

AFRICAN DEVELOPMENT BANK GROUP

**COTE D'IVOIRE – DECISION POINT DOCUMENT UNDER THE
ENHANCED HIPC INITIATIVE**

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LIST OF ACRONYMS AND ABBREVIATIONS

ADB:	African Development Bank
ADF:	African Development Fund
BADEA:	Arab Bank for Economic Development in Africa
BCEAO:	Central Bank of West African States
BOAD:	West African Development Bank
CPI:	Consumer Price Index
DSA:	Debt Sustainability Analysis
ECOWAS:	Economic Community of West African States
EIB:	European Investment Bank
EITI:	Extractive Industries Transparency Initiative
EPCA:	Emergency Post-Conflict Assistance
EU:	European Union
EDF:	European Development Fund
FAGACE:	Fund of Aid and of Loans Guarantee of the Agreement Council
FSF:	Fragile States Facility
HIPC:	Heavily Indebted Poor Country
IFAD:	International Fund for Agricultural Development
IDA:	International Development Association
IMF:	International Monetary Fund
IDB:	Islamic Development Bank
MDG:	Millennium Development Goal
MDRI:	Multilateral Debt Relief Initiative
NPV:	Net Present Value
OFID:	OPEC Fund for International Development
PEMFAR:	Public Expenditure Management and Financial Accountability Review
PFM:	Public Financial Management
PRGF:	Poverty Reduction and Growth Facility
PRSP:	Poverty Reduction Strategy Paper
RMC:	Regional Member Country
WAEMU:	West African Economic and Monetary Union

COTE D'IVOIRE – DECISION POINT DOCUMENT UNDER THE ENHANCED HIPC INITIATIVE

EXECUTIVE SUMMARY

Background

On March 31, 2009, Cote d'Ivoire became the 29th Regional Member Country (RMC) to reach decision point under the enhanced HIPC Initiative. As a result, the Boards of Directors of the IMF and the World Bank approved a HIPC assistance of US\$ 402.3 million in end-2007 Net Present Value (NPV) terms for Cote d'Ivoire. It is now the Bank Group's turn to assess the situation and decide on this proposal to approve the Bank Group's share of debt relief to Cote d'Ivoire at Decision Point estimated at US\$ 199.5 million in end-2007 NPV terms.

Assessment of Cote d'Ivoire's eligibility for HIPC initiative Assistance

Five requirements are used to assess Cote d'Ivoire's decision point and eligibility for the HIPC Initiative assistance, namely: (i) satisfactory macroeconomic management and progress; (ii) high incidence of poverty and low standard of living; (iii) the preparation of an Interim Poverty Reduction Strategy Paper (I-PRSP); (iv) unsustainable external debt; and (v) the promotion of good governance and the rule of law. Cote d'Ivoire has fulfilled all the requirements for debt relief under the HIPC Initiative and can now reach its HIPC decision point.

Cote d'Ivoire External Debt Stock and its Breakdown

As of end-December 2007, Cote d'Ivoire's external debt stock before traditional debt relief was estimated at US\$14.3 billion in nominal terms. Multilateral creditors accounted for 27.8 percent of the total debt in nominal terms, with liabilities to the World Bank Group representing 17.7 percent, those to the Bank Group, 7 percent, and those to other official multilaterals 3.1 percent. Bilateral creditors accounted for 50.7 percent of the total debt stock, with liabilities to the Paris Club representing 50.2 percent of the total debt, and those to non-Paris Club bilaterals, 0.5 percent. About 21.5 percent of debt was held by commercial creditors.

HIPC Assistance at Decision Point and its Breakdown

After the full application of traditional debt relief mechanisms, Cote d'Ivoire's NPV of debt was estimated at US\$12.8 billion at end-2007, equivalent to 327.0 percent of fiscal revenues. The NPV of debt to revenues ratio exceeded the HIPC Initiative threshold of 250 percent. Cote d'Ivoire, therefore, qualifies for debt relief under the HIPC Initiative's "fiscal window".

The HIPC assistance needed to bring the NPV of debt-to-revenues ratio down from 327 percent to the HIPC threshold of 250 percent is estimated at US\$3.0 billion in end-2007 NPV terms. The assistance represents a common reduction factor of 23.6 percent. Based on proportional burden-sharing approach multilateral assistance would amount to US\$694.3 million and bilateral and commercial assistance to US\$2.3 billion (both in NPV terms). The Bank Group's share of debt relief amounts to US\$199.5 million in 2007 NPV terms, equivalent to 7 percent of the total assistance from all creditors.

Debt Relief under the MDRI

On reaching the completion point under the Enhanced HIPC Initiative, Cote d'Ivoire would qualify for additional debt relief under the Multilateral Debt Relief Initiative (MDRI). If Cote d'Ivoire reaches the completion point in December 2011, preliminary estimates indicate that MDRI relief could amount to US\$2.0 billion in nominal terms. Of this amount, US\$1.7 billion would be provided by IDA, US\$311.6 million by the ADF and US\$9.3 by the IMF.

Debt Sustainability and Sensitivity Analyses

After traditional debt relief and HIPC debt relief, the NPV of external debt-to-revenues ratio would decrease from 327 percent in 2007 to 250 percent in 2011. Furthermore, with MDRI debt relief and additional bilateral debt relief beyond HIPC, Cote d'Ivoire's NPV of debt-to-revenues ratio would decline further to 72.2 percent in 2027. Debt service ratios would also become substantially lower, particularly in the period just following the completion point.

A sensitivity analysis to test the vulnerability of Cote d'Ivoire's external public debt under two different scenarios (lower cocoa prices and lower real GDP growth) shows that Cote d'Ivoire's external debt situation would deteriorate under both scenarios, but would remain under a downward path over the projection period. The results of the sensitivity analysis point to the need for fiscal prudence and policies to promote economic growth.

Floating Completion Point Triggers

The Cote d'Ivoire authorities and IMF, IDA and Bank staff have agreed to eleven floating point triggers in the areas of PRSP, macroeconomic stability, public financial management, the social sector, debt management and governance.

Delivery Modality and Indicative Financing Arrangement

The entire amount of the Bank Group's share of Cote d'Ivoire's debt relief, US\$199.5 million in 2007 NPV terms, has already been provided through its arrears clearance operation. Consequently, no further debt relief assistance will be provided during the interim period to Cote d'Ivoire's completion point. The country will need to meet its debt service due to the Bank Group in full during the interim period running from decision point to completion point.

Recommendations

The Boards of Directors are invited to: (i) take note of Cote d'Ivoire's qualification for HIPC assistance at decision point under the Enhanced HIPC Initiative; (ii) approve the Bank Group's share of HIPC debt relief for Cote d'Ivoire, equivalent to US\$ 199.5 million in end-December 2007 NPV terms and (iii) note that the Bank Group's assistance comes entirely in the form of grants through the FSF arrears clearance mechanism already provided in March 2009.

COTE D'IVOIRE – DECISION POINT DOCUMENT UNDER THE ENHANCED HIPC INITIATIVE

I. Introduction

1.1 On March 31, 2009, Cote d'Ivoire became the 29th regional member country (RMC) to reach decision point under the enhanced HIPC Initiative, and as a result, the Board of Directors of the IMF and the World Bank approved a HIPC debt relief assistance of about US\$ 402.3 and 37.7 million respectively, in end-2007 NPV terms, for Cote d'Ivoire. It is now the Bank Group's turn to assess the situation and decide on this proposal to approve the Bank Group's share of debt relief to Cote d'Ivoire at Decision Point estimated at US\$ 199.5 million in end-2007 NPV terms.

1.2 Cote d'Ivoire's long sociopolitical crisis fragilized its economy and adversely affected the population's standard of living. Indeed, according to the 2008 household standard of living survey, 48.9 percent of the population currently lives in poverty nationwide (compared to 38.2 percent in 2002) and 62.5 percent in rural areas. The country's ranking in the UN Human Development Index (HDI) deteriorated from 154th in 1999 to 166th in 2007. Since the late 1990s, the gross primary school enrollment stagnated at about 70 percent, mortality rates of children under 5 increased from 175 to 195 per thousand and life expectancy at birth declined from 49 in 1995 to 47 in 2006. Basic public social services have been seriously degraded, especially in the Center, North, and West (CNW) zone of the country.

1.3 On March 6 2009, the Board of Directors of the Bank approved an arrears clearance grant¹ of an amount of UA 240.96 million which, combined with repayment from Cote d'Ivoire, cleared the arrears of the country to the Bank Group. On the same day, the Bank Group formally re-engaged with Cote d'Ivoire through the approval of a Global Country Strategy Note² for the period 2009-2010 and a budget support operation of an amount of UA 83.87 million³, paving the way for the presentation of a PRGF to the IMF Board and the declaration by the IMF and IBRD of attainment of the HIPC decision point with associated debt relief and additional budget support from the World Bank.

1.4 This document sets out the Management's proposal for the Bank Group to provide debt relief to Cote d'Ivoire under the enhanced HIPC Initiative for consideration by the Boards of Directors. The current debt relief is being made in conjunction with other development partners at decision point.

1.5 The rest of the document is organized as follows: Sections II assesses Cote d'Ivoire's eligibility for HIPC Initiative assistance; Section III presents the breakdown of the current debt stock and the clearance of arrears; Section IV discusses the assistance under the HIPC initiative, Section V discusses MDRI assistance and bilateral debt relief beyond HIPC; Section VI summarizes results of the debt sustainability analysis for Cote d'Ivoire and the sensitivity of the

¹ Refer to document: ADB/BD/WP/2009/29 of 19 February, 2009.

² Refer to document: ADB/BD/WP/2009/27 of 19 February, 2009.

³ Refer to document ADB/BD/WP/2009/26 of 19 February, 2009.

debt burden indicators to some adverse shocks; Section VII discusses the completion point triggers; Section VIII reviews the Bank Group's interventions in Cote d'Ivoire; Section IX presents the details of the proposed delivery modalities; and the recommendations for Board's consideration are reserved for Section X.

II. Assessment of Cote d'Ivoire's Eligibility for HIPC Initiative Assistance

2.1 Five requirements are used to assess Cote d'Ivoire's decision point and eligibility for the HIPC Initiative assistance, namely, satisfactory macroeconomic management and progress; high incidence of poverty and other measures of social-economic progress; the preparation of an interim Poverty Reduction Strategy Paper (PRSP); unsustainability of the external debt; and the promotion of good governance and the rule of law.

A. Macroeconomic Management and Progress

2.2 Following the signature of the Ouagadougou Political Agreement in March 2007, improved political stability and ongoing reunification triggered the beginning of Cote d'Ivoire's economic recovery. In May 2007, the Government defined, in collaboration with the Bretton Woods Institutions and the Bank, an economic reform program for the 2007-2008 period. The program aimed at restoring macroeconomic stability and accelerating structural reforms in key sectors such as energy and coffee-cocoa. Hitherto, the Government's program has been supported by two IMF Emergency Post-Conflict Assistance (EPCA) Programs.⁴ Reviews of both EPCA programs conclude that Cote d'Ivoire made overall progress towards Program targets.

2.3 Output growth reached 2.3 percent in 2008, driven by favorable agricultural output and a pickup in the secondary sector (in particular telecommunications and Building and Public Works sub-sectors). Significant revenue efforts and overall expenditure restraint have resulted in modest space for social and crisis-exit spending. As a result, Côte d'Ivoire achieved primary basic surpluses of roughly ½ percent of GDP in both 2007 and 2008, although about ½ percent of GDP below Program target each year. The central government revenue-to-GDP ratio improved from 18.4 percent in 2006 to 18.9 percent in 2008. However, twelve-month CPI inflation, which averaged 2.5 percent in recent years, is estimated to have risen to 9 percent at end-2008 (6.3 percent on an annual average basis), reflecting the earlier sharp increases in international food and fuel prices.

2.4 Normalization of budget execution procedures since early 2007 has generally helped respect budget allocations but extra-budgetary spending, related mainly to the transfer to the capital to Yamoussoukro and rehabilitation works of Hotel Ivoire, caused deviations from the 2008 fiscal targets, including for spending composition. To eliminate extra-budgetary spending in the future and enhance transparency, the authorities established (by a Prime Ministerial instruction) a range of safeguards. These include (i) incorporation in the budget of all spending for public works and its reporting in budget execution statements; (ii) discontinuation of payments by oil shipments for these works; (iii) oversight of these works by an interministerial committee; (iv) application of public procurement rules to all new works; and (v) an audit of the past public works for the new capital by the general financial inspector.

⁴ EPCA-I was approved in August 2007. Following its satisfactory review, EPCA-II was approved in April 2008.

2.5 On the basis of the country's overall satisfactory performance under EPCA in 2007-08, combined with the government's strong commitment to a new program, as evidenced by strong prior actions, and with financing assurances in place, a PRGF arrangement was approved by the IMF Board on 27 March 2009. The PRGF-supported program builds on Côte d'Ivoire's PRSP for 2009–11 and aims to maintain macroeconomic stability, boost growth and reduce poverty by (i) continuing fiscal consolidation, while creating fiscal space for pro-poor and pro-growth spending; (ii) reducing public debt to a sustainable level through HIPC/MDRI debt relief and gradual fiscal adjustment; and (iii) pursuing an ambitious structural reform agenda in public finance management, civil service, the coffee/cocoa and energy sectors, and private sector development, including the financial sector.

B. Extent of Poverty

2.6 The prolonged years of crisis have led to a significant increase in poverty and deterioration in living standards. Real per capita GDP fell by a cumulative 15 percent during 2000-06. The recent 2008 household budget survey has estimated that poverty incidence has increased from 38.2 percent in 2002 to 48.9 percent in 2008. Poverty is more widespread in the rural areas than in the urban areas. The poverty rate rose from 49.0 percent in 2002 to 62.5 percent respectively in the rural areas as against 24.5 percent and 29.5 percent over the same period in the urban centres. Income distribution is also largely uneven. Indeed, 10 percent of the most affluent of the population holds 32.8 percent of the total income compared to 30.4 percent held by 60 percent of the poorest.

2.7 The country's ranking in the UN Human Development Index (HDI) deteriorated from 154th (out of 174 countries) in 1999 to 166th (out of 177) in 2007. Since the late 1990s, the gross primary school enrollment stagnated at about 70 percent, mortality rates of children under 5 increased from 175 to 195 per thousand, and life expectancy at birth declined from 49 in 1995 to 47 in 2006, while these indicators continued to improve in most sub-Saharan African (SSA) countries. Basic health and educational services have been severely affected in the Centre, North and West (CNW) zone of the country, where the official public administration was absent for over five years. It is unlikely that the eight Millennium Development Goals (MDGs) will be attained in 2015

C. Preparation of Interim Poverty Reduction Strategy Paper (I-PRSP)

2.8 The government adopted a complete PRSP in February 2009, drawing on the 2002 Interim Poverty Reduction Strategy Paper, the 2008 household budget survey and consultative workshops with the population at large. In 2008, ten regional consultations took place with local governments and the population at large to assess their perception of poverty levels and the impact of the crisis as well as learn about their main challenges and possible ways to address them. The Strategy was validated in a national workshop in January 2009.

2.9 The broad objectives of the government's PRSP are: (i) the consolidation of peace and security and the promotion of good governance; (ii) improving the macroeconomic framework; (iii) job and wealth creation by supporting the rural and private sectors; (iv) enhancing access to, and the quality of, social services, protecting the environment, and promoting gender equality and social security; (v) decentralization; and (vi) integration into the regional and global

economy. The implementation of this Strategy is key for the ultimate end to the country's crisis. Thus, the support of the international community will be essential.

D. Unsustainable External Debt

2.10 Côte d'Ivoire's debt in NPV terms, after full application of traditional debt relief mechanisms, is an estimated US\$12,8 billion as of end-2007. This is equivalent to 327.0 percent of government revenue⁵. Côte d'Ivoire would thus qualify for debt relief under the HIPC Initiative's "fiscal window", based on end-2007 data, having an NPV of-debt-to-revenue ratio greater than the 250 percent threshold.

E. Promotion of Good Governance

2.11 Côte d'Ivoire's prolonged period of political instability and conflict resulted in a deterioration of governance and transparency. With political and security concerns dominating daily life, the standard budget cycle was disrupted and public financial management processes and procedures weakened. A large share of public expenditures (over 50 percent in 2006) was executed outside regular budget procedures, some oil revenue stayed off-budget, quasi-fiscal levies on cocoa were not used by the sector's agencies to the benefit of producers as intended, and public procurement methods have lacked transparency.

2.12 Since 2006, the government has made progress in the following areas: (i) strengthening public financial management (PFM) and procurement through significant reduction of treasury advances; the publication and improvement of budget execution statements each quarter; the timely preparation and adoption of the budget; the effectiveness in 2006 of a new Procurement Code; and the adoption, in early March 2009, of a PFM action plan, based on the recommendations of the Public Expenditure Management and Financial Accountability Review (PEMFAR), carried out jointly by the World Bank, the IMF, the Bank Group and the European Commission (EC); (ii) enhanced governance and transparency in the energy sector through audits in the areas of oil/gas exploration, development and production, oil refining, and electricity; the provision by the "Petroleum Committee" of quarterly reports to the Council of Ministers on the physical, financial and tax flows in the sector; and joining the Extractive Industries Transparency Initiative (EITI) as a candidate country in May 2008, following the creation of the EITI National Committee; and (iii) strengthening the cocoa/coffee sector through the adoption of producer incentives and improved transparency.

F. Overall Assessment of Eligibility for HIPC Initiative Assistance

2.13 From the above analysis, Management is of the view that Cote d'Ivoire has fulfilled all the requirements for debt relief under the HIPC Initiative and can now reach its HIPC decision point.⁶ Moreover, the Ivorian authorities and the IMF, IDA and Bank staffs have reached an understanding on the appropriate completion point triggers discussed in Section VII.

⁵ When excluding one-off revenue related to toxic waste damage compensation

⁶ Côte d'Ivoire is among the list of countries that were grandfathered for HIPC eligibility. See IDA and IMF, "Heavily Indebted poor Countries (HIPC) Initiative – Issues related to the Sunset Clause," IDA/R2006-0175 and SM/06/288, August 18, 2006.

III. Breakdown of Current Debt Stock and Arrears Clearance

3.1 As of end-December 2007, Cote d'Ivoire's external debt stock before traditional debt relief was estimated at US\$14.3 billion in nominal terms.

3.2 As illustrated in Figure 1 below, multilateral creditors accounted for 27.8 percent of the total debt in nominal terms, with liabilities to the World Bank Group representing 17.7 percent, those to the Bank Group, 7 percent, and those to other official multilaterals 3.1 percent.⁷ Bilateral creditors accounted for 50.7 percent of the total debt stock, with liabilities to the Paris Club representing 50.2 percent of the total debt, and those to non-Paris Club bilaterals, 0.5 percent.⁸ About 21.5 percent of debt was held by commercial creditors.

3.3 As result of the long political instability and the related economic decline, Cote d'Ivoire accumulated external arrears which stood at US\$5.2 billion at end-December 2007, equivalent to approximately one third of Cote d'Ivoire's external debt in nominal terms. Of the total arrears, US\$1.1 billion were due to multilateral creditors, US\$3.4 billion to bilateral creditors, and US\$674.9 million to commercial creditors. Arrears to the World Bank Group, totaling US\$508.1 million, representing 9.9 percent of the total arrears, were cleared in April 2008 through a bridge loan provided by a bilateral creditor. Arrears to the Bank Group, totaling US\$536.3 million⁹ and representing 10.4 percent of the total arrears were cleared in March 2009 under the Fragile States Facility as well as through Cote d'Ivoire contributions and a bridge loan provided by a bilateral creditor.

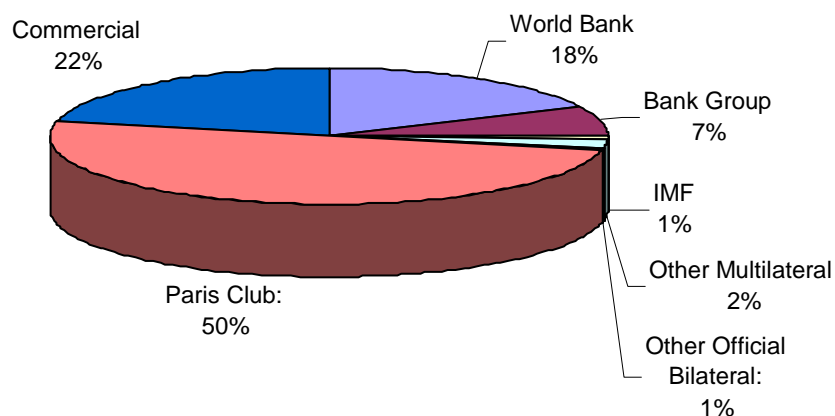
⁷ The other multilaterals include IMF (1.2%); EIB (0.9%); BOAD (0.3%); OFID (0.1%); and ECOWAS, WAEMU, BADEA, FAGACE, IDB and IFAD together (0.6%).

⁸ The non-Paris Club bilaterals are China, India and Kuwait.

⁹ Using UA/US\$ exchange rate as at end December 2007

Figure 1: Composition of stock of external debt as at end -2007 by Creditor Group

(Nominal stock: \$14.3 billion)



3.4 In the context of the PRGF arrangement, Côte d'Ivoire reached agreements to clear the remaining arrears to multilaterals during the program period. An agreement, in principle, was reached with the EIB and EU for a restructuring and cancellation of their respective shares in arrears (Euro 51.4 million at end-2008). Arrears to OPEC Fund, FIDA, IDB and BADEA have been cleared in March 2009. At end-December 2008, Côte d'Ivoire also had relatively small amounts of arrears (totaling less than USD 15 million) to other multilaterals (WAEMU, BOAD, FAGACE). These arrears are expected to be cleared by the end of 2009.

3.5 The grant element embedded in the clearance of arrears toward multilateral creditors will be counted toward their contribution to debt reduction under the HIPC Initiative. This is consistent with the standard HIPC Initiative methodology.¹⁰ To date, an estimated US\$270.5 million of HIPC debt relief has been delivered through the clearance of World Bank Group arrears and US\$199.5 million through the clearance of Bank Group arrears.

3.6 Arrears to bilateral and commercial creditors will need to be regularized in the context of discussions on HIPC debt relief and rescheduling with those creditors. Any relief already granted by those creditors beyond traditional debt relief mechanisms will be credited towards their share in HIPC relief. Côte d'Ivoire has held preliminary discussions with both Paris Club and London Club creditors on debt relief and rescheduling. The Paris Club has provided assurances regarding its participation in the debt relief effort.

¹⁰ See "HIPC Debt Initiative: the Chairman's Summary of the Multilateral Development Banks' Meeting," March 6, 1998, IDA/Sec M98-90.

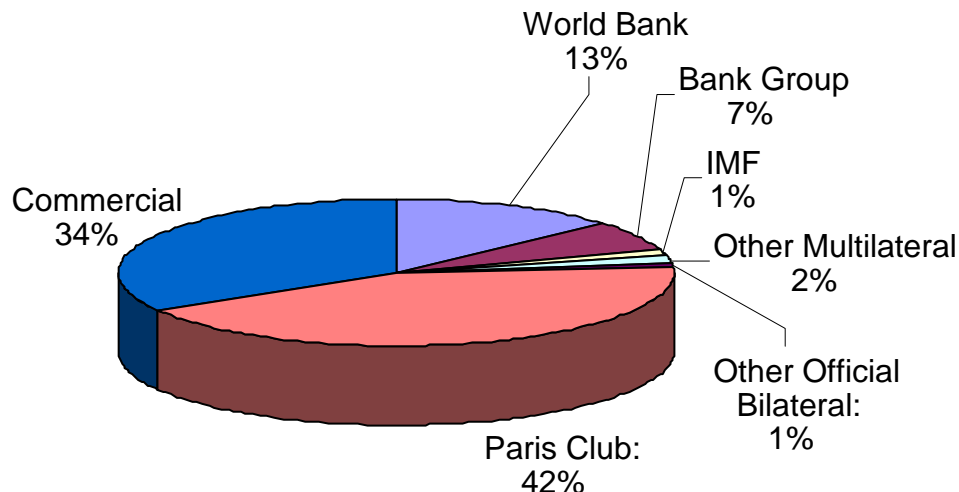
IV. Assistance under the HIPC Initiative

4.1 Cote d'Ivoire's total external debt of US\$14.3 billion in nominal terms as at-end 2007 (about US\$12.8 billion as of end-2007 in NPV terms assuming full application of traditional debt relief¹¹) is equivalent to 327.0 percent of fiscal revenue¹². Cote d'Ivoire therefore qualifies for debt relief under the HIPC Initiative's "fiscal window". The country also meets the two sub-criteria under the "fiscal window": its export-to-GDP ratio is 44.8 percent (above the 30 percent threshold) and the fiscal revenues-to-GDP ratio is 18.9 percent (above the 15 percent threshold).

4.2 The HIPC assistance needed to bring down the NPV of debt-to-revenues ratio from 327.0 percent to the HIPC threshold of 250 percent is estimated at US\$3.0 billion in end-2007 NPV terms. The assistance represents a common reduction factor of 23.6 percent. Based on proportional burden-sharing approach multilateral assistance would amount to US\$694.3 million and bilateral and commercial assistance to US\$2,3 billion (both in NPV terms). The Bank Group's share of debt relief amounts to US\$199.5 million in 2007 NPV terms, equivalent to 7 percent of the total assistance from all creditors. Figure 2 provides a breakdown of Cote d'Ivoire's total debt relief in NPV terms.

Figure 2: Breakdown of Creditor Participation in Cote d'Ivoire's HIPC Assistance

(Total Estimated HIPC Enhanced Assistance: \$3 billion, end-2007 NPV terms)



4.3 So far, approximately 55 percent of HIPC relief has been delivered through multilateral arrears clearance. The Bank Group has already delivered its full share of HIPC assistance of US\$ 199.5 million through the arrears clearance operations in March 2009.

¹¹ The traditional debt relief mechanism assumes a hypothetical stock-of-debt operation based on the Naples terms at end-2007, and comparable action by other bilateral and commercial creditors on eligible debt.

¹² When excluding one-off revenue related to toxic waste damage compensation

V. MDRI Assistance and Bilateral Debt Relief beyond HIPC

5.1 On reaching the completion point under the Enhanced HIPC Initiative, Cote d'Ivoire would qualify for additional debt relief under the Multilateral Debt Relief Initiative (MDRI). If Cote d'Ivoire reaches the completion point in December 2011, preliminary estimates indicate that MDRI relief could amount to US\$2.0 billion in nominal terms. Of this amount, US\$1.7 billion will be provided by IDA, US\$311.6 million by ADF and US\$9.3 million by the IMF.

5.2 The estimated debt relief under the MDRI to be provided by the Bank Group includes the cancellation of debt disbursed and outstanding before end-2004 and would be delivered in full at completion point.

VI. Debt Sustainability Outlook and Sensitivity Analysis

6.1 After traditional debt relief and HIPC debt relief, the NPV of external debt-to-revenues ratio would decrease from 327 percent in 2007 to 250 percent in 2011. Furthermore, with MDRI debt relief and additional bilateral debt relief beyond HIPC, Cote d'Ivoire's NPV of debt-to-revenues ratio would decline further to 72.2 percent in 2027. Debt service ratios would also become substantially lower, particularly in the period just following the completion point. Debt service-to-exports ratio and debt service-to-revenues ratio would remain below 12.5 percent and 20.2 percent, respectively, within the projection period of 2011-2027.

6.2 A sensitivity analysis was conducted to test the vulnerability of Cote d'Ivoire's external public debt under two different scenarios:

- The first scenario highlights the sensitivity of debt indicators to lower cocoa prices. A 30 percent reduction in cocoa prices is assumed from 2009 onwards. Compared with the baseline scenario, this sensitivity shows a gradual but limited deterioration in the NPV of debt-to-revenue and debt service-to-exports ratio.
- The second scenario considers the sensitivity of debt and debt service indicators to lower real GDP growth. A uniform shock among sectors resulting in a lower real GDP growth by 2 percentage points is considered from 2009 onward. This shock results in a significant deterioration in the NPV of debt to revenues ratio, especially in the outer years. While this ratio declines from 190.8 percent in 2009 to 127.1 percent in 2017 (although less than in the baseline), it starts to increase from 2018, reaching 187 percent by 2027.

The results of the sensitivity analysis point to the need for fiscal prudence and policies to promote economic growth.

VII. Floating Completion Point Triggers

7.1 The Ivorian authorities and IMF, IDA and Bank Group staff have agreed on eleven floating point triggers in six areas for Cote d'Ivoire to reach its completion point. These are:

PRSP

- Preparation of a full PRSP through a participatory process and its satisfactory implementation for at least one year, as evidenced by an Annual Progress Report submitted by the government to IDA and the IMF.

Macroeconomic stability

- Maintenance of macroeconomic stability as evidenced by satisfactory performance under a PRGF-supported program.

Public Financial Management

- Quarterly publication of budget execution statements (including revenue; expenditure by type, function, and administration/type and by different stages of budget execution; and the identification of poverty-reducing spending) within six weeks after the end of each quarter, for at least the four quarters immediately preceding the completion point.
- Certification of conformity (*certification de conformité*) by the competent authority of the draft *Loi de règlements* of a given fiscal year, within 10 months after the end of that fiscal year, for at least one year immediately preceding the completion point.
- Public procurement regulatory entity operational (separate from control entities) and quarterly publication in the public procurement bulletin of all signed procurement and concession contracts (including those from the parastatals), for at least one year immediately preceding the completion point.

Social Sectors

- Increase in trained personnel-supervised birth deliveries to 65 percent on average nationwide (from 56 percent in 2006) during at least the year immediately preceding the completion point.
- 90 percent of students enrolled in all public primary schools to have received three textbooks covering French, mathematics, and civic education, during at least the school year immediately preceding the completion point.

Debt Management

- Publication on the Treasury website, on a quarterly basis within six weeks after the end of each quarter, of data on external and domestic public and publicly-guaranteed debt (debt stocks, current debt service obligations, actual debt service payments and loan disbursements) for at least four quarters immediately preceding the completion point.

Governance

- Regular public reporting of payments to, and revenues received by, the government for the extractive industries (mining, oil and gas) in line with the EITI criteria, with a recent annual report during at least the year immediately preceding the completion point.

- Annual publication, within seven months of the end of the fiscal year, of the certified financial statements, in accordance with international standards, of PETROCI for at least the year immediately preceding the completion point.
- A reduction in overall indirect taxation of the cocoa sector to no more than 22 percent of the CIF price, as evidenced by: (i) promulgation of a budget law, and (ii) an official communication issued to exporters no more than five months before the start of the upcoming cocoa marketing season; adoption by the government of a new institutional and regulatory framework for the cocoa/coffee sector and satisfactory implementation of the functions under government responsibility for at least six months immediately preceding the completion point, based on its new strategy for development of the sector.

VIII. Bank Group Interventions in Cote d’Ivoire

8.1 Although the Bank maintained a continuous dialogue with the country, Cote d’Ivoire was under sanctions since February 2003 with the Bank Group for accumulated arrears. On March 6 2009, the Boards approved a Global Country Strategy Note for Cote d’Ivoire with two overarching objectives: (i) arrears clearance to allow for the lifting of sanctions and (ii) reengagement so as to relaunch operations in the country. The Boards also approved on the same date the arrears clearance operation, and a budget support operation for an amount of UA 83.87 million.

8.2 In addition to this budget support operation, the active portfolio of the Bank currently contains two operations. The first operation, financed with a grant of UA 3.7 million, is aimed at strengthening governance and the capacities of the administration. The project will be completed in 2009. The second operation, amounting to UA 20 million in the form of a grant, aims at supporting the implementation of the crisis-exit programme. This operation has made significant strides with a 56 percent disbursement rate. With regard to inactive operations, the portfolio consists of four projects involving an amount that is yet to be disbursed of UA 33.34 million. The Bank will explore possibilities for restructuring its portfolio during a mission in the second quarter of 2009.

8.3 The Bank Group interventions in Cote d’Ivoire during the remainder of the ADF-11 period would be financed from the remaining balance of the ADF-11 normal Performance-Based Allocation (UA 7.3 million) as well as from the FSF Targeted Support Window (UA 2.0 million). The Bank’s intervention during the remainder of ADF-11 period would support operations in governance (institutional support) and development of regional infrastructure, two priority pillars defined in the Global Country Strategy Note 2009-2010.

IX. Indicative Financing Arrangements

9.1 Since the Bank Group’s arrears clearance is counted as part of the HIPC debt relief, the Bank Group’s share of debt relief, amounting to US\$199.5 million in 2007 NPV terms, has been fully provided through the Bank Group’s arrears clearance operation for Cote d’Ivoire,

amounting to US\$ 382.48 million¹³ as at end-December 2007, under the FSF. Consequently, no further debt relief assistance will be provided during the interim period to Cote d'Ivoire's completion point. In fact, there is an over-delivery of Bank Group debt relief to Cote d'Ivoire. The total debt relief committed by the creditors, including the Bank Group, will be revised during a DSA exercise at completion point.

X. Recommendations

10.1 The Boards of Directors are invited to: (i) take note of Cote d'Ivoire's qualification for HIPC assistance at the decision point under the Enhanced HIPC Initiative; (ii) approve the Bank Group's share of HIPC debt relief for Cote d'Ivoire, equivalent to US\$ 199.5 million in end-December 2007 NPV terms and (iii) note that the Bank Group's HIPC assistance comes entirely in the form of grants through the FSF (under its pillar II) Arrears Clearance Window already provided in March 2009.

¹³ Using exchange rate (US\$/UA = 0.63) of end December 2007. The contribution from FSF amounts to UA240.96 million.

Annex 1:

IMF/ World Bank HIPC Decision Point Document for Cote d'Ivoire

http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2009/07/13/00020439_20090713162701/Rendered/PDF/482360replacem1d100IDA1R20091004012.pdf