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BRIEF FOR MR. CLAUSEN - WESTERN AFRICA REGION: Nigeria, Ghana, Upper Volta, Ivory Coast, Appendixes - Map

(2)

COUNTRY PROFILE: NIGERIA

Outline:

Population: 83 million

GNP per capita (1979): $750*

External debt: $3.3 billion (1979)
(disbursed only)

Debt service ratio: 1.6% (1979)
of which Bank Group: 18.3% (1979)

	Lending (in $ millions)			
	FY76-80	FY80	FY82	FY81-85
Bank	620.3	286.3	317.0	2,300.0
IDA	-	-	-	-
	Number of Operations			
Bank	14	5	5	26
IDA	-	-	-	-

* estimate based on the 1978 level (US$670), a growth rate of population of 2.6%, and a growth rate of GNP in current prices of 15%.

Political context

1. Since the attainment of national independence in 1960, Nigeria has experienced a turbulent political history. The assassination of the first Prime Minister (Sir Abubakar Tafawa Balewa) in 1966 heralded a three-year civil war in which the Ibos of South Eastern Nigeria attempted unsuccessfully to establish their own state of Biafra. At the same time the government passed into the hands of the military which continued to exercise political power for thirteen years until October 1979.

2. It is to Nigeria's credit that a process of national reconciliation was instituted both quickly and successfully after the end of the civil war in 1970. It is also a measure of Nigeria's relative political sophistication that the reins of government were handed back to civilian control in a planned and orderly fashion nine years later.

3. The new civil constitution that was introduced in 1979 is based on the USA model, but incorporates an intricate array of checks and balances that are designed to diffuse the intense regional and tribal rivalries that still prevail between the Yoruba of the South West, the Ibo of the South East and the Hausa of the North. The decision to build a new federal capital at Abuja, close to the geographical center of the country, also reflects a sensitivity for the need to balance regional interests.

4. In the elections of 1979, the National Party of Nigeria (NPN) emerged with the greatest and widest support and its leader (Shehu Shagari) was elected President. The NPN does not enjoy an absolute majority in the National Assembly, however, and must rely upon support from other parties to

enact its legislative program. Furthermore, the NPN controls only seven of the nineteen state governments which underscores the fragmented nature of the body politic. The extent to which the government will be successful in implementing its ambitious development program will depend, therefore, upon the success with which it can create a sense of unity and cooperation between the various groups within the country at a political level.

Resource Position and Prospects

5. One of Nigeria's most notable features is its substantial oil and gas resources. At present, the oil income amounts close to $300 per head, or about 35 percent of income per capita. Daily output of oil has averaged over two million barrels over the past several years and, barring short-term market fluctuations, it is expected to be sustained at that level throughout the 1980s. Domestic oil consumption has been rising rapidly (over 15 percent a year), with little likelihood of it significantly slowing down in the coming years. Whereas Nigeria currently exports over 90 percent of its petroleum production, the exportable surplus may decline to 70 percent by 1990.

6. While the dramatic rise in the oil income during the 1970s eased the foreign exchange and fiscal position of the country, it also brought in its wake a number of problems of both short and long-term nature. The oil boom of 1973/74 resulted in rapidly rising imports, construction and other service activity so that the economy began experiencing acute bottlenecks in ports, highways, power and communication sectors. Expenditures rose so rapidly that large deficits in government budget and balance of payments soon reappeared, leading the country to the brink of a serious financial crisis in 1978. The government managed these problems with remarkable resolution and firmness. While the turnaround in the financial situation can be attributed largely to successive increases in the oil price of 1979 and 1980, it can be fairly said that the fiscal and import restraints that the government had instituted in 1977 and 1978 were likely by themselves to ease considerably the financial problems of the country in the years ahead.

7. The above developments understandably took the center-stage of economic policy, but the oil boom also generated impulses--not clearly perceptible at the time--which tended to militate against the objectives of long-term economic growth. Basically, the sudden accrual of the large oil income moved relative prices (exchange rate, relative sectoral costs) in such a manner that domestic agriculture as well as manufacturing was put at a distinct disadvantage vis-á-vis both foreign produced goods (which became relatively cheaper) and domestic construction and service sectors (which became more lucrative). The result was that the growth was concentrated in construction, trade, commerce and other services, while domestic agriculture and manufacturing failed to meet the rising demand. These developments tended to weaken the economic basis for future growth and increased the economy's dependence on oil, even though the great bulk of the oil income was invested in non-oil sectors.

8. Although the recent round of oil price increases has made Nigeria's financial situation once again quite comfortable, it is also liable to perpetuate, if not worsen, the structural distortions in the economy. In order to provide a basis for the long-term growth of the Nigerian economy, the dependence on oil must decline as the resource is depleted. This would entail ensuring that the pattern and rate of growth of domestic agriculture and manufacturing is such that domestic production over time comes to replace imports and adds to non-oil export earnings. Unless there are substantial new oil finds, the chances for which are not very high, oil output may begin to decline slowly in the 1990s. Exports of natural gas from the proposed LNG project (with a capacity to liquify 2 billion cubic feet of gas a day) are not expected to make up for the decline in the oil exports. It seems that Nigeria has essentially ten years to bring about the required structural adjustment.

9. While the government appears deeply concerned about stimulating the growth of agriculture and industry, we do not think that it has so far really confronted the issues involved in any systematic manner. The government can be given credit for realizing the importance of agriculture and making it the main pillar of the strategy in the Fourth National Development Plan period (1981-85), and for resisting the pressures to abandon financial discipline. The government appears to be conscious of the experience of the 1970s, and intends to keep the investment program manageable. It views the Fourth Plan period as one of consolidation, and while public investment will remain large, there will only be a small increase in real terms over the estimated level during the Third Plan. What remains to be seen is whether the development strategy embodied in the Plan will effectively reduce Nigeria's dependence on oil revenues.

10. The absorptive capacity of the economy and the government's ability to manage a vast investment program has remained another important development issue. The fact that public investment quadrupled in a relatively short period of time was bound to strain the administrative capacity. In fact, during the preparation of the Third Plan (1975-80), the government had anticipated this problem. Well before the Plan was launched, a Public Service Review Commission (the so-called Udoji Commission) was established to suggest ways and means for improving the Nigerian civil service. In a desire to move quickly and overcome the administrative constraints, the government also relaxed for the Third Plan the procedures for selection and execution of projects. Specifically, regulations governing competitive tendering and prior appraisal of projects were moderated. Also, a number of projects were given to foreign contractors on a turn-key basis. Consequently although many infrastructure projects were speedily completed, the project costs turned out to be far higher than those in other countries. Investments in primary education, the focus of the government efforts, were severely handicapped by the shortage of teachers.

Economic Policy Dialogue

11. The central issue in our policy dialogue with the Government is how Nigeria can best exploit the opportunity for economic progress offered by its oil resources. Over the past three years extensive economic and sector work

program has been mounted both to improve our policy dialogue and to back up our lending operations. The result has been that our policy dialogue has improved in depth as well as in mutual understanding. There are indications that the government values Bank help in such critical areas as preparation of food plan, setting up a separate planning organization, and instituting performance budgeting.

Bank Lending to Nigeria

12. The Bank's operational relationship with Nigeria has undergone a radical transformation during the last several years. In the period that followed the oil boom of 1974, the Government devoted its full energies to pursuing the ambitious targets of the Third National Development which was predicated upon the assumption that Nigeria would remain a capital surplus country throughout the Plan period and beyond. Being eager to achieve physical planning targets within a short time span, many public sector agencies were unwilling to submit their projects to rigorous appraisal and contracting procedures, and in those circumstances there was little scope for Bank lending. The only sector in which the Bank was able to sustain an active program during the mid-seventies was agriculture. Although our lending even there fell short of our targets by a significant margin, the Bank was able to contribute significantly to agricultural development.

13. A turning point in relations between the Bank and Nigeria came late in 1976 by which time it was already clear to the Government that the overall balance of payments was moving into deficit and Nigeria would have to borrow abroad in order to finance its development program. The Bank responded positively to representations from the Government for a substantial increase in the volume of lending and a pipeline of projects was built up with remarkable speed. In FY1979, lending amounted to US$182 million compared with an average of only US$81 million during the preceding four years and the currently approved five-year lending program calls for lending to be increased to an annual average of US$460 million. Recently, the Nigerian authorities have asked that this target lending program be expanded still further. Insomuch as an annual progam of US$460 million will amount to less than US$6 per capita, it would be consistent with average Bank lending to other countries in the same income bracket as Nigeria. However, the Government is already committed to a very large investment program that places a heavy burden upon its limited administrative, managerial and technical manpower resources. Any increase in Bank lending over and above the level currently envisaged would have to be assessed against the constraints of absorptive capacity.

14. Given the recent increases in oil prices, it seems likely that Nigeria's overall external account will be in surplus during the coming several years, although it is projected to move into deficit again by the late 1980s. The case for continued Bank lending over the next few years, therefore, does not rest upon the need for resource transfer but rather upon Nigeria's low level of development, its importance within the overall African context and the demonstrated effectiveness with which the Bank is able to contribute positively to the development effort. To that end, our principal objective

will be to assist the Government in accelerating the vital process of structural change. More specifically, our lending objectives are (i) to increase the absorptive capacity of the economy; (ii) to reduce the economy's dependence on oil by supporting the commodity producing sectors, in particular agriculture; and (iii) to strengthen the Government's effort towards poverty alleviation. The strategy towards meeting these objectives has several elements which may be summarized briefly: first, as development of agriculture is central to both poverty alleviation and economic diversification, we propose to direct a major share of our resources to this sector; secondly, we propose a considerable expansion of our lending to meeting other aspects of basic human needs; thirdly, in all projects our aim will be to improve the quality of resources management by the Government. Finally, high priority will be given to supporting appropriate changes in the macro-economic and sectoral policy framework, through our lending operations as well as through an intensive economic dialogue with the Government.

WAIA
March 31, 1981

GHANA

COUNTRY PROFILE: GHANA

		Lending (in $ millions)			
Population: 11.3 m		FY76-80	FY80	FY82	FY81-85
GNP per capita (1979): $400	Bank	114.5	-	-	-
	IDA	92.5	54.5	43.0	300.0
External debt: $855 million					
		Number of Operations			
Debt service ratio: 4%	Bank	7	-	-	-
of which Bank Group 1.16%	IDA	3	2	4	13

1. Ghana is relatively well endowed with natural resources - minerals (gold, bauxite, diamonds, manganese), timber, cocoa, hydro-energy and some petroleum. Its dismal economic performance has been due primarily to poor economic management. The country was set on the wrong track by Nkrumah's grandiose industrialization program and socialist economic ideology. The legacy of problems which successive governments have failed to tackle includes:

a) structural weaknesses in the balance of payments reflecting neglect of agriculture (mainly cocoa) and import intensive patterns of industrial production;

b) a system of import controls, depleted foreign exchange reserves and chronically over-valued currency;

c) an overgrown and inefficient public sector which drains the budget and diverts resources from productive investment; and

d) a large overhang of foreign debt.

Ghana's problems have been compounded by political instability and frequent military intervention. The country has experienced seven different governments, including four military take-overs, since independence in 1957.

The Performance Record

2. Economic performance over last decade has been poor. The features of this poor performance include:

a) No Growth - From 1974 to 1979 real GDP declined at annual average rate 1.1 percent resulting in declining per capita income of about 4.0 percent per annum, and with little signs of recovery in 1980.

b) Declining Exports - Cocoa output (cocoa accounts for 80% of country's foreign exchange earnings and nearly 50% of government revenues) declined to 265,000 tons in 1978/9 compared with over 400,000 tons in the early 1970s. The main causes have been low producer price, inadequate rehabilitation efforts and shortages of imported inputs. Minerals exports have also been stagnating.

c) Inflation - This has been caused mainly by rapid growth in budget current expenditures, slow growth in public revenues, widening budget deficit and expansion in money supply. Inflation reached 116% in 1977.

d) Overvalued Exchange Rate - Spiralling inflation, no production increases, acute foreign exchange shortage, all resulted in a greatly over-valued exchange rate. The distorted exchange rate acts as heavy disincentive to exports, encourages smuggling and losses to official reserves, and has adverse implications for Government revenues.

e) Short-Term Debt Arrears - Depleted foreign exchange reserves resulted in build-up of short-term external debt arrears from $245 million in 1977 to $489 million end-1978.

Stabilization Efforts and Current Position

3. In mid-1978, the newly installed Akuffo military Government initiated a stabilization program which included a 58% devaluation, tough budget, curtailment in money supply growth and partial demonetization of cash in circulation. The inflation rate declined to 73% in 1978, 54% in 1979 and 39% first seven months 1980. However, Akuffo was ousted by the Rawlings' coup in mid-1979 before the stabilization program could be fully carried through. A new elected civilian government was installed in November 1979.

4. The new Government is still fragile, with a slim majority; and the threat of military intervention remains. The country's assets are in a state of disrepair in almost every sector following a decade of neglect. A major rehabilitation effort is required, but there are acute shortages of spare parts and raw materials due to foreign exchange scarcity. The Government administration and public sector bureaucracy are in disarray, and demoralized in the aftermath of military rule. The Government faces a dilemma. On the one hand, it must come to grips with problems and institute major economic reform programs or it will lose credibility. On the other, the Government fears that a major reform program, including devaluation, may bring back the military.

Economic Reform Program

5. In the Bank's economic dialogue with Government we have pushed for a number of reforms including:

a) Production Incentives The currency is still greatly over-valued; the black market rate of 26 Cedis to the Dollar compares with official rate ₵2.75 = US$1.0. A devaluation is essential to create incentives for export sectors (mining, timber, cocoa), reduce smuggling, and permit efficient pricing of foreign exchange resources for imports. Without a flexible exchange rate policy it would be difficult to set and maintain cocoa producer price at incentive levels. (Every ₵10 increase in producer price costs about ₵10 million to the budget). The Government is concerned about the domestic price effect of devaluation, but the dominant concern is political and fear of Government's fall. However, the exchange rate issue is under study by Government, including some form of indirect action, e.g. special exchange rate for export sectors.

b) Domestic Resource Mobilization - The public savings record has been poor and the Government revenues to GDP declined from 15% in 1974/5 to 10% in 1978 due to tax evasion, poor collections, shrinking tax base, operating losses of State enterprises and declining cocoa exports. A recent Bank study on domestic resource mobilization was well received by Government. Revenue raising measures are under consideration by Government for June 1981 budget.

c) Public Investment Program - Government has been very slow to formulate a medium-term investment program reflecting investment priorities within the situation of tightly constrained domestic and foreign resources. Work is under way and is scheduled to be completed by end-March.

d) Short-Term Stabilization - Short-term economic stability is a prerequisite for sustained economic growth and development. Negotiations for Standby Arrangement with IMF have dragged out with exchange rate being the main stumbling block. IMF would consider some "up-front" release of funds without action on exchange rate provided they have a clear prior understanding with the Government on timing of future action. The most recent indications are that pressures are again building up on the budget, export sectors are facing an increasingly critical situation, smuggling has been increasing and acute shortages persist. The Government is likely to be forced to take more far-reaching measures to contain the critical situation, including substantial direct or indirect devaluation, around mid-year 1981, probably in context of Budget for FY82.

Bank Strategy and Operations

6. From March 1977 to May 1979, there was no new Bank Group lending to Ghana because of the deteriorating economic situation. Lending was resumed in mid-1979 on a limited basis following the stabilization efforts under Akuffo. The Bank lending strategy was to provide limited support at the sectoral level where individual projects continue to make economic sense and to underpin our

economic dialogue with government as it gradually comes to grips with the country's problems. Government has had unrealistically high expectations of what Bank Group and other aid agencies could and should do by way of assistance to Ghana. More recently, there has been a greater realization that foreign exchange alone will not solve the country's problems and that there is a need for an economic reform program.

7. If government moves forward with acceptable policy package - action on the exchange rate, increased cocoa producer price, revenue raising measures and public investment program - the Bank should move forward quickly with a program or structural adjustment lending operation. Such a program is likely also to justify IMF support under an Extended Fund Facility. A Ghana Consultative Group might be reconvened to coordinate the assistance package and economic development programs. Expanded Bank group lending program might then be justified including increased use of sector loans (e.g. highways, cocoa). Successful implementation of economic reform program might also justify resumption of limited amount of Bank lending in addition to IDA Credits.

WA1DB
March 23, 1981

Upper Volta

COUNTRY PROFILES: UPPER VOLTA

1979		Lending (in $ millions)				
		FY76-80	FY80	FY82	FY81-85	
Population: 5.6 million						
GNP per capita: $180						
External debt: US$404.8 million	IDA	85.4	35.0	58.1	247	Commitments
		63.7	15.0	-	-	Disbursed
Debt service ratio: 3.8%						
of which Bank Group: 4.8%		Number of Operations				
(As share of total debt service)	IDA	9	3	4	13	

1. Upper Volta is landlocked in the center of West Africa, more than 600 km from ports on the Gulf of Guinea. The country is about half the size of France, with 70 percent of its area suitable for agriculture or herding. Rainfall and soil quality vary considerably through the country's three major ecological zones: the Sahelian zone in the North, where rainfall averages less than 600 mm annually; the central plateau, located in a drought-prone belt of 600-900 mm rainfall with relatively infertile, shallow soils; and the Sudano-Guinean region in the southwest, which is favored by a longer and more stable rainy season, richer soils, and water resources suitable for irrigation. Some 60 percent of the population remains concentrated in the central plateau, which contains only 34 percent of the country's arable land, although resettlement to the more fertile southwest has increased as these areas have become cleared of riverblindness.

Past Performance

2. The main constraint to development of the Voltaic economy is its extremely limited base of human and physical resources. The lack of educated manpower is illustrated by Upper Volta's literacy rate of 5 percent, versus 38 percent for a comparable group of low income countries. 1/ The country's weak endowment of physical resources is worsened by the progressive overexploitation and erosion of soils; sharp annual fluctuations in rainfall; and high costs of exploiting the few mineral deposits (primarily manganese and rock phosphates) which do exist. The steady emigration of the better-educated, youthful labor force to neighboring countries has provided a significant opportunity for raising the incomes of some individuals despite Upper Volta's own limited resources, although loss of the most able workers may also restrict the rate of innovation and growth which can be achieved in the domestic economy.

1/ World Development Indicators, 1980.

3. Agriculture and livestock constitute a livelihood for over 80 percent of the population and account for 40 percent of GDP and 90 percent of total exports. Except in areas of the southwest where cotton, the main export crop, is grown, farming is predominantly subsistence-oriented; however, the country manages to feed itself in years of normal rainfall. Since production per capita varies widely among regions, the timely distribution of cereals stocks to deficit areas is the major food supply issue. Imports, which comprise mainly manufactured goods, have grown more than twice as fast as exports throughout the past decade, which has resulted in a trade deficit averaging about 30 percent of GDP in recent years (as compared to about 20 percent for Mali and 7 percent for Niger, for example). Despite substantial inflows of workers' remittances and concessional foreign aid, Upper Volta's annual current account deficit has risen to 6-10 percent of GDP since 1975.

4. In spite of a favorable environment of domestic economic policies and foreign aid and a high level of investment (one-fourth of GDP), growth of national income has only marginally exceeded the increase in population over the past two decades, reflecting the binding constraint of resources besides capital and the economy's continued vulnerability to climatic variation.

Politics

5. Upper Volta has had a civilian-elected government for twelve of the twenty years since independence, broken by three periods of military control. The most recent military takeover, in November 1980, occurred after prolonged and widespread work stoppages by the country's powerful trade unions. Despite the numerous changes of regime, Upper Volta's policy makers have consistently demonstrated an egalitarian orientation, a genuine concern for development, particularly of the rural sector, and receptiveness to external assistance and advice.

6. The cyclical shifts between civilian and military rule have been paralleled by an alternate pattern of relatively loose financial management and tighter budgetary control. Under the most recent elected government, Upper Volta's overall Treasury balance deteriorated from a net surplus inherited from the military administration in 1974 to a deficit amounting to 3.8 percent of GDP in 1979. Although the sources of this widening deficit include increased spending on public sector salaries and, ironically, on defense, the worsening financial account reflects not so much specific expenditure excesses or lax revenue collection by the civilian government as the absence of procedures of financial planning and accountability which could maintain order and control under the pressures of a democratic administration. One of the most serious problems, for example, is that the government has committed itself to investments with little analysis of the economic justifiability of projects, their impact on the recurrent budget, or their relative priority given development objectives and financial limitations. The Ministries of Planning and Finance under the former regime requested Bank assistance in establishing an investment fund, or budget, as a means of improving the coordination and programming of investment decisions, and the new administration has endorsed this request. Bank missions are scheduled to visit Upper Volta in April to appraise a technical assistance project which would help set up the new system, and to respond to an additional Government appeal for advice on macroeconomic policy.

Options for the Future

7. Because of Upper Volta's severe resource constraints, the available options of development strategy are also very limited. Two priorities are self-evident, however. First, given the overwhelmingly agrarian structure, the only way economic progress for most of the population can be achieved is through a significant increase in agricultural productivity. The industrial sector, which represents one-fifth of GDP, has little potential to become a powerful engine of growth in the near or medium term in view of the low domestic demand, untrained labor force, and remoteness from world markets. Second, in order to break the constraint on domestic resources in the longer term, Upper Volta must develop its human potential, calling for a concerted effort especially in education.

8. On the first point, a development program to expand the productive potential of the agricultural sector must include increased efforts of agricultural research, to adapt and apply the findings of pure crop research to local conditions. Promoting wider use of the technical packages that are available is also necessary, although at present such new technologies can be applied economically only on a few crops in the more favored ecological areas. The development of improved cultivation practices should be directed to increasing the economic efficiency of food production and conserving the scarce soil and water resources, particularly on the central plateau where the population pressure is most intense.

9. Developing Upper Volta's human resources through investment in basic education and primary health care could have widespread economic as well as social returns over the long term by improving the population's receptiveness to technological change and even by raising the benefits of migration to the migrants and their families. A significant investment program in these areas would require a major infusion of foreign financing for operating costs, however, as the government's ability to meet recurrent expenditures in these sectors is overstretched by the low level of services already provided.

Bank Strategy and Operations

10. Bank Group lending in Upper Volta has focused heavily on rural development through projects to promote production of cotton and cereals in the southwest and small-scale investments on the central plateau. The lending operations have followed a pattern of repeater projects to build on successful first credits where it is clear that extended external financing is needed to permit the project area to achieve sustained growth. The more recent Bank credits in the sector include components to monitor and evaluate the impact of agricultural extension and of research trials, and increased emphasis on more efficient food production.

11. The Bank's two education projects have been instrumental in establishing a young farmer training program to provide an agriculturally-oriented basic education to youths who do not gain access to formal schooling. The program appears to have achieved some promising results, although it is still too early for a definitive assessment. The replicability of this program as a solution to basic education for the country remains an unresolved issue,

however, since the unit costs of the young farmer training are still high relative to the country's recurrent financing capability and the growing demand for schooling. The financing of operation and maintenance costs is also a pressing issue in the highways sector, where the Bank is presently preparing a fourth project.

12. By almost any set of growth assumptions, Upper Volta will continue to face abject poverty for many decades to come - the most optimistic projections place the expected increase in real GDP per capita no higher than 2 percent per annum over the next 10-20 years. Although Bank projects have generally been successful in meeting specific, limited objectives, our operations at this juncture must confront three strategic issues: (a) whether there is any way to speed up income growth, either by financing more and larger projects of the present type or through an alternative set of interventions; (b) related to (a) whether a major program to develop the country's human resources would be a surer path to both faster economic development and improved social welfare over the long term; and (c) if we accept to significantly change our lending strategy in either case, it will be necessary to undertake major adjustments to our pattern of financing in Upper Volta, to cover a large share of recurrent costs directly on a long-term basis and take a firm lead in coordinating aid with other donors.

WA1C
March 31, 1981

IVORY COAST

COUNTRY PROFILE: IVORY COAST

Population: 7.8 million
GNP per capita (1979): $1,060
External debt: $4.6 billion
Debt Service Ratio: 29%
of which Bank Group: 1.2%

	Lending (in $ millions)			
	FY76-80	FY80	FY82	FY81-85
Bank	366.4	33.2	128.5	700.0
IDA	-	-	-	-
	Number of Operations			
Bank	17	2	3	19
IDA	-	-	-	-

1. The Ivory Coast became independent from France in 1960. The first President, who has just been re-elected for a further five-year term, provided the country with political stability in a one-party political system within which a variety of tribal and regional interests exist and are reconciled.

Past Performance

2. The Ivorian model of development was based on liberal and pragmatic policies to exploit the country's potential in export agriculture (coffee, cocoa, timber) supported by public investment in infrastructure, and an open door to migrants from neighboring countries provided a plentiful supply of labor for forest zone agriculture expansion. The smallholders who are the principal producers of coffee and cocoa earn the highest prices in West Africa under an efficient export processing and marketing system. Recognizing the economic vulnerability of too much dependence on the three export commodities, diversification took place on both plantations and on smallholder production of oil palm, rubber, pineapple, rice and cotton. In short, by a judicious use of both local and foreign factors of production and favorable markets, the Ivory Coast achieved the highest GDP growth rate (7 1/2 percent annually) of all African countries with the exception of a few oil exporters. GDP per capita rose to $1,175 in 1979 current prices.

3. As the earlier concentration on developing the resource-rich South had created disequilibrium vis-à-vis the North, and as there is a great dependence on expatriates in higher-level jobs, diversification also had as an objective the improvement of income distribution. In the long run, Ivorianization would be promoted by education. The response to these differences in income and opportunities was a shift in population to the more richly endowed South from the North and from neighboring countries; many of these people did not stay in agriculture but moved to Abidjan which is experiencing the classic problems of overurbanization.

4. The tripling of crude oil import prices between 1973 and 1975 had little impact as oil represented a small part of imports and the value of both coffee and cocoa exports rose by even more in the period. Beginning in 1976, world coffee prices began to soar as the number one exporter, Brazil, was struck by devastating frosts in July of that year. Cocoa prices also began their rise some months later also as a result of supply shortages in world markets. As a consequence, the Ivory Coast's export earnings for coffee and cocoa together were to average $1,2 billion (CFAF 278 billion) annually over the four-year period beginning in 1976--three times the earnings realized on average during the preceding four years. Half the country's coffee/cocoa earnings in this period were captured by the Government through its Agricultural Stabilization Fund (CSSPPA) which earns the difference between the sales price and costs, including payments to producers.

5. On the basis of these exceptional surpluses, public external borrowing also increased as a response to perceived increases in debt service capacity. Thus, external borrowing increased from $450 million in 1975 to $1.8 billion in 1977. The Ivory Coast's public investment program for 1976-80 was doubled in real terms over that realized in the first half of the seventies, with the objectives of maintaining an annual growth rate of 8 percent while at the same time reducing regional income disparities and augmenting social welfare services throughout the country. The general pressure of accelerated activity was accentuated by the inflationary domestic impact of the high cocoa-coffee earnings and rising prices of oil and other imports.

6. During 1977, the burden of uneconomic projects in the Public Investment Program, overdependence on external borrowing, and these domestic problems began to become apparent. In line with recommendations by World Bank staff in 1978, the Ivorian Government took steps to contain the growth of the program and centralize control of investment decisions, including the investment and borrowing of the public enterprises which had accounted for a good share of the expansion.

Current Problems

7. The consequences of past borrowing still weigh heavily on the budget and balance of payments even though new commitments were curtailed in 1978, 1979 and 1980 following periodic reviews by the Bank of their investment program, as requested by Government. Although the country has been responsive to the policy dialogue with the Bank, it was ill-prepared for the 30 percent decline in the terms of trade between 1977 and 1980. Export receipts in 1981 are expected to be $1.7 billion lower than they would have been at 1977 coffee and cocoa prices in real terms. Further, the debt burden will approach 29 percent of the export of goods and services in 1981.

8. The IMF in the recently agreed Extended Fund Facility, prepared with our help, will cover the immediate need for financial resource transfers. The Financial Recovery Program agreed to by the Government contains a series of measures. On the revenue side, it raised gasoline taxes, the retail price of rice, prices of electricity, water, bus, air and rail transport. On the expenditures side, it imposed constraints on the current budget; reduced

salaries in public enterprises and the producer price for rice; and cancelled public investment projects to keep expenditures at the 1980 level of CFAF 399 billion ($1.9 billion)--a decline of about 10 percent in real terms. The Government will also limit external borrowing of less than 12 years' maturity to CFAF 160 billion ($700 million) in 1981. The EFF would give the Ivory Coast a total of SDRs 484 million, of which about SDRs 200 million would be made available during 1981.

Prospects

9. The medium-term prospects for the country are good. The foresighted Ivorian energy policy based on constructing hydroelectric facilities to replace fossil fuels and a program of oil exploration has begun to pay off. Oil output is expected to cover domestic requirements of 2 million tons by 1983. By 1985, a new field--the full extent of which is still unknown--is expected to yield a further 3 million tons. The most optimistic estimate places total output at up to 20 million tons by the end of the decade. The Government is aware that it has a limited period in which to establish an effective financial control mechanism and to build the absorptive capacity for productive investments which would allow the country to avoid the adverse effects of large oil surpluses experienced by others. In this respect, raising agricultural output and productivity in the Center and North as well as promoting efficient industrialization will be important aspects of a development strategy to provide self-sustaining employment and improved income distribution for the bulk of the people. If the expected oil revenues do not materialize, adjustments in the economy, particularly in agriculture, will be even more necessary if more modest growth, equity and employment objectives are to be attained.

Bank Strategy and Operations

10. Like many other French-speaking countries in Africa, the Ivory Coast relied very heavily on French and occasionally other bilateral financial assistance during the years following independence. Since 1968, when the Bank made its first loan (only one IDA credit was made in 1973) to the Ivory Coast, our basic strategy was to establish our credibility by doing carefully designed projects containing substantial institution and manpower training components to which we were able to progressively attach reforms in sectoral economic policies. We thus supported government policies of diversifying and expanding forest zone agricultural production where the country had the greatest comparative advantage, creating a suitable complementary infrastructure and developing the country's human resources. Until 1978, the Bank made 11 loans to the country in support of cocoa, rubber, oil palm, coconut and cotton development; financed six highway and one telecommunications projects and two education projects; later in response to rapid urbanization, the Bank was also active in financing urban infrastructure in Abidjan through four projects in the fields of water supply, sewerage and urban transport and development. Our activity in the industrial sector was channeled through intermediary institutions, i.e. local development banks, to finance industrial projects, small and medium enterprises and tourism. As our institution building succeeded, we were able to make our first sector loan in road transport this year to finance a major part of the Government's highway investment program.

11. As Government shifted development emphasis to redressing regional and income distribution imbalances, we launched integrated development projects in the different regions and moved from development of estates to smallholder production projects. Lending for water and power distribution to secondary cities is being pursued.

12. Since our basic report in 1977 analyzed the problems of diminishing returns for the next phase of Ivorian development after a period of highly successful growth, the country has, as noted earlier, gone through a series of shocks relating to dramatic terms of trade changes. Our policy influence became increasingly important in this period as we were called upon by the highest authorities on a number of occasions to assist in crisis management.

13. Our August 1980 CPP concluded that while our economic dialogue had been effective in averting financial crisis, a more fundamental approach in the form of a structural adjustment program, based on reforms in macroeconomic management, agriculture, public enterprises, industrial incentives and the education system, was warranted in order to reduce the resource gap to manageable proportions while adjusting the economy to the realities in the eighties.

14. We are currently preparing a program of structural adjustment loans, the first in FY82, as the necessary supply-side complement to the Fund's financial recovery program. Our program will assist the Government in carrying out a series of specific reforms in these fields starting with the critical agricultural sector.

West Africa Region
March 25, 1981

APPENDIXES

APPENDIX: REGIONAL INSTITUTIONS

I. THE AFRICAN DEVELOPMENT BANK GROUP 1/

The Setting

1. Established in 1963, the African Development Bank (AfDB) began operations in July 1966. Membership includes 50 African countries. The AfDB has grown into a Bank Group (the Bank, the African Development Fund established in 1972, and the Nigerian Trust Fund in 1976). As of December 31, 1979, the Bank Group's cumulative loan/credit commitments stood at $1.9 billion for 396 projects and disbursements about $595 million.

2. Working relations between past Presidents of the AfDB and Board of Directors have been difficult due to conflicting interpretations of the Articles of Agreement on the management of the institution. A major crisis arose in July 1979 as a result of a conflict which opposed the two parties on management issues. The Chief Executive was removed and a new President (Mr. Mung'Omba, a Zambian national) was elected in June 1980. In the meantime, Mr. Gondwe from Malawi, one of the four Vice Presidents was Acting President.

Main Points of Interest

A. Mobilization of Resources

3. The Bank's initial authorized capital stock of $300 million equivalent, stood at $1.2 billion as of December 1980. In Libreville in 1978, the Bank of Governors decided to open the capital to non-African states, after long internal political bargaining. So far 82.6% of the shareholders have voted to ratify the change of the articles of agreement to achieve this expanded participation. A few countries (Algeria, Libya, Chad, and Madagascar) objected to the principle of opening the capital participation and did not participate. The non-African States will now be asked to meet the legal requirements for admission (10 countries holding 51% of the non-African portions of the AfDB capital should agree to subscribe). The World Bank may be asked to contribute to strengthening the technical capacity of the AfDB's staff and advise as organizational development. With the opening, the AfDB expects to increase its access to external capital markets for its non-concessional resources. As of December 31, 1980, AfDB's external borrowing amounted to $1 billion including borrowings from Governments of Canada, Sweden, Austria, Japan, three DM bond issues plus a few 2-year bonds in member countries.

1/ The AfDB Group includes: (a) the African Development Bank (AfDB) which lent at 7% (plus a statutory commission of 1%, and a commitment charge of 0.75%) with maturities varying between 12 and 20 years, including 2 to 5 years of grace; b) the African Development Fund (ADF), which grants credits at conditions similar to IDA; and (c) the Nigerian Trust Fund (NTF) whose resources are contributed solely by Nigeria, lent at 4% (plus a service charge of 0.75%) with maturities varying between 5 and 25 years, including 3 to 5 years of grace.

4. As regards the African Development Fund, resources provided through two replenishments amount to $1.1 billion; the second replenishment (1979-81) amounts to $864 million. A third replenishment ($2 billion) for 1982-84 is being negotiated. The Nigerian Trust Fund's resources amounted in 1979 to UA 76 million 1/ or about $97 million.

B. AfDB Relations with the Bank

5. A major area of cooperation between the Bank and AfDB is the co-financing of projects: in 1979 we co-financed 11 projects for $66 million; in 1980, 6 projects for $55.5 million. Co-financing with AfDB would increase in the future. The Bank provides on-the-job training for AfDB staff. The Training Center of AfDB runs regional training programs for nationals of member countries with the assistance of the Economic Development Institute of the World Bank. AfDB management has made recently a technical assistance request for the administrative restructuring of AfDB. Discussions have taken place with AfDB management on how best the Bank can be of help. It is expected that stronger and broader relations would develop between the World Bank and the AfDB as the latter strengthens its base.

C. Outlook

6. The first AfDB 5-year program (1977-81) calls for a lending of $1,275 million. Over the next five years, (1982-86), lending is planned to increase to $5,662 million. In addition, the African Development Fund is planned to lend about $2,250 million over the same period.

7. Four major issues will confront the AfDB in the 1980s:

First, the necessary steps should be completed to consolidate the capital and institution base of the Bank by expanding the equity participation as approved by existing shareholders.

Second, respective responsibilities of the Board of Executive Directors and of the President should be clarified; as mentioned earlier, relations between the two parties have been difficult and the July 1979 crisis has hurt the institution; the current President has the task of healing the wounds.

Third, the AfDB has to resolve the difficult question of the role and the limits of politics in the Bank. The long delay in accepting the non-regional states to join the AfDB was due solely to political reasons. Elections of AfDB Presidents have always been a "political game".

1/ AfDB financial statements are expressed in Units of Account (UA). The value of the Unit of Account is defined in Article 5.1(b) of the Agreement establishing the Bank as 0.88867088 grammes of fine gold; 1 UA = $1.27541 at present.

Fourth, the AfDB has to convince the U.S. Administration to reverse its negative attitude toward the African Development Bank; a recent AfDB delegation met with U.S. officials in Washington to that effect. Furthermore the forthcoming Libreville meeting of the Development Committee will take up the AfDB resource problem and press upon non-regional states and in particular the U.S. to act diligently in favour of the financial strengthening of the AfDB and ADF.

April 19, 1981

APPENDIX: REGIONAL INSTITUTIONS

II. TRENDS IN REGIONAL COOPERATION IN WEST AFRICA

1. Governments in West Africa have been striving for regional cooperation or integration for some time. At present no less than thirty regional or subregional institutions exist in West Africa. Not all of them operate equally efficiently. The present note covers a few significant ones with which the World Bank has established relationships.

A. The Economic Community of West African States (ECOWAS)

2. Membership: Benin, Cape Verde, the Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra-Leone, Togo and Upper Volta. Politically, as well as economically, the moving force behind ECOWAS since the early seventies has been Nigeria.

3. Establishment: The Treaty establishing ECOWAS was signed in Lagos, Nigeria on May 28, 1975. Headquarters of its Secretariat General is in Lagos. The Community has a Fund for Compensation and Development based in Lome (Togo).

4. Basic Objectives: ECOWAS is to promote intra-African trade, technical/industrial cooperation and development in West Africa, through the creation of a Common Market of member countries; to this end, the Treaty provides for gradual elimination of custom duties, abolition of administrative and quantitative restrictions on trade among member countries, establishment of a common customs tariff and of a commercial policy toward third countries.

5. Achievements so far:

(i) Trade Liberalization: In Lagos (April 1978), the Third Conference of Heads of State of ECOWAS decided that from May 28, 1979, no member state may increase its customs tariff on goods from another member country. During the first two years, there will be a freeze of import duties on intra-community trade and elimination in phases over the next eight years.

(ii) Free flow of people within the Community: In Dakar (May 1979), the Conference of Heads of State agreed on the free movement of people within ECOWAS: the first step is that an "ECOWAS Citizen" has the right to enter any ECOWAS country without visa and stay 90 days. Further steps might include right of residence and of establishment. The agreement is to be ratified by the countries concerned.

(iii) Development Program: ECOWAS development program includes a telecommunication project and a transport program with particular reference to landlocked countries. A legal framework on the status of ECOWAS enterprises and selected industries as priority sectors is being prepared.

(iv) Bank relations with ECOWAS: We have often exchanged views with the Secretary General of ECOWAS on the nature and content of the Secretariat's program of economic and sector work, on other activities and progress of the Community in achieving its objectives; we have given advice on the detailed terms of reference of a transportation study. We have provided technical assistance in setting up the ECOWAS Fund. We have reviewed recently a position paper on the ECOWAS telecommunication project and provided guidance on how the project can best be handled.

6. Outlook. ECOWAS is taking steps gradually to consolidate its base and to develop into a coherent economic grouping. The Lagos Plan of Action adopted by African Heads of State in 1979, which sets out broad guidelines for the future economic development of Africa and recommends the creation of a continental economic community by year 2000, will rely partly on ECOWAS as a regional economic entity, for the achievement of the Plan's regional and continental objectives.

B. CEAO (Communauté des Etats de l'Afrique de l'Ouest)

7. CEAO is a 6-member Francophone African Grouping (Ivory Coast, Mali, Mauritania, Niger, Senegal, Upper Volta) established in 1973 whose objectives are similar to those of ECOWAS: economic cooperation and integration through trade liberalization and development. Three important features characterize the Community: (i) the Regional Cooperation Tax which is a preferential tax granted to industrial products originated from CEAO member countries and whose application has increased the industrial intra-community trade; (ii) the Community Development Fund, designed to compensate CEAO importing member countries for losses incurred in relation to industrial products' trade within the Community. Part of the Fund finances studies and investments in the less developed countries of the Community; (iii) the Solidarity Fund with $40 million equivalent of authorized equity, whose main function is to guarantee external borrowings by member states.

8. Bank relations with CEAO have been active through, among other things, provision of technical assistance to the Solidarity Fund. CEAO has developed itself into an aggressive entity; it has prepared several regional schemes (training schools notably) whose cost is about $56 million equivalent and for which it has succeeded in mobilizing bilateral and international financial support. We are considering financing a regional management school sponsored by CEAO, located in Dakar, which will cater to the private and public management staff needs of the Community.

C. CILSS 1/ and The Club du Sahel

9. The 1972-74 severe drought which struck the Sahelian countries had generated the need for an action plan to cope with the consequences of such natural calamities and to take preventive measures. The CILSS's objectives

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1/ Comité Permanent inter-Etats de Lutte contre la Sécheresse dans le Sahel (Inter-States Committee for anti-Drought in the Sahel).

are, in fact, to coordinate development and to mobilize financing for it in the Sahel. Membership includes Cape Verde, Chad, The Gambia, Mali, Mauritania, Niger, Senegal and Upper Volta. The Club du Sahel, created in 1976, provides CILSS with technical and logistic support; the Club includes OECD which is responsible for the Secretariat, Arab countries and of course CILSS countries. The Club has been successful in creating awareness in the international community for financial assistance to the least developed Sahelian countries in support of CILSS's action.

10. In 1977, a high level conference of the Club met in Ottawa and adopted the so-called "Sahel Development Strategy" designed to ensure food self-sufficiency. In 1980, another high level Club conference met in Kuwait to take stock of the implementation of the Ottawa Strategy. Arab countries are taking increasing interest in the plight of the Sahelian countries and BADEA 1/ is to devise a specific Arab action program in support of the Club's efforts. Bank staff are in close contact with CILSS and the Club du Sahel. We participated in joint working groups. A major achievement of the CILSS and the Club du Sahel has been the report on recurrent costs financing of development programs in the Sahelian countries on which we have commented.

D. OMVS 2/

11. OMVS was established in 1972. Membership includes Mali, Mauritania and Senegal. OMVS's objective is to bring about, in a coordinated and coherent fashion the development of the Senegal River basin. It sponsors technical and economic studies of the River basin and suggests means by which development could be promoted.

12. The World Bank was Executing Agency (1977/79) for a UNDP-financed project for institutional support to OMVS. The Bank in this capacity supervised a global study of the proposed infrastructure program which showed that there was no case for building the two dams simultaneously or either one in the next few years. As our technical advice was not taken we withdrew from the UNDP project in 1979. The fundamental issue has always been Bank's objection to the OMVS's ambitious infrastructure program (simultaneous construction of two dams Diama and Manantali for irrigation development) and our preference for financing of areas which could be economically irrigated without dams over a 10 to 15 years period. Senegal has marshalled important financial support from bilateral governments and institutions for the OMVS project and indications are that OMVS member countries will go ahead with a project whose economic justification is doubtful.

E. Onchocerciasis Control Program

13. One of the Bank's most important regional projects in West Africa is the Onchocerciasis Control Program (OCP). Onchocerciasis, or riverblindness,

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1/ Arab Bank for the Development for Africa, based in Khartoum.

2/ Organisation pour la mise en valeur du fleuve Senegal (Organization for the development of the Senegal River).

is a disease which causes debilitation and blindness. It is transmitted by blackflies which breed in the rapidly flowing sections of rivers. In parts of the West African savannah, onchocerciasis is a constraint to economic development.

14. In 1974, the Bank joined with the World Health Organization (WHO) and some 15 other agencies and donors in launching a 20-year program to control onchocerciasis in an area covering 700,000 square kilometers in seven countries: Mali, Upper Volta, Niger, Benin, Togo, Ghana and Ivory Coast. WHO acts as Executing Agency. The Bank organizes the financing, and administers the Onchocerciasis Fund. In the first six-year phase (1974-1979) which cost around US$53 million, the Bank made a grant of US$6 million. In the second six-year phase (1980-85), which is expected to cost about US$106 million, the Bank has indicated it will make grants of up to US$12 million.

15. The Program aims to bring the disease under control by killing the larvae of the blackfly by spraying insecticide from helicopters and aircraft in the breeding sites in the rivers for a sufficiently long period that the parasite dies out in the human population. Larviciding has been generally very successful to date. Two longer-term issues however have emerged. First, it appears that a period of twenty years larviciding may not be sufficient to bring the disease under permanent control for a variety of reasons, particularly the unusual mobility of the infected blackfly. As a result, a Commission to examine the long-term prospects of the program was set up in 1979 and will report on its findings later this year. Secondly, the Program has been fortunate in having an insecticide (Abate) which is ecologically safe. About the middle of last year, however, the first signs of genetic resistance to Abate were discovered in a minor subspecies of the blackfly in a limited area in Ivory Coast. The resistance was brought under control by the use of an alternative insecticide (Chlorphoxim) which has a significant impact on the aquatic fauna at least in the short run. A special meeting of the independent committee of ecological experts set up under the Program has been scheduled for the end of May to review the issue.

A Few Concluding Remarks on Regional Cooperation in Africa

16. The adoption of the so-called Lagos Plan of Action in 1979 by African Heads of State has given a new impetus to African Governments' drive to pull together, on the regional basis, their resources for the development challenge in the years ahead. The move is being spearheaded by the Organization of African Unity (OAU) whose responsibility in the economic area is growing. The North-South dialogue on global economic issues has been disappointing; though increased external development financing is very much expected by the Third World, in particular by Africa which comprises twenty out of the thirty UN-classified least developed countries, the developing countries feel that a South-South approach (including such countries as Korea, Venezuela and Brazil) to their development problem can be of immense value in both mobilizing opinion and providing technical assistance. The new effort toward regional cooperation in Africa should be seen in that perspective.

April 19, 1981

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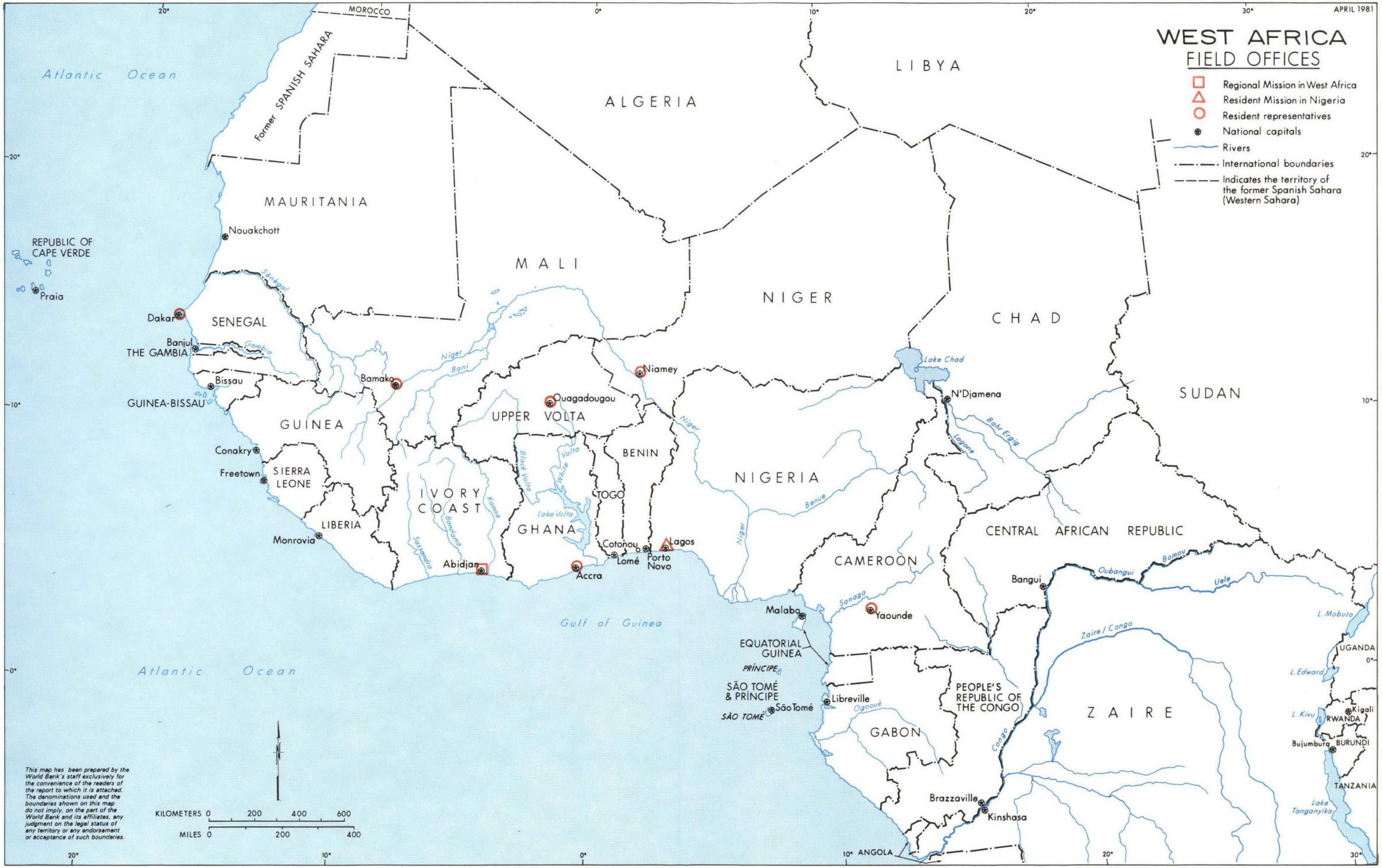
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Resident Mission in Nigeria
Resident representatives
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MAURITANIA
Nouakchott
REPUBLIC OF CAPE VERDE
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NIGER
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Bissau
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Conakry
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Bahr Ergig
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SÃO TOMÉ
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Kigali
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TANZANIA
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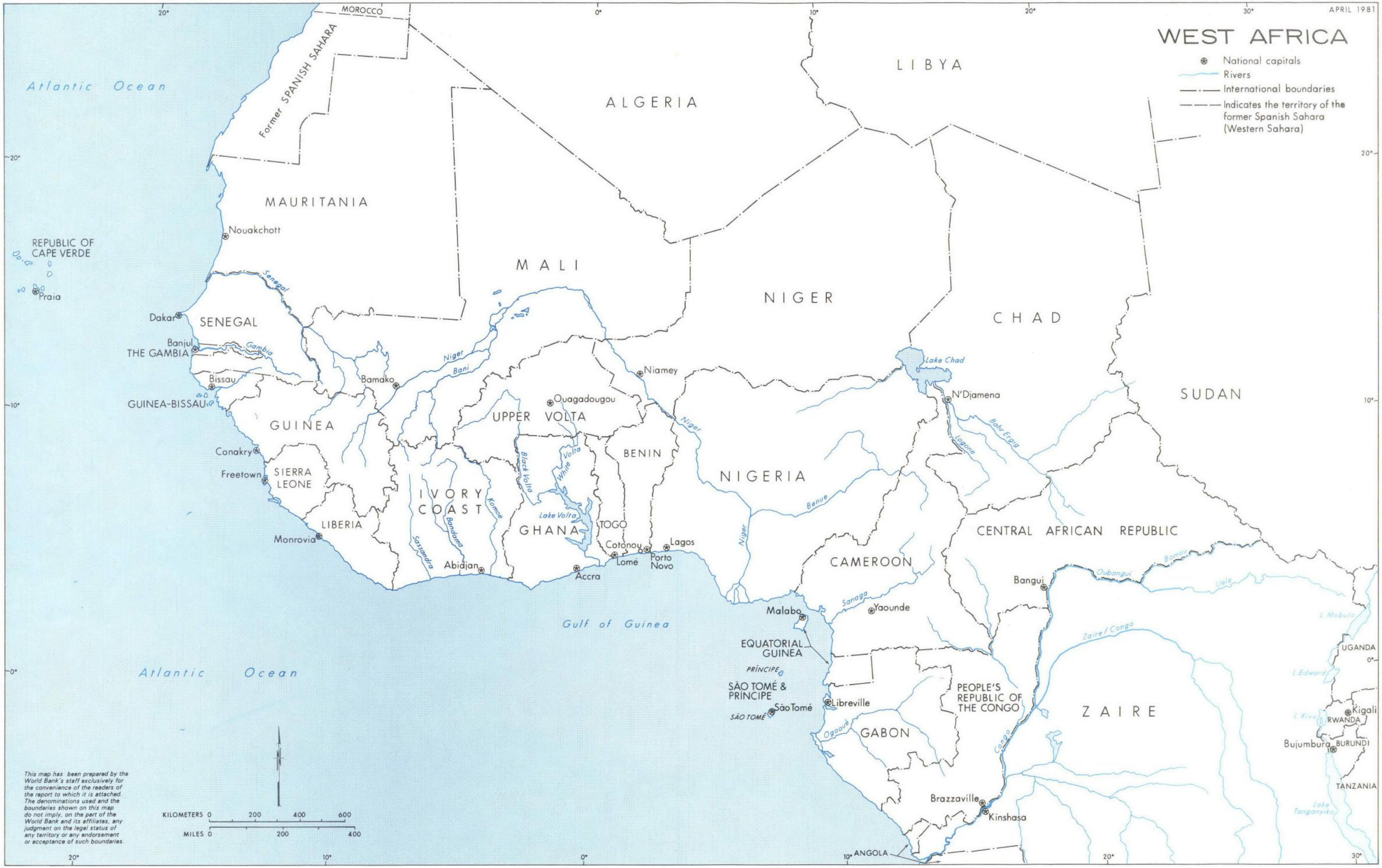

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