

AID AND REFORM IN THE COTE D'IVOIRE

*Country Case Study for World Bank Project
"Aid and Reform in Africa"*

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CHAPTER I. INTRODUCTION

This country case study is one of ten prepared for the World Bank Development Economics Group, for its study of aid and reform in Africa. The purpose of the case studies is to review country reform experience and analyze the role of economic assistance in initiating and shaping the reform process. These country-level studies are to help test some generalizations about aid-reform relationships that have emerged from World Bank econometric work, as presented, for example, in the Bank's recent Policy Research Report, *Assessing Aid*.¹

The paper is a joint product of the four authors. Each had responsibility for specific sections, working from an outline prepared by the lead author, Elliot Berg. He edited and modified portions of the individual section drafts, but these are presented more or less as drafted by the individual authors. Readers will thus not find compromise or consensus views on contentious issues (though we agree on most of the analysis). They are rather allowed to see the diversity of views and approaches among the co-authors.

The paper is organized in seven chapters. Chapter II describes aid patterns in the Côte d'Ivoire—amounts, types, origins, and so forth. (We will use the acronym RCI for République de Côte d'Ivoire.) This chapter is the work mainly of Jacky Amprou, research associate at the Centre de Recherche sur le Développement International, Université de Auvergne, Clermont-Ferrand. He put the basic tables and graphs together. Jacques Pegatienan of Abidjan University drafted sections on bilateral aid, nonfinancial flows, and aid coordination. The other authors had some input in this section.

Chapter III gives an overview of the economic and institutional background to reform, the evolution of policy, and governance characteristics. It broadly follows the outline suggested in the terms of reference (TOR). The main author of this chapter is Jacques Pegatienan.

Chapters IV to VII consider specific reform experiences and the role of aid. We focus on the four areas suggested in the TOR: macroeconomic policy, trade liberalization, public expenditure reforms in health and education, and legal/judicial system reforms. We try to treat each of these as an integrated reform story. We describe the reform agenda, comment on effectiveness of the reforms, and analyze the role of aid and aid donors in reform conception and processes. The generalizations and hypotheses that are set out in the TOR are addressed in the context of each of the specific reform areas. This seemed the best way to reduce overgeneralization in analyzing the aid-reform relationship. Main conclusions are set out in Chapter VIII.

Chapter IV focuses on the 1994 devaluation decision. This is a crucially important episode in the RCI reform experience, central to the assessment of aid-reform relationships in that country, and still controversial. We therefore concentrate on it and little else in the area of

¹ World Bank, *Assessing Aid. What Works, What Doesn't and Why*, Oxford University Press, 1998.

macroeconomic policy reform. The author of this section is Patrick Guillaumont, Director of the Centre de Recherche at the Universite de Auvergne.

Chapter V, on trade liberalization, is mainly the work of Jacques Pegatienan. Chapter VI, on public expenditure reforms in education and health, and VII, on legal/judicial (L/J) reform, were written by Elliot Berg, as was the concluding chapter.

The research team was in Abidjan between July 31 and August 12 , 1999. This timing was not ideal: many relevant people were away on vacation. But we had no other feasible option. The main consequence was that we were unable to see some key actors in the private sector, leaving us with a sketchy understanding of some issues. Mainly for this reason we have little to say about two important reform areas: the restructuring of cocoa and coffee marketing and the privatization/deregulation of maritime transport. This is unfortunate, since the suitability of these reforms is contested by numerous Ivoirians.

The World Bank office in Abidjan provided indispensable support. Special thanks are due to Chantal Dejeu, Acting Country Director, who guided us with a sure hand, and to Mme. Attobra, who organized our complicated schedule of meetings. Thanks are also due of course to all those who took time in August to meet with us. A copy of our meeting schedule is attached as Annex 1. Annex II includes the statistical tables.

CHAPTER II. AID DEFINITIONS, VOLUMES, AND ISSUES

Concepts of external aid abound. The standard or conventional concept is Official Development Assistance (ODA), which is defined by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) as financial flows to developing countries and multilateral institutions provided by official agencies, which meet the following criteria: their main objective is the promotion of economic development and welfare of recipient countries, and they are concessional and convey a grant element of at least 25 percent. ODA includes technical assistance grants and is usually calculated net of amortization. (See Text Figure 1, Text Tables 1 and 2, and Annex Table 1.)

The main disadvantage of this indicator is that it doesn't take into account nonconcessional flows. This is an important omission since it means that sizeable financial flows from major multilateral donors are not included, such as regular loans of the World Bank and the African Development Bank and the Stand-By Agreements and extended facility loans of the International Monetary Fund (IMF). Another weakness of the Net ODA concept is that it does not take account of interest payments on external debt.

A second concept, developed by World Bank researchers is Effective Development Assistance (EDA), which defines aid as the sum of the grant equivalent of all official loans plus transfers that are full grants, excluding technical assistance². This adjusted measure uses the conventional grant data (from the Organization for Cooperation and Development-Development Assistance Committee (OECD-DAC), but aggregates grant equivalents of loans rather than the full face value of all loans, even those with less than a 25-percent grant element. This indicator doesn't consider debt relief, whether it is in the form of debt forgiveness or debt rescheduling, as new aid.³ It retains only the concessional-window IMF flows (Structural Adjustment Facility (SAF) loans and Enhanced Structural Adjustment Facility (ESAF) loans, and discards the non-concessional windows loans (Stand-By Agreements and Extended Fund Facility loans.

We present data on EDA as such (Text Figure 3 and Annex Table 2), and include it in a broader concept: Official Development Finance Flows (ODF), which includes not only EDA (grants and grant element of official loans), but also the nonconcessional part of the loans, technical assistance grants, and IMF nonconcessional loans. (See Text Figure 2, Text Table 4, and Annex Figures 1 and 2.) Another concept is Total Gross Official Flows (TOF), which is derived from the OECD-DAC database. It is defined as ODA plus "Other Official flows." These other flows are transactions by the official sector whose main objective is other than development-motivated, or whose grant element is below the 25-percent threshold which would make them eligible to be recorded as ODA. The main classes of transactions included are

² Charles Chang, Eduardo Fernandez-Arias, and Luis Servén, "Measuring Aid Flows: a new approach," World Bank, Development Research Group, 1998. "All official loans" excludes bilateral loans made for military and defense purposes.

³ Conventional Net ODA accounts for debt relief by recording a fictitious disbursement matched with an equally fictitious loan repayment, with no effect on Net ODA totals.

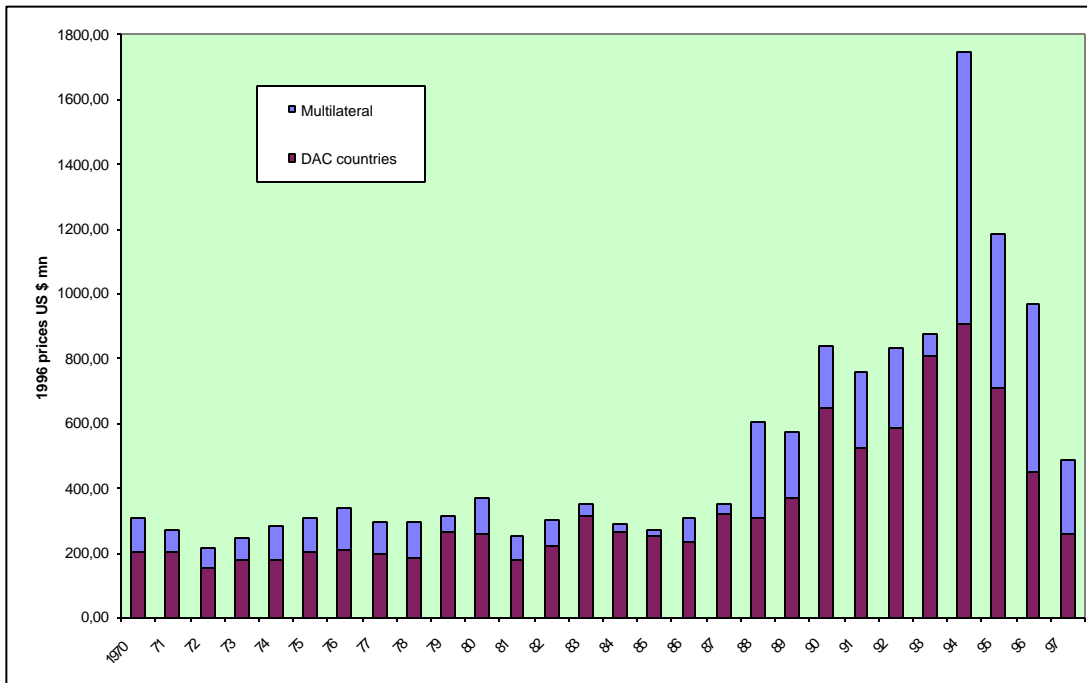
official export credits, official sector equity and portfolio investment, and IMF and World Bank nonconcessional loans.

These two indicators can be useful for examining the relation between policy reform and external assistance, assuming that the behavior of the government is more influenced by the amount of total cash inflows than by the pattern or composition of those flows (see Text Figure 4). We do not rely on them in this paper.

Still another relevant concept is Net Transfers on Aid, which is total net transfers on public and publicly guaranteed long-term debt from official creditors (including net transfers with the IMF) plus disbursements of grants. A related concept, Aggregate Net Transfers, is Net Transfers on Aid plus private flows. (The World Bank defines it (in *Global Development Finance . . .*) as net transfers on debt plus foreign direct investment (FDI), plus portfolio equity flows and official grants, minus FDI profits.)

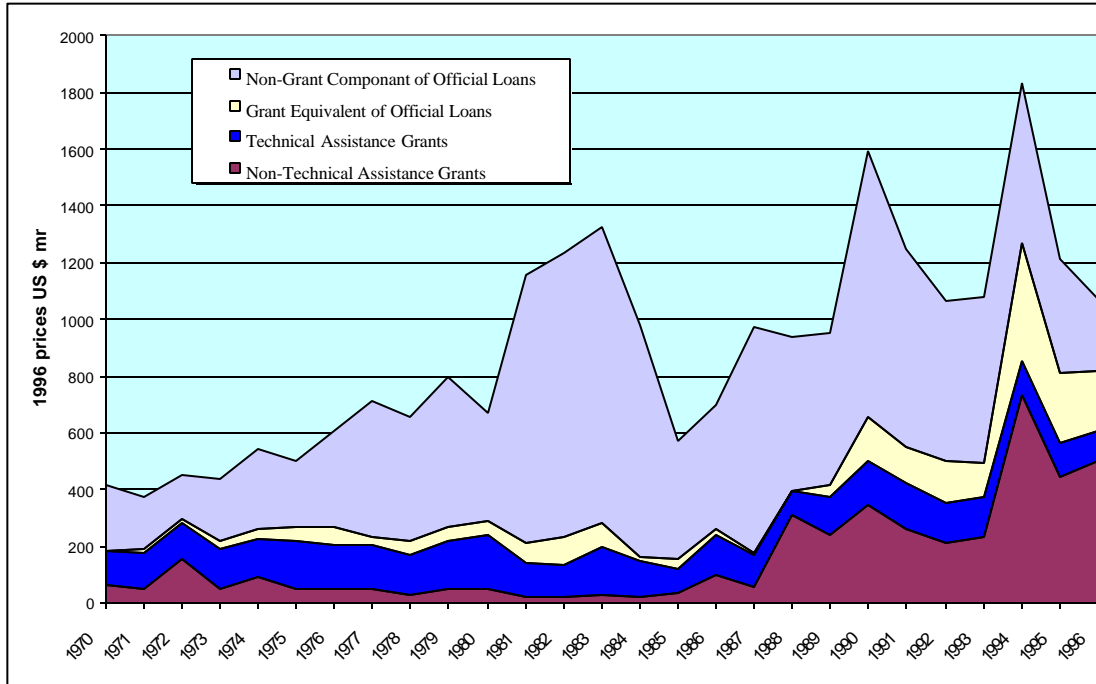
The basic aid data are set out in text and annex charts and tables.

Text Figure 1
Total Net ODA, 1970-96



Source: OECD–Geographical Distribution of Financial Flows.

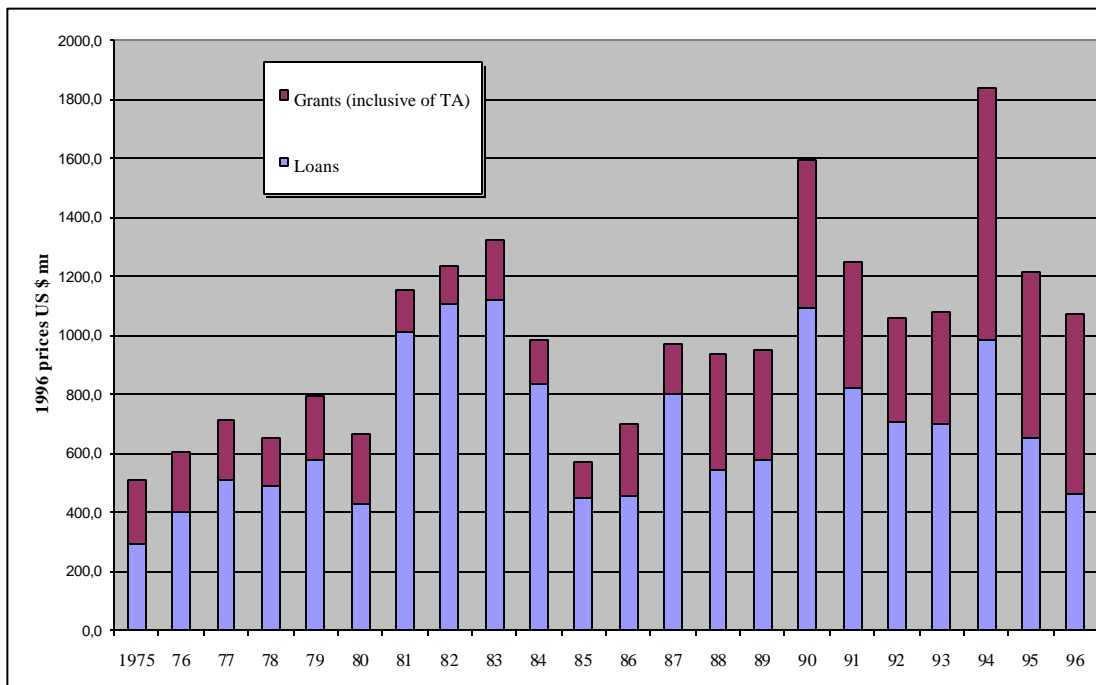
Text Figure 2
Official Development Finance Flows (Disbursements)



Source: Chang, Fernandez-Arias and Serven, 1998.

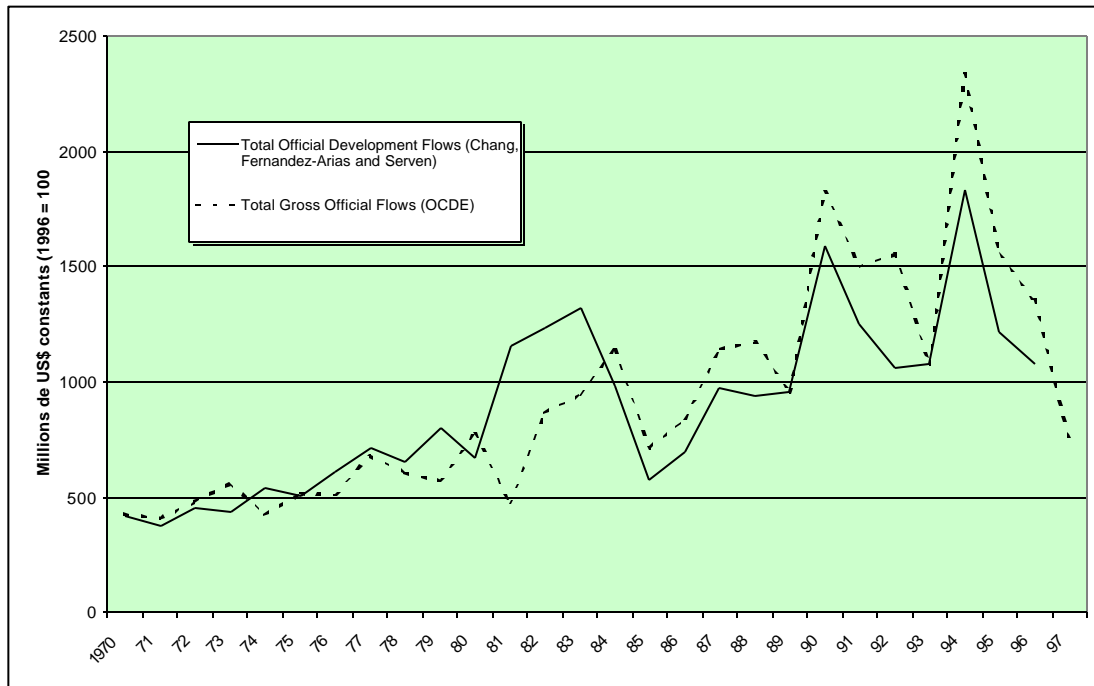
Notes: Official loans include IMF concessional loans (SAF and ESAF) and nonconcessional loans (Enhanced Facility and Stand-by Agreement).

Text Figure 3: EDA flows by type 1975-96



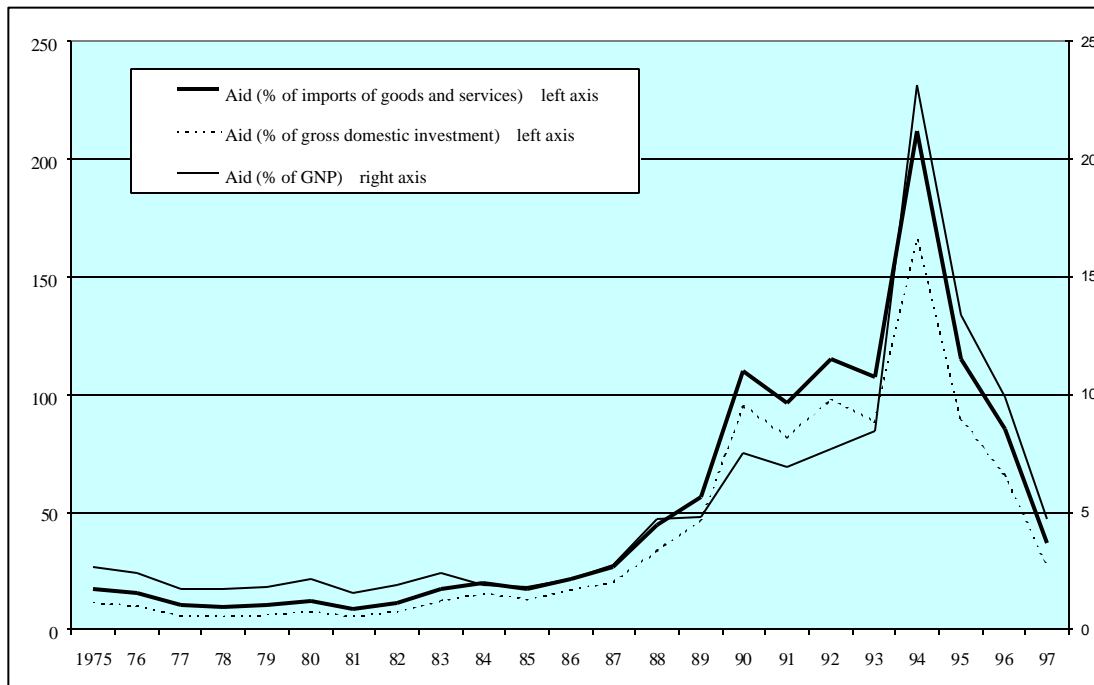
Source: Chang, Fernandez-Arias and Serven, 1998.

Text Figure 4
Comparison ODF-TOF, 1970-97



Source: OECD-AC and Chang, Fernandez-Arias and Serven, 1998.

Text Figure 5
Aid Intensity, 1975-97



Source: World Bank, World Development Indicators, 1999.

Text Table 1
ODA Commitments to Côte d'Ivoire, 1975-98
Annual average in constant 1996 US\$ thousand

Donors	1975-79	1980-84	1985-89	1990-93	1994-97
Bilateral	147 407	264 242	273 895	839 755	537 281
France	47 575	96 342	111 093	348 263	201 932
EU members	77 175	132 065	143 116	393 856	267 471
North America	22 657	24 220	9 434	56 651	22 477
Japan		11 615	10 252	40 985	45 401
Multilateral	22 018	39 638	3 129	75 305	397 689
IDA				39 647	317 142
European Union	22 018	39 638	479	25 357	68 844
Af DF/Af DB			2 650	10 301	11 703

Source: OECD, Credit Reporting System.

Text Table 2
Total ODA commitments by sector, 1975-1997
Annual average in constant 1996 US\$ thousand

	1975-79	1980-84	1985-89	1990-93	1994-97
Social Infrastructure & Services	25 939	29 069	10 856	63 797	150 779
Economic infrastructure & Services	28 200	58 517	13 053	60 211	115 478
Production Services	40 102	70 616	61 430	75 249	134 043
Commodity Aid / General Program Assistance	15 514	11 178	49 876	314 382	235 751
Action Relating to Debt	0	18 746	24 743	35 034	137 863
Emergency Assistance	0	355	0	1 563	643
Other ^{1/}	20 752	20 264	6 133	28 182	38 266

Source: OECD-Creditor Reporting System.

Note: ^{1/} include Multisector/crosscutting, Support to NGOs and Unallocated/Unspecified.

Text Table 3
Total Disbursements on Official Loans by Sector, 1975-1996^{1/}
In constant 1996 US\$ million

	1975-79	1980-84	1985-89	1990-93	1994-96
Agriculture, Forestry, Fishing	503,1	382,5	553,7	644,8	374,3
Balance of Payments Support	0,0	820,1	578,2	969,3	783,7
Contrib. to Finance Current Importations	0,0	9,3	0,0	51,1	25,9
Social Sectors	209,8	380,4	123,7	269,1	493,0
Manufacturing, Trade, Mining, Finance	465,6	493,3	150,0	393,4	246,7
Infrastructure	860,6	796,8	935,6	701,6	133,5
Other	66,2	208,6	63,6	61,5	42,5

Source: Chang, Fernandez-Arias and Serven, 1998.

Note: ^{1/} except IMF nonconcessional disbursements.

Text Table 4
Official Development Finance and Total Disbursements on Loans by Creditors
Annual average in 1996 constant US\$, 1975-96

	1975-79	1980-84	1985-89	1990-93	1994-96
Total Official Development Finance 1/					
Bilatéral	418,8	382,8	296,2	633,3	827,7
Multilatéral	236,9	690,3	531,0	611,6	547,3
Total	655,7	1073,1	827,3	1245,0	1375,1
Total Disbursements on Loan					
Bilatéral	254,2	229,0	164,8	371,9	274,8
Multilatéral	199,0	673,2	403,3	459,8	425,1
Total	453,2	902,3	568,0	831,7	699,9
Total Grants by Creditor (inclusive of technical assistance)					
Bilatéral	164,6	153,7	131,5	261,4	552,9
Multilatéral	37,9	17,1	127,7	151,8	122,3
Total	202,5	170,8	259,2	413,3	675,2
Total Non-Technical Assistance Grants					
Bilatéral	21,7	18,7	27,5	132,7	443,4
Multilatéral	22,3	8,4	118,2	130,4	114,3
Total	44,0	27,1	145,7	263,2	557,7

Source: Chang, Fernandez-Arias and Serven, 1998 and OECD-DAC.

Text Table 5:
Technical assistance grants by creditor 1980-96
Annual average in constant 1996 US\$ million

	1975-79	1980-84	1985-89	1990-93	1994-96
Bilateral	142,9	135,1	103,9	128,7	109,5
Multilateral	15,5	8,7	9,6	21,4	8,0
Total	158,5	143,7	113,5	150,1	117,5

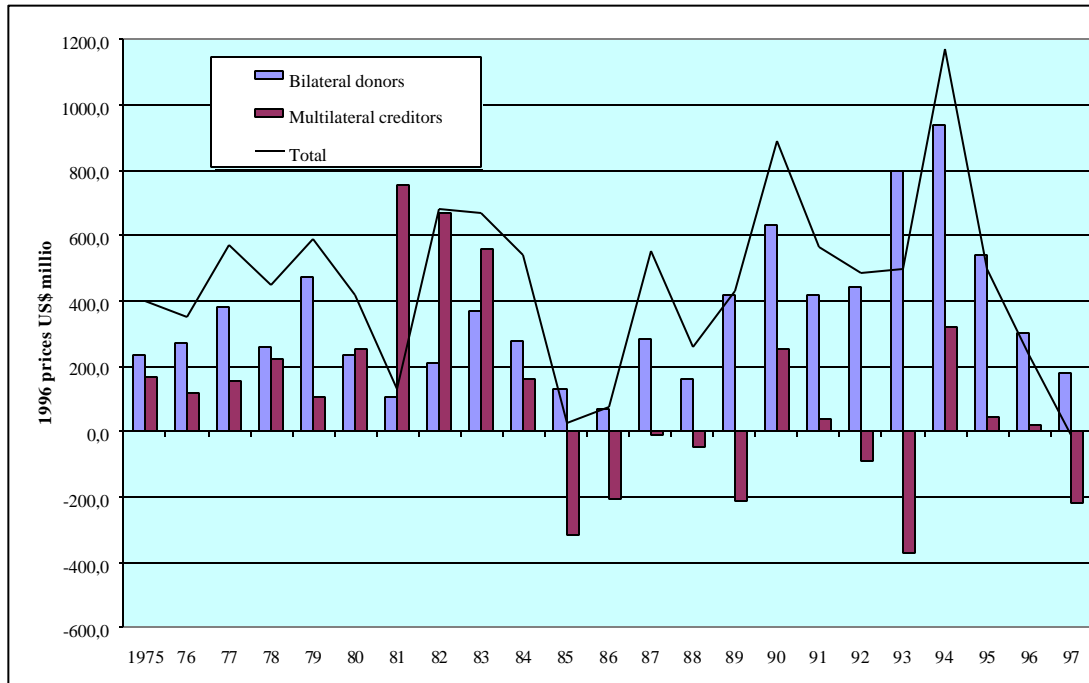
Source: Chang, Fernandez-Arias and Serven, 1998 and OECD-DAC.

Text Table 6
Aggregate Net Transfers, by Donor 1995-97
In billions of current CFAF

	Disbursements				Repayments				Net Transfers			
	1995	1996	1997	Total	1995	1996	1997	Total	1995	1996	1997	Total
MF	175,1	138,9	0,0	314,0	99,2	58,5	28,4	186,1	75,9	80,4	-28,4	127,9
IBRD and IDA	244,8	253,6	152,7	651,0	305,5	300,6	272,7	878,8	-60,7	-47,0	-120,0	-227,7
UNDP	0,8	1,2	4,6	6,6	0,0	0,0	0,0	0,0	0,8	1,2	4,6	6,6
EU	92,3	74,5	40,3	207,1	17,0	18,1	16,8	52,0	75,2	56,4	23,5	155,1
IFAD	1,7	0,4	1,3	3,4	0,9	1,3	1,9	4,1	0,8	-1,0	-0,6	-0,7
AfDB	45,9	64,1	44,7	154,7	119,2	141,4	131,6	392,3	-73,3	-77,3	-87,0	-237,6
BOAD	19,3	6,5	7,4	33,1	1,2	3,4	3,5	8,0	18,1	3,1	3,9	25,1
Paris Club members	345,9	163,9	71,7	581,5	303,3	237,9	147,6	688,8	42,6	-74,0	-75,9	-107,3
London Club members	0,0	0,0	0,0	0,0	0,0	0,7	6,0	6,7	0,0	-0,7	-6,0	-6,7
Other	31,6	28,5	67,1	127,2	133,6	78,0	71,5	283,1	-102,0	-49,5	-4,4	-155,9
Total	957,2	731,6	389,8	2078,6	979,9	840,0	680,0	2499,9	-22,7	-108,4	-290,2	-421,3

Source: RCI, Comité de Mobilisation des Financements Extérieures et de Suivi des Investissements Publics, *Rapport Annuel, 1997*, Abidjan, juin 1998, p. 25.

Text Figure 6
Net transfers on Aid



Source: OECD-CAD and World Bank, GDF, 99.

STYLIZED FACTS

The following main points emerge from these data and those provided in the statistical annex.

- The RCI relied relatively little on aid until recent years.** Up to 1979 the country had access to international money centers and private capital inflows were substantial (see Annex Figure 3). Modest aid inflows came mainly from France and other European countries; the World Bank had a small presence, and IDA none at all until the 1990s. This changed in the 1980s, though the RCI was not a sizeable aid receiver until the late 1980s. (See Text Figure 1, Text Tables 1, 2, and 4, and Annex Table 1.) From the mid-1960s to the mid-1970s, it received ODA amounting to \$200-300 million a year (constant 1996 dollars), though total development financial flows were much larger (see Text Table 4 and Annex Tables 1 and 3).

Until the late-1980s, the annual ODA inflow was less than \$300 million in most years (constant 1996 dollars). The amount began to rise in 1988 and 1989, and averaged \$800 million annually between 1990 and 1993, then rose dramatically in the two postdevaluation years (1994 and 1995), reaching a peak of almost \$1.8 billion in 1994, before falling back to about \$500 million in 1997. In terms of aid intensity, ODA until the late 1980s was less than

2 percent of GDP, imports, and gross domestic investment. It rose to 10-20 percent in the early- and mid-1990s, but was back to under 5 percent with respect to all these indicators in 1997. (Text Figure 5.)

The largest part of Official Development Flows to RCI was on nonconcessional terms until 1993. Thus while grants amounted to (1996) \$200 million or less from 1975-1987, nongrant equivalents of official loans were two to six times greater. (See Text Figure 2 and Table 4 and Annex Figures 1 and 2.) It was not until RCI became IDA-eligible in 1994 that grants exceeded nongrants. In 1996 grants made up 80 percent of ODF.

- **The heavy borrowing after 1980 put the RCI in the highly indebted category.** In 1996 the net present value (NPV) of public debt was more than four times the recent average value of exports. Debt service was over 35 percent of exports. The NPV of public debt was 145 percent of GDP and 640 percent of government revenue. Public debt service claimed 52 percent of governments revenue.⁴ Significant debt relief has been obtained from the Paris Club (See Annex Table 6). And in 1997 a Debt Restructuring Agreement was signed with commercial creditors to restructure commercial debt that had not been serviced since 1987. Virtually all outstanding commercial commitments were covered. The amount involved is almost \$6.8 billion, of which 2.4 billion is principal and 4.4 billion is interest, including arrears and penalties.
- **A dramatic shift took place in the composition of aid after 1990: adjustment loans and grants became dominant,** accounting for almost half the total in 1990-93 (see Text Tables 2 and 3). The World Bank's shift was particularly strong. In the period 1988-97, adjustment lending accounted for 79 percent of total Bank commitments to the RCI, compared with only 33 percent for the rest of Africa.⁵ Project lending suffered. Before 1981, most Bank lending went to agriculture, transport, urban development, and water and sanitation. But the share of these four sectors fell from 76 percent of Bank commitments in 1968-79 to 26 percent in 1994-96.
- **Not only did project lending decline, but the kind of projects being financed also shifted to projects in support of policy reform**—market liberalization and institutional or capacity development, for example. (See Annex Table 4 showing WB policy loans.)
- **Aggregate aid flows show a sharp rise in the three years immediately following the devaluation of the CFA franc—1994-96, averaging some 1.25 billion constant dollars**

⁴ These data come not from the tables but from the World Bank, "Report and Recommendations of the President of the International Development Association to the Executive Directors on Assistance to the Republic of Cote d'Ivoire under the HIPC Debt Initiative," Report # P 7229IVC, March 5, 1998.

⁵ In the four-year period 1994-97, the RCI received more than a third of all the adjustment lending provided by the Bank to SSA. World Bank, "Cote d'Ivoire Country Assistance Review," Report # 19422, June 14, 1999, p. 8.

annually. They declined to less than half a billion dollars in 1997, though this level of concessional assistance was higher than it had been during most of the prereform period.

- **Technical assistance continues to make up a large share of total aid.** Actually, there is some dissonance in the data on technical assistance. Text Table 5 shows an increase in TA grants between 1985-89 and 1994-96. But this seems inconsistent with casual observation—very few expatriate TA are seen in government offices—and with trends in TA from France, surely the main provider. The number of French *cooperants* fell from an average of over 2,100 in 1985-89 to 600 in 1994-96 and some 250 in 1998. Part of the explanation is probably found in the financing arrangements for French TA, a large part of whose cost was paid for by the RCI itself, which means that the decline in TA numbers would not be matched by a proportional decline in its external financing.
- **The aggregate inflow data show a rapid decline in the second part of the nineties.** The numbers derived from World Bank/OECD data (see above) show “Net Transfers on Aid,” as set out in Figure 6. These indicate that net transfers on aid were positive in most years during the 1990s, including in 1995 and 1996. But after reaching a peak in 1994 (the year of the devaluation) they sharply decreased in the following years, becoming negative in 1997. Text Table 6, (from official Ivoirian sources) which refers to net transfers on debt (without grants), shows negative transfers as early as 1995.

NONFINANCIAL AID

We turn now to some key issues. *Nonfinancial aid* was especially important in the earlier phases of Ivoirian development. It took the form of technical assistance (TA) from France, primarily secondary school and university teachers. Other TA was in health and social development, infrastructures, culture, and scientific research. The total number of *cooperants* who were present between 1981-1995 was 31,000, of which more than 80 percent were professors. The number decreased drastically over the years. The rate of decline reached a peak in 1993 (–30.8 percent). As noted above, the number of French TA today is a mere 250, out of which 140 are professors, a 58-percent drop from 598 in 1995.⁶ Nonetheless, technical assistance overall still seems to comprise almost a quarter of total ODA.

In the 1960s and 1970s one of Côte d’Ivoire’s distinctive features was the influence of French TA over the system of decisionmaking in technical administrations as well as in the President’s office. In those years, one could find almost no locals in the position of advisers; France provided most advisers in this prestructural adjustment period, when the Bretton Woods institutions were absent. President Houphouët Boigny wanted a gradual replacement of the French, but he wanted good teaching and good administration too, so he continued to employ French TA, paying much of the cost out of local resources. More important, he failed to put in place meaningful and reliable arrangements for the real transfer of technical skills and competencies to Ivoirians.

⁶ Interview with the Mission d’Aide et de Coopération in Abidjan in August 1999.

Resident expatriate TA everywhere tends to develop an informal network of information and influence to which local people have no access. Where there are many expatriate TA people this is exaggerated, and where there are many from one country it is more pronounced still. This was particularly evident in the RCI. Aside from its negative effects on transfer of knowledge, this situation put French TA in a particularly influential position; dialogue between donors and the government was filtered to a significant extent through the screen of French technicians.

To the extent that technical advisers to the President, to all ministers, and to senior management of state-owned enterprises were foreign, ideas generated in the country over a long period could not be of local vintage. French TA deserves credit for bringing about some good results—for example the vigorous economic growth recorded until the late 1970s and the relatively strong public administration. By the same token, they have to bear some responsibility for the failures—inadequate attention to knowledge transfer, reliance on approaches and institutions that would prove unsustainable without lavish use of imported manpower, and the maintenance or adoption of inappropriate policies in key sectors like education and health. Education was the single most important area of intervention for French technical cooperation, yet reform made slow progress during their tenure in that sector and is today in much disarray.

After the mid-1980s government officials changed their attitudes toward the use of local human resources. Nowadays, in Côte d'Ivoire, the norm is a local technical adviser. Expatriate, including French, technical advisers are rare, in ministries as well as in the President's and the Prime Minister's offices. Academics and university professors are being more and more associated with the analytical and technical work of the administration. One testimony to the new situation is the fact that there is not a single expatriate technical adviser in the Prime Minister's office. This is now the rule.

Outside technical influence remains strong, though its origins have shifted. In the era of structural adjustment, the IMF and the World Bank have become powerful advisers to the government. The Bretton Woods institutions' advice is built on an analytical and technical foundation that is usually very impressive, and hence influential in all circles, including that of local technical advisers. Little analytical and technical work is conducted by locals that is not subject to the intellectual influence of the Bretton Woods institutions. But while ideas in general and of reform ideas in particular continue to be externally generated, local counterparts are more and more equipped with a capacity to develop homegrown reform ideas, and able to engage in real dialogue with their aid partners.

BILATERAL FINANCIAL AID

With respect to bilateral aid, we concentrate on France. Because of that country's close relationship with the RCI, its aid connection merits special attention. France is also a major donor, the third largest ODA contributor behind the IMF and the World Bank; it provided two-thirds of bilateral aid in 1996, well ahead of Japan's 26 percent and Germany's 5 percent.

French financial assistance to Côte d'Ivoire is accounted for by history, commercial and financial interests, and political strategy. Colonial history and cultural links strengthened the ties with the former colonizer as did the strong pro-French sentiments of the RCI's first and long-time head of state, President Felix Houphouët Boigny. The president not only maintained French influence in Côte d'Ivoire, but also championed it in other Francophone countries. France has commercial and financial interests in Côte d'Ivoire, which is its second largest West African market (after Nigeria). The equity capital of Ivoirian modern sector firms is largely French. Large-scale trading businesses are French or French controlled. Finally, Côte d'Ivoire is a political asset as it is a heavyweight partner in the region.

France provided financial support for the economic development of Côte d'Ivoire. This financial assistance was vital, especially during the difficult years starting in the mid-1980s and in the 1990-93 years, when the country was trying to avoid bankruptcy. The former colonizer paid for its ex-colony's debts to save it from default. It can be argued that by so doing, it relieved the pressure for structural adjustments, thereby retarding reform. On the other hand, pressures remained extremely strong, and the country eventually did pursue many reforms. Debate continues on this question, which we review in Chapter IV. As pointed out there, the fact that President Houphouët Boigny strongly opposed devaluation could not be overlooked.

In the years just prior to the devaluation, France's influence on policy was diluted by the strong presence of the Bretton Woods institutions. Its influence by no means disappeared, however. Aside from other doors open to it, the strategy of cofinancing most reform programs provided continuing entrée. The mechanism of consultation of cofinanciers was used by France to press its views, dissent with policies, and occasionally provide the political backing that Côte d'Ivoire needed in the negotiations with these institutions. After the devaluation, the role of cofinancier of structural adjustment programs was strengthened. Indeed, the Agence Française de Développement (AFD) spent CFAF 600 billion in Côte d'Ivoire in the period 1994-98, of which more than half (CFAF 315 billion) was for structural adjustment loans. These resources financed external debt service and internal debt arrears to the private sector.

One of the key implication of the liberalization reforms was a wider opening of the local market to non-French businesses. This challenge was foreseen by France and was met by the extension of CFAF 150 billion in credits to the private sector—25 percent of total AFD assistance between 1994 and 1998. Almost three-fourths of this assistance was in the form of loans to finance the participation of French-controlled firms in the provision of public services—electric power, gas, water, transport (rail and airport), seaport, and toll bridges. (It's not irrelevant that a French firm won the bid privatizing the national telecommunications network.)

There is some feeling among Ivoirians that French aid "unlevels" the private sector playing field. Although a major problem of local companies has always been difficulty of access to credit, French firms engaged in the local market benefit from guarantees to facilitate borrowing. These amounted to CFAF 38 billion in 1994-98, that is 25 percent of AFD assistance to the private sector. Thus it can be argued that the French aid inflows associated with the liberalization reforms reinforced the already strong position of French firms in the economy,

especially in key strategic sectors. It should be noted, however, that a somewhat contrary view was expressed by one private sector spokesman, who believed that Levantines and others have won market share from the big French trading houses since the devaluation.

AID COORDINATION

In 1991 the government created an institution specialized in the coordination of aid (grants and loans). In 1994 the objectives of this body were extended to cover the monitoring of public investments as well. The institution is the «Comité de mobilisation des financements extérieurs et de suivi des investissements publiques» or COMFESIP. Its objectives are to speed up the preparation of funding requests, schedule expected disbursements of exceptional funding, compare scheduled disbursements with liquidity needs of the Treasury, and speed up the implementation of public investment projects. Its main activities are periodic review of the project portfolio, periodic publication of status reports on project implementation, and capacity building in aid management and coordination. It produces a major annual report on aid inflows and disbursements.

COMFESIP is composed of representatives of the main economic and financial units involved in aid management. It is administered by a technical group and a permanent technical secretariat. The technical group includes the Prime Minister's office, and Directors of the Budget, the Tresor, the Plan, and the BCEAO. The permanent technical secretariat is BNETD. That comprises the main formal structure on the government side. It produces useful documentation, but it is not clear how effective it is in operational terms—that is, coordinating actual donor programs. Donors, on their side, have a variety of consultative arrangements, mostly at the sectoral level. These meet informally and produce no reports. In 1997 there were three such groups, each chaired by a lead donor. These groups met monthly in the first semester of 1997, but then seem to have met sporadically or not at all

There are informal relations between donors and the COMFESIP secretariat, but round tables on sectoral issues have been organized to determine strategies and to pledge funding budgets. By mid-1999 four such round tables had been organized: for environment, health, regional planning and decentralization, and education. Donors use common letters to government to express their concerns and opinions on policy issues.

Despite the fairly extensive formal structure of consultative mechanisms, it is not clear how much genuine consultation takes place. Some incidents suggest that it is highly sporadic and imperfect.

In the health sector, some donors believe true consultation has been minimal, and there does appear to be considerable cross-purpose activity. In agriculture there has not been wholehearted donor consensus with respect to the nature and pace of state withdrawal from cotton, coffee, and cocoa marketing, and this has limited the extent of meaningful coordination. How intensive coordination is in other sectors is not clear.

CHAPTER III. POLICY REFORM AND INSTITUTIONAL DEVELOPMENT

The history of Côte d'Ivoire's economic performance can be divided into five periods. The years between 1960 and 1977 were marked by high GDP growth (6-7 percent a year) and general prosperity. Terms of trade and were favorable and stable, and surpluses derived from export revenues financed a high level of public investment. The 1973 oil shock did not slow down growth because the prices of cocoa and coffee rose simultaneously. They achieved record prices in 1976-77, which led to a surge in the rate of public investment financed by the increased revenues of the Caisse de stabilisation (CAISTAB) as well as by foreign borrowing. This period was remarkable for the big size of public investment programs, and their high unit cost and low economic returns.⁷

In 1978-80 financial crisis hit. The situation deteriorated in 1978 with a significant slowdown of the economy as a consequence of the fall in public investment due to the decline of the prices of cocoa and coffee. Inflation remained high because of higher import prices caused by the 1979 oil shock and a parallel expansion in the money supply. The rise of interest rates on world capital markets and the sharp deterioration of the terms of trade between 1978 and 1980 induced an increased deficit of the current account in that period. The rise in domestic inflation contributed to the appreciation of the real exchange rate. The demand-driven growth pattern came to an abrupt end.⁸ Debt service became so heavy that the government was forced to call on the Bretton Woods institutions for financial assistance.

Between 1981 and 1986 the economy was stabilized, but with recession. The major economic problems faced by the country were overexpansion of the public sector with the consequence of declining public savings and rising external debt, a large and ill-conceived public investment program, distortions in the structure of price incentives for agricultural products, and excessive protection in industry with induced high costs and low export incentives. These trends led to the erosion of the competitiveness of the economy over the 1970s.

These problems were addressed by a succession of IMF and World Bank loans: an Extended Fund Facility (EFF) agreement with the IMF in 1981 and Fund Stand By Agreements (SBAs) in 1984, 1985, and 1986; and three successive World Bank structural adjustment loans (SALs) in 1981, 1983, and 1986. The stabilization and adjustment measures contained in these loans are described below.

These adjustment programs and policies, coupled with favorable changes in the external environment, had positive results. Despite terms of trade deterioration early in the decade and a drought in 1983, internal balance was restored and competitiveness improved as a result of

⁷ Banque Mondiale, "Cote d'Ivoire: Bilan et Perspectives, 1991-2000," mai 1998.

⁸ Michael Hopkins, "Adjustment and Poverty in Cote d'Ivoire, 1980-1989," World Bank, September 1989.

depreciation of the real exchange rate (the devaluation of the French franc), and tighter fiscal and monetary policies. In 1984 exports increased, the current account moved into surplus, and the growth rate picked up. It increased further in 1985. However, the debt burden increased also: the ratio of foreign debt to GDP that year increased to 84 percent from 41 percent in 1980. In 1986, the real growth of the economy was still positive though lower than population growth.

This improvement was short-lived. From 1987 to 1994 the RCI struggled to avoid bankruptcy. The terms of trade deteriorated in 1987 due to a falling dollar and declining world prices of cocoa and coffee. The growth rate fell, the public investment:GDP ratio fell, the current account was in deficit because of the large interest payments on public debt. The government was forced to suspend its debt service payments in May 1987. No financial assistance came from the World Bank in 1988 because of the absence of an agreement on a macroeconomic framework.⁹

Despite the deterioration of the terms of trade and the fall of CAISTAB's revenues after 1986, government maintained the producer price of cocoa and coffee and tried to stock cocoa in an attempt to influence the world market. The result was increased fiscal deficit, accumulation of domestic arrears to the private sector, and an illiquid banking system. During this period intense reform activities were initiated. Two SBAs were signed with the IMF, one for a year in 1988, a second in 1989 for two years. The 1989 program had two major objectives: to reduce producer prices of cocoa and coffee and to cut civil servants' salaries. The producer price measures were implemented; they were halved in September 1989. But social resistance prevented the second objective from being realized. Nonetheless, another SBA was signed in 1991 for one year.

Between 1989 and 1991 the World Bank supported the government's reform efforts with six sectoral adjustment loans or credits (SECALs) in the following areas: human resources (HRDP), competitiveness (PASCO), banking (FSAL), agriculture, water, and energy. Most disbursement on these loans, however, did not occur until 1994, after devaluation.

Notwithstanding the signing of the EFF, SBAs, SALs, and SECALs, and some implementation, such as cutting producer prices and some civil service salaries, financial crisis dominated the early 1990s. The main policy concern was to avoid falling into arrears with the multilateral lenders. In face of the structural disequilibria caused partly by external shocks and partly by domestic policies, it appeared that the adjustment effort was too little because it concentrated on internal disequilibrium. It also appeared too late probably because of its political and social costs. It was under these circumstances that the CFAF was devalued in January 1994.

The postdevaluation years, 1994-98, have been marked by economic recovery. The 50-percent devaluation aimed at improving the internal and external competitiveness of the economy. It was coupled with accompanying measures designed to contain inflationary

⁹ B. Ouayogode and J. Pegatienan, "The Relations Between the World Bank and Cote d'Ivoire," a study for the World Bank History Project, Abidjan, July 1994.

pressures. The implementation of this policy package improved external competitiveness and economic performance. IMF and World Bank support played a big role in bringing about these results. An ESAF (Enhanced Structural Adjustment Facility) agreement was signed in 1994 and another in 1998 for three years each. Large inflows came from the World Bank (via loans signed earlier (the Economic Recovery Credit, Human Resources Development Project (HRDP), a regulatory reform project (PASCO), and a Financial Sector Adjustment loan) as well as programs in agriculture and transport. Along with and within the framework set by these lead donors, other multilaterals and bilaterals extended their financial assistance to the country as well. As noted in Chapter I, aid inflows in 1994 amounted to 1.7 billion dollars, more than twice the predevaluation levels, and remained high until 1997.

The positive real growth obtained after devaluation was a dramatic change in comparison with the desperate predevaluation situation. (See the economic indicators in Text Table 7.) But the recovery is still fragile and poverty issues have only begun to be addressed. According to a World Bank poverty assessment, the rate of headcount poverty increased from 11 percent of the population in 1985 to 31 percent in 1993 and 37 percent in 1995.¹⁰ The last figure is contested and the four years of 5-6 percent growth since 1995 undoubtedly improved the situation. But there is no room for complacency.

POLICY REFORMS

Since the inception of the economic and financial crisis in the late 1970s, the reforms undertaken were of different types: macroeconomic, structural, sectoral, and social. The reform in macroeconomic policies was initiated through the IMF's Extended Facility agreement in 1981 and by six SBAs between 1984 and 1991. These concerned fiscal issues (government revenue recovery and expenditure reduction, rationalization of public investment programs, control of domestic debt, and restructuring of public enterprises), and monetary and financial problems. Over the years, the main objectives of fiscal policy reforms were the elimination of budget deficits and the generation of surplus in the primary budget, in order to pay an increasing share of debt interest and to cover expenditures on physical and social infrastructure. The monetary and financial reforms aimed at reducing domestic credit, maintaining the liquidity of the banking system, and improving the mobilization of domestic savings.

The structural adjustment loans (SALs) were initiated in the early 1980s. SAL 1, in 1981, focused mainly on agricultural pricing and investment policy. SAL II, in 1983, continued to focus on agriculture and added industrial and housing policy. The reform in the industrial sector dealt with export incentives, tariff and non tariff barriers, and the revision of the investment code to include measures favorable to small and medium enterprises. The new housing policy favored the first two SALs and, in addition, improving the relative prices of tradables to stimulate exports, correcting the urban/rural terms of trade, increasing rural incomes, and encouraging private investment. Lower income housing, reduced the housing benefits for civil servants, and designed mechanisms to cut recurrent housing costs. SAL III, initiated in 1986, aimed at

¹⁰ World Bank, "Country Assistance Review," 1997.

reinforcing the measures of the earlier SALs. After the first three SALs, which were a mixture of structural and sectoral reforms, the first Enhanced Structural Adjustment Facility (ESAF) loan was granted by the IMF in 1994. It had the following objectives: improvement of competition and the regulatory framework, liberalization of the labor market, price decontrol, civil service reduction, accelerated privatization and private sector encouragement, and deregulation of export crop marketing.

Structural adjustment became more specific with sectoral reforms. Between 1991 and 1993 the World Bank supported the three SECALs mentioned earlier, in regulatory reform, financial sector reform, and education and health. The reforms in these sectors were deepened after the 1994 devaluation, and reinforced by a private sector development (PSD) program. Postdevaluation reforms in agriculture aimed at improving farmer incentives, removing the state from export crop production and marketing. Specific measures concerned the following items: the liberalization of cocoa and coffee marketing and the restructuring of CAISTAB, the launching of a new system of allocation of export rights by auction, organization of a closer association of the private sector with the management of the cocoa and coffee trade, and liberalization of rice imports.

Far-reaching social sector reforms were introduced in the Human Resources Development Project, the SECAL mentioned earlier. These were reinforced in 1997 by the adoption of a national program for eradicating poverty with measures designed to increase the rate of school enrolment and literacy, improve basic health care, increase women's participation in development activities, curb rural exodus, and control population growth. It is clear that the RCI undertook, over a 20-year period, a vast program of reforms, involving virtually every area of economic policy and most economic institutions. Annex Table 4 gives an indication of the substantive range of the reform agendas over the years. Some of these reforms were soundly conceived, others less so. In some—particularly during more recent years—the Ivoirian input was substantial. In most it was slight. Aid and aid donors, and particularly the Bretton Woods institutions, clearly played a significant role in reform conception and design. Despite uneven implementation, the economy is more open than before and more liberal. Instances of unequal or discriminatory treatment persist.

The effects of price liberalization in particular are dampened by information retention by some technical administrations. The perceptible improvements at the macroeconomic level have not materialized at the microeconomic level of urban people yet, unlike the rural population who are probably better off. Significant institutional improvements have also occurred, in the budget process for example, and in export and investment promotion agencies. These favorable changes, however, are balanced by rampant corrupt practices in the administration and by the lack of responsiveness of the political system.

Text Table 7. Selected Economic and Financial Indicators 1987-96

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
	(annual percentage changes)									
GDP in real terms	0.4	.1	.9	1.1	.0	0.2	0.3	.0	.1	.8
GDP per capita	4.1	2.3	1.1	5.0	3.8	4.0	4.0	1.9	.2	.1
Consumer price index (annual average)	.0	.9	.0	0.7	.6	.2	.4	2.2	.7	.5
External sector on the basis of CFAF										
Export of goods f.o.b	20.6	14.6	.1	1.9	6.6	.2	8.5	23.3	0.3	5.0
Import of goods f.o.b	3.2	9.4	.8	15.4	0.9	.0	3.8	6.7	5.3	0.6
Export volume	6.0	4.1	.4	1.0	6.9	.8	11.0	.9	.1	0.3
Import volume	6.2	10.2	0.6	13.4	.6	.8	8.0	9.5	7.6	2.4
Terms of trade (deterioration-)	18.1	11.7	12.3	9.5	1.0	0.8		.0	4.2	10.9
Real Effective Exchange Rate (depreciation-)	.3	.7	6.8	.4	2.8	.3	3.1	34.5	.3	2.5
Monetary										
Net domestic assets	.2	0.1	8.0	3.7	2.1	0.1	7.1	20.0	.8	.7
Of which: Government	2.5	.1	1.8	4.1	.6	2.9	8.8	15.9	1.8	1.6
Private sector	.7	1.6	5.0	3.3	4.0	9.0	18.3	0.2	9.9	.2
Money & quasi money M2	1.4	.2	7.4	3.1	.0	1.9	4.3	7.0	7.0	.0
	(in percentage of GDP)									
Public finances										
Total revenues and grants		5.7	1.8	1.5	9.9	0.2	8.1	0.6	2.8	3.2
Total expenditures		0.3	8.5	3.4	2.9	1.9	0.0	7.1	6.5	5.3
Overall deficit(-)payment order basis		14.6	16.6	12.0	13.0	11.7	11.9	6.5	3.7	2.1
Primary balance		3.1	5.8	1.1	0.8	0.3	2.2	.0	.9	.6
Gross domestic investments	1.8	1.5	0.3	.5	.6	.5	.8	1.1	2.9	3.9
Of which : Central Government	.1	.7	.4	.6	.4	.8	.7	.1	.2	.3
Nongovernment	.7	.8	.9	.9	.1	.7	.1	.0	.7	.6
Current account balance	8.6	11.5	12.5	12.2	11.5	11.4	11.0	1.0	5.0	-4.8
External public debt	7.0	3.1	3.3	07.3	16.6	27.0	41.9	83.9	57.9	53.5
Government domestic debt							4.6	7.7	5.1	0.9
	(in specified units)									
GDP at market prices in billion CFAF	031.7	054.5	112.8	939.3	960.0	952.1	946.2	256	987.7	473.6
CFAF per US\$	00.5	97.9	19.0	72.3	82.1	64.7	83.2	55.2	99.1	11.6
Population in millions	0.6	1.0	1.4	1.8	2.2	2.7	3.2	3.7	4.2	4.7

Source: IMF

INSTITUTIONS AND GOVERNANCE

Two institutions play a critical role in the working of the economy and in the reform process: CAISTAB and the CFA monetary union. These institutions were the pillars of a system that worked with remarkable success for two decades. They were supported by France and by the Bretton Woods institutions. They were deeply anchored in the thinking of President Houphouët Boigny. All of this made it especially difficult to adapt them when changed circumstances called for reform.

CAISTAB is the marketing board for cocoa and coffee crops. Until September 1989 it applied the principle of never reducing producer prices and of increasing them less than proportionally to rising world prices. The consequence of that asymmetrical behavior was to tax peasants and transfer to the government budget resources generated by the positive difference between world and producer prices. It also financed budgetary losses in cases of negative differentials between the two prices. CAISTAB was instrumental in the overexpansion of public investment and in the acceleration of state participation in productive and marketing activities. For decades, CAISTAB was a bone of contention in the policy dialogue between Côte d'Ivoire's government and the Bretton Woods institutions.

RCI membership in the West African Economic and Monetary Union (UMEOA) is a determining factor in its exchange rate, and fiscal and monetary policies. The UMEOA maintains a fixed exchange rate between the French Franc and the CFAF. This institutional feature is critical to the evolution of external competitiveness and to adjustment to external shocks. Since for many years a nominal devaluation of CFAF could not be implemented to reduce real wages and thereby restore external competitiveness, the only way to have that happen was a reduction of nominal wages. But opposition to the reduction of civil servants' nominal salary in 1989 left the government with the option of restoring competitiveness through cuts in public expenditure other than salaries. After a floor was reached in cuts of current expenditure, the government turned to large reductions of public investment, which accelerated the decline of the economy. The 14 countries of the Franc Zone accepted devaluation of the CFAF in January 1994 to restore external competitiveness. That decision is discussed in detail in Chapter IV.

The government demonstrated a strong political commitment to undertake appropriate development programs that would transform the economy and create new activities. This commitment was expressed by an investment code that granted many incentives to investors, and by the direct participation of the state in productive activities through state-owned enterprises and the creation of physical and human capital. The state intervention and the explosion of the number of parastatals temporarily stimulated economic growth. Unfortunately, this state involvement increased the bureaucratization and the inefficiencies of the economy.

Stability has been an important feature of the RCI political landscape. It was preserved through the autocratic regime of President Houphouët Boigny, who tolerated no political dissent. Unlike neighboring countries, the RCI lived for decades without a single coup d'état and almost no political violence. This stability built trust and confidence conducive to private investment,

especially foreign direct investment. Houphouët also controlled personally the financial resources of the CAISTAB and the decision mechanism on the selection of public investment projects. His control over these resources was a source of considerable economic and political power that was used to consolidate his regime.

In 1990, in the depths of the economic and financial crisis, constitutional changes created a new Prime Minister position that brought to the forefront Governor Alassane Dramane Ouattara. He ruled the country during the illness and until the death of President Houphouët Boigny in December 1993. It is fair to say that he saved Houphouët's political regime from falling apart. The premiership was a significant political innovation because it guaranteed the continuity of power during the illness of President Houphouët Boigny. It also had important economic policy implications. The policy dialogue with the Bretton Woods institutions was eased by the positioning of an actor who could be trusted for his technocratic skills and his commitment to reform. To some extent this prevented the collapse of the economy. The 1995 presidential elections ended the transitional period and conferred legitimacy on President Bédié's regime.

President Houphouët Boigny stayed in power for 40 years. This long political tenure had advantages and disadvantages. The advantages were linked to the fact that his policies were deemed appropriate, given the structure of the economy. Agriculture was made a priority activity, peasants received substantial shares of world prices, and the public investment financed by agricultural revenues created the basic physical and human capital necessary to support productive activities. These policies were implemented for a sufficiently long period with a strong political will and commitment that gave them credibility.

The disadvantage of the long political tenure lay in the fact that the government overextended itself and public investment programs were too ambitious for too long. For decades, President Houphouët, who controlled every economic decision, resisted and postponed needed reforms. He was a fierce opponent of devaluation and there's no question that his long illness and death facilitated the decision to devalue the CFAF, reform the CAISTAB, and launch the privatization spree.

The first attempt at political democratization was the institution in 1980 of municipal and legislative elections within a one-party system. This did not have major impact on the political and economic evolution of the country because political dissent was still not tolerated. The 1990 democratization was prompted by the reaction of civil servants in 1989 to a cut of their salary. This contentious salary cut was a critical feature of the "internal adjustment" effort needed to restore fiscal stability and competitiveness. Between 1990 and 1993 scores of political parties were born, a free press appeared, and President Houphouët had in 1990, for the first time, a challenger in an electoral contest. Since 1990 civil society began organizing itself to voice its concerns and give expression to political dissent. The large number of political parties, the diversified media, and the professional organizations and independent trade unions together act on the government as agents of restraint, in the sense that they critically watch the behavior of political figures and those in public office. So far, this surveillance has been only partially successful in inducing more responsible behavior among government officials. The multiple

parties, independent media and numerous professional organizations have had only limited influence on the process of policy formulation

Thus public opinion does not influence the content of policies in decisive ways, because consultation by the government is far from being the rule and those who happen to be consulted rarely find their opinions taken into account. Civil society not has soft political voice, it also lacks cohesiveness.. For decades, ethnic and regional cohesion was skillfully preserved by President Houphouët Boigny. This cohesion is now loosening its hold, and has not been furthered by President Bédié's new concept of "ivoirité.". The announcement of the candidacy of Mr. Ouattara in the forthcoming presidential elections and the recent arrest of members of the opposition have put more stress on the political system than it has ever experienced.

CHAPTER IV. THE CFA PARITY ISSUE

The Cote d'Ivoire has undertaken extensive macroeconomic and fiscal policy reforms since 1980, as indicated in the previous section. But by far the most important policy issue concerned the exchange rate—the appropriate relationship between the CFA franc (CFAF) and the French franc. This question dominated policy debate and shaped the economic environment for a decade at least.

The parity issue was central both to aid management and to the pace of reform. So it is essential to look carefully at the donor role in the January 1994 decision to change the parity of the CFAF from one CFAF equals two French centimes, which had been the prevailing rate since 1948, to one CFAF equals one French centime. In addition to being important, this question has also been contentious. It is often cited as a case where aid retarded reform, because aid inflows allowed the Cote d'Ivoire government to postpone the inevitable exchange rate devaluation. This section therefore focuses on the devaluation decision.

The decision to devalue the CFAF obviously did not depend on the Cote d'Ivoire alone, since the CFAF is the common currency of all the member countries of the Union Monétaire Ouest Africaine, and the Union statutes require unanimity in such decisions.¹¹ Also, the UMEOA is part of the Franc Zone. The French Treasury guarantees the convertibility of the CFAF, and the rules of the monetary arrangement require that the French Government be consulted as far as possible about any contemplated change in CFA parity.

Moreover, given the economic weight of the Cote d'Ivoire in the Union and the influence of France on the other member countries, agreement of both Cote d'Ivoire and France in favor of devaluation was essential if the other countries were to go along. If the Cote d'Ivoire had been opposed to devaluation, as were some other member-states until the meeting of Heads of State in Dakar on January 10-11, 1994, where the decision was made, devaluation would have been impossible.

The decision to devalue was very different from other economic policy measures. Its economic and political significance was considerable, which helps explain why it was so difficult a step to take. Once the decision was taken, implementation had to be immediate and irreversible. Also, it had to be taken at the highest political levels. In the Cote d'Ivoire case this meant that President Houphouet Boigny, who had been for years an ardent opponent of devaluation, had to be brought around. As things turned out, due to the illness of the President, the decision to devalue was made by his Prime Minister, who was then Alassane Ouattara.

The Cote d'Ivoire began its adjustment program in 1980, and the parity issue arose at the outset. But the policy context varied substantially over the ensuing 15 years, and with it the attitudes and roles of aid donors. Three periods can be distinguished: an initial period of donor

¹¹ The other member states are Benin, Burkina Faso, Guinea Bissau (since 1997), Mali, Niger, Senegal, and Togo.

agreement on maintaining parity; a second when they differed in their recommendations; and a third when they came together again, in favor of devaluation.

TEMPORARY CONSENSUS ON MAINTAINING PARITY (1980-85)

The period of temporary consensus on maintaining the existing parity was 1980-1985. The Cote d'Ivoire's initial adjustment efforts, at the beginning of the 1980s were undertaken with the support of the Bretton Woods institutions. (See Chapter I.) The Ivoirian authorities, the Bretton Woods agencies and France agreed on the adjustment strategy to be pursued, which did *not* include devaluation. One indicator of this consensus is that the adjustment loans given by France via the Caisse Francaise de Cooperation Economique¹² explicitly required a previous agreement with the IMF. As for the consensus between the Cote d'Ivoire and the aid donors, one manifestation is the fact that the agreements were successfully implemented.

The implementation of a consensus adjustment program was facilitated by the nature of the monetary cooperation agreement with France, and by favorable conditions in international currency markets. The monetary cooperation with France was based on the existence of the operations account maintained by the French Treasury at the Banque Centrale des Etats d'Afrique de l'Ouest (BCEAO), which deposits in this account at least 65 percent of its reserves and can run a deficit without a fixed limit. For the first time since its establishment, the account of the BCEAO was in deficit in 1980, mainly because of the situation of the Cote d'Ivoire. The operations account was thus fulfilling the role for which it had been created—that is to allow Franc Zone countries to withstand a temporary balance of payments disequilibrium without being forced to abandon convertibility or parity. The operations account gave countries time to implement corrective measures and await a return to more favorable external conditions.

The crisis then facing the Cote d'Ivoire was mainly due to falling prices of coffee and cocoa, which had reached exceptionally high levels in 1976-77. The temporary nature of this price boom was not taken account of in macroeconomic policy. A rapid rise in civil service salaries occurred and an even greater expansion of public investment and external debt. The result was a rapid rise in the public sector deficit, which reached 12 percent of GDP in 1982; it had been zero in 1977. This deficit was not sustainable, given that the regulations of the BCEAO imposed strict limits on its advances to governments. At the same time, the Cote d'Ivoire lost its competitiveness, since the real effective exchange rate rose by 30 percent between 1975 and 1980, when it reached its peak (up 24 percent) compared with 1970.¹³

Because of the budgetary roots of the disequilibrium, and because the trade balance remained positive, the stabilization program implemented with the help of the IMF focused, properly, on reform of public finances. Macroeconomic stabilisation would allow, by

¹² Which later became Caisse Francaise de Developpement Economique and then Agence Francaise de Developpement.

¹³ This estimate comes from research at the Center for Research in International Development (CERDI), University of the Auvergne, which estimated real effective exchange rates (as the ratio of consumer prices in Cote d'Ivoire to those of its main trading partners for import, expressed in the same currency).

“competitive disinflation,” a depreciation of the real exchange rate. As things turned out, the return to competitiveness was smoothed by the devaluations of the French franc and the appreciation of the dollar. And rises in cocoa and coffee prices in 1985 made the budgetary adjustment easier.

The macroeconomic results seemed to validate the policy path adopted. The operations account became positive again in 1985. The public sector deficit was cut beginning in 1983 and turned into a surplus in 1985. The real effective exchange rate depreciated by 34 percent between 1980 and 1985, returning to its 1975 level, while the nominal effective exchange rate only depreciated by about 14 percent.

This exchange rate decline allowed initial moves toward reducing protection, which were incorporated in the second SAL (1983). Quantitative restrictions and reference prices were eliminated and a tariff reform was introduced, which was to reduce the effective protection rate to 40 percent. To this was to be added an export subsidy of 40 percent of value added.¹⁴ This was to be a mock or indirect devaluation. Doubts existed about whether this measure was implementable—reasonable doubts as it turned out. That it was proposed suggests that a problem of parity was seen to exist.

Overall, in 1985, the Cote d’Ivoire seemed to have returned to a positive growth path after a period of recession. One noteworthy fact during this period is that the real prices paid to producers of coffee and especially of cocoa were maintained, even increased, which brought about a reallocation of income in favor of rural households.

The donor community seemed at the time satisfied with these outcomes. Senior officials of the World Bank even cited the adjustment experience of the Cote d’Ivoire up to 1983 as a success story.¹⁵

BREAKDOWN OF CONSENSUS (1986-92)

Beginning in 1986 the economic environment turned sharply negative for the Cote d’Ivoire. Several external factors contributed, as noted in the previous chapter. The terms of trade became once again unfavorable; and as it turned out this deterioration was the deepest and most durable the country had ever known.¹⁶ The French franc strengthened, the dollar fell, and currencies of big neighboring countries (Ghana and Nigeria, in particular) were devalued.

Confronted with this change in economic conditions the position of the World Bank, and then of the IMF, gradually shifted in favor of devaluation. No official position was announced publicly, but in private, and sometimes even in public, World Bank staff expressed their doubts

¹⁴ For further details, see A.M. Geourjon in CERDI, 1996, pp. 89 ff.

¹⁵ See for example, Serageldin, 1988.

¹⁶ The level reached in 1992 was about 36 percent of the average level during the first half of the 1970s.

about the prospects of this new phase of adjustment without devaluation.¹⁷ These publicly expressed opinions were regarded by French officials as untimely and imprudent, certain to exacerbate the loss of confidence and capital flight already observable among Ivoirian economic actors.

During this time, the French authorities never missed an occasion to emphasize their attachment, and that of African governments, to parity maintenance. This was the message given especially during meetings of Finance Ministers of the Franc Zone. And, in private, French spokesmen let World Bank management know of their displeasure every time they felt that Bank staff committed an *incartade*—an ill-considered statement or action that was damaging to their official doctrine. These incidents influenced how the devaluation was prepared: French experts worked mainly with those of the IMF. The Bank, which had done so much to bring about acceptance of the idea that devaluation was necessary, was not much involved in preparing the decision.

This discord between the main donors made it very difficult for a long time to engage in quiet, scientific analysis of the costs and benefits of a devaluation for a country like the Cote d'Ivoire. Political factors seemed most fundamental in determining positions adopted. The French government was concerned about the social and political turmoil that might accompany devaluation in countries where France had a military presence. French authorities feared that they would lose the political confidence of the African governments and of the African elites, who would be directly and negatively affected. They feared that the lack of consensus among the countries concerned might lead to a breakup of the Franc Zone. Indeed many suspected that some partisans of devaluation in the international institutions were using the devaluation issue to undermine the institutions of the Franc Zone. The French government, finally, was sensitive to the antidevaluation arguments of some groups of French companies active in Africa, although other enterprises were favorable to parity change.

It is important to recall that on the French side, as early as the end of the 1980s, policy positions were neither uniform nor rigid. Policy discussions were held, secretly, in both the Ministry of Cooperation and the Ministry of Finance. Devaluation had its proponents in various corners of the administration. But none of this was observable; the official position remained firm and clear.

Moreover, French academics said little on the subject and rarely favored devaluation in their writing. In part this was because some of them remained skeptical about the efficacy of adjustment via changes in prices. In part it was because they shared the official concern about disruptive sociopolitical fallout from inflation. Some also continued to believe in the possible success of “competitive disinflation” (or internal adjustment), by which price stability coupled with productivity increases would reestablish equilibrium. Many, finally, convinced about or resigned to the need to devalue, worried about the effects on speculation and capital flight that

¹⁷ Staff of the IMF, who are accustomed to working under tighter discipline, seem to have been more discreet.

might flow from pro-devaluation public statements. Thus the advice they might have given on the likely consequences of a devaluation remained unpublished.

Within the World Bank there were also perhaps noneconomic factors underlying their stance. For one thing, Bank staff were not comfortable with the Franc Zone arrangements and the policies followed by member countries. Many Bank staff members were skeptical about its impact on growth. They believed that the Franc Zone monetary arrangements lessened adaptability, mainly by removing the exchange rate instrument from the policy arsenal; and that their instruments of monetary and fiscal discipline were often ineffective. They also considered that member countries were exposed to different, not necessarily correlated external shocks. Also, they were concerned that the Cote d'Ivoire's heavy indebtedness vis-à-vis the Bretton Woods institutions had become unsustainable in the absence of IDA credits.

With respect to the Cote d'Ivoire, the urban opinion, that of the wage earners, was against devaluation. The intellectuals had various, often nuanced, views about the devaluation, and about the franc zone regime. The authorities, until 1992, were strongly opposed to devaluation. Their stance reflected the views of President Houphouët Boigny, who believed that the declines in cocoa and coffee prices on world markets sprang from a fundamental injustice imposed on his country by the international economic system. Himself a planter, he attached great value to the maintenance of prices paid to producers. He also was a firm believer in the maintenance of parity of the CFAF. These two policies were to him symbols of the success of Ivoirian development, not to be abandoned.

Given the lack of adequate reserves at the *Caisse de Stabilisation*, the simultaneous maintenance of these two prices proved impossible. The grave financial crisis that occurred in 1987-88 led to a break between the RCI and the Bretton Woods institutions. The two agreements signed with the IMF in 1987 and 1988 were cancelled, and World Bank lending was suspended until producer prices for cocoa and coffee were reduced. In 1989 President Houphouët Boigny tried to influence world prices by keeping crops off the market. But this didn't work. The President had to admit that he had lost the "cocoa battle," and he had to cut producer prices by half. From his perspective, devaluation of the CFAF would have then marked the total victory of international market forces over the Cote d'Ivoire.

Despite these conditions, the IMF and the World Bank continued to provide help for stabilization and structural adjustment programs without devaluation. But the implementation of these programs proved very difficult. The IMF loan that emerged from a 1989 agreement was not fully disbursed, nor was the loan attached to a second agreement in 1991. World Bank sectoral loans in 1989-90 were fully disbursed, but not the adjustment loans granted in 1991.

The 1989 Fund program envisaged a vigorous effort to put public finances in order, generating positive budget savings. The Ivoirian government tried in 1990 to impose substantial cuts in civil service salaries. But the announcement of these measures gave rise to serious civil protests, which forced the government to give up on direct salary reductions. Another approach, introduced by Alassane Ouattara, first as President of the Interministerial Coordinating

Committee and later—after illness disabled President Houphouet Boigny—as Prime Minister, resorted to other ways of reducing public expenditure.

The social disruption—including violence—that occurred in 1990 when the government tried to cut salaries served to reinforce doubts, notably in the French aid community, about the right policy to follow. A growing number of observers doubted that factor costs in the Cote d’Ivoire could be lowered without devaluation, given the rigidity of nominal wages. At the same time, the violent reaction to the attempt to lower already low standards of living in urban areas reinforced fears about the political consequences of devaluation.

The conditionality attached to adjustment loans then became ambiguous, as, for example, in the competitiveness loan granted in 1991 (PASCO). Its purpose was to support a series of reforms aimed at making the Ivoirian economy more competitive, according to the logic of adjustment without devaluation: priority measures dealt with raising productivity. At the same time, it carried as a second tranche disbursement condition the lowering of the real effective exchange rate to its 1985 level, as calculated by the Fund. However, the real depreciation level thus programmed was such (about 25 percent) that it wasn’t realistically possible without devaluation. In addition, the way the exchange rate was calculated was disputable and risky because it gave too much weight to some primary product exporters that were in situations of extreme monetary disequilibrium, such as Brazil.

Consequently, it became clear that the Fund would not disburse the subsequent tranches, whatever the magnitude of the reforms undertaken elsewhere. The very useful measures agreed to in the sectoral loans were thus diminished in importance. As was predictable, the Bank and the Fund suspended aid to the RCI in 1992, their actions inducing similar responses by other donors. France, on the other hand, continued its adjustment aid (although suspending other aid from the French Development Agency because of payment arrears). However, French adjustment aid was used by the Cote d’Ivoire to service its debt to the World Bank.¹⁸ During these years foreign aid defined as net transfers significantly decreased (cf Text figure 6, supra).

Did the discordant points of view of donors affect the pace of reform during this period? Looking at the devaluation reform alone, it is clear that the French position postponed its implementation. On the other hand, the decision not to devalue pushed the Ivoirian authorities to introduce, in cooperation with the donors, productivity-raising reforms and reform in public finance. These were in place and helpful after the devaluation. Examples are the dismantling of quantitative restrictions on imports, the liberalization of most domestic prices, and labor market and judicial system reforms. (See later chapters.)

Even regional integration was advanced by the predevaluation measures—those aimed, for example, at strengthening the monetary union (formation of a multinational banking commission) and at transforming it into an economic union (multilateral monitoring of public

¹⁸ French policymakers reasoned that it was important that the Cote d’Ivoire continue its payments and also that France should maintain its role of guarantor that it had assumed in relation to the Bretton-Woods institutions when it pushed them in 1991 to start lending again.

finance and gradual moves toward a common market). These changes could be institutionalized when the devaluation took place.

Despite the desirability of these (nondevaluation) reforms, it should be noted that their implementation was surely slowed down when the Fund and the Bank suspended aid after 1992 because of nonperformance on macroeconomic conditionality. The suspension reduced pressures to implement these reforms.

THE DECISION TO DEVALUE (1993-94)

A whole set of factors came together to bring about the Ivoirian decision to devalue. The analytic and empirical work undertaken in the early 1990s played only a minor role. The various estimates of the appreciation of the real exchange rate were so sensitive to choice of base year and to weighting that they were unconvincing to many decisionmakers. In the Cote d'Ivoire case in particular, the evolution of real and nominal effective exchange rates, as published by the IMF, were highly contestable, since they were so dependent on results of the chaotic evolution of other countries.¹⁹

In addition, the overvaluation of the CFAF arose less from changes in the real exchange rate than from deterioration of the terms of trade, which in 1992 was in its sixth consecutive year, and from the rising debt burden, which was particularly heavy between 1987 and 1991. Directly, and via the budget, these two factors contributed to the pronounced decline of per capita income. Moreover, devaluation rumors forced the Central Bank to maintain a high real rate of interest, which discouraged investment.

As for the many estimates of the degree of overvaluation, they suffered from the same uncertainties as those for real exchange rates, and also from hypotheses about the acceptable size of the current account deficit that were politically based and difficult to justify. These calculations did help give credence to the idea that the parity had become unsustainable. But the decision to devalue was not based directly on these various calculations purporting to estimate the extent of the country's lack of competitiveness.

The decisive factor that led the Ivoirian Prime Minister and the French authorities to support devaluation was the government's financial condition. Experience had shown the enormous difficulty of improving public finances in a stagnant economic environment. No matter how much effort the Cote d'Ivoire made, she couldn't do without international aid. Confronted with the suspension of adjustment lending by the Bretton Woods institutions, France changed its policy: Whereas formerly French adjustment loans were made only after the aided country had signed an accord with the IMF, in 1991 and 1992 France continued its support, despite the lack of an Ivoirian agreement with the Fund. The Cote d'Ivoire was in effect given time to renew its dialogue with its external partners. The French clearly wished to avoid a rupture of relations of Franc Zone countries with the international economic community.

¹⁹ See the analysis of these measures in Guilaumont and Guilaumont, 1994.

The decision was prepared, with great discretion, by a small group of civil servants. The political authorities mostly supported the change by this time, although their official posture in defense of the existing parity remained unchanged. The shift in the position of the French government was brought about in part by the power of persuasion of the responsible civil servants and in part by the deteriorating situation within the Franc Zone and the resulting financial costs being incurred by France. There was also other factors—a complex mixture of a desire to transform French policy toward Africa, fatigue and resignation, and in some cases a sentiment that the devaluation was a kind of deserved punishment for past errors.

In September 1993 Edouard Balladur, then French Prime Minister, sent a letter to the heads of state of Franc Zone countries stating that beginning in 1994 France would revert to its former policy on adjustment lending: that is, it would make no such loans in the absence of an agreement with the IMF. This could be interpreted as a signal that France was ready to accept CFAF devaluation. The Ivoirian Prime Minister, Alassane Ouattara, who had been director of the African Department of the Fund, and who had lived through the earlier experience with the failed “internal adjustment” effort, was also on board. His agreement was encouraged by the indications that aid donors would be ready to recommence lending at high levels after devaluation.

Mr. Ouattara’s adherence was officially announced during the meeting of the Franc Zone heads of state in Dakar in January 1994. It helped win the agreement of all the other states, some of which had been strongly opposed to the change in parity. The Cote d’Ivoire used the months prior to the devaluation to win over other countries of the zone to the devaluation cause, in particular Burkina Faso. The Ivoirian authorities also used the time to prepare an economic policy program to accompany the devaluation. In 1994, net transfers from multilateral institutions to the Franc Zone countries, and to the Cote d’Ivoire in particular, and from bilateral donors as well, reached exceptionally high levels. But it was a transitory gain from the devaluation. As noted in Chapter II, they sharply declined in the following years, the net transfers from multilateral institutions becoming close to zero in 1995 and 1996 and negative in 1997. (See Text Figure 6 above).

THE THREE GRAND HYPOTHESES

The Cote d’Ivoire’s choice first not to devalue, then to devalue, can be looked at in the light of the three major hypotheses presented in the terms of reference.

First, did the Ivoirian government decide against devaluation, then in its favor, independently of aid relationships? The answer is clearly no. It was external assistance that allowed retention of the existing parity until 1994, and it was the suspension of aid that provoked the devaluation. The graphs given in Chapter II illustrate the precipitous fall in financial inflows on the eve of the devaluation (notably in 1993), and their rise afterward

Nonetheless, another question has to be asked. In allowing resistance to devaluation and in provoking it later, did aid influence the pace of other reforms? If we consider the first hypothesis from this perspective the response is more complicated. As we saw, some reforms were adopted because of the political option taken to adjust without devaluation, and because this political posture was credible and supported by external donors. But it was no longer credible when these reforms were introduced in a particularly difficult context of bad relations with donors, marked by several suspensions of aid. It is difficult to say, in these circumstances, what was cause and effect in each instance of reluctance to reform and withdrawal of aid.

Consider next the second hypothesis. Did nonfinancial aid have a stronger impact than conditioned financial aid on the decision to devalue? The devaluation decision was made at the highest political levels. It surely could have been influenced by economic ideas, analysis, or the simulations done in Washington or in France on the anticipated effects in the RCI. But given the nature of the decision, its close link to fiscal imperatives and its eminently political dimension, financial aid surely played the essential role. In other areas (incentive structures, judicial system, and so forth) studies and technical assistance had an important role, but these were for the most part packaged with financial assistance—notably in the framework of structural adjustment loans.

What about the third hypothesis—that financial aid was effective only when reforms were under way? In the present context this means after the devaluation, but not before. This question has meaning only for the periods when aid was not suspended. Certainly economic growth was more rapid after the devaluation than before, but this could be the combined result of the devaluation, the improved terms of trade after the second half of 1993 and the recovery of aid inflow.

It is difficult to attack this question. Multiple elements of economic policy determine the efficiency of aid, not just the devaluation. And nonpolicy factors condition aid effectiveness, notably the external environment. Before the devaluation, the decline in the terms of trade probably raised the marginal efficiency of an aid dollar in the Cote d'Ivoire, given the strong financial constraints on growth prevailing at that time.

CHAPTER V. TRADE LIBERALIZATION

EVOLUTION OF TRADE POLICY

Initiation of industrial protection: 1960-73. At independence, in 1960, Côte d'Ivoire had no industrial base.²⁰ The colonial power neglected the interests of the private sector. The incentive system in place after 1956 favored cheap imports of basic foodstuffs for Europeans and discouraged local transformation of products by imposing high tariffs on raw materials, semifinished inputs, and equipment. In 1959 the RCI government put in place an investment code (law n° 59-134, 3 September 1959) with a generous incentive system aimed at attracting foreign capital on a selective basis. If granted priority status, investors were exempted from payment of duties on exports and on imports of raw materials entering into exports of finished goods. In addition to these exemptions, priority firms could benefit from a stabilized fiscal regime and an establishment convention for 25 years that granted exoneration from import taxes on raw materials.

Quantitative restrictions were used as an additional instrument to help the installation of industrial firms. They included bans, quotas, and import licensing. Products subject to import licensing had to be screened by a special committee on import control.

The range of government interventions included a complex system of legal price controls.²¹ In case of "emergencies" the government could (and did) intervene to block prices of *any* good or service. Prices were blocked in 1967 as VAT increased, in 1968 when the minimum wage increased and in 1969 because the French Franc was devalued. Thus, 1966-73 was a period marked by price controls and intermittent imposition of general price ceilings.

Reinforcement of industrial protection: 1973-84. Industrial policy was reinforced along two lines: implementation of a strategy of industrial development based on the transformation of local and imported raw materials and protection of the industrial base built on the incentive system of the investment code. A reform was implemented in 1973 that included incentives favoring the import of a wide range of machines and production equipment, incentives to transform timber by taxing its export in raw form, and high import taxes and prohibitions that were used as incentives to promote textile industries. New duties were introduced on exports and imports; the export tax was specifically designed to stimulate domestic transformation.

²⁰ Ministère de l'Industrie, « Schema directeur du developpement industriel de la Cote d'Ivoire » mars 1989.

²¹ (Law n° 60-273 September 1960, revised by law of 21 December 1964). These controls had three modalities or regimes: taxation, "homologation," and market determination. Under the taxation regime, prices were set by government decrees based on average cost and profit margins. This price regime concerned a limited number of basic necessity goods. In the homologation regime, the administration approved the price set on the basis of elements justified by appropriate documentation. Under the market determined regime, buyers and sellers were free to set their prices.

The use of quantitative restrictions, common during the first episode, was extended after 1973; the instruments used were prohibitions, quotas, and import licensing. The number of products subject to import licensing increased from 86 in 1973 to 310 in 1976 and to 427 in 1982. As a result of these protective measures, the rate of nominal protection increased from 30 percent in 1971 to 32 percent in 1978. The rate of effective protection increased sharply from 39 percent to 76 percent in the same period. Rates of implicit protection were even higher, though they declined during the period²²

The government intervened directly in productive activities by investing in state-owned enterprises (SOEs) in order to process agricultural raw materials. The creation of SOEs also was intended to increase local control over industrial activities dominated by French capital. More than 250 SOEs out of 400 listed in 1981 were formed between 1971 and 1980.²³

Trade liberalization: 1984-88. In 1984, the investment code and the trade tariff were reformed to reduce the level of industrial protection and to promote industrial exports. The investment code eliminated the exoneration of taxes on imported raw materials granted to priority firms. It also favored location outside of the Abidjan area and facilitated the emergence of small- and medium-scale enterprises. The objective was to reduce the rate of nominal protection to a maximum of 40 percent for finished products and 25 percent for raw materials, and the rate of effective protection to a maximum of 40 percent. Thus, low tariffs on equipment and raw materials offered better protection to industry while selectively penalizing the competing foreign products.

Quantitative restrictions were eliminated for products subject to import licensing. In compensation, an import surtax and an entry fiscal surcharge were imposed. An export subsidy was put in place in 1984 to compensate for the overvaluation of CFAF and to improve the competitiveness of firms.

Despite the general mood favorable to trade liberalization, some increases of tariffs and fiscal taxes on certain products occurred. In 1987 a general tariff increase was imposed. In 1988 the payment of the export subsidy was discontinued. New waves of exonerations and grants of

²² B. Bohoun, « Politiques industrielles et commerciales et croissance économique », CAPEC/CIRES, Abidjan, juillet 1996.

²³ N. Bamba, O. Kouassy and H.J. Pegatienan, "Policy-Making and Implementation in Cote d'Ivoire: Example of Selective Trade and Strategic Industrial Policies," Abidjan, juin 1999. The investment code and the tariff reform of 1973 were testimony to the political objective of industrialization. This political resolve to industrialize was taken in a context of a competition between Côte d'Ivoire and Senegal in the former French West Africa. Senegal was the former capital of this political entity. It had a good port and a relatively advanced industrial base. There was also political competition between socialist-type economic policies favored, among others, by Senegal, Guinea, and Ghana, on one hand, and capitalist-type economic policies adopted by Côte d'Ivoire, on the other hand. Finally, there was personal competition for regional leadership between Houphouët Boigny and his African colleagues.

priority status to industrial firms marked the years 1985 to 1988; 54 firms were granted priority status , 30 of them in 1986 alone.²⁴

Reversal to protection : 1988-90. During this period, the deterioration of government revenues prompted a policy shift toward increased protection. In 1989 tariff rates on imports and exports increased from 5 to 10 percent and a new tax (statistical tax) of 2 percent was created. It was estimated that the average tariff rate by 1990 had increased up to its 1983 level.²⁵ Nontariff barriers were reinforced through import controls with the following modalities: creation of a customs value committee, quantitative and qualitative inspection with price comparison, and some prohibitions and import quotas.

Reversal to liberalization: 1990-93. Starting in 1991, four Sectoral Adjustment Loans (SECALs) were implemented: a competitiveness loan (PASCO), a Human Resources Development Project (PVRH), a Financial Sector Loan (PASFI), and an economic management support project PAGE). All to some extent were aimed at increasing industrial competitiveness, though PASCO was most directly targeted that way. The others aimed at improvements in the general institutional environment. New waves of selective trade liberalization occurred. Some tariffs and taxes were eliminated, others reduced (those on agricultural and industrial inputs and also on finished products, textiles in particular).

Devaluation and deepening of trade liberalization. The devaluation of the CFAF in 1994 improved significantly the rate of effective protection of the economy. This helped the reduction of nominal protection also needed to limit the inflation generated by devaluation. In 1995, on the basis of 350 tariff positions, the weighted average tariff rate decreased to 29 percent from 37 percent in 1990.²⁶

Export promotion was a prominent item in the reform initiated by the devaluation package, with the private sector playing the major role in the new export promotion agency (APEXCI). Critical reforms were also implemented in the agricultural sector. The role of CAISTAB in internal and external marketing of cocoa and coffee was drastically reduced to increase private sector participation and improve the transparency of the external marketing system. The significant change was an auction system for export rights. Some critics claim that this reform gave rise to unanticipated problems involving overbidding and concentration of export rights on a few exporters. The rice marketing system was also liberalized after a difficult dialogue about imports of broken rice. (Many in government feared that unfettered import of broken rice would undermine the domestic rice sector.) Nontariff barriers were eliminated, prices of agricultural products and equipment were liberalized, and effective protection of local

²⁴ Bohoun, 1996.

²⁵ B. Contamin, 'Competitive et promotion des exportations des produits ivoiriens,' CIRES, Abidjan, juillet 1997.

²⁶ Ibid.

production had to be limited to 40 percent. SOEs in oil palm (PALMINDUSTRIE), sugar (SODESUCRE) and cotton (CIDT) were privatized.

Local opinion acknowledges that trade and price liberalization has been effective, but with some reservations. The playing field is not even; there is some discriminatory and unequal treatment linked to political and family connections. Also there are cases where insufficient information about decontrolled prices subjects small private actors in trading activities to the corrupt practices of civil servants. The business community is favorable to liberalization with equal treatment for everybody. To them tariff reduction appears to be a successful reform area probably because it was well prepared. But this opinion is not shared by selected influential nonbusiness representatives. The private sector welcomes less government intervention but only a few firms interviewed in a recent survey favored zero public intervention. At the time of the survey (May–June 1998) spokesmen for 31 percent of the firms questioned thought that liberalization has had a *positive* impact, 55 percent reported no impact, and only a few (3 percent) indicated a negative impact.

The trade and industrial policy reforms were implemented gradually. The building of the industrial base took place incrementally. The investment code was created in 1959 while the tariff reform was implemented in 1973. These two policy instruments were relied on for many years. They were replaced by a new investment code and a new tariff regime in 1984.

The first set of moves from protectionist policies to liberalization took many years—from the 1960s to 1984. The implementation was gradual because the Ivoirian government was reluctant and resisted the reforms. The government feared a hemorrhage of customs receipts and was preoccupied with finding ways to compensate for the losses of trade-related revenues. There was also the reluctance to make doctrinal jumps, from a controlled economy to a liberalized one, and concern about the costs that might arise.

From the field interviews it appears that implementation is a major problem on the government's end, especially for recent liberalization reforms of cocoa and coffee marketing and CAISTAB. These reforms are widely thought to have been *brutal*, that is introduced too fast. It will, according to some, leave an unorganized rural world facing a volatile world market and oligopsonistic purchasers/exporters. Peasants have not been properly prepared, in this view, and farmer organizations are weak. As will be noted in the concluding chapter, the experience with coffee marketing liberalization has not confirmed these fears.

Scheduled reform measures were not always taken. In particular, the 1984 liberalization reform featured a simulated devaluation of the CFAF by combining an increase of import tariff and an export subsidy, with the expectation that the first measure would generate sufficient resources to finance the subsidy. The payment of the export subsidy was halted for lack of resources. Overall, the simulated devaluation was credible neither to the Ivoirian administration nor to the private sector. A second reason for this failure had to do with the institutional base: the administration of tax collection in general and the customs administration in particular was weak and of limited efficiency. Even the World Bank management thought that this measure was hastily prepared by its own staff.

THE ROLE OF AID

Trade liberalization was not adopted in reaction to political demands by political elites or local interest groups. The prevailing political sentiment among decisionmakers was to resist these reforms. They were adopted under the pressures of a severe financial crisis caused by a decline of world prices of cocoa and coffee and of world demand for exports, losses of foreign exchange and fiscal revenues, and heavy debt burden..

Two types of policy reversals were observed that were also caused by the financial crisis. The first type of reversal, reversal to protection, was explained by the losses of foreign exchange and of fiscal revenues due to the fall of prices of cocoa and coffee. This policy reversal highlighted the primacy of short-run financial problems over structural ones; this move was adopted under the pressure of the IMF to the despair of the World Bank, an example of possible conflicts between these two institutions.

The reversal to liberalization, in contrast, was accounted for by the primacy of external competitiveness concerns over worry about short-term revenue losses. These losses were duly recognized as the price to pay to improve income in the medium term because there was no alternative. But selectivity was the rule; no across-the-board tariff reduction was implemented.

Many in government find it difficult to acknowledge that a reform idea is not domestic. The debate over the initiative of the policy dialogue is ambiguous and can best be summarised by this phrase, gathered from the field interviews: the initiative comes from the government but the government has advisers; indeed the IMF and the World Bank are advisers to the government.

It is clear that trade liberalization was initiated by the World Bank. It was generally opposed by the administration and by a business community used to the shelter of protection and fearful of external competition. At the time of the reform and beyond, the administration was weakened by successive institutional changes and by the departure of highly qualified senior civil servants for positions in the private sector after the merger in 1977 of the Ministry of Planning with the Ministry of Economy and Finance. A weakened administration could not be expected to generate a homegrown reform package. Recently, the World Bank initiated also the reforms of cocoa and coffee marketing and the restructuring of CAISTAB.

The internal dialogue within government about trade liberalization was also difficult as DCGTx, a French-managed parallel administration, overpowered the technical ministries.²⁷ Between 1986 and 1991, DCGTx was formally responsible for economic policies and programs, including the adjustment programs. This agency was generally suspicious of trade liberalization, reflecting French *dirigiste* traditions (and the sentiments of President Houphouët) in this matter.

Parallel markets did exist during episodes of liberalization and policy reversals. Traders, especially women, made frequent trips across the Ghana border and to Nigeria, where prices of the traded goods were competitive. This informal trade of cheap textiles and other manufactured

²⁷ Ouayogabe and Pegatienan, 1997.

goods harmed the interests of enterprises in the formal sector. But the complaints from formal business organizations did not, apparently, have much impact on the reforms because of the limited extent of dialogue between the administration and the private sector.

In matters of industrial and trade policies, the main actors of the policy dialogue were the government and the World Bank. The World Bank had difficulty convincing President Houphouët Boigny, the sole decisionmaker in the government, of the necessity to liberalize. He thought that the RCI was sufficiently open and did not need to further open up to the world market. His technical advisers were amused by the effective protection and domestic resource cost calculations, and the conclusions and policy recommendations derived therefrom. They believed them to be too academic to be convincing to either officials or businessmen. This basic skepticism helps explain why the simulated devaluation of 1985-86 lacked credibility and failed.

Since the early 1990s, the influence on economic policymaking of external donors in general and of the Bretton Woods institutions in particular increased and widened because of the deep financial crisis, the illness and death of President Houphouët Boigny, and the weakness of the present political leadership. The two policy reversals and the deepened postdevaluation liberalization are the net results of interactions between these influences and government's reactions to them and to its own constraints.

The private sector did not play a significant role in the policy dialogue prior to the privatization program, but it had sufficient influence to cause, in part, the failure of the 1985-86 simulated devaluation. Since the 1994 devaluation and the acceleration of the privatization program, the private sector carries more weight. One example of that is its pressure to eliminate the public export promotion agency (CCIA) and to substitute the privately managed APEXCI. Nonetheless, even in this era of private sector and public sector partnership, government consultation of the private sector, let alone other elements in civil society, is not the norm.

Since 1990, after President Houphouët Boigny was forced by social and political unrest to open up politically, civil society is free to voice any concerns, opinions and dissents about government policies. However, their use of these new opportunities within a large number of professional organizations and independent media has not yet proven to have critically influenced the process of policy formulation.

CHAPTER VI. EDUCATION AND HEALTH SECTOR REFORMS

Until the 1980s, reform in the social sectors was not a live issue. The central concern was expansion: providing *more* schooling, *more* health care. This reflected in part the buoyant economy of the two postindependence decades, which generated growth in revenues. It also reflected President Houphouët's awareness of education's role in economic growth and his view that a well-educated Ivoirian elite was essential to reduce dependence on expatriate skills.

In this period, donors financed mainly infrastructure investments, with some effort at quality improvement; France assisted by providing thousands of teachers. Thus the World Bank financed only three education projects prior to 1980, for teacher training and vocational education facilities. The Bank financed no health projects until 1986 and no additional education (or health) project until the 1991 Human Resources Development Project.

By the mid-1980s the education system clearly exhibited the pattern of problems common in Africa, especially Francophone Africa: high unit and aggregate costs, weak budget and personnel management, internal inefficiency (distorted budgets and high dropout or repeater rates), external inefficiency (limited relevance and connection to the job market), and inequitable allocation of benefits. The health system shared many of these characteristics—notably weak management, inefficient allocation of resources, and concentration of benefits on the relatively well-off.

The Ivoirian problem is particularly severe. The RCI government spent (and spends) relatively more on education and health than most other countries; the social sector took more than half of budget outlays in the 1980s, and its share remains high at the end of the 1990s. Though social indicators improved, they remain uninspiring, and are below indicators in other countries at its income level. Even in 1996 only half the primary school age children were in school and only one-third of the population had access to health care. By some measures, even the urban health care system is less effective than it is in the much poorer Sahelian countries.²⁸

These problems have absorbed the attention of reformers for more than a decade. They are considered here in two parts. First we describe briefly the main reforms and comment on their effectiveness. Education and health are treated separately. In the second part we analyze process issues and the role of aid. The main emphasis is on the public expenditure reform dimension.

²⁸ According to a 1996 study, the rate of maternal mortality (deaths during pregnancy, at delivery or six weeks after) in Abidjan was 428 per 100,000 live births. Although this was half the rate estimated for rural areas in the Republic of the Cote d'Ivoire or RCI, it was substantially higher than that in Ouagadougou, Bamako, Nouakchott, and Niamey. J. Brunet-Jailly, Coordinator, *Sante en Capitales. La Dynamique des systemes de sante des capitales ouest-africaines*, Cooperation Francaise, Abidjan, 1999, pp. 82 ff.

REFORMS AND THEIR IMPLEMENTATION

A major theme in education reform has been the imperative need to cut costs and in particular salary costs. Government had to pay high salaries to recruit the large number of teachers required by the expansion of the education system in the 1960s and 1970s, and to replace during the ensuing years the numerous expatriates present in the sector.²⁹ The result was that by the mid-1980s the cost of a high school teacher was higher in Abidjan than in Madrid. In 1993 a primary school teacher was paid 13 times the country's average per capita GDP, five times the ratio in East Asia and 10 times that in industrial countries.³⁰

Even after some cutting, in the early 1990s education accounted for half the total wage bill, which in turn claimed 60 percent of government revenues. Any policy to contain government expenditures (a key objective of macroeconomic reform) thus had to confront the issue of teacher salaries. It is no surprise that the education reform program was dominated by measures for cost-cutting, though in both health and education, resource reallocation and management strengthening were also priorities.³¹

An early measure was the reduction of salaries for new teachers. Teacher salary scales were reattached to those of the civil service scales, from which they had earlier been detached. (The premium over the civil service salary scale was 40 percent.) Salary rates were to be frozen at 1991 levels and the aggregate salary bill for teachers was to be limited to a 1-percent-a-year annual rise for the period of the HRD program (1991-94).

The limited rise in the salary bill was to be accomplished by relying more heavily on teaching assistants, reducing the number and cost of French TA, increasing workloads of teachers, and redeploying administrators to classrooms. Also, growth in numbers of secondary and university students and teachers was to be controlled. Transfer payments through the university support center and fellowships and transport subsidies were to be reduced and boarding facilities in Abidjan cut back.

Numerous other measures were introduced in both sectors—cost recovery, freezes on new construction, introduction of generics, for example. But heavy emphasis was given to two sets of reforms of public expenditures, one substantive the other procedural. The substantive

²⁹ In 1981 French TA personnel in education numbered 3,247, and there were 255 in health (and Asocial development). By 1990 the numbers were 1,273 and 94; and by 1998 there were only 130 in education and fewer than 25 in health.

³⁰ Operations Evaluation Department, *Cote d'Ivoire: Country Assistance Review*, p 73 (World Bank Report # 19422), June 14, 1999. Teachers' wages absorbed three times as much of RCI government revenue as they did in East Asia and 10 times as much as in industrial countries.

³¹ The main source of reform measures in the first half of the 1990s is the conditionality in the Human Resources Development Project (HRD), which was designed in the late 1980s. Disbursements on the \$360 million project began in 1991. The Bank was the main designer and funder, but other donors participated.

reforms concerned raising the level of expenditures on primary education and primary health care and raising the primary subsectoral *shares* of total sectoral spending. In education the primary enrolment rate was to be raised; in health, the share going to preventive, rural activities was to be raised.

The procedural reforms aimed at stronger management, especially financial and personnel management. To strengthen the budget process and also monitor reform implementation, annual programs and budgets were prepared, which brought together in a transparent way indicators of past budget performance, and established annual targets based on Human Resources Development Project (HRDP) objectives. A lengthy set of budget performance indicators was established. This was to supplement parallel general budget reforms being undertaken at the Ministry of Finance and the Ministry of Planning, such as nomenclature changes, some of them conceived with social sector budgeting deficiencies in mind.

Many of the individual reforms that were part of HRDP conditionality were implemented.³² For example, some fringe benefits were cut and salary rate increases were contained; expatriate TA teachers virtually disappeared; 1,100 assistant teachers were hired in 1996; aggregate transfer payments (scholarships, food, and transport subsidies) were reduced; 2,500 administrators were redeployed to classroom teaching at the primary level; locally financed construction costs in both education and health were put on hold, and sector programs were elaborated for both health and education. Health sector changes included the extension of cost recovery for medicines and consultations, encouragement of use of generics, and a start in defining a decentralized, primary-care-based sector strategy. (Most of the recommendations made in a joint donor health sector program in 1990 were also implemented.³³)

Some of the HRDP spending targets were achieved.³⁴ In health, **the ratio of nonsalary operating expenditures (mainly medicines) to salaries rose**, from 39 to 45 percent between 1991 and 1995, and this trend continues.³⁵ Some cost recovery took place, though well below

³² See AImplementation Completion Report, Human Resources Development Program,≡ Report # IVC 14841, World Bank, June 1995.

³³ Banque Mondiale, Union Europeenne, Cooperation Francaise, Cooperation Belge, *Revue des dépenses publiques de SanteCDocuments intermediaires*, juin 1995. These also called for more cost recovery, for creation of health districts to manage resources allocated to the regions, and for some budget changes, notably more transparent presentation and definition of a core investment program with simplified financial procedures that would allow speedier implementation.

³⁴ This discussion draws on Banque Mondiale, *Cote d'Ivoire, Revue des Dépenses PubliquesC1991 a 1998*, Ve 1, Analyses, March, 1999; and World Bank, Implementation Completion Report, Human Resources Development Program, 1995.

³⁵ Its efficiency-enhancing impacts, however, were undercut by relative price changes. Because of the devaluation-induced increase in prices of traded goods, the purchasing power of nonsalary budgets actually fell in real terms between 1993 and 1997.

the program targets. And though the primary subsector's share in total health spending did not rise during the HRDP period (1991-95), it did increase (by 16 percent) in 1996 and 1997. The tertiary subsector, however, grew by twice as much.

Expenditure reforms also are visible in the education sector. Despite a rise of 10 percent in primary enrolments and a soaring university population, (it rose from 26,000 in 1991 to 58,000 in 1995), **the total education wage bill was constant between 1991 and 1994**. The unit cost of primary school teachers fell from 13 times per capita GDP in 1993 to 9 times by 1995. Subsidies to university students (housing, scholarships, transport, and so on) were cut by 20 percent in real terms and by half in terms of budget share between 1992 and 1996. At the same time, nonsalary operating costs as a percentage of the overall education budget rose from 4 percent in 1992 to 13 percent in 1996. Unit education subsidies have become more efficient and equitable in RCI than in most other African countries.³⁶ Investment in education as a share of total public investment more than doubled to an average of 7 percent between 1994-1997.

In both sectors, however, achievements have fallen far short of objectives.

- **Social sector budget shares fell.** Education spending as a share of the total budget fell from 34 percent in 1992 to 27 percent in 1996. The health budget as a share of current expenditure fell from 7.4 percent to 6.7 percent between 1991-93 and 1994-97.
- **Social sector investment did poorly.** Investment in health declined in the same period from 7.7 percent of total public investment to under 5 percent.³⁷ More than 40 percent of the investment during 1992-94 went to administration; the share of the primary subsector fell from 17 to 14 percent during those years. A shift occurred in 1996 and 1997, but the primary subsector share of the PIP 1997-99 was only 20 percent compared with 26 percent for the tertiary.³⁸ Investment in education as a share of the total investment budget increased only slightly between 1991-1993 and 1994-7, from 9 to 10 percent.

³⁶ In the mid-1990s, each secondary student received a subsidy of CFAF 118,000 a year, or 1.8 times the amount received per primary student. According to a recent comparative study, only Tanzania's was smaller (1.1 times), while in Ghana, Uganda, and Kenya the ratio was close to 3. At the tertiary level the RCI subsidized each student to the tune of CFAF 348,000, or 5.4 times the primary subsidy. This is far better than Ghana (16 times), Guinea (55 times), Kenya (31 times), or Uganda (32 times). Dayton et al., *ADO the Poor Benefit from Public Social Spending in Africa*, *World Bank Research Observer*, 14, 1, February 1999, p. 53.

³⁷ Banque Mondiale, *Revue des Dépenses Publiques 1991-1998*, Volume II, pp. 27-28.

³⁸ The primary subsector investment share rose to 23 percent in 1996, then to 30 percent in 1997. Investment in the tertiary subsector fell from 51 percent in 1996 to 41 percent in 1997. Donald S. Shephard and others, *Analyse du Programme des Investissements Publics du Secteur Sante de la Cote d'Ivoire*, Ministère de Sante, Abidjan, January 1999.

- **Reallocation in favor of primary education and primary health care did not occur.** Instead of rising, primary school expenditures fell from 52 percent of total education expenditures in 1991 to 47 percent in 1995. The trend continued at least through 1997. In health the primary subsector share of recurrent expenditures was supposed to rise from 35 percent in 1991 to 42 percent in 1995. Instead, it declined to 32 percent in 1995.³⁹ The gross enrolment rate in primary education was supposed to rise from 74 percent in 1991 to 77 percent in 1995. Instead it fell to 67 percent in 1994, from which it increased little by 1997.
- **The benefits of public spending on health and education remain unequally distributed** The primary school gross enrolment rate is only 51 percent among the poorest 20 percent of households, 99 percent among the richest 20 percent. Only 12 percent of children in the poorest quintile of households attend secondary school, compared with 65 percent for the best-off 20 percent. Although 19 percent of the primary school subsidy goes to the poorest 20 percent (and 14 percent to the best-off), only 7 percent of the secondary school subsidy goes to the poorest quintile (37 percent to the richest), and only 12 percent of the tertiary subsidy goes to the poorest 20 percent and 71 percent to the top quintile. Of the total education subsidy, the poorest quintile gets 13 percent, the richest 35 percent.⁴⁰
- **Internal efficiency of the school system improved little.** The share of nonsalary recurrent costs in education and health budgets increased. In principle, this should be an indicator of greater efficiency; it would indicate that teachers and medical staff have more supplies to work with. In fact, however, the postdevaluation inflation has to be taken into account. Prices of imported goods rose sharply, and import competing goods also; the Consumer Price Index rose by 50 percent between 1993 and 1997. Deflated figures for nonsalary operating costs between 1994 and 1996. indicate that these fell by 50 percent in real terms at the primary level, 38 percent at the secondary level and 20 percent at university level. Moreover, the basic indicator of internal efficiency, repetition rates, shows that these have increased in most levels of the primary subsector and at many levels within the secondary school subsector between 1991 and 1995.⁴¹
- **External efficiency probably worsened** The number of students in the public sector technical and vocational training schools declined during much of the 1990s, while private participation grew. The public sector had only 10,000 students, 5 percent of all secondary students, and less than the 15,000 in private professional schools in 1995. The subsector suffers from recruitment of uncommitted students. (Technical and professional training is a second choice for pupils, or a step to general secondary and then to university.) The

³⁹ This refers to recurrent budgets. The primary subsector share of the total health budget remained around 28 percent between 1991 and 1996, before rising to 32 percent in 1996 and 1997.

⁴⁰ This is about the same distribution of benefits as in Uganda.(A...Dayton, et al., ADo the Poor Benefit...).

⁴¹ World Bank, AExamen des Depenses Publiques en Cote d'Ivoire. Secteur Education,≡ Abidjan, 1996.

subsector trains for nonexistent formal sector jobs. It is heavily underutilized, hence even more expensive than is standard for technical/professional systems. In 1993 there were five students per teacher.

- **Strengthening of sectoral management was uneven** The reform programs of the 1990s contained important components aimed at stronger social sector administrative capacity. But budgets were poorly prepared and defended, and project development for investment, rehabilitation, and maintenance was especially weak. Inputs were the sole or main preoccupation; little monitoring or evaluation of outputs occurred. Staffing was poorly monitored, with inconsistencies between ministry payrolls and civil service rosters.

Some improvement has occurred, particularly in education. Officials interviewed say that personnel management is surer and budget preparation and implementation significantly better. There is some evidence for the latter. Implementation rates are much higher now than in the early 1990s, both for the overall budget and the BSIE. The volume of unpaid *engagements* (*depenses engagees non-ordonnances*, or DENO) is much lower than it was until 1995, and the resulting unpaid bills problem is minimal. That is a strong indicator of better budgeting. Knowledge of aid flows and their management is much better.⁴²

Nonetheless, the depth and sustainability of the budget reform remains to be demonstrated. Much of it is new. For example, the reform of budget nomenclature, which absorbed many months of TA time, was rejected by IMF experts as inadequate. This change, which should have been introduced in 1992 or 1993, did not arrive until 1998. The elaborate system of budget indicators worked out under HRDP seems to have been a one-shot exercise. It may have left some traces, but these were not readily visible in mid-1999.⁴³ This means that monitoring and evaluation capacity remains embryonic or nonexistent. Project preparation and screening capacities are also uncertain. 44

Concrete evidence that gains in capacity in the health sector are not extensive can be found in the recent suspension of the World Bank's major integrated health project (PDSSIR)

⁴² Banque Mondiale, ACote d'Ivoire. *Revue des Investissements Publics: 1994*", presents a devastating analysis of the way things were.

⁴³ According to one observer of the PAGRH in 1995, despite the new approach to technical assistance embodied in this project (Give the tools and the process to the people concerned and let them do the work themselves), the responsible local staff in the recipient agencies and the national counterparts are not always involved in the work done by the experts.≡

⁴⁴ Continuing management weakness is underscored in the Programme Nationale pour Développement de la Santé, 1996-2005, which observes: "...because of the absence of planning and methodological weaknesses in programming and budgeting we are unable to control personnel numbers, our budget preparation remains thin and the monitoring of budget implementation inadequate. ("Plan National de Développement Sanitaire 1996-2005," tome I, p. 28. Cited in Banque Mondiale, ? *Revue Annuelle du Projet de Développement des Services de Santé Intégrés et du Recensement,*? décembre 1998.

and in the story of misappropriation of European Union assistance, which became headline news early in 1999, and of which more will be said below.

Growth in capacity appears to have been more substantial in the education sector. There is a newly installed planning unit in the *Ministere d'Enseignement Nationale et Formation de Base*. But project preparation capacity is said to be much stronger at the tertiary level, at the *Ministere d'Enseignement Superieur et Recherche Scientifique*; they apparently prepare more and better projects for inclusion in the PIP than do the other education ministries. The dispersion of decision units makes sectoral planning and coordination difficult, a difficulty exacerbated by the frequent restructurings and shuffling of units between ministries.

Three factors seem to be most relevant in explaining the patchy implementation and unsatisfactory outcomes of Ivoirian social sector reform programs. First, the major donor efforts made early in the 1990s, notably the HRDP, were really part of the larger macroeconomic drama then in process. Everybody's focus was on the macro issues. It is no surprise that the HRDP was managed by the Ministry of Finance. It was intended to provide quick-disbursing, financial-gap-closing assistance to the RCI. For its first two years little happened while the devaluation decision was pondered. Right after devaluation, disbursement occurred: 80 percent of the \$360 million credit was disbursed in 1994. The side-show character of the health and education reform agenda meant that Ivoirian decision makers gave it limited time and energy.

The Bank and other donors had the same hierarchy of priorities as the government, and this is the second reason for poor performance. Macroeconomic stabilization was the highest priority by far. Supervision and concern over the substantive sectoral issues were not negligible, but the Bank side was preoccupied with keeping the money flowing. Attention to the conditionality in the social sectors was secondary, and assessments of performance perfunctory.

Finally, local decisionmakers believe only weakly in the major donor objective of shifting resources from tertiary levels to primary. Believers among politically aware elites are a distinct minority. Nor are all bilateral donors fully persuaded. On the Ivoirian side the argument is partly political. The enormous growth in numbers of university students was a potential time bomb. It had to be confronted. Moreover, there are economic rationales for continuing attention to the tertiary sector. It would be disastrous, they believe, to let the existing social infrastructure at that level continue its deterioration. The quality of university outputs has been declining, at great social cost.⁴⁵ It cannot be improved without additional spending.

Officials and other Ivoirians strongly disagree with judgments such as those incorporated in a recent Bank-financed health sector PIP review, which criticized six projects in the 1997-99

⁴⁵ The case of magistrates is cited. As part of judicial reform 50 magistrates a year were to be hired in the late 1990s. But according to one report, not one of the numerous candidates received a passing grade on the qualifying examination—that is, a grade that was above the normal bar. The best candidates have nonetheless been hired.

sectoral PIP, mainly renovation and re-equipment of university hospital centers in Abidjan.⁴⁶ These six projects absorb 33 percent of the PIP and 40 percent of donor PIP financing. Almost 60 percent of their cost is to be financed by donor grants (Japanese and Spanish), a much higher ratio than other projects. Concerned officials and other Ivoirians question the validity of Bank recommendations to cut back on these projects (which are after all heavily grant-financed and likely to produce improved services) in favor of primary care-focused projects that are more dependent on local financing and may have uncertain outcomes

AID AND REFORM

Education reforms that began in the late 1980s in RCI were not entirely without precedent. Substantive reforms and strategy statements were drafted by Ivoirians and their advisors as early as 1972, and there were many internally-generated ideas for change in both education and health in the 1980s, before there was a strong donor presence. So some reform proposals, for example in curriculum, teacher training, and nurse training, were already in the air, and provided some of the elements for the later reform proposals. Part of the reform program of the 1990s can thus be said to have been internally generated.

Moreover, Ivoirians provided inputs during the preparation of major projects like the Human Resources Development Program, which was almost four years in the making. Extensive consultations, formal and informal, marked this process. The companion TA project, *Projet d'Appui à la Gestion des Ressources Humaines (PAGR)*, had an even longer gestation period, involving even more local consultation. It was framed with great sensitivity to the problems of technical assistance delivery, which were then (in 1993) very much on the table. It emphasized use of local rather than resident expatriate TA.

So even the first round of social sector reforms, during the first half of the 1990s, had some domestic input. But it seems clear that the main trigger for the major reforms of the 1990s was the financial crisis and the need to contain social sector expenditures if macroeconomic stability was to be attained. Donors were the main bearers of this message. The significant planks of the reform program were focused on cost-cutting and on equity, donor preoccupations much more than local. The specific reforms were crafted mainly by donor staff, who also acted as their chief champions. Local technocrats in the core ministries, and some politicians, realized that the social sector budgets had to be constrained, and that this would involve strong salary restraint and sharp cutbacks in subsidies to students, among other changes. But the major impetus for these reforms came from outside, particularly the Bretton Woods institutions.

The outside impetus is clearest with respect to the idea that expenditures should be restructured in favor of primary education and primary health care. As noted above, the Ivoirian

⁴⁶ Donald S. Shepard and others, *Analyse du Programme des Investissements Publics du Secteur Santé de la Côte d'Ivoire*, Programme de Développement de Secteur Santé Intègre (PDSSI), Ministère de la Santé Publique, Abidjan, janvier 1999.

leadership was preoccupied until 1994 with debt crises and the devaluation issue. There was not much residual energy for, and only modest interest in, social sector expenditure reallocations. Finance and planning ministries negotiated adjustment credits and signed conditional agreements with detailed letters of development policy. The subject matter was education and health sector reform, but the pressure was to bring in the money. Education and health ministries participated relatively little in negotiations on the \$360 million adjustment credit begun in 1991, the HRDP; substantive concerns were in the back seat during its implementation.

As noted earlier also, very few Ivoirians had much conviction that the reallocation of spending in favor of primary subsectors was sensible, especially since it was easier to raise grant money for tertiary activities. This lack of conviction coexisted uneasily with the feeling, widespread at least since the mid-1990s, that more attention to primary schooling and care was politically correct, the right thing to do.

These were not the only factors that made the donors the dominant players. There was also the fact that capacity in the government was too limited to enable it to take the lead. This changed in the late 1990s, when a stronger, more experienced corps of local technicians began to assert itself, drafting documents like the Policy Framework Paper and the comprehensive strategy statement called the “African Elephant”. Local technicians also played important roles in the conception and implementation of sectoral investment or development programs in health and education after the mid-1990s. But for the first generation of sweeping reforms, the domestic contribution was much more limited.

Donors, then, bore the major responsibility for the adoption of the major reforms, from the expenditure reallocation objectives to strengthening of budget and personnel management. Local support existed in the core economic ministries for the management reforms and, less clearly, for the budgetary shift to primary subsectors. But few other local champions were apparent. Most of the actors—education and health ministry personnel, teachers, doctors, nurses, pharmacists, and others, were neutral or opposed. Their professional associations were in any event not vocal. Students at the secondary and tertiary levels were opposed.

One other environmental factor contributed in a basic way to the dominant donor role in the reform process. It is not clear that users of health and education services expressed at any stage great dissatisfaction with the status quo. A recent study surveyed 700 rural users of health facilities. It found that general satisfaction with respect to the care provided was rather good. The main complaint was lack of medicines.⁴⁷ This same lack of demand for change from the affected population has been noted in studies in Southern and East Africa.⁴⁸ In the education

⁴⁷ Republique de Cote d'Ivoire, Ministere de la Sante Publique, Commission Europeene VIIIeme FED, *La qualite des services de sante; enquete preliminaire* (Par Michel Garenne et autres), 1998.

⁴⁸ S. Mogedal, S. Hodne Steen, and G. Mpellmbe, *A Health Sector Reform and Organizational Issues at the Local Level: Lessons from Selected African Countries*, in *Journal of International Development*, Vol. 7, # 3, 1995, pp. 349-67.

sector user dissatisfaction is evident mainly in the technical and vocational subsector, where it finds expression in stagnant student numbers and movement to private providers.

THE GRAND HYPOTHESES

What does the education and health reform experience in RCI tell us about the general hypotheses that inspire the research project of which this case study is part?

Take first the hypothesis that nonfinancial aid generates more reform than money aid. There is little or no evidence in support of this proposition in the institutional reform experience of the RCI. Two aspects of the education and health sector reforms in RCI raise doubts about it. First, “nonfinancial aid” in this study is being defined as free standing technical assistance, donor economic and sector research, or advisory services. But in the case at hand, technical assistance projects have been handmaidens of financial aid projects. The Human Resources Management Support Project, for example, was really a part of the HRDP, an adjustment credit. Nonfinancial aid that is untied to money seems to have been rare.

Secondly, financial aid projects themselves carry a great deal of nonfinancial baggage. In the RCI case many of the adjustment credits have had studies components, training tours, training seminars, and so forth. More important is the long gestation period that has been typical for RCI projects. The HRDP was more than three years in preparation, and took several years to get off the ground after approval. Many studies and much dialogue occurred during this period. It is not only the Bank that has such long identification and appraisal periods for financial aid projects. The European Union (FED) does extensive program preparation that entails research and analysis and dialogue. For example, a number of basic studies and surveys formed the background for the health sector component of the upcoming VIIIth FED. Ivoirians participated in and reviewed these studies, which generated intensive dialogue.

Studies and dialogue attached to money are a priori likely to be more effective than *free-standing* studies, which probably include most World Bank economic and sector work. The money is almost sure to make research and dialogue more action-oriented. It claims attention, concentrates minds in a way that free standing studies do not. It is not clear, for example, that the 1996 Bank poverty assessment, which found sharp increases in the extent of poverty, had any effect in shaping education and health policy. Aside from the fact that the results have been contested, the political class is not unaware that many Ivoirians are very poor.⁴⁹ In any case the importance of a primary-level social sector focus in combating poverty has been part of public discourse for many years.

A second hypothesis is that financial aid works when policy reforms and institution building are under way. This is not an operational hypothesis. In the 1990s at least, reforms and

⁴⁹ C. Jones and Xiao Ye, *Issues in Comparing Poverty Trends Over Time in Cote d'Ivoire*, Policy Research Working Paper 1711, World Bank, January 1997.

institution building of some sort are almost everywhere and always “under way.” In the RCI, reforming of some kind was going on most years in the 1980s and every year in the 1990s

The proposition is ambiguous in other respects. It can be taken to be a sequel to the proposition that financial aid does *not* work when policy/institutional reform is *not* under way, which is unclear but probably incorrect in its extreme form, when applied to social sector-type reforms. Even in the worst policy/institutional environment, financial aid can have some positive effects if appropriately delivered, and in any case may be a prerequisite for getting a seat at the policy table. If the argument is that aid works *better* in good environments, it is surely true. In the RCI case a government more convinced and committed to expenditure reallocation in favor of primary education and health care would have gone further in that direction in the past decade.

Does the RCI social sector reform experience confirm the hypothesis that governments choose to reform independently of the aid relationship? This can be and has been expressed in various forms: that aid has no impact on policy, or that aid can’t buy reform. This view, a major conclusion of the World Bank’s influential study, *Assessing Aid*, is shared by some Ivoirian officials. One said that the Bank and others who believe that their efforts have induced reform are fooling themselves just like those who accepted Chanticleer’s claim that his crowing makes the sun come up.

But it is not tenable to argue, in the case of institutional reforms for education and health, that aid has had no positive effects on reform. Even though implementation has been partial and some of the institutional reforms (performance budgeting in education, for example) did not “take”, the reform program would have been different in content (less good), slower in implementation, probably less effective in results. The action-oriented studies, training, and study tours would have surely been fewer in number and probably less good had external financing been absent. The message about reallocation of spending to primary levels would have been much more muted.

Some of the least popular measures, such as salary cost containment and reductions in student subsidies would have been less effective. The harmed interest groups were told that it was essential to follow this path because “the World Bank insisted on it” and large aid inflows depended on it. The debt relief initiative is now cited by the government in all austerity-related discussions with stakeholders.

It seems no exaggeration to say that aid bought brought about such reforms in public expenditure management as have occurred. . This was true of the process reforms in budget-making, cost-cutting efforts in student subsidies, staff redeployment, and, above all, in bringing formal acceptance of the idea of reallocation of spending in favor of primary education and primary health care.

Probably the most effective vehicle for aid influence was the dialogue, formal and informal, surrounding program preparation and supervision. When, during project preparation or supervision., the Health Ministry proposes that more nurses be recruited, Bank staff suggest

concentrating more resources on training and supervision. When the Ministry requests help for building up in-house maintenance capacity for biomedical equipment, the donor counterpart suggests contracting out that function. A chef de service says he needs an administrative secretary who knows all about the Ivoirian legal code. The donor spokesman asks why he needs that rare and costly competence.

Of course, not all donor staff suggestions are good. Not all donor project designs are well suited to the local environment. This raises the broader question of whether aid can retard reform. The aid presence does seem to have had some negative effects in the health sector. One is a distortion of priorities. Primary level spending by the Ministry of Health has lagged badly behind plans and needs. The donor community has pushed hard to have the ministry spend faster and spend particularly on building up rural health infrastructure. A Bank review of the important Integrated Health Services Project (PDSSIR) comments as follows:

The project undoubtedly has some perverse effects. Because of the large amounts of money available, and the resulting pressure to disburse, it shapes the priorities of responsible officials. It pushes them to invest in health facility construction and equipment, while the basic problems lie elsewhere, notably in the poor definition of responsibilities and the weakness of capacities to manage health facilities and properly organize work.⁵⁰

Those interviewed in our field visit took up this same theme—that while the Ministry of Health has much stronger intellectual capacity than it had a few years ago and many more cadres with training in public health, its implementing capacity remains extremely weak. Donor representatives pointed out, for example, that while the National Health Development Plan (PNDS) is a good document, it has been around for three years and little has been done to implement it. Partly this is due to systemic problems which destroy incentives, such as low civil service pay and poor working conditions. And partly it is due to high turnover at senior levels within the ministry. Overfull plates are fundamental.

More dramatic evidence of implementing deficiencies is at hand. An audit of European Union programs in health at the end of 1998 discovered a large volume of improper transactions, spending that had not been adequately justified. The audit estimated that CFAF 18-23 billion out of total program expenditures of 53 billion was involved. The government took no disciplinary action for some months, but finally six ministry officials were indicted and, after a further delay, the minister was sacked.

Two reasons are given to explain this unhappy incident. One is that the EU was pressed to spend, to speed up construction of rural facilities; otherwise the slow-moving administration would fail to meet the ambitious goals that had been established for health service provision.

⁵⁰ République de Côte d'Ivoire, *ARevue Annuelle du Projet de Developpement des Services de Sante Integres et du Recensement*, 2-15 decembre 1998.

They urged government to loosen budget procedures, notably to raise the level of payment that could be made without going through all the laborious steps prescribed in the budget laws. The second is that too many goals were set for the program, not only building large numbers of health posts but also using small- and medium-sized contractors to do the job. Capacity for managing all this was simply not there.

Similarly, after many warnings, the World Bank in August 1999 put on suspension its main health project, the PDSSIR. Two years after effectiveness, with its completion date not far off, only 16 percent of the project budget had been disbursed. The underlying reason here was again excess optimism about local capacity to implement. But there were other explanations. Some critics say that in addition to being too ambitious, the project was put together too fast and had too short a time horizon.

Other critics, more severe, argue that the project was poorly conceived. It had two pillars, both new in RCI and both complicated: the focus on a “minimum activities package” (PMA in French), and the reorganization of health service structures along “district” lines. Definition of a PMA turned out to be far more difficult than believed. And more important, the district concept did not fit easily into existing structures, or indeed into existing decentralization programs supported by other donors. The ministry could not or would not implement.

Since 1993--that is, well before the Bank introduced its own decentralization approach in the PDSSIR--other donors had been pursuing another approach to deconcentration or decentralization. The EU, the French, perhaps others, were trying to strengthen the Regional Health Directorates. The Bank introduced the different concept of “districts.” It organized them quickly. It ignored the regionalization efforts of the other donors.⁵¹ The Bank also pushed hard on the PMA approach, apparently assuming that it could be easily and quickly adopted. But it raised enormous problems of fit with existing structures, just as the district concept did.

All kinds of fundamental issues had to be resolved. How reconcile existing regional structures with the district, which has no traditional counterpart in RCI? How work out PMA delivery when the traditional system is vertical--a family planning unit, a maternal and child care unit, and so on. How build sustainable capacity when different donors take over particular vertical slices. United Nations programs are completely vertical: UNICEF does vaccinations, the WHO information transfer, the UNFPA something else. How bring about integrated service provision for primary health care when vertical structures remain dominant?

There was little coordination, little real dialogue to permit resolution of these basic matters of strategy and approach. Some donors appear to harbor strong resentment of the World Bank role. One view is that the Bank, seeking “leadership,” tends to monopolize the dialogue. The example is given of a Bank project that contains a component on reform of medical school curriculum, which leads to a squeezing out of other donors. Dissatisfaction with the World Bank

⁵¹ This account comes from interviews with only a few people, most of them critical of the Bank. Its reliability has to be judged accordingly. Much is surely left out.

role in the health sector seems to be surprisingly lively, greater than is indicated in client survey data.⁵²

⁵² World Bank, "Cote d'Ivoire: Client Feedback Survey, 1997," Africa Region, 1998.

CHAPTER VII. LEGAL AND JUDICIAL REFORM

A predictable, efficient and transparent judicial system is a cornerstone of good economic management, and critical for social equity, private sector development and good governance in general. That sound legal and judicial institutions make these vital contributions has been recognized for decades. Because these institutions are weak in many developing and transition economies, aid donors have financed programs of legal/judicial (L/J) reform in many developing countries.

In the RCI, as in many low income countries, legal reforms during the past decade have had a twin focus. One concern has been to remove legal obstacles to labor market flexibility, frequently regarded as a major reason for slow supply responses to stabilization and liberalization. The second concern is much broader: reform of the overall judicial system, strengthening its operational capacity and adapting it to the needs of a modern market economy.

LABOR MARKET REFORMS

The prereform situation (the late 1980s) was that the Labor Code and negotiated collective agreements made it difficult for employers to adjust work forces to fluctuating needs. Temporary workers were considered permanent after 90 days on the job. Overtime regulations were strict, and required prior authorization from the Ministry of Labor. It was very difficult to sack anyone; charges of “abusive” firing were common, and could lead to legal damages and reinstatement. Employers had to list staff by seniority and unless they followed a last in first-out policy in staff reductions their action could be considered “abusive”

The state-run labor exchange, (Office de Main d’Oeuvre de la Cote d’Ivoire, or OMOCI) a monopoly hiring agency, was another source of problems. Although in practice most firms did their own hiring, their choices needed OMOCI approval. Moreover, prior authorization by the OMOCI was necessary for staff reductions. This gave rise to hassles and delays and opened opportunities for corruption.

Labor market reform was a major component of the Bank’s 1991 Competitiveness and Regulatory Reform Adjustment Program (PASCO). Elimination of the OMOCI monopoly, elimination of constraints on hiring temporary or casual labor and on collective layoffs and dropping prior administrative authorization for overtime were conditions of effectiveness for PASCO. Revision of the Labor Code and encouraging renegotiation of the central collective agreement were conditions of second tranche release.

Many of these reforms were implemented. OMOCI’s monopoly was abolished. Restrictions on temporary workers were lifted. Layoffs for economic reasons were made easier and the Labor Ministry’s prior authorization was no longer needed for overtime. The Labor Code was liberalized and voted by the National Assembly in 1992.

Many of these changes had been introduced only under extreme Bank pressure, and with long delays that indicated obvious reluctance. The decrees implementing the Labor Code (21 of them) did not appear until 1996, four years after the National Assembly vote, and only after their issuance was made a tranche release condition of another adjustment loan (the Private Sector Development Adjustment Credit of 1996).

Also, while OMOCI's legal monopoly over hiring and firing was eliminated, the government created a new public placement agency, (Agence de d'Etudes de Promotion d'Emploi, or AGEPE), which had many of the same employees as OMICI.⁵³ AGEPE was supposed to monitor employment trends, but it has come to act as a regulatory body, and is said to be an unequal competitor with private recruitment agencies. It delivers work permits and operates as a recruitment agency itself for foreigners. Moreover, it charges a large fee, particularly for nonAfricans. It is an expensive agency, and apparently inefficient.⁵⁴

Despite Labor Code revision, and institutional changes in the labor market, it is not certain that the actual functioning of these markets is much more flexible than in pre-reform days. One reason is that the extent of employer inability to adjust to fluctuating needs for labor was almost surely exaggerated. Subcontracting of parts of company operations was always possible; this was one way to meet seasonal needs, and was probably widespread. Also, some of the forces that stayed employer hands are still present. Collective bargaining agreements reflect (indirectly) government policies and concerns. The general judicial environment remains uncongenial. Employers are still vulnerable to legal challenges by fired workers claiming abusive action and to uncertain outcomes of court proceedings.

Nonetheless, new elements of flexibility have certainly been introduced into Ivoirian labor markets as a result of the reforms of the past decade. Employers appear to be more comfortable in this new environment. They say so, and the buoyancy of private foreign direct investment tends to confirm it.

GENERAL SYSTEM REFORM

Concerned donors and the RCI government turned to general judicial reform in the early 1990s. The prevailing diagnosis was that the quality of the L/J system had declined since the 1970s, and that by 1990 it was very weak, distrusted by the private sector and a serious obstacle

⁵³ AGEPE had 90 employees in 1995, of which 70 percent came from OMICI.

⁵⁴ According to the Implementation Completion Report of the Private Sector Development Adjustment Credit (June 1999): AGEPE's . . . fees are retained by the agency for funding its programs, including credit for employment creation. These programs are a waste of resources. The repayment rate under its credit schemes is less than 10 percent. It is not monitoring employment satisfactorily. Its analysis of employment in the modern sector for 1996 was not available in October 1998. . . . The government should commission an audit of AGEPE, and consider reallocating its resources (about CFAF 2.5 billion a year, i.e., about one half of the budget allocated to the Ministry of Justice) to more useful purposes.≡

to market-oriented economic growth. The main elements of the common diagnosis were as follows.

- **Antiquated legal code.** Most of the laws relating to business dated from the 19th century. They were complex, anachronistic, seriously deficient in such areas as contracts and credit, corporate financial and accounting regulations, bankruptcy and liquidation.
- **Inadequate Resources.** The Ministry of Justice (MOJ) budget was small, less than 2 percent of the State Budget in the early 1990s, with almost no provision for nonsalary recurrent costs. Courts were too few in number: three quarters of cases were handled by the Abidjan Court, inevitably clogging the system; only six first-level courts were in operation (of ten that had been created) and 26 court sections out of 39. Judges were also too few. They numbered 253 for a population of 14 million, about 1/20th of international standards. And the *greffiers* (Clerks of Court) who were responsible for administering the court's activity, were poorly trained. Only 47 of the 467 *greffiers* were *attaches* (had post-secondary education); the rest were assistants (301) and secretaries (120).
- **Inefficient and inequitable functioning.** Access to the courts was expensive and procedures burdensome. Respect for claims was irregular and contracts were frequently not enforced. Corruption was said to be widespread, encouraged by the fact that judges frequently and without penalty failed to state the grounds for rulings, and by the fact that judgements were not published. Judges' decisions were often of low quality.⁵⁵ The poor administration of judicial arrangements was attributed to: shortage of judges, their weak general training, their lack of specialized knowledge (in financial and accounting matters in particular); complex procedures and provisions that allowed defendants to adopt delaying tactics. Corruption, archaic working conditions and inefficiency in the Office of the Clerk of the Court (the *greffier*) was a major source of bottlenecks in the system.⁵⁶
- **Information** about applicable regulations and procedures was dispersed and inaccessible, and procedures lacked transparency. This led to inconsistencies in treatment of claimants; uneven treatment of private sector agents was particularly harmful to business confidence.

⁵⁵ The *Chambre des Comptes* of the Supreme Court, one of the three *Chambres* comprising the Court, received in 1993 some 150 financial accounts from municipalities and public enterprises for approval. It passed on 30 of them, suggesting a 5-6 year backlog. Misfiling, lost pieces of files were common. After hearings, arrets were not public and parts of the file were returned to the parties.

⁵⁶ According to a November 1995 Ministry of Justice analysis: A It has to be admitted that lawyers, judges, private operators and even some *greffiers* are unanimous in their denunciation of the functioning of the *greffes* as a majorXprobably the mainXobstacle to rapid and transparent justice: the dossiers or the *greffiers* themselves do not show up for hearings, forcing their postponement; important papers from files get lost and can never be found, dossiers are not kept up to date; numerous court decisions await typing, and final disposition of cases usually takes one to two years, even more if the *greffier* is not paid off (A motive ≡).

The first major move in judicial reform in RCI began in 1991, with the preparation of the World Bank's Economic Management Project (Projet d'Appui a la Gestion Economique, or PAGE). The project was designed jointly with the French Ministry of Cooperation and emerged from a decision of the two aid agencies to divide responsibility in this reform area.

The French aid agency (*Cooperation Francaise*) and the World Bank worked together through most of the 1990s, the Bank via judicial reform components in a succession of multi-component projects, the French by a \$1.3 million grant from the French Ministry of Cooperation.⁵⁷ The Ministry of Justice was to be strengthened. Better budgeting, organizational changes, computerization and tighter inspection/control were to increase transparency and raise the productivity of existing resources. The court system would be expanded--by hiring more judges and other staff and creating new courts in secondary cities. Training of judges and others would be intensified. An arbitration court for commercial dispute settlement would be created. Legal data management and dissemination would be improved by creating a documentation center. Offices of the Clerks of the Court (*Greffiers*), would be strengthened by modernizing offices in Abidjan and Dabou, training staff, acquiring computers, giving greater incentives to personnel, and simplifying legal forms. Major changes in the nature and management of the fees paid to the *greffes* would reduce corruption and raise money for court use.⁵⁸

While these internal reform efforts were under way, the RCI government and the French government were moving along a second reform path. They were working on a multinational program to modernize laws covering economic and business affairs in participating African states. This was the *Organization pour la Harmonization des Droits d'Affaires en Afrique*, known by its acronym OHADA.

In 1993 RCI signed the OHADA treaty with 14 other African countries (all Francophone) to adopt a uniform system of business laws, covering general commercial codes, company law, bankruptcy, accounting rules, and various legal procedures. Draft laws were discussed by national commissions in each country. In 1997 and 1998 six ? Uniform Acts? were adopted: on general commercial law, on company law, on surety, on simplified enforcement procedures, on bankruptcy and on arbitration. All of these are now in effect.⁵⁹

Judicial system strengthening remained on the reform table throughout the 1990s. It is still there. In addition to ongoing French judicial reform efforts, the World Bank 1998 capacity

⁵⁷ At least five World Bank projects had relevant components: PASCO (Competitiveness and Regulatory Reform project) 1991, PAGE (Economic Management Support) 1991, Financial Sector Adjustment 1992, Private Sector Development (PSD)1996. and PSD Capacity Building, 1998.

⁵⁸ See below.

⁵⁹ Revision of commercial and company law was a major reform component that had been the Bank's responsibility under the Economic Management Support Project of 1991 (PAGE). This was taken over by OHADA.

building project has legal/judicial components and the Ministry of Justice is seeking other donor support. The reform agendas were presented in various formal “Action Plans”, in 1991, 1996 and 1999. The first two were produced to meet World Bank conditions in several of its projects. The most recent (1999-2001) is targeted for inclusion in the European Union’s Sixth Adjustment Program that is part of the 8th European Development Fund budget.

The specific reforms to be implemented have been more or less the same throughout the decade. Forward movement on these reforms was very slow in the five years that followed initial steps on judicial reform in 1991. In 1995 the World Bank cut back the amount allotted to judicial reform in its Economic Management Support (PAGE) project because of lack of progress. Most of reforms proposed in the 1996 action plan were the same as those put forward in 1991; they were part of the conditionality in the 1996 Private Sector Adjustment Credit. The pace of change was quicker after 1996, but the reform agenda in the latest (1999-2001) action plan contains the elements familiar from past action plans: training for judges and other staff, speeding up the handling of litigation, computerizing the *greffes* and other entities, reinforcing infrastructure and equipment, creating an independent arbitration court, improving legal information flow, harmonizing RCI legal codes with the “Uniform Acts”: of OHADA.⁶⁰

Many reform actions have been taken. Adoption of the OHADA “Uniform Acts” has meant a wholesale renovation of business law. More judges have been hired—fifty a year from 1995 to 1997. Judges, *greffiers* and other staff have benefited from 2300 training days in 75 courses. There was significant training of trainers. At least 300 computers have been put in place in the MOJ and the courts. The Abidjan Arbitration Court (CACI) has been set up, and a National Legal Documentation Center (*Centre National de Documentation Juridique*, or CNDJ) and a *Service Central des Archives Judiciaires* (SCAJ). The General Inspectorate of judicial services was reinforced by appointment of 4 Inspectors-General, provision of training seminars and distribution of a circular on concepts and modalities of inspection.

Numerous other changes have been introduced, most of them small. A task force defined an improved methodology for drafting of laws. Judicial procedures were promulgated which are aimed at shortening the duration of cases, improving access, and lightening procedures. “Collegiality” (more than one judge present at hearings) was introduced. A law was passed creating a public prosecutor’s office at Supreme Court level. The structure and functioning of the Supreme Court were changed. A new court building was constructed in Yopougon, a big Abidjan suburb.

Significant effects of the general judicial system reforms, however, seem few. The most fundamental effort—to sanitize the fee system and improve the operations of the *greffes*--led nowhere. Computerization in the *greffes* and elsewhere in the judicial structure is regarded by everybody as a failure. Observers talk of a fiasco; most of the computer stock is unused. It took from 1991 to 1997 for the Abidjan Arbitration Court to move from intention to reality, its case load is still (in 1999) very small and will be some years before it is a significant actor. The birth

⁶⁰ Ministère de Justice, ATable Ronde sur la Justice; Projet de Document Préparatoire, ≅ 1999.

of the National Documentation Center also took many years; hatched since 1995, it has had trouble finding financing.

Even some of the clear achievements of the reform program may have generated only limited effects. Some local lawyers criticize the training program on the grounds that it provided specialized training (mainly in business law) to judges who are unspecialized and mobile. They say that many judges will therefore not much use what they learned. Resuscitation of the Inspectorate-General's office has led to no energetic rooting out of wrongdoing or incompetence; no indictments for corrupt behavior by judges, *greffiers* or others. Some reforms may even have had counterproductive effects. For example, a new law specified that *chefs de jurisdiction* (presiding or chief judges) must preside in all litigation involving more than FCFA 100 million (about \$US 180,000) This is presumably intended to raise the quality of decisions. But some critics observe that it also reinforces the political dependence of the courts on the executive branch, since all *chefs de jurisdictions* are political appointees.

In evaluators' jargon, then, the L/J reform effort has produced numerous reform "inputs" or "results", but few "effects" or "impacts". This explains apparent paradoxes in performance assessment. For example, The Bank released the fourth tranche of its Private Sector Development project funds in September 1997, judging that the MOJ had implemented satisfactorily its 1996 action plan. But a year later, the evaluators of the PSD project stated flatly that the implementation of the action plan has not improved the functioning of the judicial system. To the contrary, they argued that deterioration has continued. They pointed out that magistrates are poorly motivated, operating budgets are insignificant, the clerks of court remain unaccountable, rulings are slow and may even differ from decisions made during court proceedings. Businessmen often feel compelled to settle out of court when they are faced with abusive legal actions or when they try to enforce contracts.⁶¹

Plenty of reasons for the sparsity of effects are at hand, other than the time factor. First, institutional change in legal-judicial systems is notoriously difficult. One has only to skim some of the literature to understand that reform successes in this area are few.⁶²

Secondly, donor involvement was half-hearted, even perfunctory. French aid was limited in volume and in scope; its major theatre was OHADA. The Bank's commitment seems to have been lukewarm and partial, with intermittent involvement. Judicial component funds were cut

⁶¹ World Bank, *Implementation Completion Report, Private Sector Development Adjustment Credit (PSDAC)*, June 1999.

⁶² See R. Messick, *Judicial Reform and Economic Development: A Survey of the Issues*, in *World Bank Research Observer*, 14, 1, Feb. 1999, pp. 117-136; Elliot M. Burg, *Law and Development: A Review of the Literature and a Critique of Scholars in Self-Estrangement*, *American Journal of Comparative Law*, 25, 1977, pp. 492-530; Aeneid H. Blair and G Houser, *Weighing in on the Scales of Justice: Strategic Approaches for Donor-Supported Rule of Law Programs*, *Program and Operational Assessment Report # 7*. USAID, Washington, 1994.

from the PAGE project in 1995, for lack of activity. No conditionality was attached until 1996. Some Bank staff had questioned the wisdom of including judicial reform in the PAGE project on the grounds that Bank competence in the area was limited and resources for supervision were too thin, objections that proved to be well-founded. Moreover, the projects within which judicial reform components were placed were too complex to be manageable. The PAGE for example had components on budget reform, civil service reform, privatization and other matters. People on the ground, and Bank supervisors, had difficulty in defining who was responsible for what.

More important, RCI commitment has also been half-hearted. Some of the literature on judicial system reform argues that it shouldn't even be tried unless strong political commitment exists. Given the ambiguities in the concept of commitment, this is debatable. But lack of interest by the political leadership certainly seems to be a key factor in slow RCI progress. The slow, reluctant issuance of implementation decrees for some of the legal changes is one indication. The long gestation period for new institutions like the Arbitration Court is another. Budget appropriations have been derisory, even declining.⁶³

The most striking manifestation is the unwillingness or inability of the government to change the structure and functioning of the clerks of court, the *greffes*, probably the main bottleneck to better judicial system performance. Part of the problem arises from cumbersome, nontransparent and often ineffective procedures, from archaic working conditions and from the poorly defined status and role of the *greffier*. He is paid as a fonctionnaire but he also receives legally-specified percentages of service fees and fines). Money is the root of the problem-- the nature of the fees and fines collected by the courts, the *greffier* role as manager of these revenues, and the fact that they provide the financial foundations of the judicial system, exceeding by far the budget appropriations to the courts.⁶⁴

As noted above, the budget allocation for the entire MOJ is a little more than CFAF 5 billion, or \$US 1.6 million. This is for salaries, property amortization, operating costs, maintenance. Each court jurisdiction gets tiny amounts: the section of Dabou, for example, received CFAF 100,000 in 1995, of which 30,000 for gasoline.

The main source of funds is the revenue generated by fees/fines imposed on users for court services managed by the *greffier*. Thus the *greffier en chef* of the Tribunal d'Abidjan stated that he collected total emoluments in 1995 of FCAF 170 million, out of which he paid 50

⁶³ In 1996 the MOJ budget request was CFAF 9.3 billion. It received 5.7 bn.. Its 1997 request was for 12.1 billion. It received 5.3 billion.. The entire operating budget is 0.4 percent of the national budget. The *Cours d'Appel* receive CFAF 750,000 (\$ 12,500) a year. Each court *section* is allocated CFAF 120,000(\$ 200) for operating costs. Most of the financing of court operations comes from fees and tax-like charges imposed on plaintiffs and defendants. (Ministry of Justice, ATable Ronde sur la Justice; Project de Document Preparatoire, 1999). Fee charges are discussed below, where *greffier* problems are considered.

⁶⁴ The following paragraphs draw on Cabinet Ghelber, AEtude sur les greffes en Cote d'Ivoire, Rapport Provisoire, (Paris), 1996.

million for salaries (mainly to so-called ‘benevoles’ stenographers) and other court operating costs. The authors of a 1996 report on the greffes call the 120 million franc difference “profits”. They note that in the same year this greffier sent 92 million in fees (*redevances et droits*) to the Treasury.⁶⁵

The main source of revenue is the *droit proportionnel d’enregistrement*. This is a fee paid by the plaintiff-creditor, amounting to 5 percent of the amount owed to him--in effect an ad valorem tax on the creditor. The purpose is to record a fixed date for the final court decision. This registration fee has been strongly and widely attacked, including by the World Bank in numerous reports. It has no real purpose; the date of final court decision is announced in other ways. It is simply a tax on the already-abused creditor. If he doesn’t have the money to pay the fee his court award is not registered and he can’t receive the implementing document (the “gosse”).necessary for him to collect what he is owed.

Elimination of this registration fee was part of the conditionality of the Bank’s 1991 Financial Sector Adjustment Credit. It was in fact eliminated by a law of 1992. But budget receipts from court service fees and fines fell by 90 percent in 1993. The registration fee was reimposed the following year. It remains on the books.

The main successes of the reform decade are OHADA and the Abidjan Arbitration Court, the first because it quickly created the foundations of modern business law in the RCI, the second because it facilitates the use of alternative methods of dispute settlement, which is probably the best way to improve the judicial environment in the short-term. This is a slim yield, and new. And even here doubts nag.⁶⁶

THE ROLE OF AID

The main issues concern the causes and processes of the reforms, the relative roles of donors and internal actors in generating impetus for reform. Some aspects of reform design and

⁶⁵ The amounts collected, estimated salaries for Abenevoles and other operating costs and Anet profits to *greffiers* vary enormously from court to court.

⁶⁶ In many industrial countries 30 percent of private arbitration awards are contested by one of the parties. The case is then submitted to some appeals procedure and if procedures are judged appropriate and the award well-founded, it goes to the courts for implementation. Judging from existing practices in RCI, more than 30 percent of awards may be contested and require court action. This may dilute its effectiveness. More pertinent probably is the preoccupation about the prospects for OHADA=s institutions. The Magistrate=s School is located in Benin. It may not have the resources needed for high quality training , and the costs of bringing participants from distant UMEAO member countries may be excessive. Similarly, the Common Court of Justice and Arbitration, which is in Abidjan, may compete with the Cour d=Arbitrage de Cote d=Ivoire, and maintenance of its complement of seven judges may be very expensive. Costs of travel to and subsistence in Abidjan also may restrict use of the court by other UMEAO countries to a few large cases.

implementation are also considered. Briefly. And the applicability of hypotheses suggested by the results of econometric studies is assessed.

Causes and Processes

In labor market reform the World Bank was without doubt the lead player. Its critique of labor legislation and administration in RCI was much the same as it applied to many countries, and its general reform targets the same: make it easier for employers to hire and fire and eliminate the monopoly of the state labor exchange (OMOCI). The Bank's 1991 Competitiveness and Regulatory Reform Adjustment Program (PASCO) called for elimination of OMOCI's hiring monopoly, elimination of constraints on hiring temporary or casual labor and on collective layoffs, dropping prior administrative authorization for overtime.

Very little consultation with the affected parties characterized the labor market reform process. The trade unions say they were not at all engaged in dialogue on the nature and scope of the reforms. The dialogue took place between the World Bank and government officials. And it was a contentious dialogue. Many of the reforms were introduced only under extreme Bank pressure, and with long delays that indicated obvious reluctance. The decrees implementing the Labor Code (21 of them) did not appear until 1996, four years after the National Assembly vote, and only after their issuance was made a tranche release condition of another adjustment loan (the Private Sector Development Adjustment Credit of 1996).

Another indicator of the external origin of the labor market changes is the government's backpedaling on institutional matters. While OMOCI's legal monopoly over hiring and firing was eliminated, the government created a new public placement agency, (Agence de d'Etudes de Promotion d'Emploi, or AGEPE), to which many of OMOCI employees were transferred and which has come to act as a regulatory body, and is said to be an unequal competitor with private recruitment agencies.

The general legal/judicial system reforms were not aggressively contested as were the labor market reforms. Their problem was rather lack of government priority. But the triggers for reform in both cases were different in one important respect from those that energized the trade liberalization and social sector reforms: their origin was not in financial crisis, but rather resulted from a simmering discontent with the operation of the labor laws and the overall judicial system. The impetus to undertake judicial system reform—like probably most institutional reform—came from aid donor preoccupations and was related only to a slight degree to fiscal or monetary events. Dysfunctional or degraded institutions linger. It usually requires changes in government or ideological shifts to generate internal demand for change. In their absence, institutional reform in poor country circumstances usually requires an outside push.

This was the case with judicial system reform in RCI. A very small group of civil servants was pushing for reform in the late 80s and early 90s. Most were in the MOJ. Several became coordinators or project directors of judicial reform components in aid projects. According to one view, these officials had drawn up a reform program at the beginning of the

decade, but couldn't get support for it from local sources. So they turned to donors for assistance.

There is no evidence at hand to confirm this version of the origins of the legal/judicial (L/J) reform program. There is quite a lot of evidence suggesting that the main inspiration was from the two main donors, French Cooperation and the World Bank. Both had undertaken similar programs in other countries; it was part of their general reform agenda. Debate within the World Bank in the early 1990s, indicated staff concern about lack of RCI government commitment to this kind of reform. It had very few government champions. The L/J reform component was added to the Economic Management Support Project (PAGE) because Bank staff not only believed it was warranted by the state of RCI legal/judicial institutions, but also because a comprehensive approach to strengthening economic management required it.

Labor market reforms (flexibility in hiring and firing and elimination of the government hiring agency) were clearly hatched in Washington. No evidence is at hand that negatively affected local groups (employers, informal sector workers and the unemployed) took any initiatives before the Bank's PASCO project identification and preparation. With respect to general L/J reforms, the Ministry of Justice (MOJ) action plans of 1991 and 1996 were drawn up at the urging of French Cooperation and the Bank, and their main elements reflected the agendas of these donors. The OHADA exercise was without question of French inspiration, and its main architects were French lawyers.

Participation of private actors, whether practicing members of the bar or representatives of private firms, was not extensive. The Ivoirian National Commission on OHADA, for example, consisted of six members appointed by the MOJ. The private sector appointed no one. The result, according to some local lawyers, was that they were unaware of the ongoing reform effort, and had not participated in any consensus-building activity.

The groups whose interests were badly served by the existing L/J system were formal sector employers, entrepreneurs in the small and middle sized enterprise sector, informal sector operators, especially *commerçants*. Except for larger modern sector employers, these actors are poorly organized and have little political voice. Even professional organizations, like the bar association, have played minor political roles, and played marginal roles in the reforms.

Part of the problem is that the interest group entities do not have firm roots and solid organization. They have few staff members and little analytic capacity at their command, and modest commitment from their members. Part of the reason also is that the most vulnerable interest group, the least able to defend itself, consists of outsiders--Levantine businessmen and non-Ivoirian African foreign *commerçants*, traders. So the most likely source of reform support is the one with the least political clout.

Local interest group organizations thus appear to have had a small part in the initiation of reform, and were not aggressive supporters once the reforms were underway. The defenders of the status quo, however, were much more forceful. They have been able, for example, to prevent

reform of the *greffe* (Clerk of Court) arrangements, which contribute so heavily to the deficiencies of the L/J system.⁶⁷

Design and Methods of Implementation

Several design and implementation related features are relevant. First, aid coordination in L/J reform seems to have been unusually good. French *Cooperation* and the World Bank were the main, probably the only donors involved. (The European Union is likely to participate after 2000.) They jointly planned their interventions, and where overlapping appeared, they addressed it fairly quickly. The OHADA exercise was entirely French-led, but the Bank has helped in its localization.

Second, effectiveness was undoubtedly reduced by inadequacies in design and implementation. The Bank's involvement was half-hearted and piecemeal. The L/J component clearly occupied second or third rank in priority in the PAGE project, its first vehicle. PAGE had many ambitious components other than L/J reform, notably budget and civil service reform, and privatization. These were the main concern in supervision and otherwise. Also, local leadership was diffuse; lines of authority between the overall project management and the component directors were complicated. It was not always easy to discern who was responsible for which tasks. The attack on the *greffe* problem, in particular elimination of the *droit proportionnel d'enregistrement*, was pinned on to the Financial Sector Adjustment Credit of 1991. It did bring about a law that eliminated it. But as noted above, the fiscal impact was so severe that the law was withdrawn the following year. There seems to have been no Bank outcry, probably because until 1994, maintenance of government revenues was a major priority, and all reform questions were dominated by macroeconomic issues, especially exchange rate policy.

⁶⁷ The Ghelber report put it as follows: "That the present (*greffe*) system has become so well-entrenched and has been able to survive so much criticism means that it benefits somebody. Most legal professionals believe that the *greffier-en-chef* is the key to it. In addition to his salary, he collects and manages various service fees that are not monitored or controlled, and for which there is no detailed accounting...The government and those who must use judicial services are the losers in this arrangement. The clear gainers (other than the *greffiers*) are those who have been judged liable but do not pay what they owe, partly because they resort to delaying tactics permitted by existing procedures, and partly because of the neglect or actual complicity of implementing agents who discreetly share the revenues of the *greffier-en-chef*, directly or by devices like personal loans. . . .

There are also those people called "margouillats," informal intermediaries who promise to help plaintiffs or defendants for a price. It is depressing to observe the spectacle in the corridors and environs of the Palais de Justice, where bribery propositions fill the air...The large array of Mercedes and other luxury cars occupying the places reserved for judges on the parking lot of the Palais de Justice poses the question of the honesty of magistrates whose style of life is far more luxurious than can be financed by their official remuneration."

Moreover, PAGE attached no conditionality to the L/J component, while the other components had plenty. Evaluators of PAGE blamed the lack of progress in the L/J component on this factor. This is probably right in one sense. In a conditionality-heavy environment, tranche release conditions will monopolize government's attention and energy, especially where sizeable adjustment credits are at stake, but also where the stakes are smaller, as in PAGE. In the Bank's second round on L/J issues, it was again one of many components (in the Private Sector Development Adjustment Credit of 1996), but L/J reforms this time were made core conditions. Implementation of the required action plan of 1996 was better than earlier efforts, though, as noted above, only at a rather superficial level.

The Grand Hypotheses

What light does the L/J reform experience shed on the three overarching hypotheses emerging from recent empirical research?

First, does it confirm the hypothesis that governments choose to reform independent of the aid relationship? The answer is yes and no, but with much stronger emphasis on the no. On the yes side, lack of political commitment or will clearly played a role in obstructing reform. It is a major reason why no fundamental restructuring of the L/J system occurred during this decade of reform. Very few of the basic problems were attacked, fewer successfully. The labor market reforms required big time arm-twisting and gave rise to some backsliding. The judiciary's lack of political independence, the methods of nominating judges for example, was never raised. The attempt to reform court administration, to transform the role of the *greffiers en chef*? was quickly abandoned when Treasury receipts plummeted; nobody seems to have tried to find a better way to raise receipts in compensation. Judicial corruption was never put on the table.

On the other hand such progress as was made would have been much smaller without the aid presence. The modernization of business law through the OHADA exercise surely resulted in faster and better renovation of the legal codes affecting the market economy. The labor market reforms would have been fewer and slower. The many small steps taken to rework laws and procedures, which resulted in some two dozen actions, were at least in part the result of donor-technocrat dialogue. Private sector participation in the internal dialogue, though limited, was greater than it would have been in the absence of donors. The increase in physical facilities, new and rehabilitated buildings, the introduction of computers, establishment of new institutions (the Arbitration Court and the Documentation Center) would not have occurred, or would have occurred more slowly, without aid donor pressures and money. In short, a government largely indifferent to L/J reform nonetheless adopted many progressive changes, thanks mainly to the aid presence.

The second hypothesis states that nonfinancial aid is better than money in generating policy reform (and presumably, institutional change). Again the answer coming out of the L/J experience is a faint yes coupled to a loud no. Nonfinancial aid did play a role. The two Bank capacity building projects (in 1991 and 1998) and the 1991 French project, provided useful training, lots of equipment and some ideas. But except for OHADA and probably training,

nonfinancial aid was small in amounts, and largely ineffective. Technical assistance inputs other than for OHADA were few; the most effective were probably the critical reviews provided by experienced legal scholars and practitioners from France.⁶⁸ Computerization has been largely a fiasco, particularly in the offices of the *greffiers*. In any event, the most effective actions came when L/J reform was part of financial transfers--the labor law reforms in the PASCO project, the general changes of the late 1990s in the Private Sector Development Adjustment Credit.

The third hypothesis is that financial aid works best when reform and institutional-building are under way. This is a reasonable proposition, hard to dispute a priori. But reflection on the L/J reform experience in RCI yields no satisfactory insight into its validity. One problem is that as it is framed, the hypothesis is not really operational. The RCI has been in reform mode most of the time since 1980. Intensity varied, and backsliding occurred. But in the L/J case specifically, reforms have been "under way" virtually continually since 1991.

Moreover, financial aid and nonfinancial are not separate and different instruments for institutional reform or capacity building. In the RCI case L/J reform instruments came in nonfinancial form (French contributions to OHADA, and the 1991 grant for TA and training; World Bank Economic Management and Capacity Building projects) and as part of adjustment credits with multiple components, including L/J reform. The hypothesis thus cannot be assessed.

⁶⁸ Much of the TA provided was local. The value added is presumably the energizing of otherwise poorly-motivated local expertise. But net impact must take account of diversion of local skills from important assignments, for example, when a senior civil servant becomes a project director or advisor.

CHAPTER VIII. SUMMARY AND CONCLUSIONS

The Cote d'Ivoire is one of the most "reformed" countries on earth, judging by the time given to it, and the scope of its reform efforts. Reform programs have been present during most of the past two decades. Between 1980 and 1998 the RCI signed 9 agreements with the IMF and received 22 policy loans from the World Bank. (See Annex Tables 4 and 5). Numerous policy loans were also financed by other donors. Big sums changed hands. The World Bank disbursed approximately 3 billion (current) dollars on policy loans, the French government and the European Community hundreds of millions more. Between 1994 and 1997 the RCI was the World Bank's main policy reform customer; it received more than one-third of all the adjustment loans made by the Bank in SubSaharan Africa. It is hard to think of a single major policy area, sector or institution that has not engaged in some reform operations.

In this paper we have summarized the institutional background and the political-economic context of the reform programs, described many of the specific reforms and analyzed reform processes and—to a limited extent—their effectiveness. We have tried to answer three sets of questions. The first relates to the "causes" and processes of reform--the kinds of question emphasized in the terms of reference. What "triggered" the reforms and who was primarily responsible for their conception, design and implementation? To what extent were they externally generated? How much pressure for reform arose from domestic dissatisfaction with the status quo, from protests by local reformers? What was the nature and extent of dialogue, internal and external?

The second set of questions concerns the effectiveness of the aid for reform. Were the reforms implemented? To what extent are "effects" or impacts visible? Has the Cote d'Ivoire become a more flexible, open, competitive economy? Have local institutions been made stronger, local capabilities enhanced? These issues are addressed in the sectoral chapters which produced the insights summarized in this concluding chapter.

The third set of questions respond to the broad generalizations proposed in the terms of reference for this study: that government decisions to reform are taken independently of the aid relationship, that nonfinancial aid is a more effective reform stimulator than financial aid and that financial aid is effective only when reform is under way.

CAUSES AND PROCESSES

It has been argued that three factors generate reform: local technocrats and politicians, the influence of reform in neighboring countries, and crises. In the Cote d'Ivoire case neighborhood influences seem to have been nil. And the role of local technocrats and politicians as initiators of reform was for a long time of secondary importance. The main exception was the role of the political team before and after the devaluation decision. Financial crisis was the main impetus for change, first in the late 1970s, then more profoundly in the late 1980s. It made all the actors aware that some reforms were imperative. It made technocrats and politicians willing to listen to their anxious external supporters.

In some reform areas, local technocrats and interest groups *were* early champions of change, and even where they did not initiate reforms, the reform process allowed considerable dialogue, giving scope for local inputs on reform design and priorities. But given the context of a need for change because of financial crisis, aid donors clearly played the lead role. They generated a sense of urgency about the need for reform, crafted most of the important reform proposals, and conditioned their aid on local agreement to support them. In this sense it is hard to deny donor primacy in the origin of these reforms. This is the conclusion of the analyses of trade liberalization, devaluation, social sector expenditure reforms and efforts to strengthen legal/judicial institutions..

Trade Liberalization

In Chapter V it is noted that trade liberalization was not adopted in reaction to demands by political elites or local interest groups. The prevailing political sentiment among decision-makers was to resist these reforms. President Houphouët-Boigny thought that the RCI was sufficiently open and neither he nor his main advisors really believed that levels of protection were excessive or biased against exports. They were not persuaded by World Bank-financed technical studies on patterns of effective protection. Nor did the private sector play a significant role in the trade reforms, though in recent years it has been more active and influential. (One example is its success in supporting World Bank demands that the public sector export promotion agency (CCIA) be replaced by the privately managed APEXCI.)

Trade reforms were adopted in response to the pressures of a severe financial crisis caused by a decline of world prices of cocoa and coffee, losses of foreign exchange and fiscal revenues and heavy debt burden. The nature and, less clearly the pace, of trade liberalization was determined by the World Bank. It was generally opposed by the administration and by a well-sheltered business community fearful of external competition. The local reaction was to urge “prudence”—that is, a slower pace of reform than was pushed by the World Bank.

Moreover, indigenous reform-making capacity was too weak to generate a homegrown reform package. And internal dialogue on trade policy (and other reforms) was complicated by the existence of DCGTx (*Direction de Control des Grands Travcaux*, a Houphouët-created, French- managed parallel administration. It was staffed by numerous expatriates and had wage policy freedom that allowed it to recruit highly competent Ivorians. In the internal debate DCGTx overpowered the technical ministries. Between 1986 and 1991, DCGTx was formally responsible for economic policies and programs, including the adjustment programs. This agency was generally suspicious of trade liberalization, reflecting French *dirigiste* traditions (and the sentiments of President Houphouët) in this matter.

Devaluation

The 1994 change in the parity of the CFA franc was clearly an imposed reform. Its origin was in financial crisis, due mainly to changes in the RCI's terms of trade. The first financial crisis, in the late 1970s, had been (temporarily) resolved by favorable changes in terms of trade and exchange rates; world cocoa and coffee prices rose in 1984 and between 1980 and 1985 the French franc was devalued and the dollar appreciated. But financial crisis reappeared in the late 1980s, as the external environment moved unfavorably. Between 1988 and 1993 the country struggled to avoid falling into arrears on its external debt.

The RCI political class and all urban groups were strongly opposed to devaluation. Various reasons were given. Some argued that devaluation was not necessary, that policy changes focused on productivity improvements combined with probable improvements in world commodity prices would reestablish stability and growth. Many thought it wouldn't work. Changing relative prices in this inflexible economy would not bring about the required supply responses. Devaluation would probably not be "effective" anyway, since the government was not strong enough to impose the fiscal discipline required if repeated devaluations were to be avoided. The rise of imported consumer goods prices would brutally reduce urban real incomes, with resulting high risk of political chaos. Above all, President Houphouet was perhaps the fiercest opponent, for reasons probably more political than economical.

In France, the major partner in the Franc Zone, many of these same ideas and concerns prevailed, and others as well. Many worried that the Franc Zone itself might not survive the turbulence that could be unleashed, especially since many member countries opposed any change in parity. They feared that, due to sociopolitical troubles, the lives and property of thousands of French citizens residing in the RCI could be endangered, as well as the investments of the numerous French enterprises operating there. Difficult practical problems existed, notably how to reach, secretly, a consensus on the timing and nature of the change without major exacerbation of capital flight.

For all these reasons a rearguard action was vigorously fought between 1988 and 1993 to maintain CFA parity. Four events led to change: the illness and death of Houphouet and the nomination of a more devaluation-friendly Prime Minister; the resounding failure of the 1990 effort to cut nominal wages; the deteriorating situation within the Franc Zone and the resulting financial costs being borne by France; the unwillingness of major donors, especially the World Bank, to continue lending, as indicated by a sharp fall in aid disbursements in 1992-1993.

Education and Health Sector Reforms

The main trigger for the social sector reforms of the 1990s, similarly, was the financial crisis and the need to contain social sector expenditures if macroeconomic stability was to be attained. Donors were the main bearers of this message. The reform program focused on cost-cutting, increased equity in social expenditures and greater internal and external efficiency. The

first two were donor preoccupations much more than local. The specific reforms were crafted mainly by donor staff.

The outside impetus is clearest with respect to the idea that expenditures should be restructured in favor of primary education and primary health care. The Ivoirian leadership was preoccupied until 1994 with debt crises and the devaluation issue. There was not much residual energy for, and only modest interest in, social sector expenditure reallocations. There much not much conviction that cutting back on tertiary level social sector spending was the right policy, and little taste for the political risks involved in restricting university access. The need for general budget and balance of payments support was the main reform motor. Finance and planning ministries negotiated adjustment credits that were supposed to be about reform of education and health sectors. But the real purpose was to close financial gaps, to bring in the program money. Thus the Education and Health ministries participated relatively little in negotiations on the Human Resources Development Program, the \$360 million adjustment credit begun in 1991; substantive concerns were in the back seat during its implementation. Local ownership of major objectives (and conditionalities) was minimal.

Donor dominance also was due to the fact that capacity in the government was too limited to enable it to take the lead. This changed in the mid-1990s, when a stronger, more experienced corps of local technicians began to assert itself, drafting documents like the Policy Framework Paper . But for the first generation of sweeping reforms, capacity constraints limited the domestic contribution. Moreover, few local champions were apparent. Most of the actors-- education and health ministry personnel, teachers, doctors, nurses, pharmacists, and others, were neutral or opposed. This is hardly surprising, since the reforms involved many changes contrary to their economic interests. Their professional associations were in any event not vocal. Students at the secondary and tertiary levels were actively opposed.

Nor is there evidence of any popular insistence on reforms of the cost-cutting, equity-enhancing type. Users of health and education services expressed little dissatisfaction with the status quo, other than that services were too few and quality too low.. This was particularly the case for health care. For example, a recent survey of users of health facilities found general satisfaction with respect to the care provided; the main complaint was lack of medicines.

Legal and Judicial System Reform

This reform arena had two segments—labor law modification and general system reform. In both the main initiatives came from aid donors. In labor market reform, the World Bank was without doubt the lead player. Its critique of labor legislation and administration in RCI was much the same as it applied to many countries, and its general reform targets the same: make it easier for employers to hire and fire and eliminate the monopoly of the state labor exchange (OMOCI). The Bank's 1991 Competitiveness and Regulatory Reform Adjustment Program (PASCO) called for elimination of OMOCI's hiring monopoly, elimination of constraints on hiring temporary or casual labor and on collective layoffs, dropping prior administrative authorization for overtime.

Very little consultation with the affected parties characterized the labor market reform process. The trade unions say they were not at all engaged in dialogue on the nature and scope of the reforms. The dialogue took place between the World Bank and government officials. And it was a contentious dialogue. Many of the reforms were introduced only under extreme Bank pressure, and with long delays that indicated obvious reluctance. The decrees implementing the Labor Code (21 of them) did not appear until 1996, four years after the National Assembly vote, and only after their issuance was made a tranche release condition of another adjustment loan (the Private Sector Development Adjustment Credit of 1996).

The general legal/judicial system reforms were not aggressively contested as were the labor market reforms. Their problem was rather lack of government priority. But the triggers for reform in both cases were different in one important respect from those that energized the trade liberalization, exchange rate and social sector reforms: their origin was not in financial crisis. It rather resulted from a simmering discontent with the operation of the labor laws and the overall judicial system. The impetus to undertake judicial system reform—like probably most institutional reform—came from aid donor preoccupations. After all, dysfunctional or degraded institutions often linger; political or ideological shifts are usually needed to generate internal demand for change. In their absence, institutional reform in poor country circumstances seems to require an outside push.

This was the case with judicial system reform in RCI. A very small group of civil servants was pushing for reform in the late 80s and early 90s. Most were in the MOJ. Several became coordinators or project directors of judicial reform components in aid projects. According to one view, these officials had drawn up a reform program at the beginning of the decade, but couldn't get support for it from local sources. So they turned to donors for assistance.

There is no evidence at hand to confirm this version of the origins of the legal/judicial (L/J) reform program. There is quite a lot of evidence suggesting that the main inspiration was from the two main donors, French Cooperation and the World Bank. Both had undertaken similar programs in other countries; it was part of their general reform agenda. Debate within the World Bank in the early 1990s indicated staff concern about lack of RCI government commitment to this kind of reform. Very few government champions could be identified. The L/J reform component was added to the Economic Management Support Project (PAGE) because Bank staff not only believed it was warranted by the state of RCI legal/judicial institutions, but also because it was methodologically correct; a comprehensive approach to strengthening economic management required it.

Labor market reforms (flexibility in hiring and firing and elimination of the government hiring agency) were clearly hatched in Washington. No evidence is at hand that negatively affected local groups (employers, informal sector workers and the unemployed) took any initiatives before the Bank's PASCO project identification and preparation. With respect to general L/J reforms, the Ministry of Justice (MOJ) action plans of 1991 and 1996 were drawn up at the urging of French Cooperation and the Bank, and their main elements reflected the agendas

of these donors. The OHADA exercise was without question of French inspiration, and its main architects were French lawyers.

Participation of private actors, whether practicing members of the bar or representatives of private firms, was not extensive. The Ivoirian National Commission on OHADA, for example, consisted of six members appointed by the MOJ. The private sector appointed no one. The result, according to some local lawyers, was that they were unaware of the ongoing reform effort, and did not participate in any consensus-building activity.

The economic groups whose interests were badly served by the existing L/J system were formal sector employers, entrepreneurs in the small and middle sized enterprise sector, informal sector operators, especially traders (*commerçants*). Except for larger modern sector employers, these actors are poorly organized and have little political voice. Even professional organizations, like the bar association, play minor political roles, and played marginal roles in the reforms.

Part of the problem is that the interest group entities do not have firm roots and solid organization. They have few staff members and little analytic capacity at their command, and modest commitment from their members. Part of the reason also is that the most vulnerable interest group, the least able to defend itself, consists of outsiders--Levantine businessmen and non-Ivoirian African foreign *commerçants*, traders. So the most likely source of reform support is the one with the least political clout. Local interest group organizations thus appear to have had a small part in the initiation of these reforms, and were not aggressive supporters once the reforms were underway. The defenders of the status quo, however, were much more forceful—beneficiaries of the *greffe* fee system in the courts, for example.

EFFECTIVENESS

How effective have the reforms been? The question can be discussed at many levels. We focus on three. First, have the promised or targeted reforms actually been implemented? This involves looking at reform “inputs” or “results. Second, have the implemented reforms led to any real changes in the way things work? In evaluators’ jargon, these are “effects”. Finally, were the reform concepts and designs appropriate and implementation approaches sound?

Reform Inputs (“Results”)

Scores of reform measures have been adopted by the RCI in the past decade. The extent to which they have been implemented varies between sectors.

The record seems best in exchange rate reform (the change in parity) and in trade liberalization. Devaluation has reduced the real effective exchange rate—by some 30 percent in 1997—and this has augmented competitiveness. Tariff levels and dispersion have been reduced. The weighted average tariff rate fell from 37 percent in 1990 to 27 percent in 1995. Nontariff barriers have been removed, tariff exemptions cut back, the rate of effective protection lowered.

Far-reaching institutional changes have magnified the private sector role. Cocoa and coffee marketing has been liberalized, as has rice importing and marketing. Large scale agriculture (oil palm, rubber, sugar) has been privatized, as have public utilities and some industrial enterprises. It is the same in maritime transport and key trade related institutions like the export promotion agency.

In the social sectors numerous reforms were implemented. Education sector costs were contained, by cuts in teacher salaries and benefits and near-freezes on increases. Expatriate TA teachers virtually disappeared, 1100 assistant teachers were hired, 2500 administrators were put back in primary classrooms. Student subsidies (for scholarships, food, transport) were cut by 20 percent in real terms and by half in terms of budget share between 1992 and 1996. Efforts were made to increase quality at the primary level—by creating “pilot schools”. Nonsalary operating costs tripled as a share of the education budget. In the health sector some cost recovery was introduced and use of generics encouraged. In both sectors intensive management improvements were undertaken, notably by introducing sector plans, annual programs and budgets, and performance indicators.

However, implementation with respect to the achievement of expenditure targets was poor. Instead of rising, education’s share of the total budget fell from 34 percent in 1992 to 27 percent in 1996, and the health sector share of recurrent spending also fell. The primary health care sector received a falling share of the public investment program until the mid-1990s. and in 1997 its share (20 percent) remained below the share of the tertiary sector (hospitals, administration). Most significant, the promised reallocation of spending in favor of primary education and health did not occur. Primary school spending actually fell, from 52 percent of the education budget in 1991 to 47 percent in 1995. Primary health was supposed to rise from 35 percent of the current budget in 1991 to 42 percent in; 1995. Instead, it fell to 32 percent. The benefits of public spending on health and education remain unequally distributed. Only half of the poorest fifth of households benefit have children in primary school. Of the total education subsidy, the poorest fifth gets 14 percent, the richest 35 percent.

Many reform actions have also been undertaken or agreed to in the legal/judicial area. The labor codes have been revised, hiring and firing made more flexible, the state labor exchange monopoly ended. Business law has undergone a wholesale renovation by adoption of the OHADA “Uniform Acts”. More judges were hired—fifty a year from 1995 to 1997. Judges, *greffiers* and other staff have benefited from 2300 training days in 75 courses. At least 300 computers have been put in place in the MOJ and the courts. The Abidjan Arbitration Court (CACI) has been set up, and a National Legal Documentation Center and a *Service Central des Archives Judiciaires* (SCAJ). The General Inspectorate of judicial services was reinforced by appointment of 4 Inspectors-General, provision of training seminars and distribution of a circular on concepts and modalities of inspection. A law was passed creating a public prosecutor’s office at Supreme Court level, and the structure of the Supreme Court was revised. A new court building constructed in an Abidjan suburb. And numerous other, less visible changes have been introduced, such as an improved methodology for drafting of laws and rules aimed at shortening the duration of cases, improving access, and lightening procedures.

Effects (“Impacts”)

The determination of inputs (or “results”) is the first step in reform assessment. It answers the question: were the specific reform actions that were agreed to or planned undertaken? The next step is to ask whether the reform inputs were “effective”.

In two senses. First, were the reform actions undermined by contrary actions or policies? Fiscal and monetary looseness can frustrate an exchange rate devaluation. Tariff reductions can be offset by changes in commodity classifications or imposition of minimum (“reference”) prices. Some of this kind of reform back-pedaling has occurred in the RCI. One example is the government’s creation of a substitute labor market institution (AGEPE) following elimination of the OMOCI. There appears also to have been some customs behavior that offsets tariff reductions, but we do not know how much. Also, agencies and/or officials have in some instances subjected traders to price controls, demanding price information or imposing fines despite price deregulation.

Second, did the reforms bring about changes in performance or functioning? Did macroeconomic and trade policy changes have positive effects on growth? Did quality of social services increase? Are labor markets more flexible, the legal/judicial system more transparent and efficient?

These are difficult questions to answer. Some hints nonetheless emerge from our sectoral reform studies. There is, for example a strong presumption that the change in CFA parity and trade liberalization have stimulated growth and had other positive effects. The economy; has grown at 5-6 percent a year during the past five years, much faster than before. Investors have returned, more enthusiastically to the RCI than to any other African country. These positive changes are not due to policy reforms alone. Favorable terms of trade movements and large post-devaluation aid inflows have also contributed. But the reforms were critical.

Trade and price liberalization has been effective, though local opinion has some reservations. The playing field is not even; there is some discriminatory and unequal treatment linked to political and family connections. Also, there are cases where insufficient information about decontrolled prices subjects small private actors in trading activities to the corrupt practices of civil servants. The business community is favorable to liberalization with equal treatment for everybody. Tariff reductions and price decontrol have not hurt local businessmen. Spokesmen for 31 percent of the firms questioned in a mid-1998 survey thought that liberalization has had a positive impact and 55 percent reported no impact. Very few (3 percent) indicated negative effects.

One important reform that was strongly contested by Ivoirians has proved successful in terms of effects on market operation. This is the liberalization of coffee marketing. The 1998/1999 marketing season was the first under new, liberalized trading rules. It was a clear success. A widely-held expectation was that marketing margins would rise, with traders and

exporters expropriating more of the value of the crop. In fact, marketing margins fell in absolute terms and the price received by producers rose both as a percentage of the FOB price (from 52 percent to 67 percent) and in absolute terms. Producers thus benefited; traders and government lost. This result was facilitated by the small coffee harvest in 1998, but nonetheless demonstrated that the markets worked competitively. Liberalization also has encouraged efficiency-enhancing changes in marketing structures.

In social sector reform, we have already seen that most equity enhancing objectives were not attained; primary education and health care have not been favored in public expenditure allocations. Moreover, the internal efficiency of the educational system has improved little. While in nominal terms, for example, nonsalary budget shares rose sharply, they fell in real terms because of devaluation-induced price increases. Repetition rates have not declined, pupil-teacher ratios have not fallen, public sector professional/vocational training has improved little. In health, investment in urban hospital facilities remains high. And while higher education continues to receive large budget shares, the general view is that quality of instruction has seriously deteriorated. Management reform has been slow and uneven, particularly in the health sector. The major programming and budgeting exercises introduced as part of the conditionality of the early 1990s have left few traces.

As for legal/judicial reforms, not many effects are observable yet. A recent World Bank evaluation found that reform efforts have not improved the functioning of the judicial system. To the contrary, the evaluators argued that deterioration has continued. They pointed out that magistrates are poorly motivated, operating budgets are insignificant, the clerks of court remain unaccountable, rulings are slow and may even differ from decisions made during court proceedings. Businessmen often feel compelled to settle out of court when they are faced with abusive legal actions or when they try to enforce contracts.

The judgement may seem harsh. There have been some forward steps and all institutional reforms take time. But the yield from the decade of effort in judicial reform in RCI nonetheless seems slender. The most fundamental effort--to sanitize the fee system and improve the operations of the *greffes*--led nowhere. Computerization in the *greffes* and elsewhere in the judicial structure is regarded by everybody as a failure; the word fiasco is applied to it. Most of the computer stock is unused. It took from 1991 to 1997 for the Abidjan Arbitration Court to move from intention to reality, its case load is still (in 1999) very small and will be some years before it is a significant actor. The birth of the National Documentation Center also took many years; hatched since 1995, it has had trouble finding financing. Most important, no anti-corruption policies or programs have been introduced.

Part of the explanation for partial implementation and sparse effects can be found in design flaws or faulty methods of implementation.. These will be outlined below. But other important factors were at work. Until 1994, avoidance of arrears and maintenance of donor inflows was the overriding Ivoirian objective, diverting official energies from agreed reform programs. So many reforms had little government ownership; they were the price to be paid for external support. In addition, many Ivoirians were unconvinced that some of the reforms were soundly conceived. For example, few agreed with donors that expenditures should be

reallocated from tertiary to primary education. Changes in the environment made implementation extremely difficult in some cases, the vast expansion in numbers of university students after 1990, for example, made expenditure reallocations particularly unmanageable. In some instances donor supervision capacity was inadequate. This was so in the case of legal/judicial reforms.

Reform Program Design and Methods of Implementation

There is broad agreement that the content of the reform programs has been pertinent. Questions can be raised of course about priorities and the realism of objectives. It was probably utopian to expect major reallocations of expenditure to primary education and health care at a time when university enrolments rose from 20,000 to 50,000 and university infrastructure and teaching was deteriorating, and when donors were willing to provide grant funding for urban hospital rehabilitation. Similarly, the contradiction between cutting teacher salaries and raising educational quality may not have been given enough attention.

There was also some possible misreading of institutional contexts, as in the case of the World Bank attempt to restructure health sector organization by creating health “districts”, despite its novelty and lack of fit with other donor operations. Another example may be the focus on business law in the training program for judges, despite their unspecialized responsibilities. Also, the strong and early emphasis on labor market reforms may have been ill-advised. It used up lots of donor political capital for probably small benefits; private employers probably had adapted to the old system and the reforms did not in the end mark a great improvement in flexibility and freedom from harassment. But much of this is second-guessing and debatable. In general, the reforms have been well-targeted on needed and important structural reforms.

Other design or implementation weaknesses are less debatable. First, key elements of the reform program were so closely integrated into adjustment operations that the substantive reforms became a sideshow to the main drama—obtaining program money to close financial gaps. A recent World Bank project paper summarized the problem this way.⁶⁹

The main lesson of the Human Resources Development Project and the parallel TA project, the Human Resources Management Support Project, is that programs must be fully owned and carefully developed by *sectoral* (my emphasis) stakeholders for budgetary objectives to be met. The HRDP was prepared largely through the Finance Ministry. It consisted more of a series of economic interventions rather than of substantive sectoral interventions, and did not address issues such as the quality of education or human resource management. Sectoral management felt little incentive to achieve goals that did not reflect its own priorities.

⁶⁹ World Bank, Project Appraisal Document, Cote d’Ivoire. Education and Training Support Project,? May 1998).

Related to this, implementation of some of the programs was perfunctory. In judicial system reform each of the donor partners (France and the World Bank) had other preoccupations. French attention was concentrated on broader Franc Zone regional reforms—the OHADA operation. The Bank had too little capacity to adequately supervise the program; it focused on other components of projects into which judicial reform had been inserted. The RCI government was equally half hearted in its implementation. It made one effort to reform the *greffier* fee system, retreated when that negatively impacted on budget revenues and never tried again.

Finally, too many reforms were to be implemented at the same time without due attention to the government's limited absorptive capacity. A classic example is the European Union program of accelerated construction of rural health posts. The program demanded faster spending than was customary in the Health Ministry. It also included a secondary objective, of stimulating local construction entrepreneurs. An audit of the program in early 1999 revealed improper procedures for perhaps a third of expenditures. Officials have been fired and jailed and the program put on hold.

With respect to conditionality, prevailing wisdom has it that there is too much of it, and that it is ineffective. Both propositions seem in accord with empirical observation. However, the Ivoirian experience does not altogether confirm these generalizations. First, it is not clear that all projects or programs have too many conditions. The Bank worked hard to limit the number of conditions, for example in the Human Resources Development Program, which had «floating «conditionality; tranche releases were numerous and spread out, each depending on implementation of two conditions, only one of which was a core condition. (It should be noted that there is no evidence that this made much difference in the unfolding of the program.)

Given the large number of programs in operation at any moment, even when individual project conditionality is restrained, the aggregate burden of conditionality is heavy, at least on core economic ministries. The real problem derives from the marriage of weak technical ministries and ardent donors.. Weak ministries often find large aid programs unmanageable. In the RCI the health sector provides only the most striking example. The dilemma is that donors often have their greatest enthusiasm for projects in weak ministries.

The RCI case suggest also that conditionality may be more effective than is commonly thought. An odd feature of many of our interviews was the repeated argument that *more not less* conditionality was needed. Officials make this argument because they believe that only aid that is conditioned will reach their ministry. More generally, there is throughout the political system a pervasive skepticism about the reality of government's interest in reform. Virtually all representatives of civil society we spoke with (trade unionists, journalists, lawyers, university professors, students and private businessmen) expressed doubts about the government's commitment to true reform. Similar doubts circulate among technocrats in the civil service. These champions of more aggressive reform not only distrust the government, but typically have a strong sense of their own political powerlessness. Since they see the political system as unresponsive to internal demands for reform, they believe donor-imposed reform is the only

option. Hence the reliance on external players, especially the Bank, and calls for broader and deeper conditionality, more vigorously monitored and sanctioned for nonperformance.

THE GRAND HYPOTHESES

We summarize here the sectoral analyses of the three “grand hypotheses” set out in the terms of reference: that governments choose to reform independent of the aid relationship; that nonfinancial aid is better than money in generating policy reform (and presumably institutional development also); and that aid works best when reform and institution-building are under way. What does the reform experience of the RCI tell us about these hypotheses?

Did the Cote d’Ivoire Government Choose to Reform Independently of Aid Donors?

This has been expressed in various forms: that aid has no impact on policy, or that aid can’t buy reform. This view, a major conclusion of the World Bank’s influential study, *Assessing Aid*, is shared by some Ivoirian officials. One said that the Bank and others who believe that their efforts have induced reform are fooling themselves, much like Chanticleer, who thought his crowing made the sun come up.

In its more extreme versions, this is not a tenable argument. Until the mid-1990s at least, donors conceived, designed, financed, helped implement and evaluated the vast majority of reforms. Certainly there were more reforms, and probably better ones, because of the aid presence.

In the devaluation case, it is evident that government did not decide first against devaluation, then later in its favor, independently of aid relationships. In the pre-1994 period, some reforms were adopted because they were necessary to win donor support of the no devaluation policy. External assistance allowed retention of the existing parity until 1994, and it was the suspension of aid and promises of abundant post-devaluation donor support that provoked the devaluation.

In the case of institutional reforms in education, health and the judicial system, aid has had positive effects on reform even though implementation has been partial and some of the institutional reforms (performance budgeting in education, for example or computerization of the *greffes*) did not “take” or were not sustainable. For all their imperfections, the reform programs would have been different in content (less good), slower in implementation, probably less effective in results in the absence of donors. Action-oriented studies, training, and study tours would have surely been fewer in number and probably less good had external financing been absent. Reform messages such as the need to make the economy more open, encourage the private sector, strengthen public expenditure management and reallocate spending to primary levels would have been much more muted.

Some of the least popular measures, such as salary cost containment and reductions in student subsidies would have been less effective. The harmed interest groups were told that it

was essential to follow this path because the World Bank insisted on it and large aid inflows depended on it. The debt relief initiative is now cited by the government in all austerity-related discussions with stakeholders.

Probably the most effective vehicle for aid influence has been the dialogue, formal and informal, surrounding program preparation and supervision. When, during project preparation or supervision, the Health Ministry proposes that more nurses be recruited, donor staff suggest concentrating more resources on training and supervision. When the Ministry requests help for building up in-house maintenance capacity for biomedical equipment, the donor counterpart suggests contracting out that function. A chef de service says he needs an administrative secretary who knows all about the Ivoirian legal code. The donor spokesman asks why he needs that rare and costly competence. These are positive examples; of course not all donor staff suggestions are good.

Can it be seriously argued that the government introduced, independent of aid relationships, the reforms in trade policy, in labor market operation, in liberalization and privatisation (especially in areas of hard core domestic opposition such as cocoa and coffee marketing and maritime transport)? Can it be doubted that such progress as was made would have been much smaller without the donor ideas, pressures and money—that modernization of business law would have been slower, civil society participation in the internal dialogue even less active, increases in physical facilities and equipment smaller and innovations like the Arbitration Court fewer?

The hypothesis that aid has had no effect on reforms can perhaps be partially resuscitated by framing it more restrictively. If it is taken to mean that decisions on basic political or ideological choices are determined by governments independent of the aid relationship, it is more credible. Lack of political commitment clearly played a role in obstructing reform. It helps explain why no expenditure restructuring took place in the social sectors, why there occurred no fundamental restructuring of the L/J system, why the labor market reforms required big time arm-twisting and gave rise to some backsliding. The judiciary's lack of political independence, the methods of nominating judges for example, was never raised. The attempt to reform court administration, to transform the role of the *greffiers en chef* was quickly abandoned when Treasury receipts plummeted; nobody seems to have tried to find a better way to raise receipts in compensation. Judicial corruption was never put on the table.

These are areas not reached by the largely externally-driven reform efforts of the past decade. They involve matters decided by government, not donors. But it is nonetheless true that in numerous instances, aid did lead an indifferent or unwilling government to adopt growth and equity-enhancing reforms.

Did Nonfinancial Aid Generate More Reform than Money Aid?

In this study "nonfinancial aid" is defined as free standing technical assistance, donor economic and sector research, or advisory services. Nonfinancial aid did play some role. Studies done by the World Bank for the Competitiveness project (PASCO) provided analytic

support useful in the intense dialogue of the late 1980s and early 1990s. Also, the two Bank capacity building projects with legal/judicial components (in 1991 and 1998) and a 1991 French project for judicial system reform, , provided useful training, lots of equipment and some ideas. The numerous studies on social sector reforms also played some role, according to local testimony. But generally the RCI experience provides thin support for this hypothesis.

Nonfinancial aid, for example, did not have a stronger impact than conditioned financial aid on the decision to devalue. The devaluation decision was made at the highest political levels. It might have been influenced by economic ideas, analysis, or the simulations done in Washington or in France on the anticipated effects in the RCI. But given the nature of the decision, its close link to fiscal imperatives and its eminently political dimension, financial aid surely played the essential role.

In the L/J arena nonfinancial aid was small in amounts, and largely ineffective. It does not seem to have been significant except for OHADA. The most effective actions came when L/J reform was part of financial transfers--the labor law reforms in the PASCO project, the general changes of the late 1990s in the Private Sector Development Adjustment Credit.

The same is true in other areas of institutional reform.. In the education and health sector reform programs technical assistance projects were handmaidens of financial aid projects. Nonfinancial aid that is untied to money seems to have been rare. Also, financial aid projects themselves carried a great deal of nonfinancial baggage. The adjustment credits have had studies components, training tours, training seminars, and so forth. Many studies and much dialogue occurred during the long project gestation periods –commonly three or four years.

Studies and dialogue attached to money are a priori likely to be more effective than *free-standing* studies such as most of those in World Bank economic and sector work. The money is almost sure to make research and dialogue more action-oriented. It claims attention, concentrates minds in a way that free standing studies do not.

Did Financial Aid Work Best When Reform and Institution Building Were Under Way?

This is not an operational hypothesis. In the 1990s at least, reforms and institution building of some sort are almost everywhere and always “under way.” In the RCI, reforming of some kind was going on most years in the 1980s and every year in the 1990s. Moreover, financial aid and nonfinancial are not separate and different instruments for institutional reform or capacity building.

The proposition is ambiguous in other respects. It can be taken to be a sequel to the proposition that financial aid does *not* work when policy/institutional reform is *not* under way, which is unclear but partially correct. It applies in cases where there exist fundamental macroeconomic disequilibria, for example the 1988-1993 situation of the overvalued CFAF. In fact structural reforms moved forward very slowly during this period. But the hypothesis is incorrect in its extreme form. Even in the bad macro policy/institutional environment before

1994, financial aid had some positive effects, and would have had more if appropriately delivered. In any event, if the argument is that aid works *better* in good environments, it is surely true but not very interesting.

CONCLUDING OBSERVATIONS

The reform history of the RCI has been uncommonly contentious-- a bruising experience for all parties. The World Bank, the chief agent of these reforms, is regarded by many Ivoirians as an organization peopled by an arrogant staff, ideologically motivated, poor at assessing institutional conditions and constraints. Distrust and hostility exists on both sides—a surprising amount on the Ivoirian side, given the more positive views recorded in the 1998 World Bank Client Survey. On the donor side many believe that the record shows persistent weakness in the commitment to reform; some suspect promotion of private interests and corrupt inclinations lie behind reform postures.

The rough path to reform in RCI is not surprising, given its unique historical experience. Ghana, Uganda, and most reformers of the 1980s and 90s came to the reform table not only with wrecked economies but with discredited policy models or strategies of development. Not so the RCI. The Ivoirians came with a history of brilliant growth. And they were convinced that the “Ivoirian miracle” had come about because their policies were right: monetary and exchange rate stability and openness based on membership in the Franc Zone; priority to agriculture, reflected in the fixing of high producer prices, state-controlled marketing, the creation of large state plantations; protection and price controls to stimulate investment. For many years into the reform process, most of the political class continued to believe that this model was still valid.

The external reformers’ policy models were of course in fundamental disagreement with that of the Ivoirians. The resulting confrontation was more combative than elsewhere because the Ivoirians continued to believe that their model was tested and successful, that of the Bretton Woods institutions ideological and of uncertain applicability.

The contentiousness of the reform experience derived also from more general sources. Even with committed, reforming governments, donors almost always regard the pace of reform as too slow and their reach too shallow. This happens because in all cases reforming governments are less sure than donors about the appropriateness of donor prescriptions. Reforms can also be restrained because local political leaders question their political feasibility or judge their risk to be too big. Donors, with less on the line and hence less risk-averse, can be expected to have more expansive views about where the edge of the envelope lies. Where donors have large political and economic stakes at risk, as was the case with France on the devaluation issue, they are, unsurprisingly, more cautious.

Despite distrust and suspicion in RCI-donor relations, the contentiousness that has marked the past decade of reform , and continuing doubts about the extent of local political commitment , the RCI is a much different economy than it was in 1989. It is more open, far less

dirigiste, more congenial to private activity. Much of this has to be credited to the country's external partners/financiers.

Many worries remain. The demand for more conditionality expressed by technocrats and members of civil society reflect a pervasive lack of confidence in the openness and responsiveness of the political system, a problem which has grown more ominous in recent months. The industrial sector remains highly protected; it has not yet been exposed to serious competitive pressures, so the extent to which real adjustment has taken place in that sector is unknown.

Finally, there is the problem of excessive donor expectations and potentially harmful missteps. Where there is fundamental disagreement, as for example in the case of reallocating public expenditures to primary health and education and away from urban hospitals and universities, donor expectations are unlikely to be met. Donors should distinguish between wishful thinking and real objectives. It would be wrong to give the RCI a bad grade for failure to meet ambitious, externally-generated goals, especially when the effort to meet those goals distorts priorities, as in the social sectors. Implementing capacity constraints have been systematically underestimated in the past, and are being neglected in some present planning. The expansion of rural facilities in the health sector is the clearest example. (See Chapter VI.) The story of the European Union's failed effort to accelerate spending in the primary health care sector, and the 1999 suspension of the World Bank's main health project illustrate two of the main conclusions of this paper—that aid *can* buy reform—but only *some* reform; and that no matter how strong the commitment, unless reforms are soundly conceived and well-implemented they will be ineffective and possibly counterproductive.

ANNEX I: PERSONS INTERVIEWED*

Mme. Kouadio, MENFB	M. Seka Seka, FIPME
M. Koumenan Mougo, Min. Dev. Industriel & PME	M. Jacques Kouassi Kaouadiom ,MOJ
M. Mian Phillippe, Primature	M. Flinde Albert, MEF
M. Jean-Paul Monne, MEF	M. Alexandre Assemien, MPPD
M. Sain Oguie, Chambre de Commerce	Mlle Yman Ginette, MPPD
M. Kone Mamadou, Min. Sante	Ministre Ahoua N'Doli
M. Yao Francois FESACI	M Lylla Lansana, MEF
M. Toure Theophile, MENFB	M. Bernard Laborderie, UE
M. Bruno Assemien, MENFB	M. Honorat Kacou, METFP
M. Kouassi Kouame, D.G. Budget	M. Koffi Koffi
M. Prosper Akmel Akpa, CEPCI	M. Legelin, Coop. Francaise
M. Eno Ephrem, Primature	M. Adiko Niamkey, UGTCI
M. Honorat Kacou, MET	M. Coulibaly Alassane, UGTCI
M.M.Guy Mbengue, APEXCI	Me N'Gata, Batonnier
M. Desire Conde, FENADYS	M. Guy Terracol, AFD
M. Pierre Ewencyk, FMI	M. Aka Narcisse, CACI
M. Traore Soungalo, CNPI	Etudiants et Faculte, Cires, Univ.Abidjan
M. Demazere, Cooperation Francaise	M. Aurelien Agbenouci, PNUD
M. Seydou Ba, CCA de OHADA	M.inistre Tidjane Thiam, PPPD
M. N'Doumi, MESRS	Ministre Guy-Alain Gauze, Com Ext.
M. Francis Declerc, Pres. Comptables	S.E.M. Daniel Kablan Duncan

*Listed in the order that they were seen.

ANNEX II. STATISTICAL TABLES AND FIGURES

Annex Table 1
Total Net ODA by donors, 1960-97

	Current US \$ mn			Constant 1996 US\$ mn		
	Bilateral	Multilateral	Total	Bilateral	Multilateral	Total
1960	0,0	0,0	0,0	0,0	0,1	0,1
1961	1,0	2,1	3,1	6,5	13,7	20,2
1962	2,0	6,2	8,3	13,1	40,5	53,6
1963	2,1	5,8	7,9	13,7	37,5	51,2
1964	31,8	6,3	38,1	206,2	41,1	247,3
1965	27,8	9,7	37,4	180,0	62,8	242,8
1966	25,8	9,1	34,9	167,4	59,0	226,4
1967	27,4	5,6	33,0	171,4	35,2	206,6
1968	33,2	0,0	33,2	202,7	0,0	202,7
1969	37,4	12,3	49,7	218,5	71,9	290,4
1970	36,7	16,0	52,7	202,1	87,8	289,9
1971	39,5	11,7	51,2	201,0	59,5	260,5
1972	36,7	11,7	48,4	166,6	52,9	219,5
1973	49,4	14,1	63,5	189,2	53,8	243,0
1974	51,6	24,4	76,0	178,4	84,5	262,9
1975	71,7	28,9	100,6	217,5	87,7	305,2
1976	75,6	32,5	108,2	222,2	95,5	317,7
1977	75,2	31,1	106,3	201,8	83,5	285,3
1978	85,7	45,6	131,4	196,0	104,3	300,3
1979	138,6	22,9	161,5	284,3	47,0	331,4
1980	151,9	58,5	210,3	283,9	109,3	393,2
1981	91,2	32,5	123,7	178,6	63,7	242,3
1982	102,3	34,5	136,8	206,5	69,6	276,1
1983	140,7	15,0	155,8	286,5	30,6	317,1
1984	114,2	9,2	123,4	238,2	19,2	257,4
1985	110,5	7,1	117,6	228,2	14,6	242,8
1986	137,9	36,9	174,8	228,0	60,9	288,9
1987	221,3	19,5	240,8	316,3	27,9	344,2
1988	226,3	199,1	425,4	300,8	264,6	565,4
1989	260,1	135,4	395,5	349,5	182,0	531,5
1990	530,6	158,7	689,3	635,7	190,1	825,9
1991	434,7	198,0	632,7	503,4	229,3	732,7
1992	527,4	230,5	757,8	574,5	251,0	825,5
1993	708,7	56,5	765,1	790,6	63,0	853,6
1994	820,4	773,8	1594,2	877,8	827,9	1705,7
1995	726,7	485,8	1212,5	709,2	474,1	1183,3
1996	449,2	518,4	967,6	449,2	518,4	967,6
1997	232,7	211,3	444,0	250,5	227,4	478,0

Source: OECD – DAC

Annex Table 2
EDA Flows by type, 1970-96

	Current US \$ mn			Constant 1996 US \$ mn		
	Loans	Grants 1/	Total	Loans	Grants 1/	Total
1970	42,9	32,8	75,6	236,0	180,3	416,3
1971	39,1	34,0	73,0	198,8	172,9	371,7
1972	37,7	61,4	99,1	171,0	278,4	449,4
1973	64,2	49,4	113,6	245,7	188,9	434,6
1974	92,2	64,6	156,9	319,2	223,6	542,8
1975	95,9	72,0	167,9	291,1	218,5	509,7
1976	136,1	69,7	205,8	399,9	204,7	604,6
1977	190,2	74,7	264,9	510,6	200,5	711,1
1978	213,3	73,4	286,7	487,8	167,7	655,5
1979	281,0	107,8	388,7	576,5	221,1	797,6
1980	231,1	126,5	357,6	432,1	236,4	668,5
1981	516,0	73,5	589,4	1011,1	144,0	1155,1
1982	547,7	64,9	612,5	1105,7	131,0	1236,7
1983	552,1	97,2	649,3	1124,1	197,8	1321,9
1984	402,0	69,6	471,6	838,2	145,0	983,3
1985	218,6	59,0	277,6	451,3	121,8	573,1
1986	278,5	144,6	423,1	460,3	239,0	699,3
1987	561,2	119,3	680,5	802,2	170,5	972,7
1988	409,7	296,9	706,6	544,6	394,6	939,3
1989	432,8	275,5	708,3	581,7	370,2	951,9
1990	911,4	417,8	1329,2	1092,0	500,6	1592,6
1991	711,7	366,6	1078,3	824,2	424,6	1248,8
1992	650,8	323,5	974,3	708,9	352,4	1061,3
1993	628,7	336,6	965,4	701,5	375,6	1077,0
1994	918,1	798,3	1716,4	982,4	854,2	1836,6
1995	668,6	576,1	1244,7	652,4	562,2	1214,7
1996	464,8	609,0	1073,7	464,8	609,0	1073,7

Source: Chang, Fernandez-Arias and Serven, 1998.

Annex Table 3
Total Disbursements by Donors, 1970-1996

	Current US\$ mn		Constant 1996 US\$ mn	
	Bilateral	Multilateral	Bilateral	Multilateral
1970	52,7	22,9	290,0	126,3
1971	54,2	18,9	275,6	96,1
1972	75,9	23,2	344,1	105,3
1973	81,5	32,0	312,0	122,6
1974	69,2	61,3	239,5	212,0
1975	101,6	66,3	308,4	201,2
1976	121,1	42,7	355,6	125,6
1977	175,8	89,1	471,9	239,2
1978	157,5	112,9	360,1	258,1
1979	291,5	97,3	598,0	199,6
1980	209,6	148,0	391,9	276,7
1981	137,8	75,3	269,9	147,6
1982	183,3	301,8	370,0	609,4
1983	249,5	234,2	507,9	476,8
1984	179,4	249,7	374,0	520,7
1985	119,8	96,5	247,3	199,2
1986	164,3	199,5	271,6	329,8
1987	234,5	446,0	335,1	637,5
1988	137,9	448,1	183,4	595,6
1989	330,1	340,6	443,7	457,7
1990	554,7	621,5	664,6	744,7
1991	439,2	593,8	508,7	687,7
1992	462,0	512,3	503,3	558,1
1993	767,7	197,5	856,5	220,3
1994	982,3	734,0	1051,0	785,4
1995	829,2	415,6	809,2	405,6
1996	622,8	450,9	622,8	450,9

Source: OECD – DAC and Chang, Fernandez-Arias and Serven, 1998.

Annex Table 4: World Bank Policy-based loans 1980-98

Loan	Type	US \$ mn		Approval year
		Commit.	Disbursem.	
SAL I	SAL	150	150	1981
SAL II	SAL	250,7	250,7	1983
SAL III	SAL	250	250	1986
Agriculture	SAD	150	150	1989
Energy	SAD	100	100	1989
Water	SAD	80	80	1990
Banking	SAD	300	200	1991
Human resources	SAD	335	235 ^{1/}	1991
Competitiveness	SAD	150	100	1991
Human resources	SAD	100	100	1994
Human resources	SAD/5th	85	85	1994
Financial sector	SAD	100	100	1994
Economic recovery	SAL	100	100	1994
Regulatory reform	SAL	50	50	1994
Economic recovery	SAD/5th	77,9	77,9	1994
Agricultural sector	SAD	150	150	1995
Agricultural sector	SAD/5th	73,6	73,6	1995
Private sector	SAD		180	1996
Private sector	SAD/5th	54,6	54,6	1996
Debt reduction	SAL	70	70	1997
Private sector	SAD/5th	36,6	36,6	1997
Transport sector	SAD	180	45 ^{2/}	1998

Source: World Bank

Note: SAL = Structural Adjustment Loan/Credit

SAD = Sector Adjustment Credit

SAD/5th = Supplemental credit with 5th dimension

1/ The US \$ 100 million committed under the second and third tranches of the IBRD loan were canceled after the devaluation and restored as an IDA credit of US \$ 100 million.

2/ Credit not yet closed which has an investment component equivalent to US \$ 80 million.

**Annex Table 5:
IMF Policy-based loans**

Loan	Time	Year	SDR millions		US \$ millions	
			Amount Approved	Amount Drawn	Amount Approved	Amount Drawn
Enlarged Facility	3 years	1981		484,5		571,3
Stand by	1 year	1984		82,7		84,8
Stand by II	1 year	1985		66,2		67,2
Stand by III 1/	2 years	1986		24,0		28,2
Stand by IV	1 year	1988		94,0		126,3
Stand by V	2 years	1989	146,5	117,2	187,8	150,2
Stand by VI	1 year	1991	82,8	33,0	113,2	45,2
ESAF	3 years	1994	333,5	333,5	477,5	477,5
ESAF	3 years	1998	286,0		388,0	

Source: IMF and *Marchés Tropicaux*.

Notes:1/ Loan cancelled.

**Annex Table 6:
Multilateral Debt Agreements with Official Creditors, 1980-1998**

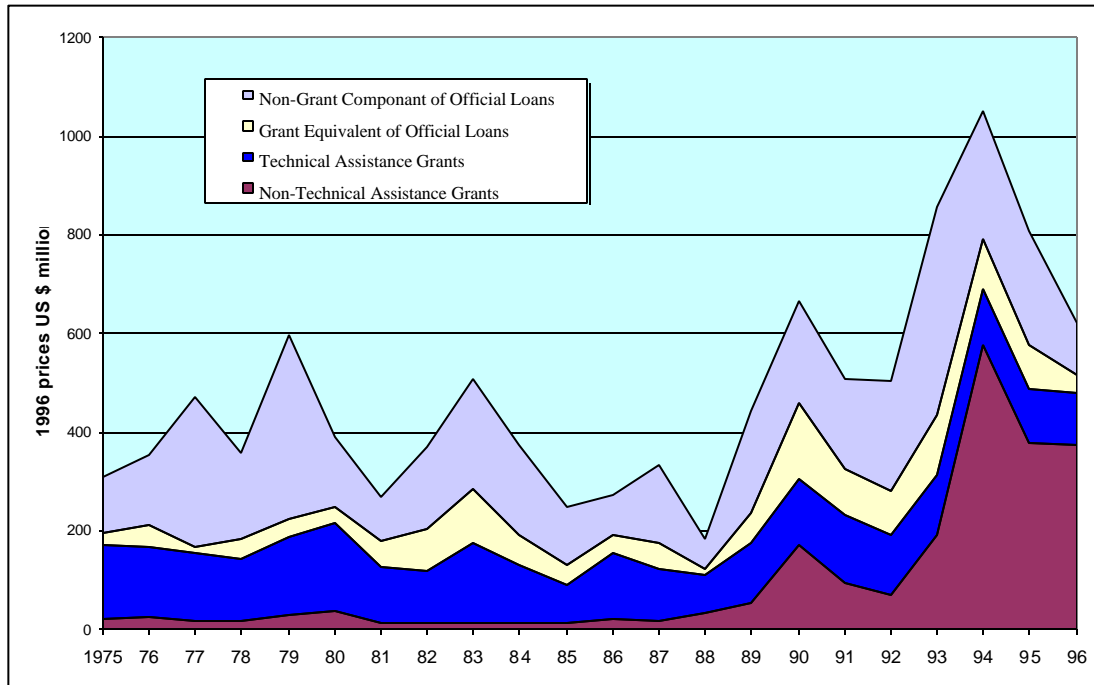
Date of agreement	Contract cut off date	Consolidation period for current maturities		Consolidation includes			Repayment terms		
		Start date	Length, months	Arrears	Previously rescheduled debt	Share of debt consolidated (%)	Amount consolidated US \$ mn	Maturity years/months	Grace years/months
4 May 84	1 July 83	1 Dec 83	13			100	265	8/6	4/0
25 Jun 85	1 July 83	1 Jan 85	12			100	215	8/6	4/0
27 Jun 86	1 July 83	1 Jan 86	36			Var. 1/	157	8/7	4/1
18 Dec 87	1 July 83	1 Jan 88	16	Yes	Yes	100	931	9/4	5/10
18 Dec 89	1 July 83	1 Jan 90	16	Yes	Yes	100	1,116	13/4	5/10
20 Nov 91	1 July 83	1 Oct 91	12	Yes	Yes	100	768	14/6	8/0
22 Mar 94	1 July 83	1 Mar 94	37	Yes	Yes	100	1,943	Menu 2/	Menu
24 Apr 98	1 July 83	1 Apr 98	36	Yes	Yes	100	1,402	Menu	Menu

Source: Global Development Finance, World Bank, 1997

Notes: 1/ 80 percent of principal due in 1986, 70 percent of principal due in 1987 and 60 percent of principal due in 1988

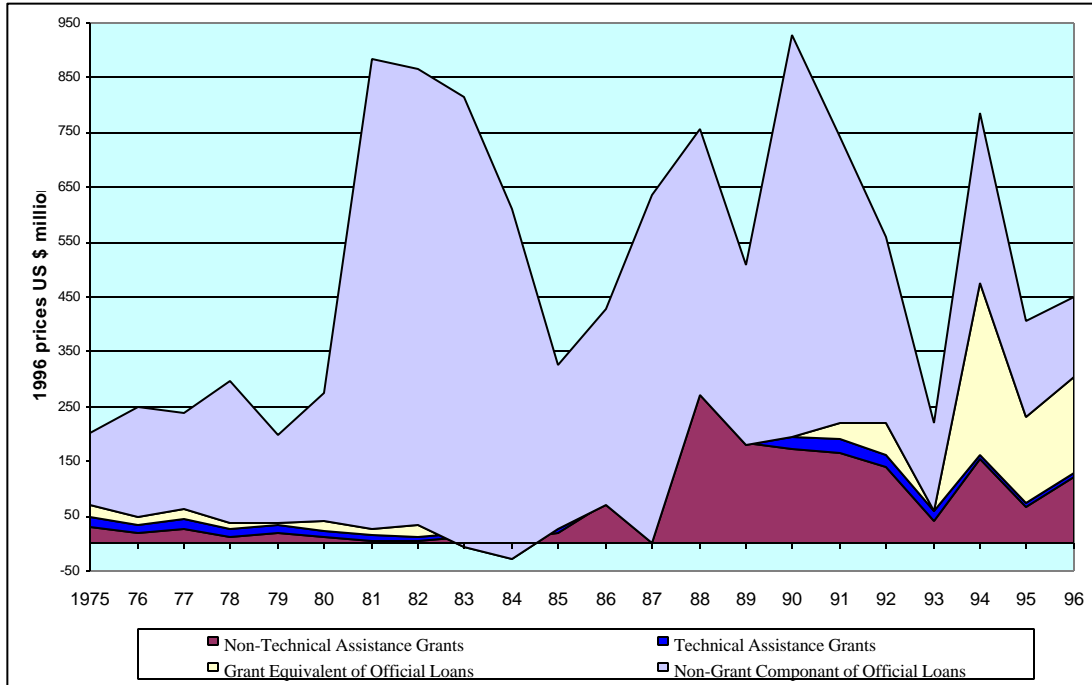
2/ "Menu" terms refer to the option agreed to at the 1988 Toronto economic summit meeting.

**Annex Figure 1:
Bilateral official development finance flows 1975-96**



Source: Chang, Fernandez-Arias and Serven, 1998.

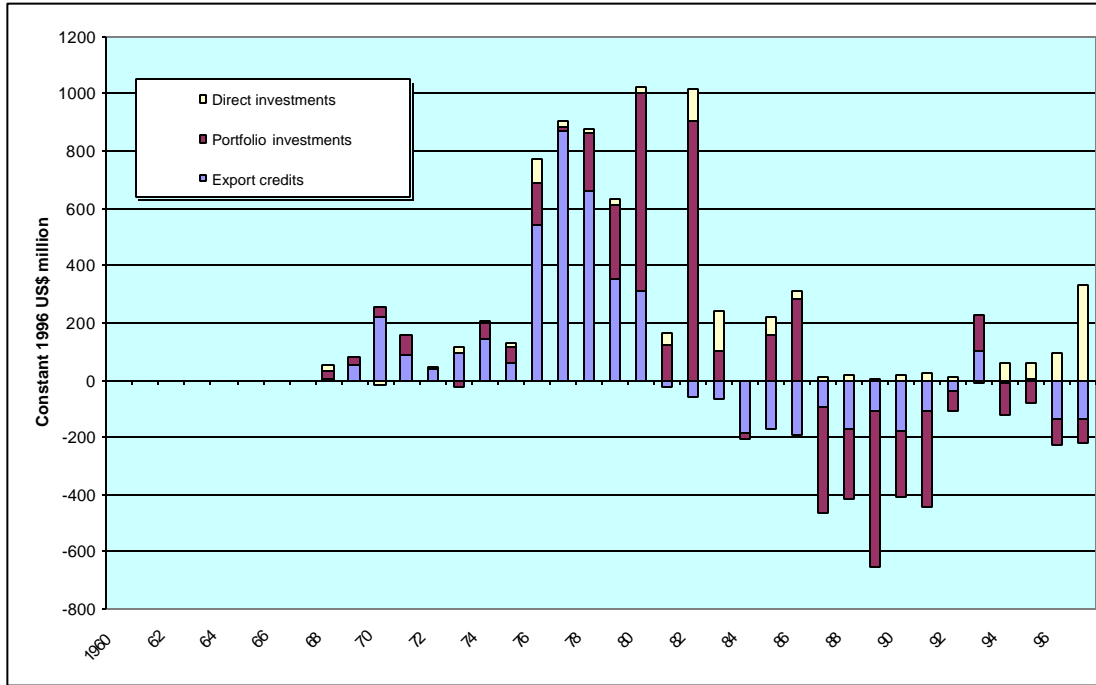
**Annex Figure 2:
Multilateral Development Finance Flows 1975-96**



Source: Chang, Fernandez-Arias and Serven, 1998.

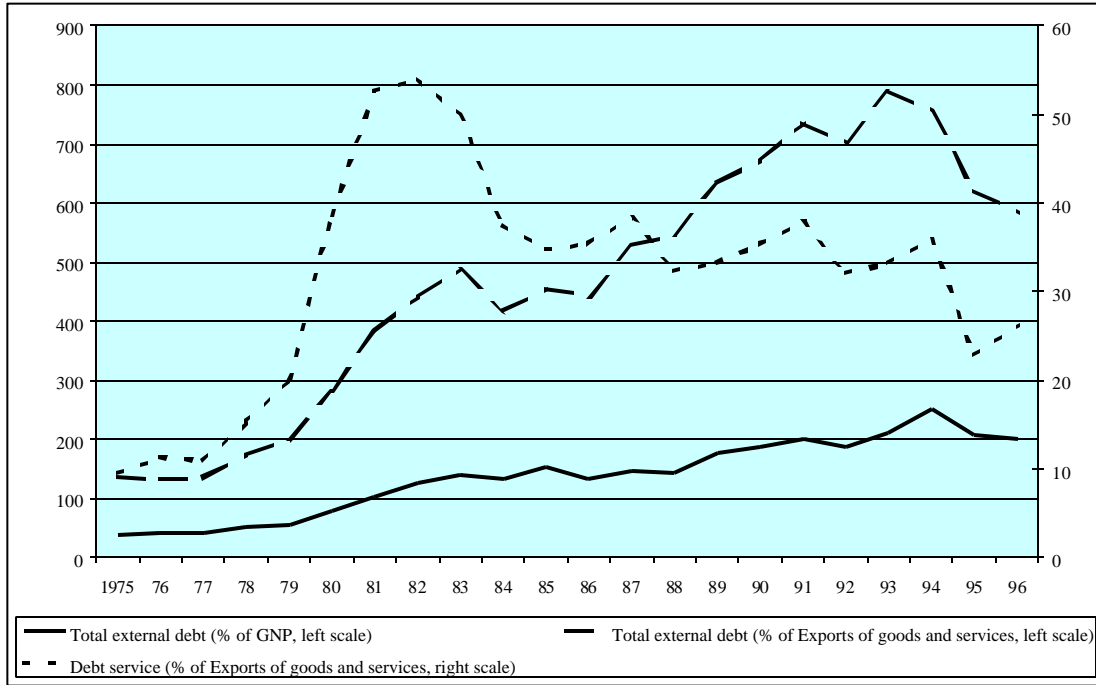
Notes: Official loans include IMF concessional loans (SAF and ESAF) and non concessional loans (Enlarged Facility and Stand-by Agreement).

Annex Figure 3
Composition of Net Private Flows, 1960-97



Source: OECD - DAC

Annex Figure 4
Debt ratios



Source: Global Development Finance, 1998, The World Bank.