

Côte d'Ivoire: Poverty Reduction Strategy Paper—Joint Staff Advisory Note

The attached Joint Staff Advisory Note (JSAN) on the Poverty Reduction Strategy Paper for Côte d'Ivoire, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper (PRSP) to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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**International Monetary Fund
Washington, D.C.**

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

CÔTE D'IVOIRE

Poverty Reduction Strategy Paper

Joint Staff Advisory Note

Prepared by the Staffs of the International Development Association (IDA)
and the International Monetary Fund (IMF)

Approved by Obiageli K. Ezekwesili (IDA)
and Thomas Krueger and Anthony Boote (IMF)

March 4, 2009

I. OVERVIEW

1. **Côte d'Ivoire's first Poverty Reduction Strategy Paper (PRSP) comes at a critical time in the country's history as it emerges from six years of crisis.** It builds on the 2002 Interim Poverty Reduction Strategy Paper. The PRSP covers the seven-year period 2009–15, with an update planned for 2012. It calls for an ambitious program to re-establish a peaceful country in which poverty falls significantly supported by average GDP growth of approximately 6 percent. This Joint Staff Advisory Note (JSAN) provides advice on key priorities for strengthening the strategy and promoting its effective implementation. After the overview, the JSAN discusses poverty trends, the PRSP's strategic pillars and key outcomes sought, including a sound macroeconomic framework, and monitoring and evaluation arrangements. The last section presents staff's main conclusions and recommendations.

2. **The PRSP was prepared in a challenging political context.** A new transition government involving the *Forces Nouvelles* who controlled half of the country from 2003 until recently, along with the three main political parties, was formed in April 2007. The preparation of elections has been delayed due to difficulties in re-establishing the list of eligible voters. Consequently, the government of national unity has remained in place and the elaboration of the PRSP has required coordination across different parties. This undoubtedly complicated the process of elaborating a common vision but should facilitate ownership of the strategy by the government that will follow the elections expected later in 2009.

3. **In spite of this difficult context, the PRSP was prepared in a participatory manner.** Extensive consultations were held between March 17 and April 30, 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. The document represents important progress in establishing a new consensus among the population on the way forward and for re-engaging with development partners.

4. **The PRSP is based on six strategic pillars which target four principal outcomes:** (i) re-establishment of the foundations of the Republic; (ii) transforming Côte d'Ivoire into an emerging economy; (iii) social well-being for all; and (iv) a dynamic actor on the regional and international scene. This structure and its various components reflect well the broad range of challenges facing Côte d'Ivoire as it seeks to re-unify the country and re-launch economic growth.

5. **Staffs acknowledge the preliminary priority action matrix and cost tables.** It is understood that these will be further elaborated, and disaggregated by region and commune during 2009. Staffs stress the need for better prioritization of planned interventions over the next two years, with a focus on actions to consolidate peace and support economic recovery. Staffs also support the authorities' plans to link the strategic priorities of the PRSP with budgetary allocations and processes. It will be important to develop a precise timetable and clearly-defined responsibilities, with a full set of monitorable actions and results.

II. POVERTY TRENDS AND DIAGNOSIS

6. **As detailed in the PRSP, the household budget survey for 2008 has confirmed that poverty has continued to rise** and has now reached a new high of 48.9 percent.¹ There has thus been a major deterioration in the well-being of the population, which recorded a much lower level of poverty (10 percent) as recently as 1985. The only time when poverty has fallen in the last twenty years is the period 1995–98 when GDP increased by more than 5 percent per annum as a result of a short-lived economic boom triggered, among others, by the CFA franc devaluation. Inequality, on the other hand, has declined as the economic and political crisis has taken a particularly heavy toll on the better-off urban population. With a poverty rate estimated at 24 percent in 1990, staffs believe that it will be very difficult to achieve the first Millennium Development Goal of halving poverty by 2015. Even the PRSP targets of 33.6 percent by 2013 and 16.2 percent in 2015 will be a major challenge.

7. **Staffs agree with the assessment of poverty made in the PRSP, and urge an immediate and focused effort to reverse the rising trend in poverty.** The authorities have identified the characteristics associated with the rise of poverty over the last decade, but additional research on the underlying causes would facilitate a better formulation and targeting of the poverty reduction strategy. Poverty and social impact assessments (PSIAs) would help determine the relative importance of different reform measures being considered. Accelerated

¹ The poverty line is set at CFAF 661 per capita per day which is about US\$135 at the current exchange rate.

GDP growth, with direct links to the rural economy, will clearly be required in order to make significant inroads in poverty. In this context, the authorities are encouraged to give top priority to interventions in agriculture and rural development, notably in the formerly-occupied areas. The frustration voiced by the population concerning the emphasis on cash crops is notable, and should be interpreted as a call for better management of these sub-sectors with a higher share of the world price paid to the producer. Increased efforts to fully restore access and improve quality of basic social services will also be required, especially in the areas formally held by the Forces *Nouvelles* and rural areas to support large poverty reduction gains. Private sector development will be critical to generate badly-needed jobs, and expand the tax base.

III. OUTCOMES AND STRATEGIC PILLARS

A. Reestablishment of the Foundations of the Republic

Consolidation of Peace and Security, and Promotion of Good Governance

8. **Staffs welcome the strategy's focus on the consolidation of peace and security and the strengthening of governance as preconditions for economic recovery and poverty reduction.** A decade of political instability accompanied by a deterioration of the country's relations with its neighbors and suspension of support from the international financial community resulted in a break in social cohesion, increasing insecurity and the spread of poor governance. The success of this poverty reduction strategy will depend critically on rapid implementation of the Ouagadougou Political Accord. In implementing the immediate, short-term priorities of the PRS, staffs advise the authorities to give top priority to the post-conflict dimension - including ex-combatants and youth reinsertion, issues related to child soldiers, human right abuses, and most importantly, clarification of land ownership in rural areas.

Decentralization

9. **The PRSP makes decentralization one of its key cross-cutting themes.** The decentralization law adopted in 2001 lays out an ambitious reform agenda, emphasizing functions to be carried out by local government. The PRSP recognizes the weakness of the legal and institutional framework for decentralization. Staffs recommend that a new consensus be established on how far and how fast to pursue decentralization reforms. The implementation texts for a transparent legal and institutional framework will be needed, providing clarity on the roles and responsibilities of local government, accompanied by a comprehensive capacity-building program and clear revenue assignments. This will help local governments fulfill their role in reducing regional inequalities, and strengthening government accountability.

B. Transforming Côte d'Ivoire into an Emerging Economy

Sound Macroeconomic Framework

10. **The PRSP includes an ambitious macroeconomic framework, which is subject to downside risks related to the global environment.** The average growth rate of 6 percent should be achievable and sustainable in the long run subject to sound fiscal policies, deep structural reforms in the cocoa/coffee, energy and oil sectors, and improvements in transparency and governance, which would help strengthen investor confidence. However, staffs would caution against overly ambitious projections for 2009–10 and the medium term (through 2013), as the country is being affected by the international economic slowdown and lower commodity prices. Staffs also note that the PRSP could benefit from an analysis of Côte d'Ivoire's external position, whose sustainability depends on largely exogenous factors, such as cocoa and oil prices, debt relief, and private capital.

11. **The PRSP correctly emphasizes investment as an important driver of growth.** The staff agrees with the authorities on the need to increase the share of private investment in final demand and strengthen the poverty reduction focus of public investment. At the same time, staffs note that the projected rate of increase in public investment by almost 24 percent in 2009–13, although possible, should be consistent with the absorptive capacity of the economy and targeted to projects with high economic and social returns. In light of the large post-conflict rehabilitation needs—notably in education, health, water, and roads—the authorities are advised to reassess the scale and pace of construction of the new capital in Yamoussoukro for consistency with PRSP goals. Staffs support the authorities' commitment to incorporate all spending and financing for these works in the budget and follow regular budget procedures, and have the execution of the works regularly validated and audited by reputable bodies. Moreover, they recommend that all public investment projects be implemented in accordance with the public procurement code.

12. **The PRSP appropriately focuses on revenue measures as the financing core of its macroeconomic framework.** The authorities intend to increase the level of fiscal revenue (excluding grants) to 21 percent of GDP in the medium term, relying mainly on the stabilization of oil and gas production and favorable cocoa prices, with significant efforts in tax administration. The staffs consider that these projections can be realistic as long as the authorities do not rely excessively on revenue from volatile cocoa and oil exports, but rather pursue policies of broadening the tax base, accelerating the effective redeployment of tax administrations in the Center North West zones of the country, addressing corruption and evasion, and reducing and streamlining tax exemptions. In particular, the authorities should improve the control of hydrocarbon exports and petroleum product distribution, and strengthen verification of imports in the main port. There is also scope for further streamlining the price structure including taxes and quasi-fiscal levies of petroleum products while bringing taxation more in line with the average level in the WAEMU region.

13. **The staffs welcome the intention of the authorities to restrain and re-orient primary expenditure in the medium term.** Additional short-term targets that could help the authorities move towards a sustainable level of primary expenditures include: (i) a gradual reduction the wage bill/tax revenue ratio to approach the WAEMU norm, requiring efficiency gains through civil service reform; (ii) a reduction in subsidies to the electricity sector, which may require revisiting the prices in gas contracts and further tariff increases; (iii) a significant increase in social and other pro-poor spending; and (iv) adequate allocations for the costs of the crisis-exit programs. Staffs note that the success of the PRSP implementation also depends on the capacity of the authorities to execute high quality public spending. While the PRSP appropriately gives priority to social and basic infrastructural expenditures, including education, health care, roads, and water supply, staffs recommend that efforts be made to increase the country's capacity to design, implement and evaluate the impact of these investments.

14. **The overall focus of the PRSP on further fiscal consolidation is welcome but should be strengthened.** Specifically, staffs recommend that, as part of the PRSP implementation, clear medium-term fiscal projections be included in terms of sustainable debt and corresponding overall deficits. The realism of fiscal projections would then need to be regularly checked against this overall macroeconomic target, and revenues and expenditures adjusted accordingly. Should the revenue objectives become unrealistic (e.g., because of lower commodity exports), staffs recommend that the expenditure ambitions be scaled down accordingly.

15. **For the PRS to be successful, prudent fiscal policies would need to be supported by implementation of a medium-term program of deep structural reforms of public finance management (PFM).** Staffs welcome the progress has been made in returning to a normal budget cycle, improving budget execution and control, and treasury management. While welcoming this progress, staffs urge the government to accelerate reforms, in particular to address governance related issues in the public procurement system. The authorities recently adopted a PFM action plan, based on the recommendations of the Public Expenditure Management and Financial Accountability Review of 2008. Staffs encourage the authorities to implement this action plan to increase efficiency, effectiveness and transparency in the use of public resources. As part of these efforts, staffs recommend that the links between PRSP objectives and the budget be substantially strengthened through the preparation of a medium-term expenditure framework (MTEF) and sector program budgets corresponding to agreed policy priorities. Staffs also recommend that the authorities develop a medium-term plan to reform the public administration, including a census of government employees, a restructuring of the grade system and the ministries, introduction of an integrated civil service/payroll system, and the reform of the civil service pension fund (CGRAE). The reform of public administration would lead over time to a more efficient and motivated civil service, while keeping the wage bill affordable in relation to tax revenue.

16. **The costing of the PRSP would benefit from further refinement and greater realism.** Based on preliminary calculations, the average annual cost of PRSP implementation amounts to 25 percent of GDP in 2009–15. While the PRSP includes estimates of costs by key sectors, the

staffs recommend that the authorities also estimate possible burden-sharing between the central and local governments, explore further the possibilities of public-private sector partnership and cost-sharing in the execution of selected projects; and ensure that the existing mechanisms of state financing are efficient and transparent and do not lead to additional cost increases because of inefficient procurement procedures and the unneeded use of intermediaries or their excessive fees, or to the waste of public resources because of limited absorptive capacity.

17. **Financing of the PRSP represents a major challenge.** The PRSP estimates that just over one-half of the annual cost of PRSP implementation can be financed from the authorities' own resources, HIPC debt relief, and additional external financing (Box 10). The residual financing gap amounts to CFAF 12 trillion (11 percent of the 2009 GDP). In staff's view, the PRSP estimates of available financing are overly ambitious and rely on strong and favorable assumptions regarding the strength of revenue collection and cocoa prices, the timing of debt relief at the completion point, and the willingness of donors to provide additional concessional financing. Staffs recommend that the authorities (i) strictly prioritize PRSP projects so as to channel available financing to the most critical areas and avoid disruptions of project execution in case of financing shortfalls; (ii) vigorously mobilize revenue and reduce non-priority spending, so as to generate more own resources for the execution of PRSP projects; (iii) reestablish relations with key external partners to obtain grants and highly concessional loans, while monitoring closely overall debt sustainability; (iv) implement the HIPC floating completion point triggers as soon as possible, so as to be able to benefit from HIPC and MDRI debt relief as well as beyond-HIPC relief; and (v) as indicated above, explore opportunities for public-private partnerships when seeking additional financing for projects of interest to the private sector, while avoiding expensive domestic and regional borrowing.

Wealth and Job Creation, and Private Sector Development

18. **The PRSP recognizes the critical importance of the private sector for wealth creation.** The emphasis on improving the business climate is welcome, and the choice of indicators related to reduction in the time required to create an enterprise and growth in private investment is appropriate. The role of exports is clearly stated though it would be useful to identify targets in this area as well. In dealing with the issue of consumer prices, the authorities are advised to consider the effectiveness of competition in mitigating price rises and preventing monopoly practices. Price controls, on the other hand, could discourage private sector development. The authorities recognize the need for a better regulatory framework for microfinance, and a strengthening of the main microfinance institution. During implementation of the PRSP, attention to other parts of the financial system would also be useful.

19. **The importance attached to agriculture is well justified given the prevalence of poverty among farmers.** Agriculture has traditionally been the backbone of the economy, and there is ample opportunity to improve the livelihoods of those engaged in the sector. The PRSP's emphasis on coffee-cocoa, cotton and cashews is welcome. Cocoa is the single most important export sector involving the poor, and recent work by the World Bank estimated that poverty

among cocoa farmers is higher than the national average. Cotton and cashews are primarily grown in the northern regions of the country. However, the cocoa and cotton subsectors in particular are in urgent need of reform. The authorities are advised to develop specific action plans for these sub-sectors and give priority to their implementation, in close consultation with the stakeholders. The recently finalized letter of sector policy for cocoa provides a good starting point.

20. **The focus on food self-sufficiency is understandable in light of the recent global food crisis.** Côte d'Ivoire is undoubtedly capable of increasing food production. Nonetheless, it would be important to recognize that access to food can be achieved through secure incomes as well as expanded production, and that the principle of comparative advantage should not be overlooked. In the particular case of rice, which is emphasized in the strategy, it will be important to assess the cost structure of Ivorian rice relative to imports from Mali or Asia, and to compare the returns to rice with alternative uses of the land, labor and capital. More generally, if the objective is to expand the agricultural sector, the proposed target of reducing its share of GDP may not be entirely consistent.

21. **The PRSP correctly highlights the need to focus on rural development given the prevalence of poverty in rural areas.** Côte d'Ivoire has lacked a rural development strategy for many years, and staff encourage the Government to prepare and implement such a strategy as part of the PRSP implementation process. Over the medium-term, this would cover not only agriculture, but also rural finance, infrastructure, rural electrification, and water supply, among other sectors, and harmonize the activities of several ministries. It would be important that the strategy also cover land disputes, which the PRSP acknowledges have often been a source of conflict. The authorities are advised to strengthen and sequence the action matrix in this regard to ensure that this difficult issue is not overlooked. The respective roles of the state and the private sector in promoting agriculture and rural development will also need to be articulated.

C. Social Well-being for All

Social Services, Environmental Protection, Gender and Social Protection

22. **The PRSP presents a set of priority interventions to ensure that citizens of Côte d'Ivoire live in a clean and healthy environment.** Staffs concur with the priorities identified concerning the environment. Staffs encourage the authorities to place emphasis during implementation on building capacity for environmental management across government agencies and not only in the environment ministry. Additional attention could usefully be devoted to waste management, in light of the 2006 toxic waste dumping incident. Staffs welcome the proposed action plan for the forestry sector, and recommend similar measures for other core environmental issues. There is a need to give greater attention to sanitation in the rural sector. Urban solid waste management could also be promoted through greater reliance on the domestic private sector.

23. **The PRSP rightly acknowledges a strong linkage between household poverty, access to electricity and the improvement of living standards.** As stated in the Letter of Sector Development Policy for electricity, only 17 percent of households have access to electricity. Moreover, 70 percent of the population's energy needs is met with wood fuel and biomass with a negative impact on the environment and forestry resources. Staffs encourage the authorities to promote increased access to modern energy over the medium term, both to preserve the environment and to create income-generating opportunities for the poor in the rural and peri-urban areas. Staffs also note that the strategy's focus could go beyond implementation of new rural electrification projects by promoting connection to the electricity network to make it affordable. In the short term, staffs urge the authorities to undertake institutional and regulatory reforms to encourage private investment and progressively reduce the current financial deficit and capacity constraints of the electricity sector which are aggravating the overall budget deficit and threatening the viability of the sector.

24. **The PRSP candidly recognizes that access to health services has deteriorated nationwide and that updated information, more research and better coordination are needed on HIV/AIDS activities.** Access for vulnerable groups in rural areas is still low, and child vaccination and access to health services have weakened. Staffs believe that attainment of the health MDGs by 2015 will require more attention to improving human resources, and stronger institutional capacity, increasing drug availability, widening geographic accessibility, strengthening disease control and quality of basic services, and encouraging citizen participation. Furthermore, staffs suggest that studies be conducted to examine the impact of HIV/AIDS, particularly on agriculture, education and the private sector, so as to better target interventions. While the national HIV/AIDS program is well funded, coordination among the various actors, including donors, needs to be strengthened.

25. **There has been an improvement in primary education although this was slowed by the conflict.** The primary school completion rate dropped from 47.7 percent in 2002 to 42.2 percent in 2006, and in 2008 only 52 percent of the children who entered primary school finished the fifth year. While the decrease in completion rates can be attributed to the disruption caused by the conflict and there is reason to be optimistic about a reversal of the trend, the achievement of the related MDG (universal primary school completion by 2015) appears unlikely. To sustain further improvements, staffs recommend that particular attention be paid to (i): sustaining the achievements realized in expanding access at the primary level;(ii) improving the management of the education system;(iii) improving the quality of education; (iv) reducing the persistent disparities in education outcomes between rural and urban areas, among regions and between poor and non poor households, through better targeting; and (v) putting in place a school-based procedure to allow children to obtain the birth certificate required to complete primary school (as provided for in the ongoing civil registry reform). While implementing the PRS, the disconnect between the labor market and technical and professional skills could also be further examined.

26. **Gender inequality remains a major obstacle to development and economic growth.** The PRSP rightly recognizes the obstacles faced by women and in particular the pervasive violence against them (e.g., sexual violence, female genital mutilation) as well as disparities in school enrolment. However, the PRSP identifies few specific measures to combat gender inequality. It would be useful to identify which reforms would be pursued to ensure conformity with the principles on the rights of women contained in the 2000 Constitution. In the education sector, the authorities might envisage measures to increase girls' access to schooling as well as their retention rate. Considering that domestic chores are often the main cause for girls' educational failure, promotion of intermediate technologies to lighten women's burden (e.g., fuel efficient stoves, grinders, mills) and improved access to water would be particularly cost-effective.

D. A Dynamic Actor on the Regional and International Scene

Regional Integration and the International Context

27. **Côte d'Ivoire seeks to regain its traditional role as a leader in the sub-region and an active participant in the world economy.** The PRSP recognizes the critical importance of promoting peace with its neighbors, supporting the modernization of ECOWAS institutions, completing negotiations for an Economic Partnership Agreement with the EU, and implementing an effective immigration policy. Staffs particularly endorse the vision of Côte d'Ivoire as a regional hub with the requisite improvement of the investment climate. The country has historically played this role, with the help of its infrastructure assets, but it now needs to make up for lost time during the crisis, when other countries were able to improve their competitiveness.

IV. MONITORING AND EVALUATION

28. **The PRSP provides a detailed results matrix which links a set of priority actions with intended outcomes and annual indicators for monitoring the results.** Staffs agree on the need to concentrate on a subset of key monitorable indicators that are critical to the success of the strategy, and suggest that the proposed indicators be further streamlined, and their baseline and target values defined. They also recommend that the final choice of monitorable indicators be determined according to their links with priority actions and the availability of the required data on a regular basis. Capacity-building in statistical services is also likely to be required. Staffs recommend that a careful tracking of the results of these indicators over time be done through an appropriate reporting system. This reporting will be facilitated by the tracking of poverty-reducing spending through the functional classification of the budget and the Integrated Public Finance Management System (SIGFIP) as well as the Treasury Service Database (ASTER). The cost of the reporting system needs to be firmly established and incorporated into the medium-term expenditure framework. The Bank is supporting this effort through assistance to the PRSP Secretariat.

29. **A comprehensive committee structure is proposed in the PRSP to facilitate implementation.** Staffs encourage the authorities to refine this structure to ensure that the

committees are not impeded by their large size and diverse nature, and that the key ministries are appropriately represented. The addition of representatives from the ministries responsible for education, health and agriculture is recommended.

V. CONCLUSION AND RECOMMENDATIONS

30. **Bank and Fund staffs believe that the PRSP provides an adequate framework for poverty reduction in Côte d'Ivoire.** The PRSP's identified pillars are well articulated. The consolidation of peace and security, and the promotion of good governance are appropriately identified as the first pillar for they are in fact the precursor to all other objectives. Decentralization, if pursued carefully, could go a long way to sustain peace. High and diversified economic growth will be critical to lower poverty, while sound macroeconomic management and integration into the regional and global economy are sine qua non for sustained growth. The promotion of social services, environmental preservation, social protection and gender equality will address the non-pecuniary dimensions of poverty and ensure that growth is shared.

31. **The finalization of the PRSP prior to elections carries risks for political ownership by the new government.** While all the major political parties have participated in the elaboration of the strategy, it will be important to ensure their active involvement in the next critical stage of defining the immediate priorities and concrete projects and programs to be funded, as this stage is also expected to be completed before the elections. It may be important to focus on those areas where there is broad consensus among stakeholders.

32. **In order to strengthen the PRSP and its implementation, staffs recommend that priority attention be given to:**

- Accelerating the process of post-crisis demobilization, reinsertion and political normalization in order to overcome past differences and establish the foundations for sustainable growth and development; progress on this front would help reduce implementation risks in the post-conflict environment.
- Reassessing the scale and pace of the large public works in light of the government's poverty reduction strategy, while ensuring their implementation in a transparent manner and in line with the established budget procedures and the procurement code.
- Promoting the rural economy to enhance the incomes of the rural poor, particularly through better management of smallholder export crops with solid market prospects, such as cocoa, cashew and cotton.
- Better prioritizing and sequencing of key actions to be undertaken in the next two years, taking full advantage of the potential contribution from the private sector, in recognition of the limited financing likely to be available; the preparation of medium-term expenditure frameworks for the key sectoral ministries would help clarify priorities and timelines in line with PRSP objectives.
- Establishing an efficient implementation and monitoring and evaluation framework which involves the key actors on a selective basis and mainstreams the PRSP into the budget

process. Representatives from the ministries responsible for health, education and agriculture will need to play a key role in its implementation. An effective voice from the private sector will also be essential to ensure that the growth agenda is adequately supported.

33. **In considering the PRSP and associated JSAN, Executive Directors' views are sought** on whether they agree with the main areas identified by staffs as priorities for strengthening the PRSP and its implementation and the areas identified as key implementation risks.