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TECHNICAL ASSISTANCE REPORT—MODERNIZING THE ANALYSIS, MONITORING, AND DISCLOSURE OF FISCAL RISKS

This Technical Assistance report on Côte d'Ivoire was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in September 2017.

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CÔTE D’IVOIRE

Modernizing the Analysis, Monitoring, and Disclosure of Fiscal Risks

Fabien Gonguet, Thomas Kurkdjian, Clemens Mungenast, and René Tapsoba

Technical Assistance Report

September 2017

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ABBREVIATIONS

AFRITAC	African Regional Technical Assistance Center
BD	Board of Directors
BNI	*Banque Nationale d'Investissement* (National Investment Bank)
CEMAC	Central African Economic and Monetary Community
CFAF	CFA franc (WAEMU)
CNCE	*Caisse Nationale des Caisses d'Epargne* (National Bank of Savings Banks)
CNP-PPP	National Steering Committee for Public Private Partnerships
DDPD	Directorate of Public Debt and Grants
DGBF	Directorate General of the Budget and of Finances
DGD	Directorate General of Customs
DGE	Directorate General of the Economy
DGI	Directorate General of Taxes
DGPE	Directorate General of the Government Portfolio
DGPLP	Directorate General of the Plan and Fight against Poverty
DGTCP	Directorate General of the Treasury and Public Accounting
DPBEP	Multiannual Fiscal and Economic Planning Document
DPPSE	Directorate of Economic Forecasts, Policies and Statistics
DPSB	Directorate of Fiscal Policies and Summaries Direction
DRBMPE	Directorate of Fiscal Reform and Modernization of Public Management
DSA	Debt Sustainability Analysis
FAD	Fiscal Affairs Department of the IMF
FER	Road Maintenance Fund
FRS	Fiscal Risk Statement
GDP	Gross Domestic Product
IMF	International Monetary Fund
LOLF	Organic Law relating to Budget Laws
MADR	Ministry of Agriculture and Rural Development
MBPE	Ministry of the Budget and Government Portfolio
MEF	Ministry of the Economy and Finances
PETROCI	*Société Nationale d'Opérations Pétrolières de Côte d'Ivoire* (National Company for Petroleum Operations in Côte d'Ivoire)
PIMA	Public Investment Management Assessment
PLF	Draft Budget Law
PND	National Development Plan
PPP	Public Private Partnership
SIGEP	Information and Management System for Public Enterprises
SIR	*Société Ivoirienne de Raffinage* (Ivoirian Oil Refining Company)
SOTRA	*Société des Transports Abidjanais* (Abidjan Public Transportation Company)
TA	Technical Assistance
UNACOOPEC	*Union Nationale des Coopératives d'Epargne et de Crédit*) National Union of Savings and Loan Cooperatives)
WAEMU	West African Economic and Monetary Union

PREFACE

Responding to a request by Mr. Adama Koné, Minister of the Economy and Finances and Mr. Abdourahmane Cissé, Minister of the Budget and Government Portfolio, a mission from the Fiscal Affairs Department (FAD) of the IMF visited Abidjan over the period from June 27 to July 10, 2017 in order to support the Ivoirian government in the improvement, identification, analysis, and transparency of fiscal risks. The mission, headed by Mr. Fabien Gonguet (economist, FAD), included Mr. René Tapsoba (economist, FAD), Mr. Thomas Kurkdjian and Mr. Clemens Mungenast (both FAD experts).

On its arrival in Abidjan, the mission was welcomed by the Minister of the Economy and Finances, Mr. Adama Koné, and his chief of staff, Mr. Adama Coulibaly, along with the deputy chief of staff of the MBPE, Mr. Sidy Cissé, and benefitted from their advice and directions. A report-back meeting, chaired by Mr. Cissé, presenting the preliminary conclusions of the mission, was held on Wednesday, July 5. A provisional version of the report was provided to the MEF and MBPE staff at the end of the mission, during a concluding session chaired by Mr. Cissé.

During its time in Abidjan, the mission worked closely with Mr. Hilaire Séa, MBPE technical advisor. Additionally, work sessions were held with:

- At the MBPE: Mr. Bamba Seydou, Director General of the Government Portfolio (DGPE), accompanied by Mr. Thiekoro Doumbia, Director of Strategy, and their staff; Mr. Roger Diaba, Deputy Director General of the Budget and Finances (DGBF), accompanied by Mr. Fiacre Adopo, Director of Fiscal Policies and Summaries (DPSB), Mr. Tiédié Traoré, Director of the National Budget (DBE), Mr. Mamadou Coulibaly, Deputy Director of the Directorate of Fiscal Reform and Modernization of Public Administration (DRBMGP), Mr. Alain-Serge Ehouman, Deputy Director of the Directorate of Wages and Salaries, and their staff;
- At the MEF: Dr Sain Oguié, Director General of the Economy (DGE), accompanied by Mr. Vakaramoko Doumbia, Deputy Director General, M. Hien Sansan, Director of Economic Forecasts, Policies and Statistics (DPPSE) and their staff; Mr. Mamadi Koné and Mr. Marius Kpazara, both Deputy Directors of the Directorate of Public Debt and Grants (DDPD) at the General Directorate of the Treasury and Public Accounting (DGTCP);
- Mr. Moussa Kouyate, Interim Chairman of the National Steering Committee for Public Private Partnerships (CNP-PPP) and his staff;
- Mr. Demba Boundi, technical advisor in the office of the Ministry of Transport;
- Ms. Fatimata Thes, Deputy Chief of Staff at the Ministry of Oil, Energy and Development of Renewable Energies, and her staff;
- Mr. Vehi Touré, General Director of Rural Development and Water Control at the Ministry of Agriculture and Rural Development (MADR), and his staff;
- Mr. Auguste Bédié, expert on the Coffee-Cocoa Advisory Board (CCC);
- Representatives of public companies including the CEO of Air Côte d'Ivoire, General Abdoulaye Coulibaly, and his General Manager, Mr. René Decurey; the technical and financial directors of Côte d'Ivoire – Energies (CI-Energies), Société Nationale d'Opérations Pétrolières de Côte d'Ivoire (PETROCI), Société Ivoirienne de Raffinage (SIR), Société des Transports Abidjanais (SOTRA), and their staff;

- Mr. Klotioloma Silué, Departmental Head at the National Directorate for Côte d'Ivoire at the Central Bank of West African States (BCEAO).

Additionally, the mission organized a half-day seminar on the issue of the identification, analysis and transparency of fiscal risks, which was attended by around forty staff members of many MBPE and MEF structures.

The mission also met with technical and financial partners in Côte d'Ivoire at the start and end of the mission, along with representatives of the European Union, the Japanese International Cooperation Agency (JICA), and the governments of the United Kingdom, Spain, France, Japan and the Netherlands. The mission also held talks with Mr. Bacari Koné and Mr. Severin Kamgna, resident AFRITAC advisors; and with Mr. Jacques Morisset, chief economist and program director for Côte d'Ivoire at the World Bank and Ms. Amina Coulibaly, economist.

The mission would like to thank the Ivoirian authorities for their warm welcome and their availability during this mission. In particular, they would like to thank Mr. Hilaire Séa for his time and much appreciated support in the organization of the mission. The mission would also like to thank Mr. José Gijon, IMF resident representative, Mr. Hermann Yohou, local economist, and Ms. Marguerite Signe, employee, for facilitating its work.

EXECUTIVE SUMMARY

Since 2012, Côte d'Ivoire has succeeded in maintaining a virtuous dynamic of strong economic growth, driven by the revival of infrastructure investment, a sustainable fiscal policy and renewed confidence of international donors, lenders and markets. Côte d'Ivoire intends to sustain this momentum by leveraging its National Development Plan (PND) for the 2016-2020 period, which aims to achieve the economic emergence of the country by 2020, thanks to close to CFAF 30,000 billion in public and private investment (i.e., 140 percent of 2016 GDP). This program is based on an ambitious macro-fiscal framework, both in terms of growth targets and deficit reduction.

Côte d'Ivoire's public finances are being negatively impacted by a large number of fiscal risks. The materialization of these risks could threaten the achievement of macro-fiscal targets and, consequently, the success of the emergence strategy and the confidence of investors and markets. It is thus critical, if the PND is to be successful, for Côte d'Ivoire to acquire analytical tools, in order to ensure the comprehensive identification and careful monitoring of fiscal risks, along with transparent communication on these risks and measures taken to mitigate them.

Fiscal risks, in the broad meaning of the term, are factors that could lead to a deviation from forecasts or expectations. There are two major categories of fiscal risks: macroeconomic shocks, which are unforeseen changes in macroeconomic variables which have a more or less direct impact on public finances; and specific fiscal risks, which are financial liabilities, whether explicit or not, that the government may be required to cope with, conditional on the occurrence of uncertain events. By combining the probability of occurrence and the potential fiscal costs of fiscal risks, an initial analysis, based on data made available by the authorities, shows that the following fiscal risks are the most prominent in Côte d'Ivoire:

- Macroeconomic shocks on growth and on commodity prices, especially cocoa and oil;
- The debt of public enterprises, as well as arrears for some of these companies;
- Quasi-fiscal activities of the government (support to public enterprise pricing in the energy and transport sectors);
- Explicit fiscal commitments (in particular, guarantees issued by the government) and implicit fiscal commitments related to public-private partnerships (PPP);
- The possible depletion of natural gas reserves by 2024.

Existing practices for identifying, monitoring and disclosing fiscal risks are still limited and fall below emerging country standards. There is no centralized process, at the level of the economic and financial ministries, no comprehensive identification, quantification and, even less so, monitoring of fiscal risks. Although some important aspects such as debt or the volatility of commodity prices are monitored or analyzed on an ad hoc basis, such analyses are often made after risks have materialized rather than in anticipation of their occurrence. Public enterprises often carry out risk analyses at their level, but their financial supervisory authority, the Directorate General of the Government Portfolio (DGPE), does not consolidate these analyses across the whole portfolio. Finally, in terms of disclosure, since 2014, Côte d'Ivoire has published a chapter on fiscal risks in the multiannual fiscal and economic planning document (DPBEP) appended to the draft finance law (PLF), but this chapter, which is only 2-3 pages long, only presents a selection of a few risks, analyzed in a qualitative and limited manner.

These emerging practices highlight the growing interest of the Ivoirian authorities in monitoring fiscal risks. However, efforts are still insufficient to guarantee fiscal sustainability and the success of the emergence strategy underlying the PND. Weaknesses in the analysis and consequently, communication of fiscal risks, hampers market confidence and even threatens to erode it, especially if a substantial risk, on which the government has failed to communicate, should materialize. The development of practices involving the analysis, monitoring, and communication of fiscal risks will contribute to facilitating the transition to economic emergence. In this regard, Côte d'Ivoire has room for improvement compared with many emerging countries, such as Brazil, South Africa, and the Philippines.

Although comprehensive fiscal risk monitoring is an important step to achieve, efforts should continue in the direction of proactive management of fiscal risks. Such management would be a determining factor in maintaining the strong economic dynamic of the Ivoirian economy. This process, which requires time and resources, would in the medium term, result in a major change in the Ivoirian authorities' approach to fiscal risks and to fiscal policy overall. Before being able to manage risks efficiently though, it is important to acquire knowledge on them and to know how to analyze them.

This report proposes a set of recommendations aimed at improving the identification, monitoring and disclosure of fiscal risks and sets out an action plan (page 9) for their implementation. The priority recommendations are as follows:

- Systemize the comprehensive identification and ranking of fiscal risks in accordance with the analytical framework set out in Appendix 2;
- Gradually develop methods to quantify macroeconomic risks (short-term sensitivity analyses, complemented by medium-term alternative scenarios, which include public enterprises);
- Publish a specific strategy for the government's public enterprise portfolio until 2020;
- Extend the report on the economic and financial situation of public enterprises to performance and risk management;
- Prepare and publish a fiscal risk statement based on a gradual development plan (Appendix 3);
- Expand the missions of the existing DPBEP to the analysis, monitoring, disclosure, and, in time, management of fiscal risks ("DPBEP and Fiscal Risks Committee").

The implementation of all recommendations proposed by this report would make Côte d'Ivoire a frontrunner in West Africa in terms of fiscal risk monitoring, and it would align the country with emerging market standards. This would be reflected in the excellent above-average scores that Côte d'Ivoire would achieve in the medium term on the "Fiscal Risks" pillar of the Fiscal Transparency Evaluation (FTE), a methodology developed by the IMF (see Appendix 1).

ACTION PLAN (AS OF SEPTEMBER 30, 2017)

Recommendations	Actions				Institution in charge
	2017	***2018***	***2019***	***2020***	
Identifying fiscal risks in Côte d'Ivoire					
Systemize the comprehensive identification and ranking of fiscal risks in accordance with the analytical framework set out in the report and update it once a year		Carry out, internally (DPSB) and by the DPBEP and Fiscal Risks Committee, the comprehensive identification of fiscal risks on the basis of Appendix 2 and Figure 1	At the beginning of the year, collect input on new risk factors and remove risks that are now under control from the list	At the beginning of the year, collect input on new risk factors and remove risks that are now under control from the list	DPSB and DPBEP and Fiscal Risks Committee
Prioritize risks for which more in-depth impact analyses will be carried out	Identify the five most significant fiscal risks on the basis of the two following criteria: high probability of occurrence and high potential fiscal costs (Figure 8)	Update analysis	Update analysis	Update analysis	DPSB
Gradually build up a database of default rates on PPP projects and calls on government-issued guarantees		Identify and document calls on guarantees supporting PPPs, default of private operators involved in PPPs, and calls on guarantees issued to public enterprises	Update database in the event of a new default	Update database in the event of a new default	DDPD and CNP-PPP
Analyzing the impact of macroeconomic risks					
Gradually develop methods to quantify macroeconomic risks	Initiate internal sensitivity analyses for a few key macroeconomic variables (Table 3)	- Extend the scope of sensitivity analyses and initiate a few alternative scenarios internally - Carry out analyses, the coverage of which includes public enterprises - Improve the technical capabilities of staff in charge of macroeconomic modelling - *TA*	Extend the scope of sensitivity analyses and alternative scenarios	Carry out analyses, the coverage of which includes local governments	DPPSE, DDPD and DGPE

Recommendations	Actions				Institution in charge
	2017	***2018***	***2019***	***2020***	
In the debt sustainability analysis, draw up alternative scenarios that incorporate the debt and recognized payment arrears of public enterprises	Expand the customized scenario to include total debt and payment arrears of public enterprises (not only SIR)				DDPD, DGPE
Improving the monitoring and management of fiscal risks relating to public enterprises					
Improve the identification and management of risks within public enterprises	- Set up audit committees in enterprises - Design a shared framework for risk analysis (Table 6)	Carry out studies on risks at the 7 enterprises that have a performance contract, based on the shared framework for risk analysis	Extend studies on risks to 8 other companies that have a performance contract	Extend studies on risks to all public enterprises	DGPE, public enterprises
Finalize the roll-out of the information and management system for public enterprises (SIGEP)	Provide user training	- Resolve technical issues - Generalize the roll-out of SIGEP and data-capture modules to all public enterprises	Obtain feedback from users		DGPE
Modify legal bases on the general competence of the DGPE to include supervision, coordination and monitoring of fiscal risks relating to public enterprises	Specify the role of the DGPE in terms of risk management by revising laws governing public enterprises	Propose a draft amendment to the organic law on fiscal transparency, which turns risk management into an objective for public enterprises			DGPE
Develop a risk management training program for board members and public enterprises	Reflect on the content of training for public enterprises	Organize a pilot training seminar for public enterprises on risk management	Systematize an annual seminar on risk management and performance		DGPE
Amend regulations on public enterprises' debt and guarantees in order to make the authorization procedure more effective	Propose an amendment to order 399 of 2015 in order to extend it to subsidiaries of public enterprises				DGPE and DDPD
Publish a specific strategy for the government's public enterprise portfolio until 2020	Define the contents of the strategy (objectives in line with the PND, portfolio management and dividends strategy, governance framework, performance targets, risk management policy)	Publish the strategy			DGPE

Recommendations	Actions				Institution in charge
	2017	**2018**	**2019**	**2020**	
Extend the report on the economic and financial situation of public enterprises to performance and risk management	- Enhance the report's qualitative explanations on past and future trends - Finalize the performance contracts for the 7 enterprises of the first wave	- Increase data on public funding to public enterprises, cash positions, liabilities and payroll costs - Specify targets for a few indicators (net income, investment, cashflow, taxes and dividends) for enterprises with a performance contract (PLF 2019) - Launch a second wave of performance contracts for 8 enterprises	- Broaden the scope of public enterprises for which targets are specified, in line with waves of new performance contracts (PLF 2020) - Extend the performance contracts to 10 other enterprises	Broaden the scope of enterprises for which targets are specified, in line with waves of new performance contracts (PLF 2021)	DGPE
Publishing a fiscal risk statement					
Prepare and publish a fiscal risk statement (FRS)	Include existing macroeconomic sensitivity analyses, an abridged version of the DSA analysis and a table showing PPP projects (PLF 2018).	- Prepare a Fiscal Risk Statement as an appendix to DPBEP 2019-21, the structure focused on the main Ivoirian fiscal risks - Enrich the qualitative analysis with quantitative and analytical elements (see Appendix 3)	Enrich the quantitative analysis and discuss in depth how risks will be mitigated (see Box 4 and Appendix 3) in the DPBEP 2020-22.	- Enrich the analysis and presentation of mitigation measures - Consider publishing the FRS in a budget document separate from the DPBEP.	DGBF and DPBEP and Fiscal Risks Committee
Extend the missions of the DPBEP committee to the preparation of the FRS, the analysis and monitoring of fiscal risks, and revise its composition	- Extend the missions of the DPBEP committee to fiscal risks - Formalize this "DPBEP and Fiscal Risks Committee" with a statutory text and revise its composition	- Begin the work of the DPBEP and Fiscal Risks Committee in its extended format			DGBF
Draw up and implement an action plan for the analysis and management of fiscal risks		- Develop the action plan by specifically defining: 1) the gradual extension of the committee's work to the management of fiscal risks 2) the building of capacities of Committee members 3) a development plan for the FRS	- Begin implementation of the action plan - Propose the integration of the FRS in the organic law on fiscal transparency when it is amended	- Continue to implement the action plan	DGBF and DPBEP and Fiscal Risks Committee

I. INTRODUCTION

1. **Côte d'Ivoire has recorded remarkable economic performances over recent years and macro-fiscal perspectives are favorable.** Since 2012, economic growth has been driven by dynamic investment in a stabilized political context. Public debt has increased but the risk of over-indebtedness is moderate.[1] The scenario of the National Development Plan (PND) for 2016-2020 is based on GDP growth of close to 9 percent per year on average.[2] And although the government is targeting an average public deficit of 3.8 percent of GDP per year over the period, it intends to fall to 3 percent in 2019, in line with the convergence criteria of the West African Economic and Monetary Union (WAEMU).

2. **There are, however, significant fiscal risks that could potentially jeopardize Ivoirian public finances and the development strategy set by the PND.** The expected large-scale recourse to public-private partnerships (PPPs) (the construction costs of which could together represent up to 60 percent of GDP by 2020), along with the level of indebtedness of some public enterprises, especially in the energy and transport sectors, could, in the event of default, put fiscal sustainability in danger. The volatility of cocoa and oil prices also represents a significant fiscal risk, given the share of these commodities in the economy and in fiscal and customs revenues.

3. **In order to actively manage these risks, it is necessary to comprehensively identify and accurately analyze them.** The active management of fiscal risks is a crucial factor for preserving the recent economic performance of Côte d'Ivoire. However, before risks can be managed effectively, they have to be understood and analyzed. The development of good practices in this area would enable Côte d'Ivoire to ensure the sustainability of its public finances, at it would be provided with a clear vision of the fiscal risks the government could have to cope with. Fiscal sustainability is critical to the success of the emergence strategy underlying the PND. The management of risks should moreover go hand-in-hand with transparent disclosure of their nature and potential impact, in order to increase the confidence of investors and markets in the soundness of the macro-fiscal environment, and encourage the government to take preventive risk mitigation measures.

4. **This report proposes recommendations and suggests practical tools to identify, analyze and disclose fiscal risks.** Chapter II provides a grid for the comprehensive identification of fiscal risks. Chapter III sets out best practice for the analysis of macroeconomic risks. Chapter IV makes recommendations on the monitoring and management of fiscal risks linked to public enterprises. Finally, chapter V recommends the publication of a fiscal risk statement and contains advice on the process for preparing this statement and on its contents.

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[1] Debt sustainability analysis, IMF, November 23, 2016.

[2] The IMF forecasts are more conservative, at 7½% per year on average over 2016-2020.

5. The recommendations of this report support the authorities' commitments as part of the program supported by the IMF. In December 2016, the Ivoirian authorities undertook, in the Memorandum of Economic and Financial Policies appended to the application for access to the Extended Credit Facility and the Extended Credit Mechanism, (i) to expand the budget documentation to include the risks related to the difficult financial position of some public enterprises and the risks related to PPPs,[3] and (ii) to publish, by end 2018, a report on the performance of public enterprises. The IMF's Fiscal Affairs Department (FAD) is supporting the Ivoirian authorities in the implementation of these commitments by providing technical assistance. Although recent reports[4] concentrate more on fiscal risks relating to PPPs, this report looks at the monitoring of fiscal risks in their entirety, while also focusing specifically on macroeconomic shocks and risks relating to public enterprises.

II. IDENTIFYING FISCAL RISKS IN CÔTE D'IVOIRE

6. The major fiscal risks in Côte d'Ivoire have been identified and the Ivoirian authorities are aware of them, but they are not comprehensively monitored and analyses are only partial. The concepts of monitoring and, consequently, managing fiscal risks are just starting to emerge in the Ivoirian administrative culture. Laws and regulations on managing public finances do not contain specific provisions on these concepts. Moreover, the WAEMU directives on managing public finances[5] make no reference to fiscal risks. The clearest expression of the notion in Côte d'Ivoire is contained in the chapter on fiscal risks in the Multiyear Fiscal and Economic Planning Document (DPBEP). Although this chapter provides a solid basis, the depth of discussions on fiscal risks covered in the DPBEP remains very limited (see chapter V for a more detailed diagnosis). The mission did however note, both at an awareness-raising seminar and during discussions with the authorities, that there is a great deal of interest in the issue of fiscal risks.

7. The following developments provide the keys to the comprehensive identification of fiscal risks and apply them to the Ivoirian case. After identifying the potential sources of fiscal risks in Côte d'Ivoire (A), this chapter introduces a substantial inventory of these risks (B), followed by an analysis grid according to the nature and probability of occurrence of these risks.

[3] Commitments on fiscal risks related to PPPs were confirmed by the authorities during the first program review (June 2017, §50 of the MEFP).

[4] Queyranne *et al.*, "Gestion des risques budgétaires liés aux PPP", March 2017 and Fouad *et al.*, "Évaluation de la gestion des investissements publics (PIMA)", January 2017.

[5] Directive No. 01/2009/cm/uemoa concerning the code on transparency in the management of public finances within WAEMU.

A. Conceptual Framework for Identifying Fiscal Risks

8. A formal framework, like the one presented in Figure 1, would be useful for the Ivoirian authorities to identify fiscal risks in Côte d'Ivoire. Fiscal risks—factors that are likely to cause a difference between fiscal results and forecasts—can be grouped into two major categories:

- *Macroeconomic shocks or risks*, or general risks, which are unforeseen changes in the macroeconomic variables such as economic growth, raw materials prices (especially cocoa and oil), the exchange rate (FCFA/$), interest rates and inflation.

- *Specific fiscal risks*, which are financial obligations that the government may be required to honor, contingent on the occurrence of uncertain events. They include for example institutional, political or security risks, as well as fiscal contingencies (or contingent liabilities), which may be:

  - *Explicit*, in the form of a formal contract obliging the government to cover the financial expenses resulting from the materialization of certain events (call on a guarantee issued to a public enterprise or a public-private partnership (PPP), settlement of disputes).

  - *Implicit*: even in the absence of formal contracts, the government may have to cope with so-called implicit fiscal contingencies, in that it could find itself forced, as a result of moral or political pressure, to assume financial costs following a natural disaster (flooding, drought), or the financial default of a public enterprise, of a financial institution, of a private operator in a PPP project, of a local government or of a significant private sector enterprise.

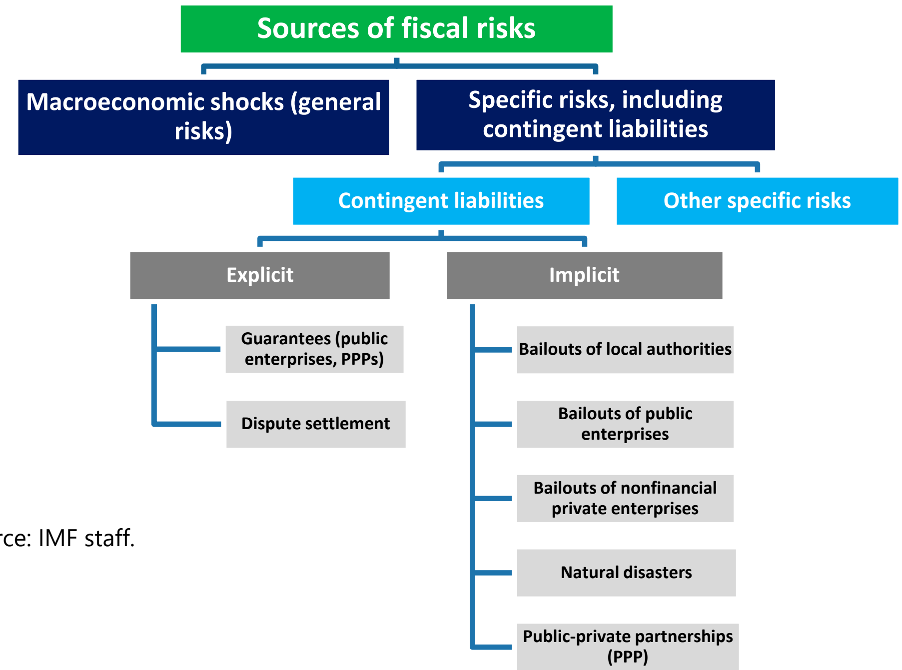
B. Inventory of Fiscal Risks in Côte d'Ivoire

General risks or macroeconomic shocks

9. The Ivoirian economy has to cope with various macroeconomic shocks which have a financial impact on the government's budget. This section reviews the main sources of macroeconomic risks and also seeks to assess the extent of their impact on the budget: (i) the volatility of cocoa and oil prices; (ii) shocks on GDP growth; (iii) exchange rate volatility, especially *vis-à-vis* the dollar; and (iv) loss of access to international markets.[6]

[6] Although each macroeconomic shock is presented independently in this section, it is important to note that these risks, and their likelihood of occurring, may be correlated to each other.

Figure 1. Sources of Fiscal Risks



Source: IMF staff.

10. The volatility of cocoa prices is a major source of risk for Ivoirian public finances. The Ivoirian economy is vulnerable to changes in the price of cocoa, the country's main crop.[7] The volatility of cocoa prices leads to volatility in cocoa-related public revenues–registration fees and taxes on exporting cocoa (see Figure 2). Moreover, the instability of cocoa prices could affect tax revenue indirectly through economic growth. This risk recently materialized, with a 35 percent fall in the cocoa price since the last quarter of 2016, which led to a drop in tax revenues of around 0.9 percent of GDP, a 0.9 percent reduction in the agriculture sector's income, and a downward revision of growth forecasts from 8.9 percent to 8.5 percent.[8]

11. The volatility of oil prices is also a source of fiscal risk, in that it leads to instability of tax revenues, subsidies and current expenditure of public enterprises (Figure 3). According to the oil price adjustment mechanism, an increase in international oil prices can lead to a decrease in taxes on oil products, thus limiting the transmission of the increase to pump prices, and avoiding resulting social tensions. Another channel for the transmission of that risk to public finances is the financial situation of public enterprises, especially those operating in the transport and energy sectors (see IV.A).

[7] Côte d'Ivoire is the world's largest producer of cocoa (40% of worldwide production). Cocoa accounts for 60% of the country's exports and contributes directly and indirectly to one-quarter of all jobs. The report does not discuss other crops explicitly, given their relatively small weight in the existing structure of the Ivoirian economy.

[8] Source: IMF, *Côte d'Ivoire: first Program Review (*2017), and forecasts by the Ivoirian authorities.

Figure 2. Impact of the Volatility of Cocoa Prices on Tax Revenues

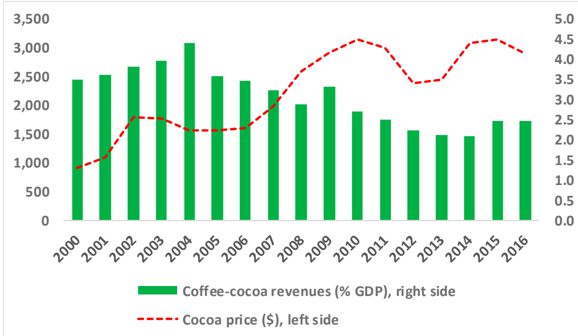


Figure 3. Impact of the Volatility of Oil Prices on Tax Revenues

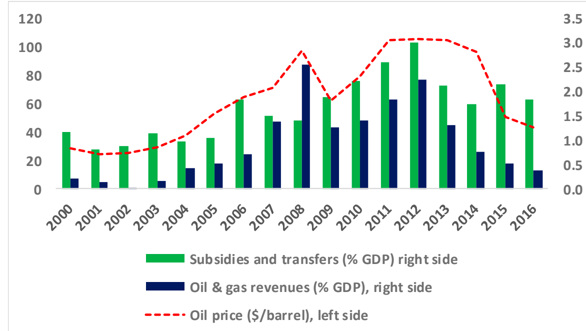


Figure 4. Sensitivity of Revenue and Expenditure to GDP Growth

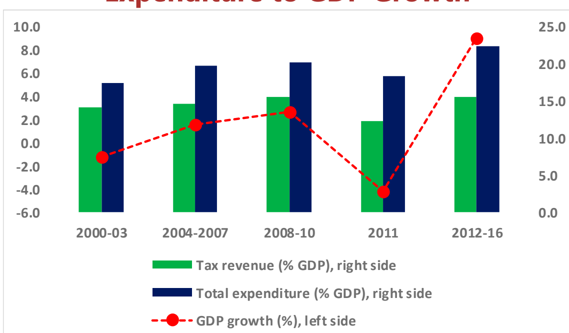
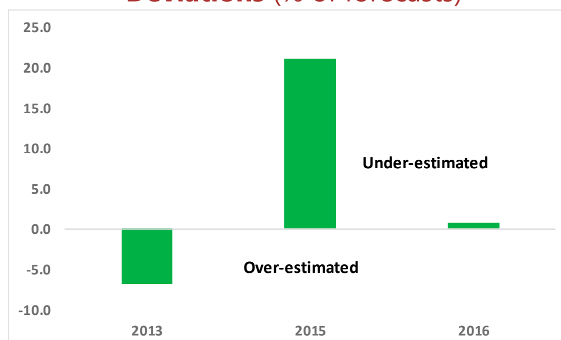


Figure 5. CFAF / $ Exchange Rate Forecast Deviations (% of forecasts)



Source: Ivoirian authorities and IMF staff.

12. A growth shock (sudden drop in GDP) could have a major financial impact on the budget. This risk is especially serious given that in its recent history, Côte d'Ivoire has experienced several growth shock episodes, resulting from (i) political crises, (ii) the instability of commodity prices, or (iii) fluctuations in agricultural production due to changing prices or unreliable rainfall. The fiscal impact of growth shocks mainly consists in a reduction in tax revenues, which are generally very sensitive to growth rates (see Figure 4). Such a reduction can lead to an accumulation of payment arrears if expenditure is not adequately adjusted. At the same time, spending cuts (especially on investment) after a growth shock could result in adverse effects on growth, potentially leading to a vicious cycle between GDP growth and public spending.

13. Unpredicted foreign exchange variations also expose Ivoirian public finances to risks. Although the CFAF is pegged to the euro, around half of public debt is denominated in foreign currency, of which one-third is in dollars (around 7 percent of GDP). Debt of public enterprises is similarly exposed (see IV.A). Exchange rate volatility is difficult to predict (see Figure 5). Accordingly, any depreciation of the CFAF against the dollar could not only increase the cost of servicing the debt and of dollar-denominated imports, but also increase the public debt stock. On the other hand, revenues based on imports denominated in dollars would increase. In this regard, the government's decision to split the recent *eurobond* issuance into two components, one denominated in dollars (1.25 billion) and the other in euros (625 million) could potentially represent a strategy to mitigate foreign exchange risk that merits further exploration.

14. Unexpected difficulties in accessing the international capital markets also constitutes a fiscal risk (in terms of refinancing). This risk is serious given the need to repay the two *eurobonds* maturing in 2024 and 2032. If the government suddenly experiences difficulties in refinancing its operations on the international markets, it could have to resort to sources of financing that are costlier and/or have shorter maturities. In order to provide for this contingency, the authorities have already started to buy back part of these *Eurobonds,*[9] and are thinking of other ways of mitigating a refinancing risk for the remaining stock (gradual buyback of securities, opening up an escrow account).

15. Other standard fiscal risks (unexpected variations in inflation and interest rates, disbursement of direct budgetary support) are of little cause for concern in Côte d'Ivoire.

- Unexpected variations in *inflation* could cause differences between fiscal results and forecasts. Some tax revenue projections are sensitive to variations in inflation.[10] Nevertheless, inflation remains low in Côte d'Ivoire, given that the CFAF is pegged to the euro: the fiscal risk linked to inflation can hence be considered as marginal.
- Unexpected variations in *interest rates* are currently a limited fiscal risk in Côte d'Ivoire. Since 2012, practically the whole of the Ivoirian public debt portfolio is at a fixed rate.
- The uncertain calendars for *disbursement of budgetary support* (on which 10 percent of investment spending is based) could constitute a fiscal risk. However, Côte d'Ivoire has exercised caution when forecasting budgetary support over recent years, thus avoiding any major negative surprises.

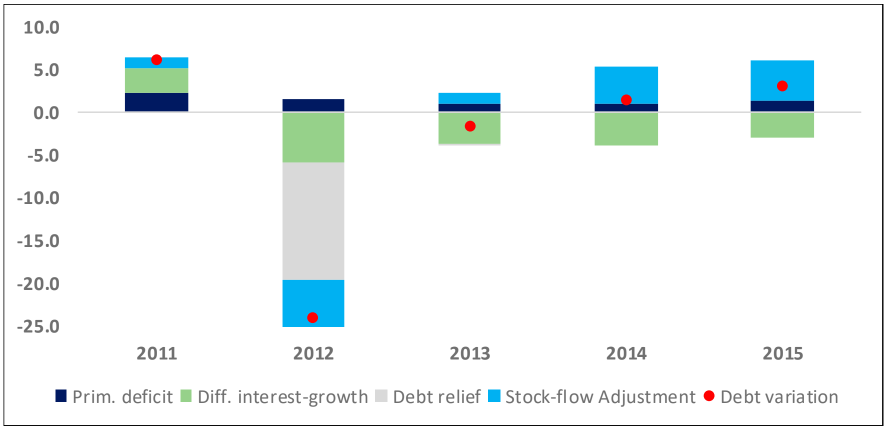
Specific risks

16. On top of the impact of macroeconomic fluctuations, the breakdown of the government debt variation also highlights the materialization of specific risks. This materialization is reflected by a significant stock-flow adjustment (see Figure 6). This subsection draws up an inventory of explicit fiscal contingencies, implicit fiscal contingencies, and other specific risks.

[9] In June 2017, the Ivoirian authorities successfully issued $1.95bn in *eurobonds*, enabling them to buy back part of the eurobonds maturing in 2024 and 2032 ($0.75bn) and to finance the deficit ($1.2bn).

[10] However, variations have little impact on public expenditure, given that wages are not indexed to inflation.

Figure 6. Contributions in Change in Côte d'Ivoire's Debt
(% of GDP)



Source: Mission estimation based on WEO data.

Explicit fiscal contingencies

17. Guarantees issued by the government to facilitate access of public enterprises to bank borrowing are a source of explicit fiscal risks. At end-June 2017, the Directorate of Public Debt and Grants (DDPD) identified three guarantees issued by the government in favor of Air Côte d'Ivoire, for an amount of CFAF 28 billion (0.1 percent of GDP) (see Table 1). To a lesser extent, comfort letters issued by the government aimed at facilitating access to loans for certain public enterprises (such as CI-Energies at the West African Development Bank) are quasi-explicit fiscal contingencies, despite the limited legal scope of such letters.

Table 1. Stock of Guarantees Issued in Favor of Public Enterprises, at end-June 2017

Company	Purpose of debt	Lender	Amount (CFAF bn)	Interest rate	Date	Maturity
Air Côte d'Ivoire	Aircraft financing	Afreximbank	5.7	6.98%	10/1/2014	6 years
	Aircraft financing	Export Development Canada	11.2	4.19%	10/1/2015	10 years
	Aircraft financing	Export Development Canada	11.2	4.19%	3/1/2016	10 years
		TOTAL	**28.1**			

Source: Ivoirian authorities. Note: to date, none of these guarantees has been called in.

18. Guarantees in support of PPPs are likely to increase in the coming years, given the expected high level of recourse to PPPs under the PND. The government's strategy is to mobilize private financing for infrastructure construction and to get users to pay for projects. However, the expected PPP investment volume (total cost of construction of 60 percent of GDP between 2016 and 2020) is very high and exposes the government to significant fiscal risks. PPPs are long-term financial commitments that take a lasting toll on public finances, directly when they result in budget spending and indirectly in the case of contingent liabilities, especially for

PPPs paid for by users.[11] In 2015, the call on a government guarantee in the PPP for the construction of the third Abidjan bridge, due to lower traffic than initially assumed, resulted in a fiscal cost of 0.07 percent of GDP.

19. Settlement of disputes is also a source of explicit fiscal contingencies. A good example is the maritime border dispute between Côte d'Ivoire and Ghana, related especially to the issue of offshore oil operations. The resolution thereof could result in a positive risk (financial compensation for Côte d'Ivoire if the outcome of arbitration is favorable) or a negative risk (fiscal cost if arbitration is unfavorable).

Implicit fiscal contingencies

20. Implicit fiscal contingencies are a threat for the balance of Ivoirian public finances. These contingencies do not arise out of formal contracts but rather stem from moral or political pressure on the government. In Côte d'Ivoire, they mainly concern: (i) the stock of debt and arrears of public enterprises, along with their quasi-fiscal activities, (ii) implicit obligations linked to strategic PPPs, (iii) bailouts of financial institutions, and (iv) environmental risks.

21. The stocks of debt and of payment arrears recognized by public enterprises, along with their quasi-fiscal activities, are a major fiscal risk for the government. Quasi-fiscal activities are operations that fall within the scope of public policies, but that are financed outside the government's budget and executed by players other than the government, typically by public enterprises. This is the case, for example, of low-cost electricity supply or public transportation (see examples in IV.1). Although the government may not necessarily be legally required to take over the debt of an over-indebted enterprise, it may be politically forced to repay it, given the economic and social importance of these public enterprises, and to continue to provide the public services that they provided themselves.

22. Over and above explicit guarantees, the contemplated widespread use of PPPs under the PND is a major implicit fiscal risk. The government intends to finance over 40% of investments planned in the PND in the form of PPPs (around 60% of 2016 GDP). Even without an explicit guarantee, the government could be forced to find another private partner (which may incur a temporary cost), or even to execute the project itself in the event of default of a private operator, given its economic and social importance. Centralization of the PPP portfolio by the CNP-PPP is already a step in the right direction in terms of identifying and monitoring risks linked to PPPs. It would, however, be advisable to (i) base feasibility studies for PPPs on conservative assumptions; (ii) compile a database of historical default rates of PPPs; (iii) consider caps on the total amount committed to in terms of PPPs.

[11] For a more comprehensive assessment of fiscal risks associated with PPPs, see Queyranne *et al.*, "Gestion des risques budgétaires liés aux PPP," March 2017.

23. The bailout of financial institutions is also a source of implicit fiscal risks. A few entities in the Ivoirian financial sector are experiencing financial difficulties, which have already compelled the government to help them with recovery plans. These entities are mainly *Caisse nationale des caisses d'épargne* (CNCE), *Banque nationale d'investissement* (BNI), and *Union nationale des coopératives d'épargne et de crédit* (UNACOOPEC).[12] The government transferred around 0.1 point of GDP in 2016 with a view to recapitalizing the CNCE and covering its losses. Another (smaller) transfer is expected in 2017-18. Even though no figures are final yet, the contemplated restructuring of UNACOOPEC, with a deposit base of CFAF 93 billion (0.4 percent of GDP), could also cause substantial impacts on the national budget.

24. Environmental risks are also sources of fiscal risks. On top of the macroeconomic risks that natural disasters may cause to the economy, they can also call for implicit support from the government to help people experiencing serious difficulties as a result of a major disaster.

- *Droughts* are a threat for agricultural production, while *floods*, which are less frequent, not only threaten agricultural production but also agricultural infrastructures. Direct fiscal impacts consist of compensation for affected farmers through budget contingency lines (less than 5 percent of the government's total budget).
- Another major source of fiscal risk is the *depletion of gas reserves*. These reserves can be used for generating electricity at a lower cost than Heavy Vacuum Oil. With an annual production cost differential of CFAF 60 billion at CI-Energies, this fiscal risk is a real threat, all the more so given that according to projections, gas may run out by 2024.
- Finally, mention should be made of *other environmental risks*, such as water and ground pollution, bushfires and swollen shoot disease, which affects cocoa (the disease requires all plantations in the impacted zone to be put into quarantine).

25. Possible financial assistance to local governments experiencing financial difficulties is an implicit fiscal risk that is difficult to assess accurately. Given that little data is provided on the financial health of local governments, it is difficult to make an assessment of the nature and the extent of fiscal risks related to these local authorities.

Other specific risks

26. Finally, other specific fiscal risks, including institutional, political and security risks, could threaten the fiscal balance. These include:

- *The lack of credibility of macroeconomic and fiscal forecasts* could be a source of fiscal risk. However, an analysis of forecast deviations in recent years shows that the government tends to be cautious in its forecasts.

[12] For more information, see IMF, *Côte d'Ivoire: First program review (*2017).

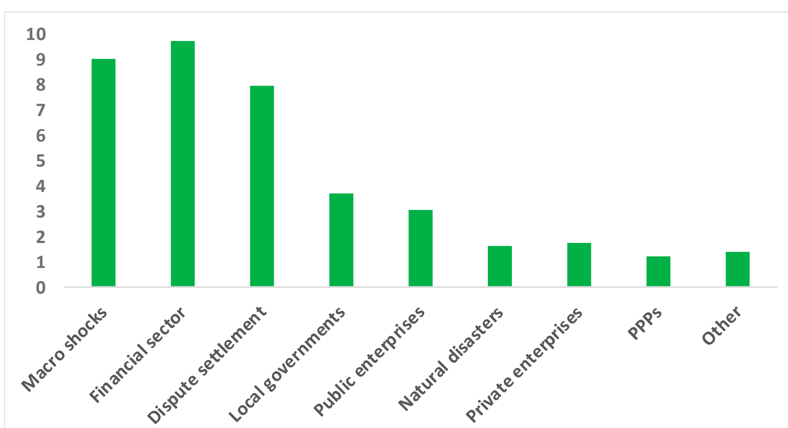
- *Fiscal overruns* are also a risk factor. These include: (i) wages arrears claims accumulated over the 2009-2013 period, valued at CFAF 249 billion (1.2 percent of GDP), and not yet provisioned in the budget; (ii) settlement of "liabilities" or "overdue contracts," i.e., expenditure outside the system before the 2011 post-electoral crisis: initially valued at around CFAF 200 billion (0.9 percent of GDP), this valuation should soon be refined by an audit. Other potential sources of fiscal overruns include the costing of new investments or the costing of new tax measures, such as new exemptions for example.

- Although difficult to quantify, *political risks* (strikes, electoral crises, etc.) and *security risks* (terrorist attacks, etc.) may have significant fiscal impacts, causing (i) a negative impact on economic activity and the tourism sector in particular, leading to potential losses of fiscal revenues, and (ii) extra spending on maintaining security. These risks include the potential amount that the government may decide to pay following demands from pressure groups of a diverse nature. For example, around 0.6 percent of GDP was paid by the government to bring an end to soldier "mutinies" in the first half of 2017, an amount that was not provisioned or anticipated in public spending forecasts.

Costs related to fiscal risks: comparisons with other countries

27. The potential costs related to fiscal risks as listed above seem to compare favorably with those assessed for other countries (Figure 7). However, this observation should be taken with caution, given that it was not possible to fully quantify the potential costs of fiscal risks on the basis of the information collected during the mission. A refined analysis and quantification of these risks, as more information and data become available, would be indispensable for better monitoring of fiscal risks.

Figure 7. Costs Linked to Fiscal Risks: Sample of 80 Countries, 1990-2014
(Percentage of GDP)



Sources: Bova *et al.* (2016), and IMF staff.

Proposal for a fiscal risk analysis grid

28. The classification of identified risks into several categories could make it easier to better determine their nature and, in time, to choose the most appropriate management tools.

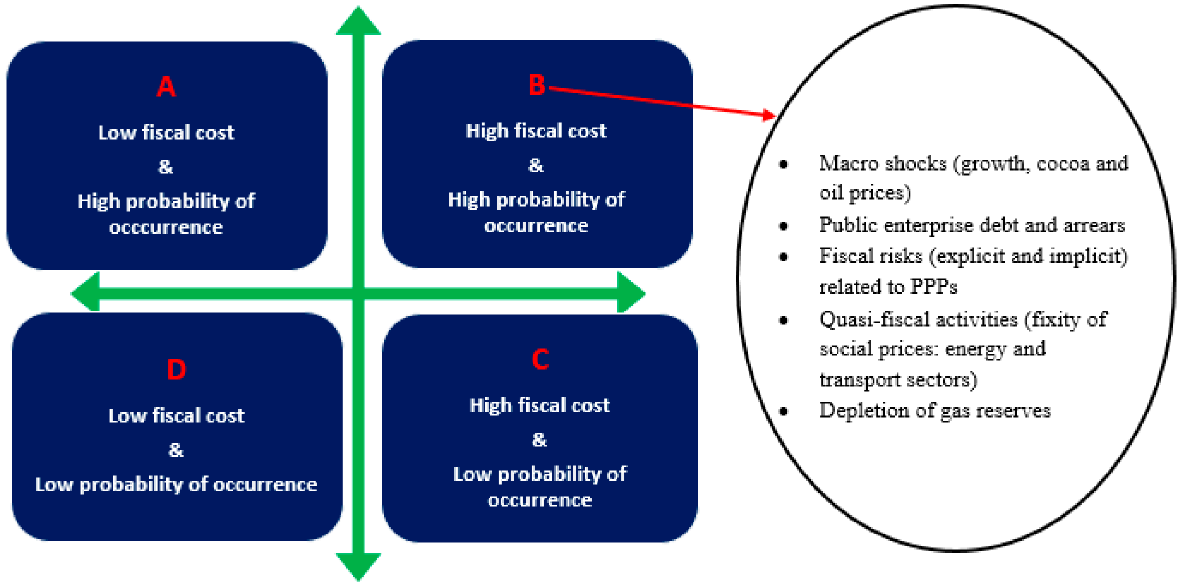
- On the one hand, based on its source, a fiscal risk can be considered as *endogenous* (its probability of occurrence can be influenced by government actions) or *exogenous* (its probability of occurrence is beyond government control).

- On the other hand, risks can be classified on the basis of the frequency at which they occur. We distinguish between risks of a *permanent* nature (regular occurrence) and those of a *temporary* nature (irregular occurrence). Risks of a temporary nature can be further broken down on the basis of their probability of occurrence. There are risks that are *probable* (high probability of occurrence), risks that are *possible* (medium probability of occurrence), and risks that are *undefined* (fiscal impact potentially high but probability of occurrence difficult to predict).

29. The fiscal risks in Côte d'Ivoire, as examined above, could be classified according to this typology of fiscal risks. Appendix 2 proposes an analysis grid based on the nature of risks in Côte d'Ivoire. This framework is not definitive or immutable, and its main aim is to serve as a guide for the authorities to attempt to structure fiscal risk analysis. Accordingly, this framework will be improved if it is updated on a regular basis.

30. It will be essential to prioritize fiscal risks if more refined analyses are to be achieved. Following a comprehensive identification of fiscal risks, it would be advisable to focus on the most prominent risks with a view to carrying out more in-depth analyses on their potential fiscal impact. This prioritization could be based on two criteria: (i) the probability of occurrence of the risk; and (ii) the potential fiscal cost in the event of its materialization. Specifically, fiscal risks will have to be classified in ascending order, on the one hand, on the basis of their probability/frequency of occurrence (see Appendix 2) and on the other hand, on the basis of their potential fiscal cost. Figure 8 provides an illustration. The potential fiscal costs associated with the risks are plotted on the horizontal axis, while their probabilities of occurrence are plotted on the vertical axis. The intersection of the two rankings based on these two criteria results in four quadrants: A, B, C, and D. The risks of potential fiscal costs with a high probability of occurrence (found in quadrant B), are the most prominent, and merit extra attention when their fiscal impact is analyzed.

Figure 8. Prioritization of Fiscal Risks



Source: Mission.

31. Following an initial analysis and based on data made available by the authorities, the mission was able to identify five fiscal risks among the most prominent in Côte d'Ivoire. The authorities could perform additional costings and analyses in order to refine this prioritization. The five risks identified are:

- Macroeconomic shocks on growth and on commodity prices, especially cocoa and oil;
- Public enterprise debt, as well as arrears for some of them;
- Government quasi-fiscal activities (pricing support by public enterprises in the energy and transport sectors);
- Explicit fiscal commitments (especially government guarantees) and implicit liabilities relating to public private partnerships (PPPs);
- The possibility of gas reserves running out by 2024.

Recommendations

- **Systemize the comprehensive identification and ranking of fiscal risks in accordance with the analytical framework set out in the report and update it once a year.** The frameworks suggested in Figure 1 and Appendix 2 could serve as a starting point. This internal work could provide data to be included in fiscal documentation (see V).

- **Prioritize risks for which more in-depth impact analyses will be carried out.** The fiscal risks in quadrant B (Figure 8) could be considered as priorities for carrying out more in-depth analyses on their potential fiscal impacts.

- **Gradually build up a database of default rates on PPPs and calls on government-issued guarantees,** in order to better identify the expected costs of the materialization of fiscal contingencies.

III. ANALYZING THE IMPACT OF MACROECONOMIC RISKS

32. Some macroeconomic risks are analyzed by the authorities, but often in a disorganized manner, and after the risks have materialized. Scenarios are often based on moderate variations. Existing practices include:

- *The Directorate of Forecasts, Policies and Economic Statistics (DPPSE)* within the General Directorate of the Economy (DGE) at the MEF carries out sensitivity analyses on certain macroeconomic risks using a computable general equilibrium model, based on a social accounting matrix dating back to 2007. These sensitivity analyses are based on the assessment of the impact of risks after they have occurred, rather than before.

- *The DDPD* carries out regular debt sustainability analyses (DSAs). Sensitivity analyses and related alternative scenarios are limited to central government. The debt and payment arrears of public enterprises are not incorporated into the DSAs.

- *Some public enterprises* carry out, themselves and on an individual basis, sensitivity analyses, financial flow simulations and long-term projections based on diverse macroeconomic situations (see §50).

33. Two risk analysis approaches could be used to assess the financial impact of macroeconomic risks on the Ivoirian central government budget: sensitivity analyses on the one hand (A), and analyses of alternative budgets on the other hand (B). Carrying out such analyses could be the first step towards producing more elaborate analyses, in line with best international practice (Appendix 4).

A. Sensitivity Analyses (single shock)

34. Sensitivity analyses assess the impact of a change in a macroeconomic variable on fiscal variables, all other things being equal. In the interest of efficiency, it is important that the sensitivity analysis be focused on the impact of macroeconomic variables resulting from the prioritization of risks (upper quadrants in Figure 8). These would include the GDP growth rate, cocoa and oil prices and the CFAF/$ exchange rate. In terms of fiscal variables, the analyses could, in the short term, be limited to revenue, expenditure, the fiscal balance and debt, and then gradually be extended to debt service, the present value of debt and stock variables (assets, liabilities, balance sheet). Finally, in the interest of consistency, the time period of the sensitivity analyses could be aligned with that of the DPBEP, i.e., three years.

35. The choice of shock assumptions relied on for the sensitivity analyses could be guided by the following considerations:

- Shocks that have already been simulated in the DSA could be reused in the sensitivity analyses, out of consistency and credibility. The DSA is an internationally recognized analysis tool and published by the IMF on a regular basis. The DDPD carries out its own DSA, on the bases of methodology and frameworks designed by the IMF.
- For shocks that have not yet been simulated in the DSA, it would be useful for assumptions to be based on historical values. Accordingly, the analysis should start with the production of a table, similar to Table 2, which summarizes historical deviations or shocks affecting the variables to be simulated. Such historical values are generally included in the DSA and could easily be extracted.[13]

Table 2. Historical Averages and Standard Deviations for Macroeconomic Shocks

	Historical average	Standard deviation
GDP growth rate (%)	4.4	4.7
Change in cocoa price (%)	2.0	18.9
Change in oil price (%)	1.8	29.4
Depreciation of CFAF against the $ (%)	2.5	8.0

Sources: DSA from the latest IMF report for growth figures, and calculations by the IMF based on WEO figures for the other variables.

36. Table 3 proposes a selection of macroeconomic shocks that it would be relevant to simulate in the Ivoirian context. These assumptions used in the analysis correspond to significant shocks that are consistent with the history of shocks that have impacted on the economy.

Table 3. Assumptions of Simulated Macroeconomic Shocks

	Choc 1
GDP growth rate (%)	Historical average minus one standard deviation
Change in cocoa price (%)	Historical average minus one standard deviation
Change in oil price (%)	Historical average plus one standard deviation
Depreciation of CFAF against the $ (%)	Historical average plus one standard deviation

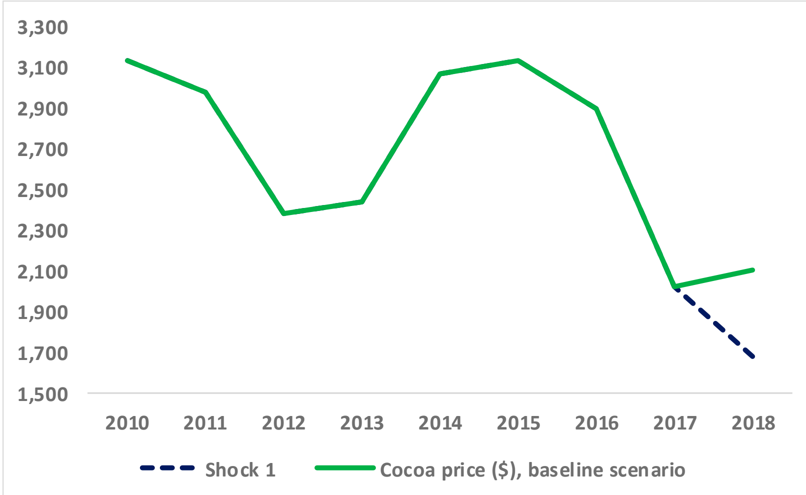
Source: Mission.

Example of sensitivity analysis: the cocoa price

37. The impact of a shock on the cocoa price is simulated for illustrative purposes below (Figure 9). To simplify matters, it is assumed that the simulated shock of one standard deviation has a temporary impact (one year), and materializes early in 2018.

[13] Historical values generally cover the last 10 years (2007-16 in this example).

Figure 9. Shock on Cocoa Prices Applied in This Sensitivity Analysis



Source: Mission.

38. Table 4 presents the results of simulations of shocks on public revenues, public expenditure and the primary balance.[14] The reasoning and calculations below aim at providing guidelines for carrying out other simulations of this type.[15]

- The impact of shock 1, which corresponds to a fall of around 17 percent in the cocoa price, on fiscal revenues would stem mainly from export tax (14.6 percent).[16] The valuation could be refined even further to take into account a possible indirect effect on revenues resulting from growth. For simplicity purposes, it is assumed that the price elasticity of cocoa production is zero. Accordingly, a 17 percent fall in the cocoa price should, all other things being equal, result in a 17 percent decline in the value of cocoa exports, i.e., a drop amounting to 2.2 points of GDP. Applying the export tax (14.6 percent) to this decline in export, the result in a tax revenues loss estimated at 0.3 points of GDP.
- The impact of shock 1 on public spending is assumed to be zero here, given that there is no direct transfer from the central government budget to guarantee the minimum farmgate price to producers (see Box 1).
- The result is a negative impact of around 0.3 point of GDP on the fiscal balance.

[14] As indicated above, result variables can be gradually extended to include public debt (% of GDP), debt servicing, financing needs, present value of debt, assets, liabilities and the balance sheet.

[15] For each of the other shocks, section II.B provides an outline of the main mechanisms through which the occurrence of these shocks could impact on the budget. For more in-depth analyses, consult Carnot/Koen/Tissot, *Economic Forecasting and Policy*, 2011.

[16] Registration fees were reduced from 5% to 0% by the government in 2017 in order to support farmers. We do not include export charges (2.4%) collected by the Coffee-Cocoa Council, which are more representative of quasi taxation.

Table 4. Sensitivity Analysis: Impact of Macroeconomic Shocks

	Year	2018			2019			2020		
		Impact[1]			Impact[1]			Impact[1]		
		Revenue	Expenditure	Fiscal bal.	Revenue	Expenditure	Fiscal bal.	Revenue	Expenditure	Fiscal bal.
GDP growth rate (%)	Shock 1									
Change in cocoa price (%)[2]	Shock 1	-0.3	0	-0.3	0	0	0	0	0	0
Change in oil price (%)	Shock 1									
Depreciation of CFAF against the $ (%)	Shock 1									

Source: Mission.[1] in points of GDP.[2] The shock is meant to have a temporary effect (one year).

Box 1. Elements on Cocoa Price Stabilization Methods

A stabilization mechanism came into force in 2012 under the supervision of the Coffee Cocoa Council to cushion the effect of shocks on cocoa prices. Producers are guaranteed a farmgate price for six months, equivalent to 60% of an average price defined as the average of a forward sale price and the spot price (weighting coefficients of 80% and 20% respectively). When the spot price is higher than the forward sale price, the excess revenue goes into a compensation fund, from which funds are withdrawn to guarantee the minimum price when the spot price is lower than the forward price. In the event of a major negative shock, the minimum farmgate price is adjusted downwards. A reserve fund, financed by the national budget since 2011, has also been opened at the BCEAO with a view to further strengthening the resilience of the stabilization mechanism.

Although, in theory, such mechanisms protect the budget from unexpected demands to set off the impact of negative shocks, the possible default of a player in the chain (for example buyers of futures contracts) could result in the malfunctioning of the mechanism and thus require financial support from the budget.

Source: Mission.

B. Alternative Scenarios (multiple shocks)

39. **In the medium term, sensitivity analyses could be complemented by alternative scenarios (Table 4).** The underlying principle is to simulate the impact of a combination of one-standard-deviation shocks, applied to key macroeconomic variables.[17] As in the case of sensitivity analyses, analyses of alternative scenarios could focus in the short term on revenues, expenditure, the fiscal balance and public debt as result variables, and gradually extend to other flow variables (debt service, financing needs) and, in the medium to long term, stock variables (liabilities, balance sheet).

40. **Analyses of alternative scenarios could also be aligned to the DPBEP's time period (three years) at an initial stage.** Subsequently, once the authorities have become familiar with simulations, the time period could gradually be extended to 10 years, then to 30 years, making it possible, in time, to detect long-term fiscal vulnerabilities linked to social security and pensions issues.

[17] An approach that is close to these analyses of alternative scenarios, in the process of being tested at the DPPSE, involves using a computable general equilibrium model (see § 32). However, such a model is very demanding in terms of data, including microeconomic data, which could prove to be difficult to collect and update. For example, the social accounting matrix used by the DPPSE for making simulations with the model is no longer up to date (it dates back to 2007).

41. **The three alternative scenarios presented in the DSA could be carried over to the fiscal risk analysis**. They include (i) a historical scenario (macroeconomic variables are at their historical average values); (ii) an extreme scenario, consistent with a combination of shocks on macroeconomic variables; and (iii) a personalized scenario, in which the debt of *Société Ivoirienne de Raffinage* (SIR) (CFAF 368 billion) is integrated into the DSA. These alternative scenarios could be adjusted slightly for the fiscal risk analysis. More specifically:

- the historical scenario assumptions of the DSA could be strictly maintained;
- those of the extreme shock scenario could be adjusted to reflect a combination of individual shocks tested in the sensitivity analyses above;
- the personalized scenario could be extended to include the total debt and payments arrears recognized by public enterprises (CFAF 773 billion at end March 2017), and possibly that of local governments, if reliable data is available.

42. **The methodology used for the sensitivity analysis (see A) is also appropriate for analyzing alternative scenarios.** As previously, the various transmission mechanisms and channels of shocks to result variables need to be described and quantified. Table 5 provides an illustration of the presentation of alternative scenarios results.

Table 5. Alternative Scenarios: Impact of the Combination of Shocks

	Year	Short- medium term			Long term			
		2018	2019	2020	2021	…	2046	2047
Assumptions								
Historical scenario	Macroeconomic variables at their historical average							
Extreme shock scenario	Shock cocoa price + shock CFAF/$ exchange Shock cocoa price + shock oil price Growth shock + shock cocoa price							
Personalized scenario	Historical scenario + public enterprises debt Extreme scenario + public enterprises debt							
RESULTATS								
Basic scenario	Fiscal balance (% GDP) Debt (% GDP) Present value of debt Service of debt / revenues							
Historical scenario	Fiscal balance (% GDP) Debt (% GDP) Present value of debt Service of debt / revenues							
Extreme shock scenario	Fiscal balance (% GDP) Debt (% GDP) Present value of debt Service of debt / revenues							
Personalized scenario	Fiscal balance (% GDP) Debt (% GDP) Present value of debt Service of debt / revenues							

Source: Mission.

43. **In the longer term, when simulation capacities have been built up, the authorities could consider using probabilistic methods.** These methods, which are the most sophisticated and are used in a few advanced countries such as Canada, the United States, New Zealand, and the United Kingdom, can be used to estimate the probability of public debt sustainability while

taking into account a variety of extreme shocks impacting on the economy and the fiscal reaction to these shocks (maximum fiscal surplus that is economically and politically feasible).

Recommendations

- **Gradually develop methods to quantify macroeconomic risks:**
  - In the short term, achieve systematic sensitivity analyses internally by initially focusing on the macroeconomic assumptions identified in Table 3, and using the methodology described in III.A.;
  - In the medium term, simulate alternative scenarios using the methodology described in III.B and extend the scope of sensitivity and alternative scenario analyses to the whole of the public sector (including public enterprises and possibly local governments).
  - Publish a selection of these analyses and scenarios in the fiscal risk statement (see V) in line with the timetable suggested in Appendix 3.
  - Strengthen technical capacities of macroeconomic modelling teams.
- **In the DSA, draw up alternative scenarios that incorporate the debt and recognized payment arrears of public enterprises** (especially for companies in which the government has a majority and public enterprises with mostly quasi-fiscal activities).

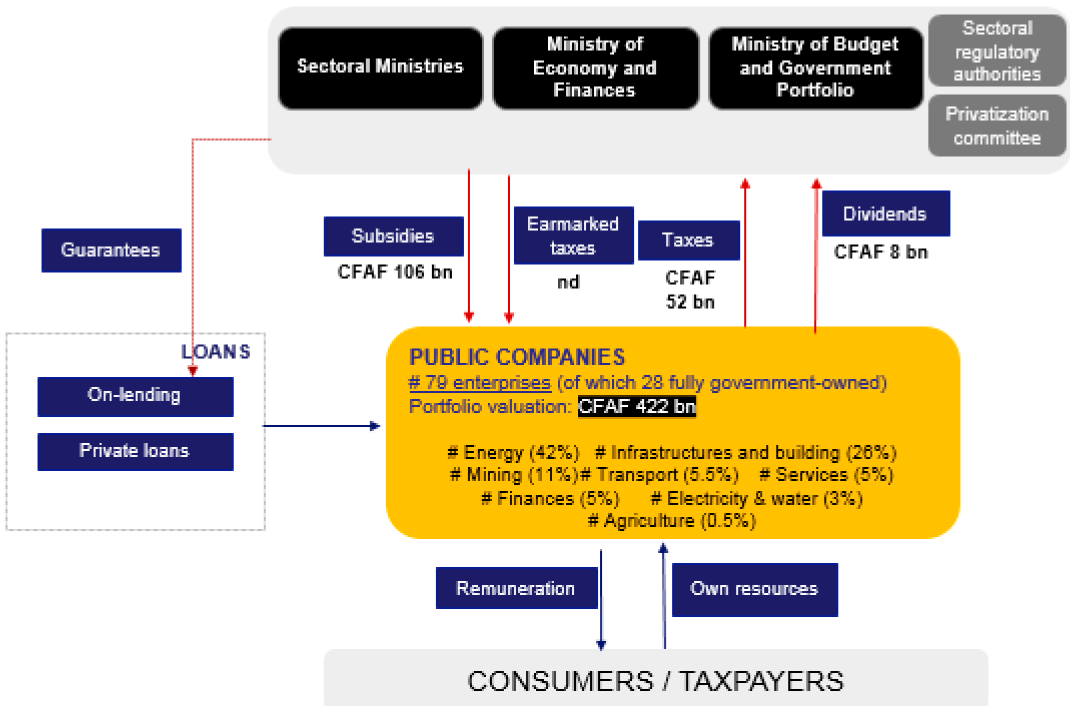
IV. IMPROVING THE MONITORING AND MANAGEMENT OF FISCAL RISKS RELATED TO PUBLIC ENTERPRISES

44. Public enterprises[18] play an important part in the Ivoirian economy and public finances (see Figure 10), which is why the fiscal risks they create for the government should be taken into account. In 2015, consolidated sales of public enterprises accounted for close to 20 percent of GDP, and they contribute 4 percent of tax revenues. Public enterprises are, moreover, a key player in the implementation of the 2016-2020 PND, since they have to ensure more than one-third of the total of planned investments over the period, i.e., more than CFAF 10,000 billion, two-thirds of which are accounted for by the transport and infrastructure sectors and over 20 percent by the energy sector. The identification, monitoring and management of fiscal risks linked to public enterprises, both at the level of the enterprises themselves and that of central government, are thus essential for ensuring that enterprises are able to play a full role in

[18] The scope of this report covers public enterprises included in the portfolio managed by the DGPE. It includes public companies as defined in the Manual of Public Finance Statistics, i.e. legal entities created in the aim of producing goods and services for the market and held or control by public authorities. As an exception, the DGPE portfolio includes 18 non-commercial structures and four public policy operators, the role and financial structure of which is similar to those of public administrative bodies.

the success of the emergence strategy, while maintaining the sustainability of public finances. Accordingly, this chapter makes recommendations for consolidating existing risk monitoring procedures (A), strengthening the coordination of these procedures (B) and communicating on the performance of enterprises in a transparent manner (C).

Figure 10. Mapping of Financial Relationships Between Public Enterprises and the Central Government (2015)



Source: Mission, based on data contained in the report on the economic and financial situation of companies in the government portfolio for 2015 – PLF 2017.[19]

A. Consolidating Existing Risk Monitoring Methods

45. The conditions for supervising government holdings have been strengthened since 2015, with a view to professionalizing the government as shareholder. The creation in 2016 of the General Directorate of the Government Portfolio (DGPE) has improved supervision thanks to sectoral specialization and the development of expertise in the areas of law, accounting, portfolio management and information systems. The attachment of this General Directorate to the MBPE, replacing the Directorate of Holdings and Privatizations, is also evidence of the desire to provide a stronger level of fiscal and financial monitoring. The new segmentation of the portfolio into five categories means that the government involvement and oversight of each

[19] The mission was not able to access figures relating to the amount of fiscal resources allocated to public enterprises, which could be the sign of an uncontrolled fiscal risk.

enterprise can be adapted according to the nature of its activities.[20] Finally, experimentation with performance contracts for seven enterprises, representing 40 percent of the target public investment attributed to public enterprises in the 2016-2020 PND, should help to improve supervision, thanks to the setting of individual multi-annual targets as part of a 2016/2020 strategic plan and a costed business plan. Nevertheless, given existing legislation (the organic law on the transparency code and the 1997 laws covering public enterprises), the DGPE does not have explicit general competence to ensure the coordinated monitoring and managing of fiscal risks associated with public enterprises.

Sources of fiscal risks related to public enterprises

46. Fiscal risks linked to public enterprises could affect both the central government budget balance and treasury operations. Within each enterprise, the materialization of risks can lead to *declining revenues* and/or *increasing expenses,* especially as a result of (i) exogenous risks leading to a decline in turnover or an increase in production costs (volatility of oil prices for example), (ii) prices for public services over which the government has control, (iii) delays or cost overruns in investment projects, or (iv) an uncontrolled borrowing policy. Consequently, the government's fiscal balance could be directly affected by insufficient earnings on the part of enterprises, via the payment of balancing subsidies, the decline in tax (in particular, the corporate income tax) and non-tax revenues (dividends), the increase in earmarked revenues, or even a need for recapitalization. The government's treasury plan could, moreover, be seriously modified in the event of default on the repayment of retroceded loans or cash calls linked to a government guarantee that is called on. Figure 11 presents a simplified tree diagram of sources of fiscal risks linked to public enterprises.

47. Exogenous factors impacting on their profitability could significantly erode the margins of public enterprises.

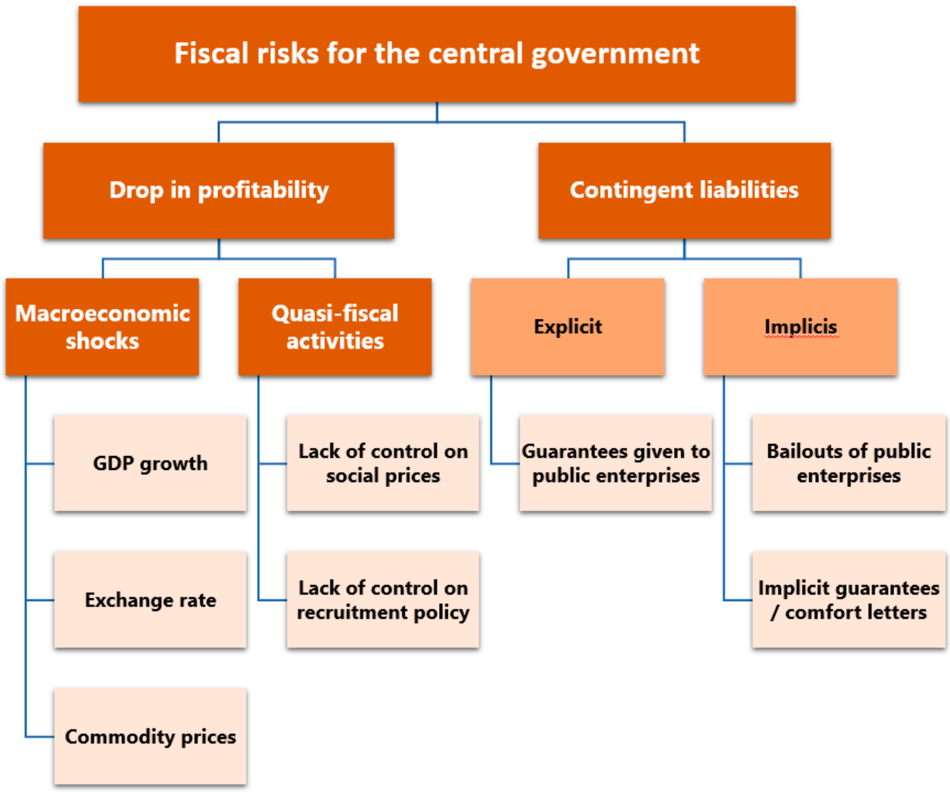
- Over and above the effect of a decrease in GDP growth, which impacts negatively on the profits of enterprises, *variations in commodity prices* could, depending on the enterprise, induce revenues and expenditure volatility. For example, fluctuations in oil and fuel prices caused a sharp erosion of the profitability of enterprises in the energy and transport sectors. In 2015, the 47 percent drop in oil prices reduced export revenues of Société Ivoirienne de Raffinage (SIR) by 58 percent. As for Société de Transports Abidjanais (SOTRA), for which fuel purchases account for close to 15 percent of expenditure, a 10 percent increase in fuel prices increased its expenditure by CFAF 1 billion, i.e., nearly 11 percent of its EBITDA in 2015,

[20] The portfolio (excluding subsidiaries and companies in the process of being privatized) is segmented into: (i) 18 non-commercial structures that play a role of facilitator and/or executor of public policy; (ii) 4 public service operators exercising a public service activity with direct government control; (iii) 10 public service delegations ; (iv) 8 "national champions", whose main aim is to develop or help develop strategic sectors, in accordance with the PND; and (v) 23 assets related activities aiming at the maximization of dividends.

without taking into account the indirect effects resulting from the increase in the cost of intermediate inputs.

- *Foreign exchange conditions* imply comparable volatility risks. For example, SIR recorded foreign exchange losses of CFAF 92 billion or 8 percent of its turnover, following the 20 percent appreciation of the dollar. 25 percent of Air Côte d'Ivoire's transactions are carried out in dollars, resulting in turnover being sensitive to the exchange rate.

Figure 11. Summary of the Main Sources of Fiscal Risks for Public Enterprises



Source: Mission.

48. As for endogenous risks impacting on the financial situation of enterprises,[21] they are mainly linked to debt, arrears and quasi-fiscal activities.

- Public enterprise debt stood at CFAF 773 billion[22] at end March 2017, +55 percent compared with end 2014, or around 3½ points of 2016 GDP. There are doubts about the sustainability of the debt of some public enterprises, which are no longer able to get financing on the

[21] According to the IMF's *Guidelines for establishing Financial Soundness Indicators* (2006), five indicators are relevant for assessing the financial soundness of nonfinancial corporations: total debt to equity; return on equity; earnings to interest and principal expenses; net foreign exchange exposure to equity; number of applications for protection from creditors. For more information see Chapter 7 (www.imf.org/external/pubs/ft/fsi/guide/2006/pdf/eng/guide.pdf).

[22] This amount corresponds to the consolidated debt of 75 out of 82 enterprises in the government portfolio, because of the lack of availability of financial data for four companies (source: DPBEP 2017-2019).

markets. Some debt ratios are alarming, for example the ratio recorded by the Fonds d'Entretien Routier (FER), which amounts to almost 4,300 percent of its share capital.[23]

- Furthermore, some public enterprises that provide goods and services are having to deal with substantial payment arrears *vis-à-vis* their suppliers and service providers. For example, there is a payment backlog in a number of independent electricity producers that generate power for CI-Energies (delays of nearly five months at the Azito and Ciprel plants). These arrears amount to almost 1 point of GDP. Although these are private arrears, the strategic importance of the sector could possibly drive the government to assume full or partial responsibility for such arrears.
- Fiscal costs resulting from the difference between market prices and social prices charged for quasi-fiscal activities, in the energy and transport sectors for example, although they are not totally set off by government subsidies, constitute a risk for the profitability of companies, and, consequently, a fiscal risk for the government. In effect, if these enterprises were to go bankrupt, the government would have a moral or political obligation to continue to provide these public services. SOTRA's social prices in the public transport sector, unchanged since 1994, are putting its profitability in danger. Compensation received from the government is in fact calculated on the basis of flat-rate billing. Similarly, given the social prices for oil and gas products, the financial situation of public enterprises in the energy sector is vulnerable to fluctuations in oil prices, since they have no control over these social prices.

Risk analysis and monitoring practices

49. The government as shareholder implements a few monitoring processes*[24]* for certain risks, which, though they are often still a work-in-progress, could be a starting point for more comprehensive analyses. The fiscal document on the financial and operational situation can be used to monitor certain risk indicators (cashflow, debt, other liabilities). The provision of governance reports, mandatory since 2015, means that "zones at risk" can be identified for each enterprise.[25] The DGPE's internal "dashboard" also includes an assessment of these zones, based on an analysis of expenditure over the last three fiscal years, along with strengths/weaknesses and opportunities/threats analyses. Automation of monitoring, thanks to the information and management system for public enterprises (SIGEP), should help to make these exchanges more fluid; in time, the SIGEP will include a data collection platform and a data

[23] This ratio is explained by substantial fund-raising between 2012 and 2015 and by the low level of share capital (CFAF 300 million).

[24] Relationships between the DGPE and public enterprises have been structured with the framework of a Relationships Charter. The identification of contact people ("focal point") within the enterprises ensures that information circulates properly. Moreover, directors can raise the alarm in the case of any financial or legal risks.

[25] They include a detailed report on governance (membership and activities of the Board of Directors and of the audit/risks committee), itemized expenditure (grants and transactions, government procurement, communication, public relations, better compensation, bonuses) and finances (subsidiaries and holdings, borrowings, guarantees). The mission did not have access to these reports.

management system. This mission did however note that this interface with SIGEP is not yet available within the public enterprises it met with.

50. Moreover, some enterprises have advanced risk monitoring practices, for which cross-cutting and sectoral utilization by the DGPE could be developed.

- In terms of risk identification and analysis, the enterprises that the mission met with stated that they use a variety of *technical tools*, the degree of sophistication of which varies in line with the specific challenges each enterprise faces. Among these tools, the following were mentioned: sensitivity analyses and long-term projections regarding certain macroeconomic risks (such as the oil price for CI-Energies), simulations of financial flows based on supply/demand equilibrium scenarios (CI-Energies), or risk analysis matrices which are then presented at management committee meetings (Société Nationale d'Opérations Pétrolières de Côte d'Ivoire (PETROCI)).
- In terms of institutional risk monitoring mechanisms, some enterprises, such as SIR, have a *unit dedicated to economic studies* that can be used to simulate the impact of certain risks. Additionally, the *risk audit and management committee*, which reports back to the Board of Directors by which it was set up, has been mandatory within all public enterprises since 2016. It is required to examine the accounts and management reports, to examine the budget and all documents of a financial nature or that have a financial impact on the public enterprise. Chaired by the director representing the MBPE, it meets at least four times a year and produces reports for the Board of Directors. However, the enterprises that the mission was able to meet with have not yet set up such a committee.

51. In order to make risk monitoring more systematic, the government as shareholder could build upon these existing mechanisms, focusing initially on the most fragile enterprises. The DGPE could thus put in place a common risk analysis framework, shared by all enterprises, in order to facilitate the reporting and consolidation of information. This framework would be based on (1) a systematic risk identification grid according to the segment or sector of each enterprise, and (2) the technical tools already developed by certain enterprises, such as sensitivity analyses (see examples in Table 7), the development of alternative scenarios or the construction of risk matrices, in line with the nature, size and probability of occurrence of risks. Table 6 provides a list of the main types of fiscal risks by segment and sector, and the analytical tools that could be associated with them.[26]

[26] This methodology could be developed more accurately during an upcoming short-term expert visit.

Table 6. Identification and Analysis Grid of the Main Fiscal Risks Relating to the DGPE Portfolio, by Segment and Sector

Segments	Sectors	Fiscal variables at risk	Main fiscal risks	Standard analytical tools
- Non-commercial - Public service operators	All	Balancing subsidies Earmarked taxation	- Quasi-fiscal activities - Decisions resulting from supervisory authority (prices, recruitment, etc.) - Volatility of earmarked revenues	Supply/demand balance scenarios, profitability analyses, methods for forecasting earmarked revenues
- Public national champion - Delegations of authority to perform public services - Asset management	Social infrastructures	Profitability / dividends	- Commodity costs	Analyses of sensitivity to commodity prices and alternative scenarios
	Transports Mining Oil Agriculture	Investments	- Commodity costs - Guarantees and comfort letters	Analyses of sensitivity to commodity prices, alternative scenarios, comprehensive list of guarantees and comfort letters
	Economic infrastructures	Profitability / dividends Investments	- Guarantees and comfort letters	Comprehensive list of guarantees and comfort letters
	Exporting enterprises	Profitability / dividends	- Foreign exchange - Guarantees and comfort letters	Analyses of sensitivity to exchange rates, alternative scenarios, comprehensive list of guarantees and comfort letters

Source: Mission.

Recommendations

- **Improve the identification and management of risks within public enterprises** (further technical assistance in 2018 could support the authorities with the implementation of this recommendation):
    - by ensuring the effective and widespread implementation of audit committees at public enterprises, initially for the first seven enterprises in the process of negotiating performance contracts (2018) prior to the systematic introduction of such committees at all enterprises by 2020;
    - by comprehensively listing and tracing government financial flows to public enterprises, including earmarked revenues, and drawing up a list of comfort letters signed between the government and public enterprises;
    - by designing a common risk analysis framework steered by the DGPE and shared with all enterprises, in order to facilitate information reporting and consolidation. This framework would be based on (1) a systematic risk identification grid according to the segment or sector of each enterprise, and (2) technical tools (sensitivity analyses, alternative scenarios, etc.) in line with the nature, size and probability of occurrence of risks (see Table 6).

- **Finalize the roll-out of the SIGEP** in order to ensure a more efficient flow of risk-related information between public enterprises and the DGPE.

B. Improving Coordination Between the Various Players

52. In order to achieve a comprehensive and consolidated vision of fiscal risks linked to public enterprises, the roles of the various stakeholders need to be clarified and coordinated. Currently, risk management is mainly envisaged at the level of public enterprises seeking to assess the impact of certain risks on their financial trajectory and their business model and to define appropriate mitigation measures. On the other hand, the DGPE, notwithstanding the creation of a sub-directorate responsible for audit and a few emerging practices (see §49), has not structured a real risk monitoring system at this stage. Moreover, the DGBF takes account of the impact of risks on subsidies, guarantees and dividends only to a limited extent.

Coordination and monitoring of risk management related to public enterprises

53. The DGPE is well placed to coordinate the management of fiscal risks related to public enterprises. It is already in contact both with: (i) public enterprises, through its presence on various boards of directors and through "focal points" which provide a practical regular interface between the enterprise and the government shareholder; and (ii) the DGBF and the DDPD, through the transmission of information on debt and guarantees. Organized into two sectorial directorates and a strategy directorate coupled with cross-cutting monitoring performed by segment, the DGPE thus has the resources to produce risk analyses on the whole of the portfolio, by sector and also by segment. Moreover, in terms of its general responsibilities as financial supervisor, it is responsible for ensuring the fiscal and financial balance of the public enterprise sector. Fiscal risk monitoring is an essential element of this role.

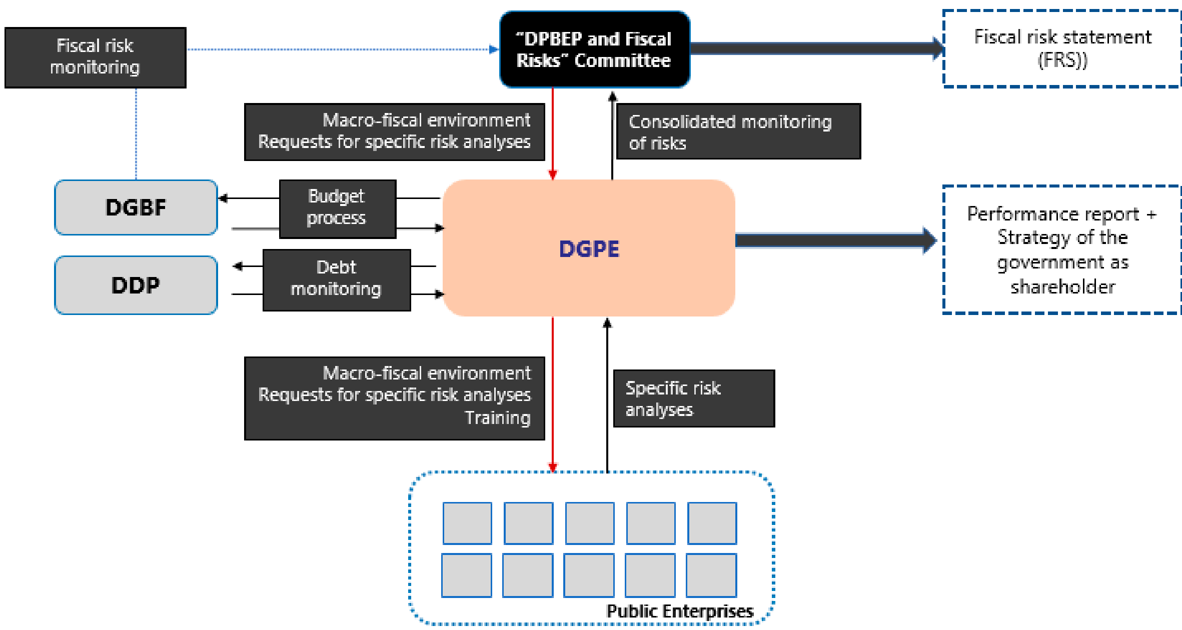
54. The identification and monitoring of fiscal risks attached to the government portfolio as a whole or by sector should thus fall to the DGPE. Through its organization, the DGPE could, in particular, be in charge of consolidating analyses produced by enterprises and task its strategy directorate to produce cross-cutting summaries (e.g., impact of foreign exchange risk on the profitability enterprises). It could also identify risks that are common to several enterprises on the basis of feedback from the audit committees or from the utilization of risk mapping exercises carried out by the enterprises. In the medium term, by developing its expertise in terms of fiscal risks and by strengthening reporting mechanisms (especially the SIGEP), the DGPE could produce analyses directly itself and compare them with those made individually by the enterprises.

55. The DGPE should work in close collaboration with the DGBF and the DPBEP Committee, whose missions are to be extended to the monitoring and management of fiscal risks (see V and Figure 12). The various analyses described in the above sections should be provided on a regular basis to the DGBF, and more specifically to the Policies and Fiscal

Summaries Directorate (DPSB), which must produce a comprehensive overview of fiscal risks. The DGPE should also be prepared to produce *ad hoc* analyses, at the request of the DGBF or possibly the DGE; it would thus play a pivotal role between these general directorates and public enterprises, from which it could request additional information or analyses in line with the requirements of the DGBF. The DGPE should also play a role in representing public enterprises on the future fiscal risks committee and in preparing its work program (see V). The directions resulting from the work program could then be transmitted to the public enterprises, specifically developed at the audit committees' level.

56. The DGPE is also the best placed for developing a culture of risk monitoring and management, both within the directorate and at the level of public enterprises. The DGPE could provide training in risk management for its teams and for executive directors representing the government.

Figure 12. The Pivotal Role of the DGPE in Fiscal Risk Management Relating to Public Enterprises



Source: Mission.

Coordination in terms of financing

57. Procedures for the granting of explicit guarantees by the government take into account the risks that they are likely to pose for public finances. The procedure for granting guarantees enables appropriate risk control: (i) the LOLF[27] requires a Council of Ministers decree for the allocation of any new guarantee, up to the limit authorized by parliament (CFAF10 billion in 2017 initial budget); (ii) guarantees are kept separately in a dedicated account which is monitored using a database that include all guarantees.[28] Accordingly, only three guarantees, granted to Air Côte d'Ivoire, are listed at end June 2017, for CFAF 28 billion, i.e., less than 5 percent of total public enterprise debt (see Table 1). Nevertheless, as part of SIR's debt restructuring plan following the audit by KPMG, the Ivoirian government has undertaken to issue a CFAF 378 billion guarantee (1.7 percent of GDP) in October 2017 in favor of SIR's lenders.

58. The process put in place for the prior authorization of public enterprise debt means that the stock of enterprise debt can be monitored and kept up to date. The framework for public enterprise debt[29] makes provision for joint authorization by the MEF and the MBPE prior to any loan: (i) applications are submitted by public enterprises to the DGPE which assesses the request; (ii) the DGPE transmits it for analysis and validation to the DDPD (department responsible for financial risk analysis); (iii) the aim is to achieve consensus between the two ministries. The information is consolidated by the DGPE on the basis of information collected from enterprises by their sectoral mission heads, then transmitted to the DDPD in the form of a "monitoring matrix". For each company, it distinguishes between the present position of the various debts.[30] This matrix can be used by the government to respect its commitment to consolidate data relative to all of the enterprises concerned before end December 2017 and to publish a summary table showing the debt service of public enterprises on a quarterly basis.

59. Certain aspects of this procedure should be specified in order to improve its effectiveness. Accordingly, to ensure the comprehensive monitoring of the debt stock of public enterprises and of future flows, borrowings of the subsidiaries of public enterprises should be integrated into the procedure, so that they do not become structures for debt deconsolidation. Moreover, in terms of sustainability analysis, the consistency between the work of the DGPE, which is responsible for the financial analysis of sustainability from the enterprise's point of view, and that of the DDPD, which is responsible for the overall view of public debt (DSAs), needs to be ensured.

[27] The LOLF (article 42) makes provision for (i) tracking guarantees in a guarantee account; (ii) provisioning 10% of annual amounts due by beneficiaries (CFAF 6.5 billion in 2017 initial budget); (iii) transmission of a report by beneficiaries on their financial situation so that the level of provisions can be adjusted if necessary.

[28] These procedures do not cover informal guarantees such as comfort letters, which are nevertheless quasi-undertakings on the part of the government.

[29] It is set by order No. 399/MPMB/DPP of June 1, 2015, setting the borrowing and guarantee threshold for government companies. The mission was unable to gain access to this document.

[30] In particular, it specifies the nature and purpose of the debt, the creditor, the amount (CFAF/foreign currency), interest rate, date put in place, term, repayment frequency, type and period deferred, existence of a guarantee, amount of outstanding debts, amount outstanding on a set date.

Recommendations

- **Expand the legal bases** (organic law on the transparency code, 1997 laws on public enterprises, regulations) **for establishing the general competence of the DGPE** in terms of the supervision, coordination and monitoring of fiscal risks relating to public enterprises;

- **Develop a risk management training program** for board members and public enterprises;

- **Amend regulations on public enterprises' debt and guarantees in order to make the authorization procedure more effective** by extending its application scope to public enterprise subsidiaries.

C. Provide More Information on the Financial and Strategic Outlook for Public Enterprises

60. Financial and economic information on public enterprises has been improved over recent years. The organic law on the transparency code promulgated in 2014 increased the amount of information to be provided to Parliament and citizens about the financial situation of public enterprises.[31] Accordingly:

- the *DPBEP* appended to the PLF has, since 2016, presented certain consolidated indicators concerning the financial situation of public enterprises over the last three years, such as changes in the portfolio, government's share in capital, turnover, net earnings, non-tax revenues, subsidies and debt. However, the DPBEP chapter on fiscal risks does not currently cover risks relating to public enterprises. Additionally, the DPBEP does not include projections on the future fiscal and financial situation of public enterprises.

- the *Report on the Economic and Financial Situation of Public Enterprises*, appended to the PLF, provides a detailed history of their individual financial situations by specifying their main intermediate operating totals as well as a few details on their activities for the previous year. It also provides some overall and sectoral analyses. This report occasionally includes elements on the financial impact, for some companies, of a few macroeconomic indicators (raw materials prices, foreign exchange). These analyses are, however, solely focused on the past and no overall or sectoral vision is provided.

61. Information to Parliament would be enhanced if a component on the future performance of public enterprises were appended to the PLF. Improving the existing report on the economic and financial situation by adding new analytical and prospective elements, consolidated on the whole of the portfolio and itemized by enterprise, on the dynamics of past and forecast net earnings, investments, cash position and dividends would make it possible to align the system with best international practice (see Box 2). The development of this report is

[31] Article 43 states that "fiscal documents and their appendices report on (…) the finances of companies and public enterprises (…)".

already being studied at the DGPE, in the aim of improving the analytical dimension of the PLF from its next edition, by providing consolidated information by segment, by deepening the qualitative analyses and by adapting information and graphics provided to the challenges faced by each enterprise or sector.

62. In the future, this report should provide better justification for past achievements and better explanations of expected performances. Data published, which should be accompanied by explanations and justifications of past and future trends, could thus include:

- *itemized information relating to each enterprise that does not appear in the existing report,* in particular: public financings granted with details of allocated tax and operating subsidies, list of guarantees granted, enterprises' cash positions, summary of debt (private and retroceded public) and other liabilities by enterprise, debt; staff paid by enterprises;
- *quantitative objectives for at least three years* could help specify the medium-term financial and operational trajectory (consolidated over the whole of the portfolio and itemized by enterprise) for a limited number of indicators: net earnings, investments, forecast cash position, taxes and forecast dividends. This publication of medium-term forecasts would be facilitated by the generalization of performance contracts (see §45), which should contain the multi-annual financial trajectory associated with them.

63. The strategy and aims of the government as shareholder should be made public. There are already a number of internal documents that formalize the DGPE's strategy, in particular, the 2014 "road map" for public enterprises and a communication by the Council of Ministers issued in April 2017. Given these already significant elements, a government-shareholder strategy, similar to a mission statement and guidelines from the French Agency for Government Holdings, for example, could be published with not much extra effort on the part of the authorities, and would at the same time align Côte d'Ivoire with best practice.

64. Finally, the DGPE could include specific elements on public enterprises in the future fiscal risk statement (FRS) attached to the DPBEP (see V).

- For the 2019 PLF, a *general and qualitative summary linked to public enterprises* that could include: (i) a view of the whole of the portfolio and its interaction with public finances; (ii) a summary of its financial performances (overall net earnings, dividends); (iii) a list and assessment of risks to which it is exposed (macroeconomic shocks, quasi-fiscal activities, etc.) including their concentration (debt ratios, etc.) (see Appendix 3 for further details).
- For the 2020 PLF, over and above a deepening of existing analyses, fiscal flows from public enterprises (dividends, tax, etc.) could be taken into account in the sensitivity analyses described in chapter III, on the basis of costing done by the enterprises themselves (see Table 5). Table 7 provides examples of relevant sensitivity analyses based on the sector or segment to which each enterprise belongs. For example, in the case of national champions or

enterprises in the export management portfolio, their exposure to foreign exchange fluctuations would be analyzed.

These elements should be transmitted by the DGPE to the entity responsible for preparing the FRS, the "DPBEP and fiscal risks" Committee. The DGPE will be positioned as the conduit for the transmission of information on fiscal risks relating to public enterprises, in accordance with the system set out in B.

Box 2. International Practices: Information on the Performance of Enterprises

- **Morocco**: the report on public establishments and enterprises appended to the PLF includes: **(i)** general summarized information on the whole of the portfolio, providing details of past and forecast performances (activities and results indicators, financial and fiscal indicators and information on governance). Targets for the year ahead include: turnover targets, a value added target, projections on expenditure (including explanations on variations), a target net result distinguishing between profitable and loss-making entities and providing an analytical explanation of the targets, forecast investments itemized by enterprise, by sector and by region, along with the funds underlying the amount of estimated tax; **(ii)** for each enterprise in the portfolio, an itemized operational and financial management report, and targets for the year ahead: forecast investments, forecast financings, possible program contract.
- **Sweden**: the activity report on public holdings includes, for each enterprise **(i)** target setting (targets for sustainable development / public policies; medium-term program); **(ii)** the allocation of individualized target figures (profitability, capital structure and share of debt, dividends); **(iii)** information on the risk management policy.

Source: Mission.

Table 7. Examples of Sensitivity Analyses of Various Financial Indicators of Public Enterprises to Macroeconomic Shocks

Assumption	Measure	Scope
xx% drop in CFAF/USD exchange rate	• Impact on net earnings • Impact on dividends • Impact on taxes	Commercial enterprises exposed to international markets in dollars (imports and/or exports)
xx% drop in oil prices	• Impact on net earnings • Impact on dividends • Impact on taxes	Enterprises in the oil and transport sector
xx% drop in GDP	• Impact on net earnings • Impact on dividends • Impact on taxes	All commercial enterprises

Source: Mission.

Recommendations

- **Publish a specific strategy for the government's public enterprise portfolio until 2020.** This strategy could include: (i) a general presentation of the objectives of the government shareholder, in accordance with the development strategy and the PND; (ii) a presentation of the portfolio management strategy and the dividends policy, segment by segment; (iii) the governance framework (appointments of director generals and compensation, executive directors, etc.); (iv) performance targets within the portfolio (multi-annual performance contracts, monitoring methods); (v) and the risk control policy.

- **Extend the report on the economic and financial situation of public enterprises to performance and risk management**:
  - by expanding the field of information to public sources of financing (tax allocated, operating subsidies, guarantees, letters of comfort), to the cash position, to debt (retroceded public and private) and other liabilities, and to salaried staff;
  - by providing explanations and justification for past trends;
  - by specifying, for a few circumscribed indicators, consolidated over the whole of the portfolio and itemized by sector and by enterprise (net earnings, investments, cash, taxes and dividends), forecast targets based on objectives set within the framework of performance contracts, which could be generalized over the medium to long term.

V. PUBLISHING A FISCAL RISK STATEMENT

65. **This section sets out recommendations aimed at improving transparency in communication on fiscal risks.** Following a brief description of existing practices in terms of communicating on fiscal risks (A), the report proposes the introduction of a fiscal risk statement (FRS), in accordance with best international practice, and makes recommendations regarding its contents (B) and on the institutional structure that could coordinate the preparation of this new document (C).

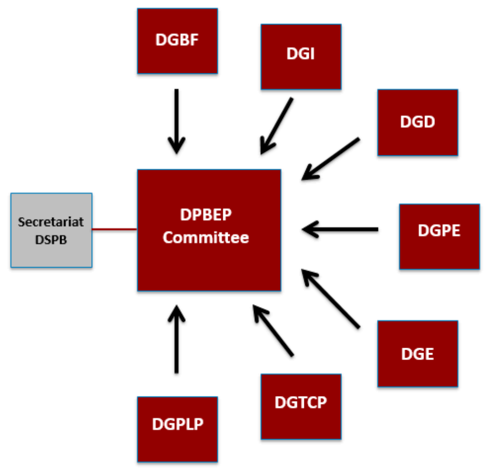
A. Existing Practices in Terms of Communicating on Fiscal Risks

66. **The DPBEP includes a "Risks on Public Finances" chapter in which fiscal risks are covered, but the analysis is qualitative and not comprehensive.** Among the risks mentioned in this two- to three-page section are socio-political and security risks, fluctuations in the prices of agricultural, mining and energy resources, risks relating to bad weather, to providers of funds, to the mobilization of financial resources, to exchange rate volatility and to the under-execution of investment. Several important aspects are thus excluded from the DPBEP, such as a more comprehensive and quantified analysis of macroeconomic shocks and changes, risks arising out of public private partnerships (PPP),[32] and risks linked to public enterprises. Analyses already carried out in this regard by the authorities and by public enterprises (see. §49 and 50) are not taken into account.

[32] For the 2018-2020 DPBEP, which will be published in early October, the authorities are planning to include an analysis of risks relating to PPPs.

67. The DPBEP is prepared by the DPBEP Committee, which is made up of the directorates general that contribute to the document (see Figure 13). The DPSB plays the role of technical secretariat. The committee meets solely for the purposes of preparing the document and its timetable for completing the work is included in the fiscal timetable. A week-long seminar is organized in June during which the drafting of the document is subject to in-depth discussion.

Figure 13. Current Organization of the DPBEP Committee



Source: Mission; information provided by the DPSB.

B. Publishing a Fiscal Risk Statement

68. The publication of a FRS officially marks the government's commitment to controlling fiscal risks, to monitor and to manage them. Publishing a FRS is an advanced practice. It enables decision-makers, the public and parliament to better understand risks and their potential impact on the budget. It helps to increase support for mitigation policies. It strengthens the credibility of the government's macro-fiscal forecasts *vis-à-vis* its creditors and the markets. When information is highly fragmented or contained in a number of different reports, or absent, it becomes difficult for external analysts to gain an overview of exposure to fiscal risks.

69. In Côte d'Ivoire, the FRS should first focus on the most serious risks and over time, extend this focus to include all risks. Drafting a FRS requires a concerted effort in order to develop the analytical and technical skills required (see Table 8). The FRS should be gradually extended to cover all of the serious fiscal risks and to provide a more detailed analysis of their potential impact (see Box 3 for a view of the FRS in 2020, and Appendix 3 for the development plan of the FRS over the 2017-2020 period). Following a presentation of each type of risk, a short paragraph explaining any mitigation measures already taken or planned would be useful for convincing outsiders of the effectiveness of the government's risk management measures. Appendix 4 sets out the contents of the FRS in several African and/or emerging countries where such statements have been introduced.

Box 3. Proposal for an Ivoirian FRS for the 2020 Budget

(see Appendix 3 for the contents of the 2018 and 2019 FRS)

1. Introduction

- Overall view and presentation of the fiscal risk management framework in Côte d'Ivoire
- Analysis of institutional strengths and weaknesses and presentation of measures under the Ivoirian plan of action in terms of fiscal risk management

2. Macroeconomic and macro-fiscal risks

- Qualitative analyses of risks arising out of the world and regional economy
- Quantitative analyses of differences between macroeconomic and macro-fiscal forecasts, fiscal sensitivity analyses with regard to the cocoa and oil price and the $/CFAF exchange rate, alternative macroeconomic scenarios and impact on budget and public debt

3. Political and security risks

- Qualitative analysis of political instability and insecurity risks
- Quantitative analysis of projects in preparation which have not yet been included in the DPBEP

4. Public enterprises

- Overall view of the portfolio (sectors, number of entities, assets and liabilities (including arrears)) and its interactions with public finances (fiscal flows and explicit contingent liabilities for the sector: subsidies, transfers of capital, guarantees etc.)
- Summary of financial performances: details of main financial aggregates and financial performance indicators for the sector as a whole
- General qualitative and quantitative overview of risks and discussion of mitigation measures
- Analysis of the sensitivity of the main aggregates of a limited number of identified risk scenarios (foreign exchange, raw materials, etc.)

5. PPPs

- Comprehensive list of approved PPP projects; details of new PPPs approved since the previous FRS; cumulative multi-annual commitments for the PPP program, gross exposure of guarantees and any other undertakings attached to PPP contracts; existing indicators and projects concerning performance, rates and prices, risk allocation
- Qualitative discussion of fiscal risk mitigation measures

6. Guarantees and other contingent liabilities

- Comprehensive list of guarantees and other contingent liabilities (explicit) granted by the beneficiary; above a certain threshold, description of the amount of the debt or undertaking, the reason for granting the guarantee, maturity, and service history
- Fiscal expenditure for calls on guarantees and revenue from guarantee costs

7. Financial sector

- Explicit contingent liabilities, sector liabilities broken down into private sector and public banks liabilities; summary of financial soundness indicators (key financial indicators such as capital adequacy ratio and the percentage of non-performing loans) by relying on existing reports
- Presentation of the history of aid to the financial sector and discussion of mitigation measures already taken or being prepared

8. Environmental risks / Natural disasters

- Qualitative analysis of budgetary risks linked to natural disasters, economic costs of past natural disasters, frequency and related fiscal costs and discussion of mitigation measures

9. Regional and local governments

- Debts of local governments and contingent liabilities for the central government

10. Long-term risks

- Analysis of alternative scenarios over 10 years in coherence with the DSA scenarios
- Abridged version of the existing DSA, with analysis of debt maturities

Table 8. Task Sharing in the Preparation of the FRS

FRS Section	Data source	Analysis	Drafting
Introduction			DPSB, Multiyear Budget and Economic Programming Paper (DPBEP) Committee
Analysis of institutional strengths and fiscal risks			DPSB, DPBEP Committee
Macroeconomic and macro-fiscal risks	Directorate of Budget and Revenue (DGBF), Directorate of Forecasting, Policies, and Economic Statistics (DPPSE), Directorate General of Taxes (DGI), Directorate-General of Customs (DGD)	DGBF, DPPSE	DGBF, DPPSE, DPBEP Committee
Political and security risks	*ad hoc*	DGBF, DPPSE	DPSB, DPBEP Committee
Public enterprises (nonfinancial)	DGPE, sectoral ministries	DGPE	DGPE, DPBEP Committee
Public-private partnerships	National Steering Committee for Public-Private Partnerships (CNP-PPP)	CNP-PPP, DGBF	DPSB, DPBEP Committee
Guarantees and other contingent liabilities	DGBF, Small-Scale Enterprise Directorate (DGPE)	DGBF, DGPE	DGBF, DGPE, DPBEP Committee
Financial sector	Central Bank of West African States (BCEAO), Large-Scale Enterprise Directorate (DGE), DGPE	DGE, DGPE	DGE, DGPE, DPBEP Committee
Environmental risks	Ministry of Agriculture	Ministry of Agriculture	DPSB, DPBEP Committee
Regional and local governments	Ministry of the Interior	DGBF	DGBF, DPBEP Committee
Long-term risks	Directorate of Public Debt and Grants (DDPD), DGE, DGBF	DDPD, DGE, DGBF	DDPD, DGE, DGBF, DPBEP Committee

Source: Mission.

70. There are several options for the format of the FRS. It could – depending on the amount of detail it contains – be included in the DPBEP as a more developed section on fiscal risks or as an appendix to the document. It could also be presented as a fiscal document with the annual budget. Where Côte d'Ivoire is concerned, a step-by-step approach, starting with enhancing the fiscal risks section of the DPBEP, then developing into a more substantial document, would seem to be the best option.

71. Although publishing a FRS is an important step, efforts should continue with the proactive management of fiscal risks. The goal is not limited to the identification, analysis, monitoring and publication of fiscal risks. The ultimate goal is the better management of fiscal risks in a proactive way, by defining measures for mitigating, provisioning and freeing up fiscal space, which should be adapted to the nature of the risks (see Box 4 for a classification of these measures). This process, which will take time and mobilize resources, will in the medium term constitute a profound change in the approach to fiscal risks and public finance policies in the broader sense within the Ivoirian government.

C. Institutionalizing the Monitoring and Publishing of Fiscal Risks

Identify an administrative structure that is responsible for fiscal risk monitoring

72. A structure in the form of a committee would appear to be a good option for monitoring fiscal risks and managing communication thereof in Côte d'Ivoire. In order to increase transparency of fiscal risks, existing work should be more comprehensive and better coordinated, both from a technical point of view and, the decisive point for this chapter, from a point of view of publication in fiscal documents. Given the Ivoirian context and the long list of ministries and general directorates concerned, a committee representing all of these structures could perform this function. This "Fiscal Risks Committee" would have the following tasks:

- Handle the preparation of the FRS in accordance with the 2017-2020 development plan (see Appendix 3).
- Coordinate identification, analysis and monitoring work with all administrative authorities, develop technical work, and gradually extend the committee's discussions to risk mitigation measures and to fiscal risk management itself.
- Hold discussions on fiscal risks with members of the Ivoirian administrative authorities in order to instill an administrative awareness of the importance of risk. This could take different forms: training seminars, study visits to countries that are more advanced in terms of fiscal risk monitoring, publications on the website, etc.

Box 4. Classifying Fiscal Risk Management Measures

Managing risks means identifying and analyzing them in order to be in a position to respond optimally if major risks materialize and to implement proactive measures for preventing their occurrence and limiting their impact.

There are three major types of measures for managing fiscal risks:

1. Mitigating measures

- Direct controls: limit the extent of state ownership, withdraw from risky areas, impose caps on total PPP-related liabilities, set limits on the issuance on government guarantees, etc.
- Indirect controls: capital adequacy, environmental standards, risk related fees, etc.
- Risk transfer instruments: oblige banks to finance a deposit insurance regime, reinsurance, hedging instruments, etc.

2. Provisioning for those risks that are not mitigated

- Expensing the costs up-front: budget for possible payments to address the occurrence of certain risks (based on statistics or history).
- Creating a budget contingency for moderate risks: provision for natural disasters, provision for expected calls on guarantees, etc.
- Buffer: fund for natural disasters, stabilization fund, deposit insurance fund.

3. Creation of fiscal headroom

- Create the fiscal headroom necessary to accommodate residual risks: create a sufficient safety margin so that even in the event that fiscal risks materialize, the debt remains sustainable.

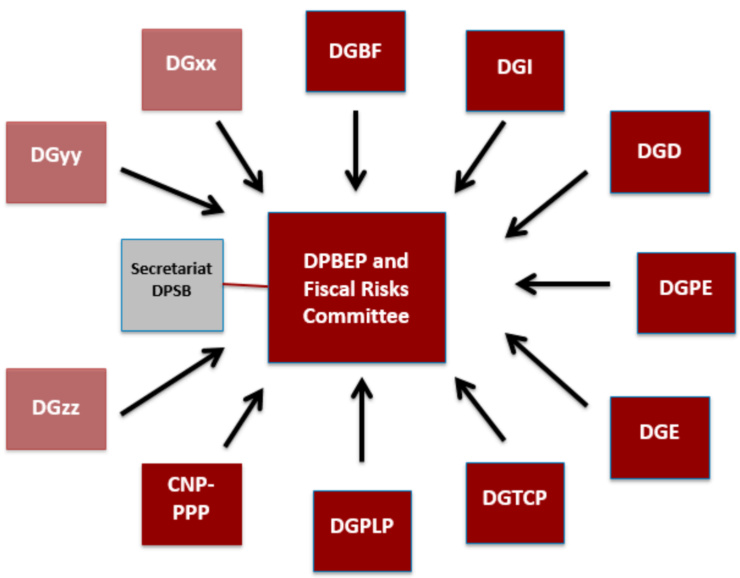
Source: IMF 2016: *Analyzing and Managing Fiscal Risks – Best Practices.*

73. **In order to avoid the creation of a new committee, it would be preferable to extend the tasks of an existing committee to the issue of fiscal risks.** Given their structure and the scope of their expertise, several committees could perform the tasks of monitoring and communicating on fiscal risks: for example, the National Public Debt Committee, the Committee for Monitoring the Economic and Financial Program or the DPBEP Committee. Nevertheless, the last option is the most appropriate because (1) this committee already includes the directorates general that are the most concerned by fiscal risks; (2) its technical secretariat functions are performed by the DPSB, a natural structure for coordinating an overview of fiscal risks; (3) it is

already preparing the publication of a chapter on fiscal risks. This DPBEP Committee, with a broader remit, could be called the "DPBEP and Fiscal Risks" Committee.

74. In order to ensure a comprehensive overview of risks, the "DPBEP and Fiscal Risks" Committee will need to include additional structures. Over and above the directorates general already represented on the existing DPBEP committee, participation of the CNP-PPP, given the risks related to PPPs, and of the Ministry of Agriculture, for risks related to bad weather and natural disasters, would be logical for example. This means that the "DPBEP and Fiscal Risks" Committee could take on two different forms, depending on the topics being dealt with. Its DPBEP format would remain unchanged. On the other hand, its Fiscal Risks format would be extended in terms of participating structures, and would meet on a much more regular basis throughout the year and not be as dependent on the fiscal timetable. Accordingly, a differentiation between members who would participate in all subjects for discussion – DPBEP and fiscal risks – and those who would participate only in discussions on fiscal risks, would be necessary. The exact composition of the committee in its extended format would, however, depend on the scope of the fiscal risks covered by the FRS (see Figure 14).

Figure 14. Proposed Organization of the "DPBEP and Fiscal Risks" Committee, in its Extended Fiscal Risks Format



Source: Mission; information provided by the DPSB.

75. The committee's work must be reported to the two financial ministries (MEF and MBPE), after approval by the directors general concerned at the two ministries. Currently, the work of the DPBEP Committee is approved by the DGBF before being transmitted to the ministers' offices. On the issue of fiscal risks, this approval should be extended to all of the directors general involved in the new committee format. This approval could take different forms: (i) creation of a committee of directors general, or (ii) more informal transmission of work to each of the directors general. The second option would have the advantage of a more agile organization. Furthermore, as the directorates general would already be represented on the "DPBEP and Fiscal Risks" Committee, the creation of a formal work validation structure would not seem to be indispensable.

Anchoring the FRS firmly in the Ivoirian legislative framework

76. The notion of fiscal risk is not covered by Ivoirian legislation, which is not in line with best international practice (see Box 5). Ideally, the legal framework should cover the different phases of managing fiscal risks: identification, monitoring, analysis of the different sources of risk, mitigation measures and declaration. An FRS should be solidly anchored in the law in order to ensure that this information is properly integrated into the fiscal procedure and that the analysis is submitted to Parliament.

Box 5. Excerpts from Legislation: International Examples

Central African Economic and Monetary Community (CEMAC)

Code of transparency and good governance in the management of public debt (Directive 06/11)

"Section II. Attributions and Responsibilities of Institutions
4. An annual fiscal timetable for drawing up the national budget is established and made public. This timetable makes provision, within a reasonable timeframe before the tabling of the draft finance law, for the publication by the government of a report on the economic assumptions underlying its main guidelines and fiscal priorities for the medium term as well as its main fiscal choices and the main fiscal risks for the year ahead. This report is debated in Parliament.

Section IV. Drawing up and Presentation of Public Budgets
1. Annual budgets are realistic and accurate, both in terms of forecast expenditure and income. For the national budget, the main fiscal risks are identified and assessed in a report which must be submitted with the fiscal documents to Parliament."

Cyprus

Tax and fiscal responsibility law

"Article 11 […] the Minister (of Finances):
(I) monitors and assesses fiscal risks resulting from various sources by preparing a statement of fiscal risks, in accordance with section (1) of Article 58.

Article 58. –
(1) The Minister is responsible for monitoring fiscal risks which have a significant impact on the financial outlook, he/she identifies and analyses these risks and submits a statement of fiscal risks with the budget published in accordance with this law […]

Article 58 (2)
In the context of section (1), the Minister –

> *(A) may request any financial report, and any information concerning the financial risk of an economic operator as well as any other general government entity, any organization financed by the government, any entity managed by another person or entity receiving guarantees and loans from the Republic;*
> *(B) defines the information submitted to the minister as well as the timetable and the procedure."*

Box 5. Excerpts from Legislation: International Examples (concluded)

New Zealand

Public Finance Act

"Section 26G. Principles of responsible fiscal management

(1) The Government must pursue its policy objectives in accordance with the following principles (the principles of responsible fiscal management): [...]

(d) managing prudently the fiscal risks facing the Government; [...]

Section 26Q. Fiscal forecasts

(3) The fiscal forecasts must also include—

[...] (b) a statement of specific fiscal risks of the Government as at the day on which the forecast financial statements are finalised—

(i) that sets out specific fiscal risks that relate to—

(A) the Government decisions and other circumstances required by section 26U to be incorporated in the economic and fiscal update prepared under section 26O; and

(B) any other contingent liabilities (including any guarantees or indemnities given under any Act); and

(ii) that discloses the rules used to determine what is and is not a fiscal risk; [...]"

Brazil

Fiscal responsibility law

"Article 4. The law on Fiscal Guidelines must include an appendix on fiscal risks, which assesses contingent liabilities and any other risk that could impact on public accounts and must also set out measures to be taken, should that occur."

Source and translation: Mission.

77. **Anchoring the FRS in law could be achieved through organic laws governing the fiscal procedure.** The organic law of June 5, 2014 covering finance laws and the organic law of June 5, 2014 on the transparency code for the management of public finances form the legal corpus at a constitutional level which provides a framework for the management of public finances and fiscal procedures. Including a provision concerning the FRS in the organic law on the transparency code would appear to be preferable as the publishing of an FRS is a question of transparency in the management of public finances. It should also be clear in the law that the main fiscal risks must be identified and assessed in a report which should be included with the fiscal documents provided to Parliament. According to information provided to the mission, an amendment to the organic law on the transparency code has already been planned for 2019 as part of the implementation of program budgeting.

Recommendations

- **Prepare and publish a Fiscal Risk Statement (FRS)** which, at least for the first years, will be presented as a chapter of the DPBEP. The analysis presented will gradually be enriched over the next three years with new quantitative and qualitative elements and mitigation measures (see Appendix 3 for details).
    - *Very short term (2017)*

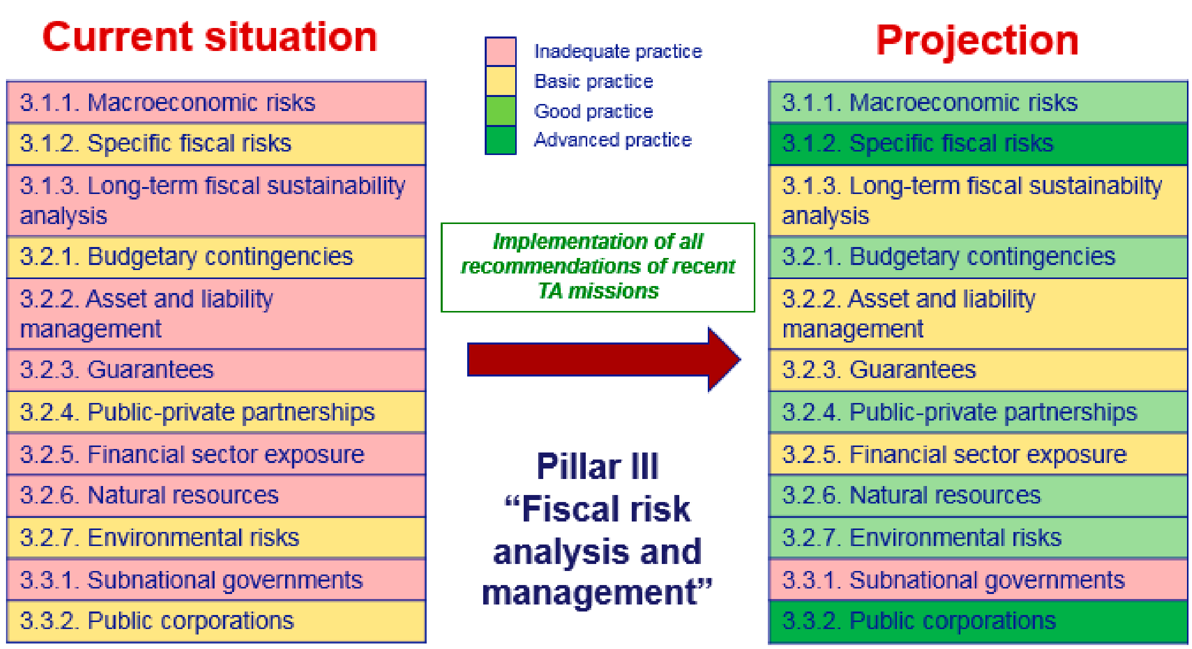
    - Include simple macroeconomic sensitivity analyses (price of cocoa, fuel, $/CFAF exchange rate) that exist in consistency with the debt sustainability analysis (DSA)
    - Present an abridged version of the DSA
    - Draw up a table of PPP projects with quantitative information if available
  - *Short term (2018)*
    - Prepare an "Appendix: Fiscal Risk Statement" the structure of which stems from the main Ivoirian fiscal risks
    - Enrich the qualitative analysis of quantitative and analytical elements
  - *Medium term (2019 and 2020)*
    - Enhance the quantitative analysis and hold in-depth discussions on risk mitigation measures (see Box 3)
    - For the 2021 budget, envisage the presentation of the "Fiscal Risk Statement" as part of fiscal documentation but independent of the DPBEP.
- **Extend the missions of the DPBEP committee to the preparation of the FRS, the analysis and monitoring of fiscal risks, and revise its composition**
  - Have the committee's work validated by the key directors general of the Ministry of the Budget and Government Portfolio and the Ministry of the Economy and Finance (MEF), before presenting it to the Ministers.
  - Anchor the committee in law through a regulatory text.
- **Draw up and implement an action plan for the analysis and management of fiscal risks**
  - Include the FRS development plan in the action plan (see Appendix 3). To achieve this, capacities and training will need to be increased considerably in order to ensure the quality of the work prepared with a view to drafting the FRS.
  - Anchor the preparation and the publication of the FRS in the organic law on the transparency code for the management of public finances, as part of an amendment already planned for 2019.
  - Make long term plans to extend the scope of competence of the "DPBEP and Fiscal Risks" committee to the management of fiscal risks.

Appendix 1. Pre-evaluation Scores for Côte d'Ivoire Using FTE Methodology (Pillar III)

The Fiscal Transparency Evaluation (FTE) is the IMF's tool for assessing the transparency of fiscal information. This evaluation is based on the Fiscal Transparency Code,[1] which includes a set of principles based on four major pillars: (I) fiscal reporting, (II) fiscal forecasting and budgeting, (III) fiscal risks analysis and management and (IV) resource revenue management (optional pillar). Each principle is practically assessed as advanced, good, basic or inadequate, in order to provide the country with clear milestones towards full compliance with the Code. FTE provides countries with a comprehensive assessment of their fiscal transparency practices, rigorous analysis of sources of fiscal vulnerability, a visual account of reform priorities to improve transparency and a sequenced action plan. Developed in 2014, FTE has been carried out in 22 countries (at end June) on a voluntary basis, including five low revenue countries and 12 emerging countries. It has not yet been implemented in Francophone Africa.

As part of the mission, Côte d'Ivoire was pre-assessed on the basis of Pillar III on the analysis and management of fiscal risk. The results (Figure 15) show that practices in Côte d'Ivoire in terms of transparency over fiscal risks are still limited. Nevertheless, if all of the recommendations in this report along with those in reports on the assessment of public investment management (December 2016) and managing fiscal risks linked to PPPs (February 2017) were implemented, Côte d'Ivoire's scores would improve significantly and exceed the average of evaluations already carried out.

Figure 15. Pre-evaluation of FTE Pillar III Scores and Simulation of Scores Following Implementation of Recent FAD Mission Recommendations



Source: Mission.

[1] For more information on the Fiscal Transparency Code, http://www.imf.org/external/np/fad/trans.

Appendix 2. Fiscal Risk Analysis Grid for Côte d'Ivoire

	FREQUENCY			
SOURCE	**Permanent**	**Temporary**		
		Probable	**Possible**	**Indefinite**
Exogenous	Macro shocks: - volatility of cocoa, oil, oil product and coffee prices - Decline in growth rate - Fluctuations in $/CFAF exchange rate - Changing interest rates	- Development aid flows	- Natural disaster: drought, floods, water and ground pollution, swollen shoot/cocoa disease, bushfire, - Depletion of gas reserves - Settlement of disputes (oil border with Ghana)	- Financial sector crisis (CNCE, BNI, UNACOOPEC, etc.) - Political risks - Terrorism - Loss of access to international markets - Epidemics
Endogenous	- Institutional risk: over- and underestimation of fiscal and growth forecasts, budget overruns (unplanned spending following trade union resolution demands, settlement of "liabilities" or "overdue contracts", delays and cost overruns on investment projects, monitoring of undertakings, tax expenditure, costing of new measures, liquidities management - Quasi-fiscal activities (SOTRA, AIR Côte d'Ivoire, CI-Energie social pricing).	- Contingencies associated with the organization of the Francophonie Games - Bonus for completing PPP before deadline - Implementation of EPAs	- Guarantees (public enterprises, PPPs), including pre-financings and letters of comfort	- Public enterprise debts and arrears (SIR, CI-E, FER, etc.) - Financial default of private partner in a PPP project PPP - Local authority debts, arrears and PPPs

Sources: IMF based on information provided by the Ivoirian authorities.

Appendix 3. Development Plan for the Fiscal Risk Statement (2017-2020)

FRS Section	2018 budget	2019 budget	2020 budget
Introduction		• Overview and presentation of the framework for identification, analysis, monitoring, and publication of risks in Côte d'Ivoire	• Overview and presentation of the framework for identification, analysis, monitoring, and publication of risks in Côte d'Ivoire • Analysis of institutional strengths and weaknesses and presentation of measures in connection with the action plan for Côte d'Ivoire in terms of fiscal risk management
Macroeconomic and macro-fiscal risks	• Quantitative analyses and macroeconomic and macro-fiscal forecasts; budget sensitivities to cocoa and fuel prices; and the US$/CFAF exchange rate	• Qualitative analyses of risks deriving from the world and regional economies • Quantitative analyses of macroeconomic and macro-fiscal forecasts; budget sensitivities to prices of cocoa and fuel; and the US$/CFAF exchange rate	• In-depth qualitative analysis of risks deriving from the world and regional economies •Quantitative analyses of discrepancies between macroeconomic and macro-fiscal forecasts; fiscal sensitivities to prices of cacao, fuel, and the US$/CFAF exchange rate; alternative macroeconomic scenarios and impact on the budget and public debt
Political and security risks		• Qualitative analysis of risks of political instability and insecurity	• Qualitative analysis of risks of political instability and insecurity • Quantitative analysis of projects being prepared that have yet to be included in the multiyear economic and budget programming paper (DPBEP)
Public enterprises (nonfinancial)		• Overview of the portfolio (sectors, number of entities, assets and liabilities (including arrears) and interactions with the fiscal area (explicit contingent liabilities and budget flows for the sector): subsidies, capital transfers, guarantees, etc.) • Summary of financial performance: details of the key financial aggregates and financial performance indicators for the overall sector • General qualitative overview of risks (macroeconomic shocks, quasi-fiscal activities, etc.), and discussion of mitigation measures	• Overview of the portfolio (sectors, number of entities, assets and liabilities (including arrears), and interactions with the fiscal area (explicit contingent liabilities and budget flows for the sector): subsidies, capital transfers, guarantees, etc.) • Summary of financial performance: details of the key financial aggregates and financial performance indicators for the overall sector • General quantitative and qualitative overview of risks and discussion of mitigation measures • Analysis of the sensitivity of the key aggregates to a limited number of identified risk scenarios (foreign exchange, inputs, etc.)
Public-private partnerships	• Comprehensive list of approved PPP projects, and quantitative information, if available	• Comprehensive list of approved PPP projects, details of new PPPs approved since the previous Fiscal Risk Statement (FRS), cumulative pluriannual commitments under the PPP program, gross exposure in connection with guarantees, and other contingent liabilities relating to PPP arrangements	• Comprehensive list of approved PPP projects, details of new PPPs approved since the previous FRS, cumulative pluriannual commitments under the PPP program, gross guarantee exposure, and other contingent liabilities in connection with PPP arrangements • Qualitative discussion of fiscal risk mitigation measures
Guarantees and other contingent liabilities		• Comprehensive list of guarantees and other contingent liabilities (explicit) granted by the beneficiary; • Budget expenditure in connection with the activation of guarantees and guarantee expenditure revenue	• Comprehensive list of guarantees and contingent liabilities (explicit) granted by beneficiary; description of the amount above a given threshold; reason for approving the guarantee; maturity and service history of the debt or liability • Budget expenditure in connection with the activation of guarantees and guarantee expenditure revenue
Financial sector		• Explicit contingent liabilities, liabilities of the sector broken down into liabilities of the private sector and public banks; summary of financial soundness indicators (key financial indicators such as capital adequacy ratios and the proportion of nonperforming loans) based on existing reports • Presentation of the financial sector aid history	• Explicit contingent liabilities, liabilities of the sector broken down into assets of the private sector and public banks; summary of financial soundness indicators (key financial indicators such as capital adequacy ratios and the proportion of nonperforming loans) based on existing reports • Presentation of the history of financial sector aid and discussion of attenuation measures already taken and those in the preparation stages
Environmental risks		• Qualitative analysis of fiscal risks in connection with natural disasters, economic costs of past natural disasters, frequency, and related fiscal costs	• Qualitative analysis of fiscal risks in connection with natural disasters, economic costs of past natural disasters, frequency, and related fiscal costs • Discussion of mitigation measures
Regional and local governments		• Qualitative analysis	• Debts of local units of government and contingent liabilities of the central government
Long-term risks	• Abridged version of the existing debt sustainability analysis (DSA)	• Abridged version of the existing DSA, with analysis of debt maturities.	• Analysis of alternative scenarios over a period of 10 years consistent with the DSA scenarios • Abridged version of the existing DSA, with analysis of debt maturities.

Appendix 4. Contents of the Fiscal Risk Statement: International Examples

FRS Section	South Africa	Kenya	Philippines
Introduction	• Summary and graph presentation of the government's fiscal risk framework	• Economic context • Institutional context and reasoning to justify submission of a fiscal risk statement (DRB)	• Brief (qualitative) summary of major risks with key mitigation measures • Prior to introduction: summary of new items incorporated into the DRB
Analysis of institutional strengths and fiscal risks	• Analysis of fiscal risks from previous years and analysis of institutional strengths (the system, in terms of current fiscal management, the fact that most of the debt is denominated in local currency, etc.)		
Macroeconomic and macro-fiscal risks	• Analysis of discrepancies between growth and outturn • Analysis of macroeconomic scenarios • Presentation of debt maturities until 2030 and analysis of debt rollover risk until 2030	• Analysis of the sensitivity of budget aggregates to changes in macroeconomic assumptions • In-depth quantitative analyses of budget forecasts • Analysis of public debt indicators, 2017-2025	• Discrepancies between macroeconomic forecasts and outturn • Very in-depth discussion and analysis of macroeconomic risks (world and regional economies, inflation, oil prices, trade) and mitigation measures • Macro-fiscal analyses of the sensitivity of revenue and expenditure to growth in GDP, inflation rate, interest rates, and exchange rates • Quantitative analysis of revenue and detailed description of (legislative and other) reforms to improve fiscal performance • Analysis of under-execution of budget expenditure • In-depth quantitative analysis of debt risks (refinancing, interest payments, debt amortization, and exchange rate); DSA with probabilistic methods
Political and security risks	• Short term: pressure on wages, under-execution, pressure on exchange rates • Medium term: contingency expenditure, although not endangering the MTBF ceiling	• Terrorism: qualitative analysis • Technological disasters: qualitative analysis of risks in connection with mobile money transfer services	
Public enterprises (nonfinancial)		• Qualitative analysis of explicit and implicit risks	• In-depth quantitative analysis of 14 major nonfinancial enterprises (consolidated public sector financial position, analysis of cash flows, liabilities, state guarantees, and budget flows) • Presentation of governance reforms
Public-private partnerships		• Quantitative analysis of infrastructure projects and (nonquantified) list of projects included in the listing of 64 national priority PPP projects • Presentation of mitigation measures (a management tool and unit responsible for assessment) integration of contingent liabilities into the debt management process, and a revolving fund for management of contingent liabilities in connection with PPP projects)	• Comprehensive list with quantitative information of projects in the implementation stage • Comprehensive list with quantitative information of all projects (annexed); information on the stock of contingent liabilities • Risk mitigation measures and information on disputes in progress
Guarantees and other contingent liabilities	• Presentation of total exposure and key contingent liabilities (description and total amount of contingent liabilities)	• Qualitative analysis of uncapitalized retirement liabilities	• See public enterprises, PPPs, and financial sector
Financial sector		• Declaration of contingent liabilities deriving from the deposit insurance system	• Quantitative sector analysis (growth, profitability, and key indicators) • Quantitative analysis of fiscal risks (direct and contingent liabilities, deposit insurance system) • Mitigation measures taken by the central bank and comprehensive description of prudential reforms
Environmental risks		• Qualitative analysis of the impacts of natural disasters • Climate change: qualitative analysis	• Quantitative analysis of the impacts of natural disasters • Mitigation measures • Climate change
Regional and local governments		• Qualitative analysis	• Quantitative analysis of fiscal risks with different indicators such as own resources • Detailed mitigation measures
Long-term risks	• Brief analysis of demographic projections and projections of risks deriving from lower growth rates in local communities and mitigation measures		• Debt sustainability analysis - see macroeconomic and macrobudgetary risks • Detailed mitigation measures
Sources:	Fiscal Risk Statement 2016	Statement of Specific Risk, 2017 Draft Budget Policy Statement	Fiscal Risk Statement 2015/2016