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**\*Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**





# CÔTE D'IVOIRE

## SELECTED ISSUES

May 31, 2022

Approved By  
The African Department

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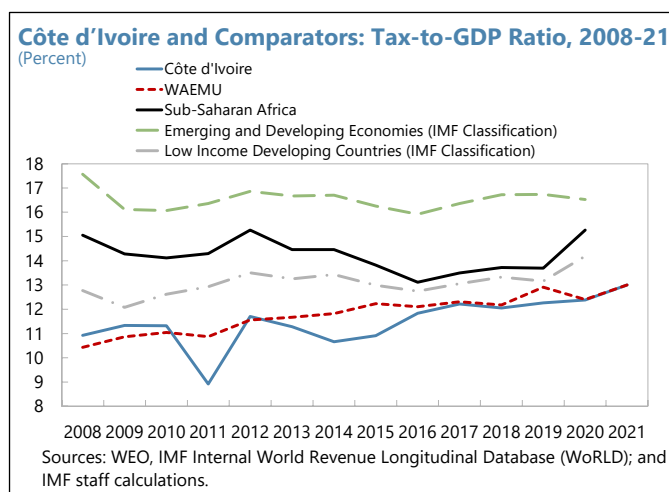
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# ASSESSING THE SCOPE FOR DOMESTIC REVENUE MOBILIZATION<sup>1</sup>

*Côte d'Ivoire's tax revenue has been increasing in recent years, supported by the authorities' efforts, particularly on tax administration and digitalization. However, tax revenue remains low by international standards reflecting tax exemptions as well as low level of indirect taxation and non-compliance. While recent tax measures are encouraging, more policy changes are necessary, and should be anchored in comprehensive tax policy and administration reforms to boost revenue mobilization. Côte d'Ivoire's tax policy reforms should focus on simplifying the personal income tax (PIT) regime and enhancing its progressivity; reducing or eliminating discretionary and statutory tax exemptions (particularly for value added tax and business profit tax); and harnessing unrealized revenue potential of property and excise taxes. Tax administration reforms should be sustained to further modernize tax and customs administration; deepen digitalization; and enhance management of human resources.*

## A. International Comparison of Côte d'Ivoire's Tax Revenue Performance

**1. Tax revenue performance in Côte d'Ivoire remains a major challenge.** Despite the recent increase to 13 percent of GDP for 2021, Côte d'Ivoire's tax revenue remains well below the West Africa Economic and Monetary Union (WAEMU) convergence target of 20 percent of GDP (IMF 2021) and low by international standards. Indeed, between 2008 and 2020, Côte d'Ivoire's tax revenue performance has been below average levels in sub-Saharan Africa, low income developing countries, and emerging markets.



**2. Tax revenue underperformance is reflective of pervasive tax exemptions,** particularly in sectors that are key drivers of economic growth (e.g., agribusiness, construction, transportation), as well as low level of indirect taxation and non-compliance.

**3. Many countries succeeded in generating large revenue gains, pursuing both tax policy and revenue administration measures to broaden the tax base for both direct and indirect taxes** (Akitoby et al 2020 & 2018). Such measures included improvements in tax compliance (particularly, risk-based audits, registration, filing, payment, and reporting, including via

<sup>1</sup>Prepared by Kaleb Tamiru Gulilat

digitalization), as well as reduction of exemptions—most frequently related to value-added tax (VAT), corporate income taxes (CIT), and other goods and services taxes—and/or elimination of tax holidays or other tax incentives.

**4. Many countries focused their revenue mobilization efforts on indirect taxation**, in particular value-added tax (VAT) given that it has a broad consumption tax base and higher efficiency of collection (Akitoby et al 2020).<sup>2,3</sup>

**5. Like most reforms, tax reform is an inherently political process potentially, often affected by resistance from vested interest groups** (Abdel-Kader and de Mooij 2020; Akitoby et al 2020; IMF 2018). Gaining traction depends on inclusive consultation to include multiple stakeholders in society (i.e., business, tax professionals, civil society organizations, etc.)—coupled with an effective communication strategy emphasizing the benefits to society of reforms, such as those associated with the socially useful spending that can be financed by the increased revenues (Abdel-Kader and de Mooij 2020; Akitoby et al 2020 & 2018). Emphasizing the joint impact of tax reforms (especially if progressive) and the additional expenditures they help finance could further garner support, despite potential opposition from stakeholders that will be taxed more (Abdel-Kader and de Mooij 2020). At the same time, it is also important to strengthen institutional arrangements, particularly the capacity—within the tax policy unit—to undertake solid quantitative and qualitative analyses of possible reforms (see, for instance, How-To Note: Grote (2017), *How to Establish Tax Policy Units*.)<sup>4</sup>

## B. General Diagnosis of the Tax System and Recent Measures

### Tax Policy

#### *Direct Taxation*

##### *Personal Income Tax (PIT)*

**6. Personal income tax (PIT) is complex and opaque, juxtaposing a schedular system (*fiscalité cédulaire*) with taxation of total income (*impôt global sur le revenu*).** Calculation of tax obligations is further subject to consideration of a family allowance (*le quotient familial*),<sup>5</sup> as well as tax exemptions and abatements (*abattement forfaitaire*) of 20 percent and 15 percent. However, the design of tax abatements (*abattement forfaitaire*) is regressive, insofar as the overall reduction in taxable income generates sharper tax reductions for higher tax brackets (Leduc, S. et al 2020).

<sup>2</sup>Policy and administration efforts improve the C-efficiency ratio, defined as actual VAT receipts to notional receipts that would be collected if the tax was levied at a uniform rate on all final consumption and assuming full compliance.

<sup>3</sup>In the study sample, average C-efficiency ratio increased from 0.25 and 0.47 in 2000 to 0.36 and 0.57 in 2015 respectively, for low-income countries (LICs) and emerging market countries (EMs) (Akitoby et al 2020 & 2018).

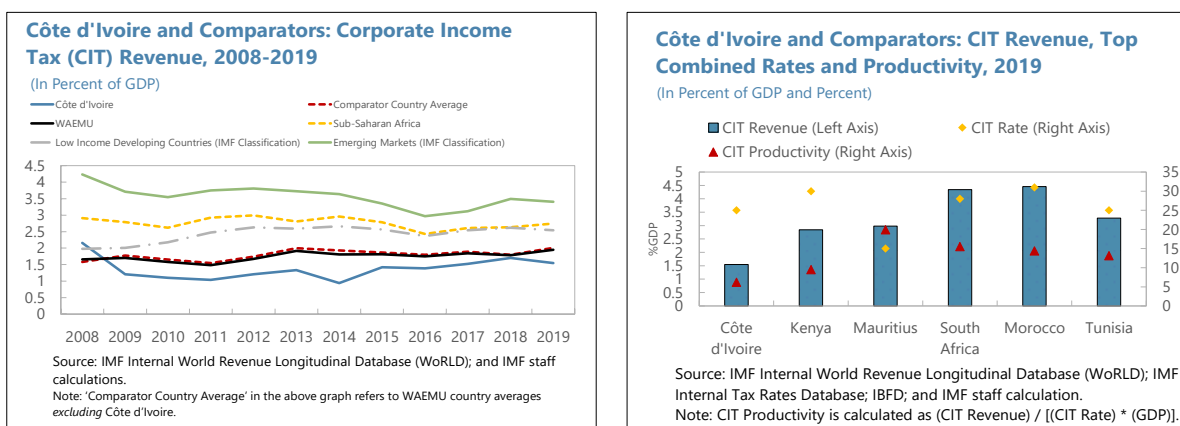
<sup>4</sup><https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2017/10/19/How-to-Establish-a-Tax-Policy-Unit-45322>

<sup>5</sup>Effectively, the *quotient familial* is an income-splitting mechanism that spreads income over a calculated number of family members - and is highly regressive since it benefits most large families with high income.

Additionally, Article 120 of General Tax Code levies a 1.5 percent proportional tax on labor income, which adds an additional layer of taxation.

### *Business Profit Tax (BPT)*

**7. The revenue performance and overall fairness of business profit tax (BPT)<sup>6</sup> is weakened by numerous tax exemptions, a generous investment code, and informality (IMF 2021).**



### *Property Taxes*

**8. Revenue from property tax (0.54 percent of GDP in 2018) is comparable to other developing countries, which averages around 0.6 percent of GDP (IMF 2021).** Property tax revenue target of one percent of GDP is generally considered a benchmark by experts.<sup>7</sup>

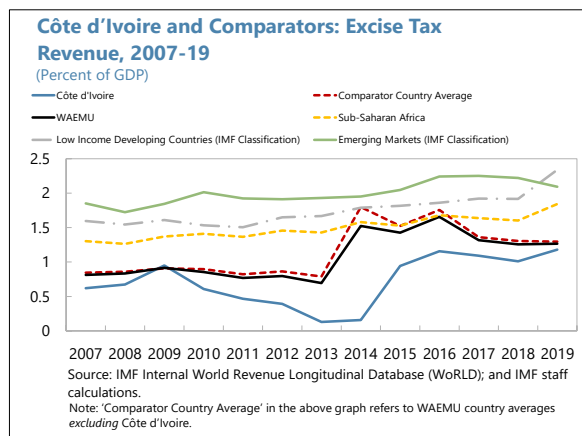
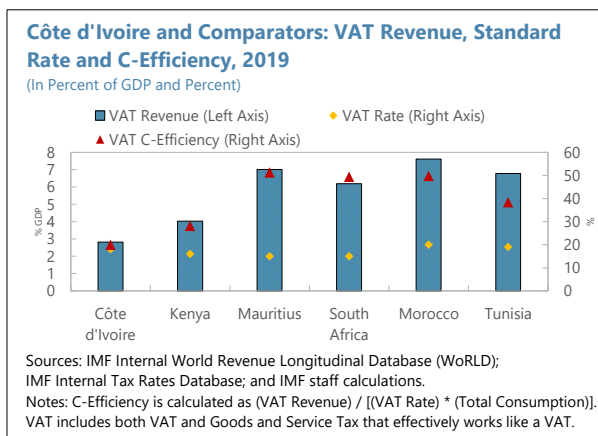
### *Indirect Taxation*

#### *Value Added Tax (VAT)*

**9. On tax policy, the largest gap vis-à-vis peer countries lies with low value added tax (VAT) revenues, which, at three percent of GDP, represents only half of what non-oil frontier markets collect, corresponding to a low C-efficiency ratio of 0.2 (2019).** This could be attributed mainly to VAT exemptions (e.g., construction sector, grains, and oilseeds industries), reduced rates, as well as weak compliance.

<sup>6</sup>Côte d'Ivoire's General Tax Code does not have a corporate income tax (CIT) *per se*, but rather a business profit tax (BPT). For consistency of comparison with comparator countries, the term corporate income tax (CIT) is used interchangeably to denote business profit tax in the context of Côte d'Ivoire.

<sup>7</sup>Ahmad et al (2017) as cited in Rota-Graziosi et al (2018).



## Excise Taxes

**10. Côte d'Ivoire's excise tax revenue has remained around or below one percent of GDP throughout the period 2007-2019—suggesting significant untapped revenue potential.** In 2019, where a slight uptake in Côte d'Ivoire's excise tax revenue is observed, its level remains well below the averages for sub-Saharan Africa and low-income developing countries (see figure above on the right). International review indicates that excise tax revenue potential ranges from one percent of GDP in low-income countries to 2.5 percent of GDP in advanced countries (Abdel-Kader and de Mooij 2020). Excise tax policy should in general focus on a few targeted goods, namely tobacco, alcohol, fuel, and possibly passenger vehicles. Article 359 of Côte d'Ivoire's General Tax Code provides for a reduced VAT rate on petroleum products, which seems inconsistent with the economic rationale of levying targeted excise taxes on such products. Aligning excise tax rates to regional WAEMU directives would be particularly useful to ensure similar levels of taxation in neighboring countries, thereby minimizing the risks of illegal trafficking such as bootlegging and smuggling.

**11. Generally, multiple excise tax regimes that are earmarked may prevent flexibility to allocate pooled resources depending on prevailing spending priorities.** Côte d'Ivoire's excise tax code includes additional earmarked tobacco excise taxes. Article 1085 of the tax code includes a special tax of five percent on tobacco for sports (*taxe spéciale sur le tabac pour le développement du sport*). Revenues from this tax are earmarked as follows: 50 percent to the Ivoirian Federation of football; 35 percent to other sports federations; and 15 percent to the socio-sports infrastructure project unit. Article 1133 of the tax code includes another special tax of two percent additional solidarity excise tax to fight against AIDS and smoking (*taxe de solidarité et de lutte contre le SIDA et le tabagisme*). Revenues from this tax are earmarked as follows: 70 percent for the National Foundation against AIDS (*Fonds National de Lutte contre le SIDA*) and 30 percent for the national program against alcoholism, tobacco, and other types of addiction (*Programme National de Lutte contre le Tabagisme, l'Alcoolisme, la Toxicomanie et les autres addictions*).

## Tax Administration

**12. Significant efforts have been devoted to strengthening tax administration in Côte d'Ivoire, including in the areas of comprehensive digitalization of tax and custom**

**administration processes.** Revenue administration reforms are deep reforms requiring organizational change and staff retraining to adapt to new tasks. Côte d'Ivoire needs to sustain the momentum of ongoing reforms, with a view to support tax mobilization capacity. It should be underscored, however, that improvement in tax administration alone is unlikely to yield revenue if the policy framework is fragmented and opportunities for tax avoidance and evasion are not adequately controlled.

### C. Recent Tax Measures in Côte d'Ivoire

**13. Côte d'Ivoire is implementing steps to enhance revenue mobilization both through tax policy and tax administration measures.** The tax authority (*Direction Générale des Impôts (DGI)*) indicates a 20.8 percent increase in tax revenues from 2020 to 2021,<sup>8</sup> which is attributed to tax policy efforts (FCFA 59.6 billion or about 5.2 percentage points of the increase); enhanced tax administration (FCFA 163.3 billion or about 14.6 percentage points of the increase); and tax arrears collection related to COVID-19 measures (FCFA 11.2 billion or about 0.2 percentage points of the increase).

**14. Specific measures included rationalizing tax exemptions; cadaster registry of land to enhance property taxes; enhancing excise tax revenues; and modernization of tax administration through digitalization.** These are discussed in further detail in the following paragraphs.

#### Enhancing Tax Policy

##### *Rationalizing Tax Exemptions*

**15. Measures included in the government's 2019 plan for rationalizing tax exemptions helped generate additional revenues in 2021 of around FCFA 18 billion (about \$ 30 million).** Additional revenues were generated from eliminating investment-related exemptions granted to the *Loterie Nationale de Côte d'Ivoire (LONACI)*, as well as public subsidies allocated to *l'Association pour la Promotion des Exportation (APEX-CI)*.

##### *Property Taxes*

**16. A cadaster inventory of taxable land plots has been on-going between 2018–2021, which increased total taxable plots of land countrywide from 504,171 (30 percent) to 1,371,332 (69 percent).** In the city of Abidjan, cadaster inventory increased from 240,141 (60 percent) to 360,183 (82 percent) – whereas for the interior of the country, the corresponding increase was from 264,030 (21 percent) to 1,011,149 (65 percent).

**17. In a similar effort, the Land Registry Department conducted land surveys (audits) in 2021 on buildings with more than two levels in Abidjan.** In 2021, the assessed rights (*droits*

<sup>8</sup>This is significantly more than the increase in GDP. However, tax revenue levels were likely negatively affected in 2020 due to the COVID-19 pandemic; hence, the increase in revenue levels from 2020 to 2021 likely also reflects a rebound effect.

*constatés liquides*) amounted to FCFA 1,256,558,696, of which FCFA 637,530,454 was recovered (50.7 percent). Similar exercise is expected to continue in 2022.

### **Excise Taxes**

**18. A modest effort was implemented with respect to excise taxes. Excise tax rate on tobacco has been increased from 39 percent (FCFA 8,346.80 million) to 40 percent (FCFA 8127.15 million) in 2022**, with a potential estimated gain in tax revenues of FCFA 219.65 million (*about \$0.3 million*). In addition, to conform to the WAEMU directives, excise tax rates on cosmetic products have been reduced from 50 percent to 15 percent in the *Annexe Fiscale* of the 2022 finance law.

### **Modernizing Tax Administration**

**19. Digitalization has been an on-going measure under implementation to streamline/modernize tax administration.** *Arrêté No. 0054/MPMBPE* (March 10, 2000) made electronic tax declaration (E-tax) and payment mandatory for all taxpayers of net business profits (under standard rules) beginning April 1, 2020. A single taxpayer identification number (STIN) is being issued to all new businesses while a majority of existing medium-size and large enterprises have been re-registered with a new STIN (IMF 2021). This is a critical step to enable information exchange on taxpayers between revenue collecting agencies of the government.

**20. A new IT system (*Le Système intégré de gestion d'impôts (SIGICI)*) has also been deployed throughout the services of Côte d'Ivoire's tax authority (*Direction Générale des Impôts (DGI)*)** in the last quarter of 2020 to enable provision of reliable data for tax audits; track the status of tax obligations in real time; and provide decision makers with relevant information for effective management.

**21. The digital cadaster inventory of parcels of land (*E-Cadastre*) has been instituted since 2019**, which resulted in revaluation of the property tax base and integration of 78,000 new taxable parcels of land. Number of lots taxed increased by 14 percent from 556,130 parcels in 2020 to 634,148 parcels in 2021. Property taxes collected increased by 12 percent from FCFA164.5 billion (2020) to FCFA189.4 billion (2021). (An increase in 2020-21 of about FCFA 25 billion or about \$40 million or about 0.06 percent GDP).<sup>9</sup>

**22. Electronic Land Register (*Livre Foncier Électronique–LIFE*)**, which allows traceability of real estate transactions, was put into operation in 2017 and led to substantial increase in revenue from land conservation. Revenues increased from FCFA 58.2 billion (2018) to FCFA 81 billion (2020) and FCFA 106.1 billion (2021). (An increase in 2020-21 of about FCFA 25 billion or about \$40 million or about 0.06 percent of GDP).

**23. Additional tax administration measures envisaged for 2022 include:** *digitalized administration of value-added tax (VAT); digitalized tax audits; and deployment of telecommunication*

<sup>9</sup>As indicated in footnote 8, this amount also likely reflects a rebound effect.

*information flow control device*. The tax authorities indicate that additional revenues expected from implementation of these measures is evaluated at FCFA 75 billion (or about \$120 million).

## D. Suggested Domestic Revenue Mobilization Policy Recommendations

### Tax Policy

#### **Personal Income Tax (PIT)**

**24. Adopt a simplified dual income tax system and improve progressivity.** This would involve abandoning the *IGR (impôt global sur le revenu)* and relying on redesigned PIT schedules applying to wages and salaries (at progressive rates) and profit income from mobile and immobile capital at flat rates. This would facilitate tax administration and render the system more transparent.

**25. Eliminate the 20 percent and 15 percent tax reduction (*abattement forfaitaire*) for labor income.** These reductions unnecessarily complicate the tax system and reduce its progressivity (as discussed above). They can be directly integrated within a revised progressive tax schedule (new tax bracket and rates).

**26. Repeal the family allowance (*le quotient familial*) and/or replace with a tax credit** of—say—around FCFA 50,000 per child up to a maximum given number of children (amount can be anchored to inflation) (Leduc et al 2020).<sup>10</sup> This would enhance the progressivity of the system. The family allowance (*quotient familial*) is a reduction in the taxable income, which is subject to different tax brackets, hence regressive. In other words, it subsidizes richer families more than poorer ones. A tax credit of a set amount per child would be neither regressive nor progressive – it offers identical tax subsidies independent of family income. Savings from repealing the family allowance (*quotient familial*) can help finance the child tax credit scheme or go into a general government fund to improve social spending to assist low-income families without tax liability or sufficient taxable income to qualify for the child tax credit.

**27. Eliminate the 1.5 percent proportional tax on labor income** (*Article 120 of General Tax Code*). This additional tax can be folded into a new tax schedule without any revenue loss.

**28. Rationalize taxation of income from mobile and immobile capital through taxation at proportional and moderate rates** (for instance, one for interest and one for dividends, capital gains, and rental income). This would facilitate scaling back tax exemptions.

#### **Business Profit Tax (BPT)**

**29. Adopt a competitive BPT regime in the General Tax code and eliminate tax preferences from other instruments** (e.g., *investment code, discretionary tax exemption conventions, etc.*). While removing some of the tax exemptions could yield about 0.3 percent of

<sup>10</sup>As part of its tax policy reform, Senegal repealed the *quotient familial* from its tax code in 2012, replacing it with a child tax credit (Akitoby, B.; Honda, J.; Miyamoto, H.; Primus, K; and Sy, M. 2018).

GDP in tax revenue (IMF 2021), removing the scope in the investment code to sign conventions with discretionary tax exemption would further enhance tax revenues (IMF 2021), transparency, and level the playing field. Moving away from a tax negotiation culture and rendering the system attractive, fair, and internationally competitive for all investments would seem desirable and aligned with international best practices. Where incentives are to be granted, these should be offered in the General Tax Code and consist of cost-based incentives (e.g., accelerated depreciation of capital assets, tax credits for targeted capital and labor costs) as opposed to profit-based incentives (tax holiday or reduced tax rate) (IMF 2015).<sup>11</sup>

**30. It would also be important to reassess whether the taxation system for extractive industry is in line with prevailing international benchmarks.**

### ***Property Taxes***

**31. Establish fixed rights to registration of land transaction.** Effective registration of property sales and the on-going introduction of an online cadaster should support property tax collection capacity in the medium term.

**32. Segment the property tax base according to revenue potential.** Given the heterogeneity of property tax base (particularly in urban settings), segmenting the tax base according to revenue size can ease tax administration by focusing on highest revenue potential segments (World Bank 2019).

### ***Value Added Tax (VAT)***

**33. Enhancing the VAT design would be essential.** In the international experience, it generally pertains to enhancing features related to *a registration threshold; a broad base; and a single rate* (Abdel-Kader and de Mooij 2020). While in the current environment of rising inflation it may not be socially desirable to increase consumption taxes, it remains important to continue assessing the appropriateness of such reforms as the situation improves.

**34. Broaden the VAT tax base, by widening the scope of sectors in the tax net to agriculture, transportation, construction, real estate, foreign supplies of digital services, and telecommunications.** (For example, VAT-exempt sectors such as grains and oilseeds industries represent about five percent of GDP (IMF 2019)). Progressively eliminate tax exemptions to converge with WAEMU directives, including drastically limiting the scope for discretionary exemptions in the investment code.

**35. Streamline and rationalize the extent of reduced rates on multiple products and establish clear criteria for setting such reduced rates.** Since 2009, a certain number of products (milk, production materials for solar energy, petroleum products, etc.) have been subject to a reduced

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<sup>11</sup>Cost-based tax incentives lower the cost of capital and may help generate investments that would otherwise have not been realized. Profit-based tax incentives generally reduce the tax rate applicable to taxable income, foregoing revenues and hence making projects that would otherwise have been made without the tax incentive even more profitable (IMF 2015).

VAT rate of nine percent. Without a firm rule, there is a risk of revenue loss from expanding the number of products subject to the reduced rate. In addition, multiple rates make VAT administration complex (World Bank 2019). Côte d'Ivoire should also reconsider the merits of adopting a reduced VAT rate on petroleum products.

**36. Remove legal restrictions on VAT refunds.** Part of the demand for various exemptions stems from restriction on refund of VAT credits included in Article 382 of the General Tax Code. To promote the widest possible neutrality of VAT, such restrictions should be removed (World Bank 2019).

### **Excise Taxes**

**37. Align excise tax rates, including on alcohol and tobacco, to conform to the WAEMU regional standards** to help boost tax revenues as well as ensure proper functioning of the regional markets.

**38. Consolidate various excise taxes into a single levy and reduce earmarking of revenues.** Multiple excise taxes may not be an ideal practice in fiscal governance of revenues; all revenues should be pooled to enable the government to decide how to allocate spending based on competing priorities. Earmarking revenues deprives the government of flexibility to reallocate funds to other initiatives which could be more important.

### **Tax Policy Reform Sequencing**

**39. Sensibly sequencing tax policy reforms would be essential, given that the needed reforms span a broad area, require several years to be implemented, and need sufficient groundwork to avoid abrupt adjustment.** VAT and excise tax reforms could be implemented first since consumption-based taxes are relatively easier to administer. However, adequate consideration should be given to assessing the impact of reforms and ensuring that implementation delivers a gradual adjustment. Property tax reform should be on-going in tandem with progress on cadaster registry and valuation of property. Finally, personal income tax (PIT) reform will require significant ex-ante analysis on the potential revenue gains and the distributional impact, as well as the incentive implications for labor market and informality. Preparing such analysis over a few years will help with a gradual implementation over the medium term, including making significant changes to tax forms and withholding systems.

### **Tax Administration**

**40. Tax administration reform efforts, already being implemented, should be sustained over the medium term to realize the full benefits of the entire scope of the following reform areas.**

- *Modernizing tax and customs administration* by consolidating a binding VAT threshold (when multiple thresholds exist) to improve revenue administration performance over the medium term; dematerializing customs clearance procedures through digitalization; simplifying/strengthening

the monitoring of transit and special procedures; and optimizing control of merchandise monetary values.<sup>12,13</sup>

- *Digitalizing tax administration*<sup>14</sup> by continuing to ensure compliance with electronic tax payments; enhancing the capacity to collect and analyze tax data; fully implementing a single taxpayer identification number (STIN); and securing digital transaction and extracting performance indicators.
- *Modernizing the management of human resources*<sup>15</sup> by redesigning managerial procedures and staff evaluation guidance; enhancing skills and competencies of staff; and improving communication and relationships with taxpayers.

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<sup>12</sup>Montagnat-Rentier, G., J. Clark, M. Siqueira, and P.-A. Wandja (2020).

<sup>13</sup>Camaraire, H. and M. Hudon (2021).

<sup>14</sup>Jarry-Bouabid, A.-C. (2019).

<sup>15</sup>Andre, N. (2019).

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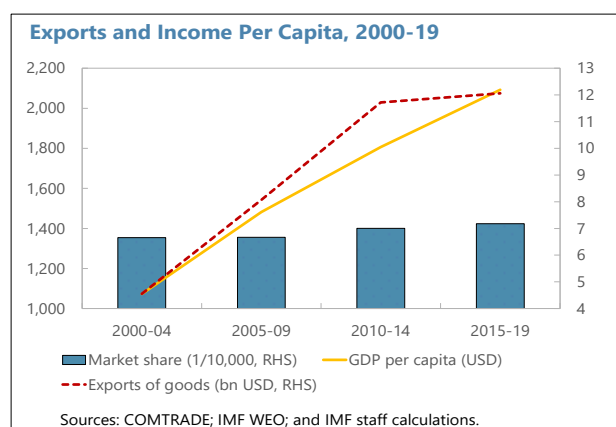
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# LEVERAGING NATURAL COMPARATIVE ADVANTAGES TO DIVERSIFY AND ADD VALUE TO CÔTE D'IVOIRE'S EXPORTS<sup>1</sup>

*Côte d'Ivoire's strong export performance was key the doubling of its income per capita over the past two decades. Sustaining income gains and increasing macroeconomic resilience going forward will require continued efforts to diversify its exports, which remain concentrated on a few products. The country has a natural comparative advantage and a dominant global position in some agricultural commodities, notably cocoa, cashew nuts, natural rubber, and cotton. While its commodity-processing industries have expanded significantly in the recent past, the country still has huge potential to add value to its primary exports. A policy environment that unlocks productivity and facilitates the development of agri-business would boost export diversification and pave the way for a deeper structural transformation of the Ivorian economy going forward. The reforms of the National Development Plan are steps in the right direction.*

## 1. Côte d'Ivoire's successful integration in the world economy and strong export performance allowed the country to more than double its income per capita over the past two decades.

Exports of goods rose fourfold over 2000-19 in nominal terms and faster than global trade, allowing Côte d'Ivoire to keep increasing its market share in global exports during that period. The country's successful export performance was conducive to strong growth, which allowed income per capita to increase from about 920 U.S. dollars in 2000 to an estimate of more than 2,500 U.S. dollars in 2021.



## 2. A large literature has documented that a continuous diversification of exports and structural transformation of the economy are key for economic development.<sup>2</sup>

A deeper diversification of production and trade are associated with increased macroeconomic resilience and higher medium-term growth. Moreover, growth acceleration spells in low-income countries often coincided with increased diversification.

<sup>1</sup>Prepared by Claire Gicquel and Bertrand Gruss.

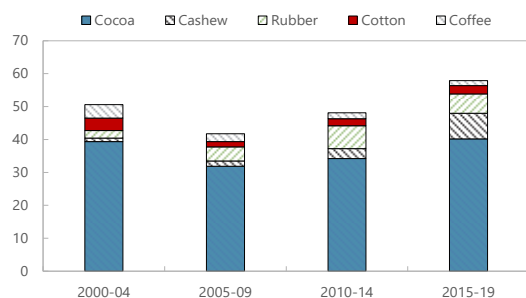
<sup>2</sup>See, for instance, IMF (2014), Papageorgiou and Spatafora (2012), Koren and Tenreyro (2007), and Haddad and others (2012).

**Figure 1. Structure of Côte d'Ivoire's Goods Exports**

*Côte d'Ivoire's exports are concentrated, with five products accounting for almost 60 percent of goods exports.*

**Key Export Product Groups**

(Share in total exports of goods, percent)

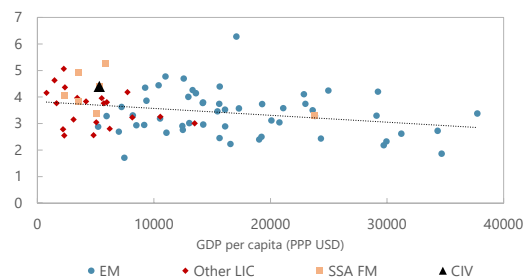


Sources: COMTRADE; and IMF staff calculations.

*The extent of export product concentration is high compared to regional peers and given its income level.*

**Export Product Concentration**

(Theil index, 2019)



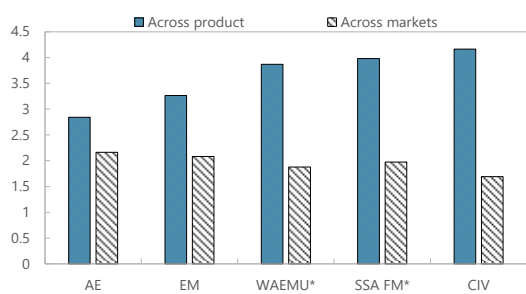
Sources: COMTRADE; IMF WEO; and IMF staff calculations.

Note: Excludes oil exporters.

*But the overall extent of market export concentration is lower than peers...*

**Export Concentration**

(Theil index, high = more concentrated)

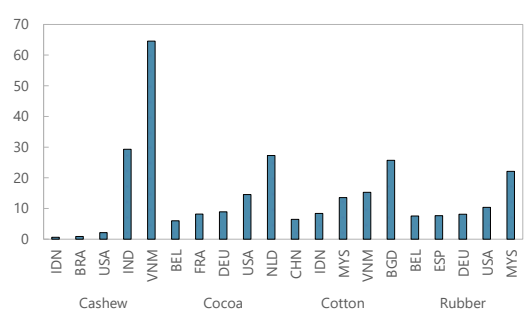


Sources: COMTRADE; and IMF staff calculations.  
Note: Excludes oil exporters. \* = excluding CIV

*... despite being high for some key export commodities.*

**Main Export Destinations for Key Products**

(Share of total exports of each product group, percent)



Sources: COMTRADE; and IMF staff calculations.

**3. Côte d'Ivoire exports remain excessively concentrated over a few products compared to peers and given its income level and aspirations to become an upper-middle-income country by 2030.** Five products accounted for 58 percent of the country's total exports of goods over 2015-19—up from around 42 percent in the mid-2000s—with only cocoa beans and by-products accounting for around 40 percent of goods exports (and cashew nuts, natural rubber, cotton, and coffee accounting for the rest).<sup>3</sup> Using trade data at the product level to conduct a cross-country comparison confirms that the extent of concentration of Côte d'Ivoire's goods exports in 2019 was higher than frontier markets in SSA and other low-income countries with comparable income levels, and substantially higher than for emerging market economies (Figure 1).<sup>4</sup> Moreover, the extent of export product concentration has increased over time, and was higher over 2015-19 than in the early 2000s.

<sup>3</sup>See also World Bank (2021).

<sup>4</sup>The analysis in this annex is based on the United Nations Comtrade data at the product level (SITC Revision 3 nomenclature, at 5-digit headings), covering 3,119 individual products, available over 2000-19. The measures of export concentration across products and markets are based on Theil indexes.

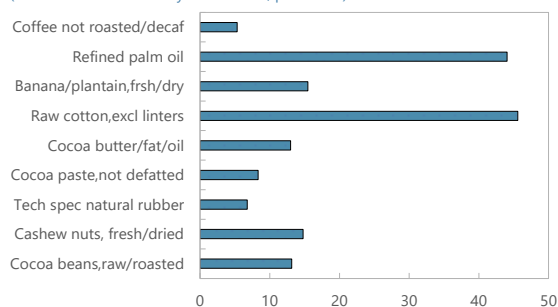
**Figure 2. Côte d'Ivoire: Export Prices**

*Export prices of Côte d'Ivoire's top exports are low compared to peers...*

*... but there is no clear relationship between price developments and changes in market shares over the past two decades .*

#### Export Unit Value of Top Exports, 2019

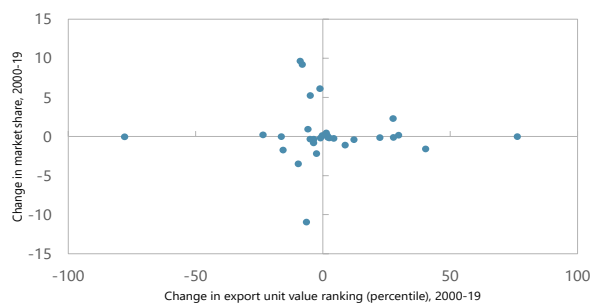
(Position in cross-country distribution, percentile)



Sources: COMTRADE; and IMF staff calculations.

Note: Products ordered by share in total exports (largest at bottom).

#### Export Unit Value and Market Shares, Top 35 Export Products



Sources: COMTRADE; and IMF staff calculations.

**4. However, the country has a relatively diverse composition of exports in terms of destination markets compared to peers.** While close to half of Côte d'Ivoire's exports of goods are accounted by eight trading partners, the overall extent of concentration across markets is low compared to peers. This tends to reduce the vulnerability of the country exposure to export shocks, as the good-specific volatility can be tampered by the country-specific source of volatility.

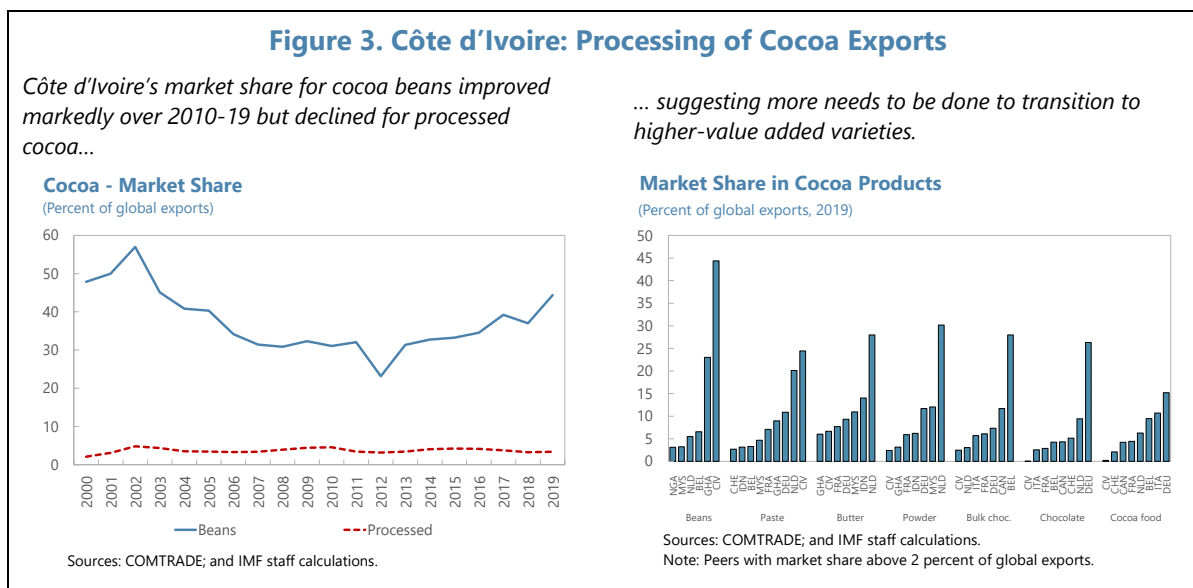
**5. Export prices of Côte d'Ivoire's top exports are low compared to peers, possibly reflecting differences in quality, difficulties to exploit a country-origin brand, and limited extent of processing.**<sup>5</sup> The unit export values of Côte d'Ivoire top ten exports in 2019 were all lower than the median price, for each product, across all exporters (Figure 2).<sup>6</sup> Seven of those products had prices below the 20<sup>th</sup> percentile of the cross-country distribution. In the case cocoa beans, for instance, the unit export value was close to the cross-country median over 2000-10 but has fallen below the second decile of the cross-country distribution more recently. Given that the product code for cocoa beans denotes a very narrow and homogenous product group, the relatively low price could reflect, among other things, quality issues, or difficulties in establishing a country-origin brand for Côte d'Ivoire's cocoa beans.<sup>7</sup> The export unit value of

<sup>5</sup>Other factors that may contribute to lower export unit value in Côte d'Ivoire compared to peers for quite homogenous product groups is the relatively higher cost of freight that most SSA countries face (Carrière-Swallow and others, 2022).

<sup>6</sup>Export unit values are a proxy for export prices and are computed, for each product, as the ratio of export values to quantities.

<sup>7</sup>The global price of cacao beans (i.e., the average across all exporting countries) may in turn be affected by the increased vertical and horizontal integration in the industry, with a limited number of large trading and processing companies accounting for a significant share of global demand (Gay and Tsowou, 2015).

fresh or dried cashew nuts, the second largest export of Côte d'Ivoire in terms of value, is also low. It has remained at around the 15<sup>th</sup> percentile of the cross-country distribution over 2001-19. In this case, however, the low relative unit value compared to peers likely reflects the country's low share of transformed product within its cashew nut exports, rather than quality issues.<sup>8</sup> More generally, while Côte d'Ivoire's relatively low export unit value may have contributed to gaining market shares in some products, there is no clear relationship between observed changes in unit values and market shares over 2000-19 for the country's top 35 export products.



**6. While Côte d'Ivoire has a comparative advantage and a dominant market position in cocoa production, it has not yet been able to capitalize on that position and become a dominant player in cocoa-based-products with higher value added.** Côte d'Ivoire's market share in global exports of cocoa beans has been increasing over the last decade, from about 31 percent in 2010 to around 44 percent in 2019 (Figure 3). Its market share in some semi-processed cocoa products is also important, like for cocoa paste (around 24½ percent of global exports) and butter (about 6½ percent of global exports). However, the country's market share for all processed cocoa products taken together is still low (about 3.4 percent in 2019) and has even declined over the last decade (it was 4.6 percent in 2010). While moving all the way up the value-added ladder to export finished chocolate is challenging (refrigerated transport toward advanced markets is costly, while the regional market presents a limited demand and is subject to weaknesses in transport connectivity), there is large potential for increasing the share of semi-processed exports further.

**7. The remarkable performance of cashew nut exports over the past two decades points to large potential for adding value added to exports.** Côte d'Ivoire cashew nut

<sup>8</sup>The SITC Rev. 3 code for cashew nuts (05773) comprised both the raw cashew nuts and the (processed) cashew nut kernels.

market share, including both raw and processed products, increased from less than 4½ percent of global exports in 2000-04, to close to 14 percent over 2015-19 (Figure 4). Despite recent progress, Côte d'Ivoire still exports about 85 percent of its cashew nuts unprocessed (as raw nuts), mostly to Vietnam and India (which together accounted for more than 94 percent of Côte d'Ivoire's total cashew nut exports in 2019).<sup>9</sup> The comparison of cashew nut exports between Côte d'Ivoire and these two countries illustrates the large potential the country still has: Vietnam and India export higher value-added products (cashew nut kernels) mostly to advanced economies (more than 70 and 50 percent of their cashew nut exports are oriented to advanced countries, compared to about 4 percent in the case of Côte d'Ivoire). Vietnam's average cashew nut unit export price (defined as the value of exports divided by volume or tonnage exported from Vietnam) was more than six times higher than the unit value of cashew nut exports (mostly nuts) to Vietnam, from Côte d'Ivoire or other origins. Given that cashew nut transformation is labor intensive, unlocking the country's potential to increase its domestic processing capacity would be associated with strong employment creation, especially for women.<sup>10</sup>

**8. Côte d'Ivoire has also consolidated a clear comparative advantage in primary exports of natural rubber and cotton, which can lead to further diversification and higher value-added exports going forward.**<sup>11</sup> The country's market share of technically specified rubber (TSR, the outcome of a basic standardized processing of raw natural rubber into a transportable product) has increased significantly over the past few years, from a stable 3 percent of global exports over 2000-13 to above 8 percent in 2019. The market share in latex—a processed product—also surged to 6½ percent in 2019 (from almost nil a few years earlier). These developments reflect important investments in capacity to process rubber into an exportable product, as well as very favorable natural conditions: Côte d'Ivoire's harvest yield in natural rubber is actually one of the highest among the countries that dominate the global market of natural rubber. The country also registered a significant improvement in the market share of its cotton exports in recent years, which increased from 1.2 percent of global exports in 2012 to 2.6 percent in 2019. However, most of its raw cotton is exported raw to Asia for textile production—and then reimported to Côte d'Ivoire to print the famous Ivorian wax fabric. While cotton yields are comparable to regional peers that have a dominant global position in cotton exports, they are still lower than top global performers, pointing to pending potential for raising productivity in primary production. The low extent of processed rubber and cotton exports despite clear comparative advantages in their primary production points to significant potential to climb the value-added ladder going forward.

<sup>9</sup>Processed cashew nut increased from 9 percent of total cashew nut exports in 2019 to 14 percent in 2021.

<sup>10</sup>About 80 percent of workers in cashew nut processing plants are women (Kone, 2010).

<sup>11</sup>Using a simple Balassa (1965) revealed comparative advantage measure (defined as the share of a given product on the country's total exports divided by the share of world exports for that product), Côte d'Ivoire ranked second and fourth in 2019 in terms of raw rubber and cotton exports, respectively. While Côte d'Ivoire had a significant comparative advantage on coffee in the early 2000s, its market share declined continuously over the past two decades (reaching less than 0.7 percent in 2019).

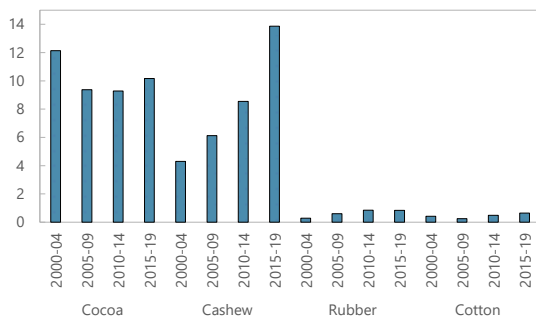
**Figure 4. Côte d'Ivoire: Potential for Increasing Value Added to Primary Exports**

Côte d'Ivoire has consolidated a dominant position in cashew and gained market share in rubber and cotton products accounting for almost 60 percent of goods exports.

Developing further the domestic processing capacity would allow to redirect its cashew exports to high-income countries...

**Market Share of Raw and Processed Commodities**

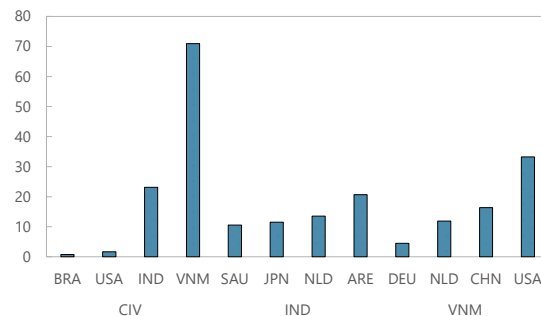
(Percent of global exports of each product group)



Sources: COMTRADE; IMF WEO; and IMF staff calculations.

**Main Export Destinations for Cashew, 2019**

(Share of each country's total cashew exports, percent)

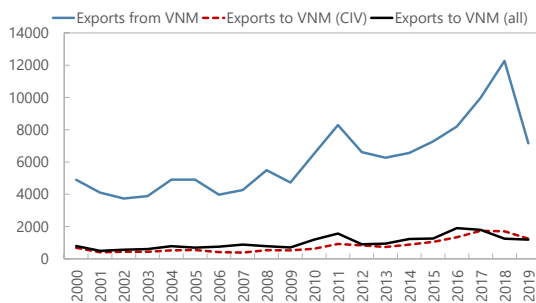


Sources: COMTRADE; and IMF staff calculations.

... and increase the value added of its primary exports.

**Cashew-Export Unit Value, to and from Vietnam**

(US dollars per ton)

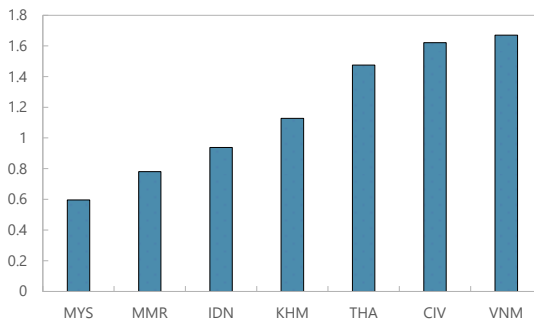


Sources: COMTRADE; and IMF staff calculations.  
Note: SITC Rev.3 product code 05773

The country's comparative advantage in natural rubber...

**Productivity of Natural Rubber Plantations, 2015-20**

(Average yield, Ton/Ha.)

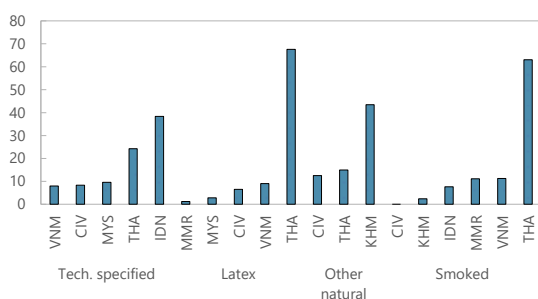


Sources: FAO; and IMF staff calculations.

... also points to significant potential to diversify the country's primary exports and increase exports value added.

**Market Share in Natural Rubber Products**

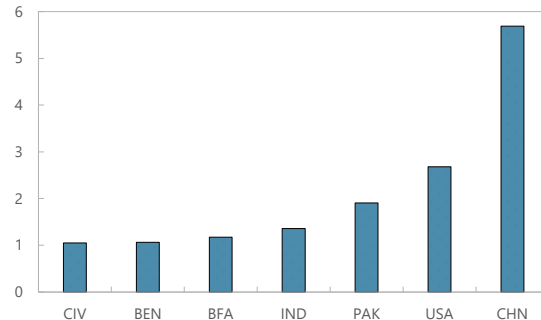
(Percent of global exports, 2019)



Sources: COMTRADE; and IMF staff calculations.  
Note: Peers with market share above 1 percent of global exports.

**Productivity of Cotton Seed, 2015-20**

(Average yield, Ton/Ha.)



Sources: FAO; and IMF staff calculations.

**10. A multipronged strategy will be needed to diversify and add value to Côte d'Ivoire's exports over the medium term.** Capitalizing the country's comparative advantages on agriculture is key for its development strategy; it provides a solid platform to further diversify its primary production, as well as to add more value to its agricultural exports.<sup>11</sup> Importantly, the policies needed for a successful development of agri-businesses that can leverage Côte d'Ivoire's natural comparative advantages on agriculture would also enable other higher value-added industrial and service sector activities to thrive, paving the way for Côte d'Ivoire's development.

**11. Several studies have pointed to a range of general policies and reforms that can help promoting export diversification and structural transformation.**<sup>12</sup> These include improving infrastructure and trade networks, investing in human capital, strengthening governance, promoting financial deepening, and reducing entry barriers for new products. In the case of Côte d'Ivoire, key priorities include:

- **Infrastructure** - Improving the connectivity to transport, electricity, and communication networks for industrial firms will be key to unlock the potential of the commodity processing industry. The initiatives in the National Development Plan to revamp industrial zones are a step in the right direction.<sup>13</sup>
- **Business climate and governance** - Continuing to improve the business climate—by streamlining bureaucracy and tackling weaknesses in the regulatory framework and in property rights protection—and governance would also help attract much needed private investment.
- **Human capital** - Ongoing initiatives to improve professional training and upgrade skills within the government's new social program can help ensuring the supply of skills is conducive to the structural transformation of the economy, and should continue to be finetuned in close coordination with the corporate sector.
- **Access to finance** - The investment needed to boost export diversification will require removing obstacles to financial access, notably by tackling deficiencies in insolvency procedures and strengthening the role of the credit bureau.
- **Trade** - Tackling obstacles for regional integration and capitalizing the access to the WAEMU and ECOWAS markets could also facilitate export diversification going forward (World Bank 2021).

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<sup>11</sup>See International Finance Corporation (2020).

<sup>12</sup>See, for instance, IMF (2014) and Salinas (2021).

<sup>13</sup>Industrial zones in Côte d'Ivoire are aimed at providing land with access to suitable infrastructure for industries and do not automatically grant access to tax exemptions.

**12. Targeted industry-focused measures may also be needed to address specific market failures that can constrain the emergence of higher value-added activities.** While the outlined horizontal policies are first-order priorities to unlock Côte d'Ivoire's diversification potential, coordination failures and learning externalities that preclude the development of specialized skills, intermediate inputs, or infrastructure, may call for industry-focused interventions. For instance, firms may not be able to fully internalize the positive spillovers that investing on industry-specific skills might have on other firms (and even other sectors). Targeted interventions, like the authorities' initiative to develop a cashew nut-processing research and training center, can help alleviate such market failures. Export promotion initiatives can also help ease informational frictions, including by helping new—and especially small—firms understand the demands of potential importers and meet quality certification standards. Similarly, public initiatives coordinating all agents along value chains could help towards consolidating a country-origin brand for Côte d'Ivoire food exports. Any targeted public intervention, however, should be focused on export-oriented industries (rather than directed at individual firms); maintain competition in the sector; be transparent and subject to proper accountability (to prevent government capture); and should pass an appropriate cost-benefit test (to ensure an adequate social rate of return).<sup>14</sup>

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<sup>14</sup>See IMF (2022) for a discussion of an appropriate conceptual framework.

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