Côte d'Ivoire

key figures

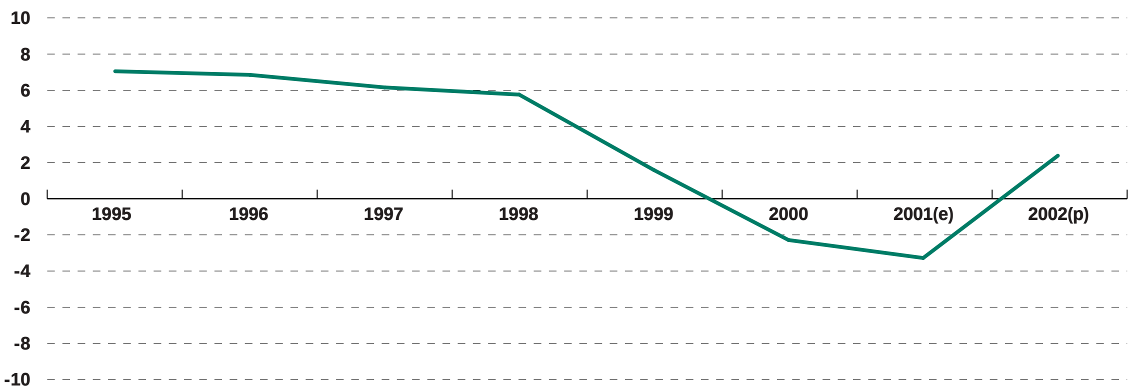
- Land area, thousands of km²: 318
- Population, thousands (2000): 16 013
- GDP per capita, $ (2000): 585
- Life expectancy (1995-2000): 47.7
- Illiteracy rate (2001): 51.6

Côte d'Ivoire

CÔTE D'IVOIRE IS WEST AFRICA'S second richest country (after Nigeria) owing to its cocoa and coffee sectors that have been booming since the 1950s. Problems arose from the 1970s, but after the 1994 devaluation of the CFA franc, the economy made a strong recovery. Political and social unrest resulted in a military coup d'état in December 1999 followed by a return to civilian rule in October 2000. Political instability until early 2001 and a drop in world commodity prices produced a recession in 2000. Poor cocoa and coffee harvests and a fall in the price of coffee, along with unsteady progress towards national reconciliation that made economic players put their plans on hold, saw GDP fall by 3.3 per cent in 2001. A better coffee harvest, a slight increase in coffee and cocoa prices and resumption of international aid and co-operation with the IMF are expected to produce GDP growth of 2.4 per cent in 2002. But the country's prospects will depend on improving governance and combating poverty.

Côte d'Ivoire is West Africa's second richest country

Figure 1 - Real GDP Growth



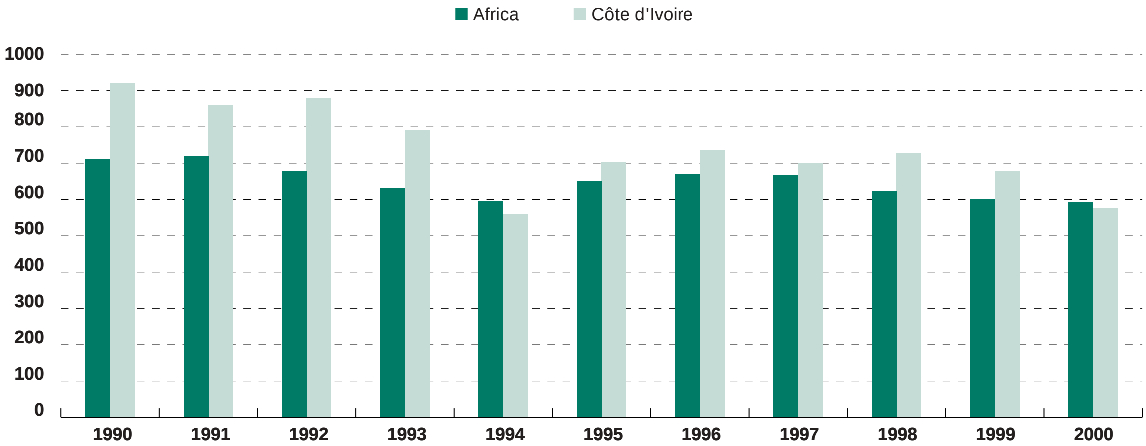
Source: Authors' estimates and predictions based on Ministry of Economy and Finance data.

Recent Economic Developments

Despite some restructuring in the industrial sector after the devaluation, Côte d'Ivoire is still a mainly agricultural country, with food and export crops accounting for more than a quarter of GDP while food processing amounts to 25 per cent of the value-added in industry. This and the importance of exports make the country very dependent on external factors such as the weather, demand and world prices.

Between 1994 and 2000, primary sector production was very erratic on account of the weather. Cocoa, of which Côte d'Ivoire is the world's biggest producer (40 per cent of the total), was hit from 1998 by a decline in terms of trade. This was aggravated by increased production, which nevertheless generated revenue to consolidate the balance of payments. Production of other export crops (palm oil, rubber, pineapples, bananas and cotton) fell sharply in 2000 but the loss of revenue was offset by abundant harvests

Figure 2 - GDP Per Capita in Côte d'Ivoire and in Africa ($ current)



Source: Authors' estimates based on IMF data.

of food crops (plantain, yams, manioc) and a good showing by traditional export crops, with cocoa and coffee growing in volume by 28 per cent.

The secondary and tertiary sector grew strongly between 1996 and 1998 in response to the vigorous economic recovery set off by the 1994 devaluation. But a significant slowdown in 1999 continued into 2000, when industrial production fell by 9 per cent and the tertiary sector shrank by 7.8 per cent. Textiles and construction were hardest hit in manufacturing (drops of 32 and 27 per cent), even though construction was a motor of the preceding period's growth. The tertiary sector was also affected by a considerable decline in household incomes, which caused overall contraction, especially in commerce and services.

The upturn caused by devaluation only lasted until the 1999 recession, which was less painful thanks to good coffee and cocoa crops in 2000 that helped offset poor results in the industrial and tertiary sectors.

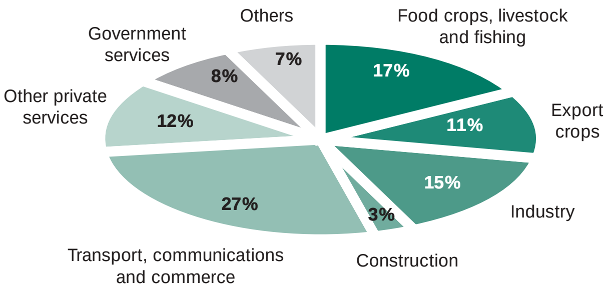
No such volume boost has taken place in 2001 and first export crop predictions were disappointing. The 2000 cocoa crop (recorded in the 2001 GDP) was sharply down (1.15 million tonnes against 1.3 million the year before) and coincided with a new record fall in world prices. Less favourable weather, farmer reaction to low prices, plus the departure of Burkina Faso immigrants because of rising ethnic tensions helped reduce volume. Lower prices for coffee farmers — 200 CFA francs ($0.30) instead of the 350 CFA francs ($0.50) for the previous harvest — account for the drop from 380 000 tonnes in 1999/2000 to 225 000 in 2000/01. The cotton harvest is expected to fall from 340 000 tonnes in 2000 to 290 000 in 2001.

Neither the secondary or tertiary sectors appear to be picking up much, mostly because of the freeze on public investment since late 1999 and generally sluggish investment activity. Firms criticise the tax pressure from the government so as to make external debt repayments at a time when government arrears with the private sector are mounting. The political unrest adds to this climate of uncertainty.

Prospects for 2002 will depend on the outcome of an interim economic programme agreed on with the IMF and results of the reconciliation forum aimed at settling the political crisis. Only then will the private sector stir itself again.

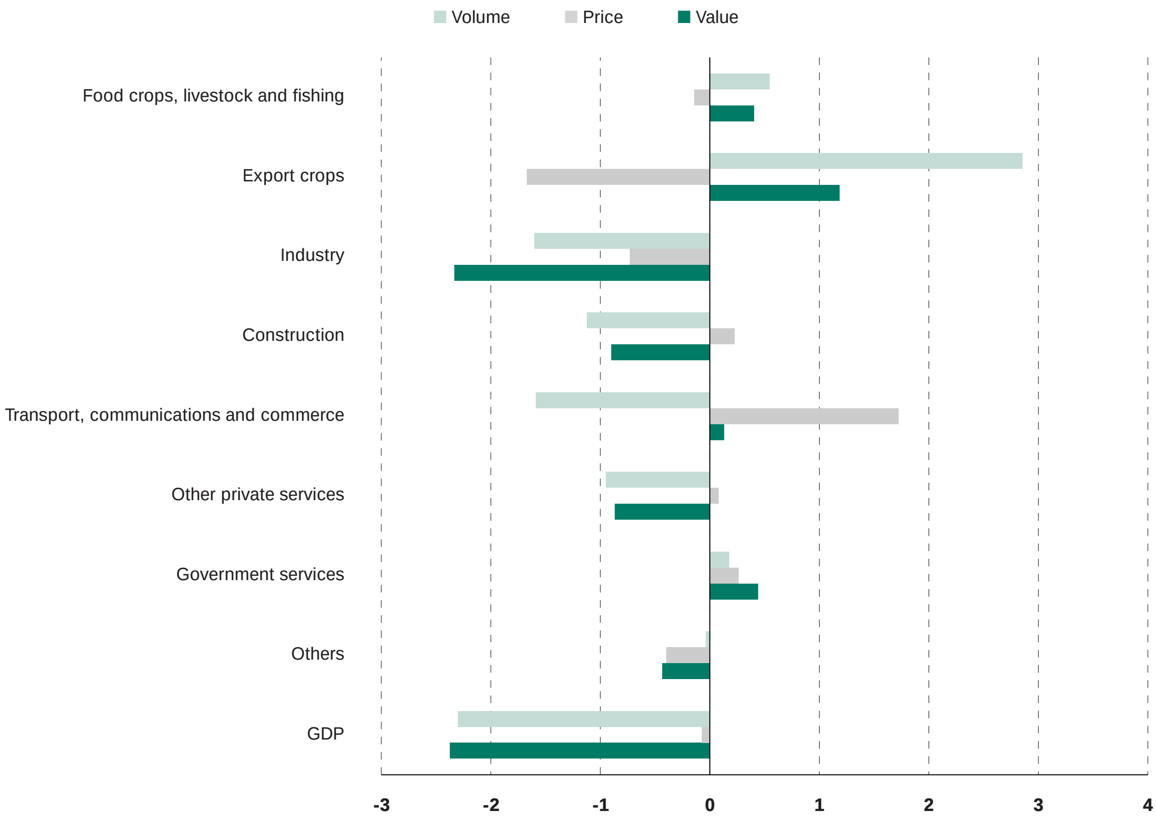
After devaluation, demand components grew substantially. Investment rose from 8 per cent of GDP in 1993 to 16 in 1998, with volume growth as high as 23.4 per cent in 1996. This was due mainly to the return of international aid and increase in gross domestic savings, which reached 25 per cent of GDP in 1998.

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates based on Ministry of Economy and Finance data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000



Source: Authors' estimates based on Ministry of Economy and Finance data.

This was not maintained in 1999, when lower farm commodity prices, political instability and less international aid produced a general economic slowdown. Investment volume shrank by 5 per cent that year, especially in the public sector, while growth in household consumption fell from 3.4 to 2 per cent.

The recession continued into 2000 and the volume of investments decreased by 21.5 per cent, this time largely due to the private sector, which cut back by 24.1 per cent. Firms seem to have adopted a wait-and-see attitude, using up their stocks rather than going into debt by investing (hence a 120 per cent reduction in

Figure 5 - Cocoa Production and Prices in Côte d'Ivoire

Source: FAO and World Bank.

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**16.4**	**16.4**	**16.0**	**14.1**	**14.3**	**14.5**
Public	5.6	6.7	4.8	3.6	4.1	4.9
Private	10.8	9.7	11.3	10.5	10.2	9.6
Consumption	**75.5**	**77.3**	**77.2**	**79.1**	**76.4**	**74.3**
Public	11.7	10.0	10.8	10.3	9.8	9.0
Private	63.9	67.2	66.5	68.8	66.6	65.3
External sector	**8.1**	**6.3**	**6.7**	**6.8**	**9.3**	**11.2**
Exports	46.0	42.6	44.2	46.8	45.8	44.6
Imports	-37.9	-36.3	-37.5	-40.0	-36.5	-33.4

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

stocks). The public sector continued the trend begun in 1999 and reduced its volume of investments by 23 per cent.

Private consumption slowed sharply from 2000 because coffee and cocoa farmers as well as wage earners had less money to spend. The external balance improved substantially.

Macroeconomic Policy

Budgetary and Monetary Policy

After devaluation, Côte d'Ivoire signed an Enhanced Structural Adjustment Facility (ESAF) with the IMF that included an adjustment programme, debt rescheduling and sectoral development programmes. The country's

Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**22.8**	**21.2**	**19.2**	**19.0**	**18.8**	**17.7**
Taxes	18.0	16.9	16.8	16.2	16.0	14.8
Total expenditure and net lending[a]	**26.9**	**23.6**	**22.4**	**20.5**	**20.2**	
Current expenditure	21.3	16.9	17.4	17.2	16.6	
Excluding interest	*14.4*	*12.7*	*13.0*	*12.6*	*12.6*	*11.3*
Wages and salaries	6.9	6.1	6.2	6.7	6.5	6.1
Interest payments	6.9	4.2	4.4	4.6	4.5	
Capital expenditure	5.6	6.9	4.8	3.1	3.6	4.2
Primary balance	**2.8**	**1.9**	**1.2**	**3.2**	**3.1**	**2.0**
Overall balance	**-4.1**	**-2.4**	**-3.2**	**-1.5**	**-2.0**	**-2.2**

a. Only major items are reported.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

good economic performances have enabled repayment of a great deal of the external debt and reduction of the public deficit (from 12 per cent of GDP in 1993 to 2.4 in 1998). They also led to another agreement with the IMF in March 1998 involving a poverty reduction and growth facility (PRGF) with a major social chapter. The IMF and World Bank also declared Côte d'Ivoire eligible for relief under the Heavily Indebted Poor Countries (HIPC) Initiative and set March 2001 as completion point.

However the drop in cocoa prices and a sharp fall in international aid, along with bad weather, cut into government revenues from 1998. Tax collection fell, mainly because of fraud but also due to the general economic slowdown which substantially reduced the tax base. Foreign aid shrank and ceased altogether when General Robert Guei seized power in December 1999. Relations with the IMF were broken off and Côte d'Ivoire's accession to the HIPC Initiative suspended.

Budget expenditure was significantly redirected towards public investment between 1994 and 1999, while the government managed to keep the lid on wages and salaries, whose share of GDP fell from 10.7 per cent to 6.3 between 1993 and 1998 (the number of government and public body employees fell from 123 900 to 110 100). Public investment spending rose from 3.1 per cent of GDP to nearly 7 per cent over the period. However, it slowed in 1999, falling to 4.8 per cent of GDP, and social projects took a back seat.

In 2000, despite an austerity budget (which was tightened in March 2000), the government could not meet its targets. Tax revenue was budgeted at 18 per cent of GDP but only managed to reach 16.2 per cent because fewer imports and less consumption meant less revenue from customs duties and VAT value-added tax. Expenditure rose however, notably for wages and salaries, especially for the armed forces.

Public finances seriously deteriorated after the 1999 disturbances and by the end of 2000 substantial arrears had accumulated internally (3.3 per cent of GDP) and externally (10.9 per cent of GDP). So public debt servicing for 2001 reached 624 billion CFA francs — 9 per cent of GDP and about half of all budget revenue. The 2001 budget provides for repaying on time multilateral debts of about 252 billion CFA francs ($354 million). But new arrears will have to be incurred on debts to be rescheduled and negotiations will be needed with the country's partners over the debt that cannot be.

These talks should be helped by resumption of the six-month interim IMF programme in July 2001 as a prelude to a PRGF agreement. The programme centres on restoring public finances and the government has decided to strengthen the taxation and customs departments by tightening checks, reducing exemptions and extending the minimum 5 per cent customs duty to all imports. A single 20 per cent VAT tax was introduced on 2 July 2001. The government hopes these measures will be enough to reach the overall 2001-

collection target of 16.2 per cent of GDP. Spending on wages and salaries is expected to remain high as the government is planning on harmonising the status of teachers and new hiring in security and social sectors. The June 2001 budget aims to increase investment by 20 per cent over the previous year.

Côte d'Ivoire's currency is pegged to the French franc and its monetary policy is conducted by the BCEAO, leaving budgetary policy as the government's main instrument of macroeconomic stabilisation. Inflation is still largely under control. After reaching 32.2 per cent after the 1994 devaluation, it fell back to 3.5 per cent in 1996 and then settled at around 2 per cent. Recent food shortages in Sahel countries led to price pressures in 2001 and despite the recession, inflation should reach 3.9 per cent that year and 4.3 per cent in 2002.

External Position

Côte d'Ivoire's economy is fairly open compared with those of its neighbours and exports and imports are 60 per cent of its GDP. More than half of all exports goes to Europe (15 per cent to France), while a quarter, including some re-exports, goes to the rest of Africa. The geographical pattern is relatively stable, though within Africa more trade is now with the UEMOA countries since they agreed to abolish tariffs between them. The pattern of goods traded shows Côte d'Ivoire's special place in the region as a producer of semi-manufactures while its neighbours export mostly raw materials. Côte d'Ivoire is also a transit point for nearby landlocked countries such as Mali and Burkina Faso. Trade has been diverted through Ghana and Togo as a result of the recent disturbances, but the Ivorian government hopes to recapture it after giving Burkina and Mali seats on the governing board of Abidjan port.

Côte d'Ivoire has more diversified trade than its neighbours, but cocoa is still over 35 per cent of it and coffee 6 per cent. This makes the country very dependent on world prices and on the weather, which determines the size of the harvests. This structural vulnerability has spurred efforts to diversify, such as a 1996 programme to promote and diversify farm exports (PPDEA). By 1999, trade partners had increased and non-traditional exports had doubled in volume, but they remained minor alongside the traditional export crops.

Côte d'Ivoire structurally has a positive trade balance and a heavy balance of payments deficit. Despite the crisis, record cocoa and coffee crops boosted exports in 2000 while the economic slowdown, involving a sizeable drop in consumption, fewer investments and firms' using up their stocks, led to a general decline in imports. The trade surplus should reach record levels in 2001 and 2002.

However, the burden of the national debt and the outflow of capital set off by the halt in foreign aid and suspension of major projects destabilised the current balance and largely offset the improved trade balance. So although the current deficit began to narrow after the 1994 devaluation, the trend slowed from 1999.

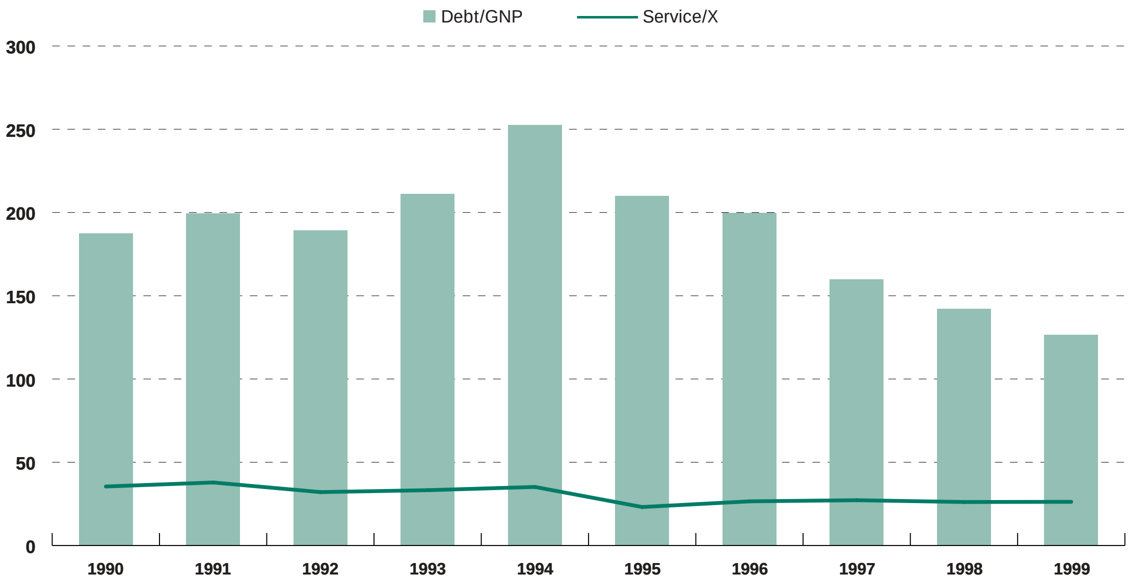
Côte d'Ivoire's public external debt declined between 1995 and 1999 because of relief on the commercial debt granted by the London Club, on the bilateral debt by the Paris Club and because of relief by France. The

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	13.6	11.8	12.2	12.2	14.2	15.3
Exports of goods	38.2	35.8	37.4	39.1	38.8	37.8
Imports of goods	-24.6	-24.1	-25.3	-26.9	-24.6	-22.5
Services balance	-5.6	-5.5	-5.4	-5.8		
Factor income	-14.7	-6.9	-7.3	-8.0		
Current transfers		-3.5	-3.6	-3.8		
Current account balance	**-6.7**	**-4.1**	**-4.2**	**-5.4**		

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

commercial debt's share in the public external debt fell from 39 per cent in 1994 to 23 in 1999 while the debt to international financial institutions grew from 28 to 36 per cent (including 20 per cent to the World Bank). Despite the relief, bilateral debt remained substantial, with the Paris Club accounting for 41 per cent of the external debt and France providing half of the credits.

After the poor performance of public finances in 2000, the Ivorian government found itself unable to pay either its domestic or foreign creditors, and the French Development Agency suspended disbursements in September 2000, as did the World Bank a month later. Accession to the HIPC Initiative was also suspended, making Côte d'Ivoire one of the few French-speaking West African states not taking part in the IMF and World Bank debt reduction programme. The country has since accumulated substantial internal and external arrears once again.

However France announced on 31 January 2001 that it would resume dialogue over major health, education and agricultural projects to the tune of a modest 7.6 million euros. This was followed in June 2001 by the European Union's decision to gradually resume aid, which led to immediate disbursement of 30 million euros for the social sector, institution building and encouraging the private sector. A new assessment was to be made in September 2001 to see whether aid should be extended to other sectors. The EU also agreed to decide in January 2002 whether to lift the last restrictions. These moves depended on economic, social and political considerations, especially human rights, and on good governance.

Structural Issues

Since 1994, Côte d'Ivoire has carried out a vast programme of structural reforms to open up the economy, including privatisation and state withdrawal from the cocoa-coffee and energy sectors. Recently however, these reforms have slowed down considerably.

Privatisation began in 1992 and speeded up with devaluation and the IMF programmes. About 60 firms were privatised up to 1999, mainly in the commodities sector, including *SOGB* (rubber, 1995), *Palmindustrie* (palm oil, 1996), *Sodesucre* (sugar, 1997), *CIDT* (cotton) — whose two-stage sell-off is not yet complete —

SICF (railways, 1994) and *CI-Télécom* (telecommunications, 1997).

In 1995, the government began liberalising the cocoa and coffee sector with help from the World Bank. The reforms included handing over some of the functions of the price stabilisation fund, *Caistab*, to the private sector, making operations more transparent, reducing customs duties on exports (abolishing them for coffee) and dismantling the system of stabilising prices paid to farmers. Complete liberalisation was achieved for coffee in 1998 and for cocoa in 1999. *Caistab* was disbanded and replaced by a semi-public advisory and regulatory body, which then became a completely private entity in April 2000.

The main aim of *Caistab*'s privatisation was to increase the share of world prices going directly to the farmer, but the fall in prices mostly cancelled this out. And though the government lowered export duties at a time of growth to benefit farmers, the loss of taxes because of the recession has led to some reimposition of duties on coffee and cocoa. The single export duty rose from 125 CFA francs/kg ($0.17) to 200 ($0.28) in January 2001 and then fell to 160 ($0.22) in July the same year, thereby confusing the rules and making customs operations more complicated.

Despite strong public discontent over these reforms, the government has stressed it will continue liberalising. It plans to set up machinery to guarantee farmers a minimum price through bringing them into the decision-making process. A cocoa and coffee exchange was opened in July 2001 whose board is two thirds farmers and one third exporters. The coffee and cocoa regulatory body, ARCC, sees that the rules are enforced.

Liberalisation of oil importing and the refinery company SIR have been delayed. As a consequence of the recession, the government preferred not to change in real time the price of electricity and oil in line with production costs largely dependent on world prices of oil and gas. As a result, the electricity sector had a nearly 57 billion CFA franc ($80 million) deficit at the end of 2000 and SIR had one of 40 billion CFA francs ($56 million). However, the government increased oil prices in February 2001 to start clearing the deficit of SIR and in July that year raised the average price of electricity by 10 per cent. In its letter of intent for the interim programme agreed with the IMF, the government says it is determined to cut structural costs and increase financial transparency in the energy sector, notably by paying off reciprocal debts with the government, and reiterates that the oil sector will be liberalised and SIR privatised.

Many infrastructural projects sprouted after the 1994 devaluation, notably the government's Twelve Projects of the Elephant of Africa programme in 1996 in line with its tradition of undertaking major basic infrastructural work but this time using private capital. Under pressure from the international funding agencies, the government included social goals, such as upgrading health care and education, in its investment projects. However, the 24 December 1999 coup d'état froze virtually all government projects and only those signed before the military take-over, such as the refurbishing of Abidjan airport, were completed in 2000. Road projects, including Abidjan's third bridge, and others in health, education, hotels and supermarkets were suspended.

Privatisation, along with the public investment programmes, were supported between 1995 and 1998 by a large-scale return of foreign funding, as well as by the conversion of the Abidjan stock exchange into a regional one, the BRVM, in September 1998, thus expanding the banking and financial markets. But investment banks hardly feature in Côte d'Ivoire, where intermediation and debt refinancing are rare. On account of the predominance of Ivorian companies in the BRVM[1], it has been hard hit by the country's political and social instability. The opening of the BRVM was greeted enthusiastically and the trading index hit 110 per cent in early 1999 and share capital 1 000 billion CFA francs ($1.4 billion), but the

1. 39 of the 41 companies quoted are Ivorian, one (*Sonatel*) is Senegalese and one *(BOA)* Beninese.

December 1999 coup reduced trading volume by 90 per cent. Also, the banking sector saw negative growth in 2000 because it took the full force of the collapse in commodity prices. By the end of 2000, the two BRVM market indices — the general one and the 10 most active shares — had dropped by 80 per cent, a fall in trading volume of 53.5 billion CFA francs ($75 million) in 1999 and 36.6 billion ($51 million) in 2000 because of investors holding off.

Political and Social Context

After 30 years of one-party rule by President Félix Houphouet-Boigny and his Democratic Party (PDCI), Côte d'Ivoire held its first multiparty elections in 1990. Houphouet-Boigny was re-elected for five years but died in 1993. His successor, former national assembly president Henri Konan Bédié, was confirmed in power at elections in 1995 with 95 per cent of the vote after introducing an electoral law banning any candidate who was not pure Ivorian by birth or who had lived abroad in the five years before the election. Konan Bédié strengthened his position in 1998 by increasing the residence qualification for candidates to ten consecutive years. However he was overthrown on 24 December 1999 by an army mutiny led by General Robert Guei.

Faced with growing international pressure, including suspension of aid, Guei promised elections and these were held on 26 October 2000. Laurent Gbagbo and his Ivorian Popular Front (FPI) won them and Gbagbo became president in the country's first democratic transfer of power, ten years after introduction of a multi-party system. Gbagbo scored 59 per cent of the vote but, because of the Supreme Court's rejection of the candidates of the Republican Rally (RDR) and the PDCI and their call for a boycott, this represented a low voter turnout of 37 per cent. However his legitimacy was strengthened when a popular uprising quashed an attempt by Guei to stay in power.

Political and social disturbances since 1999 have seriously affected Côte d'Ivoire's international credibility and are a burden on the country's economic performance. The 1999 coup was fairly bloodless but the army did seize power and left a heavy legacy to succeeding governments. Many divisions in the army were aggravated and paramilitary groups emerged[2]. The social situation became explosive against a backdrop of ethnic and religious divisions that had been much exploited during Konan Bédié's rule. This produced rioting at the October 2000 presidential elections and the parliamentary elections two months later. The last attempted coup, in January 2001, highlighted Gbagbo's main task, to bring about national reconciliation, which is also required for relations to be normalised with neighbouring Burkina Faso, Ghana and Mali and the international funding agencies. The peaceful local elections in March 2001, helped by the return of the RDR to the electoral process, was a big first step towards this and led to gradual resumption of foreign aid, begun by France in June 2001, and renewed negotiations with the IMF.

Good governance and fighting corruption are major conditions for total resumption of foreign aid. Embezzlement of European Union aid exposed in 1998 led to a break in relations with the EU and may have hastened the 1999 coup. To restore confidence, Gbagbo has said he is determined to carry out reforms. Some steps have already been taken, such as the president having to declare his assets and tax clearance being required by anyone running for office or appointed a minister. The removal of roadblocks has also helped by ending extortion of road-users. Transparency is now the watchword but attitudes may take a while to change.

Political tensions have been exacerbated by poor social performances. Despite the country's prosperity compared with its neighbours, life expectancy and access to health care and education are still very limited. Per capita GDP is around $585, nearly double that of Benin, Burkina Faso and Mali and 20 per cent higher than in Senegal. Despite this, gross school enrolment is only 78 per cent, behind Ghana (83 per cent), Benin

2. The most important of these was the Red Militias led by Boka Yapi, the former head of General Guei's personal security detail.

(84) and Togo (124). Life expectancy is 47.9 years, lower than all the countries at peace in the region, except for Burkina Faso, and incidence of HIV/AIDS is, at 10.8 per cent, the region's highest[3].

Côte d'Ivoire was not at all in good shape when it became independent in 1960 and has very poor or inadequate medical infrastructure, most of it concentrated in Abidjan to the detriment of the country areas and based on expensive facilities rather than neighbourhood clinics.

Current political uncertainties do not help the country's social situation. Doubts about the return of foreign aid, along with the deterioration of public finances, greatly slowed public investment in 2000 and only half the scheduled projects were completed. Aid resumption presupposes switching priorities to the social sector, especially to prepare for the HIPC Initiative. The government plans a survey on education and health care by the end of 2001 and setting up a poverty-monitoring centre. It also wants to continue drawing up a poverty reduction strategy document, a draft of which was expected in October 2001 and a final report by June 2002.

3. These figures must be treated with great caution because higher registration may have exaggerated the situation compared with other countries.