Michelle Riboud

Introduction by Arnold C. Harberger

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The Ivory Coast: 1960–1985

By Michelle Riboud

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for Economic Growth

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PREFACE

This study of the Ivory Coast is the fourth in the special series that Arnold Harberger is editing in the Center's Country Studies series. This new series follows the 1984 publication of *World Economic Growth: Case Studies of Developed and Developing Nations* and its thirteen "lessons" for economic policy, drawn from the book's twelve country case studies. This series, as well as other country studies the Center is supporting, continually reexamines Professor Harberger's lessons and seeks to refine them. In the coming months we will publish studies in this special series on Bolivia, India, and Turkey.

Additional country studies will include a revised edition of Lawrence Lau's edited study of the growth miracles of South Korea and Taiwan *(Models of Development: A Comparative Study of Economic Growth in South Korea and Taiwan)* and William James, Seiji Naya, and Gerald Meier's comparative fourteen-country study of newly industrializing, ASEAN-4, and low-income countries in the Pacific Basin *(Asian Development: Economic Success and Policy Lessons)*, based on work done at the Asian Development Bank in Manila and at the East-West Center in Hawaii.*

Nicolás Ardito-Barletta
General Director
International Center
for Economic Growth

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CONTRIBUTORS

ARNOLD C. HARBERGER is Gustavus F. and Anna M. Swift Distinguished Services Professor at the University of Chicago and professor of economics at the University of California, Los Angeles. He has been a consultant to central banks, finance ministries, and planning agencies in many developing countries, and has served in a similar role for the World Bank, International Monetary Fund, regional development banks, and foreign aid agencies of the United States and Canada. His many publications include the books *World Economic Growth*, *Taxation and Welfare*, and *Project Evaluation*.

MICHELLE RIBOUD is professor of economics at the University of Orléans and at the Institute of Political Studies in Paris. She received her education in economics from the University of Paris and the University of Chicago. Previously she has worked as professor and research economist in the Ivory Coast and Spain. Her research and publications focus on the issues of development and labor economics.

ARNOLD C. HARBERGER

Introduction

The Ivory Coast was for a long time the champion of economic growth among the nations of sub-Saharan Africa. Directly following independence in 1960, it experienced a decade of GNP growth at an average annual rate of 8 percent, putting it in a class with other reigning champions of the time: Panama (7.8 percent), Brazil (8 percent), Thailand (8.2 percent), Israel (8.5 percent), Korea (8.5 percent), Singapore (8.8 percent), Taiwan (9.2 percent), and Hong Kong (10 percent). Along with Togo (8.2 percent) and Mauritania (8.2 percent), the Ivory Coast led all African nations in economic growth during the 1960s.

Today the Ivory Coast must still be considered a success story, but it is no longer by any means in the class of miracles. Its champion status was left behind as it entered the 1970s and compiled an average growth rate of some 6.5 percent per annum. Now it was matched or surpassed by a much larger group of countries, including Botswana, Colombia, Costa Rica, the Dominican Republic, Malawi, and Paraguay, not to mention a number of oil-exporting nations, plus more than a few (Brazil, Hong Kong, Korea, Singapore, Taiwan, and Thailand) that had maintained their championship status from the previous decade.

The serious fall in the Ivory Coast's growth rate dates from about 1979; indeed, GDP growth barely kept pace with population growth from 1978 to 1982, and then suffered a calamitous drop of about 13 percent in 1983. This catastrophe may have galvanized the country's leaders into a renewed adherence to the tenets of good economic policy.

Professor Riboud traces the story of the Ivory Coast from its colonial past through an astoundingly successful adaptation to its new situation as an independent nation, down through the events of the late 1970s, which marked a sharp deterioration of discipline. As is the case with many other countries, it was an excess of ambition, a "new investment strategy . . . , more expansionary and ambitious than the previous one," that helped set the stage for trouble. The zeal for investment was linked to rising political concern with regional and sectoral income disparities, and with pressures for job creation.

Massive increases in public investment were decreed for the late 1970s, while the government's current budget also grew. Part of this growth came from the euphoria of booming coffee and cocoa markets in 1976 and 1977. But whereas previous policy had dictated the accumulation of reserves or repayment of debt during export price booms, the new policy shift caused the proceeds of the boom to be spent, along with still further funds borrowed from abroad.

This zeal to maintain the pace of government spending carried with it a whole list of consequences. Even measured at constant 1977 prices, government consumption (i.e., noninvestment spending) grew by about 14 percent per year during the late 1970s. The money supply doubled between 1975 and 1977, long before the second oil crisis. The government deficit reached more than 12 percent of GDP in 1980; total debt grew to more than 40 percent of GDP. Meanwhile, the real exchange rate was allowed to fall as monetary expansion bid up domestic costs relative to international prices, thus reducing the incentive to export and helping to cause a new doubling of real imports between 1975 and 1980.

In all these respects, the Ivory Coast was following a pattern dramatically different from the steady discipline and restraint that characterized the successful years of the 1960s. Unfortunately, this pattern had much in common with those of other countries that, having yielded to temptation and courted disaster, ended up by having it visited upon them.

The year 1981 witnessed the beginning of a major restructuring of the Ivory Coast's economic policy. The money supply was brought under control, the budget was cut (its investment component falling from 16 percent of GDP in 1977 to 4 percent in 1985), and public sector deficit was reduced to less than 3 percent of GDP by 1984. Monetary growth was slowed in the period 1980–85 to about half its rate during the previous five years.

All these measures, together with reforms of pricing policy and the tariff structure, elimination of quantitative import controls, and improved export incentives, placed the Ivory Coast in a good position for renewed growth. In 1985 and 1986 its economy spurted forward again, marking a promising end to the stagnation that it had suffered in the years following 1978. Still open, however, are the questions of whether the favorable policy ambience that characterized the 1960s can be fully restored, and whether the dramatic growth achievements of that decade can be repeated.

MICHELLE RIBOUD

The Ivory Coast: 1960-1985

In 1950, with a per capita income of approximately $70, the Ivory Coast was among Africa's (and the world's) poorest nations. Although per capita income had doubled by the time of its independence in 1960 (reaching $145), the country was still poorer than neighboring Ghana ($200), which was then considered the "avant-garde" of West Africa, and it was poorer than Senegal, the most economically advanced of the former French colonies in the region.

In the two and a half decades after 1960, the Ivory Coast's GDP, private consumption, and exports (all measured at constant prices) all increased three to four times. Manufacturing output—an incipient sector in 1960—multiplied fivefold, while agricultural production more than doubled.

This impressive record, which has often been described as a miracle, allowed the Ivory Coast to catch up with and surpass other West African countries, several of which had begun with a clear advantage. The comparative story of the accomplishments of the various countries is indicated in Table 1. Ghana, for example, which is

Table 1
Comparative Economic Indicators, West Africa

	Average Annual Rate of Growth of Real GNP		Per Capita GNP	Per Capita Energy Consumption	
	1960–70	1970–82	1982	1960	1976
Ghana	2.1%	-0.5%	$360	106	157
Senegal	2.6	2.9	490	121	156
Mali	3.3	4.3	180	15	27
Upper Volta	3.0	3.4	210	5	18
Niger	2.7	3.4	310	5	35
Ivory Coast	8.0	5.7	950	76	381
Togo	8.8	3.0	340	15	125
Mauritania	6.7	2.0	470	12	131
Benin	2.6	3.3	310	26	38

similar to the Ivory Coast in terms of natural resources (but definitely not in terms of policy orientation), experienced a negative average growth rate of -0.5 percent per year for more than a decade (1970–82). Similarly, Senegal's per capita income fell at an average rate of -0.3 percent per year for more than fifteen years. It is thus no surprise that per capita income in Senegal in the mid-1980s was about half, and Ghana's only a little more than one-third, of per capita income in the Ivory Coast.

Benin, Niger, Upper Volta (now Burkina-Faso), Mauritania, and Togo share with the Ivory Coast a history as former French colonies. Together with Senegal, all are members of the West African Monetary Union. All share a Central Bank and a common currency (CFAF) linked to the French franc. Despite the similarities among this large group of countries, it is the economy of the Ivory Coast that stands out. The Ivory Coast is far ahead of all these countries in terms of per capita GNP—three to four times as high. Although others may have kept pace for part of the period (as Togo and Mauritania did in the 1960s), none matches the overall record of the Ivory Coast for the entire period.

Growth in population and labor force also has been faster in the Ivory Coast because of its openness to foreign labor. Its growth record has thus helped ease the economic straits of neighboring countries and has fostered the economic well-being of a large number of foreigners—who now make up 22 percent of the population—in addition to the native inhabitants.

This paper analyzes the economic policy of the Ivory Coast during its great growth period, and during subsequent years when the pace of progress slackened. Some have argued that the so-called Ivory Coast miracle was the result of luck. Yet there were no obvious windfalls from new discoveries of oil, minerals, or other natural resources. Instead, growth was the result of sensible economic policies, which fostered the development of profitable activities during this new nation's first eighteen years of existence.

Unfortunately, after this long period of prosperity caution was abandoned in the late 1970s. The government yielded to the temptation of undertaking excessive public spending without adequate consideration of its profitability, or of the difficulties of funding new sources of revenue. Disequilibria thus appeared, which finally became so serious as to require a drastic adjustment program. In the process, growth halted and then became negative.

Confronted by a serious economic situation resulting from its own mistakes, the government of the Ivory Coast has more recently shown great pragmatism and realism. Its political strength and stability have permitted it to take radical measures—in particular, a sharp reduction in public spending—that would have provoked political turmoil in many other countries. As a result, although some difficulties remain, the way now seems open for restored growth.

In what follows, the country's economic history is divided into three episodes:

1) The period 1960–75, characterized by growth within a stable policy environment;

2) 1976–80, also a growth period, but one during which policy mistakes led to strong disequilibria and to a financial crisis; and

3) the period 1981–85, a phase of adjustment and correction.

In conclusion, I examine the problems that remain to be solved, with special emphasis on the issue of human capital formation.

Key Elements of Economic Policy

Although my analysis will cover the economic history of the Ivory Coast since its independence in 1960, a brief review of the country's past as a French colony will help to explain the policy orientation later followed by the government.

As a political unit, the Ivory Coast is of quite recent origin. It was constituted (artificially, in a sense) through the amalgamation of a large number of ethnic and linguistic groups under French administration. As a result, maintaining unity has been one of the chief concerns of the government; indeed, this objective has had a major influence on the choice of economic policies.

For the French, the Ivory Coast was a rich colony. They invested quite willingly in the development of export crops, as well as in transportation facilities (especially in the south, where climate and terrain were farmable). Partly as a result of these investments, at independence the country enjoyed flourishing trade and growing export revenues, with commodity exports accounting for nearly one-third of GDP.

Perhaps motivated by this promising beginning, perhaps also due to the fact that there was already a large foreign population, the government set out on a policy, inspired by President Felix Houphouet-Boigny, that can be characterized by an emphasis on outward-looking growth, a strong commitment to agricultural development, a favorable disposition toward private capital (foreign and domestic, physical and human), and reliance on individual incentives and market forces.

The general policy orientation chosen by the Ivory Coast was thus the antithesis of that followed by its neighbor, Ghana, for which central planning, "guided" industrial development, and policy-induced import substitution were key objectives.

Because of its desire to maintain close ties with France, both with respect to trade and as a source of capital and skilled labor, the Ivory Coast decided to stay in the franc area, peg its exchange rate to the French franc (50 CFAF = 1 FF), and join the West African Customs Union and the West African Monetary Union.

Economic growth was the government's main objective. In addition to the obvious desire to promote the well-being of the population, it was strongly believed that political unity could be maintained only by distributing benefits to all groups in society, and that only growth could make that possible.[1]

To achieve that objective, the overall development strategy has been internationally oriented and liberal, although controls and government interventions have not been absent. Entrance of migrants and foreign capital has been allowed and represents an important contribution to measured growth, but the labor market is nonetheless strongly regulated. Market prices are controlled—especially agricultural prices—and their setting is used as a way of providing incentives toward the achievement of specific goals. Probably as a result of France's influence, the Ivory Coast also has made use of indicative planning. Public investment programs are developed periodically and, as will be shown, their implementation has led to substantial investment. Finally, the Ivory Coast has a strong education policy, whose objectives are both human capital formation and the progressive replacement of foreign skilled labor by native talent.

The 1960-1975 Record

During the first fifteen years of its existence as an independent nation, the Ivory Coast had an impressive economic record. Real GDP increased at an average rate of 7.4 percent per year and in per capita terms at an average rate of 3.6 percent. Table 2 shows that all macroeconomic aggregates grew markedly over the period.

Table 2
Average Annual Growth Rates, 1960-1975
(percent per year)

	1960-65	1966-70	1971-75	1960-70	1960-75
Real GDP	9.2	7.4	5.6	8.3	7.4
Population	2.8	4.0	4.5	3.4	3.8
Real GDP per capita	6.4	3.4	1.1	4.9	3.6
Consumption	7.8	7.9	4.7	7.9	6.8
Investment (including stocks)	14.5	12.4	6.0	13.4	10.9
Exports*	7.7	6.5	7.4	7.1	7.2
Imports*	7.7	11.2	5.7	9.4	8.1

Source: Den Tuinder et al., *Ivory Coast, The Challenge of Success*, A World Bank Country Economic Report, Baltimore, Md.: Johns Hopkins University Press, pp. 21, 312-13.

* including nonfactor services

The growth of the primary sector, already under way before independence, proceeded along the same lines as before—development of export crops. However, this development was accompanied on the one hand by diversification of production through the introduction or expansion of a variety of new crops (pineapples, bananas, palm trees, rubber, cotton), and on the other hand by increases in the production of food crops in response to growing demand in urban areas. These progressed at the same average annual rate (around 5 percent) as export crops during the whole period.

The secondary sector developed rapidly, especially its manufacturing components. In 1960 this sector was very small, and most manufactured goods were imported from France. By 1975, however, manufacturing output had multiplied almost fourfold in constant prices. At the beginning of the period, the emphasis was on import substitution, but by its end the growth of industries processing the nation's raw materials became more important.

The development of this sector was fostered by a stable political climate and a policy deliberately aimed at encouraging direct foreign investment and management as well as the use of skilled foreign labor. An investment code introduced in 1959 exempted priority firms from import duties on raw materials and intermediate inputs and imposed no restrictions on repatriation of capital. According to World Bank estimates, this investment code and the existing tariff structure have provided the manufacturing sector with an effective protection rate of about 1.42 on average, with priority firms benefiting from higher than average protection.[2]

The tertiary sector also progressed during this period, and the number of jobs offered by private and public employers grew at the same annual rate of approximately 6 percent.

In addition to the modern sector of the economy, an informal sector that escapes most taxes and other regulations exists in the Ivory Coast. It includes traditional craftsmen's activities and small-scale industries and services. Although it is hard to obtain statistical data on this sector, the available information suggests that it grew during this period at the same rate as the modern sector, and provided as much employment.

Taken together these trends resulted in major structural changes in the economy, especially during the first decade (Table 3). The primary sector share fell from 43.5 percent of GDP in 1960 to 28.8

Table 3
Composition of GDP by Sectors
1960-1975

	1960	1965	1970	1972	1975
Primary sector	43.5%	35.9%	27.2%	26.5%	28.8%
Secondary sector	14.1	17.1	21.5	23.7	21.5
Manufacturing	7.1	10.1	13.4	15.2	13.1
Tertiary sector	42.4	47.0	51.3	50.4	49.7

Source: World Bank, World Tables, 1983, pp. 94-95.

percent in 1975, while the secondary and tertiary sectors rose from 14.1 to 21.5 percent of GDP and from 42.4 to 49.7 percent respectively. The share of manufacturing almost doubled.

The portion of the population living in urban areas rose from 13 percent in 1955 to 34.3 percent in 1975 and, as an increasing proportion of food production was channeled toward the cities, the share of subsistence income (agricultural production kept by farmers for their own consumption) in total income fell from 26 to 15 percent.[3]

Exports contributed greatly to the country's prosperity then, as they did before independence. Relative to GDP, they have oscillated around 40 percent. The weight of traditional exports—coffee, cocoa, and timber—remained predominant, but decreased from 87 percent in 1960 to 61 percent in 1974, as new export crops were introduced and the share of manufactured products increased (Appendix A-1). All this is in sharp contrast with what happened in the neighboring country, Ghana, where the agricultural and manufacturing share of GDP—which in 1960 was at approximately the same level as in the Ivory Coast—remained unchanged during the following fifteen years, while the share of exports constantly fell.[4]

The Ivory Coast's record is no less impressive in per capita terms. Despite high population growth (around 4 percent per year), real or per capita GDP grew at an average rate of 3.6 percent per year during the period 1960–75. This is well above the average rate of per capita growth in either the developed or developing part of the world. Moreover, it is biased downward, in a sense, by an important migration flow from other, mostly African countries. In 1950, approximately 100,000 African foreigners were already present in the Ivory Coast. In 1975 the census registered 1.4 million foreigners, out of 6.6 million inhabitants. These migration flows are no surprise. In 1965, per capita income in the Ivory Coast was at approximately the same level as in Ghana or Liberia, but two to three times higher than in Mali, Guinea, Niger, or Burkina-Faso (then Upper Volta). Differences have increased since then, especially relative to Ghana, whose per capita income had fallen by 1983 to less than half that of the Ivory Coast.

Internal migration flows also have occurred, but while foreigners are both in urban and rural areas, most Ivory Coasters migrate to urban areas. Migration has been a clear response to real income differences, and as a consequence has had an equilibrating effect. While real income has increased faster in the nonagricultural than in the agricultural sector, the reverse has been true when measured in per capita terms. The same trend can be observed when comparing regions: the rate of growth of per capita agricultural income has been higher in the poor savannah regions in the north than in the richer southern part of the country (Table 4).

The country's wage policy has undoubtedly contributed to migration flows. The government has wages in the agricultural sector at a level low enough to guarantee profits to the planters, but still

Table 4
Agricultural Per Capita Incomes by Region; 1965–1975 (constant 1980 CFAF)

	1965	1975	Annual Growth Rate, 1965–75
Southeast	68,043	88,440	2.7
Central	51,556	64,880	2.3
Central West	54,390	95,860	5.8
Southwest	20,755	25,560	2.1
North	6,219	47,880	22.5
Central North	8,169	21,360	10.1
Average	39,063	63,890	5.0

Source: Ministry of Planning.

high enough to attract labor from other African countries. This is more relevant for the southern part of the country, where hired labor is used, than in the north, where very little hired labor is used. There, migration out of agriculture has caused an increase in the average size of family plots and a reduction in the size of the average (resident) farm family. As a result, both income and labor productivity have increased.[5] In the industrial sector, minimum wages have been set at a much higher level, which explains the attraction that the modern sector has had for Ivory Coasters.

On the whole, however, the main policy variable has been an ambitious investment program, planned for a three-year period and implemented through the government's investment budget (Budget special d'investissement et d'èquipement, or BSIE) and the investment program of public enterprises.

To finance its recurrent expenditures and its investment program, the government relies on three sources of revenue: fiscal, transfers from a stabilization fund, and borrowing (mostly from abroad).

Tax revenues are far from negligible, since they represent a little more than 20 percent of GDP. Direct taxation of income and property constitutes a small proportion of the total—between 10 and 20 percent—since agricultural revenues are not subject to income taxes (apparently, as will be seen later), and a progressive income tax is applied only to earnings in the modern sector. Taxes on international trade (import and export taxes) represent the largest share, more than half the total. Overall, indirect taxation represents 80 percent of tax revenues.

The proclaimed objective of the Stabilization Fund is to guarantee stable prices to producers of the main export crops—namely, coffee, cocoa, and cotton—and thus to stabilize their revenues, but it is also used as a source of finance for the government. The guaranteed prices are fixed by the government every year. Whenever the export price exceeds the guaranteed price, the fund gets resources. On average this difference has been positive, and the resulting resources have on the whole been used to finance public investment.

As a result, the proceeds from export crops are divided among the farmers, those involved in processing and transportation, the government, and the Stabilization Fund. Generally, farmers have received only slightly more than half the F.O.B. price, and the public sector between 20 and 40 percent.[6] Taking into account export taxes plus the implicit tax of the Stabilization Fund, it can be said that a fair amount of resources have been taken from agriculture to finance the other sectors of the economy.

During the period 1960–75, the composition of public investments changed. At the beginning of the period, emphasis was put on economic infrastructure, which represented half of total public investments. After 1967, an increasing share of those investments (more than 30 percent) has been directed to 'productive' activities.

More important, public investment increased faster than private investment, even though the latter was rising an average of 8 percent per annum in real terms between 1960 and 1974. Public investment thus rose from 40 percent of total investment to slightly over 60 percent in 1971–74, while gross domestic investment rose from 14.6 percent of GDP in 1960 to 23.2 percent in 1975.

Although investment increased faster than revenues, this was accomplished with a budget deficit that did not go much over 3 percent of GDP, and with an inflation rate that remained moderate. Until 1972, prices rose at an average rate of 3 percent per year. It was only during 1973-75, as a result of the first oil crisis and the rise in import prices, that the inflation rate reached an average as high as 13 percent.

Nevertheless, foreign borrowing started increasing: the amount of debt relative to GDP went from 18.3 percent in 1970 to 25 percent in 1975, and the debt-service ratio rose from 6.8 percent to 8.7 percent during the same period. The balance of payments, which had remained in equilibrium until 1970, became more fragile (Appendix Tables A-4 and A-5).

1975–1980: The Ambitious Investment Program of the Late 1970s

The choice of 1975–76 as the start of a new episode in the economic history of the Ivory Coast is somewhat arbitrary. Real growth went on until 1980 at an average annual rate of 6.8 percent. At the same time, some of the problems encountered by the country find their roots in the early 1970s. The main reason for focusing on this period is that a new investment strategy was being implemented, more expansionary and ambitious than the previous one. A second reason is that several shocks hit the Ivory Coast during this period.

Several factors seem to have been responsible for the launching of an investment program that ended by disrupting the growth process. First, full implementation of the previous plan had not been possible. Several investment projects had resulted in higher costs than expected because of insufficient preparation and underestimation of the necessary infrastructure and of fixed costs. The spending programs of state companies had been higher than expected.

Second, although the first oil crisis did not have too much impact on the Ivory Coast because it coincided with an increase in prices for coffee and cocoa (see Table A-2 Appendix), the increase in prices of imports and the world recession of 1974–75 led to an increase in the inflation rate and a slowdown of real GDP growth to an average of 5 percent per year between 1973 and 1975. It also had a negative impact on certain types of exports (such as timber) and on the output of the manufacturing sector, which decreased in 1975. As a consequence, there was a slowdown of the process of structural change that had since 1960 generated a continuous decrease in the relative importance in the economy of the primary sector and a corresponding rise in the shares of the other sectors. From 1973 onward, the sectoral composition of GDP remained practically constant (Table 3). Given the emphasis on growth as a major objective, the slowing of the process of sectoral resource movement was a source of worry for the country's authorities.

As I have mentioned, maintaining the country's unity has been a constant government priority. The third reason for implementing an expansionary program was a growing concern over income disparities, especially among regions. Important regional disparities existed in the Ivory Coast at the time of independence. The French had developed export crops in the southeast; and the incipient manufacturing sector and investments in infrastructure were likewise located near the capital, Abidjan. Subsequent growth, as well as government policies, had contributed to the development of other parts of the country: the north, as shown by Table 4; the center, around Bouake; and the southwest with the construction of the port of San Pedro. The available evidence shows that, contrary to a criticism often heard but little documented, regional disparities had been reduced.[7]

Those disparities were, nevertheless, still important. All nonprimary activities were concentrated in two main centers: Abidjan and the neighbouring southeast region, and to a lesser extent Bouake in the center. In the remaining regions, sources of income came mainly from the primary sector. As a result, in 1978 an average family in a rural area lived on an income that was only 40 percent of the income of an African family in Abidjan, and only 56 percent of a corresponding family's income in other urban areas (Table 5).

Among rural areas, the richest remained the southeast, dedicated to export crops, and the poorest, the northern savannah grasslands. An intermediate position was held by the west. Within urban centers, wage disparities existed both between the informal sector and the modern protected sector and among different national and ethnic groups of workers.

Finally, pressure for job creation emanated from the growing unemployment problem in urban areas. The flow of migrants exceeded the number of jobs created, and as a result unemployment had reached 15 percent by the 1970s.

Tensions also arose over the wage disparities observed within the modern sector between workers of different nationalities. According to the last 1975 census, non-Africans represented less than 1 percent of the total population. Syrians and Lebanese were involved mostly in trading activities, while the French occupied the best jobs in the modern sector, with salaries on average nine times

Table 5
Average Annual Income per Household by Geographical Areas, 1978 (thousands CFAF)

Rural Areas		Urban Areas	
Forest East	446	Abidjan	831
Forest West	368	Other	599
Savannah	164		
All	339	All	711

Source: Ministry of Finance, data from the survey "Budget-Consommation," October 1979.

higher than those of Ivory Coasters. In the face of these differences, pressure for job creation in the modern sector and for the increased representation of nationals became strong.

It is clear that the government bore some responsibility for the unemployment problem. Its wage policy had definitely induced migration toward the cities and the resulting unemployment. The minimum wage was three to four times higher in the industrial sector than in the agricultural sector, and it had been increased at a faster rate. It was also set at a higher level than in other African countries. Indeed, around 1973, average wages for both unskilled and skilled workers were much higher in the Ivory Coast than in Taiwan or Singapore![8]

More jobs might have been created in the modern sector, and in particular the share of manufactured goods among exports might have been larger, had there not been these labor market regulations.

Wage disparities among sectors (secondary and primary, modern and informal) were sufficient enough to attract a flow of migrants who, instead of taking jobs in the informal sector, preferred to spend time searching for a job in the modern sector. The job search was made easier by the extended family system, which provided protection and a kind of insurance to newcomers. The growth of unemployment was thus no surprise.[9]

Considering further that private investment would not reach planned targets, the government decided on a sharp acceleration of public investments. The "Loi-Programme" aimed at a change in scale: for example, investments in 1977 were to be 6.5 times those of 1971. As a result, increases in investment of the order of 50 percent were registered both in 1975 and 1976, and of 77.7 percent in 1977 (including investments by state companies). In the government's budget alone, a 30 percent increase in recurrent expenditures was observed in 1977, while the investment budget was multiplied by four.

The objectives of these increases were the improvement of agricultural income and reduction of regional disparities, as well as increases in the share of manufactured goods in exports. The first objective implied important investments in the northern savannah regions, which were to provide better services and new opportunities and thus reduce the incentives to migrate. A sizable part of the plan involved investment in the sugar development program, alone representing one-third of the total investment planned for a

Table 6
Rates of Inflation, 1960–1985
(consumer prices: African standard of living)

1960–65	3.2%*				
1966–70	4.9%*				
1971	-0.8%	1976	12.2%	1981	8.6%
1972	0.3	1977	27.3	1982	7.4
1973	11.1	1978	13.0	1983	6.2
1974	17.4	1979	16.4	1984	4.3
1975	11.4	1980	14.5	1985	1.9

Source: Ministry of Planning, "Mèmemto Chiffre de la Côte d'Ivoire, 1984–85," August 1986.

* average annual rate

five-year period and of questionable profitability. The World Bank estimated its investment cost as twice the corresponding cost in some other countries; it also forecasted a production cost twice the world market price.[10]

The implementation of this ambitious investment plan seemed possible to the authorities because they could use the boom in coffee and cocoa prices that occurred in 1976 and 1977 (that was not transferred back to the planters) to increase significantly the resources obtained through the Stabilization Fund. These forced savings were channeled toward the government's investment budget. By 1977, the Stabilization Fund had become the most important source (70 percent) of the government's investment financing.

The End of Euphoria: The Late 1970s

Despite the government's efforts at diversification, the economy of the Ivory Coast was and still is very dependent on the export sector, in particular on changes in prices of its major export products. Important fluctuations in international trade (as shown in Appendix Table A-2) have caused substantial irregularities in the growth process. For example, during the 1960–75 period, one can observe growth rates of 16.3 percent in 1963 and 17.7 percent in 1964, followed by a 2.2 percent decrease in 1965.

Table 7
Average Growth Rates, 1976-1980
(percent per year in constant 1977 prices)

GDP	6.8
Private consumption	7.1
Government consumption	13.8
Gross domestic investment	14.7
Imports	11.8
Exports	4.0
Primary sector	4.4
Secondary sector	11.7
Manufacturing	7.5
Tertiary sector	6.2

Source: World Bank, World Tables, Washington, D.C.: World Bank, 1983, pp. 94–95.

The receipts from the Stabilization Fund could have been used to stabilize the economy and attenuate its up-and-down character. When these receipts were exceptionally high, reserves could have been accumulated and the external debt reduced. But such a policy was not followed. Instead, the debt kept growing, and unexpected increases in revenues were used to accelerate public spending.

Unfortunately for the Ivory Coast, the boom in coffee and cocoa prices did not last. After the average price of exports increased 33 percent in 1976 and 58 percent in 1977, prices fell by more than 13 percent in 1978, as did production.

More important, the money supply started increasing at a very rapid rate—30 percent annually between 1975 and 1978, and 50 percent in 1976—and the inflation rate, already around 12 percent in 1975 and 1976, jumped to 27 percent in 1977 (Table 6).

Being a member of the franc area and keeping its nominal exchange rate constant, the Ivory Coast experienced a drop of 26.8 percent in the real exchange rate between 1973 and 1978, and kept falling until 1980. Exports became less competitive, growing at an average annual rate of only 4 percent between 1975 and 1980, while imports increased by 11.8 percent per year on average in constant prices (Table 7). Reliance on quantitative import restrictions increased as a consequence. At the same time, the second oil crisis (in 1979), which brought on a world recession, also hit the Ivory Coast.

Despite the reduction in trade revenues, the investment program was pursued. Over the whole period, gross domestic investment rose twice as fast as in the earlier 1971–75 period (at average annual growth rates of 14.7 percent and 6 percent).

This meant increasing borrowing: the debt/GNP ratio reached 43.4 percent in 1980, while the debt-service ratio rose from 12.9 percent in 1978 to 23.9 percent in 1980. The public sector deficit reached 12.8 percent relative to GDP in 1980. Finally, the deficit in the balance of payments on current account balance, which represented 9.8 percent of GDP in 1975, reached 17.4 percent in 1980. The overall balance of payments also became negative in 1979; in 1980 deficit represented 7.8 percent of GDP (Appendix Tables A-4 and A-5).

The Stabilization Period: 1981–85

In 1981 the Ivory Coast's economic and financial situation became so critical that the International Monetary Fund and the World Bank required the implementation of a stabilization program as a condition for their continued support. The objectives of this program were a progressive reduction of internal and external deficits and a restoration of conditions for growth. A restrictive monetary policy was applied to reduce the inflation rate. That policy was accompanied by several measures in the field of public finance.

Public sector enterprises were largely responsible for the fiscal deficit and the external debt. Many of them were marked by low productivity (which could be attributed to a lack of coordination with other government agencies), the absence of sound financial policy, and a tendency toward overstaffing. The government closed several of these companies, privatized a few, and reorganized the remaining ones.[11] They are now subject to systematic auditing and periodic controls. In 1984, other nonprofitable production units, including two sugar plants, were also closed.

To contain recurrent expenditures, wages in the public sector were frozen, payments-in-kind reduced, and foreign technical assistance (which entailed the government's paying higher salaries) has been curtailed, especially in the education sector.

The most drastic cuts, however, were in the government's investment budget: a 20 percent decrease was applied in both 1981 and

1982, followed by a 57 percent decrease in 1984 (Table 8). Measured in current CFAF, the 1985 investment budget was hardly more than one-fourth of the 1981 budget. The change in policy was radical: after a fourfold increase in 1977 followed by an average annual growth rate of 12 percent until 1981, the trend was reversed between 1981 and 1985. If the investment budget had reached 16 percent of GDP in 1977, it fell to 8.3 percent in 1984 and to about 4 percent in 1985.

These measures have been accompanied by an attempt to reduce price distortions. Producers' prices for the major export crops, which had remained constant since 1979, were increased by 30 percent between 1983 and 1985. Subsidies to cotton growers were suppressed. The tariff structure was reformed to reduce disparities in the effective protection rates granted to different manufactured products. Quantitative restrictions on imports of certain manufactured goods were eliminated and replaced (at least temporarily) by an increase in import duties. Finally, export subsidies for some manufactured goods have been introduced.

The cost of this stabilization program has been high. The adjustment was made more difficult by the world economic situation following the second oil crisis and by the deterioration of the country's

Table 8
Government Investment Budget, 1972-1986
(billions of current CFAF)

	Amount		Amount
1972	34.9	1980	312.8
1973	36.9	1981	380.5
1974	44.3	1982	300.9
1975	54.0	1983	240.6
1976	60.1	1984	239.1
1977	245.1	1985	101.8
1978	257.2	1986	115.8
1979	219.8		

Source: Ministry of Planning, "Mèmento Chiffre de la Côte d'Ivoire, 1984-85," August 1986.

terms of trade between 1981 and 1983 (Appendix Table A-3). The effect of restrictive policies has been accentuated by bad weather conditions. Because of the severe drought, agricultural production experienced a 13 percent drop in 1983 and remained at this low level in 1984. Particularly affected were the production of cocoa, which decreased by 22 percent in 1982–83, and of coffee, which fell by 70 percent in 1983–84.

The country has thus experienced a strong recession. Beginning in 1982, real GDP fell during three consecutive years at an average annual rate of 4 percent. Following the behavior of the public sector, private investment decreased, and total investment fell by an average of 11 percent per year between 1981 and 1983, and even more in 1984, when the most drastic cut in government investment occurred.

The effect on the industrial and service sectors has been of such importance that employment in the modern sector of the economy (excluding civil servants) decreased by 18 percent between 1980 and 1984. Employment in the construction sector fell by 60 percent during the same period.

It is interesting to note that during the same period the informal sector, which in terms of wage labor provides approximately the same number of jobs as the formal sector, was able to increase employment. This circumstance may explain the government's ability to carry out such a drastic program of stabilization.

The positive effects of the government's stabilization measures did not appear immediately. With the exception of the inflation rate, which declined continuously from 1981 onward and reached 4.3 percent in 1984, no improvement in the internal or external accounts was noticeable before 1984. The world economic situation was not favorable and the terms of trade deteriorated while interest rates soared.

Thus the deficit in the overall balance of payments was the same fraction of GDP in 1983 as it was in 1980. The deficit of the current account balance still represented 13 percent of GDP in 1983 and debt service absorbed 31.6 percent of export revenues (Appendix Tables A-4 and A-5).

In 1984, some improvement could already be observed, although it was not reflected in GDP (which still decreased as much as in 1983). Benefiting from good export prices and thus from an increase in revenues, the authorities maintained their policy of reducing government expenditures and managed to reduce the public sector deficit to 2.8 percent of GDP, from 11.5 percent in 1983 (Table 9). The trade balance became positive and the deficit of the current account balance was reduced to 1 percent of GDP, as opposed to 13 percent in 1983. The debt-service ratio shrunk from 31.6 percent to 21.3 percent of export revenues.

The economy's performance in 1985 was quite satisfactory. Not only did the balance of payments improve, generating a positive current account balance, but GDP experienced 5 percent growth in real terms. Good weather conditions helped. Since agro-industries constitute an important share of the industrial sector, the increase in agricultural production (approximately 8 percent) brought about a 7 percent increase in the year's industrial output.

At the same time, the government continues to pursue its policy of improving the profitability of public enterprises and reducing the size of the public sector. (Rice mills have been privatized, for example.) Available figures for 1986 seem to indicate that the growth process continues.

Further Prospects and Obstacles to Growth

As of 1986, the Ivory Coast seems to have managed to restore its basic internal and external equilibria, as well as the conditions for growth, but the situation, though promising, remains fragile. One

Table 9
Public Sector Accounts, 1981-1985
(percent of GDP)

	1981	1982	1983	1984	1985*
Total revenues	27.5	27.3	28.7	32.6	35.9
Fiscal revenues	22.0	20.8	19.9	17.8	18.9
Total expenditures	39.1	41.8	40.2	35.4	32.2
Surplus or Deficit	-11.6	-14.5	-11.5	-2.8	+3.7

Source: IMF Bulletin, November 24, 1986

* preliminary

basic problem remains to be solved. It is crucial for the country's future development that it improve the quality of its human resources.

The Ivory Coast has relied heavily on foreign labor of both the highest and the lowest skills. As a result, the proportion of jobs held by nationals is high at the intermediate level, but low at both the bottom and top levels.

Employing nationals in qualified jobs has been a constant policy objective, but in spite of continuous pressure, progress has been slow. As late as 1982, the proportion of Ivory Coasters among supervisors and managers was only 51.8 percent.[12] The government has continuously expressed its determination to proceed on the issue as fast as possible while preventing losses in efficiency. The speed at which the process can occur depends crucially on the supply of skills, and thus on the efficacy of the country's education program.

The Ivory Coast cannot be accused of neglecting human capital investments: in 1983, for example, educational expenditures represented 28.2 percent of the state budget and 9.1 percent of GNP.[13] In terms of financial effort, the country ranks very high not only among African and other developing countries, but also compared to developed countries: the share of education in GNP does not, on average, go beyond 5 percent in sub-Saharan Africa, Southeast Asia, Latin America, or in the developed countries.[14]

Education has definitely been viewed by the Ivorian government as a major policy variable: first, as an important factor for growth; second, because the reliance on highly paid foreign technical experts could not be maintained over a long period. Education was seen as the path through which nationals would progressively replace expatriates without productivity losses. This explains why, over the period 1970–79, educational expenditures rose from 19.3 percent to 29.8 percent of total government expenditures, and from 5.4 percent to 8.4 percent of GNP.[15] The difficult economic conditions encountered in the 1980s have obliged the government to mark a pause and even to decrease slightly the share of educational expenditures in the total budget.

Elements of both success and failure have resulted from this policy.

The program is a success, because enrollment ratios have been increasing steadily at all levels of education (Table 10), and because schools, training programs, and the university have been created and developed. However, the growth of the education system has been somewhat unbalanced. The Ivory Coast has put much emphasis on secondary and tertiary education, but in terms of growth there are good reasons to believe that primary school should receive the major emphasis. Costs per student are lower there than at higher levels, and widespread literacy brings with it external benefits.

Moreover, the success of the education program has been less than complete, because the substantial incidence of retardation, class-repeating, and dropping-out remain an important source of high educational costs. The system is also costly because the government not only supports the direct costs of education but also distributes numerous and fairly generous scholarships, especially at the university level.[36] As a result, there is a substantial gap between social and private rates of return to investment in education.

It is definitely to the government's merit to have put such emphasis on human capital investments, although it is questionable whether it was necessary to rely so extensively on public funding, especially at the secondary and tertiary levels.

No further financial effort can be expected, but any misallocation of resources might possibly be corrected by shifting resources to primary education and decreasing subsidies to higher education.

Table 10
Education Indicators

	Enrollment Rates				Annual Growth Rate of Total Enrollment	
	1960	1970	1980	1983	1960-80	1980-83
Primary	43	58	75	77	7.4	5.1
Secondary	2	9	19	20	16.0	4.1
Tertiary	0.1	0.9	2.9	2.4*	23.2	-4.4
Repeaters as percentage of total enrollment:						
Primary		25		25		
Secondary		11		16		

*1982

Source: "African Education and Socioeconomic Indicators," World Bank Report No. EDT39, October 1986.

The government seems to be taking the first steps in that direction. Such a policy would be in agreement with an economic program intending to correct existing distortions and to rely more extensively on the allocative function of market prices. It also would help contain public expenditures while improving the efficiency of the educational system. If the educational problem is successfully solved, there is no reason why a country like the Ivory Coast, with a good endowment of human capital, should not be able to exploit fully its potential for growth, provided it does not forget the lessons from the past.

Indeed, a second source of fragility must be faced. The economy remains very sensitive to fluctuations in output and in prices of its major exports, coffee and cocoa, which represent 60 percent of its trade. For example, the very recent 1987 drop in coffee prices is a new source of worry for the country's authorities. Since the economy's rate of growth as well as social and public investment programs are immediately affected, the question is raised whether the government will be able to avoid again using a set of policy instruments that, in the past, has accentuated rather than minimized economic fluctuations.

Past experience shows how tempting it is to set ambitious public investment programs during expansionary periods when government revenues are high. It also shows that downturns can occur unexpectedly, and that it is then difficult to avoid increasing distortions and creating disequilibria.

Conscious of these problems, the government has established a new program, in agreement with the International Monetary Fund, for the coming years. Its objectives are to maintain a rigorous monetary and budgetary policy, to promote productivity increases both in agriculture and industry, and to subject public investments to a careful examination of their profitability.

A cautious monetary policy is most important since, as a result of the improvement in balance of payments, the money supply once again increased at a rapid rate of 15 percent in 1984 and 1985. In keeping its nominal exchange rate constant, the Ivory Coast needs to control domestic inflation. Otherwise it will find itself in the same situation it was in during the mid-1970s, with exports losing competitiveness and imports burgeoning.

To improve productivity in the agricultural sector, the authorities seem to have decided to rely more strongly on market incentives and to reduce distortions. One of their purposes is to eliminate the discrimination against agriculture that was implicit in past official pricing policies. The new policy is to use prices as signals for more efficient allocation of resources, thus allowing them to reflect the true economic costs of each product.

The manufacturing sector, which developed rapidly in the 1960s and early 1970s, subsequently lost its competitiveness as a result of inflation and the increased protection it was granted through import restrictions. The drastic cuts in investment during the stabilization period led to a further reduction in its output. To increase productivity in this sector and promote exporting of manufactured goods, the government will pursue the policy implemented in the mid-1980s, which attempts to establish a more uniform protection rate, to use export subsidies to compensate for the effects of protection, and to diminish the distortions created by the investment code.

By reducing the size of the public sector and by letting remaining policy constraints that have prevented market prices from performing their allocative function efficiently, the Ivory Coast seems to have chosen an even more liberal policy orientation than in the past.

Future developments will reveal whether this line of action is politically feasible and can be maintained successfully during the coming years.

APPENDICES

Table A-1
Percentage Composition of Exports by Product, 1960-85

	1960	1965	1970	1974	1978	1982	1985
Coffee beans	49	38	34	22	25	20	21
Cocoa beans	23	16	20	21	31	22	30
Timber logs	15	22	18	18	10	9	5
Coffee processing	–	–	1	1	1	2	2
Cocoa processing	–	2	5	5	7	5	7
Timber processing	2	5	4	5	3	3	3
Other	11	17	18	28	23	39	32
Total	100	100	100	100	100	100	100

Source: For 1960–74, Den Tuinder et al., op. cit., p. 106.
For 1978–85, B.C.E.A.O. (Central Bank of West African Countries), "Statistiques Economiques et monetaires."

Table A-2

Volume, Value, and Percentage Change in Average Price of Merchandise Exports and Imports 1970-85

(Volume in thousands of metric tons, value in CFAF billion)

	Exports		Imports		Percentage Change in Average Price of	
Year	Tons	Value	Tons	Value	Exports	Imports
1970	3,001	130.2	2,085	107.7		
1971	3,102	126.5	1,906	110.8	-6.0	+12.5
1972	3,709	139.5	2,455	114.3	-7.7	-20.0
1973	4,182	190.8	2,691	157.5	+21.1	+25.8
1974	4,295	291.8	3,457	232.3	+48.9	+14.8
1975	3,789	254.5	3,127	241.4	-1.2	+14.8
1976	4,558	392.5	3,486	311.6	+33.0	+11.4
1977	4,481	529.2	4,259	429.5	+58.0	+6.5
1978	4,041	524.4	4,627	522.5	-13.5	+5.2
1979	4,099	534.8	5,095	528.8	+7.3	+13.4
1980	4,851	663.9	4,980	631.9	+10.5	+13.7
1981	4,449	689.3	4,657	653.3	-10.0	+24.8
1982	4,914	747.4	4,187	718.6	+5.8	+19.0
1983	4,759	796.8	3,816	704.2	+13.9	+9.5
1984	5,120	1,184.3	3,181	658.6	+31.0	+8.7
1985	4,600	1,318.0	3,945	772.9	+10.8	-0.5

Source: B.C.E.A.O. (Central Bank for West African Countries), "Statistiques Economiques et Monetaires."

Table A-3

Terms of Trade 1973-85

(not including nonfactor services)

Year	Terms of trade	Year	Terms of trade	Year	Terms of trade
1973	131	1977	172.9	1981	94.6
1974	122	1978	142.2	1982	84.0
1975	100	1979	134.5	1983	87.5
1976	116.3	1980	130.8	1984	105.6
				1985	117.7

Source: B.C.E.A.O. (Central Bank for West African Countries), "Statistiques Economiques et Monetaires."

Table A-4
Public and Publicly Guaranteed Long-Term Debt (millions of dollars)

Year	Debt*	Debt/GNP ratio	Total Debt Service	Debt-Service ratio**
1970	256.2	18.3	38.4	6.8
1975	942.8	25.0	130.4	8.7
1978	2,830.1	37.3	397.4	12.9
1980	4,347.1	43.4	871.1	23.9
1981	4,393.1	58.3	920.6	31.6
1982	4,947.4	75.2	959.4	33.1
1983	4,825.9	80.8	791.0	31.6
1984	4,834.6	84.0	641.0	21.3

* Debt disbursed and outstanding
** Total debt service to exports of goods and services.

Source: World Bank, The World Debt Tables (Washington, D.C., 1985-86).

Table A-5
Balance of Payments

Year	Goods and Services Balance	Current Account Balance	Overall Balance
	(as percentage of GDP)		
1965	-1.2	-2.7	+1.2
1970	-2.6	-4.0	+3.7
1975	-6.2	-9.8	-4.2
1976	+.2	-5.3	+.7
1977	+2.0	-2.8	+2.9
1978	-5.3	-10.6	+1.1
1979	-8.6	-14.7	-6.9
1980	-10.7	-17.4	-7.8
1981	-10.7	-16.3	-5.0
1982	-8.6	-13.4	-1.5
1983	-9.0	-13.2	-7.6
1984	+2.1	-1.0	+2.1
1985	+4.5	+1.0	+4.2

Source: B.C.E.A.O. (Central Bank for West African countries) "Statistics Economiques et Monetaires," 1965-83.

NOTES

1. A. R. Zolberg, "Political Development in the Ivory Coast since Independence," in *Ghana and the Ivory Coast*, ed. P. Foster and A. Zolberg, Chicago, Il.: University of Chicago Press, 1971.

2. Reported in B. den Tuinder et al., *Ivory Coast, The Challenge of Success*, World Bank Economic Report, Baltimore, Md.: Johns Hopkins University Press, 1978, p. 243.

3. M. Riboud, "Income Distribution in the Ivory Coast," Report to the United Nations, mimeo, August 1981.

4. M. Roemer, "Ghana, 1950–1980: Missed Opportunities," in *World Economic Growth*, ed. A. C. Harberger, San Francisco, Ca.: ICS Press, 1984.

5. M. Riboud, "Income Distribution in the Ivory Coast."

6. Den Tuinder et al., *Ivory Coast*, pp. 80–82.

7. See M. Riboud, "Income Distribution in the Ivory Coast"; and S. Amin, *Le Developpement du capitalisme en côte d'Ivoire*, Paris: Editions de Minuit, 1967.

8. Den Tuinder et al., Ivory Coast, p. 237.

9. The Ivory Coast's situation is similar to that of Panama described by A. C. Harberger in "Measuring the Social Opportunity Cost of Labor," *International Labour Review* 103, no. 6 (June 1971), 559–79.

10. Den Tuinder et al., *Ivory Coast*, pp. 220–221.

11. J. P. Foirry, "L'évolution économique de la Côte d'Ivoire: 1960–1985," *Problemes Economiques*, August 27, 1986.

12. P. Koffi "Rapport sur la situation économique et de l'Emploi en Cote d'Ivoire," Ministry of Labor and of Ivorianization, May 1984.

13. "African Education and Socioeconomic Indicators: An Annex to Education Policies in Sub-Saharan Africa," World Bank Education and Training Department Report No. EDT39, October 1986.

14. A. Mingat and G. Psacharopoulos, "Education Costs and Financing in Africa: Some Facts and Possible Lines of Action," World Bank Education and Training Department Report No. EDT13, December 1985, Table 2.

15. P. Koffi, "Rapport sur la Situation E'conomique."

16. For example, in 1981 a scholarship represented 60 percent of the average annual income of an average household or of the wage of a worker in the formal sector in Abidjan.

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