

# THE COTE D'IVOIRE'S TROUBLED ECONOMY: WHY WORLD BANK INTERVENTION FAILED

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After World War II, Cote d'Ivoire was one of independent Africa's stellar success stories. But in 1976 the country entered an economic slump from which it has never recovered. In 1990 the World Bank finally stopped lending money to Cote d'Ivoire out of frustration at the failure of the government to institute reforms designed to put it back on the road to prosperity. This paper discusses the factors that changed Cote d'Ivoire and addresses the question of why the World Bank, which was Cote d'Ivoire's biggest creditor from 1981 to 1990, failed to correct the nation's problems but, instead, continued to provide loans.

## Evolution of the Cote d'Ivoire Society

For 35 years, from the end of World War II to the middle of the 1970s, the economy of Cote d'Ivoire grew rapidly at 8 percent per year. The weakening of the French colonial power and the termination of forced labor in 1946 helped to free the economy. In addition, both the colonial government and the post-colonial government under Felix Houphouet-Boigny took steps to establish a legal system and an institutional framework that fostered a competitive private economy composed of many entrepreneurs.

Gradually, however, the new government began to expand its power over the economy. It took an increasingly active role in the allocation of resources and the redistribution of wealth. In 1970, the government implemented a five-year national plan that affirmed the government's desire to become more actively involved in the allocation of resources.

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The central government began to invest in prestigious but inefficient projects such as the creation of a new capital city and large hydroelectric plants. These projects were financed largely by annual World Bank loans, which did not require that the projects make a financial return. Rather, investment in these projects assured the central government of a steady flow of capital and the employment of a loyal cadre of followers. It is widely known that the ruling class of Cote d'Ivoire withdrew, both legally and illegally, a significant percent of the foreign capital that financed economic development (Ayittey 1992: 240–3).

Yet the foreign bank loans continued. Cote d'Ivoire's public long-term debt was \$4.7 billion (\$U.S.) in 1980, or 40 percent of its GDP. Debt grew to \$6.8 billion in 1984, more than 85 percent of its GDP that year (Berthelemy and Bourguignon 1996: 70).

Cote d'Ivoire came to resemble the traditional society described by Karl Polanyi in *The Great Transformation*. The economy is dominated by a unified political organization and not by individual and diverse decisions made by entrepreneurs (Polanyi 1945). Indeed, Cote d'Ivoire society is similar to the social structure of the pre-colonial states of the Gulf of Guinea in which an all-powerful minority obtained its wealth by serving as the intermediary between the local population and the outside world. The discourse, the rhetoric, and the goods involved have changed, but the reality of power and the flow of goods and money resemble Africa at the time of the gold, gum, and slave trade (see Hopkins 1988).

"Through the powerful central government, under the direct and sole control of the president, and through numerous state-owned enterprises, the public sector plays a major role in Cote d'Ivoire," write Berthelemy and Bourguignon (1996: 11), the authors of the World Bank's latest book on the country. The power of the central government enables Cote d'Ivoire's urban elite to preserve its domination over the country by holding back rural development. It extracts most of the benefits generated by the agricultural sector, which is composed of small, dispersed, and powerless peasants.

The tool of control is the state agency that serves as the intermediary between agricultural producers and the international market, the Caisse de Stabilisation et de Soutien des Prix des Produits Agricoles (CSSPPA). This agency is the only authorized buyer of coffee and cocoa, and the one that sells these products on the international market.

According to Berthelemy and Bourguignon (1996: 30), "Initially, the CSSPPA was to be only a price stabilization device and an instrument for controlling export crop markets." However, "with the

increase in coffee and cocoa world prices in the mid-1970s, it became an additional source of revenue for the government and virtually abandoned its original stabilizing function.” Between 1960 and 1990 CSSPPA made significant profits every year except for 1972, 1989, and 1990. This profit was achieved by fixing the prices to the producers at a much lower level than the prices on the international market. In 1984 and 1985, coffee and cocoa producers received on average only 37 percent of the international prices paid to the CSSPPA.

## The Role of the World Bank up to 1980

The government has been the principal obstacle to the growth of the Cote d'Ivoire economy and the improvement of its inhabitants' welfare. But the government would probably not have been such an obstacle without the complicity of the World Bank. At first the World Bank was misled by its own analyses; but later, when these analyses were replaced by more accurate descriptions of the economy of Cote d'Ivoire, its intentions were undermined by the interests of the World Bank personnel working closely with the Cote d'Ivoire government.

In 1978, a World Bank book written by Baastian den Tuinder, *Cote d'Ivoire: the Challenge of Success*, analyzed the development of Cote d'Ivoire since the turn of the century. In Tuinder's view, the nation's economic success was exclusively due to the state—the French state during the colonial period and Houphouet-Boigny's after independence. The take-off of coffee and cocoa production was the result of the agricultural policy put into place by the colonial extension service, and all the credit for the spectacular growth of the economy during the 1960s went to the government's economic policy.

Tuinder thought that the nation's economic problems in the late 1970s, such as its nondiversified economy, unequal income distribution, and low return on investment, were well on their way to being solved. The state was moving in the right direction, he thought, and the best proof was the increase in state investment, which went from 40 to 60 percent of total investment between 1960 and 1970. This increase in the government's role, Tuinder thought, would also help diminish social and income inequalities.

Tuinder's book reflected the views of mainstream development economists at the time. According to them, economic growth depended on the deliberate action of the state in the form of a national development plan. The World Bank's intervention in the Cote d'Ivoire economy exactly fit the analysis developed by Tuinder. Its main goal was to strengthen state institutions in order to promote more “coherent” economic policies.

However, national planning in Cote d'Ivoire had unfortunate consequences, especially since the government was a one-party state, with no opposition allowed. Centralized planning enabled the people in power to control the allocation of resources and the distribution of wealth. The World Bank became the ally of government officials, providing them with financial resources when the state budgetary deficit got too large.

## The Early 1980s: The World Bank Analysis Changes

Beginning in 1982, however, a different analysis of the Ivorian economy began to emerge from the World Bank. A series of economic studies were published in the World Bank's "Working Papers" series focusing on specific sectors of the Cote d'Ivoire economy such as industry, agriculture, social services, education, and health (Glewwe 1987, Glewwe and de Tray 1988, Michel and Noel 1984, van der Gaag and Vijverberg 1987). Most were written by relatively young professionals who relied on microeconomic analysis rather than the macroeconomic theories of development prevalent in the 1950s and 1960s.

Many of the studies viewed the government's economic policy not only as an obstacle to recovery but, in fact, as the cause of the nation's economic problems. Above all, the World Bank analyses blamed the CSSPPA. According to the new World Bank analyses, the CSSPPA's price controls diminished economic diversity, encouraged rural outmigration, and contributed to income inequality. They led to excessive debt and the inability to service it. The World Bank began to press the Cote d'Ivoire government to pay higher producer prices.

The conclusions of these studies (and their facts as well) differed widely from Tuinder's. While Tuinder had classified Cote d'Ivoire as a country with a relatively even distribution of income (with 19.7 percent of national income going to the poorest 40 percent of the population), these more in-depth studies revealed that the poorest 40 percent received only 8.6 percent of total income. Indeed, Cote d'Ivoire was classified as the African country with the most unequal distribution of income.

Tuinder had described Cote d'Ivoire as the country in the world that devoted the highest proportion of its budget to education, but the World Bank studies of the 1980s showed that between 50 and 80 percent of the education investment went to higher education and that the cost per student at the university level was among the highest in the world. Because university students came mainly from the richest families, primarily located in Abidjan, this spending pattern reinforced

social inequalities. So, in spite of the large amount of capital allocated to education, 40 percent of the children between ages 6 and 12 were not attending school in 1985.

The World Bank also revealed that health spending went mainly to the wealthy urban population. Rural populations, which in 1984 accounted for 50 percent of the total population, received only 11 percent of the health operating budget. Most of this budget paid for highly sophisticated treatments not suited to the needs of the majority of the population, who needed low-cost preventive care. In sum, the World Bank's health, education, and housing studies demonstrated that government policies had benefited the rich at the expense of the poor.

The newly emerging World Bank analyses applied to other countries as well. The World Bank concluded that the more interventionist the state, the slower the rate of economic growth and the more unequal the distribution of income. As Keith Marsden (1983: 2) wrote in a study of 20 countries, "In all cases, the countries that imposed a lower effective average tax burden on their populations achieved substantially higher real rates of growth of gross domestic product (GDP) than did their more highly taxed counterparts." The higher rates of economic growth, he wrote, "allowed a substantial rise in real living standards in the low-tax countries, shown by their higher levels of private consumption" (p. 4).

The sectoral studies served as foundations for the document issued by the World Bank in 1986 under the title "La Cote d'Ivoire en Transition: de l'Ajustement Structurel a la Croissance Autonome." This document defined the position of the World Bank in the negotiations it was holding with the Cote d'Ivoire government on the Third Structural Adjustment Loan. And, as it had in 1985, the World Bank in 1986 argued that the recovery of the Cote d'Ivoire economy required a disengagement of the state from the economy and urged that the state pay higher coffee and cocoa prices to producers.

## The Middle 1980s: Conflict over Reforms

Once the World Bank began to propose reforms consistent with its new analysis of the Ivorian society, it became a threat to the well-being of those involved in the government. But it failed to deliver on this threat. This became clear in the autumn of 1986.

The prices paid to coffee and cocoa producers were fixed every year by the head of the state at the beginning of the harvest season, in September. In the fall of 1986, the new prices were announced during the preliminary negotiations with the World Bank for the Third

Structural Adjustment Loan. In spite of clear statements by the World Bank that these prices should be raised, they were not. Yet a few months later an agreement was reached, and Cote d'Ivoire received its Third Structural Adjustment Loan.

For the next four years, the World Bank was divided in its treatment of Cote d'Ivoire. Rhetorically, it demanded reforms. In practice, reforms were never implemented and the World Bank kept lending more to the Ivorian government.

In response to the apparent World Bank pressure, the Cote d'Ivoire elite developed a strategy of nationalistic and Third-World-style rhetoric. Government officials pictured the World Bank as an instrument of the international policies of the rich Western countries. The bank, they contended, was defending the interests of the "North" against those of the "South." Its attempts to promote a national economic policy based on comparative advantage was described as a way of keeping poor countries dependent on rich industrial countries, maintaining the status quo. The leaders contended that the World Bank wanted Cote d'Ivoire to produce coffee and cocoa at the expense of its industrialization.

They cited as evidence the riots in other poor countries after the adoption of policies advocated by the World Bank, such as higher prices of food and other basic commodities. With this strategy, the ruling class won over the populace. Such a position found a friendly echo in the media of the wealthier countries, which have tended to downplay criticism of the post-colonial governments of sub-Saharan Africa.

## Why Did the World Bank Fail to Insist on Reform?

The reforms proposed by the World Bank were designed to restore economic growth to Cote d'Ivoire. Although there is controversy over whether the reforms would have reduced government power sufficiently to allow the economy to move forward, they would have been a step in the right direction. However, the World Bank failed to require the Cote d'Ivoire government to implement them.

There are two reasons for this failure. One is related to the international political position of Cote d'Ivoire.

Since its independence in 1960, Cote d'Ivoire has followed a pro-Western international policy. This and the fact that it had only one leader, Felix Houphouet-Boigny, affected the behavior of the World Bank toward Cote d'Ivoire. The financial debt of Cote d'Ivoire to the Western countries is partly balanced by the political debt that the Western countries hold to Cote d'Ivoire for constant international

support, especially in African international politics. This aspect of World Bank behavior is beyond the scope of this article.

Equally important, however, was the role of World Bank personnel. An understanding of their incentives and their relationship with the leadership of Cote d'Ivoire helps explain the failure of the World Bank to take action in line with its own recommendations.

The professionals who conducted the studies recommending higher producer prices were by and large different from the staff who negotiated the loans. These two groups interact only marginally, and when they do, it is in the early stages of the negotiation process. The bank's professionals are quite similar to scholars in the research and university community. Their work is evaluated and appreciated mostly by academics and, like academics, they depend largely on publication of scholarly articles for their promotion opportunities. This incentive structure gives them an independent viewpoint (mitigated only by ideology or school of thought). Their incentive structure makes them somewhat aloof from the internal power structure of the bank as well as from the role of the bank in international politics. They are part of the bank, but their professional status is not completely dependent on the bank.

In contrast, the personnel in charge of lending and negotiations are essentially administrators. For the most part, they are former civil servants in their country of citizenship or former administrators of other national or international financial institutions. Their careers and promotions are closely linked to the power of the institution they work for and the size of its budget.

The bank has a bureaucratic incentive to lend money (otherwise, what purpose would it have?), and merely extending loans increases these officials' chances of controlling a larger-sized budget the next year. For the most part, their professional success is not determined by the return on the capital loaned. This incentive structure pushes World Bank personnel to lend money even when the borrowing country fails to meet the conditions required to make this flow of capital productive.

Cote d'Ivoire civil servants who deal with the World Bank are high in the civil service hierarchy, and often also hold a political position inside the dominant party. Their personal welfare depends on the maintenance of the status quo. Their power and their fortune are a function of the amount of taxes collected by the state and of the level of government expenditure. If expenditures exceed revenues, little harm comes to them, especially when the deficit can be made good by foreign bank loans. They are ready to commit substantial resources

to resist any attempt to diminish the control of the state over the economy, since this would bring a substantial loss of power and wealth.

The interests of the Cote d'Ivoire leadership meshed well with the interests of the World Bank administrators. The World Bank was the main creditor of Cote d'Ivoire, and hence the most important and reliable source of power and revenue for these civil servants. The defense of their interests encouraged them to find compromises with the World Bank. This was made easier by the fact that the personnel of the World Bank in charge of lending also had a strong incentive to compromise, making sure that Cote d'Ivoire received its loans regularly. This left ground for bargaining, and the goal of the Cote d'Ivoire ruling class was to obtain these loans at a minimum cost to their well-being.

So, throughout the 1980s both parties were strongly motivated to find an agreement and a "positive" outcome to loan negotiations. This did not prevent the negotiations from going through different stages reflecting the rites associated with the exercise and enjoyment of power. At times it looked as though negotiations might break down and the loan would not be granted. But in the end the similarity of interests was so great that an agreement was regularly found.

## Political Power, Economic Growth, and the Market Economy

Societies that experience a sustained increase in per capita income over a significant period of years are rare. In their provocative work on *How the West Grew Rich*, Nathan Rosenberg and L. E. Birdzell (1986) demonstrate that, over centuries, the gradual breakup of centralized political controls stimulated sustained economic growth. The disintegration of central controls allowed autonomous economic activities to proliferate.

In countries such as the Cote d'Ivoire, the allocation of material goods is determined by political authorities. This political allocation introduces a discrepancy in most economic activities between the private rate of return and the social rate of return. The government of Cote d'Ivoire pays farmers less than the value of their coffee and cocoa, discouraging socially valuable production. It supports expensive but unrewarding industrial projects, activities with a low social value.

Economic growth is possible only with an institutional arrangement that brings the private rate of return close to the social rate of return. The more prevalent these discrepancies, the less likely it is for a society to experience economic growth. Yet by promoting and maintaining these discrepancies, the group in power optimizes its own



welfare. As Polanyi wrote in *The Great Transformation*: “A self-regulatory market demands nothing less than the institutional separation of society into an economic and a political sphere” (Polanyi 1945: 72–3). Hence there is a fundamental contradiction between authoritarian regimes and economic growth, because authoritarian regimes at some point will constrain the emergence of a market economy.

Once past its infatuation for “development planning,” the World Bank at the beginning of the 1980s recognized that the Cote d’Ivoire state had become the principal obstacle to economic growth, primarily through its monopsonistic practices. The bank correctly concluded that the government should loosen its grip on the economy. However, in reality and in practice, the intervention of the World Bank did not contribute to this disengagement. The very logic of its functioning prevented it from having a beneficial influence on Cote d’Ivoire society. The relations it established with Cote d’Ivoire authorities allowed, in fact, for a strengthening of the political control over the economy.

After the late 1980s, the economy of Cote d’Ivoire went from bad to worse. Its per capita gross domestic product fell 4.3 percent per year between 1985 and 1994 (Gwartney et al. 1996: 94). As before, the blame for this disastrous economic performance is being placed on external conditions, especially low coffee and cocoa prices (Berthelemy and Bourguignon 1996). However, this misses the point. Had the multitude of Cote d’Ivoire’s small entrepreneurs not been heavily taxed from 1960 to 1988 by a predatory ruling class through the CSSPPA and had not this predatory ruling class been helped to hold on to power by the World Bank through a continuous inflow of capital, today’s economy would be more diversified and better armed to face these adverse conditions successfully.

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