

**AFRICAN DEVELOPMENT BANK  
AFRICAN DEVELOPMENT FUND**



**CÔTE D'IVOIRE**

**ARREARS CLEARANCE PLAN**

This document contains addenda or corrigenda (see annexes).

**February 2009**

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### List of Acronyms and Abbreviations

ADB	African Development Bank
ADF	African Development Fund
BWI	Bretton Woods institutions
DVA	Debt Viability Analysis
ESW	Enhanced Support Window
FSF	Fragile States Facility
HIPC	Heavily Indebted Poor Countries [Initiative]
IMF	International Monetary Fund
NPV	Net Present Value
OPA	Ouagadougou Political Agreement
PCCF	Post Conflict Country Facility
PRGF	Poverty Reduction and Growth Facility
UA	Unit of Account

### Fiscal Year

1 January – 31 December

### Currency Equivalents

(December 2008)

UA 1 =	1 SDR
UA 1 =	CFAF 725.980
UA 1 =	€1.10675
UA 1 =	US\$ 1.54027

## EXECUTIVE SUMMARY

1. In accordance with the proposals contained in the Global Country Strategy Note (GCSN) for 2009-2010, approved by the Boards, and the aide-memoire concluded between the Bank's Management and the Ivorian Authorities in April 2007, the aim of this document is to propose an Arrears Clearance Plan for Côte d'Ivoire. It will be recalled that, since 2003, the country has accumulated arrears to the Bank Group which, as at the April 2007 cut-off date, amounted to UA 352.5 million.

2. Today, the external debt burden has become a major constraint for Côte d'Ivoire's development. Indeed, the country is eligible for the Heavily Indebted Poor Countries (HIPC) Initiative since its inception in 1996, but has not yet reached the decision point because of the long socio-political crisis experienced by the country and which worsened in 2002. Under the HIPC Initiative, significant debt relief (US\$ 3.0 billion in Net Present Value –NPV terms) will be possible on reaching the decision point. This relief would bring down the debt to a sustainable level and would considerably reduce the financial fragility of Côte d'Ivoire.

3. It is essential for the country to reach the decision point by end March 2009 for, after that date, the analysis for determining the country's eligibility will be carried out on the basis of debt data as at end 2008<sup>1</sup>, which could very probably reduce the NPV and thus jeopardize Côte d'Ivoire's debt relief. Prior to receiving such debt relief, the country must clear its arrears to the Bank Group. It is within this context that an arrears clearance plan is proposed in this document.

4. The aide-memoire, signed under the Post-Conflict Country Facility (PCCF), defines a mechanism for the clearance of the country's arrears to the Bank Group. In accordance with the terms of this aide-memoire, the parties agreed that: (i) Côte d'Ivoire would bear one third (1/3) of the total amount of arrears, with a postponement of the initial cut-off date of end December 2003 to end April 2007; and (ii) the current maturities

would be paid regularly by Côte d'Ivoire as from end April 2007.

5. Since the signing of the aide-memoire, the FSF has replaced the PCCF with a new arrears burden sharing: a maximum of one-third for the country; and a minimum of two-thirds (2/3) for the Facility, on the basis of the country's capacity to pay. For Côte d'Ivoire, the analysis of the scale of contribution gives a result of 3 points out of 9, placing the contribution of the country between 22 and 33 per cent. The recent analysis of the budget situation, shows that in the very short-term there is a serious cash-flow problem thus reducing considerably its reimbursement capacity due notably to: (i) delays in the disbursement from donors in favor of the crisis-exit programme, which the Government has had to supplement; (ii) increased difficulties in mobilizing resources on the domestic and the WAEMU market, due partly to the financial crisis; and (iii) revenue foregone resulting from recent measures taken by Government to address the recent food crisis.

6. On the basis of the foregoing, it is proposed to bring Côte d'Ivoire's contribution to 31.7%, with the Facility taking on a 68.3% burden share, which is in conformity with the above-mentioned provisions of the Facility.

7. Within the framework of the clearance of the one-third (1/3) of the arrears to be borne by Côte d'Ivoire, the country has effectively paid UA 27.6 million, and has taken a bridge loan in an amount of UA 83.87 million to complete the clearance. The effective disbursement of the bridge loan requires prior approval of this arrears clearance plan and the budget support proposed in the Overall Strategy Note. This is made necessary by the requirement of the bridge loan provider to complete the transaction in one day.

8. In light of the foregoing, the Boards of Directors are invited to: (i) approve this arrears clearance plan with an FSF grant of UA 240.96 million, as well as the necessary resources to cover any possible gap as a result of exchange rate fluctuations, in order to finalize the financing of the proposed clearance plan; and (ii) authorize Management to lift sanctions on Côte d'Ivoire as soon as the bridge loan is disbursed

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<sup>1</sup> As at end 2008, the debt data include the clearance of the World Bank debts.

## I. INTRODUCTION

1.1 This document proposes a clearance plan for Côte d'Ivoire's arrears to the Bank Group, which is fully consistent with the overall plan for the re-engagement of the country's development partners. This arrears clearance plan, with the assistance of the Fragile States Facility (FSF), follows on from the Overall Country Strategy Note (OCSN) for 2009-2010, in which Côte d'Ivoire's eligibility for the Arrears Clearance Window (ACW) of the FSF was approved.

1.2 The aim of this arrears clearance plan is to help Côte d'Ivoire benefit from assistance under the Heavily Indebted Poor Countries Initiative (HIPC) so as to eventually return to a debt situation that is sustainable. Indeed, Côte d'Ivoire has been eligible for the HIPC Initiative since it was launched in 1996, but has not yet reached the decision point because of the long socio-political crisis in the country, and which deteriorated in 2002. Prior to receiving debt relief under the HIPC Initiative, Côte d'Ivoire must clear its arrears to the Bank Group.

## II. CONTEXT OF COTE D'IVOIRE'S DEBT RELIEF

2.1 **The crisis has fragilized the Government, destabilized the macroeconomic framework and led to a substantial decline in the country's financial resources.** This situation has impacted negatively on the country's capacity to honour its external debt service. The external debt burden has therefore increased, and Côte d'Ivoire now finds itself with an unsustainable debt overhang. Following the normalization of the political situation in 2007, the Government has seriously embarked on the implementation of its post-crisis programme and the settlement of the issue of its external debt arrears. In view of the significant expenditures incurred under this post-crisis programme, the Government's capacity to clear its arrears has been considerably weakened. The country's current fragility prevents it from finding a solution to this problem without rapid and increased support from its development partners, including the Bank.

2.2 Significant debt relief (US\$ 30 billion,<sup>2</sup> in Net Present Value (NPV) terms will be possible upon reaching the HIPC decision point in the first quarter of 2009. This relief would bring down the debt to sustainable levels and reduce the country's

financial fragility. Within this context, the IMF, in May 2008, carried out a joint debt reconciliation mission with the World Bank and the Bank. The preliminary debt sustainability analysis shows that Côte d'Ivoire should be eligible for the HIPC Initiative under the revenue criterion (budget revenue). Indeed, the ratio of the net present value (NPV) of the debt to budget revenue is around 327%, i.e. significantly above the benchmark threshold of 250%. The same applies to the subsidiary ratios under the tax criterion, namely exports to GDP and tax revenue to GDP. These ratios stand at 44.8% against an indicative threshold of 30% and 18.9% against an indicative threshold of 15% respectively. Prior to obtaining debt relief under the HIPC Initiative, Côte d'Ivoire must clear its arrears to the Bank Group.

2.3 **The Bank Group's share of this possible debt relief is estimated at US\$ 200 million.** In accordance with the guiding principles of the HIPC Trust Fund, this assistance will be entirely provided within the framework of the arrears clearance plan proposed here below. Côte d'Ivoire will not therefore benefit from any reduction of its debt service during the interim period, and will have to honour all the current maturities during that period.

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<sup>2</sup> On the basis of proportional burden sharing, multilateral assistance would be US\$ 694 million (in NPV) while the bilateral and commercial assistance required would be around US\$ 2.3 billion (in NPV).

2.4 Upon reaching the completion point expected in December 2011, the country will be able to benefit from the full cancellation of part of its multilateral debt, in an amount of US\$ 2.05 billion, about US\$ 312 million of which would be cancelled by

the African Development Fund (ADF). This final cancellation will ensure that the country's debt is once again sustainable. The arrears constitute a major obstacle to be overcome in order to benefit from these different facilities.

### III. CÔTE D'IVOIRE'S ARREARS CLARANCE PROGRAMME

#### 3.1 The Country's Arrears to the Bank Group and Maturities

3.1.1. Côte d'Ivoire accumulated arrears to the Bank Group, which as at the cut-off date of 30 April 2007 and at the exchange rate as at end January 2009, amounts to UA 352.5 million. Current maturities from end April 2007 to December 2007 in an amount of UA 36.03 million have

been paid, as well as those for 2008 in an amount of UA 72.29 million. The country has also honoured current maturities for the months of January and February 2009 (UA 9.52 million). Côte d'Ivoire has therefore been current with its payments since April 2007. The country is to be commended for the immense efforts made in mobilizing UA 117.84 million to honour its debt service since April 2007.

#### 3.2 Proposed Arrears Clearance Operation for Côte d'Ivoire

3.2.1. The FSF simplifies the arrears clearance procedures. One of the innovations of the FSF is the principle of bipartite sharing of the clearance costs between the country concerned and the Bank, unlike the Post-Conflict Country Facility (PCCF) which depended on the essential contribution of a third donor. This flexibility makes it possible to minimize the time and resources devoted to pre-clearance negotiations. Under this new system, the country honours its share of the

arrears, while the ACW of the FSF takes care of the balance. The other innovation concerns a more rigorous methodology for the country's repayment capacity: a quantitative assessment makes it possible to determine its share of the operation. To this end, three indicators have been selected: (i) gross payment capacity; (ii) capacity to generate financial resources, and (iii) the setting of expenditure priorities.

Table 1: Côte d'Ivoire's Payment Capacity Indicators for 2007

Indicators		2007	Number of Points
Gross payment capacity:	Arrears to ADB/government revenue	95%	1
Capacity to generate financial resources:	Current account balance /GDP	2.6%	1
Setting of expenditure priorities:	GDP per capita	1013.57	1
Total points out of 9			3

3.2.2. In April 2007, an aide-memoire was signed between the Bank and Côte d'Ivoire. The principal provisions taken within this aide-memoire are: (i) postponement of the cut-off date from end December 2003 to end April 2007; (ii) commitment of the Ivorian Government to honour current maturities as from end April 2007 and (iii) the settlement by Côte d'Ivoire, of one-third of the arrears. The burden sharing initially agreed to within this aide-memoire is in line with the provisions foreseen the new arrears clearance mechanism of the Facility. Indeed, in light of these provisions, the country's share is fixed at a maximum ceiling of one-third of the amount of arrears and that of the Facility at a minimum of two-thirds. The analysis of the scale of contribution concludes that Côte d'Ivoire obtains three points out of a total of nine (see table 1), placing its share between 22 and 33 per cent of total arrears.

3.2.3. The recent analysis of the budget situation, shows that in the very short-term there is a serious cash-flow problem thus reducing considerably its reimbursement capacity due notably to: (i) delays in the disbursement from donors in favor of the crisis-exit programme, which the Government has had to supplement; (ii) increased difficulties in mobilizing resources on the domestic and the WAEMU market, due partly to the financial crisis; and (iii) revenue foregone resulting from recent measures taken by Government to address the recent food crisis.

3.2.4. On the basis of the foregoing, it is proposed to bring Côte d'Ivoire's contribution be fixed at 31.7%, instead of 33.3% with the Facility taking on a 68.3% burden share, instead of the 66.7% initially foreseen. This which is in conformity with the above-mentioned provisions of the Facility.

3.2.5. **To date, the Government would have thus honoured all its commitments under the aide-memoire by ensuring:** (i) through its own efforts, the payment of current maturities amounting to UA 117.84 million, from end April 2007 to February 2009, and (ii) the settlement of the arrears; by the cut-off date of 30 April 2007, through direct payment of an amount of UA 27.6 million and a bridge

loan of UA 83.87 million. However, the effective disbursement of the bridge loan requires the prior approval of this arrears clearance plan and the budget support proposed in the Global Strategy Note. This approach is made necessary by the requirement of the bridging loan provider to complete the transaction in one day.

3.2.6. Furthermore, on the basis of the secured modalities of the bridge loan, Management considers that the country has made the necessary efforts to pay its share of the arrears in accordance with the Aide-Memoire of April 2007. It is therefore proposed that the FSF should cover the remaining 68.3% of the arrears burden, i.e. UA 240.96 million, thus making it possible to finalize the arrears clearance plan. The Bank Group's contribution will be entirely paid from the ADF resources of the Arrears Clearance Window (ACW) of the FSF.

3.2.7. The effective implementation of Côte d'Ivoire's Arrears Clearance Plan will begin as soon this proposal is approved by the Boards. The services of the Bank's Legal Services Department will have all the related documents signed by the parties concerned, thus permitting the effective lifting of the sanctions imposed on Côte d'Ivoire, upon receipt of the bridge-loan resources.

### **3.3 Benefits in respect of the HIPC Initiative and Debt Relief**

3.3.1. **The clearance of its arrears will enable Côte d'Ivoire to embark on a Three-Year Programme backed by a Poverty Reduction and Growth Facility (PRGF) arrangement, thus triggering debt service relief under the HIPC Initiative.** On the basis of the current schedule, the decision point should be reached no later than end March 2009, which will considerably reduce the country's debt service to many donors. The country's financial viability will thus be strengthened. Concerning the Bank, the debt service will not be reduced. Côte d'Ivoire will therefore have to honour all its current maturities with respect to the Bank.

3.3.2. **Debt service remains a major challenge for the viability of Côte**

**d'Ivoire's financial situation.** Even though the country has to-date honoured current maturities with respect to the Bank, the debt service remains a major challenge for the Government. Within this context, it is essential for budgetary discipline to be tightened to prevent the risk of accumulating new arrears in order to rapidly reach the HIPC completion point. This budgetary discipline will be consolidated by the implementation of the IMF's PRGF-backed reforms. The projected

repayment schedule with respect to the Bank for 2009, 2010, and 2011 is presented here below in Table 2. The combined effects of the Government's commitment, the reforms, and the increased commitment of the partners will impact positively on growth, and consequently, on Côte d'Ivoire's capacity to honour its debt service to the Bank over the critical interim period of 2009-2011.

Table 2: Projected Repayments  
(2009-2011)

Year	Window		Total
	ADB	ADF	
	(UA million)		
2009*	36.63	1.94	38.57
2010	31.82	2.98	34.80
2011	24.70	3.05	27.75

Source: African Development Bank

\* Including the 2 payments already effected for 2009

#### IV. CONCLUSIONS AND RECOMMENDATIONS

##### 4.1 Conclusion

4.1.1. The expressed will of the Ivorian Authorities to normalize relations with the International Financial Community by clearing arrears to the multilateral donors has created favourable conditions for the resumption of cooperation with these partners. Management's action to contribute to the clearance of Côte

d'Ivoire's arrears to the Bank Group falls within this context.

4.1.2. The signing of a Poverty Reduction and Growth Facility (PRGF) arrangement with IMF will pave the way for the country's debt relief under the HIPC Initiative and the Multilateral Debt Relief Initiative.

##### 4.2 Recommendations

In light of the foregoing, the Boards of Directors are invited to:

- (i) Approve this Arrears Clearance Plan with a grant from the ACW of the FSF in an amount of UA 240.96 million, as well as the necessary resources to cover any gap which might arise

from exchange rate fluctuations so as to finalize the financing of the proposed clearance plan; and

- (ii) Authorize Management to lift the sanctions imposed on Côte d'Ivoire, as soon as the bridge loan resources are effectively transferred to the Bank.

Annex 1 : Logical Framework of the Arrears Clearance Operation for Côte d'Ivoire

Objective	Impact & Expected Outcomes	Reach	Performance Indicators (means of verification)	The Bank's Indicative Targets and Timeframes	Assumptions, Risks and Mitigation Measures of the Bank
Strategic Objective	Long-Term Impact	Beneficiaries	Indicators	Objectives	
Restore stability and promote socioeconomic recovery and development	Strengthen human development, governance and accountability	Population of Côte d'Ivoire	<p>1. Improvement in Human Development Index (HDI).</p> <p>2. Improvement in Country Policy and Institutional Assessment (CPIA)</p> <p>Sources : ADB, UNDP</p>	<p>1.1 HDI value improves from 0.403 in 2007 to at least 0.500 in 2010</p> <p>2.1 The country improves its CPIA from 2.72 in 2007 to at least 3.00 in 2010</p>	<p><b>Assumption:</b></p> <p>1. The Bank concludes solid strategic partnership arrangements with Côte d'Ivoire</p> <p>2. The Bank concludes solid strategic partnership and cofinancing arrangements with other bilateral and multilateral institutions.</p> <p><b>Risk:</b></p> <p>1. Côte d'Ivoire does not clear one-third of its arrears</p> <p><b>Mitigation Measure:</b> Firm commitment of the authorities to resume cooperation with the donor community.</p>
Ultimate Objective of the Initiative	Ultimate Outcomes of the Objective	Beneficiaries	Medium-Term Outcome Indicators and Data Sources	The Bank's Indicative Objective	
Normalize cooperation between Côte d'Ivoire and the Bank	Lift sanctions on Côte d'Ivoire	Population of Côte d'Ivoire.	<p>"Memorandum on lifting of Sanctions"</p> <p>Protocol Agreement</p>	<p>Board Resolution on the "memorandum on the lifting of sanctions"</p> <p>Protocol Agreement duly signed in February 2009</p>	
Finance priority expenditures relating to sustainable development	Improve the share of social expenditures	Population of Côte d'Ivoire	<p>% of education expenditures in the Government budget</p> <p>% of health expenditures in the Government budget</p>	<p>% of education expenditures in the Government increases from [19.2%] in 2008 to [20.8%] in 2009</p> <p>% of health expenditures in the Government budget increases from [4.5%] in 2008 to [4.6%] in 2009</p>	
Debt relief	Reduction of public debt	Population of Côte d'Ivoire.	Reaching of HIPC decision point.	The country reaches the HIPC decision point by mid-2009.	

**COTE D'IVOIRE : ARREARS CLEARANCE PLAN**

**CORRIGENDUM**\*

Page 2, paragraphe 2.4 :

Replace in the first sentence 'African Development Fund (ADF)' by 'African Development Bank Group'