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Ivory Coast:
A Basic Economic Report
Summary and Conclusions

February 1977

Western Africa Region

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CURRENCY EQUIVALENTS

Currency Unit: CFA Franc (CFAF)

A fixed parity exists between the CFA franc and the French franc:
FF 1 = CFAF 50

The CFA franc floats against the dollar. Between February 12, 1973 and the end of 1976, the rate has fluctuated as follows:

US\$1 = CFAF 205-255

Throughout this report the following rates have been used for the conversion of CFA francs into US dollars and vice versa:

1968 and earlier years:	US\$1 = CFAF 247
1969:	US\$1 = CFAF 256
1970:	US\$1 = CFAF 278
1971:	US\$1 = CFAF 278
1972:	US\$1 = CFAF 252
1973:	US\$1 = CFAF 223
1974:	US\$1 = CFAF 241
1975:	US\$1 = CFAF 214
1976 and beyond:	US\$1 = CFAF 230

WEIGHTS AND MEASURES

1 Metric Ton (t)	= 2,205 lbs.
1 Kilogram (kg)	= 2.2 lbs.
1 Kilometer (km)	= 0.62 mile
1 Meter (m)	= 3.28 feet

FISCAL YEAR OF THE GOVERNMENT

January 1 - December 31

This report comprises: a separate volume of Summary and Conclusions, a Main Report, and separate annexes on Agriculture, Industry, Tourism, Transportation, Urban Development and Education.

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IVORY COAST: A BASIC ECONOMIC REPORT

PREFACE

The Ivorian economy has been reviewed on several occasions by World Bank economic missions, for instance in 1970 and 1971. However, the economic mission of June-July 1975 is the first such review after the Bank in 1972 decided to embark upon a series of "basic" economic reports on its major member countries. Policy-oriented basic economic reports are intended to provide the government with an evaluation of the economy's past performance, its future potential, and the options open to make the best use of this potential. For the Bank, the report is expected to provide guidance on how to best help the government in its development efforts.

This report comprises eight volumes. In addition to a separate volume containing a brief Summary and Conclusions, there is a Main Report to which six Annexes are attached on Agriculture, Industry, Tourism, Transportation, Urban Development and Education. Past development is not given an encyclopedic description because the country's achievements are documented in Ivorian publications such as the national accounts statistics and consecutive national plans, as well as in earlier Bank reports. The past will rather be used to define trends that may have relevance for the future. The main questions to which we address ourselves are whether it is possible or desirable to extend the development approach and policies used in the Ivory Coast so far, or whether modifications will be required in the context of the government's objectives. If so, what kinds of modifications should be made and to what extent.

The report is based on information collected in June/July 1975. At that time the government was in the process of preparing its 1976-80 Development Plan, and although preliminary documents and discussions with planners have given the mission a good idea of what the country hopes to achieve, no comprehensive plan was available at that juncture.

The composition of the mission was as follows:

Bastiaan A. den Tuinder	Chief of Mission
Chuong Ngoc Phung	Economist (Balance of Payments)
John D. Shilling	Macro-economist (Long-run Model)
Wolfgang F. Stolper (consultant)	Economist (Employment, Income Distribution)
Bernard Verdier	Economist (Private Sector)
Luc H. De Wulf (IMF)	Fiscal Economist
Marto Ballesteros	Agricultural Economist
Christopher Redfern (consultant)	Agricultural Economist
Bernard Decaux (consultant)	Industrial Economist
Peter Koenig	Tourism Expert
Roy Knighton (consultant)	Transport Economist
Robin W. Bates	Public Utilities Economist
Michael A. Cohen	Urban Development Specialist
David Davies	Education Economist

IVORY COAST: A BASIC ECONOMIC REPORT

SUMMARY AND CONCLUSIONS

1. With an annual rate of growth of 7 to 8 percent in real terms over the past 25 years, the economic performance of the Ivory Coast has been truly outstanding. Government policy has contributed much to this record. Our analysis of the past therefore concentrates on identifying the circumstances and the package of policies that achieved these economic results and tries to derive from it lessons for the future. We evaluate existing, proposed and potential policies as to their effectiveness in eliminating present and future constraints. This evaluation has not been done by the mission in isolation. At the time of its field visit in mid-1975, the government was in the process of preparing the 1976-1980 Five-Year Economic Development Plan and discussions with public and private sector representatives have given the mission valuable insight into what the country hopes to accomplish. Ivorian objectives have guided us in our analysis.

2. The economic performance of the Ivory Coast has surprised and fascinated many observers. It is indeed intriguing to realize how the economy of a country with limited resources--no mining to speak of and no industrial experience--has been able to grow so rapidly. In fact, several countries south of the Sahara are, on the face of it, in a comparable or even better resource position. Why then was Ivorian per capita income, which in 1950 at \$70 1/ was comparable to that of many Black African countries, in 1974 at \$450 1/ one of the highest on the African continent? 2/

3. The answer to this question is complex. It relates on the one hand to the way in which the economic potential of the country was developed before independence and on the other to the objectives the Ivorian government set itself after independence and to the way it implemented its economic policy.

Development of Economic Potential before Independence

4. The Ivory Coast, having been part of a bigger economic unit, the AOF 3/ which itself was linked to France, the colonial power since 1893, specialized at an early stage in developing its important agricultural and forestry resources. This not only served to develop the Ivory Coast itself, but also benefitted the entire region.

1/ Gross National Income (GNY) in current prices.

2/ GNP per capita, calculated following the World Bank Atlas methodology, reached \$420 in 1974 in the Ivory Coast, which was surpassed in Black Africa only by Zambia (\$480), Angola (\$580) and Gabon (\$1,560).

3/ French West Africa (Afrique Occidentale Francaise - AOF): Mauritania, Senegal, Mali, Ivory Coast, Upper Volta, Niger, Guinea and Benin (then Dahomey).

5. In the tropical forest zone in the south, conditions are particularly favorable for most tropical perennial tree crops such as coffee, cocoa, oil palm, coconuts and rubber, while annual food crops also do well. In the northern savannah food crops can be grown, but perennial crops cannot. By 1900 an export market already existed for cocoa, coffee and timber from the south, and the next half-century would see economic development concentrate in that part of the country. Coffee and cocoa were introduced, research stations were established, transport infrastructure was developed, and logging activities, which opened up tropical forests, were followed by more farming activities.

6. In the beginning, European planters played an important role in cocoa and coffee cultivation, but when after World War II forced labor in the Ivory Coast and neighboring countries was abolished and wages were increased, European production methods were at a disadvantage (cocoa and coffee cultivation is hard to mechanize) compared to African techniques. Africans used little capital and land-extensive methods which, although yielding less per unit of land, resulted in a relatively high return on labor. At independence hundreds of thousands of Ivorian families in the south were engaged in cocoa and coffee production, employing large numbers of workers from the north and from neighboring countries. As late as 1955 only 13 percent of about 3 million people lived in centers of more than 4,000 inhabitants, and Abidjan had a population of only 125,000. The local elite, mostly farmers themselves, had a keen understanding of the needs and potential of the agrarian community.

7. This evolution has continued since independence with spectacular results. Ivorian leaders sensed that agriculture had to continue to be the pillar of further development and that the country was not prepared for a hasty industrialization, a temptation some newly independent countries have been unable to resist. Today the Ivory Coast is the third largest producer in the world for coffee and cocoa, earning over \$600 million in 1974 (f.o.b. prices) in the export market, which was equivalent to about 50 percent of total commodity exports in that year.

The Transition towards Independence

8. Part of the explanation of the Ivory Coast's impressive growth record is that local leadership understood that, although politically independent, the Ivory Coast had become, over more than half a century, part of a larger unit economically and otherwise. The Ivory Coast had become a raw materials producer, while most finished goods were imported from abroad, mainly from France. The economies of the Ivory Coast and France were said to be "complementary".

9. The Ivory Coast's post-World War II boom provided many more jobs in the country than Ivorians could fill. Free-moving, largely unskilled labor from less-endowed countries, mainly land-locked Upper Volta and Mali, therefore started to converge on the Ivory Coast in ever-increasing numbers. At the same time, the layer of educated and qualified Ivorians remained thin, and skilled manpower, mainly French, was required to help build and manage the

economy. It is estimated that by 1965, out of a population of some 4.5 million, there were 1 million foreigners in the country, about 30,000 of them Europeans. Breaking out of this framework overnight, it was felt, could have a major negative impact on further development. As early as 1960 a long-term flexible and pragmatic, but clearly focussed policy was developed to gradually firm the country's grip on its own destiny.

10. Finally, notwithstanding its regional political importance, the country did not engage in political adventurism and kept defense and prestige spending to a minimum. Instead the leadership concentrated on molding a nation out of more than 50 different peoples, with as many different languages, and providing political stability and continuity of economic policies.

Objectives beyond Independence

11. It is clear from the foregoing that the mission rejects the notion held by some that the "Ivorian miracle," as this economic development is sometimes called, has been primarily based on luck. On the contrary, we demonstrate in this report that advantageous developments and situations have actively been created by policymakers who have taken advantage skillfully of favorable "exogenous" developments.

12. As early as 1960, a series of 10-year projections of the economy was made outlining alternative scenarios of how the economy could look by the end of the decade. In the short-to-medium term, growth would have to rest primarily on expansion and diversification of the sectors where the Ivory Coast had the greatest immediate comparative advantage--agriculture, particularly export agriculture, and forestry. The implicit strategy was to rely on the short-run comparative advantage of the economy to provide the resources and growth needed for the structural shift into the next phase of development based on industrial expansion. This strategy would not only give the Ivory Coast a strong basis of income and wealth in agriculture, but also the infrastructure, training, capital, markets and foreign exchange required for further growth and the successful development of an industrial sector.

13. A major decision was to continue an outward-oriented development based on exports and supplementing local production factors with foreign production factors--capital, labor and know-how--because of the low level of income and a population (3.7 million in 1960) whose purchasing power and propensity to save would remain low for quite some time. A major element of this strategy was continued participation in several francophone organizations, facilitating access to production factors and markets needed for further development. It is important to realize that the country could have decided otherwise, as at different times did Guinea, Mali and Mauritania for instance. In 1962 the Ivory Coast became a member of the West African Monetary Union, 1/ which tied its currency to the French franc at the rate of CFAF 50 = FF 1, the

1/ Together with Benin, Niger, Senegal, Togo and Upper Volta.

same rate as today, with guaranteed full and unlimited convertibility into French francs by France. The Ivory Coast's exchange and trade system is similar to that of other Franc area countries maintaining an operations account with the French Treasury; the Ivorian share of the Union's operations account has always been positive.

14. The government considered continued rapid economic growth within the limits of budgetary and balance-of-payments equilibrium its first priority. Three main "corrections" were made on pre-independence economic policies to reflect other priorities. The interrelated issues of (i) diversification of production and markets, (ii) improved income distribution, and (iii) Ivorianization, received increasing attention. Progress in these fields was to be made firmly but gradually. Gradualism and open dialogue, major elements of Ivorian policy, have contributed greatly to political and economic stability and have generated confidence abroad--two factors essential to the success of the Ivorian development model.

Application of Economic Policies

15. The Ivorian economy has developed in an atmosphere of controlled liberalism, characterized on the one hand by entrepreneurial freedom, with few physical controls and a favorable disposition towards foreign capital, labor and expertise, and on the other hand by government intervention in significant ways. These have included regulation of many agricultural prices for the producer as well as the consumer, establishment of minimum wages, maintenance of a host of incentives in several sectors of the economy, implementation of substantial public investment programs--lately at a pace of 60 percent of total investment or some 13 percent of GDP--and setting of overall targets through development planning. Some examples of how sector policies fit the general policy framework are given below.

16. To provide the basis for further development, agriculture, the foundation of the Ivorian economy and the mainspring of its growth, had to be expanded and diversified. Three main policies have been followed: (i) to create an efficient and effective organizational structure; (ii) to pay attractive producer prices; and (iii) to keep wages for hired labor in agriculture relatively low.

17. In the mid-1960's when private initiative in agriculture appeared to be lagging behind expectations, the government almost doubled the share of agriculture in public sector investments from 19 percent in 1960-66 to 36 percent in 1967-70. For many crops, individual autonomous agencies (SODE) 1/ were created which cooperate with supporting services in the fields of research, credit, cooperative development, regional development and price stabilization. Expatriate expertise is channeled through these organizations. In this framework, Ivorian farmers have responded well to price and other incentives. Between 1965 and 1975 producers were paid on the average 50 percent of the f.o.b. export earnings of cocoa and coffee; 15 percent was

1/ Societe de developpement.

absorbed by transport and other services while 35 percent went to the public sector in the form of taxes and net contributions to the Price Stabilization Fund. The effective organization of the sector and stable, comprehensive policies have prevented frustrations which in some other countries have so often led to disappointing reactions of farmers. Also, the availability of low-cost, hard-working manpower from neighboring countries has increased local profits and made agricultural activities attractive even for small Ivorian landowners. Incentives have been differentiated by crop to encourage diversification and the development of lesser endowed areas of the country; products for which the comparative advantage is largest are taxed most heavily. The total cost of incentives in agriculture has been less than the revenues gained by the public sector, and this "surplus" has been used to stimulate other sectors of the economy. Until recently food crop production was largely left to its own. Nevertheless, imports of foodstuffs per rural inhabitant declined from 200 kg to 115 kg between 1965 and 1975. Apparently a reasonably efficient private marketing network exists for foodcrops, and farmers have responded readily to market signals.

18. Forestry has greatly contributed to the Ivory Coast's economic development. Production of logs, which are still mainly exported in unprocessed form, increased over fivefold--from 1 million m³ in 1960 to 5.2 million m³ in 1973. The sector has played an important role as an earner of foreign currency required to develop other sectors. In the early 1970's the sector accounted for about 25 percent of total export earnings. Net earnings are not precisely known, but it has been established in a regional World Bank study on forestry 1/ that the Ivory Coast has been able to command by far the highest export taxes on logs in the region. These taxes have averaged about 20 percent of the f.o.b. value for 1965-74, as compared, for instance, to 11 percent in Cameroon and 6 percent in Ghana. New tax regulations introduced recently should raise the tax rate to about 26 percent. Only recently have policy measures been taken to (i) protect depleting well-known species by differentiating taxation and by promoting lesser-known "secondary species" that are still readily available; and (ii) stimulate local processing by discouraging exportation of unprocessed wood with the imposition of a tax penalty and by establishing quotas on logs supplied by logging firms to local processing plants. The Ivory Coast, nevertheless, is rapidly running out of the well-known species, and costly reforestation may be required to provide a basis for a viable wood processing industry in the long run.

19. The government at independence recognized the long-run importance of developing industry, as population and agricultural productivity would rise and education would be improved. In 1960 industry accounted for only 4 percent of GDP. The government aimed its policies at offsetting the lack of experience and skill in modern manufacturing by offering incentives to the profit-motivated private entrepreneur to promote import substitution. The

1/ West Africa Forestry Sector Study (draft, October 1975).

government's liberal policy towards foreign private investment and its emphasis on political stability, staying in the Franc area, free transferability of profits and capital and the creation of an image of confidence abroad all have been instrumental to the progress of industrialization. As local wages set by the government were considered relatively high compared to productivity and the cost of expatriate assistance was high as well, protection under the existing tariff structure seemed inadequate, and an investment code was promulgated which provided substantial incentives to industrial establishments in the Ivory Coast. A World Bank Research Project 1/ has calculated that effective protection 2/ for manufacturing averaged about 40 percent, which is substantial but not extreme. It means that industry as a whole is subsidized and agriculture and forestry provide the means to do so.

Results

20. Some results of Ivorian policies in terms of growth, diversification, improved income distribution, and Ivorianization are quantified below. As shown in the following table, economic growth has been impressive.

AVERAGE ANNUAL GROWTH RATES IN REAL TERMS

	<u>1960-65</u>	<u>1966-70</u>	<u>1971-75</u>	<u>1960-70</u>	<u>1960-75</u>
Gross domestic product (GDP)	9.2	7.4	5.6	8.3	7.4
Gross national product (GNP) <u>a/</u>	9.0	7.4	5.6	8.2	7.4
Gross national income (GNY) <u>b/</u> (base year - 1973)	8.2	10.2	3.7	9.2	7.4
Average GDP (in current CFAF billions)	189.3	327.0	608.6	-	-
Growth of resident population	2.8	4.0	4.5	3.4	3.8

a/ Due to net transfers abroad, total GNP has consistently been some 6 to 7 percent below total GDP.

b/ GNY equals GNP at constant prices, corrected for the income effect of terms of trade changes.

Annual growth for GDP, GNP and GNY averaged a remarkable 7.4 percent over the 15-year period between 1960 and 1975. GNY and GNP growth rates are the same for the period considered, which indicates that the terms of trade (for goods

1/ World Bank Research Project on Incentives and Comparative Advantage in Selected West African Countries (preliminary results; June 1975).

2/ The rate of protection on value added, taking account of tariffs on imported inputs used by industry.

and services) have not worked systematically against the Ivory Coast. A marked acceleration in population growth has taken place for which increased immigration, partly due to the Sahelian drought, is mainly responsible. Despite such a population rise, real income per capita increased by 3.6 percent per year, although due to the drought, increased oil prices, and a slow-down in the world economy the growth of GNY per capita over the period 1971-75 may have been negative. The trend over five-year periods since 1960 is a declining rate of growth.

21. The economy has become more diversified. First, agriculture is still the basis for most activities, but modern industry grew from 4 percent of GDP in 1960 to 12 percent in 1974. Second, in agriculture, new products like bananas, pineapple, rubber, cotton, coconut and palm oil were also developed. In 1974 unprocessed cocoa and coffee exports represented 44 percent of total agricultural exports as against 72 percent in 1960. Third, in 1960 about 50 percent of Ivorian exports went to France and 65 percent of Ivorian imports originated there; these percentages were about 25 and 45 respectively in 1974. Finally, in 1974 only 25 percent of the Ivory Coast's public debt was owed to France, as compared to more than 80 percent during the early 1960's.

22. When discussing income distribution in the Ivory Coast, four main factors should be taken into account. First, the data base is poor and firm judgements are therefore impossible. Second, the ecological differences between areas are important, and permanent improvements in less-endowed areas involve structural changes which can only be brought about by long-term investments the financing of which must be earned somewhere else. Third, the problem is evidently quite different in countries with no starvation like the Ivory Coast than it is in countries such as Bangladesh or India. Finally, the dominant social structure of the Ivory Coast, particularly the extended family system and ethnic and village loyalties, provides some sort of social security and an effective income redistribution system. In comparison with many other countries, the Ivory Coast has not only done well in growth per se, but recently also in terms of the distribution of income. Spontaneous immigration of large numbers of foreigners from other African countries testifies to the attraction of the Ivory Coast to others. Farm price and wage policies show neither the overwhelming urban bias so frequently found nor an over-concern for the upper income strata. With the lowest 40 percent of the population receiving 19.7 percent of total income and the top 20 percent receiving 51.6 percent in 1973/74, 1/ the income distribution is similar to or more equal than that found in comparable countries. 2/ Recent farm price and wage policies, as well as regional investment plans, show not only an active concern with equity but indicate that growth and equity are to a certain extent

1/ Total population, including all foreigners.

2/ Distinguishing high, medium and low inequality categories of developing countries, our calculations put the Ivory Coast in the "low inequality category." See: Chenery, Ahluwalia et. al., Redistribution with Growth, Oxford University Press, 1974.

consistent. A case in point is the north where earlier investments in improved cotton varieties and crucial insecticides made cotton cultivation in that area feasible around 1965. Cotton is increasingly grown in rotation with foodcrops and, with the introduction of ox-drawn cultivation, it is gradually becoming a major element in transforming the north, integrating this region into the rest of the economy, and closing the income gap with the south.

23. Gradually the Ivory Coast has come to rely more heavily on foreign production factors, and with this trend Ivorianization has become an increasingly important issue. The foreign population is estimated to have amounted to 2 million 1/ in 1975 out of a total population of 6.7 million (of which 50,000 were Europeans and about 100,000 were Syrians and Lebanese), as compared to 1 million (of which 30,000 were Europeans) in 1965 out of a total of 4.5 million. As far as the Ivorianization of capital is concerned, the public debt outstanding, including undisbursed, went up from US\$388 million in 1969 to US\$1,536 million in 1975, and the ratio of public debt service to exports went up from 6 percent in 1969 to about 11 percent in 1975. As far as ownership is concerned, agriculture is mostly in the hands of Ivorians. However, in forestry, industry and most of modern commerce foreign ownership is widespread, although progress in Ivorianization is being made steadily. At the end of 1975, national participation in the equity of commercial and development banks was 54.5 percent, of which about one-fifth was owned by private Ivorians. In the industrial sector at the beginning of 1975, the government held 25 percent of the equity and private Ivorians held an additional 9 percent; the rest was still in the hands of foreigners. To facilitate Ivorianization, free education has been a major policy instrument. An examination of comparable data reveals that in 1973 the Ivory Coast spent the largest proportion of its budget (32.6 percent) on education in a sample of 69 countries. 2/

The Financing of Development

24. With an average of about 23 percent of GDY, gross domestic savings over the 1965-74 period were high and exceeded total investment, which averaged 19.8 percent of GDY in 1965-70 and 22.4 percent in 1971-74. However, foreign production factors have not been put at the disposal of the Ivorian economy free of charge, and remittances of profits, dividends, interest, and wages and salaries have amounted to over 6 percent of GDY annually, causing national savings--at about 17 percent of GDY--to fall short of investment. The shortfall rose from 3.5 percent of GDY in 1965-70 to 5.9 percent in 1970-75, which had to be financed from abroad. Most foreign borrowing was done by the public sector and, as appears from the following table, the resource surplus of the private sector in fact has been considerable.

1/ Including children born to foreign parents.

2/ IBRD Comparative Education Indicators, October 1973. Although difficulties of comparison are serious, the data indicate that expenditures on education are relatively high.

	(in CFAF billions; average per year)		
	<u>1960-65</u>	<u>1965-67</u>	<u>1971-74</u>
1. Gross domestic public investment	14.9	26.2	69.9
2. Gross domestic public savings	11.3	19.1	47.4
3. Public sector savings deficit	3.6	7.1	22.5
4. Resource balance <u>a/</u>	3.8	3.6	5.7
5. Private sector savings surplus (Public sector savings deficit plus resource balance)	7.4	10.6	28.2

a/ The difference between exports and imports of goods and non-factor services.

The outflow of private savings has risen because of the increasing earnings from earlier foreign investment and perhaps some reluctance lately on the part of foreigners to reinvest or engage in new ventures, and a continuous inflow of foreign laborers, who transfer part of their earnings abroad. By contrast, there has been a substantial deficit in the public sector as the government has explored new opportunities and at the same time has accelerated its investment in social services and economic infrastructure. Public investment as a proportion of total investment increased from an average of 40 percent in the early 1960's to slightly over 60 percent in 1971-74. Thus, while the private sector has continued to transfer resources abroad, the public sector has been forced to borrow increasingly abroad to fill the gap between investment and savings.

25. These trends are confirmed by our analysis of the balance of payments.

BALANCE OF PAYMENTS SUMMARY, 1963-75
(in CFAF billions)

	<u>1963</u>	<u>1965</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u> <u>a/</u>
Trade balance	9.0	7.6	17.8	15.3	22.2	20.3	60.0	16.7
Net services and transfers	-13.5	-18.0	-33.8	-44.4	-52.4	-67.8	-89.3	-102.4
Net private capital inflows <u>b/</u>	4.3	4.5	5.7	0.9	-2.6	2.9	6.1	3.0
Net public capital inflows	4.7	7.6	16.5	24.6	14.9	42.4	49.2	47.1
IMF special drawing rights	0.0	0.0	0.9	1.5	1.5	0.0	0.0	0.0
Errors and omissions	-0.1	2.8	-0.2	-0.2	-0.8	-0.1	-5.0	0.0
Reserve movements (- = increase)	-4.4	-4.5	-9.4	3.2	18.9	2.3	-21.0	35.6

a/ Preliminary.

b/ Taking into account reinvested profits.

Except in the favorable year 1974 the trade balance surplus has compensated less and less for the deficit of the services balance, and financing of the current account deficit has come increasingly from public capital inflows and drawing down of reserves.

26. The public sector's ability to generate revenue and savings in order to finance its rising investment is determined by four main factors. First, the overall tax rate, which averaged 25.4 percent 1/ of GDP in 1970-75, is comparatively high. Although international comparisons should be carefully interpreted as the observations differ in many respects, the Ivory Coast was found to have the seventh highest ratio of taxes to GDP in a sample of 47 developing countries. 2/ Tax revenue has gone up at about the same pace as

1/ Includes social security and price stabilization funds.

2/ "Tax Ratios and Tax Efforts in Developing Countries, 1967-71". Chelliah, Baas, Kelly; IMF Staff Papers; Vol. 22 (March 1975).

income, and extra revenue has been the result mainly of discretionary changes in the taxes themselves. Some further increase in the tax burden, however, if introduced gradually, is still feasible.

27. Second, as the next table shows, in the 1970's a steady increase in public investment as a proportion of total investment coincided with a decrease--to 37 percent in 1975--of the proportion of public investment financed by public savings. One of the reasons is that current public expenditure grew by 15 percent per year during 1965-74, as against 13 percent for revenue. In particular, expenditures for education and housing are high and still rising.

TRENDS IN PUBLIC INVESTMENT AND ITS FINANCING
(percentage of GDP)

<u>Item</u>	<u>1960-65</u>	<u>1965-67</u>	<u>1970-71</u>	<u>1973-74</u>	<u>1975</u>
Public investment	6.9	8.9	11.6	13.0	15.2
Private investment	8.9	8.5	9.7	6.9	8.8
Total investment	15.8	17.4	21.3	19.9	24.0
Current budget surplus <u>a/</u>	5.1	4.4	4.8	4.7	4.2
Stabilization Fund contribution)		0.6	2.6	0.0	1.8
Other public enterprise savings)	0.9	2.1	1.8	3.3	3.6
Gross financing capacity of public sector	6.0	7.1	9.2	8.0	9.6
Public debt service payments (interest + repayments)	-1.8	-2.1	-2.6	-3.4	-4.0
Net financing capacity of public sector	4.2	5.0	6.6	4.6	5.6
Proportion of public investment financed by public sector (percent)	61%	56%	57%	35%	37%

a/ Before debt service.

Local financing of 35 percent of public investment is a low proportion. Assuming that 15 percent of public investment does not lend itself to any foreign financing, about 75 percent of each remaining project would require foreign financing, which, in most cases, would be higher than the foreign currency component. In 1974 and 1975 gross public capital inflows were CFAF 60 to 70 billion a year. Because less than 50 percent of these capital requirements has been obtained on concessionary terms in recent years, the debt service ratio is increasing.

28. The third main determinant of the public sector's ability to generate savings is the complexity of public sector finance and the proliferation of public enterprises. Investments by public enterprises increased from 30 to some 60 percent of public investment between 1965 and 1975, amounting to an estimated 70 billion in the latter year. The investment budget of the government proper, therefore, means less and less in terms of a comprehensive overall public financial statement. Public enterprises are often given physical targets to meet, while the financing is left to their own initiative. However, the government realizes that the sheer size of the public enterprises, their importance in implementing national economic goals, the level of their foreign debt, and the increase in and lack of control over their foreign indebtedness require that this sector be more closely controlled. The government is taking measures which could remedy the situation.

29. A related point is the role of the Stabilization Fund for agricultural products. The contributions of this fund to the financing of public investment have been substantial but irregular. As the public investment program will have to continue to rely heavily on foreign capital, the Stabilization Fund's net profit should be used in such a way that, in a better-than-average year, foreign borrowing could be cut back and stepped up in a below-average year. The reserves of the fund could be used in this way to stabilize not only the incomes of farmers, but also the investment program. This policy would be an improvement over 1974 when the fund's very high profits were used as seed money to attract more foreign capital rather than cutting back foreign borrowing.

30. Finally, the level of outstanding public debt and the need for domestic resources to service this debt have increased considerably. Consolidated, gross foreign capital drawings, including grants, of the central government and of public enterprises rose from an average of CFAF 10.1 billion in 1965-67 to CFAF 68.4 billion in 1975, reflecting a 24 percent annual growth rate. Public debt service grew from CFAF 5.5 billion in 1965-67 to about CFAF 30 billion in 1975.

EXTERNAL PUBLIC DEBT: DEVELOPMENT OF TOTAL DEBT a/

(Millions of US dollars)

<u>Year</u>	<u>Debt Outstanding at End of Period</u>		<u>Developments During the Period</u>			<u>Debt Service Ratio</u> (in %)	<u>c/</u>
	<u>Disbursed Only</u>	<u>Including Undisbursed</u>	<u>Commitments</u>	<u>Disbursements</u>	<u>Service Payments</u>		
1969	207.7	388.5	66.1	48.9	29.7	5.9	
1970	256.1	424.3	68.9	76.4	38.6	7.4	
1971	351.7	539.3	119.6	107.3	44.7	8.5	
1972	399.9	702.9	198.4	82.7	57.9	9.3	
1973	578.6	923.4	274.9	228.0	72.3	8.2	
1974 <u>b/</u>	738.0	1,200.3	328.8	218.8	115.1	9.1	
1975	973.8	1,536.0	448.6	335.6	137.8	10.9	
(1976)				226.1	188.4		
(1977)				148.9	187.9		

a/ Situation as of December 31, 1975.

b/ Service payments in 1974 went up to an artificially high level, as US\$20 million of a Euro-dollar loan was rolled over before it was due.

c/ Debt service as a percentage of exports plus nonfactor service earnings, minus workers' remittances abroad.

31. It is difficult to indicate exactly what level of foreign debt service payments the economy of the Ivory Coast could sustain, as this depends on so many factors. However, because of the openness of the economy--exports, including non-factor services, constitute about 40 percent of GDP--a public debt service ratio of 15 percent, to which another 5 percent has to be added for obligations from the private sector, should be considered high. The country could rapidly exceed this level if recent policies with regard to foreign borrowing are continued into the future.

Increasing Costs of Development

32. Past growth, of course, has not solved all problems; in fact it has created problems of its own. There are signs that growth in the Ivory Coast is gradually becoming more expensive and that reliance on foreign factors is becoming less beneficial as measured by the net results obtained from the mixture of local and foreign resources. For the sake of clarity we discuss three interrelated groups of factors separately: the return on investment is decreasing; the direct and indirect costs of production factors from abroad are going up; and the terms of trade are deteriorating.

1. Lower Return on Investment

33. With the favorable conditions under which the Ivory Coast started as an independent nation, the incremental capital output ratio (ICOR) may have been as favorable as 2.5 in the 1960's, and it should not be surprising that this value is becoming less favorable. The trend of domestic resource costs (DRC) calculated in the Bank's Research Project points in the same direction. Both ratios indicate that the return per unit invested is decreasing. There are several reasons for this phenomenon.

34. First, agriculture is diversifying into crops with a lower comparative advantage. In a macro-economic sense this is justified, as putting all available money into a crop with a high comparative advantage, for instance cocoa, would soon meet market constraints. However, naturally and unavoidably, diversification into other crops has led to a lower return on investment, and the "surplus" available for investment in other activities has shrunk.

35. Second, the Ivorian forest has contributed substantially to economic growth. Costs in logging have been relatively low, as the most accessible areas have been logged out first, while almost no reforestation has taken place. Because of depletion of valuable species, forestry output at present may be sustainable for another ten years or so, but further growth is unlikely. To maintain production at its present level, say beyond ten to fifteen years, costly reforestation will have to be carried out.

36. Third, to diversify the economy substantial investments have been made in industry, sometimes at low or even negative returns to the national economy, a situation which will get better with the gradually improving efficiency of local production factors. After 15 years the policy of import substitution is running out of the more obvious possibilities, which is indicated by the fact that the latest establishments receive the highest protection. The reasons for protection have not changed much as yet; the component of foreign management is still large and expensive, and wages for local labor are kept high compared to its productivity. These circumstances may seriously affect the Ivory Coast's international competitive position, which is all the more important because the country is shifting the emphasis of its industrialization policy toward export markets for its locally processed raw materials. It appears to take longer than anticipated for local management and labor to acquire the necessary efficiency. Since the number of school graduates with paper qualifications and high expectations is increasing every year, it will be difficult to strike a balance here.

37. A fourth reason for the declining return on investment is that the government has accelerated the implementation of a large program to improve the living conditions and income earning opportunities of the people in the less-endowed rural areas by providing a rather complete package of services. Of course, ecologically disfavored regions are capable of providing a better living for their people if technological change can overcome the disadvantages. Cotton production in the savannah area of the Ivory Coast is a case in point.

The government recognizes that the national economic benefit of having somebody gainfully employed in the north instead of being unemployed in Abidjan would be substantial. However, the costs of such a program, which would involve the transformation of the north and center from subsistence and shifting cultivation, are high and the gestation period is long. The same argument applies to the southwest, a promising but as yet undeveloped and sparsely populated area. The mission agrees with the government that regional programs must be implemented, but the government should carefully consider how much of these programs it can shoulder over a period of time.

38. Fifth, because costs are rising it will be more expensive to meet specified plan goals, or alternatively, targets must be reduced to stay within estimated costs. This is shown for mission-estimated plan implementation during 1971-75 in the agricultural sector. ^{1/} For investments made in selected crops in agriculture the cost in constant prices was on average more than twice as high as forecast; at this cost level 61 percent of the program was implemented.

PLAN TARGETS AND ACTUAL RESULTS,
AREA AND COST OF ESTABLISHMENT OF PLANTATION CROPS 1971-75

	<u>Area actually planted as a percentage of planned area</u>	<u>Actual cost per hectare as a percentage of planned cost per hectare a/ (%)</u>
Coffee	54	427
Cocoa	68	127
Rubber	51	313
Oil palm	54	200
Coconut	57	140
Sugar	100	150
Total	61	220

^{a/} The cost comparisons have been made in constant prices. Inflation over the 1971-75 period was low in the beginning but much higher later on; the average is estimated at 50 percent. Mission estimates.

The cost overruns in constant prices have been substantial for a number of products because of: (i) underestimation of the need for public investment in buildings, roads and social infrastructure to reach project targets; (ii) insufficient control over the overhead and spending programs of public

^{1/} For the transport sector we estimate that roughly 75 percent of the program has been implemented at a cost of 123 percent (in constant prices) of the amount originally estimated to pay for the entire program.

enterprises; (iii) at least in the case of sugar, the choice of an over-sophisticated production technology; (iv) delays in project execution; and (v) insufficient project preparation.

39. Finally, in urban and educational, as well as in transport infrastructure there is a tendency toward high standards, overdesign and "expansion" rather than "densification," which is often economically the better solution. In many cases expatriate standards prevail where local standards would be more appropriate.

2. Direct and Indirect Costs of Foreign Production Factors

40. Trends in the balance of payments show that the cost of foreign production factors including capital has increased considerably. Payments abroad for capital and labor services have increased to such an extent that the current account balance has deteriorated both in absolute amount and as a proportion of exports.

41. Foreign capital has become more scarce and expensive. Foreign private capital has been an important factor in the economic development of the Ivory Coast. However, the net inflow has been reduced from 16 percent of total investment in 1960-63 to about 1 percent in 1971-74. This probably reflects (i) the increased participation of the state in private enterprises in order to Ivorianize capital; (ii) the transfer of profits over an only slowly growing foreign private capital stock; and (iii) the fact that profitable import substitution opportunities have become harder to find. In the public sector, the demand for foreign capital far exceeds what donors of concessionary capital have been allocating to the Ivory Coast. In the early 1960's the Ivory Coast began, parallel with its diversification of trade, to diversify its sources of foreign capital. It has been successful in this respect, but costs have increased. The proportion of hard-term loans in total public debt contracted almost doubled between 1969-70 and 1974-75, increasing from 35 percent to about 65 percent, while the grant element dropped from 25 to about 14 percent over the same period, and the public debt service ratio went up to around 11 percent in 1975. The Ivory Coast has taken increasing recourse to the Euro-dollar market and suppliers' credits where indirect cost is often high.

42. The large inflow of foreign labor, Europeans and Africans, has greatly benefitted the economy, but it is also creating social tensions that suggest the inflow may have reached the limit of tolerance and therefore of efficiency. The Ivory Coast therefore is faced with the issue of how much regional (in the sense of the Ivory Coast and its neighbors) versus national orientation to give its employment policy. Although the term "Ivorianization" is more directly related to non-Africans, a certain form of official policy with regard to the numerous other Africans will more and more be called for. The problem is complicated by the fact that many Ivorians find agricultural work, especially as hired laborers rather than small plot owners, unattractive. Therefore, most immigrants are employed in agriculture where they have accepted

low wages, supplemented by the revenues from sharecropping and other benefits in kind. This has produced a situation in which there is unemployment in the city, while in several agricultural areas there is a labor shortage. Recently, the government of Upper Volta has been reluctant to let its people go south unless it receives direct financial compensation from the Ivory Coast. This has stemmed the outflow to a certain extent. Moreover, demand for the region's labor surplus from other countries, especially Gabon, has increased. Negotiations between the governments of the Ivory Coast and Upper Volta took place throughout 1976. Signs of labor shortages in the Ivory Coast for certain types of work suggest that labor costs may go up.^{1/}

43. Concerning skilled and managerial manpower, increasing numbers of Ivorians coming out of schools have started to compete with skilled foreigners for jobs. However, the formal education of these graduates has to be supplemented by on-the-job training, and many higher positions therefore have "double occupancy," sometimes for many years, which increases costs. Ivorianization is highly advantageous economically provided the candidates have the skills. For that reason, the Government so far has implemented its Ivorianization policy gradually. As the number of graduates turned out by the educational system is increasing rapidly, demands for Ivorianization will become stronger.

3. The Terms of Trade

44. The terms of trade have fluctuated in the last 15 years, but, partly due to successful diversification, there has not been a systematic deterioration. Primarily because of strong coffee prices due to setbacks in production in Brazil and Angola, the terms of trade are expected to do well until 1978. Although forecasts over the long term have only limited value, the price outlook for Ivory Coast's exports and imports suggests that the country will have to export more resources to continue to receive the same in exchange. It is difficult for the Ivory Coast to fight deteriorating terms of trade because it has become such a big producer of cocoa and coffee that rapid expansion of cocoa and coffee exports could bring prices down. Diversification is an answer, but it has its own limits, as we have seen.

The Plan

45. Planning has become an important feature of the development process in the Ivory Coast. Gradually, more emphasis has been given to a distinction between planning and programming. The planning process formulates the overall objectives, puts them in a general framework, assures consistency between objectives, and sets priorities. The development of an overall macro-economic framework is part of this exercise. The programming process takes the individual projects as its "units of account". This two-pronged procedure adds a great deal of flexibility to the whole planning process, which is an important asset. However, as the Ivory Coast is in the fortunate position of

^{1/} Minimum wages in agriculture were increased by 25 percent on October 1, 1976.

still having many opportunities for further development, the procedure has led to a cascade of investment proposals. Arbitration to reduce the total amount of planned investments has proved difficult. Planning-by-project injects a certain discipline into the system which, for balanced development, is as essential as flexibility. It is not exactly clear at present where, with planning-by-objective, discipline and the setting of priorities enter.

46. The next five-year development plan (1976-80) was not available at the time of the mission's field visit, but a tentative public investment program that the government discussed with the mission in the middle of 1975 indicated a total of CFAF 1,350 billion in 1975 prices. Assuming growth of the economy in real terms of 7 percent, the country would invest close to 40 percent of GDP in 1976-80 as compared to 23 percent during 1971-75. The magnitude of the program reflects the government's determination to maintain a high rate of growth, while there is at the same time evidence of an increased concern for the poor. The plan contains programs to increase production further in relatively developed areas, transform the less-endowed savannah areas, and accelerate the opening up of the southwest. Substantial investments are proposed to improve the quantity and the quality of services in rural areas and to provide people there with a production base for a decent income. The same approach is planned for urban communities. Diversification in agriculture will continue to be pursued vigorously as will industrial development, and a new pillar will be added to the economy, iron ore mining. The investment program acknowledges the need to address new problems that have gained in urgency, but it also maintains the existing programs at the same time. Thus, it is a policy of addition rather than of shift. The preliminary program, while having many excellent elements, lacks a ranking of priorities; all projects seem urgent and equally so.^{1/}

47. The investment program cannot be implemented in its entirety in five years (1976-80). Thus it becomes essential to set priorities and to design policies which use scarce resources to best satisfy priority needs. The challenge facing the Ivory Coast is to maintain a high rate of growth and, at the same time, improve income distribution, all within the resources likely to be available. The mission agrees with the government that this cannot be done simply by continuing past policies. Structural changes, difficult for political and other reasons to implement, are required. The mission has calculated, using a fairly simple macro-economic model, that under a certain set of conditions, by investing about 25 percent of GDY, an annual growth rate of 6 to 7 percent can be obtained for the next 10-year period. Assuming a proportion of public investment in total investment of around 65 percent, this would amount to a public investment program of about CFAF 800 billion in 1975 prices. These magnitudes correspond to the "policy package" projections described below.

^{1/} A May 1976 draft of the 1976-80 plan has a scaled down public investment program of CFAF 1,020 (in 1975 prices).

Favorable Prospects with Certain Policy Changes

48. To make a long-run analysis of the Ivorian economy and to investigate the implications of policy decisions, we have used as a framework a macro-economic model. Our long-run projections are not intended to predict the future in any exact way, but rather to suggest the kind of coordinated policy action that should be taken in order to implement a large investment program without running unacceptable risks or resorting to unsustainable levels of foreign borrowing. The mission has used the model to analyze the implications of the 1976-80 plan in light of our evaluations of Ivorian and world economic prospects for the next decade. Because of the demonstrated ability and relative efficiency of the Ivorian government in implementing its policies, we have in general been optimistic in the selection of parameters. Even so, the base run, assuming a level of public investment of CFAF 920 billion (in 1975 prices), turned out not to be feasible in terms of resource availability without major structural changes in the Ivorian economy. For instance, national savings would have to increase from 17 percent of GDY in 1970-75 to 23 percent in 1976-80, while investments would amount to over 29 percent of GDY for 1976-80.

49. In order to see what policy changes are needed to achieve a feasible growth path, a number of them were tested in a series of sensitivity runs, and four of them were combined in a package. The package comprises: (i) a level of public investment below that of the base run; (ii) higher retained earnings and savings by public enterprises and the private sector; (iii) slower growth of expenditures by the public sector; and (iv) a slightly heavier tax burden. In quantitative terms, the package amounts to the following:

	Public Investments 1976-80 (CFAF billion) <u>(1975 prices)</u>	Growth of Public Enterprise Savings (in real terms)	Private Domestic Savings as % of Dispos- able Income	Growth of Govt. Expen- diture (in real terms)	Tax Burden as % of GDP (excluding revenue of Stabili- zation Fund)
Base Run	860 + 60 <u>a/</u>	5%	12	8%	19
Policy Package	810	8%	15	5%	20

a/ The public funds to be invested in two big projects, discussed below.

The Ivorian record of responsive management underlies the mission's belief that the necessary savings to finance such an impressive public investment program can be generated. Favorable prospects for world coffee and cocoa prices will help a great deal in this respect.

50. A public investment program of roughly CFAF 800 billion for 1976-80 would enable the economy to continue to grow satisfactorily and at the same time to upgrade the living conditions of the poor through investment in structural changes to improve their future economic prospects. From careful project-by-project examination 1/ of the tentative sector proposals we conclude that in agriculture 61 percent of the proposed investment program should be carried out and in transport 56 percent. Taking these two sectors as indicative of what is feasible within the 1976-80 period a level of public investment of around CFAF 800 billion is also appropriate on sector grounds.

51. An iron ore project and a paper pulp project were part of the 1971-75 plan, but they had not been implemented at the end of the planning period. Both projects are again part of the 1976-80 plan. They are located in the southwest. The iron ore deposits are about 350 km north of San Pedro, and the idea is to upgrade the 40 percent ore content of the mined deposits to 65 percent for export at a rate of 12 million tons per year. The paper pulp project would produce 250,000 to 400,000 tons per year based on the utilization of mixed tropical hard wood and/or pulp wood plantations. Both projects are given high priority by the government, under its industrialization policy to give the Ivory Coast an industrial image which might improve its chances of attracting other export-oriented forms of industry.

52. As the following tabulation indicates, both the iron ore and paper pulp projects are very capital-intensive, need substantial investments in supporting infrastructure, contribute relatively little to employment and growth, and even have limited net balance of payments effects (the net effect takes into account debt payments).

	<u>Iron Ore Project</u>	<u>Paper Pulp Project</u>
Direct investment in project (CFAF bln) <u>a/</u>	220	100
Investment in infrastructure (CFAF bln) <u>a/</u>	100	10
Value added/GDP <u>b/</u>	1.4	0.8
Gross export revenue/total exports <u>b/</u> (%)	8 to 9	6 to 7
Net export revenue/total exports <u>b/</u> (%)	3	2
Number of jobs <u>b/</u>	3,350	1,000 <u>c/</u>

a/ 1975 prices.

b/ At the time of full production.

c/ Excluding another 2,000 on plantations.

1/ See the annexes to the main report on agriculture and transportation.

53. Our calculations suggest that the economic impact of both projects should be fully investigated and a proper phasing worked out. Total investment in both projects would be equivalent to about 50 percent of the country's GDP in 1975. Both projects should be considered export-oriented "enclave" projects, initially contributing relatively little to industrial integration, employment, Ivorianization, growth, and income distribution objectives. The projects are of such a size that they should obviously only be undertaken after the government has obtained sufficiently favorable contracts with financiers and buyers, in particular to ensure that public revenues are not sacrificed. If these steps are not taken, the mere size of the projects could create serious problems for the entire economy and jeopardize growth for a decade or more.

54. The mission's view is that, in order to achieve a feasible growth path, major policy adjustments need to be made, including reduction of investment targets and postponement of some projects, increased savings in both the private and public sectors, incorporation of profits of the Stabilization Fund in the regular budgetary process, and improved government control over current expenditures. These adjustments should be made in the framework of more local private participation in the economic process, and more emphasis on the local employment created by investments.

A Real Constraint: Local Participation

55. The country has successfully stretched the span of its own resources by complementing them with resources from abroad. There are clear indications, from the supply as well as from the demand side, that the boundaries of the possible and desirable are gradually being reached. However, there is no doubt that for a long time to come the Ivory Coast will continue to need and should be able to obtain substantial amounts of foreign production factors, both labor and capital, but their relative importance in the Ivorian economy will probably have to decline. Future economic growth will therefore come to depend increasingly on the successful mobilization and fuller participation of more local production factors and their integration into the economic process. It should be recognized that the major constraints to further development lie within the Ivory Coast itself. Alleviating local constraints will determine the country's capacity to absorb more foreign production factors efficiently and consequently will determine its capacity to further develop. The government has actually been making adjustments all along, but we feel it is important to make the policy changes explicitly and unambiguously, as was done with the decision in 1960 to favor an outward-looking policy. A favorable climate should be created for local production factors to be mobilized and integrated to a fuller extent into the economic process. It is difficult indeed to promote simultaneously foreign investments, local initiative and Ivorianization. Explicit policy statements will reduce the risk of conflict.

The Need for an Employment-Based Strategy 1/

56. Protected by tariffs, local industry has been allowed to pass on its high costs to the consumer. Also, part of the profits made in agriculture has

1/ See Ivory Coast: Special Report on Employment (three volumes), July 1974, IBRD.

been used to create more sophisticated jobs of the type more Ivorians were seeking. This type of employment creation has been expensive, but it has given the Ivory Coast an industrial base. Management and higher skilled positions are now gradually being Ivorianized. If this process were to proceed too fast, however, it would lower productivity, which would be a serious problem, especially because the country's export oriented industrial sector which is receiving more emphasis will have to compete in European markets. Industrial policy will not be able to create the number of jobs required quickly enough or at a reasonable cost. The "surplus profit" in agriculture itself is going down while the cost of modern industry bought abroad is going up. Therefore, in general, policies have to be given much more attention in terms of their employment-generating capacities. Indications are that unless major changes in policy take place there will be increasing unemployment in urban areas, especially in Abidjan, together with a labor shortage in the rural areas. It is therefore important to realize the potential that agriculture still has in terms of employment creation. The investment cost per job in agriculture in most cases is much lower than in modern industry. Also, the informal sector would seem to be able to provide many more jobs at reasonable cost, provided it receives proper guidance.

Private versus Public Initiative

57. In the early 1960's the government stepped up its direct investment considerably when it detected hesitation on the part of the private agricultural sector to invest. The proportion of public investment in total investment has gone up ever since and may have reached about 65 percent in 1976. There are good reasons, however, why a start should be made to reverse this trend. The private sector has reacted well to incentives. The government has recently increased the producer price for several commodities substantially. However, paying higher producer prices will lower public revenues. Therefore, pursuing ambitious public investment targets at the same time leads to increasing foreign financing of investment. Thus, high producer prices should be coupled with leaving more investment to the private sector and improving mobilization of private savings. In general, the role of the public sector should be confined to the activities in which it has a distinct comparative advantage. This would be consistent with the government's own broad outline as developed in 1960.

Elements for a Development Strategy

58. A buoyant economy with as much potential as that of the Ivory Coast has many options for adjustment. In the following paragraphs an attempt is made to identify priorities which should govern the allocation of resources over the next ten years.

59. Investment in agriculture should continue to receive high priority. Improved productivity is generally possible because the sector has more employment per unit of capital and per unit of foreign skilled labor than any other sector. With appropriate techniques, productivity can be increased,

leading to higher private earnings which will make work in agriculture more acceptable to Ivorians, especially the self-employed farmer. The family farm is a better way to employ Ivorians than the industrial estates which require many unskilled foreigners and are more capital-intensive. Additional agricultural employment will also help slow down urbanization, limit the need for increasingly expensive urban infrastructure, and reduce the problem of unemployment in urban centers.

60. As far as the regional distribution of agricultural investment is concerned, investing in the south, except for the southwest, should benefit from the infrastructure which is available, and concentrating agricultural activities there should bring a good return on investment. The savannah areas in the north, where population density is quite high, lend themselves to simple forms of mechanization, earning the farmer a decent income. The southwest is a sparsely populated area where new ventures require comparatively large amounts of capital and non-Ivorian labor. This proportion can be reduced, as most of the crops can be grown on family-size plots as well. However, given the sparse population, plantation agriculture could be a more profitable proposition for certain crops in this region than any other form of production. In selecting crops, regions and techniques for future agricultural development, the scarcity of capital, the problems with foreign labor, the availability of local labor together with marketing considerations should be systematically taken into account.

61. Ecological conditions in the forest region are excellent for the extension of cocoa, coffee, oil and coconut palm, and rubber. Priority should be given to crops which can be grown on family farms. Greater concentration, rehabilitation and uprooting of unproductive trees, and the introduction of high-yield varieties in the already developed areas are all ways of increasing production at minimum cost and using existing infrastructure to the maximum. The benefits of this type of investment should be weighed carefully against the expansion of the sparsely-populated southwest.

62. Food crop production, an entirely Ivorian affair, has increased considerably over the past ten years. But over the next ten years, each rural food producer will have to double his marketed surplus to meet future demand. This will provide an excellent opportunity to improve farmers' incomes, especially in the north. In the rice sector, the policy of high subsidies to the rice farmer seems to have created overproduction. These subsidies are not necessary to produce the rice the country needs. Unfortunately little is known about exactly how the marketing and distribution system operates, what the rice consumption patterns are, or what exactly are the marketed and imported quantities. Rice is produced in different regions and with different techniques, some of which are more expensive than others. A better understanding of these issues would help to shape a policy to provide the country with the food it needs at lowest cost. However, based on the fact that private intermediaries have performed well in the past, the government should consider removing price and marketing controls for rice, at least for a trial period, and see whether market forces move in a direction compatible with the government objective of self-sufficiency in rice.

63. It is generally accepted that, in order to produce higher marketable surpluses of food and to increase per capita and family incomes, larger family farms will be required. Farm size is reportedly constrained by labor availability, particularly at the time of land preparation. The use of non-human traction would largely alleviate this constraint and permit a considerable expansion in cultivated area per family. To this effect, animal and mechanical traction may be used. Several institutions have experimented with both, and the conclusion is that animal traction is at present the most efficient system in the Ivory Coast. Animal traction can make a key contribution to the adoption of modernized agriculture and the disappearance of shifting cultivation. Experiments with more sophisticated means of mechanization as well as motorization should continue at the same time as, in a later stage, machines (especially small ones) may be introduced to increase productivity further. Heavy machinery, however, has proved to be unsuitable to the conditions found in small-scale agriculture in the Ivory Coast today.

64. The policy of diversification of agricultural production has been successful. However, new products that are introduced have to be economically feasible. The same is true for the notion of "self-sufficiency". Importing a commodity in the production of which a country has no comparative advantage is generally justified. At the end of 1974, the government announced its decision to become a sugar exporter. The program aims at the installation of ten sugar complexes, each producing about 60,000 tons annually. Total investment cost would amount to CFAF 250 billion in 1975 prices, and, as local sugar consumption at the time of completion is estimated at about 100,000 tons, the remaining 500,000 tons would be available for export. However, the indications are that investment cost will be about twice that of the Ivory Coast's competitors 1/.

65. In industry, the government has become more selective in encouraging import substitution. It should be prepared to eliminate, or at least renew on a different basis, agreements with firms which have proved unable to survive without excessive protection. It is worth noting that one of the reasons for this protection has been to compensate industry for the high costs of local and expatriate labor. If the government were to succeed in bringing local wages more in line with productivity by not compensating fully for inflation, and at the same time make progress in Ivorianization, part of the reason for this protection would cease, in which case contracts with these firms could be renegotiated. The government is considering shifting the emphasis of its incentives to export-oriented, local raw material processing by introducing an export subsidy. This would be a desirable development. Incentives to import replacement have been substantial, whereas incentives to export have been zero or negative. There should also be greater interest in the development of small-scale enterprises and the so-called informal sector. The informal sector in general produces a great deal of employment that uses production functions closely related to the economy's factor endowments. It also has a spontaneous dynamism which contains entrepreneurial elements critical to the future growth and modernization of the Ivorian economy.

1/ See "The Sugar Market: Review and Outlook". Commodity Paper No. 20 IBRD, March 1976.

66. Two activities that will appear in the plan, when measured against the above criteria, should receive lower priority than they now do. These are the replacement of small-scale private operations, which so far have worked efficiently in rice milling and coffee deshelling, with capital-intensive publicly-owned industrial plants. The major justification in the case of coffee deshelling seems to be to reduce losses of coffee during deshelling by about 5 percent. It is suggested that an investigation be made as to whether a further extension of coffee production itself on Ivorian-owned family plots would not be a more economic and appropriate approach.

67. It is also recommended that further consideration be given to the priority attached to the iron ore and paper pulp projects. Their contribution to achieving national economic goals should be weighted against the alternative uses to which the resources involved could be put.

68. With major infrastructure in place, government tourism policy has changed such that hotel construction is now left mainly to private initiative. As part of its new policy, a tourism incentive code has been introduced with adequate but somewhat less advantageous incentives than were in the 1959 investment code for industry. It is an interesting example of leaving more initiative to the private sector.

69. As far as the transport, public utilities and urban sectors are concerned, the government believes that, in order to stem migration toward Abidjan, a package of services has to be offered to the rural community, secondary urban centers have to be developed, and at the same time services in the main urban center, Abidjan, must be improved. This concept is sound, but it is clear that without careful planning and the use of proper criteria an investment program based merely on what is desirable in these areas can easily far exceed the means. An improvement in services without providing, at the same time, a sufficient basis for earning a decent income will have a limited effect. Standards should be appropriate for local needs and the tendency that exists for overdesign should be avoided. Also, the principal of users paying for services provided should be applied as much as possible. Finally, as the different elements of such a program are prepared by the various ministries, close cooperation is required in the planning as well as in the implementation.

70. In the transport sector, the country is moving toward a situation where the major infrastructure is in place, and it should therefore gradually put more emphasis on feeder roads to make better use of earlier investments. A major issue in the transport sector lies in inadequate planning capability at the sub-sectoral levels and in the lack of overall coordination and evaluation of transport policy and investments. In the energy sector the country is fortunate to have hydroelectric power potential. Investment in this sector is being used to phase out obsolete thermal plants and less economic small thermal units in secondary centers and rural areas. In the water supply sector the government has drawn up an ambitious scheme to improve water supply. Our calculations show that even at the present uniform tariff for the whole country, which is more than twice as high as

it was two years ago, implementation of the entire program would need substantial subsidization. A substantial part of subsidized housing has been made available to income categories that are already relatively well off and which would be able to make a much larger contribution to the cost. It is therefore suggested that, for certain income classes, housing be left much more to private initiative.

71. The proportion of the budget absorbed by education has increased continuously and rapidly and, to do justice to other needs, expenditure for education cannot continue at the same pace. Costs are high for two major reasons: (i) the standards of education are high and so are the unit costs; and (ii) because of the system of incentives -- education is free of charge -- the numbers enrolled are large and there is no direct relationship between the quantity and quality of pupils educated and the numbers and qualifications the economy needs. Substantial savings could be made by planning the needs of the economy and gearing the incentive system towards these needs. More alternatives should be provided in secondary education, especially courses that prepare pupils for society in a relatively short time. This policy would be consistent with providing more alternatives to graduates by providing incentives to them to engage in activities like the informal sector and small-scale enterprises. Finally, it is recommended that part of the burden of certain forms of higher education be shifted to the private sector even though the implementation of such a policy in a country which has traditionally provided free education may prove unpopular.

72. One of the choices open to the Ivorian authorities concerns the growth of population. Currently, there is no program to limit the rapid growth of the population and the high dependency burden this places on resource uses. In the case of the Ivory Coast, the problem is not that the land would not be available to feed more people -- in many areas densities are still quite low -- but that the investment required to transform the land into a source of income to enable an adequate living are substantial and increase rapidly with high population growth. The problem is one of timing; to avoid too heavy a burden on the producing generation, population growth should be spaced over time.

73. Recently several decisions have been made affecting the mobilization and allocation of local savings. The latest reform (July 1975) of the Monetary Union encourages the allocation of funds to agriculture, to housing for nationals, and to local private, relatively small-sized activities. Through higher interest rates on deposits and loans, the reform stimulates local savings and improves resource allocation by financial intermediaries. A stock exchange was established in April 1976 with the same purpose in mind. Finally, an expansion of the banking system by bringing in new banks is hoped to improve the mobilization and allocation of national savings as well. Reforms on the level of the Union will have to be followed by national measures. For instance, the interest rate incentive to lower the cost of credit will probably not be enough to encourage rapid growth of small-scale enterprise activities. Additional measures may have to be taken to limit the risk for commercial banks.

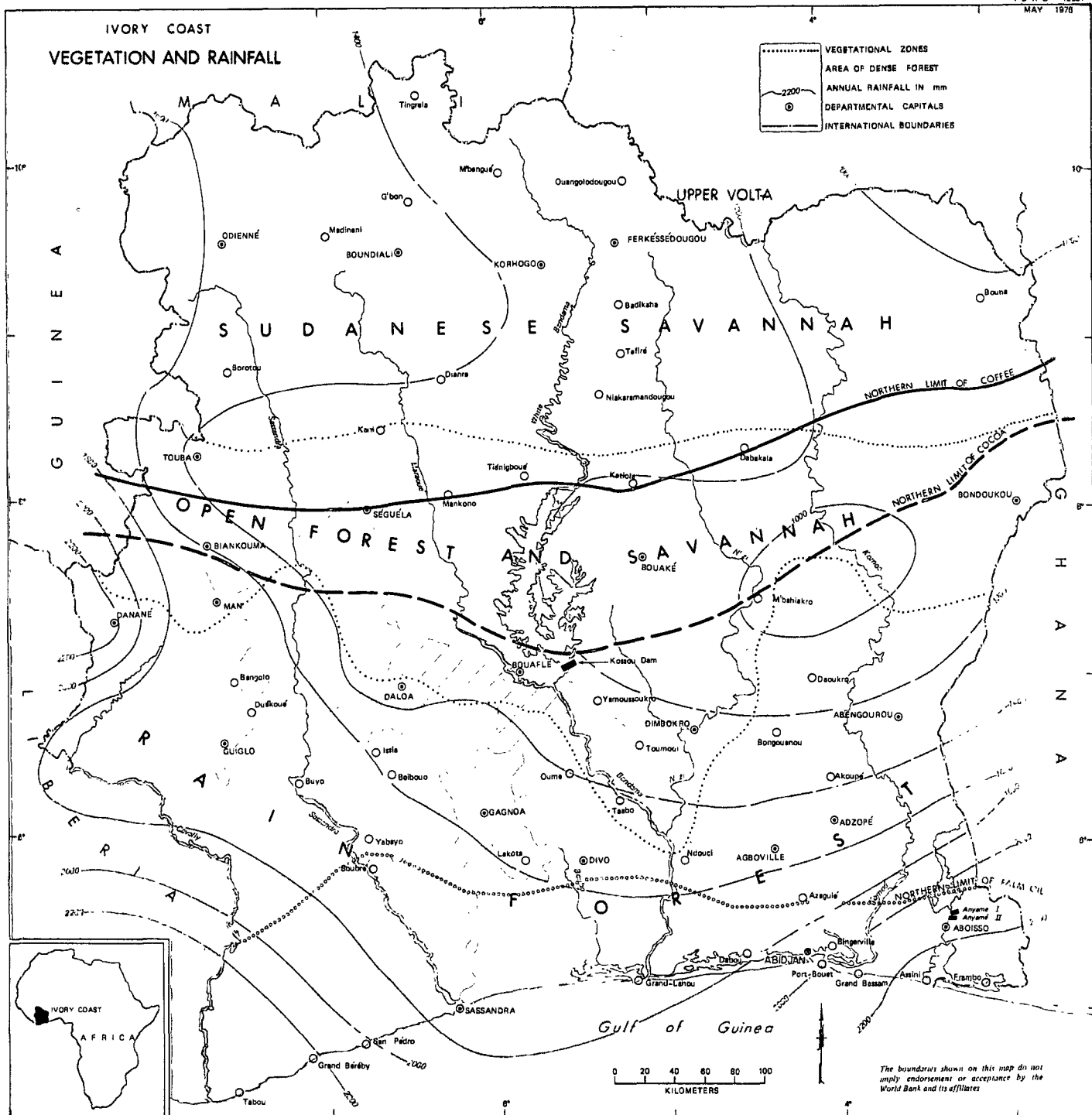
74. With respect to the mobilization of local savings there are three major reasons why private savings as registered by the banking system may well remain low:

- (i) the major part of savings and profits of foreigners is transferred abroad;
- (ii) the tax burden is relatively high, which reduces the possibility for private savings; and
- (iii) the Ivorian economy offers many investment opportunities, and "private savers" and "private investors" are in many cases one and the same. If the banking system is used as an intermediary, it is in general for a short period of time only. As long as the private sector can find investment opportunities which earn a better return than interest rates on deposits, this situation will continue. The Ministry of Finance is studying a proposal that would have the saver agree with the bank on an investment, then start to build up a deposit level until he reaches a predetermined minimum amount. He would then be eligible for a loan equal to the remainder of his investment requirement. The government would still be able, via all kinds of incentives, to direct the private investment into priority areas. However, the investment decision would basically be that of the private individual. This is an important scheme designed to give part of the investment initiative back to the private sector.

75. Summarizing, the Ivorian economy has an enviable growth record and has on several occasions shown considerable resilience. This was evident most recently during the 1974-75 world economic slow-down, which on balance has affected the Ivorian economy negatively. Characteristically, the government has taken a whole series of measures, many of which not only aim at adjusting to short-term changes in circumstances but which also have longer-term implications. These include increases in taxation, differentiated wage increases with higher raises for the lower paid, and encouragement for local activities through new monetary and credit regulations. We have discussed that the potentially strong economy is developing several constraints, but we have also identified several options to cope with such problems. In selecting the best set of options, we are not advocating a dramatic change in the direction of Ivorian economic policy. The mission feels a firm change in emphasis would be appropriate at this juncture, giving more attention than before to the involvement of private local production factors without jeopardizing foreign factors or neglecting the involvement of the public sector. With a continuation of the responsible management the Ivorian government has shown, a balanced economic growth of 6 to 7 percent per year is possible for the next ten-year period. This would allow a substantial economic improvement in the lives of all Ivorians.

IVORY COAST
VEGETATION AND RAINFALL

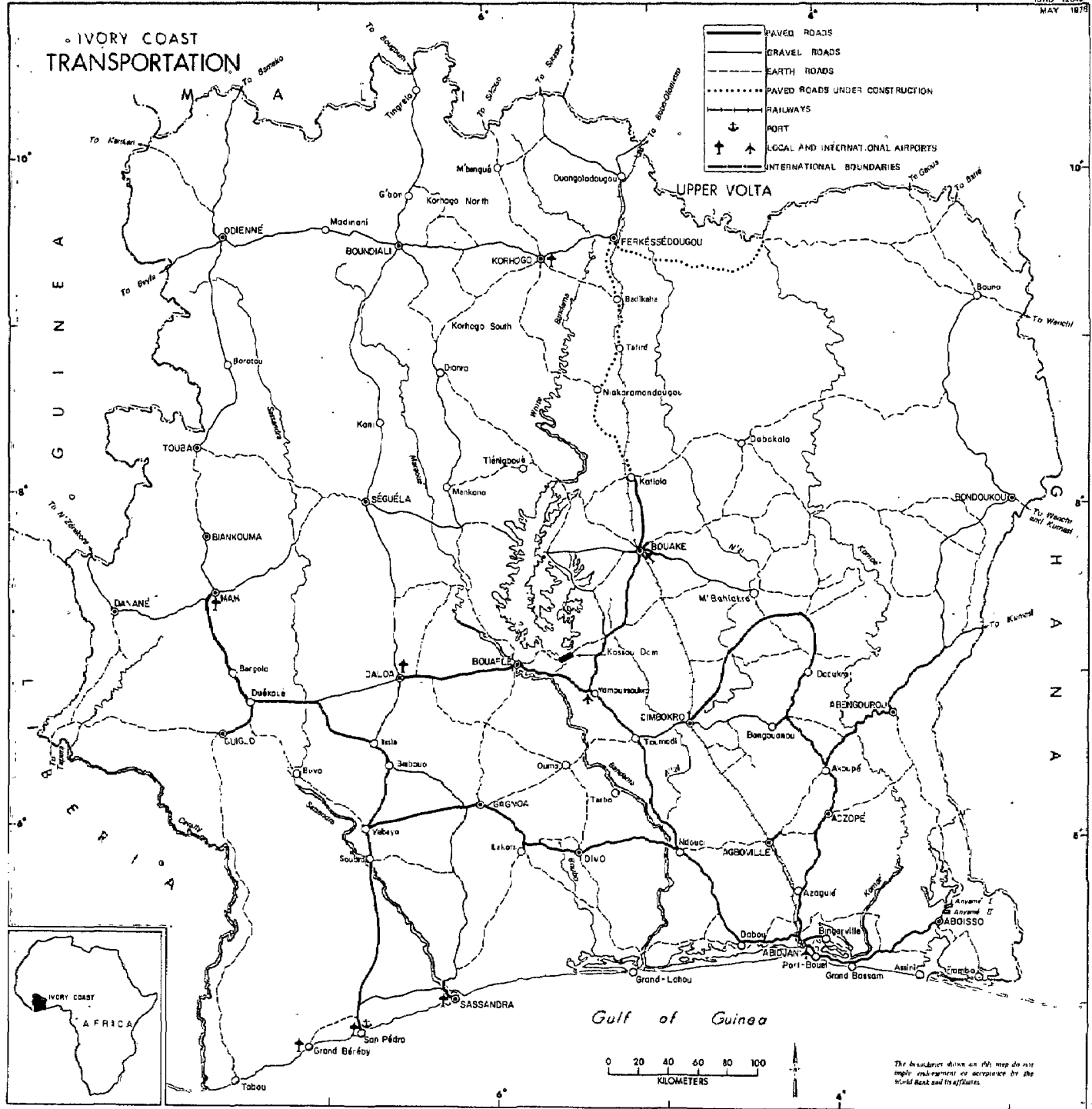
	VEGETATIONAL ZONES
	AREA OF DENSE FOREST
	ANNUAL RAINFALL IN mm
	DEPARTMENTAL CAPITALS
	INTERNATIONAL BOUNDARIES



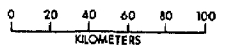
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IVORY COAST TRANSPORTATION

	PAVED ROADS
	GRAVEL ROADS
	EARTH ROADS
	PAVED ROADS UNDER CONSTRUCTION
	RAILWAYS
	PORT
	LOCAL AIRPORTS
	INTERNATIONAL AIRPORTS
	INTERNATIONAL BOUNDARIES



Gulf of Guinea



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