

International Monetary Fund

[Côte d'Ivoire](#) and the
IMF

Côte d'Ivoire: Letter of Intent, Memorandum of Economic and
Financial Policies, and Technical Memorandum of Understanding

Press Release:
[IMF Executive Board
Approves US\\$62.2
Million in Emergency
Post-Conflict
Assistance for Côte
d'Ivoire](#)
August 3, 2007

July 12, 2007

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Abidjan, July 12, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato,

1. Since 1999, Côte d'Ivoire has suffered from political instability, a factor that has contributed to a slowdown in the economy and a sharp deterioration in social conditions. The country's partition into a northern and southern zone following the crisis of September 2002 led to further deterioration in the economic and social situation. Since 2005, there has been some progress toward peace, reunification, and national reconciliation thanks to the efforts of successive governments. In March 2007, the Ouagadougou Accord between the President of the Republic and the Secretary-General of the *Forces Nouvelles*, with the support of all the major political parties, opened the way to a sustainable solution to the crisis and open, democratic, and transparent presidential elections in early 2008. The Accord was welcomed by the populations living in Côte d'Ivoire, the international community, including the Economic Community of West African States, the African Union, and the United Nations Security Council.

2. Pursuant to the Accord, the new transition government, which took office in April 2007, is focusing its efforts on implementing as rapidly as possible the unification and restructuring of the two armies, the disarmament, demobilization, and reintegration (DDR) program, dismantling the militias, redeploying government services throughout our national territory, identifying the population, and preparing for the elections. The government has already created the Integrated Command Center for the two armies and the mixed brigades, and has eliminated the "confidence zone." These brigades have begun to operate in this zone to ensure security. We have also adopted a new amnesty law for war crimes and crimes against the State, and have begun to implement the measures to reunify the country. By end-July 2007, we hope to have achieved significant progress in regrouping and disarming ex-combatants and in dismantling the militias. We also intend to reinstall the prefectural administration and to make the decentralized subnational governments (town halls and general councils) fully operational in all 22 *départements* in the central, northern, and western zones of our territory, as well as to resume the process of identifying the population, in particular through identification hearings by end-July 2007.

3. Progress made with these steps should permit Côte d'Ivoire's external partners to gradually reengage. To this end, we have adopted a plan for the gradual clearance, beginning

in mid-July 2007, of arrears to the World Bank, as well as a plan for clearing arrears to the African Development Bank, as agreed with these two institutions. We have also introduced a mechanism for setting aside the funds necessary to cover debt service requirements vis-à-vis these institutions for the remainder of 2007.

4. With the support of the international community, the transition government intends to build on the gains made to date to implement policies aimed at national reconciliation, sustained recovery of economic growth, improved social conditions, and poverty reduction. Our Memorandum of Economic and Financial Policies (MEFP), attached hereto, describes the government's economic and financial program for 2007. The government recognizes the crucial importance of progressively improving transparency in the public policy management and the need to combat fraud and corruption. To this end, we have begun to implement specific measures for the management of public and quasi-public resources, in particular in the oil/gas sector and the coffee/cocoa sector. Equally, an important aspect of economic policy in 2007 will be the building of the capacity of public institutions and of administration in the whole country, and penalizing proven cases of mismanagement.

5. Fiscal policy for 2007 reflects that this year is one of transition and reunification. Expenditure relating to our exit from crisis and to the electoral process will be given priority; they will thus absorb a sizable share of our budgetary resources. However, our objective is to reap the dividends of peace as soon as possible and for the benefit of the population. To this end, we are extending resource mobilization to the entire reunified national territory. We also will reduce nonessential expenditures (including front-line bonuses), including those with no direct social and economic impact, and reorient resources toward social outlays and the rehabilitation of basic infrastructure. We will also re-evaluate the scope and phasing of certain major construction projects in light of available financing and the needs of our country's population. We are also planning to return to normal budget execution procedures and to regularly disseminate budget execution statements within the government and to the general public. For programs associated with our exit from crisis, we intend—in consultation with our external partners—to formulate realistic budgets and to organize, before end-July 2007, a donor conference aimed at obtaining their support for covering the residual financial requirements of these programs.

6. The government believes that the policies defined in the MEFP are appropriate for achieving our economic objectives. It will take any further measures that may prove necessary to implement the program. In support of its program, the government requests Emergency Post-Conflict Assistance (EPCA) from the IMF in the amount of SDR 40.65 million, or the equivalent of 12.5 percent of our quota. We strongly hope that Côte d'Ivoire will receive an interest rate subsidy. We intend to request additional assistance under the EPCA of the IMF within the next six months.

7. This request and the associated program would also be a bridge to a new program, for which we will request the IMF's support under its Poverty Reduction and Growth Facility (PRGF). Such a program should make it possible for Côte d'Ivoire to regain access to the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The government plans to prepare its Poverty Reduction Strategy Paper (PRSP) as quickly as possible.

8. The government will consult with the IMF on the implementation of the economic policy program set forth in the MEFP. It will provide the IMF with all the information required for monitoring program implementation, in accordance with the IMF's policy on such consultations.

9. The Ivoirien authorities wish to make this letter, the attached MEFP, the attached Technical Memorandum of Understanding, as well as the IMF staff report on the EPCA request available to the public. We hereby authorize their publication and their posting on the IMF website following approval by the IMF Executive Board.

Sincerely yours,

/s/

/s/

Charles Koffi Diby
Minister of Economy and Finance

Guillaume Kigbafori Soro
Prime Minister

Attachments: - Memorandum of Economic and Financial Policies (MEFP)
- Technical Memorandum of Understanding (TMU)

Memorandum of Economic and Financial Policies for 2007

I. INTRODUCTION

1. Since 1999, Côte d'Ivoire has been in a protracted political crisis that led to an armed conflict in 2002 and the division of the country into a northern and southern part. The socioeconomic impact has been considerable: per capita real GDP declined significantly; basic social services deteriorated, particularly in the northern part of the country; and the number of displaced persons reached about 1 million. Over the last three years, the security situation has gradually improved, and growth has recovered moderately thanks to the resilience of the economy. However, increased government spending and the prolonged suspension of external assistance resulted in a deterioration of the budget situation and a sizable accumulation of external and domestic arrears.

2. In recent years, with the support and mediation of the international community, Côte d'Ivoire made some progress toward restoring peace, though the political environment and security situation have been fragile. In early 2007, to relaunch Côte d'Ivoire on the path to peace, President Gbagbo and the Secretary General of the *Forces Nouvelles*, Guillaume Soro, engaged in a direct dialogue that resulted in the signature of the Ouagadougou Accord in early March 2007. The Accord has received the support of the major political parties and the international community, including the Economic Community of West African States, the African Union, and the United Nations Security Council; and it opens the way for rapid reunification and national reconciliation and elections by early 2008. It will be the cornerstone for peace and security, economic recovery, and the improvement of social conditions.

3. The new transition government took office in April 2007, and in May established a roadmap and implementation matrix for the Accord. The roadmap calls for the relaunching and acceleration of the disarmament, demobilization, and reintegration (DDR) program; the dismantling of militias; the unification and restructuring of the armies; the identification of the population; the organization of elections; and the redeployment of government services throughout the entire country. In mid-May 2007, these programs and processes—in particular the regrouping of ex-combatants, the dismantling of militia, and the redeployment of administrative and social services—got under way. We expect by end-July 2007 to have completed the reinstallation of the prefectural administration and to have made the decentralized subnational governments (town halls and general councils) fully operational in all 22 départements in the central, northern, and western (CNW) zones. By the same date, we will have begun the regrouping of ex-combatants in the 17 sites (with a view to their integration into the army or their demobilization), the dismantling of militias, and the resumption of identification hearings (*audiences foraines*).

4. The government is determined to ensure that the peace process moves ahead steadily in the coming weeks, so that Côte d'Ivoire may rapidly benefit from the financial engagement of the Bretton Woods Institutions and our other partners. To that end, in

agreement with the two institutions concerned, we have adopted a plan for the gradual settlement of arrears to the World Bank to begin in July 2007, and a plan to clear arrears to the African Development Bank (AfDB) by April 2008, in the framework of its Post-Conflict Facility.

5. This Memorandum of Economic and Financial Policies (MEFP) sets out the specific objectives and policies that the authorities intend to implement in the context of their program in 2007. The authorities are seeking the support of the international community and of the IMF in the form of Emergency Post-Conflict Assistance (EPCA).

II. RECENT ECONOMIC DEVELOPMENTS

6. The economy has rebounded from the conflict and has shown continued resilience to the crisis, with three successive years of positive growth. In 2006, economic growth reached about 1 percent, supported by strong oil production (crude and refined products) and a pick-up in telecommunications and trade. This helped offset the decline in several industries, notably food processing. Consumer price inflation remained low, at 2.5 percent in annual average terms. Real and nominal effective exchange rates were broadly stable in 2006, reflecting inflation in line with Côte d'Ivoire's trading partners and the stability of the euro vis-à-vis the U.S. dollar.

7. In 2006, the fiscal situation was weaker than expected and the primary basic fiscal surplus reached 0.3 percent of GDP (compared with 0.4 percent of GDP in 2005 and 1.4 percent of GDP targeted for 2006). Revenues were somewhat lower than expected, largely reflecting lower than projected oil and gas production because of technical difficulties. Expenditure was higher than anticipated in the 2006 Budget owing to overruns on nonwage current expenditure (excluding spending related to exiting from the crisis), in particular unforeseen higher sovereignty spending, expenses necessitated by a toxic waste spill, and gas subsidies to the electricity sector, which faces serious technical and financial difficulties. These overruns were attenuated by lower-than-expected spending relating to exiting from the crisis, as progress on the DDR, redeployment, and identification programs was slower than envisaged. Education and health expenditure fell to 26.9 percent of total primary expenditure, compared to 28.6 percent in 2005.

8. Given the expenditure and cash flow pressures, the overall fiscal deficit was largely financed by an accumulation of external arrears (which rose by 3 percentage points to 21 percent of GDP at end-2006) as well as borrowing on the West African Economic and Monetary Union (WAEMU) and international financial markets. The government managed to keep the stock of domestic arrears constant, and in early 2007, started to regularize the end-2005 stock through securitization (in an amount equivalent to 0.3 percent of 2007 GDP).

9. Progress was made in fiscal and accounting reforms, in several areas in 2006. In mid-2006, the government adopted streamlined procedures for the execution and control of

expenditure related to exiting from the crisis and financed by its own resources. However, because of the late adoption of the 2006 Budget Law and unforeseen demands, the budget was to a large extent executed through Treasury advances. The deconcentration of fiscal management was further extended by linking 8 more *départements* to the integrated expenditure management system (SYGFIP), bringing the total to 37 by the start of 2007. Implementation of the new Public Procurement Code adopted in 2005 began in 2006. The accounting management system was improved with ASTER software, and efforts were initiated to improve the training of accountants with the creation of a training and capacity building center in 2006.

10. On the revenue side, in late June 2005 the government introduced a standardized invoice (*facture normalisée*) with features to combat VAT fraud and cover the informal sector, but effective implementation was delayed to the second half of 2006 because of resistance by operators. Since late 2006, the tax and customs directorates have been applying a simplified system for reimbursing VAT credits within 60 days. Customs implemented the measures in its action plan, notably the streamlining of its computerized customs clearance system, which helped reduce the potential for fraud and corruption. Furthermore, the rate of the profit tax (BIC) was lowered from 35 percent to 27 percent for large enterprises, and to 25 percent for small and medium-sized enterprises.

11. During the first quarter of 2007, pending approval of the 2007 Budget, spending took place through advances in line with priorities and available resources. Revenue performance has been in line with projections except for lower oil/gas revenue related to technical difficulties in the Baobab field, which should be resolved later in the year. As a result, the primary basic surplus reached 0.6 percent of GDP. In early 2007, the government received a compensation payment of CFAF 95 billion from the foreign company responsible for the toxic waste spill. After deduction of the costs of remedial measures already committed by the government, the remaining amount of CFAF 66.8 billion has been placed in a special government account with the BCEAO to be used for assistance to victims and preventive measures in 2007-08.

12. The external current account balance (including official transfers) moved from near zero in 2005 to a surplus of 3 percent of GDP in 2006. This largely reflected an increase of almost 50 percent in the export volumes of crude oil and petroleum products and somewhat higher world oil prices. A decline in cocoa export volumes was offset by more favorable cocoa prices. The capital account continued to show a large deficit, owing to the almost complete lack of external financing. Consequently, the overall balance of payments deficit reached 2.5 percent of GDP and was financed by the accumulation of external arrears.

13. Broad money increased by 10 percent in 2006, largely in line with an increase in the net foreign assets of the banking system and the moderate increase in domestic credit.

14. The banking system has improved its performance since 2004, but also faces crisis-related and structural weaknesses. Since the start of the crisis in September 2002, all 19 bank branches in the central, northern, and western zones were closed. However, since March 2007 the banks have begun to resume operations in these areas and are gradually increasing their activities. The ratio of nonperforming loans to total credit, which had increased sharply between 2001 and 2004 to over 26 percent by end-2004, improved to 20 percent at end-2006. However, eight of the 18 banks are not in compliance with the capital adequacy ratio, six banks are not observing the minimum liquidity ratio, and six banks were placed under close surveillance by the WAMU Banking Commission. The restructuring of the National Investment Bank (BNI) has progressed: in line with the BNI's objective of redirecting its activities toward the private sector, the share of claims on government in the BNI's portfolio fell to 60 percent at end-2006 (compared with 64 percent at end-2005 and 83 percent at end-2001). The share of public sector deposits remained at its 2005 level of 60 percent in 2006 (compared with 81 percent in 2002). While some of its prudential ratios improved, the BNI is still not in compliance with the liquidity ratio and the ratio for lending to shareholders. The microfinance sector increased its share in total financial activity (from 2.5 percent of deposits in 2002 to 4.9 percent in 2006), but its performance suffered from the crisis, resulting in three consecutive years of losses, and capital is negative for the sector as a whole.

15. Progress with structural reforms in the coffee/cocoa and energy sectors was limited owing to the crisis. The quasi-fiscal levies on cocoa were reduced by CFAF 3 per kilogram (one-third of the envisaged reduction) during the 2006/07 season to increase producer prices. To improve transparency in the collection and the efficient use of these levies, the government took steps, in early 2006, to strengthen the monitoring of the investment funds (FDPCC—Investment and Prudential Reserve). It earmarked CFAF 12.5 per kilogram of the quasi-fiscal levies for a rural investment fund held in a special account at the BCEAO. The Committee responsible for reviewing and monitoring programs and projects in the coffee/cocoa sector (the "Coffee/Cocoa Committee"), created in February 2006, oversees these investment funds. All programs and projects selected in this context have been subject to final approval by the Minister of Agriculture and the Minister of Economy and Finance.

16. The energy sector has grown substantially in recent years with the entry into operation of new oil/gas fields, better use of refining capacity, and the high demand for electricity. However, the government is aware that the transparency and efficiency of the energy sector need to be improved and its economic and revenue potential fully realized. To this end, the government announced its participation in the Extractive Industries Transparency Initiative (EITI) in May 2006 and is taking steps to begin effective participation in 2007. In recent months, the delayed financial, technical, and operational audits for oil and gas extraction, refining and distribution, and for the electricity sector, were started with World Bank support, and are expected to be completed by August 2007. In mid-2006, the protective margin of the refinery, *Société Ivoirienne de Raffinage* (SIR),

was reduced from 13 percent to 8 percent of the import parity price, in line with the government's commitment. The electricity sector continues to experience serious financial and technical difficulties, including the nonpayment of electricity bills in the north since 2002 and the accumulation of cross-arrears. To help address these difficulties, the government provided a gas subsidy to the electricity sector in 2006. In March 2007, the government signed a protocol with the *Compagnie Ivoirienne de l'Électricité* (CIE) to settle all outstanding cross-arrears and avoid accumulating any new arrears.

III. 2007 PROGRAM

Overall objectives

17. The main objectives of the government's post-conflict program for 2007 build on the progress made thus far, as well as on the determination of all parties to ensure security, promote national reconciliation, reunify the country, relaunch the economy, and reduce poverty. Progress with the reunification and national reconciliation process, the restoration of public infrastructure, and the resurgence of confidence on the part of the private sector should make it possible to achieve growth of 1½ percent, despite a decline in oil production attributable to the temporary technical difficulties experienced in an important oil field. The principal objectives for 2007 are the reduction of macroeconomic and financial imbalances, the resumption of structural reforms, and the creation of an economic environment conducive to private sector activity. To that end, the government recognizes the crucial importance of good governance in the management of public resources and combating fraud and corruption.

Fiscal policy

18. Fiscal policy in 2007 is aimed at beginning to restore fiscal and debt sustainability while addressing Côte d'Ivoire's post-conflict needs. In the short term, expenditures related to exiting the crisis (DDR, redeployment, identification, and elections) will continue to absorb a considerable share of budgetary expenditures. The share of budget expenditure devoted to the social sector, reunification, and the rehabilitation of the economic infrastructure will be gradually increased. At the same time, fiscal policy will allow for progress toward closer adherence to the convergence criteria of the West African Economic and Monetary Union (WAEMU).

19. The 2007 Budget Law promulgated in end-May 2007 targets a primary basic surplus of 1.0 percent of GDP (compared with 0.3 percent in 2006) and an overall deficit (excluding grants, on a payment order basis) of 1 percent of GDP. Given the sizeable expenditure needs owing to the post-conflict situation, the government is seeking the re-engagement of the international community to help Côte d'Ivoire in its reconstruction efforts. To that end, resources equivalent to about 3 percent of GDP will be needed for clearing arrears with the World Bank and starting normalizing financial relations with the AfDB.

20. The fiscal program calls for a revenue increase of 0.5 percent of GDP (excluding the net revenue from toxic waste damage compensation). To achieve this, the government will rapidly extend tax collection to the whole of the country, further strengthen tax administration, and broaden the tax base, in particular through generalized use of the “standardized invoice.” It will also increase revenue from petroleum product taxation through a combination of (see ¶35): (i) a further reduction in the protective margin for the refinery (SIR) and an increase in the taxable base beginning in mid-June 2007; and (ii) better control of taxation of domestic consumption. Finally, it will step up its efforts to obtain budgetary revenue from oil/gas through improved monitoring of the financial flows in the sector, and in particular through efforts to optimize the revenue from the national company (PETROCI).

21. Primary basic expenditure (excluding interest on debt and foreign-financed investment, as well as expenditure relating to the toxic waste spill) will be contained at 17.6 percent of GDP (compared with 17.9 percent in 2006). This reflects the combined impact of lower nonessential current expenditure and the reorientation of resources toward social sector and reunification spending. In particular, sovereignty expenditure, front-line bonuses (*primes de front*), and other military expenditure will be reduced in line with progress with the DDR program and the normalization of the security situation. As regards personnel expenditure, the government will keep the wage bill at the equivalent of 6.4 percent of GDP. This will allow for the integration of ex-combatants into the unified army as well as net recruitment of 6,000 civil servants. New hiring will give priority to the immediate needs in the education and health sectors arising from the redeployment of services throughout the entire country. In order to address the serious shortage of primary and secondary school teachers, the government intends to raise the teacher retirement age to 60 years and eliminate the rule of retirement after 30 years of service by end-September 2007.

22. In respect to other current spending, the government intends to contain gas subsidies for the electricity sector at CFAF 30 billion and take measures to improve the financial situation of the sector. Spending on utilities (water, electricity, telephone) by the central government will be contained through strict application of budget ceilings and continued efforts to enhance the government entities’ awareness of the need to economize. The budget contains a “contingency” line of CFAF 15 billion for unforeseen needs related to the reunification. The fiscal program for 2007 seeks to safeguard social spending (education, health and other spending as defined in the TMU) and to increase it in the event of higher-than-anticipated oil revenues or external budgetary support. Such spending will increase to 27.9 percent of total primary expenditure, compared with 26.9 percent in 2006.

23. Implementation of the government’s roadmap will require expenditures related to exiting the crisis, excluding front-line bonuses, of about 1.2 percent of GDP (compared with 0.3 percent in 2006). These expenditures will cover in particular: (i) the DDR and

community rehabilitation program, with support from the World Bank and other external partners; (ii) the redeployment of some 12,000 more civil servants, in addition to the 12,500 civil servants already deployed since 2004, with support from the EU and the World Bank; and (iii) the identification of the population and organization of the elections. The government intends to hold a donor conference before end-July to complete the financing of these programs, although considerable amounts of domestic resources have been allocated to them under the 2007 Budget and financial support from donors has been lined up.

24. Domestically financed investment expenditure will be contained at its 2006 level of almost 2 percent of GDP. Bearing in mind the financial constraints during the transition period, the investment program is focused on the rehabilitation of the infrastructures needed for basic administrative and social services, postponing and/or reducing the scope of projects that have no direct social or economic impact. In this connection, expenditure for the transfer of the political capital to Yamoussoukro, which is essential for reunification and for the development of the country's interior, is contained at CFAF 17.3 billion in 2007, compared with CFAF 27 billion in 2006. By end-2007 the government will reassess the costs and phasing of the multiyear program for the transfer of the capital in light of the availability of funding and the priority needs of the country. To mobilize additional resources for addressing the major reconstruction needs of Côte d'Ivoire, the government intends to organize, with support from the World Bank and the UNDP, an additional donor conference during the fourth quarter of 2007.

Monetary policy and the financial sector

25. Monetary policy is executed by the BCEAO. Broad money is expected to grow by about 5 percent in 2007, or somewhat above the rate of growth of nominal GDP. Taking into account the planned issuance of securities to meet the government's financing needs, net credit to the government from the banking system should decrease by 2 percent of broad money at end-2006. On this basis, credit to the private sector and net foreign assets should increase by 6 percent and 2 percent of end-2006 broad money, respectively.

26. The government will continue to support the efforts of the WAMU Banking Commission to ensure that Ivoirien banks comply with prudential ratios and apply the Commission's recommendations, in particular as regards the capital adequacy ratio. In particular, the government will call upon the eight undercapitalized banks to produce plans for building up capital by end-2007. In the case of the BNI, the government is cognizant of the importance of implementing the recommendations made by the Banking Commission and of the still very high share of the public sector in the bank's deposits and claims. By mid-2008 it will prepare an external financial and operational audit of the BNI, as well as a strategic study of the role of the BNI in financing the economy.

Governance, transparency, and structural reforms

27. The government reiterates its determination to put good governance in the management of public resources at the center of its economic program. It is committed to combating corruption and fraud at all levels, strengthening the rule of law, and restoring an economic and regulatory environment that is conducive to economic activity.

28. In 2007, the government will place emphasis on moving ahead with key structural measures that have a direct impact on the economic environment and fiscal transparency. These measures should lay the foundations for deeper and more far-reaching structural reforms in the longer term as part of a program that could be supported by the IMF's Poverty Reduction and Growth Facility (PRGF) and an Emergency Economic Recovery Credit (EERC) from the World Bank in 2008. The government will place particular emphasis on: (i) capacity-building and enhanced accountability of public administration and managers; (ii) tightening controls; and (iii) better communication (including publication) of the results of public policy. The government has taken or is committed to taking measures in the areas of public finances, the energy sector, and the coffee/cocoa and cotton sectors.

Fiscal reforms (Box 1)

29. The extensive reforms completed in recent years have made it possible to modernize and computerize tax administration and budget execution. The integrated fiscal management system (SIGFiP) covers all participants in the public expenditure process, and the deconcentration of the system will be pursued in the 56 localities serving as administrative centers of regions or *départements*. The government intends to strengthen these management tools further in order to enhance revenue collection and transparency of budget execution.

30. **Revenue.** Owing to the crisis since 2002, the government has used legal provisions and successive agreements to grant a number of tax exemptions in favor of adversely affected enterprises. Most of these measures will remain in effect through 2007. However, the government intends to evaluate all exemptions (with IMF technical assistance) by end-December 2007. The government also intends to further strengthen tax administration, including implementation of its action plans to combat tax fraud. In particular, the Directorate-General of Taxes will continue to implement the measures recently introduced, including the full implementation of the "standardized invoice." At the Directorate-General of Customs, measures are now being implemented to gradually secure the borders, enhance cooperation with the customs administrations of Ghana, Mali, and Burkina Faso, and strengthen inspections. From May 2007, the government has discontinued the advance payments of the single export duty (DUS) on cocoa and coffee.

31. There are also plans to further strengthen the control and monitoring of the revenue agencies and public enterprises managing significant public resources. The work program

for 2007-08 calls for an increase in the number of audit missions conducted by the *Inspection générale des finances* (IGF) as well as a number of independent audits of the major public enterprises. To that end, the staffing and technical capacities of the IGF and the Participations and Privatization Directorate (DPP) will be strengthened for conducting such missions. Finally, the government will undertake an independent audit of domestic petroleum product consumption and the related tax revenues before end-September 2007.

32. **Expenditure.** The fiscal management and accounting systems (SIGFiP and ASTER) will be fully exploited to control and monitor budget execution and to issue budget execution statements at least quarterly. The existing budget execution procedures will be strictly adhered to, and recourse to Treasury advances reduced. These systems will be further harmonized so as to allow budget execution reporting through the payments stage from 2008 onward. Furthermore the authorities intend to submit the draft final budget accounts (*lois de règlement*) for fiscal years 2003, 2004, 2005, and 2006 to the *Chambre des comptes* by end-2007. The government further intends to make a particular effort to reduce the stock of domestic arrears (including VAT arrears) by at least CFAF 50 billion (0.5 percent of GDP) in 2007, which should help the recovery of the private sector. In addition, the government is committed to adopting, before end-2007, a plan for clearing the remaining verified stock of arrears over the 2007-09 period, including through further securitization, while taking into account the social impact. At the same time, expenditure financed by an expected post-conflict grant from the World Bank will pass through a fiduciary trust management agency (*Agence de Gestion Fiduciaire*—AGF), for which the terms of reference have been agreed with World Bank staff.

33. The government intends to contain the growth of the structural deficit of the government employee pension fund (*Caisse Générale de Retraite des Agents de l'Etat*—CGRAE), which is projected to increase to CFAF 54 billion in 2007 (from CFAF 47 billion in 2006). The government also intends to update the actuarial study prepared by the International Labor Office (ILO) in 2000, and to issue a call for bids by end-June 2007. The study in question will be used as a basis for actions relating to the retirement system and age and to the pension calculation base. The application for a bank license for the postal savings fund (*Caisse Nationale des Caisses d'Épargne*—CNCE) is under review by the Banking Commission. Based on the audit already performed and the CNCE's five-year operating and restructuring plan, it should gradually be able to improve the profitability of its portfolio. This will enable the government gradually to reduce the cash subsidies on which the CNCE is heavily dependent; in 2007, the subsidy will be reduced to CFAF 15 billion, from CFAF 22 billion in 2006.

Energy sector (Box 2)

34. For some years the government has been considering ways to improve the transparency and efficiency of the energy sector with a view to fully realizing the economic and revenue potential of Côte d'Ivoire's energy resources. In this context, the government

recently has made fully operational the “Oil Committee” to monitor energy product production as well as the revenues generated and their allocation. This committee, which reports to the Minister of Mines and Energy and the Minister of Economy and Finance, is responsible for monitoring: (i) the management of oil and gas flows to optimize production and assets, as well as the government’s share of revenues; and (ii) the production and marketing of petroleum products. The committee will prepare quarterly reports on the physical, financial, and tax flows in the sector as a whole for the ministers concerned and for information to the Council of Ministers. These reports will be forwarded to World Bank and IMF staffs.

35. The government intends to assess the performance of the energy sector and, to this end, has taken steps to overcome earlier delays in the sectoral audits financed by the World Bank. These audits will provide the basis for developing a strategy and action plan to strengthen the efficiency and management of the sector and improve the transparency of physical and financial flows. The government will also take appropriate measures to improve transparency and government revenues. These include (a) the implementation of the necessary steps to conform with the EITI validation framework, including the appointment of a senior official responsible for leading EITI implementation and the preparation and publication of a work plan, with the goal of preparing an EITI compliant report of revenues from extractive industries in June 2008; (b) the completion by mid-August 2007 of the audits of the three energy subsectors; (c) increasing the tax component in the structure of petroleum prices and reducing the protection for the domestic refinery from 8 percent to 6 percent of import parity prices (IPP) (mid-June 2007) ; (d) revision of the calculation basis for the taxation of petroleum products (based on import parity prices (IPP)), incorporating protection for the domestic refinery of 6 percent of the IPP and a safety margin for absorbing minor fluctuations in the IPP (October 31, 2007); (e) full application of the automatic pricing mechanism for petroleum products (based on the IPP) (December 31, 2007); and (f) systematic production of consistent tables on physical, financial and tax flows.

36. The government intends to take the following measures in 2007 to improve the viability of the electricity sector: (i) regular payments to cover government consumption throughout the country; (ii) the control of consumption and reduction of waste on the part of government; (iii) reduction in the technical, nontechnical, and financial losses of the electricity company (*Compagnie Ivoirienne d’Électricité*—CIE); and (iv) an increase in domestic tariffs, by an average of 10 percent, from end-August 2007.

Coffee/cocoa sector (Box 3)

37. Since 2001, the government has undertaken a series of reforms and studies of the coffee/cocoa sector, aimed at improving (i) producer prices and productivity, in the face of world market challenges; (ii) marketing arrangements; and (iii) the monitoring of the sector by government and public and private agencies. The results of these reforms have,

however, been disappointing: the quasi-fiscal levies on the sector have not benefited producers, as intended, nor have they significantly helped improve the competitiveness of the sector as a whole.

38. The government has therefore decided to revisit the functioning of existing agencies, including their roles in the collection of quasi-fiscal levies. It intends to prepare, before end-March 2008, a new comprehensive strategy for the sector, with the help of external partners and based on existing studies and audits. Pending the preparation of such a strategy, the government has already taken, or plans to take, a number of measures that will have an immediate favorable impact on transparency and good governance in the sector, particularly in the management of quasi-fiscal levies. The bulk of these levies will continue to be supervised by the “Coffee/Cocoa Committee.” This committee will continue to examine the collection and use of levies for the FDPCC-Investment Fund and the Prudential Reserve (CFAF 10.55 per kilogram and CFAF 5 per kilogram, respectively) and to approve programs and projects proposed by the sector’s agencies for joint approval by the Minister of Economy and Finance and the Minister of Agriculture. Moreover, the role of the Committee has been expanded to include supervision of the use of quasi-fiscal levies to the Rural Investment Fund (CFAF 12.5 per kg)—held in a special account at the BCEAO—and for the cocoa bags (*sacherie*). The Committee will provide quarterly reports to the ministers concerned and for information to the Council of Ministers. Furthermore, the government intends to reduce the quasi-fiscal levies by CFAF 2.65 per kilogram for the 2007/8 crop season in order to benefit producers. With regard to the quasi-fiscal levies collected in the sector during 2000-05, the government intends by mid-2008 to conduct a retrospective analysis of the amounts collected and the usage thereof by the ARCC and the BCC, and by the FRC and the FDPCC (including investments). The results of the analysis will be taken into account in formulating the overall strategy for the sector.

Trade and other reforms

39. The government is committed to ensuring that Côte d’Ivoire reaps the benefits of globalization and trade integration. The forthcoming widening of the WAEMU common external tariff (CET) to the ECOWAS and the Economic Partnership Agreement with the EU, planned for end-2007, should help stimulate competition, productivity, and investment. In addition, these agreements will have an impact on tax revenue, poverty, and foreign trade. To better understand this impact and address its implications, the government intends to seek technical assistance from the World Bank and IMF.

40. The government recognizes the need for a strategy to strengthen the efficiency of the cotton sector, which is the main source of income of about 280,000 farms representing over 2 million people. The decline in world prices and the disruption caused by the crisis have led to a sharp decline in output and in the financial viability of the sector. To help cushion the pressure on producer incomes, in the 2001/02-2004/05 crop years the government provided a producer subsidy that was to be prepaid by the ginners and

reimbursed to them by the government. However, the government accumulated large arrears to the ginners, which in turn led to arrears in ginners' payments to producers. To resolve this situation, beginning in 2006, the government has been clearing all these arrears (about CFAF 14 billion) and intends to complete this operation in 2007 with support from the European Union. In addition, as the subsidy was stopped for the 2005/06 season, by end-July 2007 the government intends to adopt an action plan for the recovery of the sector. By end-2007, it intends to seek additional support for this reform from the European Union and the World Bank.

Social sector and PRSP process

41. Social conditions and poverty have worsened in recent years; Côte d'Ivoire's ranking on the United Nations Human Development Index dropped to 163 out of 177 countries in 2004. The incidence of poverty is estimated to have increased from 33.6 percent in 1998 to 38.4 percent in 2002. Estimates made by the World Bank indicate that the poverty rate was 42.6 percent in 2006. The health and education services have deteriorated significantly, in particular, in the central, northern and western (CNW) zones of the country. The government is determined to reverse this trend by redeploying public services throughout the country and by the progressive rehabilitation of education, health, and village water supply infrastructures.

42. For the health and education sectors, the government intends to address the most pressing needs first, while preparing a longer-term strategy for improving social services. In the health sector, a recent mission to assess requirements in the CNW zones identified and quantified urgent needs, which we have begun to remedy. In particular, 1,300 new doctors and other senior health officials are now being deployed and new nurses are being trained in response to these urgent needs. For the medium term, we have prepared a National Health Development Plan which we plan to submit to donors at end-2007. In the medium term the government intends significantly to increase the health sector's share in total primary expenditure above its current level of 5.4 percent of GDP. In the education sector, based on a recent diagnosis of needs in the CNW zones, the government is implementing measures to ensure that the 2007/08 academic year begins normally for the majority of children. This requires the redeployment of some 9,100 teachers and the minimum rehabilitation of schools over the next three months. For the medium term, the government is updating the "Ivoirien School Restoration Plan 2006-08," and will present it to donors by end-2007.

43. The government intends to prepare its Poverty Reduction Strategy Paper (PRSP), which should be completed by no later than the third quarter of 2008. The preparation of the PRSP—which aims at achieving the Millennium Development Goals (MDGs)—will be under the supervision of the reactivated PRSP supervisory committee ("PRSP Committee") and will be based on the National Development Strategy and regional and national consultations. The preparation process will include: (a) an assessment of progress

made between 2003 and 2006 under the March 2002 Interim-PRSP; (b) a survey of poverty and vulnerable groups; (c) a diagnostic study of poverty and the sources of growth; and (d) the preparation of a medium-term expenditure framework and results-monitoring systems. In the event that the government requests a program supported by the Poverty Reduction and Growth Facility (PRGF) before the PRSP has been finalized, the request will include a PRSP implementation status report.

Program financing and external debt

44. Despite efforts to increase the primary basic surplus, a financing gap of around CFAF 200 billion (2 percent of GDP) remains in 2007. This gap reflects, among other things, the resumption of external debt service payments to multilateral institutions, and arrears clearance and debt service payments to the World Bank (equivalent to CFAF 261 billion). In agreement with these institutions, the government has adopted plans to progressively clear its arrears to the World Bank and the AfDB. This is intended to open the way to a resumption of financial assistance from the two institutions. With respect to the World Bank, the government will pay current debt service due from July 2007, and contribute at least one-third of the amount needed to clear total outstanding arrears in line with the agreement with the World Bank expected to be finalized by mid-July 2007. For this purpose, the government has, by end-June 2007, set aside funds for clearance of these arrears and for current debt service in a special account at the BCEAO in the amount of CFAF 20 billion. By end-September 2007, it will set aside an additional CFAF 33 billion in this account, with the total corresponding to one-half of the minimum payments anticipated. The remaining arrears would be cleared by an exceptional operation by the World Bank's International Development Association (IDA), for post-conflict countries. The approval of this assistance is expected early in the second half of 2007. The total amount of arrears payments by the government in 2007 would be subject to revision in light of the World Bank's contribution to arrears clearance. A corresponding adjustment will be applied to the domestic financing of the program in 2007.

45. For the AfDB, the government plans to begin payment, no later than September 2007, of a portion of its current debt service payments due since May 2007, and, in April 2008, to settle one-third of arrears outstanding at end-April 2007, with the remainder to be paid through contributions from donors and the AfDB Facility for post-conflict countries. More generally, the government will develop a strategy for settling its arrears to all of its external creditors, with implementation in 2008. To cover any residual financing gap in 2007, after taking into account financial assistance from external partners (including the IMF under its EPCA policy and the World Bank post-conflict assistance grant), the government intends to issue government securities on the WAEMU financial market and use other forms of domestic financing.

Capacity-building, technical assistance, and statistical issues

46. Owing to the crisis, Côte d'Ivoire will need to strengthen its administrative capacities in a number of areas. In this context, we will seek assistance from the IMF in 2007 for: (i) strengthening tax administration and reviewing tax exemptions; (ii) improving debt management; (iii) anti-money laundering and combating the financing of terrorism; and (iv) strengthening the national accounts system. With support from the World Bank and other donors, the authorities intend to develop a comprehensive plan to strengthen public financial management.

IV. PROGRAM MONITORING

47. Performance under the 2007 program will be monitored through prior actions, quarterly quantitative indicators, and structural indicators (Tables 1 and 2). The definition of these indicators, the adjusters for any excess budgetary support and oil revenues, and the data reporting requirements are defined in the Technical Memorandum of Understanding (TMU).

48. To ensure the effective and timely implementation of our economic program, the government has established or recently strengthened several interministerial committees. Implementation of the program for 2007 is under the overall supervision of the “Technical Steering Committee for the Post-Conflict Program,” which will also coordinate the work of the specialized interministerial committees in close consultation with the Office of the Prime Minister: the “Oil Committee,” “Coffee/Cocoa Committee,” “PRSP Committee,” “Interministerial Primary Commodities Committee,” and “TOFE Committee.” The existing interministerial committee (“Steering Committee for Economic and Structural Reforms) and its executive secretariat, under the auspices of the Prime Minister’s office, will be reactivated in anticipation of the future program supported by the Poverty Reduction and Growth Facility (PRGF).

49. Throughout the program, the government undertakes to refrain from external borrowing on non-concessional terms other than specified in the TMU (Table 1). It further undertakes not to introduce or intensify restrictions on payments and transfers for current international transactions, introduce multiple currency practices, conclude any bilateral payments agreements that are inconsistent with Article VIII of the Fund’s Articles of Agreement, or impose or intensify any import restrictions for balance of payments purposes. Moreover, the authorities, in consultation with IMF staff, undertake to adopt any new financial or structural measures that may be necessary for the success of the program.

/s/

Charles Koffi Diby

Minister of Economy and Finance

Box 1. Côte d'Ivoire: Structural Fiscal Measures ¹	
Measure	Timing
<ul style="list-style-type: none"> • Budget 	
<ul style="list-style-type: none"> • Establish the timetable for preparation of the 2008 budget and send the budget guideline letter to the ministries 	Mid-August 2007
<ul style="list-style-type: none"> • Regularize in SIGFiP the advances made before the 2007 budget was put in place. Produce an overall expenditure execution statement as of June 30, 2007 	September 30, 2007
<ul style="list-style-type: none"> • Increase the retirement age from 55 to 60 and eliminate the rule of mandatory retirement after 30 years of service for teachers in primary and secondary schools 	September 2007
<ul style="list-style-type: none"> • Tax measures 	
<ul style="list-style-type: none"> • With IMF technical assistance, examine exemptions from customs duties, the VAT, and income taxes, with a view to streamlining them 	December 31, 2007
<ul style="list-style-type: none"> • Rigorously implement action plans in the areas of tax and customs administration with a view to combating evasion, corruption, and fraud (report at end-2007) 	2007
<ul style="list-style-type: none"> • Conduct an audit of the distribution system for consumption of petroleum products to distributors in Vridi and Yamoussoukro and adopt the recommendations for improving tax collection 	October 2007
<ul style="list-style-type: none"> • Public expenditure management 	
<ul style="list-style-type: none"> • Conduct half-yearly independent audits of expenditures under the national DDR and community rehabilitation programs, CNPRA, identification, and elections 	First audit by December 31, 2007 (for first half of 2007)
<ul style="list-style-type: none"> • Domestic arrears 	
<ul style="list-style-type: none"> • Draw up an inventory of the residual stock of domestic arrears at end-2006 (suppliers, subsidies, and transfers) and adopt a plan for clearing them (including by securitization) over the 2007-09 period, taking the social impact into account 	September 30, 2007
<ul style="list-style-type: none"> • 	
<ul style="list-style-type: none"> • Implement the plan for clearing CFAF 50 billion in arrears from the end-2006 level (see Table 1), including a net reduction of CFAF 10 billion in the arrears to SODECI 	End-2007
<ul style="list-style-type: none"> • 	

¹These are measures beyond the requirements of the EPCA-supported program.

Box 2. Côte d'Ivoire: Structural Measures in the Energy Sector²

Measure	Timing
<ul style="list-style-type: none"> • Complete the financial, technical, and operational audits of the subsectors (see below): (i) extraction/production sharing contracts (PETROCI); (ii) refining, storage, and onward delivery (SIR); and (iii) electricity (CIE, SOGEPE, PETROCI), including financial relations the Government and oil/gas producers, PETROCI, SIR, CIE, IPP, and SOGEPE 	Mid-August 2007
<ul style="list-style-type: none"> • Based on the financial, technical, and operational audits of the subsectors (see above), prepare an action plan for improving sector management in consultation with World Bank staff 	September 30, 2007
<ul style="list-style-type: none"> • Prepare each month (with a 45-day lag) a set of consistent monitoring tables on the physical, financial, and tax flows for the subsectors: (i) extraction and sharing of oil/gas; (ii) production, exports, and (release for) consumption of petroleum products; (iii) production, costs, and financial flows in the electricity sector. Communicate this information to IMF and World Bank staffs 	From June 15, 2007 (information through end-April 2007)
<ul style="list-style-type: none"> • Continue the steps already taken to conform with the <i>validation framework</i> of the Extractive Industries Transparency Initiative (EITI) with a view to publishing an EITI report on revenue and payments of taxes and royalties covering the 2006-07 period 	September 30, 2007
<ul style="list-style-type: none"> • Revise and apply the calculation base for petroleum product taxation based on Import Price Parities (IPPs), with a revised TSPP incorporating SIR protection at 6 percent of the IPP as well as a variable “safety margin” of CFAF 10 per liter (proceeds of which are to be paid to the government at the end of the fiscal year) 	October 31, 2007
<ul style="list-style-type: none"> • Accumulate no further arrears for the consumption of electricity (by the central government) and gas (by the CIE) 	Compliance beginning July 31, 2007
<ul style="list-style-type: none"> • Limit the gas subsidy granted by the government to CFAF 30 billion in 2007. Improve the financial viability of the subsector by measures to reduce technical and nontechnical losses and increase tariffs on average by 10 percent from August 31, 2007. • 	August 31, 2007

²These are measures beyond the requirements of the EPCA-supported program.

Box 3. Côte d'Ivoire: Structural Measures in the Coffee/Cocoa Sector ³	
Measure	Timing
<ul style="list-style-type: none"> On the basis of existing financial and institutional studies and audits, conduct a review of the reforms currently underway, and formulate—with World Bank assistance—and adopt an overall strategy for the sector, to be implemented beginning September 2008 	March 31, 2008
<ul style="list-style-type: none"> By end-June 2007, adopt the terms of reference for formulation of the strategy—with financial support from the World Bank—for launching a tender for bids by end-July 2007 	July 31, 2007
<ul style="list-style-type: none"> Each half-year (with a one-month lag) provide the Prime Minister, the Minister of Agriculture, the Minister of Economy and Finance, and IMF and World Bank staffs with information on (i) the collection of quasi-fiscal levies; and (ii) half-yearly budget execution statements for the operations of the ARCC, FRC, BCC, and FDPCC 	From July 31, 2007 (for the first half of 2007)
<ul style="list-style-type: none"> Provide the Council of Ministers and IMF and World Bank staffs, and make available to the public, the budgets of the ARCC, FRC, BCC, and FDPCC for 2007, as well as extracts from their certified and closed accounts for 2006 	July 31, 2007
<ul style="list-style-type: none"> For the 2007/08 coffee/cocoa crop season, decrease the total quasi-fiscal levies for cocoa by CFAF 2.65 per kilogram 	By August 31, 2007
<ul style="list-style-type: none"> Broaden the terms of reference of the “Coffee/Cocoa Sector Project and Program Review and Monitoring Committee” to include monitoring the Rural Investment Fund, levies for the bags, and any new quasi-fiscal funds. This committee will ensure that all financial operations financed by these funds are executed in accordance with the procedures stipulated by the Public Procurement Code and will exercise “technical and financial oversight.” 	From June 30, 2007
<ul style="list-style-type: none"> On the basis of the existing studies on the cotton sector, adoption by the government of a sectoral policy and action plan for the recovery of the sector with support from external partners (EU and World Bank) 	July 31, 2007

³These are measures beyond the requirements of the EPCA-supported program.

Table 1. Côte d'Ivoire: Quantitative Indicators, EPCA Program, 2007, billions of CFA francs 1/

	2006		2007			
	Dec.	March	June	Sept.	Dec.	
	Est.	Est.	Prog.	Prog.	Prog.	
Quantitative indicators						
Floor on primary basic fiscal balance 2/	28.2	54.9	82.5	48.0	95.3	
Floor on social expenditure (education and health) 3/	459.7	104.1	233.2	362.3	491.4	
Floor on cash repayment (-) of government domestic payment arrears	404.5 4/	-74.9	-66.6	-58.3	-50.0	
Ceiling on new nonconcessional external borrowing 5/	0.0	0.0	0.0	
<i>Memorandum items:</i>						
Ceiling on stock of external arrears 6/	1879.7	1957.2	2054.9	1982.7	1923.6	
Multilateral	443.9	463.3	501.3	384.7	265.8	
Bilateral and commercial	1435.9	1493.9	1553.6	1598.0	1657.8	
Total government revenue	1672.1	470.5	913.0	1339.9	1847.7	
Government wage bill	589.0	150.8	303.9	456.9	610.0	
Net banking sector claims on government (BCEAO definition, including CECP) 7/	-34.0	-94.5	-81.1	-49.6	-42.7	
Crisis-related expenditure (excluding frontline bonuses)	25.2	4.4	21.4	69.0	116.5	
Of which : foreign-financed	0.0	0.0	4.7	39.8	75.0	
Of which : domestically financed	25.2	4.4	16.8	29.1	41.5	
Budgetary support (grants and loans)	0.0	0.0	0.0	0.0	0.0	
Oil/gas production revenues, including PETROCI, excluding from refined products	139.5	8.6	52.7	104.8	146.0	
Of which : PETROCI	2.0	0.0	0.0	10.0	10.0	
Primary basic expenditure, excluding wages and externally financed crisis-related expenditure	1054.9	185.6	442.7	715.9	988.1	

1/ Cumulative change from January 1, 2007, unless otherwise indicated. See Technical Memorandum of Understanding (TMU) for detailed definitions of adjusters.

2/ Difference between government revenue (excluding grants) and total expenditure and net lending, excluding interest payments, foreign-financed capital expenditure and net compensation proceeds from toxic waste damage.

3/ Includes expenditure on health and education, as defined in the classification of the Integrated Financial Management System (SIGFIP); see TMU Table 1.

4/ Stock of payment arrears at December 31, 2006, payment arrears as defined in the TMU.

5/ This ceiling excludes new borrowing for projects financed by regional development banks (such as BOAD) and agreed on with IMF staff. Issuance of government securities on the WAEMU financial market is excluded from the new borrowing covered by the ceiling. The ceiling applies to both the debt and the liabilities contracted or guaranteed for which no amount has been collected, in accordance with point No. 9 of the Fund's Guidelines on Performance Criteria with Respect to Foreign Debt.

6/ Including BCEAO. External payments arrears are defined as the sum of external payments due but unpaid on outstanding external debt that has been contracted or guaranteed by the government.

7/ Net banking system claims on the government represent the difference between government debt and its claims on the central bank and commercial banks as defined in the TMU.

Table 2. Côte d'Ivoire: Prior Actions and Structural Indicators
Under the EPCA-Supported Program

Measure	Timing	Status
Prior actions		
<ul style="list-style-type: none"> Adopt and promulgate the 2007 budget in conformity with program objectives 	End-May 2007	Done
<ul style="list-style-type: none"> Report each month to IMF staff, within 45 days following month's end, the table of government financial operations, the satellite tables, and the budget execution statement broken down by classifications, in accordance with the TMU 	<ul style="list-style-type: none"> By June 15, 2007 (for the month of April) 	Pending
<ul style="list-style-type: none"> Each quarter (with a 45-day lag) provide an analytical report to the Council of Ministers on the physical, financial, and tax flows for the subsectors: (i) extraction and sharing of oil/gas; (ii) production, exports, and (release for) consumption of petroleum products; (iii) production, costs, and financial flows in the electricity sector, validated by the "Oil Committee" and approved by the Minister of Economy and Finance and the Minister of Mines and Energy 	<ul style="list-style-type: none"> From June 15, 2007 (for 2006 and the first quarter of 2007) 	Pending
<ul style="list-style-type: none"> Increase the tax component of the structure of petroleum product prices by bringing the taxable base closer to Import Parity Prices (IPPs) and reducing the protection of the Ivoirien Refinery Company (SIR) from 8 percent to 6 percent of the IPP 	June 15, 2007	Done
<ul style="list-style-type: none"> Each quarter (with a 45-day lag) provide the Council of Ministers and IMF and World Bank staffs with a report on the collection and use of the quasi-fiscal levies and the balances of the bank accounts for the FDPCC-Investment and the FRC-Prudential Reserve, as well as for the Rural Investment Fund. This report will be approved by the "Coffee/Cocoa Sector Project and Program Examination and Monitoring Committee" 	From June 15, 2007 (for 2006 and the first quarter of 2007)	Done
<ul style="list-style-type: none"> Structural indicators 		
<ul style="list-style-type: none"> Eliminate the practice of advance, discounted payment of the Single Export Duty (DUS) on coffee/cocoa (<i>continuous</i>) 	Effective May 1, 2007	
<ul style="list-style-type: none"> Limit the uses of advances procedures (advances, payment orders, and other exceptional procedures) reducing their amount to less than CFAF 160 billion of all 2007 budget allocations (excluding foreign-financed expenditure, wages, and debt service), minus expenditure executed until adoption of the 2007 budget (<i>continuous</i>) 	Beginning with adoption of 2007 budget	
<ul style="list-style-type: none"> Report to the Council of Ministers and release to the public, in the month following the end of each quarter, a report on budget execution (revenue and expenditure) showing expenditure classified by type, function, and administration/type (allocation, commitment, and payment order). As from April 2008, these reports will incorporate information on payments (see TMU) 	Beginning August 31, 2007 (for the cumulative statement at the end of the second quarter)	
<ul style="list-style-type: none"> Implement the mechanism for automatically setting petroleum product prices 	December 31, 2007	

Technical Memorandum of Understanding (TMU)

1. This technical memorandum of understanding describes the set of prior actions and quantitative and structural indicators agreed between the government of Côte d'Ivoire and the staff of the IMF to monitor the program supported by Emergency Post-Conflict Assistance (EPCA). It also specifies the periodicity and deadlines for transmission of data to the staff of the IMF for program monitoring purposes. Unless otherwise specified below, the government is defined as the central government of Côte d'Ivoire, including the National Social Security Fund (*Caisse Nationale de Prévoyance Sociale*, CNPS) and the Civil Service Pension Fund (*Caisse Générale de Retraite des Agents de l'Etat*, CGRAE), and Treasury operations for public companies in liquidation, and does not include any local government, the central bank (BCEAO), or any government-owned entity with separate legal personality.

I. QUANTITATIVE INDICATORS

2. In the program-monitoring context, quarterly quantitative indicators are set for June 30, September 30, and December 31, 2007. They include (a) a floor on the primary basic fiscal balance; (b) a ceiling on total outstanding external payments arrears; (c) a floor on social expenditure (education and health); (d) a ceiling on the stock of the government's domestic payments arrears, as defined for program purposes; and (e) a zero ceiling on new nonconcessional external borrowing (notwithstanding ¶14 below). The quantitative indicators are calculated on the basis of the cumulative change from January 1, 2007 (for cases involving end-2006 stocks) and are set out in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).

A. Basic Primary Fiscal Balance

3. **The primary basic fiscal balance** is the difference between the government's revenue (excluding grants) and total expenditure plus net lending, excluding interest payments and externally financed capital expenditure. It includes expenditure related to exiting the crisis, defined as domestically and donor-financed government outlays on the disarmament, demobilization, and reintegration (DDR) and community rehabilitation program; the redeployment of government; the identification process; and the elections. The revenue (CFAF 79.3 billion in 2007) and expenditure (CFAF 49.3 billion in 2007) associated with the toxic waste problem are excluded. This balance also includes expenditure recorded on the "contingency expenditure" line, reserved for reunification expenses (in particular for redeployment).

4. The quarterly floor on the primary basic fiscal balance will be adjusted downward by the amount of **donor-financed spending relating to exiting the crisis** that exceeds the program projections (MEFP, Table 1).

5. The quarterly floor on the primary basic balance will be adjusted downward by the amount of external budgetary support received in excess of the programmed amount to offset

any revenue shortfall or any excess domestically financed social, reunification-related, or crisis-exit spending,¹ up to a cumulative maximum of CFAF 50 billion. The remainder of the excess budgetary support (not spent) will be used to reduce the government's domestic debt, including payments arrears (see ¶12).

6. Part or all of the excess revenues from petroleum/gas extraction (including dividends paid by PETROCI to the government) above the programmed amount will be used to offset the revenue shortfall or allocated to social or reunification spending up to a maximum cumulative amount of CFAF 50 billion. The floor on the primary basic fiscal balance will be adjusted upward by the remaining excess not used for social or reunification expenditure. The remainder of the excess oil revenues will be used to reduce the government's domestic debt, including payment arrears (see ¶12).

7. The oil revenues forecast for 2007 is based on: an average price (including discount) of US\$57.4 per barrel; a volume of 17.4 million barrels; and an average exchange rate of CFAF 488.5 = US\$1.

B. Government Revenue

8. Total government revenue is defined as tax revenue collected by the Tax Administration (*Direction générale des impôts*, DGI), the Treasury (*Trésor*), and the Customs Administration (*Direction générale des douanes*, DGD); revenue collected by the CNPS and the CGRAE; and other nontax revenue as defined in the fiscal reporting table (*Tableau des opérations financières de l'Etat*, TOFE).

C. Government Wage Bill

9. The government wage bill is defined as all expenditures (on a commitment basis) on pay, bonuses, and allowances paid to government employees, military personnel, and other law and order personnel, and includes expenditures on special contracts and other temporary or permanent government jobs.

D. External Payment Arrears

10. External payment arrears are defined as the sum of external payments due but unpaid on outstanding external debt that has been contracted or guaranteed by the government, excluding those due payments subject to rescheduling or restructuring. The accumulation of external payment arrears is the difference between (a) the gross amount of maturities due on external debt service (principal and interest), and (b) the amount actually paid during the period under consideration.

¹ As defined in Table 1 to the TMU, based on the budget classification used in the public finance management system (SIGFiP).

11. Under the agreement with the World Bank, it is planned to clear the external arrears of Côte d'Ivoire with the World Bank in the second half of 2007 and first quarter of 2008. At the same time, it is planned that Côte d'Ivoire will maintain its debt service obligations vis-à-vis the World Bank up to date beginning in July 2007. The basic assumption adopted is that half of the arrears will be cleared using the domestic resources of Côte d'Ivoire, with the balance being paid by a contribution from the World Bank. An amount of CFAF 53 billion will be put in an escrow account at the BCEAO according to the following timetable: CFAF 20 billion at end-June 2007 and CFAF 33 billion at end-September. This amount corresponds to half the payments planned for clearing arrears and current debt service by the government in 2007. In the event that the IDA allocation for clearing arrears differs from that in the basic assumption, the contribution of Côte d'Ivoire will be revised. If the clearance of arrears to be carried out by Côte d'Ivoire is greater/less than the basic assumption, the amount of net domestic financing will be increased/reduced by a corresponding amount.

E. Domestic Payment Arrears

12. Domestic payment arrears represent government overdue obligations and are defined as committed (*engagées et liquidées*) and validated (*visées par le contrôleur financier*) expenditures but not paid. They include bills due and not paid to public and private enterprises, but exclude domestic debt service (principal and interest). CFAF 50 billion is deducted from the stock of domestic payment arrears defined above to take into account the time frame for payment stipulated by the administrative regulations in force (90 days). Changes in the government's domestic payment arrears during a period correspond to the difference between new overdue obligations of the government and the payments made on old overdue obligations. By way of illustration, domestic payments arrears totaled CFAF 354.5 billion at end-December 2006 and comprised:

Treasury's unpaid payment orders	404.5
Treasury debt (PGT, TPA, TGE, ACDP)	358.3
Arrears on EPN subsidies (excluding CNPS, CGRAE)	28.6
Arrears to General Councils and Municipalities	17.7
Adjustment for orders validated by Financial Comptroller (<i>PEC comptable</i>)	0
Arrears to CI-Telecom, CIE, SODECI on current consumption	0
 Total central government	 404.5
Less "normal" floating debt	50.0
Total arrears	354.5

13. Within the framework of the program, the government will undertake a net reduction of CFAF 50 billion in the stock of domestic payment arrears (MEFP, Table 1). The government also undertakes, in coordination with the private sector, to: (i) prepare an inventory of the end-2006 stock of residual domestic arrears to suppliers; and (ii) adopt a plan to clear these arrears. Any excess budgetary support above the programmed amount not used to

finance a downward adjustment in the government's primary basic fiscal balance as specified in ¶5 above will be used to reduce the domestic debt, including payment arrears. Any excess oil/gas revenues above the programmed amount not used as specified in ¶6 will also be used to reduce the government's domestic debt, including payment arrears.

F. New Nonconcessional External Borrowing

14. The term "debt" has the meaning set forth in point No. 9 of the Fund's Guidelines on Performance Criteria with Respect to Foreign Debt.² The quantitative indicators on contracting or guaranteeing nonconcessional external debt with an original maturity of one year or more apply not only to debt as defined above, but also to commitments contracted or guaranteed for which value has not been received. These quantitative indicators do not apply to rescheduling arrangements, BOAD loans up to the equivalent of US\$30 million, drawings on the Fund, normal import-related commercial credits, or borrowing on the WAEMU financial market.

15. A loan is concessional if its grant element is at least 35 percent, the net present value (NPV) of the loan being calculated using a discount rate based on the average of the OECD's Commercial Interest Reference Rates (CIRRs) over the last ten years for loans with a maturity of at least 15 years; for loans with a maturity of less than 15 years, the NPV is based on the average CIRRs of the preceding six-month period (February 15 to August 14 or August 15 to February 14). To both the ten-year and six-month averages, the same margins for differing repayment periods would be added (0.75 percentage point for repayment periods of less than 15 years, 1 percentage point for 15 to 19 years, 1.15 percentage points for 20 to 29 years, and 1.25 percentage points for 30 years or more).

16. Within the framework of the program, the government undertakes not to contract or guarantee nonconcessional external loans under the conditions defined in ¶14-15, with the exception of loans constituting rescheduling of maturities.

II. MEMORANDUM ITEM: NET BANK CREDIT TO GOVERNMENT

17. Net bank credit to government is defined as the difference between government debts and government claims vis-à-vis the central bank and commercial banks. The coverage of net bank credit to government is that used by the Central Bank of West African States (BCEAO), and is the same as that shown in the net government position (NGP). Except as otherwise stated, government is defined as the central government of Côte d'Ivoire and does not include local governments, the central bank, or any other public body with separate legal personality. By way of illustration, this stock totaled CFAF 345.3 billion at December 31, 2006, broken down as follows:

² See "Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements," Executive Board Decision No. 6230-(79/140), as amended by Executive Board Decisions No. 11096-(95/100) and No. 12274-(00/85).

CFAF billions

Net banking system claims on the government	345.3
Claims of BCEAO	172.9
<i>Of which: Statutory advances</i>	172.9
Plus counterpart to uses of Fund resources	87.9
Plus claims of commercial banks	309.1
Plus private sector deposits with the postal checking and savings bank (CNCE)	12.8
Less deposits at the BCEAO	41.1
Less cash holdings of the Treasury (<i>encaisses du Trésor</i>)	5.0
Less deposits at the commercial banks	178.0
Less guaranteed bonds (<i>obligations cautionnées</i>)	13.3

III. STRUCTURAL INDICATORS AND PRIOR ACTIONS

18. The program consists of three segments for purposes of the structural indicators and prior actions set out in Table 2 of the MEFP: (a) public expenditure management; (b) transparency and governance in the energy/petroleum sector; and (c) transparency and governance in the cocoa sector.

IV. PROGRAM MONITORING AND DATA REPORTING

19. Monitoring of the quantitative and structural indicators will be the subject of a monthly evaluation report, prepared by the authorities within one month of the end of each month, which will assist with assessing performance in terms of the program's quantitative and structural objectives.

20. The authorities will report to Fund staff immediately if they sign or guarantee any new foreign borrowing contracts, as well as the terms of such contracts.

21. Based on existing data already reported to the IMF staff, the authorities will, in cooperation with Fund staff, prepare a set of consistent tables on the budget and the energy sector and coffee/cocoa sector and send them monthly or quarterly to the IMF starting on June 15, 2007:

a. Budget (see MEFP, Box 1):

- a quarterly report (within one month following the end of each quarter) providing a statement of budget execution (revenue and expenditure), with expenditure classified by type, function, and administration/type, at the various stages of the expenditure process (allocation, commitment, payment order, and settlement).

b. Energy sector (see MEFP, Box 2):

- monthly tables showing oil and gas production by field, sharing conditions, valuations prior to and after the swap, the swap rate, tax and nontax revenues for the government, and revenues for P
- monthly tables showing: (i) purchases of crude oil by the refining sector, by supplier, including Ivoirien suppliers; (ii) production, consumption, and imports of petroleum products, including butane; and (iii) calculation of prices of petroleum products, including domestic and imported butane;
- monthly tables showing: (i) purchases of gas by the electricity sector, by supplier; (ii) production of electricity in Côte d'Ivoire; and (iii) applicable prices, electricity sector revenues, unpaid invoices, and cross arrears.

c. Coffee/cocoa sector (see MEFP, Box 3):

- quarterly information (within 45 days) on the collection and use of quasi-fiscal levies and the bank account balances for FDPCC-Investment and FRC-Prudential Reserve, as well as for the Rural Investment Fund.
- half-yearly information on (i) the collection of quasi-fiscal levies; and (ii) half-yearly budget execution statements on the operations of the ARCC, FRC, BCC, and FDPCC.

22. The BCEAO will each month report the provisional data on the net government position to Fund staff within 30 days of the end of the period under review and will provide the final data within 45 days of the end of the period in question. The information provided will include the complete, itemized listing of public sector liabilities and assets vis-à-vis: (i) the BCEAO; (ii) the banking sector; and (iii) the BNI. This shall include:

- statements of the “escrow accounts” to be used for paying debt service/arrears to the World Bank;
- the balance of revenue relating to toxic waste;

- detailed information on all accounts relating to the issuance and payment of interest and principal on the domestic debt;
- the statements of the Rural Investment Funds; and
- the balance of revenue from the cocoa bags (*sacherie*).

23. The government will report the information specified in Table 2a on a monthly basis, within 45 days of the end of the month, unless otherwise indicated. The government will report the information specified in Table 2b quarterly, within one month of the end of the quarter.

24. More generally, the government will report to the Fund staff any information needed for effective program monitoring.

Table 1. Côte d'Ivoire: Social and Reunification Expenditure, 2005-07

Budget code (SIGFiP)		Amounts (billions of CFA francs)		
		2005	2006	2007 (proj.)
22	Education expenditure	369.6	382.8	399.3
	Current	352.1	360.9	377.7
	Personnel	261.3	265.0	
	Central administration	8.8	9.3	
	Educational facilities (excl. personnel)	81.9	86.6	
	Subsidies to private schools	29.6	29.4	
	School kits	2.3	2.2	
	Scholarships	15.6	15.6	
	Transfers to EPNs	16.0	23.0	
	Public schools	18.5	16.3	
	Investment	17.6	21.8	21.6
	Administration	0.0	0.0	
	Construction and equipment	17.6	21.8	
	<i>Of which: Externally financed</i>	1.3	0.1	
24	Health expenditure	70.0	77.1	92.1
	Current	61.4	66.3	74.8
	Personnel	34.8	36.6	
	Central administration	5.8	6.1	
	Health facilities (excl. personnel)	20.7	23.6	
	Primary and secondary levels	4.4	4.5	
	Tertiary level	7.5	9.0	
	Quaternary level	8.6	10.0	
	Other	0.3	0.2	
	Investment	8.7	10.8	17.3
	Administration	0.9	0.7	
	Construction and equipment	7.8	10.1	
	<i>Of which: Externally financed</i>	0.0	0.0	
12- 377420201	Reunification expenditure ¹	0.0	0.0	0.0

¹ Reunification-related social spending programs in the sectoral ministries. Excludes expenditure relating to exiting the crisis.

Table 2a. Côte d'Ivoire: Data Provision for Program Monitoring Purposes (monthly)

Priority I: Essential data 1/	Frequency	Format 2/	Dept.	Indicators 3/
I. BUDGET				
TOFE and tableaux de bord	M	FI	DGE/DGB	X
Tax revenue estimate				
Nontax revenue summary				
CNPS: contributions, benefits				
CGRAE: contributions, benefits				
Personnel expenditure				
Grants and transfers, and targeted social expenditure				
Other operating expenditure				
Capital expenditure by type of financing				
Expenditure related to the crisis, elections, CNPRA, etc.				
Statement of budget execution by nature, function, administration/nature (showing each stage of expenditure process)				
Treasury operations – CECF				
Committed expenditures w/o payment order (DENO)				
Most recent versions of quantitative tables for energy sector, per para. 21 of TMU				X
Financial statement of the electricity sector CIE (claims and cash flow); stock of unpaid invoices (gas, electricity, VAT)	M	FI	SOGPE, DGE	
Cash-flow monitoring	M	FI	DTCP	X
Cash-flow plan				
Treasury advances and their settlement				
Table to track Treasury balances outstanding				
Other detailed tables on balances outstanding (PGT, TPA, TGE, ACDP, etc.)				
II. DEBT/FINANCING				
II.A. External debt	M	FX	DTCP	X
Stock of external debt and arrears (by creditor)				
Detailed statement of public debt (by creditor) (stock, service due, service paid on arrears/maturities, arrears)				
Bridge table from "Stock of external debt and arrears" to TOFE				
Statement of drawings on loans and grants (by creditor)				
External debt agreements signed during current year				
II.b. Domestic debt	M	FX	DTCP	X
Stock of domestic debt and arrears (by creditor)				
Table for monitoring domestic debt				
Comprehensive statement of domestic debt				
Detailed statement of domestic debt under agreements				
Bridge table from the "Comprehensive statement"/"Monitoring table" (budget framework) to TOFE				
New debt issues / new securities (by type, original creditor)				
III. Monetary/financial sector	M	FI	BCEAO	X
Monetary statistics ("statismom" of the BCEAO, commercial banks, NGP)				
Summary tables on financial viability indicators				
IV. Real sector	M	FI	DGE	
Consumer, producer price indices				
V. Coffee/cocoa sector	M	FX	DGE	
Levies on coffee/cocoa				
Single Export Duty (DUS) (advance payments)				
Para-fiscal levies (by structure and by fund: ARCC, BCC, FRC, FDPCC)				
Uses of levies (by fund: FDPCC-Investment; FRC-Reserve Fund, Rural Investment Fund)				
Bank account balances (by fund)				
Half-yearly closing of accounts (by structure)				
VI. Balance of payments	M	FI	BCEAO	
Foreign trade by product (E, M: value, price, volume)				

1/ Prepared and forwarded monthly (M) within 45 days of the end of the month. Electronic transmission to IMF HQ and IMF Office in Abidjan.

2/ FI: file, electronic transmission to IMF HQ and IMF Office in Abidjan. FX: hard copy, transmission to IMF Office in Abidjan (for faxing to IMF staff).

3/ Data on quarterly quantitative indicators specified in MEF, Table 1.

Table 2b. Côte d'Ivoire: Data Provision for Program Monitoring (quarterly)

Priority II: important data 1/	Frequen cy	Format 2/	Dept.
I. BUDGET			
Changes in staff levels for wage bill; breakdown of staff by category, ministries Breakdown of contract expenses Budget execution statement (SIGFiP) (breakdown by heading) Summary report on Customs/DGI revenues	Q	FX	DGB
Oil production revenues (BIC, royalties, dividends); PETROCI revenues 2005-06, updated forecasts for 2007-09	Q	FI	DGH
II. DEBT/FINANCING			
Financing	Q	FI	DGE/DGB
New financing: projects, budgetary support, programs (DDR, CNPRA, elections, etc.) (DDR, CNPRA, elections, etc.) (by creditor, received/committed, and to be sought)			DGB/DTCP
Forecast and actual external debt service for current year (monthly). Quarterly forecasts for future years (quarterly, at start of year)			
III. Energy sector	Q	FI	
Projection of oil/gas production and estimated values 2007-09 (by field, swap, sharing: government, PETROCI, companies)			Monitoring Cttee
Projection of refining capacity 2007-09 Energy balance sheets: crude oil (production, imports, exports); refined products (production, (re)exports, released to domestic market, other consumption)			Monitoring Cttee
Forecast and actual electricity sector production, consumption, exports, revenues, expenditures, and taxes (VAT)			
IV. Real sector	Q	FX	DGE/INS
Production of main agricultural products Production, export, export prices, producer prices, estimate, projection (coffee/cocoa) Revised and actual macroeconomic framework, projections Economic indicators (by industry, sector); INS, BCEAO surveys			
V. Balance of payments	Q	FI	BCEAO
Actual and projected 2007-09			

1/ Preparation and monthly (M) or quarterly (Q) transmission within one month of the end of the quarter.

Electronic transmission to IMF HQ and IMF Office in Abidjan.

2/ FI: file, electronic transmission to IMF HQ and IMF Office in Abidjan. FX: hard copy, transmission to IMF Office in Abidjan (for faxing to IMF staff).