Côte d'Ivoire – more than just cocoa!

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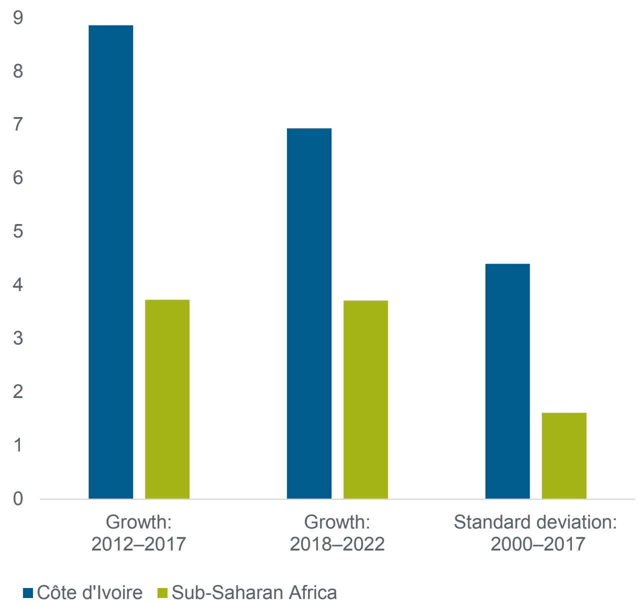
Côte d'Ivoire is planning its transition from developing to emerging economy. However, despite strong economic momentum, poverty remains widespread. Against this backdrop, steps must be taken to make the robust growth more inclusive, with modernisation of agriculture playing a key role in this respect. The West African country is already on the right track. However, for the transformation of its agricultural sector to succeed, further improvements to specific aspects of the economic framework are essential.

Côte d'Ivoire as a regional growth driver ...

Côte d'Ivoire is one of the fastest growing economies on the African continent (Figure 1).[1] Its economic momentum is impressive: since 2012 the economy has grown by an average of around 9%, with growth thus significantly stronger than its peer group of Sub-Saharan Africa (SSA). Macroeconomic conditions are relatively stable: among other things, inflation is low, public debt is sustainable despite its high level, and the institutional framework of the currency of the West African Economic and Monetary Union – the CFA franc – is considered steady. Looking ahead, Côte d'Ivoire is expected to remain one of the growth drivers not only of the region but also of the entire continent (Figure 1).

Figure 1: Growth performance of Côte d'Ivoire compared to SSA

Real economic growth (in per cent) and standard deviation of growth



Source: IMF, own illustration

... yet economic development is failing to reach many Ivorians.

At the same time, this substantial economic growth is only partially reflected in improved social indicators. In the current rankings of the United Nations' Human Development Index (HDI), Côte d'Ivoire falls short of the average for the Sub-Saharan group of countries and out of 189 countries is ranked 170th, behind Afghanistan and Haiti. Almost half of the approximately 24 million Ivorians live below the poverty line. Moreover, over the last ten years the proportion of the total population living below the poverty line has improved only marginally.[2] Poverty is widespread, particularly in rural areas, where many smallholders work in subsistence farming.

In addition, since the beginning of the millennium, economic growth in Côte d'Ivoire has been subject to greater fluctuations than the rest of Africa (see Figure 1). This is also a function of the turbulent political situation and social tensions within the country, including a civil war at the start of the millennium and violent protests in the wake of a government crisis in 2010–2011. Although the situation has since stabilised, Côte d'Ivoire continues to be classified by the OECD as a "fragile state".

Objective: emerging economy by 2020 through industrialisation...

In its national development plan (2016–2020) the Ivorian government has set the objective of alleviating poverty, in part through more inclusive growth, and establishing itself as an emerging economy with a solid industrial base by the year 2020.[3] According to the World Bank – which classifies all economies into four categories based on average income – the country, with GDP per capita of USD 1,700, currently still falls in the group of lower middle income countries. However, in the long term its promotion to the next level up (upper middle income countries) is targeted[4]. Yet for this to be achieved, Ivorian per capita income must more than double.

Historically, the transition from developing to emerging economy has been accompanied by a change in the structure of the economy. During this structural transformation, economic resources shift from areas with low productivity, such as agriculture, into areas with higher productivity, such as industry. In concrete terms, Côte d'Ivoire plans to raise the proportion of gross value added of its secondary sector – manufacturing industries – from around 29.5% of GDP in 2016 to 40% by 2020. By international standards this is a relatively high figure, which is attained for example in Asian economies such as China and South Korea with strong industrial sectors or, with some limitations, in Eastern European countries such as

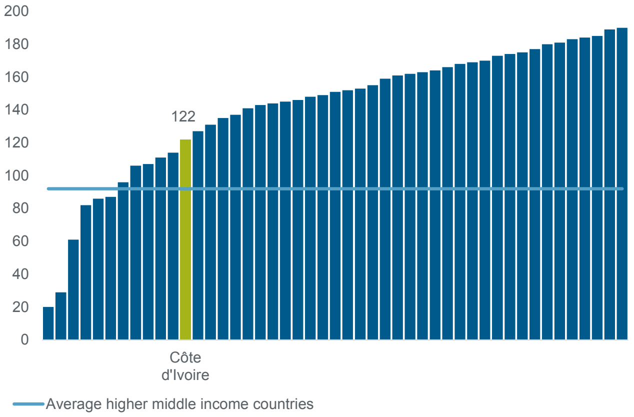
Poland or Romania. In Africa only commodity-rich countries such as the Democratic Republic of Congo or Zambia have a secondary sector of similar magnitude. For Côte d'Ivoire, such a rapid change in economic structure poses a major challenge.

... a focus on private sector development ...

To succeed in meeting this challenge, one pillar of the Ivorian development strategy is based on strengthening the private sector. In this context the intention is to improve the general framework for private sector activity, in order to enhance the business climate and boost both local and foreign investment. The country's ambitions are underscored by its participation in the G20 Compact with Africa initiative, which focuses on targeted improvements to framework conditions for the private sector. The government has already launched far-reaching structural reforms. These include reinforcing the country's institutional capacity overall – for example by simplifying and digitalising administrative processes or through improved customs clearance – strengthening the legal framework for companies and debtors, including the establishment of a credit agency, and expanding infrastructure relevant for growth in order to encourage private sector activity (see also the box on page 3).

Figure 2: Doing Business rankings, Sub-Saharan Africa

Rank by country (the higher the number, the poorer the ranking)



Source: World Bank, own illustration

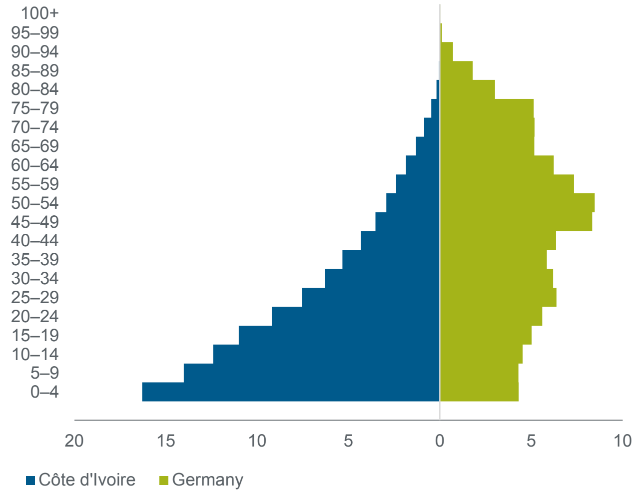
These measures are starting to bear fruit: in the World Bank's current Ease of Doing Business rankings, the West African country is among the Top 10 reformers worldwide – an improvement of 17 places compared to the previous year – and also has one of the top rankings among the SSA economies (see Figure 2). However, further reforms are necessary if it is to catch up with the comparable peer group of countries with upper middle income.

... creating sufficient employment.

Increasing industrialisation is especially important given the country's demographic trends. Côte d'Ivoire has a very young population structure that is typical of a developing country (see Figure 3); more than half of the population is aged below 20 years, in sharp contrast to an industrialised country such as Germany. In the first half of the 21st century, the population of Côte d'Ivoire will continue to grow at a rapid pace. According to forecasts, the total population will double over the next 30 years. During the same period, the working population will grow even faster, by almost 150%.

Figure 3: Age structure

As a percentage of total population, age groups in years



Source: UN, own illustration

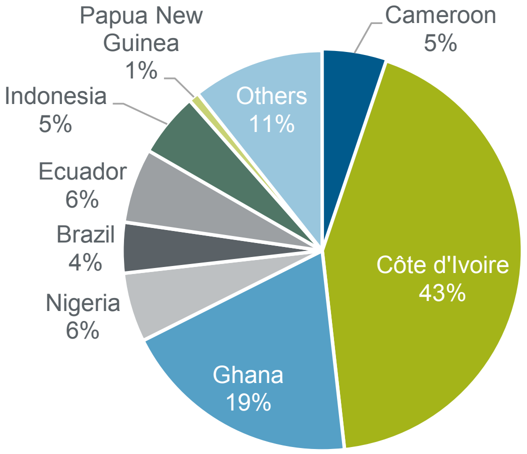
To capitalise on the opportunities offered by a rising labour supply, local labour demand must keep pace. In light of this, creating new and sufficient numbers of jobs is particularly important. A buoyant industrial base offers several advantages in this regard: it provides many jobs with on average higher productivity than in the traditional agricultural sector, enables on-the-job learning – in part through knowledge transfer in the form of foreign direct investment – and in many areas requires no prior specialist knowledge.[5] Meanwhile, increasing industrialisation also provides an opportunity to continue driving forward gradual integration into global supply chains, thereby generating additional growth stimuli.

With the aim of further expanding Côte d'Ivoire's industrial base, in addition to improving the general economic framework, the government has put targeted development of certain core sectors on the agenda. Particularly vital for further growth stimuli is agribusiness, which includes traditional agriculture and the connected value chains.

Agriculture carries weight, especially cocoa ...

Traditionally, the agricultural sector has played a major role in Côte d'Ivoire. This sector employs around 50% of the labour force – of which three quarters comes from rural areas – and up until now has accounted for some 20% of gross domestic product. Local production includes cashews, mangos and also cotton. However, the key role is played by the cocoa industry: this West African country is responsible for around 43% of the world's cocoa production (see Figure 4).

Figure 4: Production of cocoa beans by country



Source: ICOO, own illustration

... but local vertical integration and productivity is low

In Europe cocoa is known primarily as the base product for cocoa powder or for chocolate. To manufacture these products, the cocoa bean undergoes various processes, including roasting the beans, producing cocoa butter and subsequent refinement into chocolate. As a general rule, the greater the level of processing involved, the higher the price range and profit margin.

Although Côte d'Ivoire is the biggest producer of cocoa beans, only around one third of the beans are processed on site. As a result, local value added remains relatively low. This is also reflected in the export structure: cocoa products make up around 50% of the country's exports, yet the majority of these consist of raw cocoa beans.

This orientation towards the production and export of agricultural commodities makes the country's economy vulnerable to (external) shocks, which can take the form of poor harvests due to weather developments such as droughts, or a price slump due to lower global demand, for example. As cocoa is grown predominantly by smallholders, volatile price and volume trends directly influence their income and can therefore lead to social tensions. At the same time, the sector's productivity – measured by output per hectare – is low even by international standards due, inter alia, to small plots of land, ageing trees on plantations and outdated production methods. This further limits farmers' income.

Structural transformation begins in the agricultural sector ...

Many of today's industrial countries began their economic rise with transformation of the agricultural sector. This process entails, inter alia, changes to production and cultivation methods as well as to the links with other business sectors, both domestically and internationally.

Rising productivity leads to an increase in the income of producers, paving the way for employment outside of agriculture as well. Transforming the agricultural sector thus enhances the income of smallholders and serves to alleviate poverty, especially in rural areas.

Box: Opportunities for the private sector

Côte d'Ivoire's economy has grown rapidly in recent years. For many firms, the West African country has already developed into an important hub for the whole region, from which surrounding francophone markets can be serviced.

In terms of sectors, both construction and agribusiness are showing dynamic growth. The emphasis on expanding local value chains is resulting in significant investment requirements, for example in relation to storage, processing and packaging of products but also for logistics, food preparation and even the restaurant sector. To encourage this investment, the government has introduced targeted tax incentives for selected key sectors such as tourism and agribusiness. The growth of the middle class is also leading to economic opportunities in other industries, such as in the retail sector, with "fast-moving" consumer goods, and in the automotive industry: Renault, for example, is currently building a new local production plant.

In addition to ongoing improvement of framework conditions for the private sector, the intention is to support industrialisation through the establishment of industrial parks: 17 have been announced, while two are already under construction. A newly established "one-stop shop" offers both domestic and foreign firms a first important point of contact and has greatly simplified the creation of a new local company, for example. Both a double taxation agreement and an investment protection agreement are in place with Germany.

Nevertheless, businesses must be prepared for local challenges, with the shortage of skilled workers particularly hard to address. Integrated solutions –such as building a production or distribution centre that includes a structured process for staff training and continued professional development – will pay off in the long term.

Interview with Celestin Tanoh, Head of the DEG representative office in Abidjan

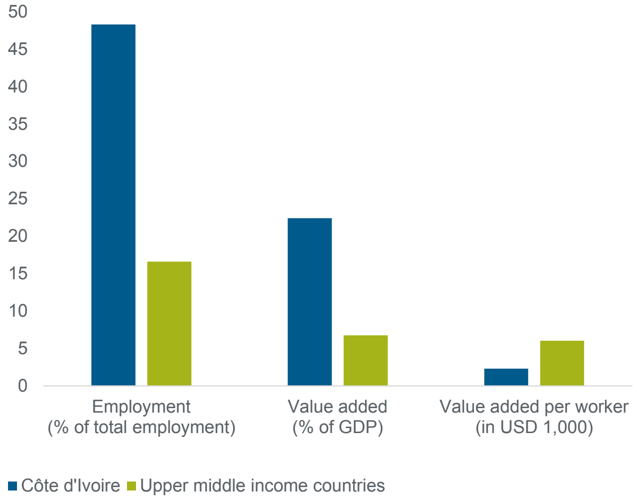
As a result of this process of economic change, although the relative importance of agriculture decreases for the economy as a whole, the importance of upstream and downstream value creation stages – such as processing of agricultural commodities – gradually increases.

... and has already started in Côte d'Ivoire ...

The expansion of agribusiness plays a significant role in Côte d'Ivoire's development plan. One of the targets set by the government is that by 2020 around 50% of agricultural raw products will be processed locally in order to increase local value added, thereby diversifying the economic structure and making it more resilient and thus more 'crisis-proof'. This will also create many new investment and employment opportunities (see also the box on page 3). At the same time, value added products also open up access for local companies to new, lucrative markets.

By way of illustration, it is worth examining the chocolate industry: Germany imports cocoa beans with a value of around USD 1.2 billion but exports chocolate with a value of over USD 4.7 billion. The proceeds of German chocolate exports alone are thus higher than the export value of all Ivorian cocoa beans of nearly USD 4 billion. The estimated volume of the global chocolate market amounts to around USD 100 billion and is set to rise further!

Figure 5: Agricultural sector of Côte d'Ivoire compared to country category with upper middle income



Source: World Bank, own illustration

... but is not yet complete ...

Although the conversion and modernisation of the agricultural sector are in progress, they are far from concluded yet (see Figure 5). In comparison to the group of countries with upper middle income, it is apparent that the agricultural sector in Ivory Coast...

1. ...employs proportionally more of the working population,

2. ...and accounts for a greater proportion of the total economy,

3. ...but is characterised by significantly lower labour productivity.

... and requires further reform!

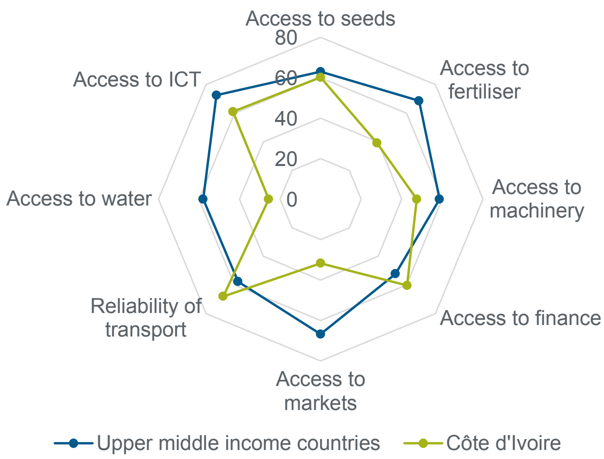
For further modernisation of the agricultural sector to succeed, the utilisation of technologically sophisticated operating equipment – including greater mechanisation of cultivation and harvesting – is required, along with implementation of efficient and well-functioning irrigation systems and the use of new and better production inputs such as seeds and fertiliser.

To enable smallholders, farmers and companies to make this investment, action by the state is also needed: for example, access to relevant financing, especially for SMEs, must be improved by means of deeper financial markets. Increased mechanisation also requires the labour force to have a better level of training; the quality of professional and university education is particularly inadequate, with greater investment needed in the education sector. Clearer regulation of land rights would create certainty for producers and lower the potential for conflict among smallholders.

A comparative look at countries in the next level up of income category indicates that specific regulations for the agricultural sector also need further improvement (Figure 6). Access to sales markets is particularly relevant. For this to improve, in addition to reducing cross-border trading costs[6] the provision of relevant transport infrastructure will play an especially important role. For example, the export of mangos is hampered by the poorly developed road network between the north of the country, where mangos are grown, and the south, where the port is located.

Figure 6: Agricultural sector key indicators

Distance to frontier (0–100 maximum number)



Source: World Bank, “Enabling the Agricultural Sector”, own illustration

Many of these issues have already been recognised by the government: of the total five pillars of the national development plan, three relate to (i) improving infrastructure, (ii) enhancing the level of human capital and (iii) closer regional integration. However, in some areas the practical realisation of planned reform measures is (still) lagging behind the stated aspirations. In a recent evaluation report, the OECD thus concludes that progress of reforms in the agricultural sector – including in relation to improved access and the distribution of production inputs such as seeds and fertiliser – is extremely slow.[7] In other words, while the problems have been identified, implementation of solutions remains poor. The more swiftly this takes place, the more likely it is that Côte d'Ivoire can achieve its ambitious development goals.

Summary

With one of the highest growth rates of the African continent, Côte d'Ivoire is currently planning its transition from developing to emerging economy. The basis for this is an ambitious development plan by the government, which provides for a structural transformation of the economy, including targeted expansion of the industrial base. Initial successes have already been seen: the business environment for the private sector – which is expected to drive forward development of

the secondary sector through investment – has already visibly improved.

Structural transformation of the economy gives the country several advantages: supporting industry will create many new employment opportunities, which is of crucial importance to Côte d'Ivoire given the dynamic growth in its population. These jobs also offer wages that are on average higher than in the traditional agricultural sector. At the same time, a diversified economic structure that is less dependent on producing and exporting agricultural commodities also provides protection against volatile developments in commodity prices.

However, at present the economic structure remains heavily influenced by the cultivation and export of agricultural commodities, especially cocoa beans. These are generally produced by smallholders, with poverty – especially in rural areas – widespread. As a result, a further focus is on modernising the agricultural sector and expanding agribusiness. As part of this, the government has set the objective of processing a greater proportion of agricultural commodities locally. Increasing local vertical integration offers higher profit opportunities for Ivorian companies as well as access to new, lucrative market segments. This in turn offers employees, including traditional smallholders, new alternative job opportunities, thus alleviating poverty.

However, to succeed in this aim, further investment by businesses is required. Productivity advances are possible along the entire value chain, from the use of seeds and fertilisers through to mechanisation of production processes and the use of efficient irrigation systems. Yet the state, too, has a responsibility: both the general and sector-specific frameworks must be further improved and need to be accompanied by public investment, for example in the form of better transport infrastructure and higher education spending to increase the qualification level among the population.

Finally, it should be emphasised that the government's efforts to diversify the economic structure and increase vertical integration are going in the right direction. The significant hurdles slowing the modernisation process have been identified but in some areas implementation of necessary reforms lags behind the ambitious timetable. As a result, the economy's transition is likely to take longer than envisaged by decision makers.

Nevertheless, the prevailing positive reform momentum must be maintained; structural transformation is more of a marathon than a sprint. In this regard, it is also important to keep an eye on political risks, despite the robust macroeconomic situation. There are concerns that the upcoming presidential elections in 2020 could be accompanied by social unrest. Although open conflict remains unlikely, an escalation of tensions and an associated slump in economic activity – and hence the transformation process – cannot be ruled out. ■

[1] The author would like to thank the following individuals for informative background interviews: Peter Bereschka, Dennis Rombach, Bernd Tilemann, Celestin Tanoh, Andreas Fikre-Mariam, Ron Rother, Gerhard Ressel, Frauke Krämer and Michael Dreyer.

[2] The national poverty rate is defined as the proportion of the total population with a daily income below USD 2.97 (PPP) per day.

[3] According to the International Monetary Fund's definition, Côte d'Ivoire is still deemed a "frontier market".

[4] The World Bank's definition can be found here: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

[5] See also Rodrik (2015): "Premature deindustrialization", NBER Working Paper No. 20935

[6] See also Heinemann, T. (2018), **EU partnership agreements alone cannot solve structural problems in trade with Africa**, Focus on Economics No. 205, KfW Research

[7] In this regard see OECD (2017), "Suivi de la mise en oeuvre des réformes vers l'émergence de la Côte d'Ivoire", Rapport d'avancement No. 2.