIV/AIDS and economic governance support, and reactivated a portfolio of US\$104

million in undisbursed commitments for education, transport and rural development. In fiscal year 2009, IDA provided a US\$150 million budget support grant for economic governance reforms, and the Board approved a US\$50 million IDA grant for an Urgent Electricity Rehabilitation Project.

IDA is supporting government efforts in three strategic areas: (i) to help stabilize the situation and assist the authorities to address key conflict factors; (ii) to assist war-affected populations through community rehabilitation and the provision of basic social services; and (iii) to accelerate economic recovery and reform by focusing on economic governance reforms and institution building.

### **Stabilizing the situation and assisting the government to address key conflict factors.**

IDA's support through the PCAP project has provided technical and financial support for the reintegration of ex-combatants and youth-at-risk. As of May 2009, some 3,200 people have found quick employment in labor-intensive works or have had access to training and services geared to self-employment.

The PCAP is also supporting a comprehensive program to safeguard and modernize the civil registry, in partnership with the European Commission. Civil registry offices will soon be equipped with new computerized systems to ensure that births, citizenship, property, marriage, and other life events are properly recorded, stored and available for the government to provide adequate services to citizens (615,000 records have been entered electronically). The first ever National Civil Registry Archives is now under construction and will serve to safeguard precious records

and information, and help prevent recurrence of the abuses that contributed to the outbreak of the crisis.

Through another component of the PCAP, offices for local government officials are being rehabilitated to facilitate the redeployment of the civil service across the country as part of the reunification process. Contracts to rehabilitate 22 local government offices have been signed and the civil works have begun. In addition, the IDA-financed Rural Land Management Project is supporting efforts to clarify land rights, facilitate conflict resolution, and identify land management and development options, as well as to offer protection from gender-based violence and assistance to survivors.

A transport sector project was restructured to focus on reestablishing and improving road access across the country, with a particular attention to the CNW, where road maintenance was suspended during the crisis. The project also focuses on improving road access for farmers and productive communities in order to boost commercial activities.

Analytical work to address conflict factors has included: (a) the preparation of a country social assessment to ensure that community rehabilitation is responsive to socio-economic concerns and social risks resulting from the crisis; (b) a stocktaking of decentralization efforts, which had started before the crisis, and challenges involved in a full roll-out; (c) a market study on employment opportunities for ex-combatants and youth-at-risk; (d) a study on the social economic impact of roadblocks; and (e) a poverty diagnostic to support the preparation of the PRSP.

### **Assisting war-affected populations.**

In addition to creating jobs for youth and ex-combatants as part of the reintegration process, IDA grants are financing community rehabilitation and local development plans to help restore basic social services, such as access to water and education. The education and training project includes textbooks for primary school children, teacher training, and construction of 300 classrooms. The new textbooks will include stories illustrating the importance of birth certificates (needed to obtain a primary school diploma), thus linking to the program on civil registry modernization. In response to the food crisis of 2008, the project also provided school meals to 400 schools in coordination with the World Food Programme.

IDA is currently financing a US\$20 million project to support the national response to HIV/AIDS. Cote d'Ivoire has the highest HIV prevalence rate in West Africa at 3.9 percent.

IDA-supported analytical work on human development includes: (a) a country status report on education, which forms the basis for a new education sector program that envisages an Education for All/Fast Track Initiative (EFA-FTI) grant; (b) a study mapping out responses and gaps in the national HIV/AIDS strategy; and (c) a country health status report.

### **Assisting economic recovery and reform**

Through two development policy operations, IDA has helped the government restore fiscal and debt sustainability and sustain incipient economic recovery through structural

reforms in the financial, energy, and cocoa sectors—the latter two being key generators of exports and public revenues.

Progress includes (a) improved budget execution to reduce discrepancies between approved budgets and actual expenditures; (b) a modern computerized public finance management system (SIGFIP), which is being extended to the whole country and was already deployed in the CNW areas as part of the unification process; (c) a government commitment to more transparency in the management of oil and gas revenues by joining the Extractive Industries Transparency Initiative in 2008; and (d) four commercial banks with negative equity submitted recapitalization plans to the Banking Commission (two of which were considered acceptable).

Regarding efforts to normalize relations with international financial institutions, the government has remained current on its debt service to IDA and has also settled its arrears to the African Development Bank (AfDB).

Analytical work in poverty reduction and economic management has included a Public Expenditure Management and Financial Accountability Review (PEMFAR), carried out jointly by IDA, the IMF, AfDB, and the European Commission (EC) and completed in May 2008. The PEMFAR identified critical shortcomings in the areas of budget comprehensiveness and transparency, budget preparation and execution, dissemination, controls, and procurement. The PEMFAR also provided recommendations for policy reforms and institutional development.

On the basis of PEMFAR, the government has adopted a public financial management action plan designed to (a) sustain the normal

budget cycle; (b) enhance capacity for budget/MTEF preparation and improve budget classification and execution (which will help identify and track poverty-related spending in the context of HIPC); (c) develop an interface between budget execution, procurement, treasury, accounting and payroll; and (d) accelerate deconcentration of the budget execution system to the country's remaining 10 departments.

These efforts are complemented by government measures to improve revenue, which include (a) improving tax and customs administration, including in the CNW zone; (b) enhancing the revenue contribution from national oil/gas companies; (c) reducing tax exemptions; and (d) ensuring that public enterprises transfer to the treasury all social contributions on wages.

IDA has also financed energy audits in support of the EITI process as well as a major review of the cocoa sector, and a country environmental assessment.

## **PARTNERSHIPS**

IDA works closely with other technical and financial partners in Côte d'Ivoire on stabilization and peace-building. These partners include the African Development Bank, European Commission, French Agency for Development, IMF, UN agencies, and USAID.

Given the fragility of the recovery process, the Bank has played an important role in ensuring close coordination of development partners in support of the government's recovery and governance reform program—including helping to define the arrears clearance plan and the HIPC debt relief process.

As IDA deepens its engagement in Côte d'Ivoire, new opportunities for harmonization have emerged, including preparation of the PEMFAR and the Education Country Strategy Report (CSR), which were prepared jointly by government and development partners. IDA is exploring opportunities for establishing pooled or basket funds and using country financial management systems.

Civil society and the private sector are also critical stakeholders with whom IDA is strengthening its engagement, in support of demand-side governance. A new Country Assistance Strategy (2010-2013) currently under preparation will support Côte d'Ivoire's priorities as laid out in the Poverty Reduction Strategy Paper (PRSP), and will be an opportunity to scale-up implementation of the partnership principles laid out in the Paris Declaration.

## CHALLENGES

The government's new PRSP, adopted in March 2009, discusses the country's main challenges and targets six strategic objectives:

- consolidating peace and social stability,
- promoting good governance,
- stabilizing the macroeconomic and fiscal frameworks,
- promoting agriculture productivity and private sector job creation,
- improving access to basic services, preserving the environment, and promoting gender equality and social protection, and
- promoting regional integration.

The PRSP was prepared based on extensive consultations in March and April 2008 across the entire country, involving local government officials, religious and traditional

leaders, associations of women and youth, civil society, security forces, farmers, private sector operators, and development partners. The final strategy was validated in a national workshop on January 5, 2009 and approved by the Cabinet in February 2009. Additional workshops were organized with these stakeholders in July and August 2009 to refine the PRSP action plans.

The PRSP proposes a strategy to significantly reduce poverty—to 33 percent by 2013— and boost average growth rates to 6 percent over the long term, to pave the way for Côte d'Ivoire to become an emerging economy and to ensure the social well being of all its citizens.

The government's *first* challenge is to complete the implementation of the Ouagadougou Accords, and emerge from the socio-political and military crisis. With the national identification program well underway, the remaining challenge is to hold peaceful, free and fair elections, complete the demobilization, disarmament and reintegration process, including the unification of the two armed forces into one national defense and security force, and restore a sense of national cohesion.

Once peace is consolidated and institutions of law and order are functioning more effectively, additional resources will need to be invested in human development and productive activities, particularly for the benefit of the youth. It is estimated that 50 percent of the population are younger than 15 years old and those aged 15-39 represent another 40 percent of the total population. According to official statistics, there are about 4 million youth unemployed or underemployed.

A *second* challenge is to improve governance and public institutions to not only deliver

critical services but also restore credibility in the government and the confidence of private sector investors. This will include completing the redeployment of the civil service, ensuring that key public institutions function properly and transparently, thus reigning in impunity and corruption, and improving transparency in the management of public resources. Government will need to ensure that revenues are invested in priority social services to improve social indicators and human development, consistent with the (PRSP). Reforms should also aim to improve the business climate.

A *third* challenge is to broaden the economic base to reduce the economy's reliance on primary commodities which are vulnerable to price and demand fluctuations, and to improve agricultural quality and productivity. (Oil accounts for 28 percent of Côte d'Ivoire's total export revenue and 18 percent of public revenues, and cocoa accounts for 25 percent of export revenues and roughly 17 percent of public revenues.) Promoting agricultural productivity and adding value to exports—including cocoa, cotton, cashew nuts, pineapple, bananas, palm oil and rubber—will have a significant beneficial impact on the two-thirds of the population employed in agriculture.

A *fourth* challenge is to rehabilitate infrastructure and basic social services, which suf-

fered from a lack of investment over the past 20 years. Investing in infrastructure is critical to help unleash the country's economic and social potential, whether by rehabilitating energy services or roads that connect farmers and markets and children with their schools. It also entails improving education and health services that collapsed during the crisis. Beyond investments by the government and development partners, private financing will go a long way to helping meet this challenge, making improvements in governance and the investment climate critical.

Given the rapid rate of population growth, estimated at 3 percent, the country also faces a demographic challenge, which, if left unattended, will make progress on both economic and social indicators (especially Millennium Development Goals) much harder to achieve. The government will need to accelerate implementation of measures to address issues of equity and opportunity for girls and women.

To ensure Côte d'Ivoire's progress toward long-term stability and growth, the government will need to sustain its commitments to the PRSP goals, which in turn will require a concerted and harmonized response from development partners.

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