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Surviving the Turbulence Is Not Enough: Can Côte d'Ivoire Flourish Again?

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I. Introduction

Even amidst the never thought possible 'Arab Spring' of 2011, the unfolding political imbroglio in Côte d'Ivoire[i] captured the interest of the international community and made front page news. The Western democracies along with the financial markets were conspicuously concerned about the economic repercussions of Côte d'Ivoire's escalating political conflict. This relatively small country in West Africa is the world's largest producer and exporter of cocoa as well as an important exporter of coffee, palm oil, cashews, and wood products. Naturally, political instability in the country can have serious economic ramifications world-wide. Beyond damaging its own domestic economy, Côte d'Ivoire's prolonged political crisis could also threaten West Africa's fragile economic recovery, an International Monetary Fund (IMF) study said in March 2011. The executive board of IMF expressed anxiety over the potential adverse effects to the neighboring countries spreading via migration, trade and the financial sector (http://www.imf. org/external/pubs/ft/survey/so/2011/car031711a.htm).

Côte d'Ivoire, the paragon of African development in the 1970s and 1980s, fell into a political impasse[ii] in the last decade. A coup d'état and civil war in the early 2000s damaged the country. On August 5, 2010, the long awaited democratic elections were announced, and on October 31, 2010, fourteen candidates ran for the presidential position.[iii] The two major candidates, Mr. Laurent Gbagbo (the incumbent President) and Mr. Alassane Ouattara (the challenger), ran again

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in a second-round run-off on November 28, 2010. Immediately after, both candidates claimed to have won the elections; each of them declared victory, each of them was sworn in as the President of Côte d'Ivoire and each of them set up his own cabinet and rival administrations.

Six months into the quagmire of having two presidents in the same city, and as the international community was becoming more and more anxious, Mr. Ouattara became the second President of the II Republic of Côte d'Ivoire on May 21, 2011.[iv] The new President set up his cabinet and administration in Abidjan, the largest city in the south and an important port in the region. President Ouattara is an economist educated in the U.S. He has held many powerful positions abroad and is internationally known. On May 27, for example, President Ouattara was invited to the G20-Summit in Deauville, France, and on July 29 he was invited by President Obama to the White House, along with three other heads of states from francophone African countries.

Research has shown that when African Heads of State are educated abroad they are more likely to attract foreign direct investments (FDI) in their country (Constant and Tien, 2010). As the people of Côte d'Ivoire try to put the pieces together and regain their lives many questions and uncertainties linger. What will be the social and economic policy of the new administration? How will the fiscal and monetary policies be handled? Will the country remain united? What will the country's external policy be? Can Côte d'Ivoire become a world economic player? Can the new President mobilize the international community and push the country forward?

The first 100 days that a new president is in power are customarily used as a yardstick to gauge the effectiveness of the new president and project the path of the country under his leadership. The first 100 days in power of the new President of Côte d'Ivoire will soon be over. Critics point out that since President Ouattara has been in power he has spent a rather disproportional amount of time in public relations appearances domestically and abroad.

In this paper, we seek to assess the first 100 days of the new administration in power, analyze the proposed economic program, and discuss the challenges that Mr. Ouattara and Côte d'Ivoire face. We proceed as follows: In Section II, we present the country, its history, its human and physical capital, its political system and we provide demographics and other statistics to give some background information. In Section III, we explicate the importance of the country in the world markets via its exports and in the migration of people within the continent. In Section IV, we discuss the West African Economic and Monetary Union (WAEMU) and the leading role of Côte d'Ivoire in the region. In Section V, we analyze the budget and the current economic policy. In Section VI, we evaluate the position of the country in the *Knowledge Economy* and the capability of the education sector to produce a competitive labor force. Finally, in Section VII, we assess the challenges that Côte d'Ivoire faces and draw our conclusions.

II. Côte d'Ivoire, the Country, its Economy and the New Government

Côte d'Ivoire became a French colony in 1893 and gained its independence from France in 1960. It has however kept close ties with France, and French vestiges are apparent in the country to this day. The official language is French, the judicial and educational systems are very similar to the French system, a French military base (43rd BIMA) is stationed in Abidjan, and the monetary currency is pegged to the French currency. Thousands of French expatriates still live and work in Côte d'Ivoire. The country's political system is also a copy of the French system of a presidential republic, in which the President has strong executive powers.

Geographically, Côte d'Ivoire lies in western sub-Saharan Africa and it is rich in natural resources. It has access to the sea and serves as an important haven for the surrounding landlocked countries. The two main religions are Roman Catholic and Islam. More than 60 ethnic groups live in Côte d'Ivoire. Box 1 provides basic statistics about the country. The country appears to have a bimodal distribution of human capital. While the adult literacy rate is about 51% (http://www.imf.org/external/pubs/ft/fabric/coteprof.htm), many Ivorians have tertiary education either from their country or from abroad. There are skill mismatches, however, that especially affect the youth. Young adults are often underemployed, or employed in the informal sector while queuing for a job in the public sector.

Box 1: Basic Data About Côte d'Ivoire

Land area	322,463 sq km
Population (in millions)	21.1 (IMF estimate, 2009)
Stock of emigrants as percentage of the population, 2010	5.4%
Stock of immigrants as percentage of the population, 2010	11.2%
Languages	The official language is French. Also spoken are: Dioula, Baoulé, Bété, Agni, and other local languages
Nominal GDP (USD m, 2011)	22,203 (Economist Intelligence Unit estimates)
Real GDP growth (2010)	3.6%
GDP per capita (USD at PPP, 2010)	1,736
Currency	Communauté Financière Africaine (CFA) or African Financial Community franc. The CFA franc is fixed to the euro at a rate of CFAfr655.9 per 1€
Main export destinations, 2009 (share of total)	Netherlands (13.9%), France (10.7%), the US (7.8%), Germany (7.2%), and others (60.4%)
Main origins of imports, 2009 (share of total)	Nigeria (20.7%), France (14.2%), China (7.2%), Thailand (5.1%), and others (52.8%)
Political Structure	
Official name	République de Côte d'Ivoire
Form of state	Unitary Republic
Legal system	Based on the July 2000 constitution and the Napoleonic Code
Head of State	The president, elected by universal suffrage to a five year-term. The term can only be renewed once
Current Head of State	Alassane Dramane Ouattara

Source: World Bank, IMF, and Economist Intelligence Unit; Authors' Presentation

The country saw prosperous days in the 1960s and 1970s. Its thriving economy attracted many immigrants from other African countries who went to Côte d'Ivoire to work. In 1999, however, the country experienced a military coup d'état. In 2002, a civil war broke out that split the country between north and south. For almost a decade now there is ongoing internal political conflict often paired with religious and ethnic clashes and geographic polarization.

Sociopolitical conflict in the country notwithstanding, the country still attracts immigrants from neighboring countries. In 2010, immigrants composed 11.2% of the population. These are mostly low skilled workers, who help in agriculture. They send large amounts of remittances to their countries of origin which depend on remittances. There is also some brain drain going on; 5.4% of the native population emigrates. Studies show that native Ivorians are more likely to go to France than to any other country and this is due to the strong colonial ties between the two countries (Constant and Tien, 2009).

Box 2 provides information about the country's currency and its monetary union with neighboring countries and France. The common currency is the *CFA franc* that stands for *'Communauté Financière Africaine'* or African Financial Community franc. During the turbulent past months of the political conflict, the idea of exiting the monetary union appeared to be plausible. The new administration, however has opted for maintaining the CFA franc as the national currency of Côte d'Ivoire and for remaining in the monetary union.

Box 2: CFA Franc Zone and the West African Economic and Monetary Union (WAEMU)

CFA stands for *'Communauté Financière Africaine'* or African Financial Community. The CFA franc zone is composed of two regions: the West African Economic and Monetary Union (WAEMU) and the Central African Economic and Monetary Community (CAEMC). The two regions issue two distinct versions of the CFA franc: the West African version, called the franc of the '*Communauté Financière Africaine*' or the Financial Community of Africa and the Central African version, called the franc of the '*Coopération Financière en Afrique Centrale*' or Financial Cooperation of Central Africa. The CAEMC members are: Cameroon, Chad, Central African Republic, Congo, Equatorial Guinea, and Gabon. The CFA franc zone also includes Comoros that has its own central bank and currency.

Established in 1994, WAEMU consist of eight countries: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau (joined the Union in May 1997), Mali, Niger, Senegal, and Togo. These countries have a common currency – the CFA franc – which was pegged to the French franc from 1948 to 1999, and pegged to euro since then. The fixed parity of the CFA to the Euro is: CFA 655.957/€1.

In addition to the common central bank, *Banque Centrale des États de l'Afrique de l'Ouest* (the BECEAO), the WAEMU institutions include the WAEMU Commission, the Banking Commission, and the regional stock exchange. In recent years, WAEMU countries have taken important steps toward a greater regional integration and coordination of macroeconomic policies. Adopting convergence criteria (somewhat similar to the Maastricht Criteria in the European Union), establishing a common external tariff, and harmonizing taxes have been the three means of coordination.

Source: Adapted from Doré and Masson (2002)

In June 2011, in a Letter of Intent to IMF requesting financial support, the new government outlined the policies it intends to implement (http://www.imf.org/external/np/loi/2011/civ/062311.pdf). Consolidating peace through normalization and economic recovery was the first item on the document. The following five points delineate the new government's policy course: (i) restore security within the country and provide safety for all; (ii) guarantee the efficient functioning of government; (iii) tend to societal demands and strengthen peace; (iv) recover social and economic infrastructures; and (v) improve the business sector and boost good governance.

The government's initial estimates of economic losses suffered by the private sector due to the political crisis were about 2 trillion CFA francs, or 20% of GDP (ibid). Violence during the period also cost thousands of human lives. Of paramount importance at this juncture is the country's national reconciliation. To heal wounds and bring the country together, the new administration set up the '*Commission Dialogue, Verité et Réconciliation*' or National Reconciliation Commission. President Ouattara nominated the members of the National Reconciliation Commission on September 5, 2011. The commission includes religious leaders and other national figures. It will seek to repair and reconstruct the country's social fabric.[v]

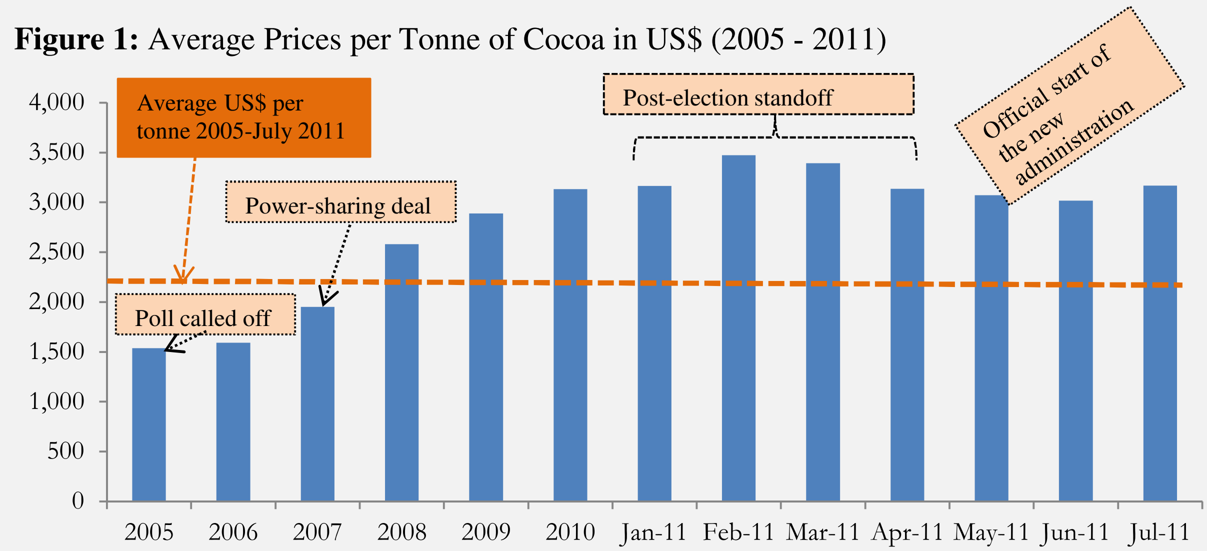
Equally important and urgent is the economic reconstruction of the country. The political crisis severely suppressed economic activity and especially affected the small and medium enterprises. The new government laid out its economic plan. The Ministry of Economy and Finance of Côte d'Ivoire announced the 2011 budget being at 3,050.4 billion CFA francs.[vi] Compared to the 2010 budget of 2,897 billion CFA francs, the new budget is higher by 153.4 billion CFA francs or by 5.3%. It also appears that the new budget is skewed towards an expansionary fiscal policy.

III. Côte d'Ivoire's Importance in the International Trade and Migration

At first sight, it would appear that the political instability in Côte d'Ivoire and the associated economic problems pertain to Ivorians alone or at best to the country's regional borders. However, with Côte d'Ivoire being a global competitive exporter of cocoa beans, the world markets are considerably affected by domestic instabilities in the country. Figure 1 displays the average cocoa price per ton (in US$) over the course of the last six years. It shows that since 2005, the average cocoa price per ton has been on the rise, and this rise correlates with the political development in the country. For example, since the presidential elections were postponed in 2005, the average price of cocoa has been increasing; it reached its peak in early 2011 amidst the post-election standoff and appears to follow a rather stable path since then.

Over time, many international agencies have been reporting on the rise of the cocoa price and how this is related to the political actuality in Côte d'Ivoire. Countries that consume large quantities of cocoa, like the Netherlands and Germany, are naturally alarmed when cocoa prices rise. The political upheaval and the announcement by Mr. Ouattara on January 25 that he will ban cocoa exports for one month sent futures to a one-year high. The New York ICE front-month cocoa futures rose to a one-year high of $3,340 a metric ton (See: Ivory Coast Cocoa Export Ban Brings Price Spike, under: http://online.wsj.com/article/SB100014240527487035558045761014922540137556.html). Figure 1 illustrates the spike in February's cocoa prices, which was mostly due to the announced ban.

Figure 1: Average Prices per Tonne of Cocoa in US$ (2005 - 2011)



Source: International Cocoa Organization; Authors' Presentation

There is not only the price of cocoa that has gone up due to external shocks, such as the prevailing labile political environment in Côte d'Ivoire, but there was also an overall increase in consumption of cocoa products world-wide. Reports show that for the year 2008/2009, the per capita consumption of cocoa in kilograms was 5.6 in Belgium and Switzerland, 3.8 in Germany and 3.7 in France and the UK (http://www.kakaoverein.de/rk_32.html). As Table 1 depicts, in 2009, Côte d'Ivoire alone accounted for about a quarter of the world's total exports in cocoa. At the same time, nearly 50% of the world's cocoa exports went to the European Union (particularly to the Netherlands, Germany, and France) and the U.S.

Table 1: Top Six Cocoa Exporting and Importing Countries (2009)

Exports			Imports		
Country or Area	**Value (in US$ m)**	**World Share (in %)**	**Country or Area**	**Value (in US$ m)**	**World Share (in %)**
World	**15,976.7**	**100**	**World**	**15,834.6**	**100**
Côte d'Ivoire	3,606.1	22.6	The Netherlands	2,383.2	15.1
Netherlands	2,569.9	16.1	The U.S.	2,184.4	13.8
Ghana	1,508.7	9.4	Germany	1,904.8	12.0
Nigeria	1,427.1	8.9	France	1,189.9	7.5
Indonesia	1,383.7	8.7	Belgium	1,097.2	6.9
Rest of the World	5,481.2	34.3	Rest of the World	7,075.1	44.7

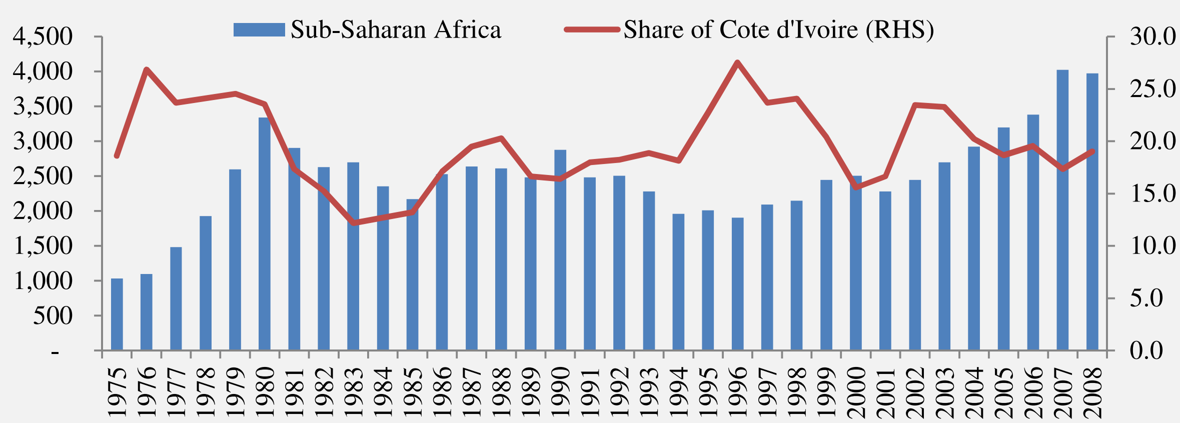
Source: UNTACD, 2009 International Trade Statistics Yearbook; Authors' Presentation

Since its independence from France in 1960, an autonomous Côte d'Ivoire has flourished. In fact, the 1960s is often referred to as *'le miracle ivoirien'* or the Ivorian miracle. The fertile arable land of the country along with the agricultural expansionary policy initiated by the first President of Côte d'Ivoire provided tremendous employment opportunities to migrants from the landlocked neighboring countries, such as Burkina Faso, Mali, and Niger. Even currently, with all its political problems, Côte d'Ivoire continues to be attractive to economic migrants. In 2010, the stock of immigrants in Côte d'Ivoire was about 2.4 million people, or 11.2% of the total population (Ratha et al., 2010). The top immigrant sending countries were Burkina Faso, Mali, Guinea, Ghana, Niger, Liberia, Benin, Togo, Nigeria, and Senegal. Immigrants from Burkina Faso constitute the largest group with 54.3%. The next largest group is the Malians (18%), followed by Guineans (5.5%), and Ghanaians (4.9%); immigrants from other countries constitute 17.2%. Studies have shown that immigrant labor force participation in Côte d'Ivoire is about 60%, indicating that the country can accommodate a large number of immigrant workers (Konan, 2009; INS, 2002).

A direct consequence of political turmoil is forced migration and displacement of individuals. This can occur within the borders of the country when, for example, people flee from their town, city or region to go to regions that are unaffected. There could also be international misplacement of people who flee their country to escape turmoil. Forced migration can equally affect natives or immigrants in a country, who become refugees in other countries. Domestic instability in Côte d'Ivoire in the early 2000s resulted in many refugees who went to the most direct neighbor countries. The mere volume of the uprooted refugees, can in turn cause a negative effect on the economy and growth performance of the host countries, leading to increased regional instability (Doré et al., 2003).

Traditionally, immigrants in Côte d'Ivoire have been sending large amounts of remittances to their home countries. Figure 2 portrays remittance outflows from sub-Saharan Africa and contrasts them to the percentage share of Côte d'Ivoire. From 1975 to 2008, the share of remittances from Côte d'Ivoire made up about 20% of the total remittances from sub-Saharan Africa. The substantial drop of remittances in 2000 could be explained by the first *coup d'état* in the nation's history on Christmas Eve 1999. Immediately after, economic activities were suppressed considerably.

Figure 2: Remittances (in US$ million)



Source: World Bank, Migration and Remittances Factbook 2011, Online Database; Own Calculations

Currently, even though the political crisis has been resolved, there are still rippling migration effects in the country and the region. Within the country, there are internally displaced people. In the democratic neighbor, Liberia, the presence of displaced populations from the political crisis in Côte d'Ivoire is also visible. In the close proximity countries such as Niger, Burkina Faso and Mali there is a noticeable absence of income from immigration.

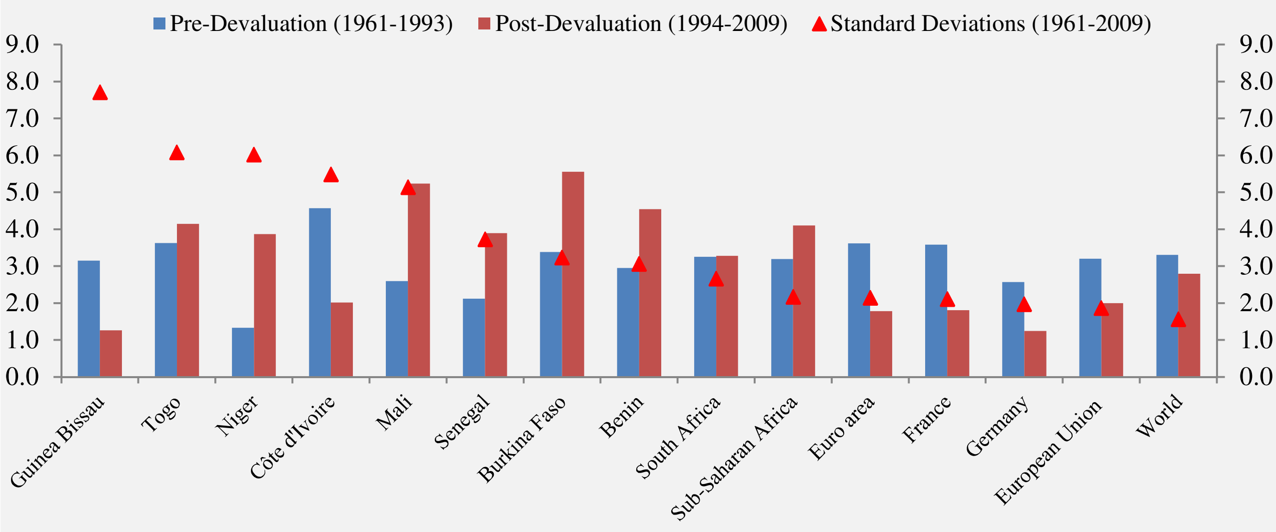
IV. Côte d'Ivoire in the WAEMU and Macroeconomic Issues

Côte d'Ivoire, along with seven other francophone countries in West Africa, belongs to the West African Economic and Monetary Union (WAEMU). It is also an important member of the Economic Community Of West African States (ECOWAS).[vii] Obviously, adopting a common currency lowers transaction costs among trading countries, since purchasing goods from neighboring countries no longer involves changing currencies. Consequently, a monetary union is expected to increase regional trade, the same way a free trade area or a common market would. However, in the case of the CFA franc monetary zone, Masson and Pattillo (2003) show that (i) intra-regional trade within the Central African Economic and Monetary Community (CAEMC) has been modest; (ii) trade between WAEMU and CAEMC is practically non-existent; and (iii) trade between the WAEMU countries and France is substantial. The third point about the high volume of trade between France and Côte d'Ivoire can be explained by the *gravity model*, which predicts that larger countries exert a greater gravitational pull on imports and push on exports than their smaller trading partners. In addition, richer countries (in per capita terms) tend to trade more than poorer countries and trading diminishes with a longer distance between the partners.

Chronic anemic economic growth in the WAEMU countries in the 1980s and early 1990s forced the countries to devalue their currency (the CFA franc). In January 1994, the CFA franc was devaluated from CFA 50 to CFA 100 = FF1.[viii] While exports became cheap, imports became twice as expensive. One of the strongest arguments made then was the need to reinforce the monetary union with a customs union and common economic market, based on the free movement of persons, goods, services, and capital. Nonetheless, Boogaerde v. d. and Tsangarides (2005) show that growth has been driven foremost by country-specific developments, with few spillover effects from the WAEMU region as a whole. Labor mobility in the region slowed down and competitiveness in the region eroded.

In Figure 3 we illustrate the average GDP growth rates along with standard deviations for selected countries in two time periods. The pre-devaluation period that spans from 1961 to 1993, and the post-devaluation period from 1994 to 2009. The figure shows that positive growth performances have been realized in the post-devaluation era, especially in sub-Saharan Africa and other WAEMU countries such as Togo, Niger, Mali, Senegal, and Benin. However, Côte d'Ivoire and Guinea-Bissau seem to lag behind in the second period. Despite the realized positive economic growth, one striking fact is that standard deviations over the period from 1961 to 2009 for all eight WAEMU countries are by far higher than the sub-Saharan African ones. The high standard deviations indicate that growth has been more volatile in the WAEMU countries than in sub-Saharan Africa, therefore making the WAEMU countries more vulnerable to external shocks.

Figure 3: Pre- and Post-Devaluation Average GDP Growth Rates and Standard Deviations



Source: World Bank, World Development Indicator, Online Database; Own Calculations

To ensure macroeconomic stability and the integrity of the currency peg, the union established a system of multilateral surveillance of macroeconomic policy. This system would ensure a convergence of key aggregates in the fiscal area (Boogaerde v. d. and Tsangarides, 2005). Such convergence criteria follow the example of the European Union, which has used criteria for public deficit ratio to GDP as conditions for country members to join the Euro zone (Masson and Pattillo, 2003). Table 2 provides information about the primary and secondary convergence criteria pertaining to public debt, inflation, arrears, etc.

Table 2: WAEMU: Convergence Criteria

Variable	**Reference Value**
Primary Criteria	
Basic fiscal balance (fiscal position excluding grants and public investment financed externally)	At least 0
External public debt/GDP	No more than 70%
Rate of inflation	No more than 3%
Payment arrears	No accumulation (and reduction of existing stock)
Secondary Criteria	
Public sector wage bill/government revenues	No more than 35%
Government revenue/GDP	At least 17%
Domestically financed public investment	At least 20% of tax receipts
Current account deficit, excluding grants/GDP	Less than 3%

Source: www.ifz.net; Masson and Patillo (2003)

Côte d'Ivoire is an important member of WAEMU. It alone accounts for about 40% of WAEMU's output making the country a regional giant (Egoume and Nayo, 2011). Senegal follows with about 20%, and last are the other six countries in WAEMU contributing less than 10% each. Promoting therefore a set of convergence criteria (such as fiscal discipline, openness to international commerce, and competition in the regional market) seems unavoidable to achieving regional convergence, and hence alleviating poverty in the region (Boogaerde v. d. and Tsangarides, 2005; Wane, 2004).

In 2009, only one out of the eight country members fully satisfied the key primary criteria such as fiscal balance, public debt, inflation and arrears. This country was Côte d'Ivoire. While Senegal and Benin were also major performers, they failed to satisfy the fiscal balance criterion. Another impressive point regarding the performance of these eight countries is that they did not accumulate any arrears in 2009. This might partially be explained by the fact that most of these countries have qualified for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative.[ix] Table 3 displays recent outcomes for the convergence criteria.

Table 3: WAEMU: Convergence Criteria Values (December 2009)

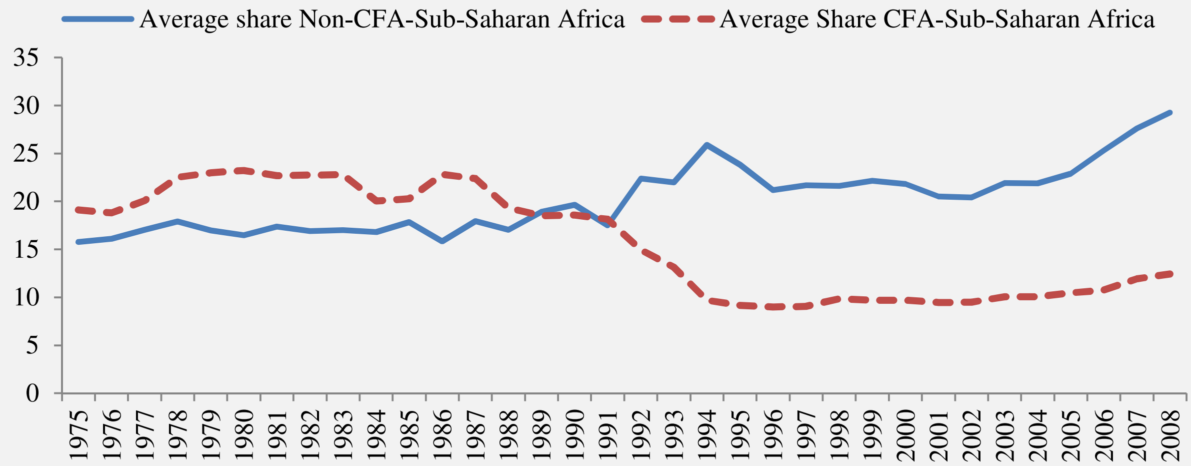
Country	Basic Fiscal Balance*	Public Debt*	Inflation Rate	Arrears	Wage Bill**	Public Investment**	Govt. Revenue*	Current Account*	Number Meeting Target
Benin	-3.5	25.1	2.3	0	39.4	47.4	17.9	-11.6	5
Burkina Faso	-2.4	26.2	2.6	0	49.6	55.8	12.0	-12.6	4
Côte d'Ivoire	2.9	63.1	0.9	0	39.7	12.6	17.3	0.3	5
G-Bissau	-2.9	245.9	-1.6	0	78.3	3.9	12.1	-26.0	2
Mali	-1.4	38.2	2.3	0	38.5	26.1	13.3	-9.3	4
Niger	-0.6	23.1	4.4	0	29.4	35.6	12.5	-18.1	4
Senegal	-1.2	26.9	-0.8	0	33.2	34.8	19.1	-9.9	6
Togo	-2.1	65.6	1.9	0	36.2	17.1	14.4	-9.0	3

Source: Commission de l'UEMOA, *Rapport Semestriel d'Exécution de la Surveillance Multilatérale*, Décembre 2009
Note: * : as percent of GDP, ** : as percent of Government Revenues; shaded areas are where countries met their targets

The existence and continuation of the CFA franc zone has been subject to debates. Opponents of the monetary union claim that maintaining the CFA franc zone is not sensible.[x] The CFA franc zone encompasses two distinct and inconvertible currencies in 14 mostly small countries that export different commodities and trade little or not at all within the union. The crux of the matter is then that France can exercise control over other countries' economic security. Since December 4, 1973, France and the WAEMU countries have agreed that at least 65% of their reserves will be held at the '*Banque de France'* or French Treasury, in the '*compte d'opérations'* or operations account. In spite of the institutional reforms of 2005, France has kept its modus operandi vis-à-vis the WAEMU countries. In the beginning of 2010, for example, CFA zone countries had €6.1bn ($7.7bn) in operational accounts with the French treasury (Jeune Afrique, 2010). To this day, 50% of the WAEMU countries reserves are held at the French Treasury (Banque de France, 2010).

Overall, there have been some positive economic trends in the WAEMU countries. Specific growth-enhancing factors such as domestic credit to private sector[xi] deserve further discussion. Figure 4 portrays two main aspects of the evolution of domestic credit to private sector as percentage of GDP. From 1975 to the early 1990's, on average, the share of domestic credit to private sector as percentage of GDP was higher in CFA-sub-Saharan Africa than in non-CFA-sub-Saharan Africa. However, from 1994 onwards one notices a clear downward trend of credit to private sector in CFA-sub-Saharan Africa, while at the same time the reverse trend is observed in the non-CFA-sub-Saharan Africa. In 2008, the average share of domestic credit to private sector as percentage of GDP was 29.3% in the non-CFA-sub-Saharan Africa whereas in the CFA-sub-Saharan it was 12.4%. This indicates an immature and not-well established commercial banking sector in the CFA franc zone compared to the rest of the African continent.

Figure 4: Domestic Credit to Private Sector (% of GDP)



Source: World Bank, African Development Indicators (ADI), Online database; Own Calculation

Advocates of the CFA franc zone argue that its main virtue is stability of prices within the union, and recent studies show that the CFA franc zone has been able to deliver better price performances[xii] than the floating rate or crawling peg regimes in sub-Saharan-Africa. In spite of the relative stable price level in the WAEMU countries, some risks of overvaluation of the CFA, as it happened in the 1990s, may reoccur if domestic inflation cannot be kept at the levels of the Euro. In such a situation, an adjustment of the exchange rate could be tedious given the institutional structure of the CFA franc zone, which requires unanimity among member countries for a parity change (Masson and Pattillo, 2003).

The positive economic performances registered for most countries in WAEMU notwithstanding, these countries in the monetary union remain highly volatile. At the national level, each of them has, de facto, lost its monetary independence and does not have enough room for fiscal policy (given the convergence criteria). In a region mostly plagued by conflicts of one sort or another, addressing these macroeconomic challenges is a Herculean task. Consequently, it is sustainable economic fundamentals such as investing in human capital, that sound macroeconomic policies should address. Short-term policy adjustment tools on the other hand should be avoided, as they are usually tight with regional constraints.

V. The Budget and Post-Conflict Economic Policy

Côte d'Ivoire's real GDP is expected to contract by 6.3% this year. This is according to the official forecast by the Ministry of Economy and Finance of Côte d'Ivoire, after taking into account the impact of the economic crisis, the international sanctions during the first quarter of the year and the lower-than-expected output of oil and gas (Economist Intelligence Unit, 2011). Spending in Côte d'Ivoire is likely to rise[xiii] by 5.3% and to reach 3,050 billion CFA francs or (US$6.4 billion).[xiv] Increased spending is partly due to the necessity of honoring previous commitments regarding public debt. Specifically, external debt needs to be addressed as part of the requirements of the post-crisis reconstruction and economic recovery. It is worth mentioning here that most of capital expenditures will be devoted to repair essential public infrastructure that was damaged during the recent political turmoil.

In Table 4, we present the different components of the 2011 budget. The largest part of the country's spending is devoted to paying back its debt of 1,292 billion CFA francs. This amount accounts for about 42% of total spending. In contrast, capital expenditures will total 340 billion CFA francs or about 11.2% of total spending. With spending outpacing revenue, the national deficit of about 361 billion CFA francs (or 3.4% of the national output) needs to be raised through borrowing (Economist Intelligence Unit, 2011). The government promises to balance the deficit of 360.5 billion CFA francs. This pledge is predicated upon optimistic assumptions and the availability of external financing as well as on the ongoing generosity of donors such as the World Bank (24 billion), the Club of Paris and Club of London (239.1 billion), the European

Union (15 billion), IMF (49.2 billion), and others (33.2 billion). However, with the ongoing sovereign debt unraveling in the Euro zone and in the U.S., these assumptions may not be binding (Economist Intelligence Unit, 2011).

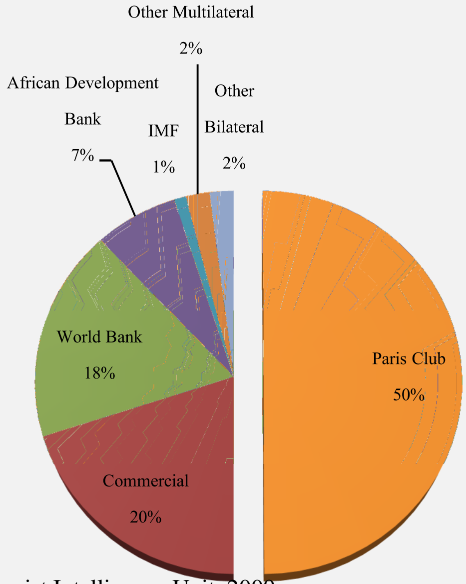
Table 4: Côte d'Ivoire's National Budget (2011)

Components	Amount (CFAfr bn)
Total Revenue	**2,690**
Domestic Revenue	2,086
External Revenue (incl. budget support & grants)	604
Total Spending	**3,050**
Recurrent Expenditure	2,710
Debt Service	1,292
Public-sector salaries	727
Capital Expenditure	340
Budget Balance	**-361**

Source: Ministry of Economy and Finance of Côte d'Ivoire, Economist Intelligence Unit, July 2011

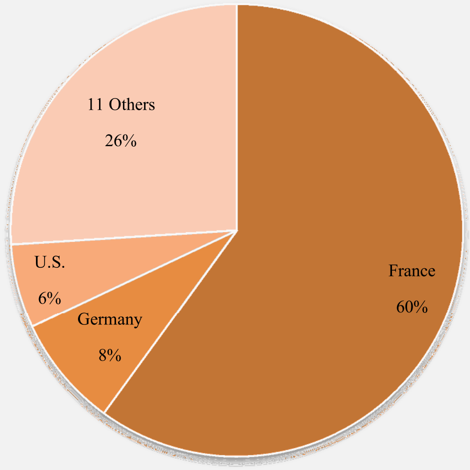
The level of expenditures dedicated to the debt service shows that the current government has set high priority for achieving the Heavily Indebted Poor Countries (HIPC) debt write-off. Indeed, as of August 2011, Côte d'Ivoire has not completed the requirements for full debt relief, probably due to the aftermath of the November 2010 elections. In Figure 5a we present Côte d'Ivoire's composition of external debt. The largest creditor accounting for half of the country's external debt is the Paris Club. Commercial loans are the next largest chunk of debt (20%). The World Bank is the third largest creditor with 18% and the African Development Bank is last with 7%. In Figure 5b we go deeper into the country's debt owed to the Club of Paris. Interestingly, France is Côte d'Ivoire's main external creditor holding an estimated 60% of the country's Paris Club debt. Germany follows with 8%, the U.S. with 6% and eleven other countries with 26%.

Figure 5a: Côte d'Ivoire's External Debt (End of 2007)



Source: Economist Intelligence Unit, 2009

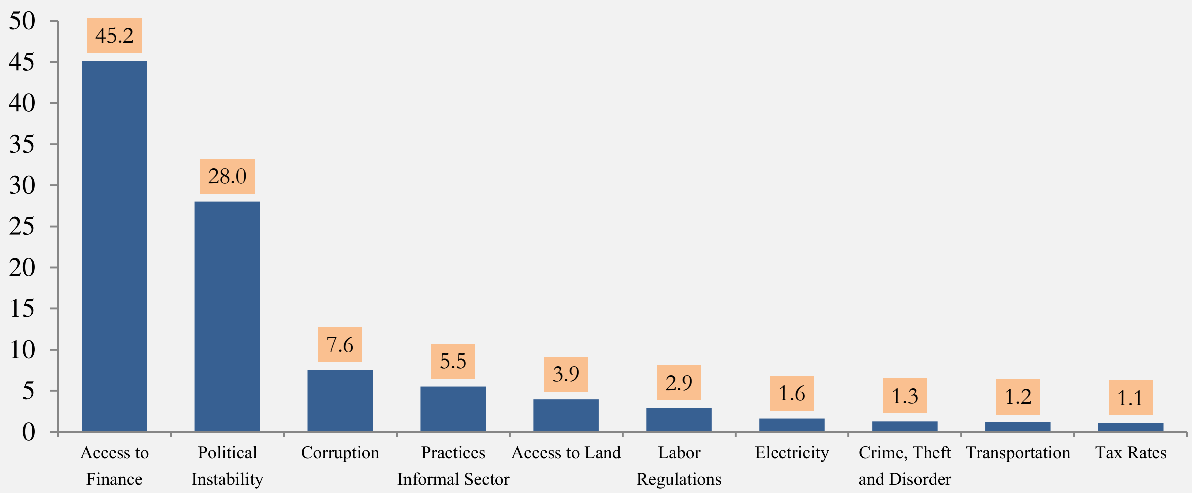
Figure 5b: Côte d'Ivoire's Debt to the Paris Club



Source: Economist Intelligence Unit, 2010

The current economic policy, as outlined by President Ouattara, carries the promise of a temporary tax cut for businesses to help small companies stay alive through tough economic conditions. While this is a positive step and an extremely popular fiscal tool in the U.S., given the needs of the country and its people, a business tax may not be very effective. In Figure 6, we present the top ten main obstacles of doing business in Côte d'Ivoire, as they are identified by business owners in the Enterprise Survey of 2009. Access to finance is listed as the most important obstacle by almost half of the surveyed business owners (45%). This is a common and recurrent obstacle to the private sector in the WAEMU countries. The second main obstacle in doing business in Côte d'Ivoire is political instability as testified by 28% of entrepreneurs. Corruption is listed third by almost 8% of entrepreneurs. As Figure 6 shows, only a few entrepreneurs (1%) consider tax rates as an obstacle in doing business in Côte d'Ivoire. It appears that a tax cut alone may not properly address the concerns and needs of the private sector entrepreneurs.

Figure 6: Top Ten Main Obstacles of Doing Business in Côte d'Ivoire



Source: IFC, Enterprise Surveys, Country Profile 2009; Authors' Presentation

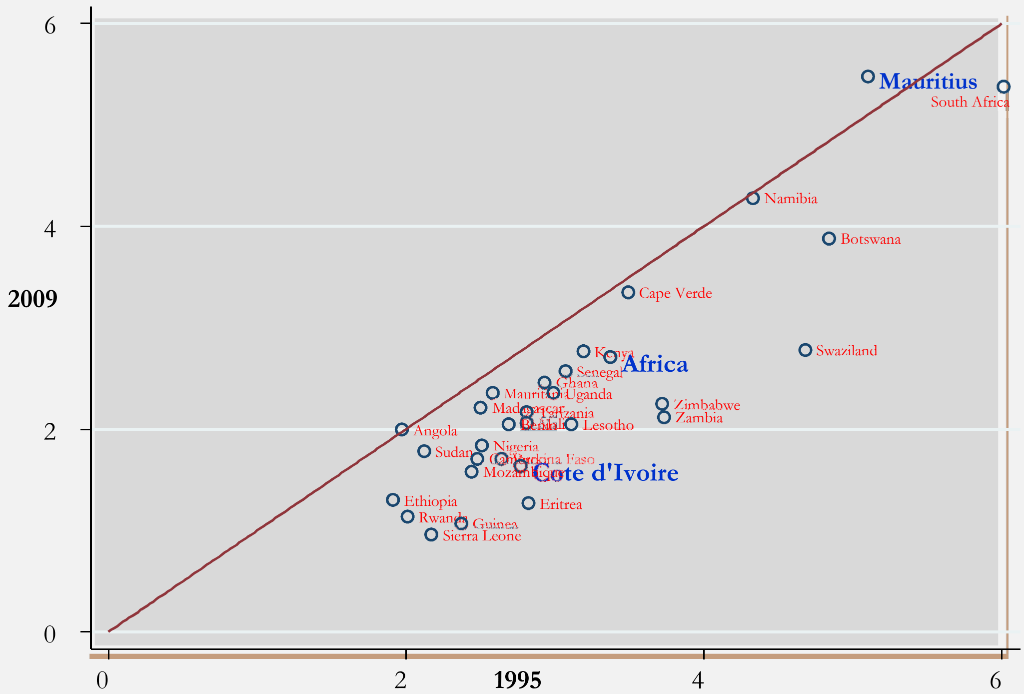
Disaggregating private companies by size does not alter their main concerns. Notably, small firms with 1-19 employees report that their main three obstacles in doing business are access to finance, political instability, and corruption. Medium firms with 20-99 employees list political instability, access to finance and informal sector issues as major concerns. Large size firms with one hundred or more employees find political instability, access to finance, and an inadequately educated workforce to be the main obstacles (IFC, 2009). Note that the last concern of the large size firms raises issues of human capital investment and mismatch in the country.

VI. Human Capital and the Knowledge Economy

Over the course of the years, Côte d'Ivoire has fallen behind other developing economies in terms of improving its national *Knowledge Economy*. The key indicator used to assess the economic standing of a country is the Knowledge Economy Index (KEI). KEI is constructed and implemented by the World Bank Knowledge Assessment Methodology (KAM). This database includes 145 countries. KEI is a good measure of the preparedness of a country in terms of its advancement towards the Knowledge Economy. KEI is an aggregate index representing the general development level of a country vis-à-vis the Knowledge Economy. It gauges whether a country's knowledge level is conducive to effective economic development.

The actual construction of KEI is based on four pillars related to the knowledge economy: (i) economic incentives and institutional regime, (ii) education and human resources, (iii) innovation systems, and (iv) Information and Communication Technology (ICT). Specifically, it is the average of the normalized performance scores of a country on all four pillars that creates KEI.[xv] These normalized performance scores are on an ordinal scale from 0 to 10, with 0 being the weakest and 10 being the strongest. Figure 7 depicts KEI for selected sub-Saharan countries. On the horizontal axis we plot KEI for sub-Saharan countries in 1995. KEI has a range from 0 to 6. On the vertical axis we plot KEI for the same countries of the most recent year, which in this case is 2009.[xvi] The 45-degree line represents the locus of points where KEI values in 1995 are equal to those in 2009. Countries that appear above the diagonal exhibit an improvement in KEI since 1995; those below the diagonal experience a deterioration in their KEI since 1995.

Figure 7: The Knowledge Economy Index; Selected Sub-Saharan African Countries



Source: KAM, http://info.worldbank.org/etools/kam2/KAM_page5.asp; Authors' Presentation

Côte d'Ivoire's KEI value for 2009 is 1.65 implying that it ranks in the 16th percentile out of the 145 countries included in the KAM database. An interesting fact is that KEI for both 1995 and 2009, and for almost all sub-Saharan countries is below the 50th percentile. A notable exception are the countries Mauritius and South Africa. The average KEI in 2009 for the region was 2.71 (27th percentile). This is much lower than KEI in 1995, which was 3.37 (34th percentile). This indicates a deterioration in the level of development and preparedness of the region towards the Knowledge Economy.

In Table 5, we present the overall recent KEI as well as the index of the four pillars for Côte d'Ivoire, Mauritius and the sub-Saharan region. We include the change of KEI between 2009 and 1995, as well as between 2009 and 2000. Côte d'Ivoire's KEI changes in the period 1995 to 2009 as well as in the period 2000 to 2009 are negative. This underscores the country's inability to keep up with development toward the knowledge economy. Côte d'Ivoire has also significantly regressed regarding all four pillars of KEI. Between 2000 and 2009, the country regressed by 0.66 points in the overall KEI, 0.8 in economic incentive and institutional regime, 0.28 in innovation, 0.39 in education, and strongly lost 1.15 points in ICT. Although there has been a substantial regression at the regional level, Mauritius managed to be the top performer in KEI. Its KEI improved by 0.38 between 1995 and 2009, and by 0.19 between 2000 and 2009. In addition, the improvement in KEI for Mauritius is accompanied by a significant improvement in education as well in the economic incentive and institutional regime.

Table 5: Cross-Country Comparison of the Knowledge Economy Index (KEI)

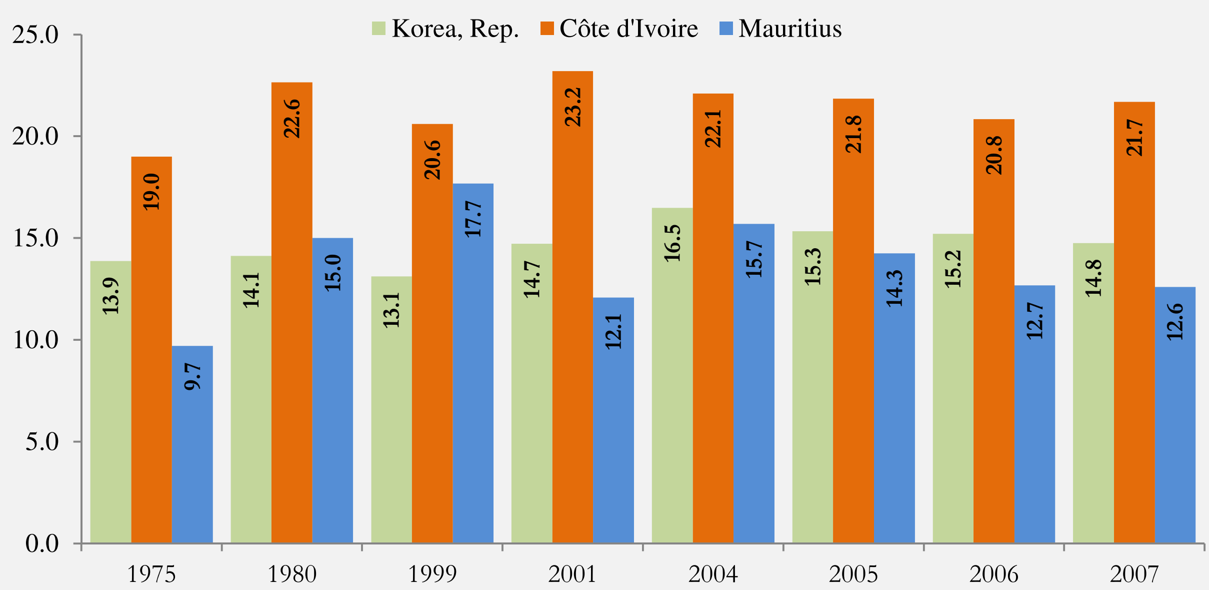
Indexes	Sub-Saharan Africa			Côte d'Ivoire			Mauritius		
	Index (2009)	Change		Index (2009)	Change		Index (2009)	Change	
		1995-2009	*2000-2009*		*1995-2009*	*2000-2009*		*1995-2009*	*2000-2009*
Overall KEI	2.71	*-0.66*	*-0.3*	1.65	*-1.12*	*-0.66*	5.48	*0.38*	*0.19*
EI & IR*	2.68	*0.3*	*-0.17*	1.37	*-0.71*	*-0.8*	8.01	*1.95*	*1.79*
Innovation	4.31	*-0.26*	*0.2*	2.28	*-0.84*	*-0.28*	3.63	*-0.31*	*-0.6*
Education	1.38	*-0.28*	*-0.22*	1.09	*-0.59*	*-0.39*	4.03	*0.31*	*0.26*
ICT	2.45	*-2.44*	*-1.05*	1.87	*-2.63*	*-1.15*	6.23	*-0.45*	*-0.71*

Source: KAM, World Bank, http://info.worldbank.org/etools/kam2/KAM_page9.asp; Authors' Calculations
Note: * EI & IR stands for Economic Incentive and Institutional Regime

Côte d'Ivoire appears to be underperforming in education. At first sight this may be due to lack of public funding in that sector. However, Figure 8 shows that the country allocates more of its government expenditures to education than both South Korea and Mauritius do. In fact, this is a recurrent observation over the past 30 or 40 years. According to the 2011 budget of Côte d'Ivoire, about 16% of government spending will be allocated to education. This is a higher level than the one in South Korea or Mauritius in 2007. The Korean government allocates less than 15% of its expenditures to education. Yet in 2009 Korea's education score[xvii] was at the 80th percentile. Thus, high government expenditures alone do not guarantee better education outcomes.

Most important is the role of education in labor market outcomes, economic development and the reduction of poverty. Studies have found that increasing education at the primary level alone cannot generate enough earnings in the labor market to push people out of poverty.[xviii] The key is to acquire education that is in line with the needs of the labor market. Inefficiencies and other mismatch appear to be at play in Côte d'Ivoire, inhibiting high educational outcomes. An active labor market policy that targets and guarantees the employability of youth is in need in Côte d'Ivoire. Korea is a success story because government expenditures in higher education were closely coordinated with labor market needs. The Korean government's intervention in the enrolment and graduation of students according to labor market's demand at each stage of production managed to reduce economic inefficiencies. It also appeased social problems that were due to oversupply and underemployment of college graduates (Kim and Rhee, 2007). While Côte d'Ivoire might be facing different constraints regarding its education system, there are still some similarities between the underlying problem of the education system in Côte d'Ivoire and the case of Korea. Some lessons can therefore be learned from that experience.

Figure 8: Total Public Spending on Education as Percentage of Government Expenditure



Source: World Bank, WDI&GDF, [SE.XPD.TOTL.GB.ZS]; Authors' Presentation

VII. Recapitulation and Concluding Remarks

Côte d'Ivoire's political instability since the late 1990s and early 2000s has been manifested regionally as an increase in transaction costs and a diversion of trade away from the country and in favor of other neighboring countries equipped with ports. As a state member of the monetary union WAEMU, sharing the same currency with other seven francophone countries in the region, the country's political upheaval has also contributed to a reduction of WAEMU's overall potential trade (Egoume and Nayo, 2011). The IMF study underlines the importance of enhanced security and further integration as key to achieving higher levels of trade and economic growth in the WAEMU countries (ibid).

Yet again, the political stand-off in Côte d'Ivoire and the resulting mayhem after the second round run-off of the presidential elections in November 2010 damaged the country economically, shattered its social fabric and made headline news. Being the world's largest producer and exporter of cocoa beans, the country made a mark last February in the international prices of cocoa. In addition, as a leading member of the West African monetary union, Côte d'Ivoire's political crisis caused a decrease in trade and an increase in volatility. Rumors of exiting WAEMU and having its own currency threatened the existence of the union and the country's relationship with France - and in turn with the rest of the countries in the Euro zone. The government's initial estimates of economic losses suffered by the private sector due to the political crisis were about 2 trillion CFA francs, or 20% of GDP. Lastly, as a host country to 11% immigrant workers, the political crisis disrupted remittance outflows and negatively affected the immigrant sending countries that depend on remittances. Violence during the period of political instability also cost thousands of human lives and has left many people displaced.

The new President and his cabinet face many challenges ahead. Along with the national reconciliation, Côte d'Ivoire's economic growth and rank in the knowledge economy are important priorities. While the 2011 budget is higher than the previous year, a closer look at the spending side reveals that almost 42% of the budget is allocated to debt service, therefore leaving less space for government investment and positive multiplier effects. Consequently, the country will have to rely on external supports in the short run. External financial support however, can be problematic given the ongoing sovereign debt of the Euro zone countries and the U.S.

The first 100 days of the new President in power have not revealed much. While helping the private sector and the small and medium businesses to be healthy and grow is of paramount importance in an economy, a proposed tax cut may not be the best approach. Improving access to finances remains one of the major challenges that the new administration will have to tackle if it wants to rejuvenate the SMEs.

In the long run the new government will have to deal with additional challenges. An important issue is Côte d'Ivoire's preparedness and economic performance towards the knowledge economy. Looking at the Knowledge Economy Index (KEI) and contrasting the 1995 scores to the 2009 scores it is apparent that the country has been regressing. This is even more noticeable when one compares Côte d'Ivoire to Mauritius and South Korea, countries that have significantly improved over the years. A thorny issue is the country's inability to improve investment in human capital and produce a competitive labor force. While Côte d'Ivoire has the highest share of government spending on education, its education outcomes are not commensurate to the expenses. This indicates the existence of inefficiencies in the system. Given the limitation of being in a monetary union that is rendering any short run adjustments impossible, the current government should be tackling long run issues such as education to better position the country in the global competiveness of high skilled workers.

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Endnotes

[i] In October 1985, *Côte d'Ivoire* became the official name of the country, registered with the United Nations and used by other governments. While its English translation is "Ivory Coast" the proper English name of the country is Côte d'Ivoire. Côte d'Ivoire is also the name that the International Organization for Standardization (ISO) employs, and the name we will be using in this paper.

[ii] For more details on the political structure and development in Côte d'Ivoire since 1960, see Munoz-Perez and Tien (2007).

[iii] Upon the announcement of democratic elections more than twenty candidates declared that they will run for president. The Supreme Court of Côte d'Ivoire validated the candidacy of only fourteen of them.

[iv] On April 11, 2011 Mr. Laurent Gbagbo was arrested by Mr. Ouattara's forces and with the United Nations backing and France's military support. Mr. Gbagbo remains under house arrest. In August 2011, he was charged with economic crimes.

[v] Among the commission's members is Didier Drogba, the international soccer player at FC Chelsea, who is viewed as a peace figure. He will represent the Ivorian Diaspora (http://www.gouv.ci/doc/CM%20du%2005-09-11.pdf).

[vi] Under: http://www.finances.gouv.ci/fr/cles-de-leconomie/budget-de-letat.html.

[vii] The ECOWAS is a regional group of fifteen countries, founded in 1975. Its mission is to promote economic integration. Its members are: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

[viii] This measure was taken under the advice of France, the IMF and the World Bank in order to jump start the franc zone economies (Irving, 1999).

[ix] For more details see: http://www.imf.org/external/np/exr/facts/hipc.htm.

[x] "*11 Ideas for 2011: Remove France's Control of the CFA*" (Jeune Afrique: *The Africa Report 2011*, No. 26, December 2010-January 2011).

[xi] Domestic credit to private sector refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment (World Bank, World Development Indicators [FS.AST.PRVT.GD.ZS]).

[xii] However, in 2008, the inflation rate in the WAEMU was 7.4% compared to a 2.4% in 2007. This was due to the skyrocketing commodity prices of 2007/2008 (Commission de l'UEMOA, June 2009).

[xiii] Under: http://www.finances.gouv.ci/fr/cles-de-leconomie/budget-de-letat.html.

[xiv] Calculations follow an exchange rate of $US1=CFAfr479.15 as indicated by the Ministry of Economy and Finance in the 2011 budget.

[xv] Under: http://web.worldbank.org/WBSITE/EXTERNAL/WBI/WBIPROGRAMS/KFDLP/EXTUNIKAM/0,,contentMDK:20584278~menuPK:1433216~pagePK:64168445~piPK:64168309~theSitePK:1414721,00.html.

[xvi] In this figure we follow Chen and Suh's (2007) illustration.

[xvii] See: http://info.worldbank.org/etools/kam2/KAM_page5.asp.

[xviii] http://siteresources.worldbank.org/EDUCATION/Resources/278200-1099079877269/547664-1208379365576/DI D_Labor_market_outcomes.pdf

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