Côte d'Ivoire

2011

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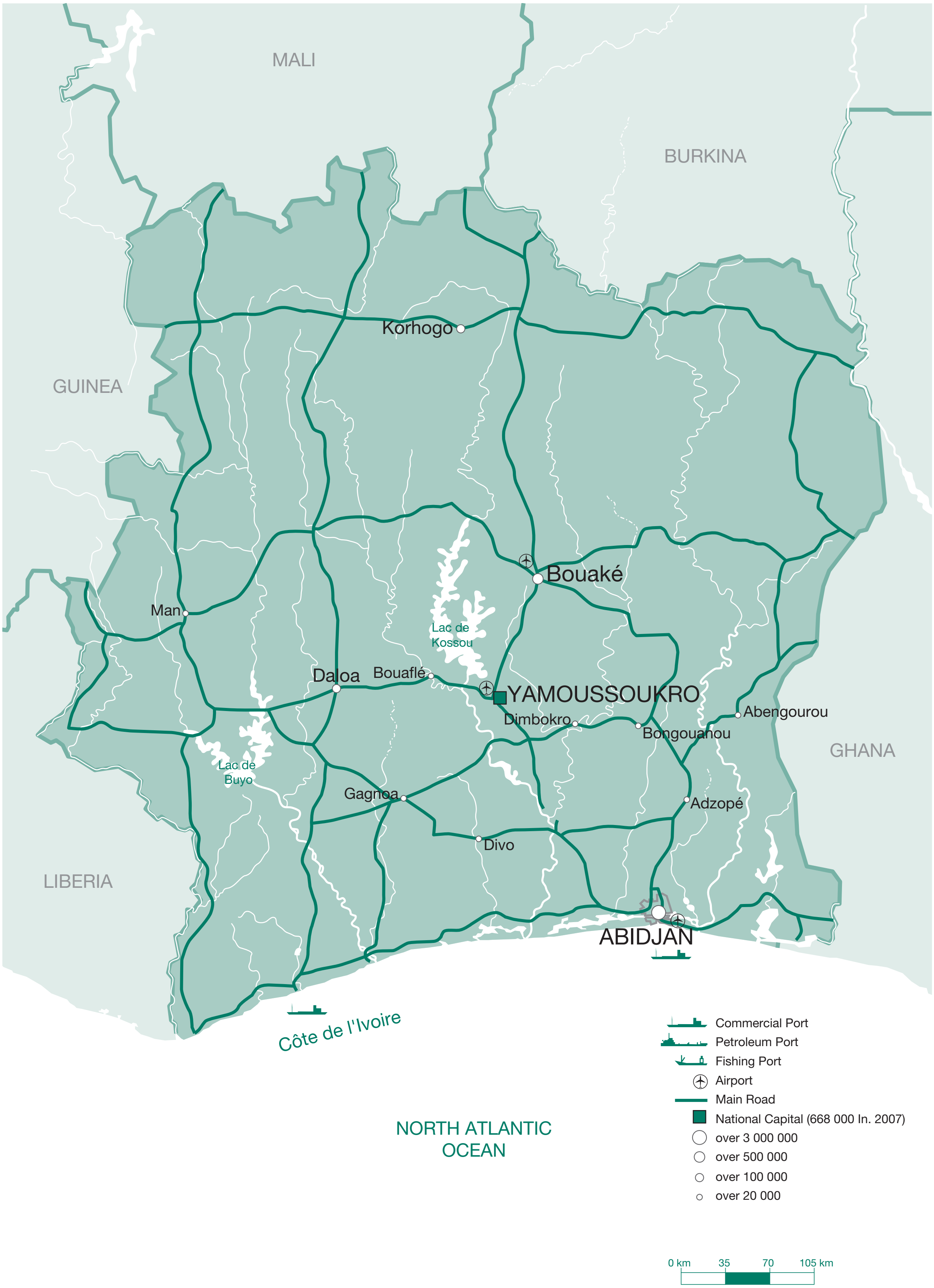

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Côte d’Ivoire

Overview

The political impasse in Côte d’Ivoire following the second round of the presidential elections on 28 November 2010 turned into an armed conflict between the defence and security forces led by the outgoing president Laurent Gbagbo and the republican forces loyal to Alassane Ouattara, the elected president recognised by the international community. After several days of heavy fighting, the pro-Ouattara forces arrested Gbagbo and several of his aides while they were in the bunker of the presidential palace. The escalation of the violence and the use of heavy weaponry have increased the civilian death toll to more than 900 according to the United Nations (UN), with thousands more injured and massive numbers of Ivorian refugees, especially in neighbouring Liberia and Ghana.

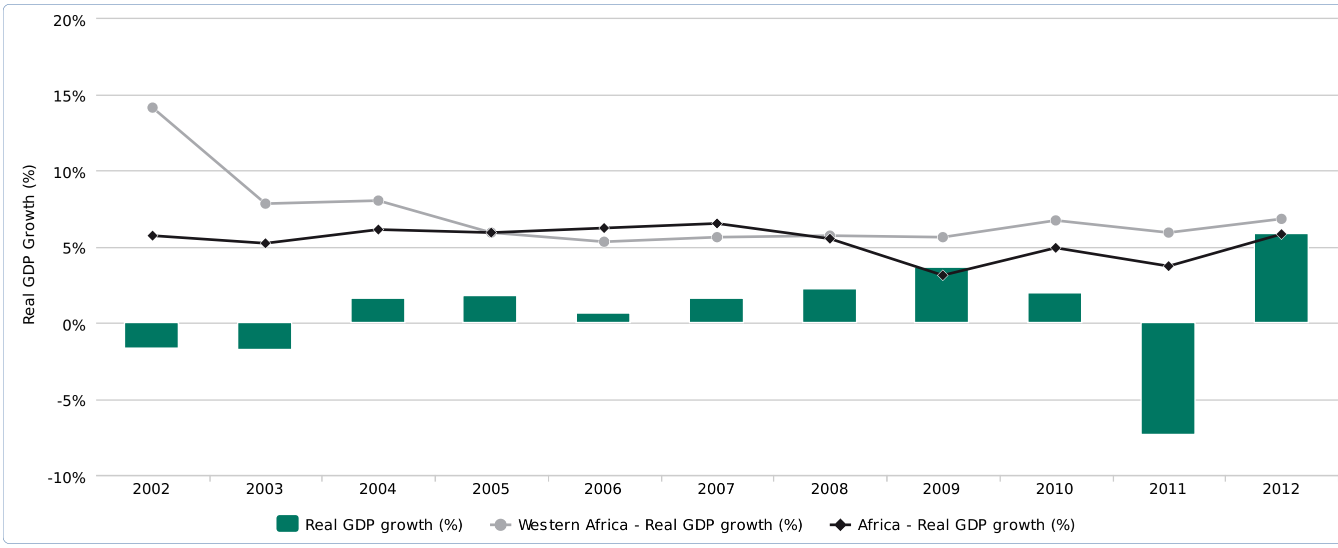
This post-electoral crisis and the sanctions imposed by the international community have had a strong impact on the economy, leaving the country cash-strapped. Nearly all the financial institutions and private firms have had to cease operations due to the insecurity and the suspension of the clearing system by the Central Bank of West African States (BCEAO).

With this economic paralysis, the forecast for 2011 is for a strong fall of 7.3% in real gross domestic product (GDP) growth, as is made evident in the table below. Nevertheless, a gradual recovery is expected in 2012 (+5.9%) based on the hypothesis of the security situation returning to normal in the second half of 2011, the sanctions being lifted and international co-operation being resumed. Also, the commitment of development partners to support the Ivorian authorities in their efforts for reconciliation and reconstruction will enable trust to be restored, thus fostering private-sector development.

The political crisis has made the already precarious humanitarian situation worse. By March 2011, around a million Ivorians had been forced out of their homes, while more than 79 000 more had fled mainly to the Ghanaian border, but also to the Liberian border. The lack of drinking water and sanitation in some urban areas, especially in Abidjan, could increase the spread of water-borne diseases. There are enormous risks in terms of Côte d’Ivoire’s progress in achieving the Millennium Development Goals (MDGs) by 2015. It is feared that many of the population will fall into poverty, with the level of poverty standing at 48.9% of the population in 2008.

Côte d’Ivoire’s medium-term economic and social outlook largely depends upon peace being restored and emergency reconstruction programmes being implemented. Despite the socio-political crisis of the last ten years, Côte d’Ivoire’s economic partnerships with emerging countries have markedly increased, particularly those with Asian countries, including, notably, China, Korea, India, Singapore, Thailand, Brunei Darrusalam, Indonesia and Malaysia. Asia is Côte d’Ivoire’s third largest trading partner (12.5%), after Europe (44.0%) and Africa (29.0%). China, which is the country’s leading Asian partner, still represents a modest share (3.2%) of the economy compared with its wider performance in Africa.

Figure 1: Real GDP growth (W)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932404009

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	3.7	2	-7.3	5.9
CPI inflation	4.7	2.7	6.3	3.3
Budget balance % GDP	-1.6	-2.5	-1.9	-3.4
Current account % GDP	7.2	5.9	5.2	4.2

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2009
Agriculture, forestry, fishing & hunting	25.2	26
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	4	4.1
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	17.7	17.8
of which hydrocarbon	-	-
Electricity, gas and water	1.3	1.4
Electricity, water and sewerage	-	-
Construction	2.5	2.3
Wholesale and retail trade, hotels and restaurants	13.6	12.9
of which hotels and restaurants	-	-
Transport, storage and communication	7.8	9.7
Transport and storage, information and communication	-	-
Finance, real estate and business services	18.7	18.2
Financial intermediation, real estate services, business and other service activities	-	-
General government services	8.1	6.3
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	1.1	1.2
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department; national authorities.

Figures for 2010 are estimates; for 2011 and later are projections.

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The real rate of growth of the Ivorian economy was 2% in 2010 after 3.7% in 2009. This lower performance can be explained principally by: *i)* a dip in primary sector activity, which made a negative 0.1% contribution to real GDP growth; *ii)* electricity supply load-shedding; *iii)* repeated strikes in several economic sectors and *iv)* the unwillingness of the private sector to invest during an election period. The second and tertiary sectors nevertheless maintained growth, contributing 0.7% and 1.8% respectively. Despite the reduction in activity registered in 2010, the primary sector remains the key for the Ivorian economy. It accounted for 30.1% of GDP in 2010 compared to 28.7% in 2009. The sector did not perform well, however, registering a negative real growth rate of -0.3% in 2010, compared with +6.4% in 2009, under the impact of a 4% reduction in activity in export agriculture and a 15.9% fall in mining output.

The poor performance of export agriculture is linked to the fall in the production of the main cash crops. Coffee production fell 35.2%, from 144 700 tonnes in 2009 to 93 700 tonnes in 2010, after having risen 113.1% in 2009 compared with 2008. Cocoa production dropped 6.1%, from 1.30 million tonnes in 2009 to 1.23 million tonnes in 2010, after having increased 14.7% in 2009. The reduction in the production of coffee and cocoa is partly the result of the ageing of plantations. Endemic cocoa diseases such as "swollen shoot" and brown rot, coupled with the abandonment of coffee plantations during periods when international prices were low, may also have contributed. An emergency programme has been set up to take charge of the phytosanitary treatment of the plantations most affected by parasites. It involves removing contaminated plants and constructing a protection barrier around healthy plantations using crops such as hevea and oil palm. Wider distribution of new varieties of coffee and cocoa and continued implementation of the plantation treatment programme should reduce disease. Efforts currently under way to restructure and modernise the coffee and cocoa sector and render its management more transparent should bring benefits some years hence. The 2010/11 cocoa season was starting to produce encouraging results. On 30 January 2011, total cocoa purchases had risen 19.1% to a total 904 000 tonnes compared with 759 000 tonnes a year earlier. The volume declared to customs was up from 587 762 tonnes in the preceding year to 631 916 tonnes. Single export tax revenue came to XOF 130 billion (CFA Franc BCEAO) at the end of January 2011, compared with XOF 118 billion the previous year.

However, the political crisis and the temporary suspension of coffee and cocoa imports by the European Union (EU) had a negative effect on official production of these two crops and encouraged illegal trafficking with neighbouring countries. The *Bourse du café et du cacao* estimates that about 170 000 tonnes of cocoa leave Ivorian territory illegally every year for sale in neighbouring countries at a cost to the country of about XOF 17 billion.

The fall in export agriculture in 2010 has been tempered by positive results from cotton, cashew nuts, hevea and palm oil. After having fallen sharply in 2007 and 2008, cotton production improved markedly, rising by 31.8% from 140 600 tonnes in 2009 to 185 300 tonnes in 2010. This vigorous recovery was attributable to the continued availability of public subsidies to producers for the acquisition of inputs. Producer prices, which increased in the 2008/09 season from XOF 150 to XOF 185 per kilo, have not changed since. Coffee, cotton and cocoa, the main export products, provide livelihoods for around 9 million people, which is nearly half the Ivorian population. Cashew nut production has been showing remarkable, sustained growth since 2001. In 2010, Côte d'Ivoire produced 374 800 tonnes of cashew nuts compared with 340 300 tonnes in 2009, representing an increase of 10.1% after a 9% increase in 2009. This was the result of the start of production at new plantations, placing Côte d'Ivoire in second position worldwide behind India. Extensions to plantations have enabled growth in the production of hevea and palm oil to continue. Hevea production increased 4.1%, from 203 000 tonnes in 2009 to 211 500 tonnes in 2010, and palm oil production increased 5.5%, from 394 300 tonnes in 2009 to 415 900 tonnes in 2010. Hevea production, which was started in Côte d'Ivoire in 1953, is showing strong growth. About 84% of the area planted has come into production, with village plantations representing 64% of this area and the rest belonging to a few large companies. The increase in oil prices has limited the production of synthetic rubber, so growing demand from automobile producers in China and elsewhere in the world, coupled with a fall in production of hevea in Asian countries as a result of natural disasters, is providing a strong stimulus for Ivorian production. At the same time, the monthly remuneration generated by this crop represents an incentive for local producers.

Extractive production essentially concerns oil, gas and gold. The fall in the mining sector's growth rate, which stood at 15.9% in 2010, is attributable to a reduction in oil and gold production. Oil production fell 19.1%, from 18.54 million barrels in 2009 to 15 million barrels in 2010, under the combined effects of the temporary suspension of production on the Espoir field on block CI-26 and the natural depletion of the Lion-Panthère field on block CI-11. National gas production, on the other hand, recovered, increasing by 8.4%, from 1.54 million m^3 in 2009 to about 1.7 million m^3 in 2010, after contracting 0.4% in 2009. The increase in gas production is linked to the increase in gas production capacity from wells on the Espoir field and strong demand from local thermal electricity power stations.

Despite this strong gas production performance, households and small and medium-sized enterprises (SMEs) have been facing shortages since the second quarter of 2010. These shortages are the result of: *i)* delays in the delivery of imported gas; *ii)* maintenance stoppages at the Petroci oil company's gas canister filling plants;

iii) increased demand for gas, which increased from 90 000 tonnes in 2006 to 120 000 in 2009; *iv)* the SIR state oil-refining company's (*Société ivoirienne de raffinage*) inadequate storage infrastructure and operating problems, which were to end up causing its closure. Since 2009, SIR has been faced with a deteriorating financial situation caused by a reduction in its internal margin following the government's decision to introduce an automatic price-setting mechanism and operating losses caused by the contraction of international refining margins. The measures taken by the authorities to assure SIR's financial viability involved the state paying off its XOF 35 billion debt to the company in 2010 and giving up part of its revenues from taxes on oil products in SIR's favour. However, following EU sanctions banning ships registered in its territory from berthing in the country's two ports, Abidjan and San Pedro, gas and oil supply problems have further weakened SIR's financial situation and aggravated shortages of butane gas and oil products. As a result, SIR was forced to cease its activities on 28 February 2011.

The Espoir field represents about half the country's crude oil production, providing more than 25 000 barrels per day between 2006 and 2009. The field is operated by Canadian Natural Resources (CNR), which has 58.7% of the rights. Its partners are Tullow Oil (21.3%) and Petroci (20%). Gas production from the Lion-Panthère field was 39 billion cubic feet (1.10 billion m^3) per day on average between 2006 and 2009. The field operator Afren has 48% of the rights. Its partners are Petroci with 20.1%, International Finance Corporation with 18.9% and SK Energy with 13%. Other fields are in operation. The Baobab field on block CI-40 had a production rate of more than 23 000 barrels per day on average between 2006 and 2009 and is the second largest field in terms of oil production. The field operator is CNR, with 57.6% of the rights, accompanied by Svensk Petroleum Exploration with 27.4% and Petroci with 15%. Another field that essentially produces gas is Foxtrot on block CI-27. It had a production rate estimated at 78 billion cubic feet (2.20 billion m^3) per day between 2006 and 2009. Its operator is Foxtrot International with a 24% stake, with partners Petroci with 40%, Saur Énergie with 24% and Énergie de Côte d'Ivoire (Enercie) with 12%.

Gold production contracted 28.0% in 2010 after more than doubling between 2008 and 2009 with a remarkable 144.7% increase. Uncertainty generated by the pre-election climate was one factor in this reduction. Among Côte d'Ivoire's solid ores, which are not yet heavily exploited, gold ore is the only one which has been mined on an industrial scale. Société des mines d'Ity (SMI) has been active in the west of the country for more than 20 years, while Randgold is exploiting the seam near Tongon in the north. Gold reserves there are estimated at 90 tonnes. The start of production on these new reserves had been expected to produce an increase in output in 2011. Production had been expected to reach 5.33 tonnes in 2011 compared with 5.08 tonnes in 2010. The deterioration of the security situation made this forecast unrealistic.

These disappointing performances in the primary sector have been offset by growth in subsistence agriculture, which achieved 3.3% growth in 2010 after 3% in 2009. This result was helped by a favourable rainfall level, implementation of a rice-growing development programme and the enhancement of local rice production through improved shelling and bagging.

The secondary sector contributed 0.7 percentage points to GDP growth after subtracting 0.3 points in 2009. Volumes increased 3.3% in 2010, however, after declining 1.5% in 2009. This growth was mainly generated by the agri-food industry and vigorous demand in building and public works. Agri-food production was down but there was significant growth in its added value, which increased 14.5% in 2010 after 17.8% in 2009. The sector benefited from the recovery in domestic demand, particularly in the Centre, North and West zones. The construction sector showed 13.6% growth in 2010 after contracting 7.6% in 2009. It benefited from the restart of major state building projects and the implementation of measures contained in the Poverty Reduction Strategy Paper (PRSP) regarding infrastructure and buildings for the social sectors. The secondary sector remains the area of the economy which has been the most exposed to the crisis and the accompanying sanctions imposed on the country and the one most weakened by them. The uncertainties created by the socio-political situation and the lack of visibility are having negative consequences on the sector. The reduction of manufacturing and agri-food activity under the combined effects of input supply difficulties, the serious deterioration in the security situation and contraction in demand will have a significant impact on the construction sector in 2011. The cessation of work on projects financed by the World Bank and the EU as a result of asset freezing measures increases the risk that the sector will be paralysed.

The dynamism and vigour of the tertiary sector held up in 2010. The sector continues to play a key role in the Ivorian economy. It represented 37.2% of GDP in 2010 against 36.8% in 2009 and contributed 1.8% to GDP growth as in 2009. The sector showed an estimated real growth rate of 4.9% in 2010 after 5% in 2009 thanks to good performances from all sub-sectors, particularly telecommunication, commerce and services. Telecommunications sector growth in 2010 is estimated at 5.5%, mainly driven by growth in mobile telephone activity, particularly in the Centre, North and West zones. The dynamism of the commerce sector, which showed 5.4% growth in 2010 against 3.8% in 2009, is the result of recovery in retail trading. Services showed 4.2% growth in 2010 after 3% in 2009, benefiting from the relative normalisation of the socio-political and business climate at the start of the year, which favoured a recovery in tourism, hotels, catering and other services. The dynamism of the commerce sector had a positive impact on transport, which showed 2.2% growth.

The immediate effects of the post-electoral crisis on tertiary activities are already being felt in 2011. They include a slowdown in activity in the transport, tourism and hotel and catering sectors as security has again broken down, while the commerce sector is becoming increasingly morose. There are also difficulties paying transactions by cheque or by electronic transfer. Closure of the majority of credit establishments and problems transferring funds from Europe as a result of the EU's sanctions have created liquidity problems. The insurance sector has not escaped this difficult situation which has been aggravated by a cascade of closures among banks and other financial establishments. Its turnover is under threat from increases in reinsurance premiums and difficulty recovering premiums from the state and public bodies, as well as from suspensions of contracts reaching their term. Cash flow problems, which have been exacerbated by bank closures, are further endangering small and medium-sized companies.

Real GDP growth in 2010 was driven by demand. As regards domestic demand, the contribution of final consumption to GDP was 1.4% . As for external demand, exports contributed 1.3%. Total investment shrank an estimated 0.1% in 2010. This lower performance was the result of a 3% fall in private investment, which was affected by growing political tension during the pre-electoral period and strikes, power cuts and other disruption during the first half of 2010. Its effect was attenuated, however, by positive growth in public investment, which rose 6.3% in line with the effort made to finance public sector construction projects and to implement the reconstruction and poverty eradication programmes.

In late 2010 and early 2011, the political crisis has disrupted the economy. At the time of writing this report, Mr.Gbagbo has been arrested and Mr. Ouattara has taken full power. The export ban on cocoa has been lifted, but it is unclear how quickly the economy will recover.

Given the disruptions in the first four months of the year and assuming that the economy rebounds in the second half, output is projected to decline significantly in 2011. However, the numbers provided in the tables of this note, for 2011 and 2012, should be taken only as one of other possible scenarios and are surrounded by large uncertainty.

Table 3: Demand composition

	Percentage of GDP (current price)		**Percentage changes, volume**			**Contribution to real GDP growth**		
	2002	**2009**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Gross capital formation	10.1	9.4	-0.1	-18.3	16.7	0	-1.9	1.5
Public	3.2	2.9	6.3	-15	20	0.2	-0.5	0.6
Private	6.9	6.5	-3	-20	15	-0.2	-1.4	0.9
Consumption	73.3	82.7	1.8	-11.5	6.4	1.4	-9	4.8
Public	7.8	8.5	3.7	-5.7	7.7	0.3	-0.5	0.7
Private	65.5	74.1	1.6	-12.2	6.2	1.1	-8.5	4.1
External sector	16.6	8	-	-	-	0.6	3.6	-0.4
Exports	50	49	2.3	-5	5.2	1.3	-2.8	2.9
Imports	-33.4	-41	1.6	-14.4	8.1	-0.7	6.3	-3.3
Real GDP growth rate	-	-	-	-	-	2	-7.3	5.9

Source: Data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Macroeconomic Policy

In 2010, the authorities pursued implementation of the 2009-11 financial and economic programme and the PRSP, which should result in the completion point in the Heavily Indebted Poor Countries (HIPC) Initiative being reached during the first half of 2011. This programme aims to achieve macroeconomic stability, create conditions for sustained growth and a fair share-out of its fruits, and to fight poverty more efficiently through tighter management of public finances and the construction of economic and social infrastructures.

Fiscal Policy

Total revenue and grants for 2010 came to 19.3% of GDP, slightly down on the 19.5% figure for 2009. Fiscal revenue represented 16.5% of GDP in 2010, the same as in 2009. Fiscal pressure remained below the 17% of GDP level set by the West African Economic and Monetary Union (WAEMU) and below the 17.3% of GDP level fixed by the 2010 economic programme. The level of revenue recovery will fall if the crisis persists. The initial forecasts provided for a slight fall in fiscal revenue, which were expected to represent 16.3% and 16.1% of GDP respectively in 2011 and 2012. These forecasts were based on expectations of relatively low receipts from direct taxes, notably taxes on industrial and commercial profits, resulting from lower activity levels in the secondary and tertiary sectors. Tax exemptions granted to take the crisis into account should contribute to this reduction. It should be noted that value added tax (VAT) on hotels and tourism is expected to be reduced in 2011 as a means of mitigating the effects of the crisis in these sectors. Expenditure and net lending represented 21.7% of GDP in 2010, slightly more than the 21.1% figure registered in 2009. Of its two main components, current expenditure rose from 17.9% in 2009 to 18.3% in 2010, while capital expenditure edged up from 3.1% of GDP to 3.2%. As regards current expenditure, the public sector wage bill, which rose from 6.8% of GDP in 2009 to 6.9% in 2010, was relatively well controlled, taking account of the 7.2% of GDP limit set by the 2010 economic programme agreed with the International Monetary Fund (IMF). However, the ratio of the public sector wage bill to fiscal revenue stagnated at 41.5% as in 2009, slightly below the 41.3% level fixed by the 2010 economic programme. Capital expenditure came out at 3.2% of GDP compared with 3.1% in 2009, the slight increase coming from spending on the construction and rehabilitation of basic socio-economic infrastructures.

Overall, budget execution in 2010 was marked by a small increase in revenues and grants which was nevertheless less than the increase in public spending and net borrowing. As a result, the overall budgetary balance deteriorated from 1.6% of GDP in 2009 to 2.5% of GDP in 2010. This balance is above the -2% target set by the 2010 economic and financial programme. The forecasts indicate that there will be a reduction in the general budget deficit in 2011 to 1.9% of GDP. In the context of crisis and sanctions, however, Côte d'Ivoire's financial difficulties – which include its inability to borrow from the central bank or contract loans on the WAEMU regional financial market and the suspension of the debt relief programme – pose a problem for the financing of the 2011 budget deficit.

The state implemented certain reforms in 2010 aimed at increasing public revenue. In the fiscal sector, these included the finalisation of a software package for monitoring tax exemptions and increases in the number of staff involved in the surveillance of standardised bills. In the customs service, a system has been put in place to ensure that detailed and exhaustive records are kept of revenues not received as a result of exemptions, while the Sydam-World software package has been introduced for customs clearance management. The Sydam-World system is also being used as part of a system for the management of input to the VAT credit repayment scheme.

Despite these reforms, efforts to mobilise internal resources in Côte d'Ivoire are still faced with major revenue shortfalls. According to the government tax department (DGI), tax reductions granted by the state to the private sector between 2000 and 2010 amounted to more than XOF 800 billion, or an average of XOF 80 billion per year. There are also cases of tax fraud, including simple non-payment of taxes, illicit transfers of funds and non-declaration of goods, which the department says cost the state XOF 400-500 billion per year. To mobilise internal resources more efficiently a more modern and efficient tax regime is required, one which would better take account of Côte d'Ivoire's key potentials. According to the tax department's 2010 outlook report, the main reforms required are: *i)* adequate fiscal cover of the agricultural sector; *ii)* optimisation of fiscal yield from the oil sector; *iii)* more efficient taxation of the informal sector; *iv)* better harmonisation of local and national taxation. But implementation of these reforms remains subject to an early normalisation of the socio-political situation.

As part of a medium-term social strategy in compliance with the PRSP and budget objectives, the government drew up medium-term spending guidelines in 2010 for use by the "social" ministries – education and health – in the 2011 budget. A methodological explanation of the guidelines was in preparation as a means of facilitating definition of the budgetary attributions of other ministries.

Debt servicing in 2010 was set at XOF 542.2 billion, of which XOF 316.8 billion was for external debt and

XOF 225.4 billion for internal debt. This was 34% down on forecasts of debt servicing in 2009. This improvement is the result of repayments made by Côte d'Ivoire and debt cancellations granted after it reached the completion point of the HIPC Initiative. Internal debt servicing was shared between the Central Bank of West African States (XOF 22.6 billion), the commercial banks (XOF 50.8 billion) and the non-banking sector (XOF 152 billion). The crisis in which the country finds itself will create difficulties in honouring external as well as domestic debt service obligations. A plan for liquidating domestic debt was in the process of being carried out with financial backing from the IMF and World Bank.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	18.2	19.4	20.6	19.5	19.3	19.3	19.5
Tax revenue	15.7	15.2	15.6	16.5	16.5	16	15.8
Oil revenue	-	-	-	-	-	-	-
Grants	0.4	0.6	1.7	0.6	0.3	0.9	1.2
Other revenues	2.1	3.7	3.2	2.4	2.4	2.4	2.5
Total expenditure and net lending (a)	19.1	20.4	21.1	21.1	21.7	21.2	22.9
Current expenditure	15.7	17.4	17.9	17.9	18.3	18.3	19.6
Excluding interest	12.4	15.7	16.1	16.3	16.6	16.6	17
Wages and salaries	6.5	6.7	6.8	6.8	6.9	7.4	7.4
Goods and services	1.3	1.9	1.8	1.9	1.9	1.8	1.9
Interest	3.3	1.8	1.8	1.5	1.7	1.8	2.7
Capital expenditure	3.2	2.7	3	3.1	3.2	2.8	3.1
Primary balance	2.4	0.8	1.2	0	-0.8	-0.1	-0.7
Overall balance	-0.9	-1	-0.6	-1.6	-2.5	-1.9	-3.4

a. Only major items are reported.

Source: Data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

Monetary policy is implemented at regional level. Côte d'Ivoire is a member of the WAEMU. Monetary and credit policy is run by the Central Bank of West African States (BCEAO), which is linked to the French treasury through the operations account set up as part of the monetary co-operation agreement between France and WAEMU member countries. The currency, the CFA franc (XOF), is pegged to the euro at a fixed parity.

At the end of June 2010, the monetary situation was marked by a 0.7% increase in money supply compared with the end of December 2009, driven by a XOF 77.9 billion rise in net external assets. Outstanding loans to the economy as listed by the Centrale des Risques at the end of June 2010 stood at XOF 1.493 trillion compared with XOF 1.632 billion at the end of December 2009. The 8.5% reduction was produced essentially by an 11% fall in short-term lending, which represented 73.3% of all loans granted. The quality of the banks' portfolio at the end of June 2010 had slightly improved in relation to the end of December 2009. The gross rate of deterioration of the portfolio diminished from 16.6% to 16.1%. This improvement by half a percentage point in the quality of the banks' portfolio during the first six months of 2010 was due to a 5.1% reduction in gross outstanding debt, which was greater than the 2.2% reduction in the overall portfolio. In 2011, uncertainties related to the post-electoral crisis are affecting the evolution of monetary policy and the functioning of the banks and credit institutions. The measures taken by the BCEAO, which recognises only the signature of

Alassane Ouattara, the president recognised by the international community, were met by the requisition of the bank's national head office and branches in Côte d'Ivoire by the government of Laurent Gbagbo.

The immediate consequences of this situation had been: *i)* slow processing of bank transactions as a result of the manual compensation imposed on the banking system since 9 February 2011; *ii)* a cascade of closures among banks and credit establishments that they cannot carry out their business when there is uncertain legal and accounting security and physical security for their employees; *iii)* liquidity problems; and *iv)* problems with compensating balances left in suspension since closure of the banks. In 2011, the inflation rate is projected to be higher as a result of the crisis and the higher food and fuel prices.

External Position

In 2010, the current account balance was in surplus and represented an estimated 5.9% of GDP. Although positive, the balance was less than in 2009, when it represented 7.2% of GDP. This was due to a deterioration in the balances of services, revenues and current transfers, despite the slight improvement in the balance of trade, which rose from 18.2% of GDP in 2009 to 19.6% of GDP in 2010. This progression of the balance of trade was attributable to exports, which rose from 45.6% of GDP in 2009 to 48.9% in 2010. The structural deficits of the services, revenue and current transfer components deteriorated in 2010: to -6.8% of GDP after -6.2% in 2009 for services, to -4.5% of GDP after -4.2% for revenues, and to -2.5% after 0.5% for current transfers.

Required external debt service was set at XOF 316.6 billion in the 2010 budget. It breaks down into XOF 79.1 billion due on multilateral debt, XOF 148.9 billion due to the Paris Club, XOF 27.8 billion to the London Club, XOF 55.8 billion to the Standard Bank of London and XOF 5.1 billion to other creditors.

The IMF and the World Bank validated Côte d'Ivoire's arrival at the decision point of the HIPC Initiative on 27 March and 31 March 2009 respectively. A first tranche of interim aid of 5 million special drawing rights (SDR) was granted in March 2009 for the April 2009 to March 2010 period. A second tranche of interim aid was approved by the IMF board on 31 March 2010. Taking account of the relatively satisfying results of the post-conflict emergency aid, the IMF had granted Côte d'Ivoire a triennial extended credit facility of USD 565.7 million on 27 March 2009. The first review of this agreement was approved in November 2009 and led to a disbursement of USD 57.3 million. The second review, approved on 9 July 2010, opened the way to a USD 53.5 million disbursement. As regards World Bank financing, a country partnership strategy for the period 2010-13 was approved on 4 May 2010 for a total of USD 571 million. It is based on the following four principles: *i)* the strengthening of governance and institutions; *ii)* support for agriculture; *iii)* development of the private sector; *iv)* improvement of infrastructures and basic services.

Côte d'Ivoire has also signed debt restructuring agreements with its creditors in the Paris Club and the London Club. On 15 May 2009, Paris Club creditors agreed an external public debt restructuring with the Ivorian government. By March 2010, 12 bilateral agreements out of 14 had been signed. These agreements resulted in cancellation of debt totalling XOF 513.7 billion. Debt servicing owed to Paris Club creditors for arrears up to the end of March 2009 and payments due from 2009 to 2012 dropped 93.4% from XOF 2.216 billion to XOF 149.4 billion. The rest of the debt reduction provided for under the HIPC Initiative should be granted once the completion point has been reached. As regards the London Club, a preliminary private debt restructuring agreement was signed on 28 September 2009 in Paris. The operation was completed successfully in April 2010. This restructuring is based on the following measures: *i)* a 20% discount on estimated debt stock on 31 December 2009, representing XOF 287 billion; *ii)* the issue by Côte d'Ivoire of a new bond for the 80% of debt remaining with a 23-year term and a 6-year grace period.

Relations between Côte d'Ivoire and external creditors were broken off, however, as a result of the post-electoral crisis. The World Bank and the IMF suspended their programmes even though the country could have reached the completion point under the HIPC Initiative by the end of the first half of 2011 and thus benefited from a substantial reduction in its external debt stock. Treatment of the underlying external debt problem depends very much on the country pursuing the economic and financial programme with the support of the international financial community. But the uncertainty created by the crisis offers no visibility regarding the likelihood of the country honouring its commitments towards its external creditors.

In the field of regional integration, a regional economic partnership agreement (EPA) has been concluded with the Economic Community of West African States (ECOWAS). It replaces the interim agreement signed between Côte d'Ivoire and the EU in December 2007. As regards accompanying measures applicable to Côte d'Ivoire, a regional trade and regional integration programme, linked to the interim EPA, was in the process of being implemented in 2010. Côte d'Ivoire belongs to several regional integration organisations and the African Union (AU). Following the deepening of the post-electoral crisis, however, ECOWAS, WAEMU and the AU have suspended it from regional integration activities.

Table 5: Current account (percentage of GDP)

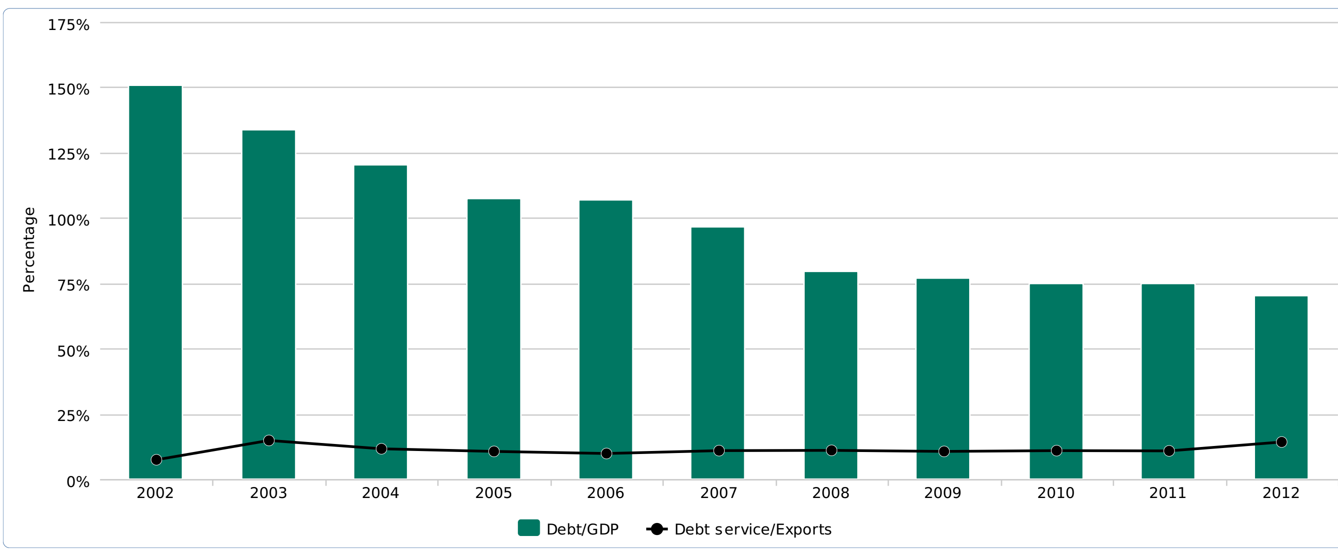
	2002	2007	2008	2009	2010	2011	2012
Trade balance	24.5	13	14.2	18.2	19.6	22.1	20.5
Exports of goods (f.o.b.)	45.9	43.8	43.1	45.6	48.9	49.1	47.9
Imports of goods (f.o.b.)	21.4	30.8	28.9	27.4	29.2	27	27.4
Services	-8.4	-7.8	-6.8	-6.2	-6.7	-7.5	-7.5
Factor income	-5.5	-4.1	-3.8	-4.2	-4.5	-4.8	-4.6
Current transfers	-4	-1.7	-1.5	-0.5	-2.5	-4.6	-4.2
Current account balance	6.7	-0.7	2.1	7.2	5.9	5.2	4.2

Source: Data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932410241

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932404009

Structural Issues

Private Sector Development

In the 2011 edition of *Doing Business*, the World Bank's report on the business climate, Côte d'Ivoire is classed 169th out of 183 countries, dropping one place compared to its 2010 rank and six in relation to its 2009 rank. This unsatisfactory assessment indicates that considerable efforts are necessary to stimulate a recovery in economic activity based on the promotion of private investment and an improved business climate. In July 2010, a programme aimed at revitalising companies and improving their governance was officially launched. Its objective was to contribute to improving the performance of small and medium-sized enterprises and industries (SMEs/SMIs) and generally to improve the business climate. The programme has three components: *i)* provision of financial and non-financial services to reinforce the capacities of existing small businesses; *ii)* improvement of the business environment; *iii)* institutional support for realisation of the programme's objectives. The government has taken other measures to improve the business climate. It provided training for legal executives specialising in trade as part of a project to support governance and capacity building in 2009. A reform plan that aims to improve the efficiency and equity of the judicial system and the publication of legal decisions has been approved.

At the end of December 2009, the Ivorian banking system comprised 20 credit institutions, of which there were 17 banks and 3 other financial establishments. This was one fewer than in 2008 following the withdrawal of the licence of the guarantee fund for coffee and cacao co-operatives, the FGCCC (*Fonds de garantie des coopératives café-cacao*). The sector was involved in a major transformation before the crisis. It became more competitive following the arrival on the market of two Nigerian banks: United Bank for Africa (UBA), which set up directly in the market, and Access Bank, which took control of Omnifinance. The Attijariwaffa group and *Banque marocaine du commerce extérieur* (BMCE) took 51% stakes in Société ivoirienne de banque (SIB) and Bank of Africa-Côte d'Ivoire (BOA-CI) respectively. In January 2010, the opening of the BSIC investment bank (Banque Sahélo saharienne pour l'investissement et le commerce) became effective and, in the same month, Caisse nationale des caisses d'épargne (CNCE) was authorised to operate as a general bank. The banking system is playing a growing role in financing the different sectors of the national economy.

According to the credit distribution listing compiled by the Centrale des risques at the end of June 2010, it provided the primary sector with XOF 57.2 billion (4% of total financing), the secondary sector with XOF 556.5 billion (37% of total financing) and the tertiary sector with XOF 876.6 billion (69% of total financing). The secondary and tertiary sectors are continuing to receive large-scale financing from the credit establishments, but the primary sector is lagging. The cascade of closures of credit establishments can only damage the Ivorian banking system and hamper the dynamism of its efforts to finance the economy. Of the country's 20 establishments, only 5 banks with majority Ivorian capital are still functioning: *Banque nationale d'investissement* (BNI), *Banque pour le financement de l'agriculture* (BFA), Banque pour l'habitat de Côte d'Ivoire (BHCI), Versus Bank, and CNCE.

Société générale de banque en Côte d'Ivoire (SGBCI) and Banque Internationale pour le commerce et l'industrie de Côte d'Ivoire (BICICI), which are subsidiaries of the French banks Société générale and BNP-Paribas, between them cover the wage bill of 80 600 civil servants and other state employees and account for close to 30% of the Ivorian banking market.

Other Recent Developments

Several reforms have been carried out recently in the public sector. The retirement age went up from 55 to 57 on 1 January 2009 on the basis of decree N°2009-35, which set the retirement age limit for certain categories of civil servants benefiting from general public-service status. The retirement age will be increased to 60 for all civil servants from 2011 on but this measure may not apply to certain specific professional categories. A technical committee was also set up to pilot a census of civil servants and other state employees. The census started in April 2010. As regards improvements to the legislative and regulatory system and reinforcement of the institutional and operational framework for dealing with public contracts, a new public contracts code was adopted in August 2009. Moreover, a national authority for the regulation of public contracts was set up and its members were appointed, allowing the new code to come into effect in January 2010. Also, notifications regarding the opening and evaluation of tender calls are regularly published on the website of the public works department and in the public works journal. To improve traceability and monitoring of the budget execution, the SIGFIP/ASTER interface was set up between April and December 2009. The advance payments management module was designed, tested and brought into service in 2010.

In the energy sector, Côte d'Ivoire joined the Extractive Industries Transparency Initiaitve (ITIE) in 2006 and has had the status of candidate country since 2008. Independent evaluations covering the years 2006 and 2007, which were in compliance with ITIE standards, were adopted by the ITIE national council and submitted for international approval. On the basis of the progress made, Côte d'Ivoire was hoping to be eligible in 2010 for the status of country in compliance with ITIE standards. But the validation report found that it had not reached ITIE compliance in relation to indicators 14, 15, 16, 17 and 18.

Reform of the coffee-cocoa sector involves among other things an overhaul of all indirect taxation for the 2010/11 season. The sole exit right, the registration tax and para-fiscal levies intended to cover the operating and investment costs of official organisations in the sector become an *ad valorem* tax limited to a maximum of 22% of the CIF (cost, insurance and freight) price of the product. A plan for the reform of the whole of the coffee-cocoa sector has also been drawn up and implemented. These two major reforms are part of the criteria for eligibility for the completion point of the HIPC Initiative. The decree creating the *ad valorem* tax was signed before the start of the 2010/11 season and is in the process of being applied. As a result of the increase in prices in 2010, the current level of taxation in the sector is well below 22%. By way of finalisation of the reform strategy and following the modification of para-fiscal taxation, two studies were launched in April 2010 and completed by June 2010. One dealt with the operating costs of structures in the sector and the other with the transmission of international prices to producers. The recommendations made by these studies, along with those relating to bagging and weighing contained in a World Bank audit, will contribute to the elaboration of the overall reform strategy for the coffee-cocoa sector. Audits carried out by four bodies present in the sector – *Bourse du café et du cacao*, the *Fonds de promotion et de développement des activités des producteurs de café et de cacao* and the *Fonds de régulation et de contrôle* will also be taken into account.

With regard to the restructuring and privatisation of public sector companies, the audits and operating checks continued in 2010. Supervision and monitoring of state companies is carried out via operating checks and audits by the state shareholdings and privatisations department, the DPP. Nine state-owned companies underwent operating checks and eleven others were audited. The closer supervision of the state's portfolio has contributed to a steady improvement in the results of state-owned companies.

Emerging Economic Partnerships

Economic partnerships between Côte d'Ivoire and emerging countries have shown marked progress. Several of these countries base their co-operation on the principles of sharing experience and knowledge, technology transfer and access to their markets. Côte d'Ivoire is particularly well placed in Africa for economic partnership with emerging countries by virtue of its agricultural, forest and mining resources and by its position in the WAEMU and ECOWAS economic zones. The country is all the more interested in co-operating with emerging countries because co-operation with its traditional partners, whether bilateral or multilateral, has become too narrow at a time when it needs to respond to numerous economic, scientific and technological challenges.

In Asia, China, South Korea, India, Singapore, Thailand, the Philippines, Brunei Darussalam, Indonesia and Malaysia have all formed partnerships with Côte d'Ivoire. The country participates regularly in meetings of the Tokyo International Conference on African Development, the Bandung Asian-African Conference in Indonesia, the China-Africa Cooperation Forum and the Techno-Economic Approach for Africa-India Movement (Team 9). In the Middle East, Côte d'Ivoire has tried to diversify its range of partners by establishing relations with several countries in the region, including, notably, Saudi Arabia, Iran, Qatar and the United Arab Emirates, while at the same time preserving its traditional relations between Israel and Lebanon. Russia, Mexico and Brazil have also formed partnerships with Côte d'Ivoire.

Asia is the country's third largest continental trading partner, accounting for 12.5% of trade, behind Europe with 44% and the rest of Africa with 29%. China is its leading Asian trading partner but still represents a modest share (3.2%) of its trade by comparison with its position in Africa generally. This share is growing markedly, however, driven by Chinese exports to Côte d'Ivoire. Despite China's dominant position, trade with other emerging countries such as Brazil, India and Malaysia has also developed considerably in recent years, as has their investment in Côte d'Ivoire.

Consumers take advantage of the low prices and large-scale distribution of goods imported from the emerging countries even if the quality of the products produced by China and India, for example, does not always inspire confidence in the absence of full respect for traceability standards. At the same time, growing exports of oil, iron ore, cocoa and other basic products from Côte d'Ivoire to the emerging countries have swelled the country's revenues. Many of these new markets, China and India in particular, offer relatively healthy growth prospects. Côte d'Ivoire's international trade with the emerging countries and other developing countries represents a reorientation of its foreign policy as a means of escaping from its traditional trading partners. Even though the EU continues to dominate Côte d'Ivoire's foreign trade, this domination is weakening, especially in terms of Ivorian imports.

The intervention of emerging countries is particularly visible in the domain of infrastructure. Partnership with China has enabled the country to improve its infrastructure significantly, with the construction of the Palace of Culture in Abidjan, the Hua-Ke vehicle assembly plant, the Yitwo agricultural machinery assembly plant, several health centres in the north of the country, the Lic Pharma pharmaceutical plant and the House of Deputies in Yamoussoukro, among others. Compagnie Minière du Littoral was set up with the backing of the China National Geological and Mining Corporation (CGM) to export manganese from Lauzoua.

Consolidation of Côte d'Ivoire's links with emerging economies in the fields of development, international trade and direct investment is full of rich potential but can also create distortions. While it is true that the flow of exports and imports with China has increased strongly, Côte d'Ivoire's has a large trade deficit. The effect of these links on economic competitiveness can also have a negative impact on the Ivorian economy. Exportation of raw materials, for example, can result in loss of added value and failure to create jobs. The authorities therefore need to adopt measures to overhaul the structure of trade with emerging countries, while, at the same time, avoiding the pitfalls encountered in the course of co-operation with traditional partners. Furthermore, private investors in emerging countries have become increasingly wary since the start of the post-electoral crisis. Ivorian foreign policy towards emerging countries must take into account civil society associations and non-governmental organisations in order to forge closer partnerships and, above all, to facilitate the access of partner countries to the different social sectors. Furthermore, the real growth of the country depends on the training of personnel, low-cost technology transfer and innovation.

Political Context

A grave political crisis broke out in Côte d'Ivoire on 19 September 2002. On 4 March 2007, the country embarked on a crisis-exit process based on the Ougadougou Agreement which provided for reunification of the country, the disarmament of insurgents and the organisation of presidential elections that would be free, transparent and open to all. The first round of the presidential elections was successfully organised on 31 October 2010 after a campaign characterised by political pluralism as demonstrated by the presence of 14 candidates. The record 81% rate of participation was seen as a sign of a real popular aspiration towards democracy. The second round resulted in a bipolarisation of the political field by setting the outgoing president Laurent Gbagbo and his LMP party (*La majorité presidentielle*) against Alassane Ouattara of the RHDP (*Rassemblement des houphouétistes pour la démocratie et la paix*). The RHDP is a coalition of the principal opposition parties: the *Rassemblement des républicains* (RDR) and the *Parti démocratique de Côte d'Ivoire* (PDCI). The second round took place on 28 November 2010 and the participation rate was 71.28%. Conflicting result announcements plunged the country into a political impasse, however. Alassane Ouattara was proclaimed the winner with 54.1% of the vote by the chairman of the Independent Electoral Commission (CEI) but Laurent Gbagbo was declared the winner with 51.45% of the vote by the Constitutional Council and refused to make way for his rival.

In its decision, the Constitutional Council took into account requests for results to be annulled in several *départements* under the control of the former rebel organisation the FAFN (*Forces armées des forces nouvelles)*, which was accused of massive fraud and human rights violations liable to distort the result of the vote.

According to the terms of the electoral legislation as laid down by the constitution and the electoral code, the material organisation of the vote is the responsibility of the CEI (Article 59 of the new electoral code), whose role it is to collect and announce the provisional results of the election. The same article provides that the commission should send a copy of the election report to the Constitutional Council, which, on the basis of Article 94 of the constitution, is responsible for announcing the final results.

The international community and the African Union recognised Alassane Ouattara as the victor. Confronted, however, with the political impasse created by Laurent Gbagbo's claim to retain the presidency, the international community applied economic, financial, diplomatic and political sanctions with the aim of isolating Laurent Gbagbo and forcing him to leave office. The main economic and financial sanctions were: *i)* the refusal by ECOWAS to recognise any signature but that of Alassane Ouattara as president and a ban on banks in Côte d'Ivoire from co-operating with Laurent Gbagbo's government, which is considered to be illegitimate; *ii)* the suspension by the EU of coffee and cocoa imports and an embargo on EU-registered ships berthing in the ports of Abidjan and San Pedro; *iii)* the suspension of co-operation between Côte d'Ivoire and the international financial institutions. The conflict escalated in the first months of 2011 and in April Mr. Gbagbo was arrested and Mr. Ouattara resumed full power.

The post-electoral crisis and the sanctions imposed on Côte d'Ivoire are having a real impact on the economy. Security has broken down again and there has been an increase in the number of people displaced as a result of clashes between Laurent Gbagbo's FDS forces (*Forces de défense et de sécurité*) and Alassane Ouattara's FAFN. From an economic point of view, there has been a slowdown in activity, which has been aggravated by the closure one after the other of the majority of banks in the country. At the social level, poverty has been aggravated by numerous job losses and business closures. School closures in the Centre, North and West regions have resulted in the creation of substitute schools in the cities of Abidjan and Daloa for more than 3 000 pupils. According to humanitarian organisations, many Ivorians have taken refuge in neighbouring Liberia and Guinea. The former rebels, who have controlled several cities in the Centre, North and West regions for several years already, have made several incursions into the southern "governmental" half of the country. The capital, Abidjan, has been the scene of clashes between the FDS and the FAFN, with the loss of many human lives and large-scale material damage.

Social Context and Human Resource Development

According to the United Nations Development Programme, Côte d'Ivoire's Human Development Index progressed 0.4% per year between 1980 and 2010, rising from 0.350 to 0.397 to place the country in 149th position out of 169 in 2010 after having been 163rd out of 182 in 2009. The population level increased strongly in urban areas as a result of the exodus from the countryside principally in the form of young people looking for work. The crisis that started in September 2002 accentuated the rift between north and south and poverty is increasing. The proportion of the population living below the poverty line – estimated at XOF 661 or nearly one euro per day – was 48.9% in 2008, according to the results of a survey on household living conditions carried out that year. In 2010, the population growth rate was 2.4%. The state is implementing its PRSP by directing its budget towards spending for the poor. Higher budget allocations in the corresponding sectors and budget execution have improved social indicators.

As regards education, the indicators show the enormous scale of the effort required. The pupil-teacher ratio in 2008/09 was one teacher for every 45 pupils. In 2010, the average length of schooling was 3.3 years and the percentage of children in full-time education was 37.5%. Public spending on education represented 4.5% of GDP. Implementation of the PRSP via the social orientation of the budget will result in an improvement in the indicators in the years to come.

In the health sector, the rehabilitation of health centres and the construction of new ones, as well as the recruitment of medical and paramedical personnel, have resulted in an increase in the number of births assisted by qualified personnel, which rose from 63.9% in 2008 to 64.5% in 2009. This indicator is one of the criteria taken into account for attainment of the completion point of the HIPC Initiative. As for the public health pharmacy (PSP), a payment of XOF 8.6 billion was made against the outstanding balance and the remainder was due to be paid in 2010.