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 Completes Third ECF Review for Côte d'Ivoire and Approves US$74 Million Disbursement
June 07, 2013

May 21, 2013

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LETTER OF INTENT

Minister at the Prime Minister's Office
in charge of Economy and Finance
Office of the Minister

Republic of Côte d'Ivoire

No. 0980 MPMEF/CAB/CT-TK

Abidjan, May 21, 2013

The Managing Director
International Monetary Fund
WASHINGTON DC, 20431

Subject: Letter of Intent

Dear Madame Managing Director

1. **Your visit in January of this year coincided with the end of the social and political normalization phase, and with the start of the economic expansion phase, of the country's post-crisis experience**. Following the re-establishment of the judiciary and public administration throughout the territory, the National Assembly, which had become fully operational in 2012, held its two regular sessions, thus affirming the return to normal constitutional government. The national reconciliation process has made much headway owing notably to renewed confidence among the people and the continuing work of the Dialogue, Truth and Reconciliation Commission (CDVR), whose local commissions have been set up. The security situation has improved greatly as a result of enhanced security arrangements and cooperation with certain neighboring countries, leading many refugees to return. The new government appointed in November 2012 undertook to continue the peace-building and economic recovery efforts in keeping with the policies set out in the 2011–14 economic and financial program supported by the Extended Credit Facility (ECF).

2. **The attached Memorandum of Economic and Financial Policies (MEFP) describes progress made through end-2012 and the policies we plan to implement in 2013**. In macroeconomic terms, the outcomes recorded at end-December 2012 are better than expected. Gross domestic product (GDP) growth was 9.8 percent, compared to the forecasted 8.6 percent. Inflation was contained within the community norm of 3 percent at 1.3 percent. With respect to government finance, the sustainability of public debt was restored after the HIPC Initiative completion point was reached in June 2012. The overall budget balance and primary basic balance are also better than projected as a result of efforts to collect revenues and control spending.

3. The year 2013 should confirm the strong momentum observed in 2012. The government is expecting a GDP growth of 9 percent driven by a substantial increase in both public and private investment. In terms of developments since the adoption of the budget law for 2013, the government has prepared a supplementary budget law in order to adjust appropriations to the requirements of certain partially financed projects and to take account of other priority projects not previously covered. The government also intends to continue its broad structural reform program with the aim of improving the business climate and public management.

4. The government is therefore convinced that the policies and measures included in the MEFP will lead to strong, sustained, inclusive, and green growth in line with the objectives of the National Development Plan (PND). In this regard, we would like to request: (i) the replacement, as of the third review, of the performance criterion on the overall budget balance by the primary basic balance, and the conversion of the overall balance into an indicative target for public finance monitoring; (ii) modifications of the program performance criteria and indicative targets for end-June 2013; (iii) the setting of performance criteria for end-December 2013; (iv) a change in the definition of external debt for the program limits on non-concessional debt to exclude debt denominated in CFA francs; and (v) a higher ceiling for new non-concessional external debt, in keeping with the MEFP and Technical Memorandum of Understanding (TMU).

5. We request a waiver for the non-observance of the continuous performance criterion on new non-concessional external debt contracted or guaranteed by the government. This situation resulted from a misunderstanding of paragraph 12 of the Technical Memorandum of Understandings and involves a relatively small amount of government-guaranteed debt. We are taking measures to avoid a repetition of such an occurrence. In this context, we are going to further deepen our debt management reforms with the technical assistance of the Fund and strengthen procedures to centralize all requests for financing. Furthermore, we will continue our existing consultations with IMF staff, in particular on possible new external debts and government guarantees.

6. We ask the International Monetary Fund (IMF) to provide the government with the fourth disbursement under the Extended Credit Facility (ECF) in the amount of SDR 48.78 millions. The government will consult with Fund staff, at its own initiative or at the request of the IMF Managing Director, before adopting any additional measure that it may deem necessary, or in the event of changes to the policies set out in the MEFP. It also agrees to cooperate fully with the IMF to achieve its policy objectives.

7. The Ivoirien authorities consent to the release of this Letter of Intent, and the attached Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding, as well as the IMF staff report on the review of the ECF-supported program. We hereby authorize their publication and posting on the IMF website after approval of the third ECF review by the IMF Executive Board.

Very truly yours.

/s/
Nialé Kaba
Minister at the Prime Minister's Office
In charge of Economy and Finance

Attachments: - Memorandum of Economic and Financial Policies

- Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

May 21, 2013

INTRODUCTION

1. **The sociopolitical and security situation in Côte d'Ivoire has improved significantly**. The process of restoring the operational status of national institutions is complete. The government is fully functional throughout the national territory, as is the judicial system. As for the legislature, the National Assembly elected in 2011 is now operational and held two regular sessions in 2012, as stipulated in the constitution. The joint organization of free and transparent municipal and regional elections, which took place on April 21, 2013, completes the electoral cycle. The national reconciliation process is advancing, thanks to the consultations pursued by the Dialogue, Truth, and Reconciliation Commission (CDVR) with civil society and political parties and the launching of local commissions began in January 2013. Security has been extended over the entire territory. After establishing the National Security Council (CNS) and the Disarmament, Demobilization, and Reintegration Authority (ADDR) and with the start of operations of the Center for Coordination of Operational Decisions (CCDO) in March 2013, the pace of reform of the security sector has picked up, especially with United Nations and French support, with a view to modernizing and improving the effectiveness of the security apparatus.

2. **Côte d'Ivoire's economy is beginning to take off again**. The economic results in 2012 were much better than expected. The GDP growth rate reached 9.8 percent in 2012, as compared to the 8.6 percent forecast in September 2012. This places Côte d'Ivoire once again in the group of high economic growth countries in Africa and the world. This performance is attributable in large part to the renewed security throughout the country, the upswing in investments that began in May 2011, the implementation of important structural reforms in key economic sectors, and the support of our development partners, including the IMF, World Bank, African Development Bank, Islamic Development Bank, United Nations Development Programme, and European Union. Inflation was brought under control and budget execution resulted in a smaller deficit than programmed. All but one of the performance criteria and four of the five indicative targets of the program were observed. The external debt stock at end 2012 (excluding debt in the form of debt reduction and development contracts (C2D) with France)[1] now accounts for only 19 percent of GDP, after reaching

[1] The C2D represents the ODA claims of the French Development Agency (AFD) converted into grants. In practice, the debt service of these claims is rescheduled and paid by Côte d'Ivoire; in return, the country

(continued)

the HIPC initiative completion point on June 26, 2012. Parliament passed the 2013 budget law within the period required by the constitution for the first time since 1999.

3. The new government team that took office in November 2012 began implementing the National Development Plan (PND 2012–15), Côte d'Ivoire's framework document for its development and poverty reduction strategy. The government has set the goal of making Côte d'Ivoire an emerging country by 2020. The objectives are to achieve a 9 percent growth rate in 2013, and double-digit growth rates beginning in 2014. Investment is expected to rise from 13.7 percent of GDP in 2012 to 17.8 percent in 2013, 19.6 percent in 2014, and 21.1 percent in 2015. Public investment would grow by 4.9 percent in 2012, to 7.5 percent in 2013, 8.5 percent in 2014, and 9.5 percent in 2015. These investments are distributed in line with the engines of growth, (agriculture, infrastructure and transportation, industry, health, education, and the environment). More specifically, the government intends to:

- Pursue efforts to improve the business climate and make the economy more competitive;
- Pursue efforts to improve governance and combat corruption; and
- Further consolidate the improvement in living conditions of the population, with a view to achieving the goal of halving poverty by 2015 (see Box 1).

To finance the PND, a Consultative Group meeting was organized and held in Paris on December 4 and 5, 2012. It met with resounding success; our development partners made commitments amounting to CFAF 4,319 billion, or more than double the anticipated financing. Moreover, vital high-priority public-private partnership projects have aroused the interest of international private investors.

4. The government is committed to pursue the implementation of the 2011–14 three-year economic and financial program supported by the Extended Credit Facility. Special emphasis will be placed on regularizing the financial situation of the public sector, including restructuring public banks, restoring the financial viability of the electricity sector, continuing to improve the business climate, strengthening public financial management,especially debt management, deepening tax policy reform, modernizing the government sector, and consolidating

receives an equivalent grant to spend on development investments specified in an agreement between AFD and Côte d'Ivoire. The amount of this debt at end-2012 was equivalent to 11.8 percent of GDP.

and developing the financial sector. The government will also focus its efforts on enhancing good governance and regional integration.

This memorandum describes the progress made under the 2012 economic and financial program and presents the main of the program through 2013.

MACROECONOMIC DEVELOPMENTS IN 2012 AND IMPLEMENTATION OF THE ECF PROGRAM

A. Macroeconomic Developments in 2012

5. **The economic recovery was more robust than expected, following a decline in economic activity in 2011**. The GDP growth rate is estimated at 9.8 percent, as compared to 8.6 percent forecast in September 2012, due largely to strong growth in the secondary (19.2 percent) and tertiary (13.5 percent) sectors. Per capita income returned to its 2010 level. On the domestic demand side, growth was driven by an 83.3 percent increase in investment, including both public investment (public infrastructures) and private investment (plant and equipment renewal). The investment rate rose to 13.7 percent of GDP, as compared to 8.2 percent in 2011 and 9 percent in 2010.

6. **Inflationary pressures were brought under control**. Inflation was limited to an annual average of 1.3 percent, mainly due to an improvement in distribution channels and agricultural service roads as well as to measures adopted by the government to hold down the high cost of living. These measures included reductions in customs duties on widely-used consumer products and efforts to fight extortion and reduce road blockades.

7. **The money supply grew by 4.4 percent at end-December 2012**. Net credit to the economy increased by 12.4 percent, supporting the economic upswing. The net government position increased by 29.4 percent, reflecting the government's increased borrowing on the money market. As for net foreign assets, they declined by 14.1 percent, primarily as a result of higher imports of capital goods, but are still at an adequate level.

8. **External accounts ended the year with a current external deficit of 2.2 percent**. This reflects primarily the increased flow of imports of goods and services linked to investments and generally to the strong economic recovery. However, a large part of the external current account deficit was financed by FDI flows.

Box 1. Côte d'Ivoire—Fighting Poverty: A Government Priority

After a decade-long crisis, Côte d'Ivoire is once again on a strong, sustainable growth path, coupled with a concern for ensuring equality and respect for the environment. This strong, inclusive growth supported by the government is designed to increase access to jobs, especially for youth, and to improve the people's standard of living.

In 2012, employment in the formal, modern sector grew, with a net increase of 4.2 percent over 2011. This development is attributable to the strong recovery of the private sector and to government hiring, mainly in the health and education sectors. The government strengthened its national job creation structures, including the National Ivoirien Business Institute (INIE), the Occupational Training Agency (AGEFOP), and the Agency for Employment Research and Promotion (AGEPE).

Moreover, the Côte d'Ivoire Women's Support Fund (FAFCI) was set up in 2012 with the Decentralized Financial Systems, to facilitate their access to micro-credits. It is a facility that makes one-year, reduced-rate loans, renewable a single time.

In addition, the Youth Jobs and Skill Development Project (PEJEDEC), financed by the World Bank, is in full swing, with 4,857 youths for placed in labor-intensive jobs.

Cocoa producers (around 700,000) and coffee producers will henceforth receive 60 percent of the CIF price as the farm-gate price.

With the increase in budget allocations for pro-poor expenditure public services have substantially improved. The primary accomplishments are as follows:

- In education, the hiring of teachers and construction and outfitting of classrooms have led to a reduction in class size to 43 for the 2011-2012 school year. Moreover, the policy of "free school for all," which means no school fees and free textbooks in the public primary schools, has helped improve the gross enrollment rate from 76.2 percent in 2008/2009 to 89.3 percent in 2011/2012.
- In the health sector, the government initiated a targeted free health care program for mothers and children, as well as a free malaria treatment program for the entire population. It also reduced the cost of other paid services by 30 percent. In addition, the rehabilitation and construction of health centers, combined with the hiring of medical and paramedical staff, helped improve the technical platform of the health system in 2012.
- With regard to economic infrastructure 830.3 km of roads were resurfaced and 1138 km of new roads were built.
- As for drinking water, the Abidjan district benefited from the installation of a 2,000 m^3/h drinking water treatment station, a 10,000 m^3 surface reservoir, and twelve (12) large-diameter producing wells.

B. Program Implementation

9. **Program implementation has been satisfactory**. All but one of the performance criteria were observed, as were four of the five indicative targets. Moreover, considerable progress was made in structural reforms, although certain measures experienced delays.

10. **Budget execution was better than expected**. The overall budget deficit was 3.4 percent of GDP, as compared to the targeted 4.3 percent. The basic primary balance outcome was -1.4 percent instead of the forecast -1.9 percent of GDP. This result reflects a good tax revenue performance, spending control and a stronger-than-expected growth of nominal GDP.

- Tax revenue recorded an increase of 0.4 percent of GDP as a result of the high level of collection of profit taxes and capital gains taxes, and an improvement in the collection of duties and tariffs on oil products. However, certain types of tax revenue, such as VAT and the registration fee on coffee and cocoa, recorded shortfalls.

- Regarding expenditures, wage bill and subsidies and transfers were in line with the targets. Current expenditures exceeded the target level (by CFAF 30.2 billion), essentially due to additional security costs. Capital expenditure, on a clear upswing since 2011 (CFAF 323.6 billion), ended up at CFAF 615.8 billion, compared to a budget target of CFAF 667.5 billion (for an average realization rate of 92.2 percent), including CFAF 506.7 billion in domestically financed investment.

- The postponement of the bond issues planned on regional money and financial markets (for a total of CFAF 175 billion) at year-end resulted in less recourse to domestic financing (forecast at CFAF 443.7 billion, net domestic financing ended up at CFAF 216.9 billion. The delay in bond issuance is attributable to the government reshuffle in November 2012 and ensuing changes in the Ministry of Finance.

11. **All but one of the performance criteria and four of the five indicative targets were observed as of December 31, 2012**. The continuous performance criterion on new nonconcessional debt was not observed, due to an extended guarantee pertaining to a relatively small amount. The indicative target on the ceiling for net reduction of amounts payable was not observed due to the non-issuance of government bonds at the end of the year. The result was a floating debt of CFAF 203.9 billion at end-December 2012, or double the level recorded at end 2011.

On another note, a mechanism set up for monitoring pro-poor expenditures led to their execution reaching CFAF 1,080.3 billion, above the minimum target of CFAF 980 billion at end-December 2012.

12. The financial position of the public sector improved slightly in 2012. Cumulative results of the 84 public state-owned companies showed net profits of CFAF 139.76 billion in 2011 compared to a deficit of CFAF 50.03 billion recorded in 2010. With regard to banks with majority public capital, provisional data at December 31, 2012 reveal an improvement in their profitability compared to 2011.

13. Côte d'Ivoire has benefitted from debt relief on a large part of its external debt, and the process of normalization of financial relations with its foreign creditors has resulted in the elimination of external arrears. Achievement of the HIPC Initiative completion point in June 2012 led to a significant reduction in the stock of debt, in the amount of CFAF 3,981.6 billion, of which 1,486.2 billion under the debt reduction-development contract (C2D), equivalent to 63.6 percent of outstanding external debt at end-2011. An agreement for the joint restructuring of the external commercial debt owed to Standard Bank (former BNI securities) and Sphynx (2007 and 2008) creditors was concluded in November 2012, and this debt was exchanged for Eurobonds maturing in 2032. Payment arrears of Eurobond coupons not taken into account in this restructuring (US$96.3 million) were handled under a settlement plan which the creditors accepted and is being executed on schedule. This plan provided for a good-faith payment of US$11.3 million in December 2012, which was made, and repayment of the balance in 2013 (40 percent) and 2014 (60 percent).

14. Significant progress has been made in implementing structural reforms in the energy and the coffee and cocoa sectors and to improve the business climate. The principal structural reforms implemented are as follows:

Reform of the energy sector

- On November 7, 2012, the Council of Ministers adopted a strategy for restoring financial equilibrium to the electricity sector.

- The operating deficit of the electricity sector went from CFAF 107 billion in 2011 to CFAF 44 billion in 2012. This improvement followed a reduction in the cost of CI-27 (Foxtrot) block gas, a 10 percent increase in May 2012 of the tariff applied to industries, an improvement in collection of invoices throughout the country, including the former Center-North-West (CNO) zones, efforts to combat fraud and reduce technical losses, and the upward renegotiation of export rates in October and December 2012, to bring them to a level higher than production costs.

- To ensure the viability of the butane gas subsidy mechanism, the government increased the price of super by CFAF 15/liter. In addition, the sales price of a bottle of B6 gas was raised from CFAF 1,800 to CFAF 2,000 and from CFAF 4,000 to CFAF 5,200 for a bottle of B12. All of these measures, implemented since January 1, 2013, are designed to ensure the monthly equilibrium of the butane subsidy account.

Reform of the business climate

- CEPICI is now the single investment window in Côte d'Ivoire (Decree N° 2012-867 of September 6, 2012 creating CEPICI). Several windows are open within it, including the "one-stop shop for business formalities," which is operational and makes it possible for all of the formalities required to create a business and operate in Côte d'Ivoire to be completed in less than 48 hours.

- To improve arbitration of private sector business affairs, in 2012 the government adopted a decree to create commercial courts, and a law on foreign recognition (*exequatur*) of arbitration decisions, to facilitate settlement of commercial disputes. The first commercial court in Côte d'Ivoire opened its doors in October 2012 in Abidjan and began rendering decisions within 90 days.

- To further improve the business climate, an action plan was drawn up during a national workshop in January 2013. The plan focuses on taxes, financing the economy, the granting of construction permits, property transfers, access to electricity, cross-border trade, performance of contracts and protection of investors.

Reform of the coffee/cocoa sector

- The government continued to implement the reform of the coffee and cocoa sector. The program for future sales was implemented and made it possible to establish a minimum guaranteed price for the producer for the October 2012–March 2013 period. This price is CFAF 725 per kilogram, and was respected throughout the country. The reserve fund was financed with CFAF 40 billion. At end December 2012, the stabilization fund recorded a positive balance of CFAF 16 billion, and the reserve fund was increased by this amount. Ongoing studies are examining the possibility of making additional allocations to the reserve fund, as anticipated.

Improvement in the governance of state structures

- In the context of efforts to enhance the ethics of the civil service, the ethics charter and ethics code for government employees were adopted by the Council of Ministers on September 19, 2012.

- Management of government corporations has been improved by restructuring and reforming boards of directors, and by harmonizing the salaries of executives and the attendance fees paid to members of the boards of these structures.

- As for national public entities (EPN), management boards have been introduced and meet regularly. Every year, a report is produced to consolidate the financial performance reports of the EPNs. Moreover, financial and operational audits are currently conducted by private firms, in order to strengthen management of EPNs.

15. Implementation of certain structural measures has, however, been delayed

- The report adopted on May 26, 2012 by the Council of Ministers contained strategic options to reduce the government portfolio by 25 percent (privatizations, mergers or restructurings). Action on these options was delayed, since it required valuation studies, studies on modes of privatization and studies on the strategic and operational procedures for mergers. Developments in the government portfolio in 2012 reflected the: (i) creation of the company Air Côte d'Ivoire; (ii) liquidation of the companies SOGEPE and SOPIE; (iii) creation of the company Energies de Côte d'Ivoire; and, (iv) creation of the Office National de l'Assainissement et du Drainage [National Sanitation and Drainage Office] (ONAD).

- Due to the financial situation of certain banks with public capital, implementation of the strategy to restructure the government portfolio began by resizing the public banking portfolio. A decision was made to have separate studies on the valuation of banks in which the government is a minority shareholder and on banks in which it holds a majority share.

- The design of a strategy to manage the wage bill was delayed pending the conclusion of discussions on civil servants' salary increases. This strategy is necessary to determine staffing needs and a consistent and sustainable wage policy which would allow a move towards the WAEMU convergence criterion (a ratio of the wage bill to tax revenue of 35 percent) over the medium term.

- An audit was conducted on supplier arrears of the Treasury at end-2010. Based on the results obtained, the government decided to proceed with a second audit to confirm the accuracy of the services provided and the value of services/work, in order to have a basis for assessing the real value of the expense subject to settlement.

MACROECONOMIC AND BUDGET OUTLOOK FOR 2013

A. Macroeconomic Outlook for 2013

16. In line with the PND, the government projects an economic growth rate of 9 percent in 2013 (Box 2). The government's strategy is to consolidate the strong upswing in economic activity and macroeconomic stability. This strategy relies on a substantial increase in public investment while ensuring the viability of public debt. The government will continue to put in place large-scale structural measures to further strengthen the recovery of the private sector. The poverty rate should drop as a result of higher household incomes, the reduction in unemployment, and the development of basic socioeconomic infrastructure. Moreover, the government will continue to increase the share of pro-poor expenditures. To this end, the government intends to mobilize the commitments of external financing made by both public and private partners (in the form of the Public-Private Partnership (PPP), in particular), during the Consultative Group meeting in Paris on December 4 and 5, 2012, and to issue securities in the regional money and financial markets. It also plans to pursue efforts to improve the business climate to support the recovery of private investment. A private investment forum in Côte d'Ivoire is scheduled to take place in January 2014. All economic sectors will contribute to consolidation of this economic upturn:

- The primary sector is expected to grow by 2.7 percent in 2013, as a result of the strong performance of subsistence crops, together with the implementation of the National Agricultural Investment Program (PNIA) and large investments in mines and hydrocarbons by PPPs in particular.

- A 16 percent growth rate is anticipated for the secondary sector, reflecting (i) the improved business climate, (ii) increased national and regional demand, and (iii) investor confidence.

- The tertiary sector should grow by 11.8 percent, due to the dynamic performance of all of its components in step with the performance of the primary and secondary sectors and the gradual return of the African Development Bank to Abidjan.

17. Inflation is expected to rise to 3 percent on average compared to 1.3 percent in 2012. This inflation level is mostly a reflection of a statistical base effect related to the 2011 price spike following the post-election crisis; from December 2012 to December 2013, the price change should be about 2 percent.

18. The external current account deficit should continue to widen, owing to the trend of imports linked to public and private investments. Exports are expected to rise by 6 percent, with increased sales of rubber, oil products, palm oil, processed food and manufacturing products. The balance of capital and financial operations will be in surplus, driven by a rise in projected grants and a rebound in foreign direct investment. The overall balance of payments should be in a surplus position of CFAF 48 billion.

19. The money supply is expected to grow by 12.7 percent. The primary components of this increase are increased credit to the private sector and net foreign assets.

Box 2. Côte d'Ivoire: The Primary Objectives of the PND

Côte d'Ivoire has adopted a National Development Plan (PND) for 2012–15, which is consistent with the objectives of the economic and financial program supported by the Extended Credit Facility. The purpose of this development plan is to reduce poverty and lay the foundations for an emerging Côte d'Ivoire by 2020. This new strategy is based on strong, sustained and inclusive growth along with a substantial upturn in private and public investment. These investments have been carefully selected to fuel both the cross-cutting and vertical engines of growth.

The main objectives of the PND are listed below:

- Achieve a growth rate of 9 percent in 2013 and 10 percent in 2014 and 2015 as a result of substantial growth in investment, which are expected to climb from 13.7 percent of GDP in 2012 to 20.8 percent in 2015, with public investments accounting for 9.2 percent;
- Halve the poverty rate and return to the group of African countries with the best UNDP Human Development Index ranking;
- Attain the Millennium Development Goals by 2015 or move considerably closer to them;
- Create one of the best business climates in Africa and make the economy more competitive; and,

- Rejoin the group of top African countries in terms of good governance and anti-corruption efforts.

For 2013 to 2015, investments are expected to rise to CFAF 9,509.9 billion, with the public sector accounting for CFAF 4,185.6 billion and the private sector CFAF 5,324.3 billion. The commitments made by the development partners at the Consultative Group meeting on December 4 and 5, 2012 should cover most of the financing of these investments.

Local committees made up of local authorities and members of civil society were set up to help implement the PND. They are responsible for disseminating the plan and monitoring the different projects selected.

To enhance the effectiveness of the PND, important structural reforms are being implemented and sectoral objectives and strategies have been assigned to the different ministries, with targets that will enable progress to be monitored on a regular basis.

B. 2013 Budget Framework

20. A revised budget will be adopted by the government and submitted to the National Assembly in 2013. The objectives of the budget have been revised to take the following into account:

- The impact of the results of the Consultative Group meeting on the 2013 investment program;
- The increase in resources for inadequately funded ongoing projects and the inclusion of new basic socioeconomic infrastructure projects, especially in rural areas;
- New measures, including the suspension of the tax on windfall profits in the mining sector, have led to a downward revision of anticipated tax revenue.

21. The overall budget balance should slightly deteriorate, from a programmed deficit of 2.9 percent to 3.2 percent of GDP, while the basic primary budget balance is expected to move from 0.2 percent to -0.3 percent of GDP, reflecting the downward revision of revenue objectives and the inclusion of new expenditures. The decrease in the revenue objective reflects the revenue losses derived from the oil sector, the registration fee and the single export tax on coffee-cocoa, as well as the suspension of the tax on windfall mining profits, in spite of the upward revisions of nominal GDP, revenue from social security contribution and dividends unpaid last year by Petroci. The new expenditures are linked to the updating of credit appropriations for certain projects, including the Soubré hydroelectric dam and other priority projects that were not fully taken into account in the initial budget. To finance this deficit, the government will continue to borrow on the regional market, while the mobilization of the foreign financing will increase in line with the results of the Consultative Group meeting.

22. The government will step up its efforts to improve the collection of domestic revenue. Following the ongoing study on tax exemptions, the government will devise a VAT reform strategy, which will be presented as an annex to the 2014 proposed budget law. The purpose of this reform will be to modernize the VAT's legal system, with a view to improving its yield by reducing exemptions and to limit exemptions to legislative or regulatory measures alone. The first steps in this direction will be taken in the fiscal annex to the 2014 proposed budget law. Tax collection will be further differentiated, based on recommendations made in IMF technical assistance reports. Fiscal and customs post-clearance controls will also be stepped up, and a procedural manual on customs inquiries, with the purpose of formalizing the controls of businesses, will be adopted by decree To improve the business climate, the government decided to put in place a one-stop shop for foreign trade (GUCE). To strengthen efforts to combat tax fraud, the focus will be on controls, in particular with the creation of special brigades.

23. The government intends to give priority to competitive procedures in awarding public procurement contracts. To this end, the quarterly reports of the Council of Ministers on the execution of public contracts will be adopted at most 45 days after to the end of the quarter. They will make it possible to assess the extent to which different procurement procedures are used. Moreover, the public procurements department will strengthen its control to ensure that competitive procedures for government procurement are followed.

24. The government intends to regularize the domestic debt situation:

- Regarding the supplier arrears at end-2010, an ongoing audit will be completed to determine the amount of the government debt to suppliers. This audit will determine the effectiveness of the service provided and the fair price of invoiced services. On this basis, a settlement plan will be drawn up and implemented as of September 2013. The government will also prepare a plan for settlement of arrears on the securitized domestic debt. Provision is made for a CFAF 10 billion reduction in arrears by cash payment in 2013. Once the settlement plans are in place, the government will ensure that payments respect the scheduled due dates.

- With regard to liabilities, an audit will be performed at an early date, and based on its results a settlement plan will be prepared.

- As for the floating debt inherited from the 2012 fiscal year, a plan to clear it over a maximum period of 30 months will be implemented beginning in 2013. The net cash reduction in payables (i.e., excluding the effect of possible rescheduling of maturities) has been increased to CFAF 50 billion in 2013 (including CFAF 10 billion for the aforesaid arrears), as compared with the CFAF 25 billion initially anticipated.

- The main principles of arrears clearance strategy were reported to the IMF on May 15, 2013 (prior action).

C. Restructuring of the Public Sector

25. The government will accelerate implementation of the strategy to downsize the Ivoirien government portfolio, with a view to reducing that portfolio by 25 percent. For the nonfinancial sector, the studies on possible modalities for implementing this strategy will be finalized. These studies are expected to produce restructuring options and their financial implications for both government revenue and expenditures. On this basis, the government will decide on the most appropriate modalities for restructuring the sector and will establish a timetable for implementation. In addition, the government intends to introduce performance contracts between the Ivoirien government and public enterprises to improve their profitability. A pilot phase will begin in September 2013. As regards privatization, the privatization committee will be reactivated before end-September 2013 and will be responsible for implementing the privatization policy.

26. The **government intends to adopt and implement the recommendations of the studies on restructuring public capital banks and those on strategic and operational modalities**. The appraisal studies should be completed during the third quarter of 2013. On that basis, the government will adopt a report on the results of those studies, which will be implemented with a view to creating a well-performing public banking hub.

D. Other Structural Reforms

27. The government intends to complete the reform process initiated in 2011, and to focus on strengthening good governance and transparency in public finance management and the public sector.

- **With regard to the coffee-cocoa sector, the government will continue to implement the reform and will keep the minimum guaranteed producer price at not less than 60 percent of the CIF reference price**. The evaluation of cooperatives, aimed at strengthening the capacity of professional agricultural organizations, will be completed by end-2013. For this purpose, the terms of reference for hiring a research firm were prepared and the recruitment procedure has been launched. Moreover, studies are in process that should make it possible to assess the need for additional financing of the reserve fund.

- **A new mining code will be adopted by the Council of Ministers by end-September 2013 at the latest**.

- **In the area of public finance, before the end of 2013, the government intends to transpose the WAEMU directives and in particular to adopt a draft organic law on the transparency code and on the budget law**. Furthermore, the sectoral MTEFs will be extended to five new ministries, which will bring the total number of ministries under MTEFs to sixteen. An overall MTEF will be drawn up and used to prepare the 2014 budget. Likewise, documents pertaining to the overall and sectoral MTEFs will be annexed to the proposed budget law. In addition, in light of the surge in investment spending in 2013, to improve the administrative absorptive capacity specific provisions to support and monitor budget execution will also be pursued. These will involve strengthening project management and measures to assist and monitor the line ministries' administrative and finance directorates (DAAF). A consolidated commitment plan and contracting and procurement plan are under preparation and will be completed in 2014, to ensure fluid budget execution and cash management.

- **For the electricity sector, the government is committed to promoting its development and achieving financial equilibrium**. To this end, social-tariff customers who consume over 200 kWh every two months have been reclassified at the general tariff since January 2013 for bills issued as of March 2013. Likewise, the utility company's remuneration was revised downward by CFAF 8.5 billion a year over the next three years (2013-2015). The government has reduced the selling price of its gas share from the CI-26 field (CNR), with effect as of January 2013. The utility company will focus on improving bill collection rates in the former CNO zone, which should increase from 40 percent in 2012 to at least 60 percent in 2013. In addition, it will continue its efforts to fight fraud and reduce technical losses throughout the country. Moreover, the sector's production capacity will increase when a 100 MW thermal power plant begins operating in April 2013. The new electricity code will be adopted in the Council of Ministers by end-September 2013 at the latest. The fourth review of the ECF-supported program will review the implementation of all of the recovery and financial equilibrium measures for the sector in 2013 and 2014. The possible need to increase low-voltage electricity rates to supplement the restructuring measures in the event the sector does not attain equilibrium will be examined.

- **For the hydrocarbon sector,** the government took steps in January 2013 to control the deficit linked to the butane subsidy. In November 2012, it also adopted an oil product price structure that will serve as a basis for implementing the automatic petroleum pump-price setting mechanism as of April 1, 2013. It will complete procedures for dealing with the SIR claims on the government before the end of June 2013.

- **As regards the strategy for developing the financial sector,** a proposal will be prepared in cooperation with the World Bank; it will subsequently be presented to members of CODESFI for approval. Once the government has approved it, a financing roundtable will be organized to implement it. CODESFI will be responsible for implementing the strategy.

- **A strategy for keeping the wage bill under control over the medium term will be finalized and adopted by the government at end-October 2013, with the technical assistance of the IMF**. Its objective will be to comply over time with the WAEMU regional convergence criterion of a wage bill equivalent to 35 percent of tax revenue. To this end, measures to control the size and salaries of the civil service will be pursued. In addition, the government intends to capitalize on the impact of the civil service census and the effective implementation of SIGFAE (Côte d'Ivoire Civil Service Management System).

- **For the business climate, the significant progress made in 2012 will be consolidated**. For this purpose, the government has put in place an action plan that will *inter alia* create a one-stop shop for foreign trade, reduce the cost of moving goods at the autonomous port of Abidjan, lower the costs of the property transfer procedure, and reduce the cost of publishing notices of the establishment of new businesses. Implementation of this plan will also help improve the "Doing Business" indicators. The proposed law on competition was adopted by the government in early May 2013.

- **With regard to the Millennium Challenge Corporation, Côte d'Ivoire is convinced that implementing the 20 eligibility criteria will contribute to the country's economic, political, and social emergence**. To be eligible for this development instrument, aside from the five indicators already being observed, the challenge for Côte d'Ivoire in 2013 will be to satisfy five additional criteria, of which at least one in the "good governance" category. For this purpose, the Prime Minister is chairing bimonthly meetings aimed at reviewing progress made and all the steps required to implement the reforms and measures to improve the level of indicators.

DEBT STRATEGY

28. Côte d'Ivoire intends to improve fiscal sustainability as well as the sustainability of its debt. To meet this challenge, a national debt policy needs to be adopted and monitored to minimize all risks and costs. The objective is to re-profile domestic debt over a medium- and long-term horizon and with respect to external debt to give priority to concessional financing. To this end, the government has requested IMF technical assistance to prepare a draft national debt policy, which should serve as the frame of reference for a debt and public debt management strategy. The government also intends to begin the reorganization of the operational framework of debt management by putting in place a management framework that includes a front office, middle office, and back office covering both domestic and external debt. This reorganization should strengthen debt management, including the Ministry in charge of Economy and Finance's monitoring of and capacity to evaluate future debts and government guarantees. It should also ensure that the debt directorate is involved prior to the extension of guarantees on external debt.

29. The medium-term debt management strategy (MTDS) will be finalized before the end of September 2013. In September 2012 and January 2013, the CNDP organized several workshops to build the capacity of operational staff in the areas of strategies for debt management and debt sustainability analysis, with technical assistance from the IMF and the World Bank. A provisional version of this strategy is available and will be updated prior to the end of September 2013, on the basis of the Debt Sustainability Analysis, which will be based on the final data for end-2012. The MTDS will then be adopted by the Council of Ministers and annexed to the 2014 budget law. It should take into account the use of Public-Private Partnerships (PPPs), with a view to minimizing the costs and risks linked to this type of financing.

30. The government will continue to give priority to concessional financing sources, but a non-concessional funding envelope will be needed. However, the government intends to ensure that all public borrowing, including non-concessional loans, will be contracted under a debt policy aimed at maintaining the sustainability of public debt. An important Chinese Exim-Bank loan to finance the Soubré dam hydroelectric power project was signed by the government in early 2013. This loan, which is not effective, was negotiated on terms that were concessional but, in the event, was not able to respect the performance criteria on new non-concessional debt because of a change in the discount rate at the time of signature. The loan will follow normal standard disbursement procedures. This loan is highly important to support economic growth and control the electricity sector deficit. Feasibility studies have shown that the Soubré project is profitable. The government intends to request IMF approval to expand the cumulative nonconcessional loan window from

USD 100 million to USD 800 million at end-2013, and from USD 200 million to USD 900 million at end-2014, in order to include this loan as part of the non-concessional window under the ongoing program, as well as to increase the size of the window for other such loans from USD100 million to USD 300 million in 2013. In addition, the government intends to request that the use of non-concessional borrowing under this window be expanded to include the transport sector (in addition to the existing sectors for energy and infrastructure) because experience to date had shown that difficulties in finding adequate financing on concessional terms for priority projects had been encountered in this sector; these projects would have a high economic rate of return and by helping to alleviate structural supply bottlenecks would be integral to our growth strategy. The government emphasizes its intention to negotiate concessional terms for two other large Chinese Exim-Bank loans for two major priority projects (extension of the Autonomous Port of Abidjan and rehabilitation of the electricity network), scheduled to begin in 2013.

31. **The government is requesting the IMF to amend the criterion for defining the external debt for program monitoring the program under the Extended Credit Facility**. Under the new definition, a debt denominated, or reimbursed, in a currency other than the CFAF would be considered as constituting foreign debt.

FINANCING AND MONITORING THE PROGRAM

32. **The government estimates that the financing requirement for the 2013 program will be met**. It is CFAF 453.4 billion or 3.2 percent of GDP, and will be financed primarily by the net mobilization of external resources. The external financing for 2013 has mostly been acquired, following the successful meeting of the Consultative Group and the signing of the C2D with the French Development Agency. In fact, the meeting of the Consultative Group in Paris on December 4–5, 2012 showed that financing needs should be fully covered in the medium term.

33. **The government intends to revitalize the recourse to financing from the WAEMU market**. To this end, it is planning to (i) increase the share of insurers in the financing of the domestic market, (ii) attract investors from the CEMAC zone as well as other investors, and (iii) develop regional cooperation with a view to increasing the liquidity on the WAEMU money and financial market. With regard to the bond maturities for December 2013, a settlement program will be developed on the basis of cash payments and security swaps. Discussions with creditors will be held for this purpose, to make the security swaps attractive.

34. **The program will continue to be monitored on a half-yearly basis by the IMF Executive Board based on quantitative performance criteria and indicative targets, and structural**

benchmarks (Table 3). Once the third review is concluded, the basic primary balance will become the performance criterion used for monitoring public finance, in lieu of the overall budget balance, which will become an indicative target. The performance criterion for the basic primary balance and the indicative target for the overall budget balance as well as pro-poor expenditures were defined on the basis of an average rate of execution of 95 percent of investment expenditures included in the 2013 supplementary budget law. These indicators are defined in the attached Technical Memorandum of Understanding (TMU). Semi-annual reviews will be based on data at end-June and end-December. The fourth (fifth) program review will be based on performance criteria at end June 2013 (end-December 2013) and should be completed by October/November 2013 (April/May 2014) at the latest. For this purpose, the government undertakes:

- to refrain from accumulating new domestic arrears and any kind of advance against revenues and from obtaining nonconcessional external loans other than those specified in the TMU:
- to issue government securities only by means of an auction through the BCEAO or any other form of competitive bidding in the local financial market and the WAEMU and to consult with Fund staff regarding any new domestic financing;
- not to introduce or tighten restrictions on payments and transfers pertaining to current international transactions, not to introduce multiple exchange rate practices, not to conclude any bilateral payment agreements that are not in compliance with Article VIII of the IMF Articles of Agreement, and not to impose or tighten any restrictions on imports for the purpose of balancing the balance of payments;
- to adopt all new financial or structural measures as needed to ensure the successful implementation of its policies in consultation with the IMF.

STATISTICS AND CAPACITY BUILDING

35. The government is committed to pursuing efforts to improve the statistical system in order to produce quality economic and financial data on a regular basis.

36. Economic statistics are a pillar of the government's efforts to become an emerging country; accordingly, the government attaches priority to improving its statistical tools. With a view to boosting its access to international capital markets, Côte d'Ivoire plans to move closer to the special data dissemination standard. Thus, a proposed law on the organization, regulation, and coordination of the national statistics system was adopted by the Council of Ministers in December 2012. This bill is expected to be taken up by the National Assembly before July 2013. The government will ensure that it is implemented before the end of 2013. Moreover, the statistics master plan for 2012–15, consistent with the National Development Plan (PND), has been approved by means of the adoption of the 2012-2015 PND on March 28, 2012. It provides for the following:

i. Support for conducting national and sectoral surveys;
ii. Improving the range and monitoring of economic outlook indicators;
iii. Holding workshops on setting up the data base for the Integrated Information Management System;
iv. The preparation of quarterly national accounts;
v. Changing the base year of the national accounts;
vi. Updating the Harmonized Consumer Price Index (HCPI); and
vii. Preparing a directory of ministerial statistical services.

37. The government will support capacity building. The inauguration of the AFRITAC West technical assistance center in Abidjan by the Managing Director of the International Monetary Fund, after a decade of relocation, is proof of the determination of the Ivoirien authorities to give priority to national capacity-building. Technical assistance needs in the coming 12 months focus on: (i) preparing the national debt policy document; (ii) preparing the government wage bill strategy; (iii) designing the tax policy strategy; (iv)assessing the budget risks of PPP projects; and (v) preparing balance of payment forecasts.

Table 1. Côte d'Ivoire: Performance Criteria and Indicative Targets, ECF 2012–13 [1/]

(Billions of CFA francs) [2/]

	2012							2013						
	Sept.			Dec.				March	June		Sept.		Dec	
	IT	Actual	Status	PC	Adjusted PC	Actual	Status	IT	Original PC	New PC	Original IT	New IT	Original IT	New PC
A. Performance criteria														
Floor on primary basic balance 3/									29.6	-55.5	42.1	-112.1	23.3	-44.0
Floor on the overall fiscal balance (including grants)4/	-395.5	-197.7	Met	-536.4	-520.0	-432.7	Met	-24.5	...	... ...	...	... ...	...	...
Ceiling on net domestic financing (incl. WAEMU paper)	378.8	133.3	Met	443.7		218.6	Met	22.0	118.7	210.1	186.7	346.9	243.6	300.6
Ceiling on new nonconcessional external debt (in $ million) 5/ 6/	0.0	0.0	Met	0.0		9.9	Not met	100.0	100.0	800.0	100.0	800.0	100.0	800.0
Ceiling on accumulation of new external arrears 5/	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on accumulation of new domestic arrears 5/	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Indicative targets														
Floor on the overall fiscal balance (including grants)4/									-131.7	-183.5	-240.5	-391.3	-398.7	-453.4
Floor on primary basic balance 3/	-192.8	-7.8	Met	-235.9		-170.4	Met	24.2	...	... ...	...	... ...	...	...
Ceiling on expenditures by treasury advance	75.8	67.7	Met	113.5		100.7	Met	20.0	46.1	59.0	72.1	93.7	102.1	114.3
Floor on pro-poor expenditure	676.9	775.6	Met	980.0		1080.3	Met	248.2	533.0	588.8	832.5	916.0	1152.8	1309.1
Floor on net reduction of government amounts payable (- = reduction)	15.0	15.5	Met	-25.0		95.4	Not met	-5.0	-7.5	-10.0	-15.0	-25.0	-25.0	-50.0
Floor on government revenue	1,697.3	1,901.3	Met	2,492.2		2,540.2	Met	615.6	1,339.3	1,338.7	2,027.5	2,031.9	2,742.4	2,764.5
Memorandum items:														
Net banking sector claims on government	151.9	90.5		228.9		192.0		-17.4	25.0	83.6	28.1	123.4	75.7	108.8
Program grants	10.0	10.0		10.0		29.7		0.0	49.2	49.2	49.2	49.2	98.4	105.2
Program loans	0.0	0.0		0.0		0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	30.0	51.5		51.7		51.5		25.0	50.0	51.5	70.0	77.2	147.7	122.3
Project loans	47.2	35.3		70.4		54.0		30.3	121.1	82.5	196.8	197.9	302.7	313.4

Sources: Ivoirien authorities and IMF staff.
Note : The terms in this table are defined in the TMU.
1/ Cumulative change from December 31, 2011 for 2012 targets, and from December 31, 2012 for 2013 targets.
2/ Except for the ceiling on new nonconcessional external debt
3/ The primary basic balance becomes a PC starting with the June 2013 test date.
4/ The overall fiscal balance becomes an indicative target starting with the June 2013 test date.
5/ Continuous performance criteria.
6/ The new window in 2013 will be used for infrastructure, energy, and transport projects.

Table 2. Côte d'Ivoire: Structural Benchmarks, 2012–13 ECF

Third Program Review			
Measures	**Macroeconomic rationale**	**Timeframe**	**Status**
Tax policy/Tax administration			
• Produce a quarterly report on the implementation of the Directorate General of Taxes action plan on VAT optimization no later than 45 days after the quarter ends.	Increase revenue from the VAT	**SB** continuous	**Met**
• Review the taxes levied on petroleum products and prepare a gradual adjustment strategy with a price-smoothing mechanism to transition to a system that will automatically set retail prices based on international price developments. • Implement the gradual adjustment strategy including a price-smoothing mechanism to transition to a system that will automatically set retail prices based on international price developments.	Rationalize tax expenditures and promote more efficient use of petroleum products	**Prior Action**- Before November 15, 2012 **SB** end-March 2013	**Met** **Met**
• Increase the prices of liquid petroleum products by a maximum of CFAF 15 per liter to contribute to financing the butane stabilizer.	Finance the subsidy for the price of butane gas.	**SB** end-November 2012	**Met**
• Undertake a stocktaking of VAT exemptions, including identifying those inconsistent with the WAEMU VAT directive.	Streamline tax expenditures/mobilize revenue	**SB** end-February 2013	**Not met**
Public expenditure management			
• Update and implement a medium-term strategy for controlling the wage bill.	Contain the size of the civil service and the wage bill	**SB** end-February 2012	**Not met**
• No new injection of public funds in the five public banks in difficulty outside a restructuring plan discussed with the IMF and the World Bank.	Improve financial sector governance and management	**SB** continuous	**Met**

Table 2. Côte d'Ivoire: Structural Benchmarks, 2012–13 ECF (concluded)

Third Program Review			
Measures	**Macroeconomic rationale**	**Timeframe**	**Status**
Energy sector reform			
• Adopt a comprehensive strategy to bring the electricity sector back to financial equilibrium over the next three years. • Implement the social tariffs rationalization program, including progress reports at end-September 2012 and end-January 2013, in line with the end-March 2012 letter of instruction (dated March 28, 2012) from the Minister of Mines, Petroleum, and Energy.	Reduce government subsidies and enable investments to boost production capacity	**PA**- November 15, 2012 **SB** end-March 2013	**Met** **Met**
• Adopt the electricity code in the Council of Ministers and submit it to Parliament	Improve governance of the electricity sector	**SB** end-December 2012	**Not met**
Financial sector reform			
• Prepare a financial sector reform and development strategy.	Improve governance and intermediation in the financial sector	**SB** end-February 2013	**Not met**
• Adopt an action plan including a timeline for restructuring the public banks based on the recommendations of the audits.	Improve governance and intermediation in the financial sector	**SB** end-February 2013	**Not met**
Improving the business environment			
• Limit the current fiscal year's VAT arrears pending refund to under CFAF 10 billion.	Improve the business climate and the confidence of enterprises	**SB** continuous	**Met**
• Adopt the law on competition in the Council of Ministers.	Combat noncompetitive practices	**SB** end-March 2013	**Not met**
• Adopt a plan to pay the arrears vis-à-vis banks, insurance companies and financial institutions, with priority given to market financial instruments.	Improve the business climate and the confidence of the financial sector	**SB** end-March 2013	**Not met**
• Prepare a plan to pay arrears based on the results of the audits in progress.	Improve the business climate	**SB** end-March 2013	**Not met**

Table 3. Côte d'Ivoire: Structural Benchmarks, 2013 ECF

Fourth Program Review		
Measures	**Macroeconomic rationale**	**Timeframe**
Tax policy/Tax administration		
• Present a VAT reform strategy attached to the 2014 draft budget law and include measures rationalizing VAT exemptions in its tax annexes. This reform strategy will include a stock-taking of VAT exemptions, including those inconsistent with the WAEMU VAT directive (delayed February 2013 benchmark)	Rationalize tax expenditures	**SB** End-September 2013 *(new)*
• Strengthen the large taxpayer office by broadening its scope to cover the whole country and by focusing its activity on the largest corporations, and implement a medium-sized taxpayer office	Mobilize revenue	**SB** End-December 2013 *(new)*
• Adopt a decree pertaining to Customs' controls and audits methodology, to allow for post-clearance audits	Enhance transparency and counter fraud	**SB** End-December 2013 *(new)*
Public expenditure management		
• Adopt by the Council of Ministers a medium-term strategy for controlling the wage bill.	Contain the size of the civil service and the wage bill	**SB end-**October 2013 *(rescheduled from end-February)*
• No new injection of public funds in the five public banks in difficulty outside a restructuring plan discussed with the IMF and the World Bank.	Improve financial sector governance and management	**SB** continuous
• Prepare the global MTEF for application to the 2014 budget	Improve strategic budget planning	**SB** End-September 2013
• Finalize and adopt by the Council of Ministers draft texts transposing two WAEMU directives (finance laws and transparency code) on public finance.	Improve fiscal management	**SB** end-July 2013 *(rescheduled from end-June 2013)*
• Finalize and adopt by the Council of Ministers of draft texts transposing the remaining four WAEMU directives on public finance.	Improve fiscal management	**SB** end-December 2013 *(rescheduled from end-June 2013)*

Table 3. Côte d'Ivoire: Structural Benchmarks, 2013 ECF (concluded)

• Prepare and adopt by the Council of Ministers the medium-term debt management strategy.	Improve debt management	**SB** end-September 2013 (rescheduled from end-June 2013)
• Reorganize debt management unit in the Directorate General of the Treasury and adopt a functional structure (front-, middle-, and back-office).	Improve public debt management.	**SB** end-December 2013 (rescheduled from end-June 2013)
• Adopt by the Council of Ministers a PPP framework.	Strengthen capacity to manage PPP projects and mitigate associated risks	**SB** end-June 2013
• Prepare a consolidated commitment and procurement plan for 2014	Smooth budget execution and facilitate cash management	**SB** end-January 2014 (new)
Energy sector reform		
• Adopt the electricity code in the Council of Ministers	Improve governance of the electricity sector	**SB** end-September (rescheduled from end-December 2012)
• Finalize arrears settlement plan vis-à-vis the SIR	Improve governance of the electricity sector	SB end-June 2013 (new)
Financial sector reform		
• Adopt in the Council of Ministers a time-bound action plan for restructuring the public banks based on the recommendations of the audits	Improve governance and intermediation in the financial sector	**SB** end-October 2013 (rescheduled from end-February 2013)
• Prepare a financial sector reform and development strategy.	Improve governance and intermediation in the financial sector	**SB** end-December 2013 (rescheduled from end-February 2013)
Improving the business environment		
• Limit the current fiscal year's VAT arrears pending refund to under CFAF 10 billion.	Improve the business climate and the confidence of enterprises	**SB** continuous
• Adopt the law on competition in the Council of Ministers.	Combat noncompetitive practices	**SB** end-May 2013 (rescheduled from end-March 2013)
• Outline the main principles of arrears clearance strategy	Improve the business climate and the confidence of enterprises	**Prior Action**-Before May 15, 2013
• Adopt in the Council of Ministers a plan to pay arrears based on the results of the audits in progress	Improve the business climate and the confidence of enterprises	**SB** –end-September 2013 *(consolidation of the two previous SBs on domestic arrears*

Attachment II. Technical Memorandum of Understanding

May 21, 2013

1. This Technical Memorandum of Understanding (TMU) describes the quantitative and structural assessment criteria established by the Ivoirian authorities and the staff of the International Monetary Fund (IMF) to monitor the program supported by the Fund's Extended Credit Facility (ECF). It also specifies the periodicity and the deadlines for the transmission of data to Fund staff for program monitoring purposes. Unless otherwise specified, 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; it does not include any local government authorities, the Central Bank of West African States (BCEAO), or any other government-owned entity with separate legal status.

QUANTITATIVE INDICATORS

2. For program monitoring purposes, the performance criteria (PC) and indicative targets (IT) are set for June 30, 2013, and December 31, 2013; there are indicative targets for these variables for March 31, 2013, and September 30, 2013.

The performance criteria include:

(a) a floor on the primary basic fiscal balance;

(b) a ceiling for net domestic financing (including the issuance of securities in the West African Economic and Monetary Union (WAEMU) financial market);

(c) a ceiling on new nonconcessional external debt;

(d) a zero ceiling for the accumulation of new external arrears; and

(e) a zero ceiling for the accumulation of new domestic arrears.

The indicative targets are:

a) a floor on the overall fiscal balance (including grants);

b) a ceiling on expenditures by treasury advance;

c) a floor on "pro-poor" expenditures;

d) a floor on the net reduction of the government amounts payables;

e) a floor on total government revenue.

3. The PCs, the ITs, and the adjustors are calculated as the cumulative change from December 31, 2012, for the 2013 targets (Table 2 of the Memorandum of Economic and Financial Policies, or the MEFP).

A. Government Revenue (IT)

4. Total government revenue is defined as all revenue collected by the Tax Administration (DGI), the Directorate-General of the Treasury and Public Accounting Administration (DGTCP), the Customs Administration (DGD), the CNPS, and the CGRAE, and other nontax revenue as defined in the fiscal reporting table (TOFE).

B. Pro-poor expenditures (IT)

5. Pro-poor expenditures are derived from the detailed list of "pro-poor expenditures" in SIFBUD/SIGFIP system (see Table 1).

C. Treasury Advances (IT)

6. Within the framework of the program, Treasury advances are defined as spending paid for by the Treasury outside normal and simplified execution and control procedures, and which have not been subject to prior commitment and authorization. They exclude the "régies d'avances", externally-financed expenditures, wages, subsidies and transfers, and debt service as set out through ministerial decrees n° 2002-345 and n° 1998-716. The cumulative amount of expenditures by treasury advance as defined by the program will not exceed the cumulative quarterly ceilings representing 10 percent of quarterly budget allocations (excluding externally financed expenditures, wages, subsidies and transfers, and debt service). The nominative and restrictive list of expenditures eligible as treasury advances is as defined by ministerial Decree No. 178/MEF/CAB-01/26 of March 13, 2009.

D. Primary Basic Fiscal Balance (PC)

7. The primary basic fiscal balance is the difference between the government's total revenue (excluding grants) and total expenditure plus net lending, excluding interest payments and externally-financed capital expenditure (on a payment order basis for all expenditure items):

Tax and nontax revenue (excluding grants) – {Expenditure + Net lending – Interest payments – Externally-financed capital expenditure (on a payment order basis for all expenditure items)}

8. The floor on the primary basic fiscal balance will be adjusted downward (upward) for an excess (shortfall) of external budget support (program grants/loans) relative to the programmed amount.

E. Overall Fiscal Balance (Including Grants) (IT)

9. The overall fiscal balance is the difference between the government's total revenue (including grants except World Bank budget support grants- AfDB budget support grants) and total expenditure plus net lending (on a payment order basis):

Tax and nontax revenue + (Grants – World Bank budget support grants – AfDB budget support grants) – {Expenditure + Net lending (on a payment order basis for all expenditure items)}

10. The floor on the overall fiscal balance will be adjusted downward (upward) for an excess (shortfall) of project loans relative to the programmed amount.

F. Net Domestic Financing (PC)

11. Domestic financing by the central government is defined as the issuance of all debt instruments in CFAF to domestic creditors and in the WAEMU financial market, borrowing from the BCEAO (including drawings from the IMF), and any other kind of other liability in CFAF toward these creditors. The program ceiling on net domestic financing applies to net amounts of domestic/WAEMU borrowing defined as the gross amount of domestic/WAEMU borrowing less amortization during the period under consideration. This ceiling includes a margin of CFAF 10 billion above the net cumulative flow projected for each quarter.

Net domestic financing = Domestic financing (TOFE) – Net change in amounts payable + Treasury bonds from abroad (WAEMU) + Treasury bills placed abroad (WAEMU) + Treasury bonds placed abroad (WAEMU) + IMF drawings + Financing gap

12. This ceiling does not apply to either new agreements on restructuring domestic debt and securitization of domestic arrears or to new project loans from the Bank for Investment and Development (BIDC) of the Economic Community of West African States (ECOWAS). For any new borrowing over and above a cumulative amount of CFAF 35 billion over 2013, the government undertakes not to issue government securities except by auction through the BCEAO or through public auction (appel d'offres competitif) on the domestic or WAEMU financial markets registered with the Regional Council for Public Savings and Financial Markets (CREPMF), in consultation with Fund staff.

G. New Nonconcessional External Debt (PC)

13. The definition of debt is set out in Executive Board Decision No.6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)): Debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, according to a specific schedule; these payments will discharge the obligor of the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments necessary for the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

14. External debt is defined as debt borrowed or serviced in a currency other than the CFA franc. This definition also applies to debt among WAEMU countries.

15. The quantitative performance criterion concerning external debt applies to all nonconcessional external debt, irrespective of maturity, and whether it has been contracted or guaranteed by the government. It applies not only to the debt as defined above, but also to commitments contracted or guaranteed for which no value has been received. This performance criterion does not apply to:

- normal import-related commercial debts having a maturity of less than one year;
- rescheduling agreements;
- debts to the BIDC, up to the equivalent of CFAF 20 billion, for the period from January 1 to December 31, 2013; and
- drawings on the IMF.

16. A debt is considered concessional if its grant element is at least 35 percent, the net present value (NPV) of the debt being calculated using a discount rate based on the average of the OECD Commercial Interest Reference Rates (CIRRs) over the last 10 years for debt with a maturity of at least 15 years. For debt 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). The same margins for differing repayment periods are added to both the 10-year and 6-month averages (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).

17. The government undertakes not to contract or guarantee nonconcessional external debt under the conditions defined in paragraphs 13–15, with the exception of debt constituting rescheduling of maturities and new debt contracted or guaranteed by the government as specified in paragraph 15 and 18. To this end, the government undertakes to consult with IMF staff on the terms and concessionality of any proposed new debt in advance of contracting such external debt.

18. A cumulative ceiling beginning January 1, 2013 of up $ 800 million to December 31, 2013, and $900 million to December 31, 2014, applies to new nonconcessional external debt other than specified in paragraph 15 (performance criteria.). This ceiling would be applicable to debt-financing of priority projects in the energy, infrastructure and transport sectors. The government will inform staff in a timely manner before contracting any debt of this type and provide information on the terms of the new debt as well as a brief summary of the projects to be financed and their profitability, including an independent evaluation. The government will report the use of funds and project implementation in subsequent MEFPs or to staff.

H. External Payment Arrears (PC)

19. External arrears are considered to be the nonpayment of any interest or principal amounts on their due dates (taking into account relevant contractual grace periods, if any). This performance criterion applies to arrears accumulated under external debt of the government and external debt guaranteed by the government for which the guarantee has been called by creditors, consistent with the definitions given under the external debt criterion (paragraph 15). This performance criterion is monitored on a continuous basis.

I. Amounts Payable, Including Domestic Payment Arrears (IT and PC)

20. The "amounts payable" (or "balances outstanding") include domestic arrears and floating debt and represent the government's overdue obligations. They are defined as expenditures assumed (prise en charge) by the public accountant, but yet to be paid. For the program definition, these obligations represent (i) bills due and not paid to non financial public and private companies, and (ii) the domestic debt service (excluding the BCEAO).

21. For program purposes, domestic payment arrears are those balances outstanding to nonfinancial public and private companies and the domestic debt service (excluding the BCEAO). Arrears to non financial and private companies are defined as overdue obligations to non financial and private companies for which the payment date exceeds the deadline for payment stipulated by the administrative regulations of 90 days; arrears on the domestic debt service refer to debt service obligations for which the payment date exceeds 30 days.

22. Floating debt refers to those balances outstanding for which the payment date does not exceed the deadline for payment stipulated by the administrative regulations (90 days for debt to nonfinancial public and private companies and 30 days for debt service to commercial banks, insurance companies, and other financial institutions). The balances outstanding are broken down by payer and type, as well as by maturity and length of overdue period (< 90 days, 90–365 days, > 1 year for nonfinancial companies, and <30 days, 30-365 days, > 1 year for financial companies).

23. For program purposes, the government undertakes: (i) to reduce the stock of amounts payable by CFAF 50 billion in 2013 (of which CFAF 10 billion of arrears payment in cash); and (ii) not to accumulate new domestic payment arrears in the current fiscal year starting on January 1, 2013.

MEMORANDUM ITEMS

A. Net Bank Claims on the Government

24. Net bank claims on the government are defined as the difference between government debts and government claims with the central bank and commercial banks. The coverage of net bank claims on the government is that used by the BCEAO, and is the same as that shown in the net government position (NGP).

B. External Financing (Definitions)

25. Within the framework of the program, the following definitions apply: (i) project grants refer to non-repayable money or goods intended for the financing of a certain project; (ii) program grants refer to non-repayable money or goods not intended for the financing of a specific project; (iii) project loans refer to repayable money or goods received from a donor to finance a specific project, on which interest is charged; and (iv) program loans are repayable money or goods received from a donor and not intended for the financing a specific project, on which interest is charged.

PROGRAM MONITORING AND DATA REPORTING

26. A quarterly assessment report on the monitoring of the quantitative performance criteria, indicative targets, and structural benchmarks will be produced by the authorities within 45 days of the end of each quarter.

27. The government will report the information specified in Table 2 on a monthly basis, within 45 days of month-end or quarter-end, unless otherwise indicated. Tables F.3.1, F.3.2, and F.3.3 are updated to take into account the expanded coverage of arrears.

28. The government will report final data provided by the BCEAO within 45 days of the end of the period in question. The information provided will include a complete, itemized listing of public sector liabilities and assets with: (i) the BCEAO; (ii) the National Investment Bank (Banque Nationale d'Investissement, or BNI); and (iii) the banking sector (including the BNI).

29. The authorities will consult with the Fund staff on any proposed new external debt contracts or government guarantees on new external debt, including leases. The authorities will inform the Fund staff, following signature, of any new external debt contracted or guaranteed by the government, including the terms of these contracts or guarantees. Data on new external debt, the amount outstanding, and the accumulation and repayment of external payment arrears will be reported monthly within six weeks of the end of each month.

30. More generally, the authorities will report to the IMF staff any information needed for effective monitoring of the implementation of economic policies.

Table 1. Côte d'ivoire: Pro-Poor Spending (incl. Social Spending), 2009–13

(Billion CFA Francs)

	2009 Actual	2010 Actual	2011 Actual	2012 Budgeted	2013 Budgeted
Agriculture and rural development	49.2	39.1	35.2	41.4	72.1
General administration	8.5	9.2	7.0	7.7	16.3
Agriculture promotion and development program	10.6	10.8	10.8	12.0	15.0
Training of supervisory staff	8.4	8.3	10.3	8.4	15.7
Water system works	1.5	4.0	3.0	3.4	16.6
Other	20.2	6.8	4.1	10.0	8.4
Fishing and animal husbandry	6.7	5.9	4.0	4.7	5.9
General administration	3.5	3.9	2.6	2.7	3.8
Milk production and livestock farming	2.3	1.8	1.2	1.5	0.9
Fishing and aquaculture	1.0	0.2	0.1	0.5	1.2
Education	533.1	590.1	529.2	628.6	754.6
General administration	19.5	24.9	24.7	23.6	19.5
Pre-schooling and primary education	336.7	366.7	301.1	398.2	454.4
Literacy	0.2	0.2	0.5	0.6	0.5
Secondary education and vocational training	83.0	83.8	74.2	80.3	83.7
University and research	93.7	114.5	117.0	113.0	153.0
Emergency Presidential Program			11.7	12.8	43.5
Health	118.4	113.6	120.2	138.0	205.1
General administration	45.8	47.7	49.2	55.4	89.5
Primary health system	30.7	30.0	25.2	34.8	53.9
Preventive healthcare (enlarged vaccination program)	1.9	1.4	0.4	0.8	2.6
Disease-fighting programs	1.7	1.5	1.1	1.4	1.2
Infant health and nutrition	0.8	0.4	0.4	0.6	0.6
HIV/Aids	10.8	5.9	6.9	8.0	5.3
Health centers and specialized programs	26.6	26.6	25.7	25.1	33.9
Emergency Presidential Program			11.3	12.0	18.0
Water	20.4	19.8	36.3	39.9	73.5
Access to drinking water and de-contamination	4.9	6.0	10.2	10.7	25.3
Environmental protection spending	15.5	13.8	13.1	13.0	23.6
Emergency Presidential Program			13.0	16.2	24.5
Energy	16.5	9.7	8.8	17.0	26.7
Roads	39.1	45.4	33.4	47.1	101.7
Social spending	13.6	15.0	24.7	14.1	18.1
General administration	8.6	9.8	8.9	9.0	13.4
Training for women	0.6	0.7	0.5	0.7	0.5
Orphanages, day nurseries, and social centers	1.5	2.0	1.9	2.5	2.1
Training for support personnel	1.7	1.9	1.6	1.3	1.8
Indigents and victims of war or disaster	1.2	0.5	11.8	0.7	0.4
Decentralization	35.1	32.0	29.0	32.1	31.8
Reconstruction	1.4	2.6	5.6	1.2	13.0
Other poverty-fighting spending	9.6	11.9	16.8	15.9	6.7
TOTAL	843.0	885.2	843.4	980.0	1,309.1

Source: Ivorien authorities.

Table 2. Côte d'Ivoire: Document Transmittals

Detailed tables to be transmitted monthly, quarterly, or annually to the IMF staff. Examples of each of these tables have been provided for illustration. The documents expected monthly are indicated by "M," those expected quarterly by "Q," and those expected annually by "AN." This list is not necessarily exhaustive.

Real sector (R)

General:

Table R.1: Cyclical Indicators *(M)*
Table R.2.1: Macroeconomic Framework *(AN)*
Table R.2.2: Supply-use accounts, current francs *(AN)*
Table R.2.3: GDP in francs (n-1): annual variation in volume *(AN)*
Table R.2.4: GDP deflators year (n-1) *(AN)*
Table R.2.5: Macroeconomic framework, underlying assumptions *(AN)*
Table R3: Price index *(M)*

Energy:

Table R.4.1: Summary crude oil and gas production *(M)*
Table R.4.2: Crude oil and gas production – CI11 *(M)*
Table R.4.3: Crude oil and gas production – CI26 *(M)*
Table R.4.4: Crude oil and gas production – CI27 *(M)*
Table R.4.5: Crude oil and gas production – CI40 *(M)*
Table R.4.6: Crude oil and gas – volume, price, and financial flows *(M)*
Table R.4.7: Ivorian Refinery (SIR) activities *(M)*
Table R.4.8: SIR: transfers to warehouses and exports *(M)*
Table R.4.9: Activities of marketers *(M)*
Table R.4.10: Goods released to market by type of tax *(M)*
Table R.4.11: Financial flows in cash, Electricity Sector Asset Management Company (*Société de Gestion du Patrimoine du Secteur Electricité*, SOGEPE) *(M)*
Table R.4.12: Operating financial flows, SOGEPE *(Q)*
Table R.4.13: Crude oil: Shipment report (Q)
Table R.4.14: Petroleum revenue: Structure of maximum sales prices (M).

Coffee/cocoa:

Table R.5.1: Quasi-fiscal levies and fees, and utilization – operations *(Q)*
Table R.5.2: Quasi-fiscal levies and fees, and utilization – investment *(Q)*
Table R.5.3: Investments in funds managed by the Coffee/Cocoa Committee *(Q)*
Table R.5.4: Bank accounts *(Q)*

Balance of Payments sector (B)

Table B.1.1: Summary table of foreign trade *(AN)*
Table B.1.2: Imports (source DGD - monthly) *(M)*
Table B.1.3: Exports (source DGD - monthly) *(M)*
Table B2.1: Detailed balance of payments (including capital account) CFA francs *(AN)*
Table B.2.1.a: Exports – quantities *(Q)*
Table B.2.1.b: Exports – unit prices *(Q)*
Table B.2.2.a: Imports – quantities *(Q)*
Table B.2.2.b: Imports – unit prices *(Q)*
Table B.3: Balance of Payments: Summary presentation *(AN)*

Monetary sector (M)

Table M.1: Banks *(M)*
Table M.2: Summary BCEAO position *(M)*
Table M.3: Net government position *(M)*
Table M.4: Changes in net foreign assets (NFA) *(M)*
Table M.5: Integrated Monetary Survey *(M)*
Table M.6: Government liabilities to banks *(M)*

Fiscal sector (F)

Table F.1: Table of government financial operations (TOFE) *(M)*
Table F.2: Estimated government tax revenue *(M)*

Domestic arrears:

Table F.3.1: Domestic arrears *(M)*
Table F.3.2: Consolidated Treasury balances outstanding *(M)*
Table F.3.3: Treasury balances outstanding - targets/execution *(M)*
Table F.3.4: Clearings and securitizations *(M)*

Domestic and foreign debt:

Table F.4.1: Domestic debt *(M)*
Table F.4.2: Total domestic debt *(M)*
Table F.4.3: Negotiable instruments *(M)*
Table F.4.4: Explanation of variances in domestic debt service *(M)*
Table F.5.1: Foreign debt *(M)*
Table F.5.2: Details of foreign debt *(M)*
Table F.5.3: Analysis of projected foreign debt service variances *(M)*
Table F.5.4: Projected debt service (Q)
Post-crisis:

Table F.6: Crisis- and election-related expenditures *(M)*
Treasury advances:

Table F.7.1: Advances from the Treasury *(M)*
Table F.7.2: Treasury advances reclassified *(M)*

Investment:

Table F.8: Investment expenditures *(M)*

Social/pro-poor expenditures:

Table F.9.1: Education and health expenditures – other *(M)*
Table F.9.2: Education and health expenditures – personnel/operations/transfers/ investments *(M)*
Table F.9.3: Subsidies and transfers: Targeted social expenditures *(M)*
Table F.9.4: Execution of social expenditures *(M)*
Table F.9.5: Execution of pro-poor expenditures *(M)*
Table F.9.6: Budget execution report (SIGFIP) detail/category (Q)

Other revenue and expenditures:

Table F.10: Other operating expenses *(M)*
Table F.11: CNPS and CGRAE social security and civil service pension contributions *(M)* Table F.12: Summary table of expenditures *(M)*
Table F.13: Summary table of nontax revenue and grants *(M)*

VAT credits:

Table F.14.1: Summary statistical statement of VAT credit refunds (monthly) *(M)*

Financing:

Table F.15.1: Issues/redemptions of public debt *(M)*
Table F.15.2: Bridge loans and other Treasury advances *(M)*

Wage bill:

Table F.16.1: Projected wage bill *(Q)*
Table F.16.2: Changes in wage bill *(Q)*
Table F.16.3: Wage bill framing *(AN)*
Table F.16.4: Projected new recruits *(AN)*

Special accounts:

Table F.17.1: ECOWAS levy (PCC) *(AN)*

Table F.17.2: WAEMU levy (PCS) *(AN)*
Table F.18: Proceeds from privatization and sale of assets *(AN)*

Cash flow plan:

Table F.20.1: Annual cash flow, resources/expenditures plan *(AN)*
Table F.20.2*:* Execution of cash flow plan (*M)*
Table F.20.3: Overall balance of Treasury accoun