World Bank Assistance to CFA Countries
An Evaluation of Selected Social, Economic and Regional Aspects of the Bank's Performance

November 9, 2000

Operations Evaluation Department
Abbreviations and Acronyms

AFDB African Development Bank
AFRISTAT African Institute of Statistics
AIDS Acquired Immune Deficiency Syndrome
APDF African Project Development Facility
BCEAO Banque Centrale des Etats de l'Afrique de l'Ouest [Bank of Western African States]
BEAC Banque des Etats de l'Afrique de Centrale [Bank of Central African States]
CAEMC Central African Economic and Monetary Community
CAMC Central African Monetary Community
CAR Central African Republic
CAS Country Assistance Strategy
CDF Comprehensive Development Framework
C/ESW Country / Economic & Sector Work
CFA "Communaute Financiere Africaine" [African Financial Community]
CAFR CFA Franc
CIMA Conference Interafrique des marches d'assurances
CIPRES Conférence Interafrique de Prévoyance Sociale (Inter African Conference for Social Security [14 CFA countries])
COBAC Central African Banking Commission
EC European Community
ECOWAS Economic Community of Western African States
E / HIPC Enhanced / Initiative for Heavily Indebted Poor Countries
ESW Economic Sector Work
EU European Union
FF French Franc
EV Education Volunteers
FIAS Foreign Investment Advisory Service
FSAL Financial Sector Adjustment Loan
GDP Gross Domestic Product
GNP Gross National Product
HIV Human Immune /Deficiency Virus
IBRD International Bank for Reconstruction & Development
IDA International Development Association
IFC International Financial Corporation
IMF International Monetary Fund
MIGA Multi Lateral Investment Guarantee Agency
NGO Non-Governmental Organization
ODA Official Development Assistance
OECD Organization for Economic Cooperation and Development
OED Operations Evaluations Department
OHADA Organization pour l'Harmonization du Droit des Affaires (Regional Organization for Business Law Reform)
PPM Pharmacie Populaire du Mali
PREM Poverty Reduction and Economic Management
PRSP Poverty Reduction Strategy Paper
QAG Quality Assurance Group
REER Real Effective Exchange Rate
SSA Sub Saharan Africa
STABEX Stabilization of Primary Commodities Export Earnings, scheme operated by EU
SYSCOA West African Accounting Framework
UDEAC Central African Customs and Economic Union
UEMOA Union Economique et Monetaire Ouest Africaine
UNAIDS Joint United Nations Program on AIDS / HIV
UNICEF United Nations Children's Fund
WAEMU Western African Economic and Monetary Union
WAMU Western African Monetary Union
WDR World Development Report
WHO World Health Organization

Director General, Operations Evaluations : Mr. Robert Picciotto
Acting Director, Operations Evaluations Department : Mr. Gregory K. Ingram
Manager, OEDCR : Mr. Ruben Lamdany
Task Manager : Mr. Louis Goreux
MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

WORLD BANK ASSISTANCE TO CFA COUNTRIES

With a population of 100 million, the CFA zone consists of 14 countries sharing a common currency, the CFA franc at fixed parity with the French franc, which induced a monetary and fiscal discipline from which CFA countries benefited. From 1970 to 1985, growth in per capita GDP was higher in the CFA zone than in its comparator—a group of 28 countries of Sub-Saharan Africa referred to below as non-CFA countries. A draft of this evaluation was distributed to CODE in July 2000. The report is now being re-issued for the purpose of public disclosure.

When the terms of trade deteriorated sharply in the second half of the 1980s, most non-CFA countries devalued their currencies while the CFA parity with the French franc remained unchanged. The CFA franc became overvalued, which led to an erosion of the competitive position of the zone and to the 1987-93 depression. The postponement of the devaluation was detrimental to CFA countries which suffered a decline in their per capita GDP more severe than non-CFA countries.

The currency was devalued from CFAF50 to CFAF100 per French franc in January 1994 and, in the five years following the devaluation, annual GDP growth was higher in CFA than non-CFA countries. But, in spite of the post-devaluation recovery, per capita GDP in CFA countries is hardly higher today than it was in 1970. Poverty in Cameroon and Côte d'Ivoire remains much more widespread today than it was in 1985; in five other CFA countries, half of the population lives below the poverty line.

The CFA Devaluation: A confidential study, prepared by the Africa Region in March 1988, concluded that a 50 percent devaluation of the CFA franc was needed to restore the competitive position of the zone. It was argued that, pending the devaluation, the Bank should refrain from extending adjustment lending on IBRD terms. The Bank reduced its lending to CFA countries before the devaluation, but did not stop lending because it was caught in a dilemma. On the one hand, as was the case, not lending would have implied large net transfers from these countries precisely when they were suffering heavy terms of trade losses. On the other hand, lending US$1.5 billion to Côte d'Ivoire and Cameroon on IBRD terms in FY86-90 was not right either. The projects did not turn out well; and the outcome was rated unsatisfactory for 73 percent of the committed amounts.

The Bank devoted sizable resources to identify the measures needed to support the expected devaluation. This analytical work was relevant and it was conducted in difficult conditions. It had to be done confidentially, but some leakage occurred which, occasionally, created tensions with member countries. Ultimately, the Bank succeeded in building a solid partnership with the IMF, France and other key players in the CFA zone. Once the decision to devalue had been reached by the key donors, it had to be approved by the Heads of State of all CFA countries, and none of them wanted the devaluation to occur shortly before presidential elections. In hindsight, it is clear that delaying the devaluation was very costly in economic and social terms. But the Bank was not responsible for the postponement of the devaluation and it is not clear that a successful devaluation could have occurred earlier if the Bank had acted differently.
The devaluation occurred in January 1994. It was delayed, but it was well prepared. For the zone as a whole, the annual growth rate of real GDP per capita turned from minus 2.7 percent in 1987-93 to plus 1.9 percent in 1994-98. Right after the devaluation, Cameroon, Congo and Côte d'Ivoire were declared eligible for IDA credits only, and the undisbursed parts of IBRD adjustment loans were cancelled. IDA was able to disburse US$150 million to Côte d'Ivoire in the month following the devaluation and the Bank has to be credited for this timely intervention which contributed to the success of the devaluation.

The devaluation was successful but, by now, most of its direct benefits have been cashed in and the situation of most CFA countries remains fragile. Average per capita GDP of the zone remained stagnant in 1999. Political and social instability is part of the cause, as is the dependence on a few primary commodities. Uneven economic reform and fluctuating external assistance play a role as well. Expressed as percentage of GNP, net external transfers from all sources to the CFA zone doubled from 1990-93 to 1994, which was the reward for the devaluation. But they fell in 1995-98 one-third below their 1990-93 level. Fortunately, most CFA countries may become eligible to the enhanced debt reduction facility, which could make a difference. Continued monitoring of its impact is necessary to ensure sustainability. To this end, the Bank should assist in the development and collection of better economic and social statistics.

Post Devaluation Developments: Rural Poverty increased massively during the depression. Urban poverty, which was not a serious problem before the devaluation, became one in 1994, when real wages fell sharply in the formal sector and increasing numbers of job seekers joined the ranks of the informal sector. But little is known of what happened during the six years which followed the devaluation. In Côte d'Ivoire, the only CFA country where the evolution of poverty is documented with household surveys, the proportion of households falling below the poverty line increased from 11 percent in 1985 to 37 percent in early 1995 before declining to 33 percent in 1998. In other countries, e.g., Cameroon, poverty increased even more dramatically during the depression. From 1993 to 1998, the terms of trade improved in favor of agriculture and agricultural production increased by about 5 percent a year, which suggests that average agricultural income increased; but there is no household survey to test this hypothesis.

Poverty assessments were relevant and they drew public attention to the poverty problem; but their efficacy was limited because they were not sufficiently action oriented and they were not well integrated into the overall country strategy. Since the majority of the poor live in rural areas, a rural development strategy should be the corner stone of the poverty reduction strategy papers (PRSP).

Primary Education. Although countries in the western part of the CFA zone (WAEMU) devoted a large share of their budget to education, enrollment rates in primary schools and adult literacy remain lower than in other countries with comparable per capita income. In part, this anomaly reflected the high cost of teachers. Education budgets went to pay teachers, leaving no resources to pay for all other educational inputs. Until 1993, teachers wages exceeded ten times per capita GDP; the ratio was more than three times as large in WAEMU as in the rest of Africa. After the devaluation, the ratio declined, which permitted to raise enrollment rates without increased budgets. The Bank was late in focusing on teacher costs, but it recently organized a series of workshops on the issue with representatives of parent associations, teachers unions and government officials. In the part of the zone located in central Africa (CAEMC), the evolution has been even more disappointing. In Congo (Brazzaville) and Cameroon, which had virtually reached universal primary education in the early 1980s, quality of teaching deteriorated and enrollments rates declined in the last decade.
Basic Health Services. Post-devaluation, the health services picture remains mixed. On the one hand, the introduction of generic drugs made possible by the Bank and other donors was a success, and the Bank is now launching a vigorous campaign to contain the spread of HIV. On the other hand, the delivery of basic health services in government centers did not improve in spite of greater external assistance, and half of Bank commitments to the health sector are presently at risk. The Bank, as many other official donors, devoted most of its attention to the government sector, while the share of this sector in the total delivery of health services was declining. The Bank should concentrate its efforts in areas where it has comparative advantages over other donors, e.g. establishing appropriate links between the private and the public health sub-sectors and between the health sector and the rest of the economy.

Regional Integration: The Bank followed a regional approach to restructure the WAEMU banking sector in the late 1980s. This led to a study of the competitive position of the entire CFA zone and to the preparation of contingency programs to support the expected devaluation. The regional approach has become relevant again. After the devaluation, CFA countries decided to harmonize their economic policies and each monetary union was transformed into an economic and monetary union (WAEMU and CAEMC). The WAEMU treaty was ratified by all member countries in August 1994 and the CAEMC treaty in June 1999. The Bank and the Fund, in close cooperation with the EU and France, assisted the CAEMC secretariat in designing the major tariff and tax reform implemented in 1994. They advised the WAEMU commission in the establishment of a common external tariff (which is in place since January 2000) and on other aspects of trade policies. They have also assisted the commission in harmonizing indirect taxes, formulating a competition policy and designing a common investment code (which has not yet been ratified). Moreover, IDA and IFC assisted WAEMU in establishing a regional stock exchange. The Bank is now involved in some sectoral issues; notably, telecommunications and power interconnections. Sectoral policy reviews at the regional level could be expanded to cover social sectors. They would provide an opportunity to know what works and what does not in countries with similar structures and to understand why.

To follow a more comprehensive approach without additional—or in some cases with shrinking resources—the Bank has to become more selective. This requires a better allocation of tasks and closer cooperation among development partners. To this end, the Bank should be ready to follow the lead of other institutions in selected fields.
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Louis Goreux was the Task Manager and the author of this report. Oliver Rajakaruna conducted most of the statistical work; he was assisted by Dinara Seijaparova and Keith Troung. Annex Tables: A1-A8, C1-C17 and Technical Notes are available upon request.
1. Changing Economic Fortunes

Overview

1.1 The CFA zone consists of 14 countries\(^1\) with a total population of 100 million. The 14 countries share the same currency, the CFA\(^2\), which is at fixed parity with the FF. Since 1948, this parity was modified only once, in January 1994, when the currency was devalued from CFAF50 to CFAF100 per FF. The creation of the euro five years later did not affect the parity between the CFA franc and the French franc; the CFA franc became linked to the euro which is equivalent to CFAF656 and FF6.56.

1.2 The CFA arrangement differs from usual currency boards in several respects. First, CFA countries have to keep at least 65 percent of their foreign exchange reserves with the French Treasury. In exchange, the latter provides an overdraft facility which is, in principle, unbounded but, in practice, is not since monetary policies have to be tightened when the reserve position deteriorates. Second, with 13 countries sharing the same currency, a devaluation was a complex operation requiring the consensus of 13 Heads of State. Third, when the devaluation occurred, CFA countries decided to harmonize their economic policies and monetary unions became economic and monetary unions.

1.3 The CFA arrangement induced a monetary and fiscal discipline from which CFA countries benefited until the mid-1980s; from 1970 to 1985, growth of per capita GDP was higher in CFA than non-CFA countries.\(^3\) When the terms of trade deteriorated in the second half of the 1980s, the parity with the French franc remained unchanged and the CFA franc became overvalued. It led to the erosion of the competitive position of the zone and the 1987-93 depression was more severe in CFA than non-CFA countries. CFA countries were then penalized by the delay in adjusting the currency. During the post-devaluation period (1994-98), GDP growth was higher in CFA than non-CFA countries. But, in spite of the post-devaluation recovery, poverty remains much more widespread today than it was in 1985.

\(^1\) The analysis covers only 13 countries. It excludes Guinea-Bissau which joined the CFA zone in 1997.
\(^2\) FCFA for "Franc de la Communauté Financière Africaine" in WAEMU and "Franc de la Coopération Financière en Afrique Centrale" in CAEMC. CFAF: African Financial Community Franc, or Central African Financial Cooperation Franc. Comoros is not covered in this study, its currency is the "franc comorien" (CM) with a fixed parity of CM75 per FF since 1994.
\(^3\) Nigeria and South Africa were excluded to avoid distorting group averages. Eritrea, Liberia, Namibia, Somalia and Sudan were also excluded for lack of reliable data.
Box 1.1: The CFA Zone

The zone is divided into two groups. The eight countries of the Western African Economic and Monetary Union (WAEMU) share a common central bank (BCEAO). The six other countries, which constitute the Central African Economic and Monetary Community (CAEMC), share another central bank (BEAC). Each central bank issues its own currency and the two currencies are not convertible between each other, although each is convertible with the French franc at the same parity rate.

In January and March 1994, treaties transforming the monetary unions into economic and monetary unions were signed; acronyms WAMU and CAMC were then replaced by WAEMU and CAEMC. The WAEMU treaty was ratified in August 1994, but the CAEMC treaty was ratified only in June 1999. The number of CFA countries increased from 11 to 12 when Mali joined WAEMU in 1984, from 12 to 13 when Equatorial Guinea joined the CAEMC in 1985 and from 13 to 14 when Guinea-Bissau joined the WAEMU in 1997. In assessing the special features of the CFA zone, a comparison is made between 13 CFA countries and 28 non-CFA countries in Sub-Saharan Africa (SSA). Guinea-Bissau is excluded from the first group because it joined the CFA zone too recently. Seven countries are excluded from the second group: South Africa and Nigeria which account together for 40 percent of SSA's GDP are excluded to avoid distorting group averages; Eritrea, Liberia, Namibia, Somalia and Sudan are also excluded due to the lack of reliable statistics. None of the seven countries excluded received substantial financial assistance from the World Bank in the 1990s. Since 1994, 36 of the 41 sample countries are eligible only to IDA; 4 countries (Botswana, Gabon, Mauritius and Seychelles) are eligible only to IBRD and Zimbabwe is blend.

In the CFA zone, merchandise exports account for one third of GDP and primary commodities for 90 percent of export values. Petroleum exports are insignificant in WAEMU, but they account for about two thirds of total exports in CAEMC and exceed 80 percent in three countries (Congo, Equatorial Guinea and Gabon). In 1998, Côte d'Ivoire and Senegal accounted for 59 percent of WAEMU's GDP, while Cameroon and Gabon accounted for 72 percent of CAEMC's GDP. The ratio of per capita GDP between the richest and poorest country in 1998 was 3 to 1 in WAEMU (Côte d'Ivoire versus Niger) against 20 to 1 in CAEMC (Gabon versus Chad). Moreover, political stability has been greater in WAEMU than in CAEMC where two countries (Congo and CAR) were recently in conflict.

1.4 For the CFA zone as a whole, what was gained in the 1970s was lost during the 1987-93 depression and real GDP per capita is hardly higher today than it was thirty years ago. This is not much of an achievement, even if the 13 CFA countries did slightly better than the 28 non-CFA countries (Table 1.1). This poor performance was partly due to high population growth. The sharpest fall in per capita GDP from 1980 to 1998 was recorded for Niger which became the CFA country with the lowest per capita income. Niger was also the CFA country with the highest annual rate of population growth (3.3 percent in 1980-97 and 3.1 percent projected for 1997-2015) and the highest fertility rate (8.1 percent in 1978 and 6.8 percent in 1998). At the other end of the spectrum, Côte d'Ivoire is the CFA country with the largest decline in fertility (from 7.4 in 1978 to 5.1 percent in 1998) and for which the largest reduction in population growth is projected by the Bank (from 3.2 percent in 1980-97 to 1.7 percent in 1997-2015).

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4 A population project in Niger had been approved by the Bank in 1992, but it was closed with 42 percent of the credit cancelled, outcome rated unsatisfactory, sustainability unlikely and institutional development impact negligible. Although the potential for economic growth appears more bleak in Niger than in any other CFA country, there is no new population project in the pipeline.
1.5 The growth pattern reflected to a large extent the fluctuations in export prices expressed in CFA franc (Figures 1.1 and 1.2). The main discrepancy between the growth pattern of the two sub-regions occurred in the first half of the 1980s when GDP was booming in CAEMC because of favorable oil prices. From 1980 to 1986, real GDP per capita increased by 42 percent in Cameroon while it declined by 13 percent in Côte d'Ivoire which was adversely affected by the fall in cocoa prices (Table C7.1). But high growth in Cameroon was followed by a dramatic fall. By 1990, GDP per capita in Cameroon was back to its 1980 level; by 1993, it was 14 percent below. Government revenue fell even more steeply, which led to the virtual collapse of government services. After having been one of the African countries with the best education and health systems in the early 1980s, Cameroon became one of the countries with the worst record among countries with comparable income levels.
Figure 1.1: Index of Deflated Export Prices of CFA Countries in US$ and CFA,
1970-00 (100=1991-93)

*US$ deflated by the MUV G5 Index, CFAF deflated by the CPI for the CFA zone (see Annex Table C6)

Fig. 1.2: GDP per capita of WAEMU, CAEMC and CFA Growth Rates (in percent per year)

Table 1.1: Growth in Real GDP per capita 1971-98 (average annual percentages)

<table>
<thead>
<tr>
<th>Country group</th>
<th>71-80</th>
<th>81-86</th>
<th>87-93</th>
<th>94-98</th>
<th>71-98</th>
<th>99-00</th>
</tr>
</thead>
<tbody>
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<td>(1.1) WAEMU</td>
<td>0.8</td>
<td>-1.7</td>
<td>-1.4</td>
<td>2.1</td>
<td>-0.1</td>
<td>1.1</td>
</tr>
<tr>
<td>(1.2) CAEMC</td>
<td>2.6</td>
<td>2.3</td>
<td>-4.5</td>
<td>1.8</td>
<td>0.4</td>
<td>-0.7</td>
</tr>
<tr>
<td>(1)=(1.1)-(1.2) CFA</td>
<td>1.7</td>
<td>0.0</td>
<td>-2.8</td>
<td>1.9</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>(2) Non - CFA</td>
<td>-0.6</td>
<td>-1.1</td>
<td>-0.9</td>
<td>1.2</td>
<td>-0.3</td>
<td>..</td>
</tr>
<tr>
<td>(1) - (2) CFA-Non-CFA</td>
<td>2.3</td>
<td>1.1</td>
<td>-1.9</td>
<td>0.7</td>
<td>0.7</td>
<td>..</td>
</tr>
</tbody>
</table>

Source: IMF; See Annex Tables C 7.2 and C 7.4
1.6 Sharp fluctuations in prices of key exports had an adverse effect on long-term growth, because in good years governments took advantage of their newly gained creditworthiness to borrow more from abroad. When export prices fell, governments could not borrow anymore, had to cut spending, and eventually began to accumulate arrears. In order to examine the interaction between exogenous factors (world commodity prices) and endogenous factors (policy variables), a distinction is made between four periods: (i) high growth in the entire zone through 1980; (ii) stagnation in WAEMU, but rapid growth in CAEMC in 1981-86; (iii) depression in the entire zone in 1987-93; and (iv) post-devaluation recovery in 1994-98.

Growth through the 1970s

1.7 In the two decades following independence, growth was higher in CFA than in non-CFA countries. Among WAEMU countries, Côte d'Ivoire had the highest growth. It followed an export oriented policy and adopted fairly liberal economic policies welcoming direct foreign investment and immigrants from neighboring Sahelian countries. By the late 1970s, Abidjan had become a center of attraction for the sub-region. By 1980, per capita GDP was 160 percent higher in Côte d'Ivoire than in Ghana, while Ghana had a higher per capita GDP than Côte d'Ivoire until 1967.

1.8 The CFA zone benefited from a commodity boom in the mid-1970s, with the index of export prices (in deflated CFAF) more than doubling between 1972 and 1977 (Figure 2.1 and Table C6). Due to the fixed parity with the French franc, the commodity boom did not result in an appreciation of the nominal exchange rate, but it generated an euphoria which led to investment programs which were far too ambitious with poorly designed projects and to support public enterprises which later became money losers. When prices of commodities, other than oil, started to fall in the late 1970s, most governments avoided trimming their investment programs by borrowing from international money centers which were anxious to recycle the oil money. Euphoria was even greater in CAEMC than in WAEMU. Oil production was increasing rapidly in Gabon, Congo and Cameroon, while oil prices more than doubled in 1979.

1.9 What did the Bank do during this growth period? Agriculture and infrastructure received 83 percent of Bank commitments (Table C15) and outcome was rated satisfactory by OED for 80 percent of the investment projects made in these sectors. Taking all projects approved by the Board by FY80, WAEMU had a better rating than non-CFA countries for outcome, sustainability and institutional development; CAEMC had the best rating for outcome, but the lowest rating for sustainability and institutional development. The Bank impact was limited as it did not succeed in convincing the authorities to cool down their overheated economies. In 1975, the Bank told Côte d'Ivoire that the public investment program was too ambitious; but the remark was not well received and, when cocoa and coffee prices surged in the next two years, the Bank

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5 The period 1980-85 could have been chosen to reflect the turning point in commodity prices. But the period 1981-86 was selected to reflect the lagged impact of price changes on GDP growth.
6 World Bank Atlas method.
was criticized for being too pessimistic. The IMF Article IV consultation mission to Côte d’Ivoire advised the authorities to sterilize part of the windfall gain from the commodity boom in order to contain inflation, but the government ignored the advice.

Stagnation in WAEMU, High Growth in CAEMC: 1981-86

1.10 The expectation of a strong commodity price recovery provided the rationale for heavy external borrowing in the late 1970s. But prices did not recover and the burden of the rapidly growing external debt was compounded by the sharp increase in interest rates, which led to the debt crisis. In order to service their external debt, governments accumulated domestic arrears. Following Fund and Bank advice, Côte d’Ivoire announced its intent of rescheduling its debt due to Paris and London Club creditors in December 1983. By 1986, all WAEMU countries other than Burkina Faso had rescheduled their external debts after adopting adjustment programs supported by the IMF.

1.11 The Bank responded to the crisis by increasing its financial assistance and shifting from investment to adjustment lending. Annual Bank disbursements to WAEMU countries quadrupled from 1975-81 to 1982-84 with two-thirds of the 1982-84 disbursements in the form of adjustment lending, compared with less than one-fifth in the rest of Sub-Saharan Africa. The rationale behind this shift was that even well conceived projects would not flourish in a poor policy environment and that policy changes were needed.

1.12 The adjustment programs supported by the Fund and the Bank contributed to strengthen budgetary discipline. In Côte d’Ivoire, the surplus of the marketing board was transferred to the budget starting in 1983 and the deficit of the central government fell to 4 percent of GDP in 1983 from 13 percent in 1980. The rescheduling of the external debt in 1984-86 provided some breathing space to the Ivorian economy and GDP annual growth turned from minus 2.3 percent in 1983-84 to plus 4.2 percent in 1985-86 (Table C7.1). Senegal rescheduled its Paris Club debt five times over the 1981-86 period, and its fiscal and economic situation improved considerably from 1982-83 (Table C8).

1.13 For WAEMU as a whole, the annual growth rate of real GDP rose from minus 2.4 percent in 1983-84 to plus 4.7 percent in 1985-86 (Table C7.1) and it was thought that adjustment had worked. But the extent of true structural adjustment was limited; in particular, restructuring of public enterprises was not successful, although it was supported by large Bank lending. The resumption of economic growth was largely due to temporary improvements in external factors: a modest increase in export prices, a

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7 The authorities of WAMU countries were not alone in expecting a price recovery. The Bank forecast was for a 15 percent increase in the dollar price of cocoa from 1980 to 1982. But in fact, prices fell by one third.
8 Interest rates of most commercial loans were based on the six-month LIBOR, which rose from 6.1 percent in 1977 to 12.1 percent in 1979 and peaked at 16.9 percent in 1981.
9 From 1982/83 to 1986/87, the budget deficit (before grants) fell from 8.8 percent to 2.6 percent; the external current account deficit (before grants) fell from 18.4 percent to 11.3 percent and inflation (as measured by consumer prices) fell from 14.5 percent to 0.2 percent. These improvements were associated with higher growth. Annual average GDP growth rose from minus 0.7 percent in 1983/84 and 1984/85 to plus 4.2 percent in 1985/86 and 1986/87 (Table C8).
depreciation of the French franc in relation to the US dollar through early 1985 and an increase in external assistance, particularly through rescheduling of the external debt.

1.14 **CAEMC: High Growth through 1985:** The first half of the 1980s was a great time for oil countries. With the rapid expansion of oil production and favorable prices, the combined GDP of Cameroon and Congo (Brazzaville) increased at 10 percent a year on average. From 1979 to 1985, government oil revenues expressed in current CFA francs increased ten fold in Congo. With such a strong increase in oil revenues, the oil countries did not need budgetary assistance and were not receptive to Bank policy advice.

**Depression in WAEMU and CAEMC: 1987-93**

1.15 During the first half of the 1980s, the oil countries in CAEMC had everything working for them. But, in 1986-89, the same countries had everything working against them (stagnating oil production, falling dollar prices for their exports and sharp appreciation of the CFA franc in relation to the dollar). With oil prices falling by 55 percent in dollar terms from the last quarter of 1985 to the second quarter of 1986, Congo and Gabon adopted a Fund supported program and rescheduled their Paris Club debt before the end of 1986, while Cameroon waited for two more years before doing the same. The annual GDP growth of CAEMC fell from plus 6.8 percent in 1984-85 to minus 3.3 percent in 1987-88 (Table C7.1).

1.16 In WAEMU, the 1985-86 gains were short-lived. A strong appreciation of the CFA franc was aggravated by the fall in export prices valued in dollars. In May 1987, Côte d’Ivoire suspended payments to Paris and London Club creditors and normal relations with these creditors were not restored until the devaluation. By 1987, the entire CFA zone was in crisis. Within three years (from 1985 to 1988), export earnings in real terms fell by half in Côte d’Ivoire and two-thirds in Cameroon. The financial situation was aggravated in Cameroon by a political disobedience campaign linked to the 1992 presidential election; government revenues expressed in real terms and on a per capita basis fell by 60 percent from 1985/86 to 1993/94.

1.17 CFA countries were not alone to suffer from deteriorating terms of trade. When Indonesia and Malaysia, as well as neighboring Ghana and Nigeria, felt the squeeze, they reacted aggressively by depreciating their currencies. But the parity between the CFA and the French francs remained unchanged and the real effective exchange rate of the zone (REER) appreciated while the terms of trade were deteriorating, worsening the competitive position of the zone. Tariff and non-tariff barriers could not prevent illegal imports, which became more attractive. Unable to compete with imports, the formal sector was shrinking. In an attempt to offset the reduction in the tax basis, governments raised tax rates, which drove more enterprises to the informal sector.

1.18 Public revenues were shrinking, but the wage bill was not. As a result, the public wage bill rose in Cameroon from 25 percent of government revenues in 1985/86 to 63 percent in 1992/93; for the WAEMU as a whole, the public wage bill reached 69 percent of government revenues in 1993. As treasuries became unable to borrow, non-wage expenditures were cut to the bone and governments accumulated payments arrears. Government’s suppliers which were not paid on time became unable to service their
loans, which led to a sharp increase in the share of non-performing loans in Bank portfolios. What started as government arrears ended up as losses for the banks, government-owned banks in particular. By the end of 1987, state owned banks had become bankrupt and WAEMU was on the eve of a banking crisis. The most serious problems were in Côte d'Ivoire, Senegal and Benin which called the World Bank for help.

1.19 Instead of proceeding on a piece meal basis country by country, the World Bank decided in January 1988 to conduct a study covering the entire sub-region. After finding that non-performing loans in the sub-region accounted already for one fourth of total credits, the Bank proceeded to a thorough analysis of the factors responsible for the accumulation of non-performing loans. The study concluded that new money should not be injected in the system before implementing a number of specified changes in credit policies and bank regulations. The Bank study was used as the basis for thorough policy discussions at the sub-regional level with IMF, BCEAO and France, before coming to implementation at the national level. Most of the reforms initially recommended by the Bank were adopted by the seven Heads of State in September 1989. The Financial Structural Adjustment Loan (FSAL) with Senegal was cofinanced by France and the United States; it became effective in December 1989, while the FSAL with Côte d'Ivoire became effective only twenty-seven months later. In spite of this delay, the health of the WAEMU banking sector had been restored before the devaluation. This was not the case in CAEMC; an attempt to restructure the banking system of Cameroon was made in the early 1990s, but it was unsuccessful.

1.20 The WAEMU banking study was the first important study conducted by the Bank at the regional level and it led to an assessment of the competitive position of the entire CFA zone. But, in view of the sensitivity of the parity issue, the new study had to be conducted with great discretion. A confidential study conducted by the Africa Region concluded in March 1988 that a devaluation was unavoidable and that the parity had to be changed from CFAF50 to CFAF100 per FF. In an internal memorandum, it was argued that the Bank should refrain from extending budgetary assistance before the devaluation, since the cost of servicing a Bank loan would double in CFA francs after the devaluation while government revenues would not increase as much. The issue was of particular importance to the four countries not eligible to IDA, which accounted together for over half of the combined GDP of the CFA zone. This recommendation could not be implemented and in 1989, IBRD committed US$150 million to Cameroon and US$250 million to Côte d'Ivoire in the form of adjustment lending.

1.21 The authorities of many CFA countries were initially fearful of a devaluation which was visualized as a jump in the unknown. But perceptions evolved progressively as it became clear that the "internal adjustment strategy" was not working. In particular, an increasing number of governments were becoming unable to pay their civil servants on time, which was a source of civil unrest. Finding a date for the devaluation which would be acceptable to each of the 13 countries was not easy, since Heads of State did

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10 The outcomes of the two FSALs were rated as satisfactory by OED, although the common wisdom was to provide a financial adjustment loan only when the macroeconomic framework was satisfactory, which was not the case since the exchange rate was overvalued.
not want the devaluation to occur shortly before presidential elections. Presidential elections were held during the last quarter of 1992 in Cameroon and during 1993 in Senegal and Gabon. Then, Ivorian President Houphouet Boigny fell sick and died in December 1993.

**Post-Devaluation Recovery 1994-98**

1.22 The devaluation occurred in January 1994. It was delayed, but it was well prepared. Since the immediate effect of the devaluation was to double the cost of servicing the external debt in CFA francs, additional debt relief was needed quickly; without it, the servicing of the public external debt would have exceeded 80 percent of government revenues in half of the countries. Within the two weeks which followed the devaluation, France cancelled the remaining part of its ODA debt to the poorest CFA countries and half of it to the others. Within the three months following the devaluation, six CFA countries rescheduled their debt to the Paris Club under special terms. For the year 1994 as a whole, the 13 CFA countries obtained a debt reduction equivalent to 22 percent of their combined GDP. In addition, they received special financing assistance equivalent to 4.9 percent of GDP (of which 2.2 percent from the Bank, 1.3 percent from France and 1.2 percent from the Fund), and project aid equivalent to 4.2 percent of GDP.

Figure 1.3: Distribution of CFA Countries by Level of Real Annual GDP Growth Rate
below 3 percent, between 3 and 5 percent, and above 5 percent, 1991-99

1.23 The CFA devaluation was a success. The macroeconomic objectives which had been set in January 1994 for 1996 were reached for the zone as a whole, with WAEMU doing a bit better than CAEMC and Côte d'Ivoire doing the best. For the zone as a whole, the annual growth rate of real GDP turned from minus 0.2 percent in 1990-93 to
plus 4.4 percent in 1994-98 (Figure 1.3). The improvement was not limited to GDP growth. It affected all key macroeconomic indicators and provided a textbook example of what can be achieved with a successful devaluation (Table C9).

1.24 The CFA devaluation was successful because it had been thoroughly prepared. Contingencies plans had been drawn up far in advance and updated year after year. Most of the measures which had been programmed were applied, even if delays occurred in a number of countries. In particular, governments used considerable restraint in raising the nominal wages of public servants which was essential to restore the budget equilibrium and the competitive position of the zone. Because wage increases in the formal sector were successfully contained, inflation remained within the original program targets. While the value of the FF had doubled in relation to the CFAF in January 1994, the cost of living differential with France increased by only 47 percent in WAEMU and 55 percent in CAEMC from 1993 to 1997. As a result, the real effective exchange rate (REER) depreciated by about one-quarter, which was the original objective of the devaluation.

1.25 Profitability improved in several import substitution industries with low import content, but the main gains were in the export sector. With improvements in the dollar prices of commodities other than oil in 1994 and 1995, export prices valued in CFAF more than doubled, while labor costs increased only moderately. The export sector became very profitable and its share in GDP rose from 25 percent in 1993 to 35 percent in 1995. The supply response was strong and the ratio of domestic savings over GDP almost doubled in CFA countries from 1991-93 to 1994-98 (Table C9). A number of public enterprises became profitable and were privatized, which had the effect of raising government revenues, direct private investment and capital inflows. Moreover, private capital inflows were reversed in several WAEMU countries, because nationals living abroad took the opportunity to build houses in the CFA zone which generated a strong real estate recovery in Côte d’Ivoire and Senegal. But most capital inflows were associated with privatizations.

1.26 The Bank played an important role in promoting privatization by inducing governments to create an environment more friendly to the private sector and reducing production costs through greater competition. Some steps in this direction had already been made before the devaluation, especially in Côte d’Ivoire where committees had been set up, with representatives of the public and private sectors, to consider ways of improving productivity. This may be one of the reasons why privatization progressed more rapidly in Côte d’Ivoire than in Cameroon. Throughout the zone, there is a broad recognition that the Bank played a useful role by helping to create an environment in which privatization could proceed in a fair and transparent manner.

1.27 The banking system in Cameroon was successfully restructured in 1996 after the failed attempt of 1991. By 1997, the banking system of the CFA zone had generally

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1 Out of 13 CFA countries, the number of those with an annual growth rate in excess of 3 percent rose from 2 in 1993 to 10 in 1995 and 12 in both 1996 and 1997. The number of countries with a growth in excess of 5 percent rose from 1 in 1993 to 9 in 1998. The annual growth of per capita GDP was 2.2 percentage points lower in CFA than non-CFA countries in the three years preceding the devaluation. But, in the five years following it, growth was 0.7 percentage point higher in CFA than non-CFA countries.
become liquid and profitable. What had been a vicious cycle before the devaluation became a virtuous cycle afterward.

1.28 **WAEMU initially Benefited from Favorable Exogenous Factors.** The rapid economic recovery in Côte d'Ivoire and, to a lesser extent, in other WAEMU countries was partly due to an improvement in terms of trade. From 1993 to 1995, the terms of trade of Côte d'Ivoire improved by 33 percent and those of WAEMU as a whole by 15 percent, while the terms of trade of CAEMC improved by only 2 percent. Moreover, Côte d'Ivoire did not suffer from the increase in energy prices as did Burkina Faso, Mali and Senegal which were highly dependent on oil imports. Half of the Ivorian power consumption was generated from hydro, and following recent gas discoveries, the remainder was derived from domestically produced gas. In recent years, Côte d'Ivoire has been exporting power to neighboring countries. The Togolese economy, which had suffered from severe political unrest in 1992 and 1993, strongly recovered in 1994; but the recovery was interrupted by renewed political problems following the contested 1998 presidential elections. Among CFA countries, Côte d'Ivoire had the fastest recovery, but it benefited from favorable exogenous factors and was probably the country best prepared for the devaluation.

1.29 Recovery was slower in CAEMC than in WAEMU, partly because oil prices fell in the first half of 1994; but CAEMC was catching up with the late 1996 price increase, until oil prices fell sharply in 1998. GDP growth in oil countries was also affected by changes in the volume of oil production; the extreme case was Equatorial Guinea, a country with population under half a million, where real GDP more than doubled from 1996 to 1998 because of major oil discoveries. The slower recovery in CAEMC also reflected the poor quality of governance in several countries and internal conflicts in CAR and Congo.

1.30 **The Public Wage Bill Requires Attention.** The WAEMU public wage bill fell from 69 percent of tax revenue in 1993 to 39 percent in 1997. Public sector employment increased only slightly and the average wage of civil servants declined in relation to per capita GDP, while tax revenues grew faster than GDP. The purchasing power of civil servants fell substantially which induced corruption, as civil servants looked for means of compensating for the loss in their real wages. The problem was particularly acute in the judiciary system. It was at its worst in Cameroon, where nominal wages, which had been cut by half in 1993, were not raised before February 1997 in spite of the inflation induced by the devaluation.

1.31 One lesson which can be drawn from the experience of the CFA countries is that reducing nominal wages of civil servants can be counterproductive. It was attempted in Côte d'Ivoire and Senegal, but the measure had to be rescinded soon after being enacted. In Cameroon, cutting nominal wages in 1993 had disastrous effects on the morale and the productivity of the civil service. Reducing the size of public service would have been another option for reducing the public wage bill; but it was politically and socially difficult to dismiss public servants in the midst of a depression when urban unemployment was increasing. It was possible to reduce real wages substantially in the context of the 1994 devaluation, because people were used to a stable currency; but it was a traumatic experience and a new devaluation may not have the same effect. Several CFA countries
were able to reduce the teacher wage bill after the devaluation without generating social unrest by recruiting new teachers at lower pay and grand-fathering old teachers.

1.32 The Situation is Fragile. Commodity prices are volatile and CFA countries remain highly dependent on few primary commodity exports. Petroleum and timber account for 93 percent of the combined exports of Congo, Gabon and Equatorial Guinea. Cotton fiber, livestock on the hoof and gold account for three quarters of the combined export earnings of Burkina Faso and Mali. Cocoa and coffee account for 40 percent of the export earnings of Côte d’Ivoire which was adversely affected by the recent fall in the prices of these two commodities. As dollar prices fell by 40 percent for cocoa and 45 percent for coffee from December 1998 to March 2000, annual growth in per capita GDP in Côte d’Ivoire fell from 2.1 percent in 1997 to 0.2 percent in 1999 and may even fall further in 2000. In CAEMC, the oil price fall in 1998 was compounded by special problems in Gabon; as a result, the net foreign assets of the sub-region declined sharply from December 1997 to March 1999 and growth in per capita GDP growth fell from plus 2.8 percent in 1997 to minus 2.2 percent in 1999. But, with the sharp oil price increase in 1999, CAEMC’s per capita GDP growth is expected to improve in 2000.

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12 Excessive public spending before the 1998 presidential elections was followed by a sharp decline in 1999, which generated a depression. These developments were aggravated by a progressive decline in oil production, which raises serious problems for the medium-term. Real per capita GDP fell by about 8 percent in Gabon in 1999, which partly explains the 2.2 percent decline estimated for the CAEMC average in that year.
2. Selected Social Issues

Poverty

2.1 In Côte d'Ivoire, where the evolution of poverty is best documented, the proportion of households below the poverty line increased dramatically during the depression, rising from 11 percent in 1985 to 31 percent in 1993. It rose further to 37 percent in early 1995, but declined to 33 percent in 1998. Urban poverty, which was very limited before 1994, became a problem immediately after the devaluation with one quarter of urban households falling below the poverty line in 1995; but poverty declined substantially in Abidjan from 1995 to 1998.

2.2 During the depression, poverty increased even more dramatically in Cameroon than in Côte d'Ivoire, because the fall in per capita consumption was steeper. Half of the total population fell below the poverty line in 1994 and urban poverty became a major problem when nominal wages of civil servants were cut by half in 1993 without being adjusted for inflation before 1997. As quoted in the 1996 CAS: “While fewer than 1 percent of households in Yaounde (the political capital) and Douala (the economic capital) fell below the poverty line in 1983, more than 20 percent of households in Yaounde, and 30 percent in Douala, did so in 1993.”\(^\text{13}\) In the post devaluation period, the terms of trade improved in favor of agriculture and agricultural production increased by over 5 percent a year. This suggests that poverty declined in rural areas where 84 percent of the poor were located when the devaluation occurred; but, there is no household survey to test this hypothesis.

2.3 In CFA countries other than Côte d'Ivoire and Cameroon, the evolution of poverty cannot be documented by comparing household survey findings over time. But, in five of the ten countries for which recent data are available, more than half of the population was below the poverty line.\(^\text{14}\) By shifting the terms of trade in favor of agriculture, the devaluation reduced income disparities between urban and rural areas where most of the poor lived before the devaluation. The impact was not, however, the same in rural areas producing export crops and in those producing traditional foodstuff for domestic consumption, nor in the capital city and secondary towns. But these changes are not well documented and, even six years after the event, there is not enough statistical information to assess the impact of the devaluation on poverty.

2.4 The Bank's Poverty Assessments. Most poverty assessments in the CFA zone were of limited operational value and their findings were not generally well integrated in the overall strategy. Since the majority of the poor live in rural areas, a rural development strategy should be the corner stone of the new PRSP. But a number of CFA countries do not have a rural strategy, and considerable uncertainties remain on the basic

\(^{13}\) Paragraph 6 in “Country Assistance Strategy” 1/17/1996, Report 15275-CM.

\(^{14}\) Benin 15 percent (1994), Gabon 23 percent (1997), Togo 44 percent (1996), Burkina Faso 44 percent (1996), Guinea Bissau 49 percent (1994), Senegal 53 percent (1995), Mali 55 percent (1993), CAR 61 percent (1994), Niger 67 percent (1996) and Chad 78 percent (1997). The data are not always comparable among countries; thus, poverty incidence was probably underestimated in Benin because the survey was carried out during an exceptionally good harvest year.
data needed to formulate such a strategy: notably, the percentage of the population living in rural areas, the importance of migrations and the shares of rural income derived from agricultural and non-agricultural activities. Among the 40 economic and sector work reports (ESW) issued in FY98 which were reviewed by the Quality Assurance Group (QAG), poverty assessments received the lowest score, with only 43 percent found satisfactory against an overall 72 percent average. Moreover, of the four criteria rated by QAG, likely impact had also the lowest score (53 percent).  

2.5 Conducting consumption surveys among several thousands households is a costly and lengthy operation which could have been more efficiently exploited. Such surveys provide the data needed to calculate income-elasticities for various consumption items and the techniques for doing it are now well established. The econometric analysis can be conducted at low additional cost, provided it is programmed in the survey design. Better estimates of elasticity coefficients for food and non-food items would lead to better demand projections which are needed to formulate realistic long-term strategies for the agricultural sector. These coefficients could also be used to estimate changes in poverty in between large and expensive household surveys. The evolution in living standards of specific population groups could thus be derived from changes in the consumption of items which are highly income-elastic and for which consumption data are readily available.

2.6 The most effective way of helping the poor is to provide them with better employment opportunities, which requires better basic education and health services. CFA countries have to improve their scores in primary education and delivery of basic health services and the Bank has also to improve the efficacy of its assistance in these two fields.

Primary Education

2.7 WAEMU. Côte d'Ivoire devoted about 40 percent of its public budget and close to 8 percent of its GDP to education in the 1980s, which are among the highest ratios found anywhere. But, in the early 1990s, only one child out of two was attending primary school and one adult out of three was literate. This paradox reflected the abnormally high costs of teachers. In Côte d'Ivoire, the cost of a teacher in public primary school was equivalent to 13 times per capita GDP in 1992; if the same ratio were applied to the US today, a teacher would cost US$350,000 a year.

2.8 With enrollment in private schools accounting for only 10 percent of total enrollments in WAEMU, compared with 20 percent in non-CFA countries, the role of the private sector remains minor (Tables C3.1-C3.5). Public primary education is administered by the central government and, up to recently, all public school teachers were civil servants. Since primary education is a labor intensive activity, its cost is

15 "Quality of ESW in FY98, A QAG Assessment", 12/11/98.
16 Elasticities would relate to total expenditures and not to income which cannot be accurately recorded. Thus, consumption of a given item, say rice or sugar (expressed in terms of expenditure or physical quantity) would be related to total household expenditures. Beer and non-alcoholic beverages are highly income elastic and, in Côte d'Ivoire, their consumption levels are accurately known on a monthly basis with a breakdown between the capital city (Abidjan) and the rest of the country.
closely linked to the civil service pay scale which is much higher in WAEMU than in the rest of Sub-Saharan Africa. In terms of per capita GDP, the average cost of civil servants was three times that of non-CFA countries in 1993. Such a disparity occurred because, during the thirty years following independence, real wages of civil servants were eroded by inflation much more severely in non-CFA countries than in WAEMU where inflation was about the same as in France.

2.9 The differential in civil service salary scales was compounded in Côte d'Ivoire by the “deccrochage” of teachers’ salaries (Box 2.1). When the depression came, non-wage expenditures were cut to the bones, the teachers wage bill exceeded 95 percent of the current cost of primary education and the quality of education suffered. Housing allowances were progressively eliminated and teachers recruited after 1992 were remunerated according to the normal civil service pay scale (“raccrochage”). In spite of the decline in real wages following the devaluation, the wage bill remained too high to raise enrollments substantially and, when the government decided in 1996 to recruit assistant teachers at reduced pay, it received twenty applications for each position available. The gross enrollment rate rose from 65 percent in 1992 to 71 percent in 1996, while the share of the government budget devoted to education fell from 7.8 percent of GNP in 1987-93 to 5.0 percent in 1994-97.

Box 2.1: Why the Cost of Teachers was so High in Côte d'Ivoire

When Côte d'Ivoire became independent, President Houphouet Boigny treated education as “the priority of priorities” and the education system was designed to build an Ivorian elite comparable to that of developed countries as rapidly as possible, without regard to costs. In order to shorten the development path, the country imported a massive number of teachers during the twenty-five years following independence. Until 1975, over 90 percent of teachers were non-Ivorian. During the 1975-78 boom, students were not interested in teaching; they wanted a public enterprise job. When this outlet disappeared with the recession, the government’s response was to replace expatriate teachers by nationals. But Ivorian graduates asked for salaries comparable to those earned by the expatriate teachers they were replacing and most of their demands were met. Teacher salaries became so high that their pay scale had to be disconnected from the salary scale of other civil servants (“deccrochage”). In 1979, a high school teacher in the second cycle was paid US$17,000 at the prevailing exchange rate, which is the equivalent of US$32,000 today. Teachers in Côte d'Ivoire were paid virtually as much as in industrialized countries with per capita income more than ten times higher.

2.10 The case of Côte d'Ivoire was not unique. The cost of a primary school teacher expressed in terms of per capita GDP was even higher in Burkina Faso than in Côte d'Ivoire. In Senegal, universal primary education has been the objective since independence in 1960. The target date to achieve it was initially set at 1975, but the target date was repeatedly postponed and it is presently set for 2015. After rising from 43 percent in 1970 to 58 percent in 1986, the gross enrollment rate fell to 54 percent in 1993 while the share of government expenditures devoted to education rose to a peak of 33 percent. Since then, the average cost per teacher was reduced by introducing the assistant teacher position in 1993 and education volunteers in 1995 (Box 2.2); the enrollment rate rose from 54 percent in 1993 to 60 percent in 1997/98, while the budget share devoted to education did not increase.

2.11 Niger recruited volunteers with IDA support. Burkina Faso created satellite schools covering the first three years of primary education with locally recruited teachers.
receiving much lower pay. The experiment conducted with participation of local communities was promising and the proportion of girls attending these schools (48 percent) exceeded the national average. When governments of WAEMU countries advertised contractual teacher positions with remuneration much lower than those received by civil servants, the number of applications far exceeded that of the positions available, which shows that costs of teachers with civil service status was disconnected from the realities of the labor market in the early 1990s.

Box 2.2 Education Volunteers (EV) in Senegal

When the authorities became convinced that enrollment rates could not rise without reducing the average cost of teachers, they created in 1993 the assistant teacher position which required lower academic qualifications but carried lower pay. A Bank supported project (PDRH2) specified that assistant teachers should account for no less than 80 percent of new recruits. But, the most dramatic change occurred in 1995, when the government announced that, during each of the four following years, 1,200 education volunteers (EV) would be recruited under four-year contracts. EV received a CFAF50,000 monthly stipend, which represented only one third of the cost of regular teachers, but local communities were to provide them with housing facilities. Because most graduates were unable to find jobs at the time, 28 applications were received for each available position. Among those recruited, 22 percent had their “brevet” (which is required for teachers with civil service status), 65 percent had their “baccalaureat” and 12 percent had university degrees. According to surveys conducted among parents, EV’s performances were as good or better than those of regular teachers. By 1998/99, EVs accounted for nearly one fourth of the teacher population remunerated by the government and teachers in private schools for another 15 percent.

Public teachers unions were initially strongly opposed to the EV scheme, but the government succeeded in avoiding open conflicts. EVs appreciated a steady employment and the attrition rate was very low. Most felt, nevertheless, that they were underpaid and many were worried about their future after the expiration of their four-year contract. This fear was appeased when the government announced that those wishing to pursue a teaching career could do so.

2.12 The Bank Response. The Bank has been involved with education for a long time. The first education project in the CFA zone was financed in 1968 and education accounted for almost 9 percent of total Bank commitments to the zone through 1980. Performance, however, was not particularly good. OED ratings were lower for education than for other projects as regards outcome, sustainability and, especially, institutional development impact (Table C4). Already in the 1980s, the Bank advocated a shift of government resources from tertiary to primary education and an increase in the number of girls attending schools. In the early 1990s, the Bank emphasized the need to improve efficiency by reducing repeating and drop-out rates and by using more efficiently both teachers (two grades being taught simultaneously by one single teacher in areas with low population density) and classrooms (using the same classroom for one set of students in the morning and another one in the afternoon in areas with high population density). But the Bank was late in focusing on the problem of teachers’ salaries.

2.13 The seminal study was the 1992 public expenditure review in Burkina Faso, which presented alternative scenarios of the Burkinabe economy through 2011 highlighting the need to reduce teacher costs. The critical importance of teacher costs

expressed in terms of per capita GDP was emphasized by OED in 1997 and later by A. Mingat in a workshop organized by the Bank in February 1998 in Dakar with government officials and task managers of seven WAEMU countries. Similar workshops were held with teachers unions in Ouagadougou and with representatives of students' parent associations in Paris. This participatory approach extended to parents, teachers unions and government officials provided a better understanding of the nature of the problem by the various partners.

2.14 **CAEMC.** The problems in CAEMC were not the same as in WAEMU. Gabon, Congo and Cameroon had already virtually achieved universal primary education in the early 1980s, when private schools accounted for 35 percent of primary enrollments in Cameroon and Gabon. GDP rose rapidly through 1985, supported by significant oil discoveries, Governments shared part of the oil bonanza by recruiting more civil servants. Before the devaluation, the number of civil servants per thousand inhabitants was twice as high in CAEMC as in WAEMU; but the public wage bill measured as percentage of government receipts was hardly higher, because the average cost of civil servants was seven times GDP per capita in CEAMC instead of 14 in WAEMU.19

2.15 When the price of oil collapsed in 1986, public revenues fell sharply and governments became unable to pay their civil servants on time and to allocate subsidies to private schools. In Cameroon, where real public wages fell by two-thirds from 1985 to 1995, many teachers reduced the number of hours devoted to official duties and took jobs on the side to complement their government salaries. The quality of public education deteriorated and the gross enrollment rate fell from 112 percent to 81 percent in ten years. An increasing number of teachers in public schools had to be recruited and paid by parents; these teachers now account for some 30 percent of all public school teachers nation-wide and 60 percent in the poorest province. The government attempted to palliate the shortage of teachers by recruiting 1,600 assistant teachers under contract in 1996/97 and 3,200 more in 1997/98. The cost of contractual teachers was less than half of that of teachers with civil service status, but more than twice that of teachers recruited by parents. In spite of the huge wage differential between the three categories of teachers, the performance of those with higher pay was no better than that of those with lower pay according to surveys rating parent satisfaction. Bank staff spent three years in preparing an education project in Cameroon, but it encountered so many problems that it decided to drop the project in 1998. But Cameroon is now anxious to improve its image to qualify for the enhanced HIPC facility and the Bank is now supporting a scheme aiming at reducing corruption in the public education sector, which is highly relevant even if the chance of success is uncertain.

2.16 In CAR, school teachers outside Bangui were rarely paid on time in the three years preceding the devaluation and, in the middle of political unrest, primary schools

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18 See note 1 Annex B.
19 In 1993, the average cost of a civil servant was three times per capita GDP in Gabon, 5 times in Congo and six times in Cameroon, while it exceeded 10 in the two non-oil countries (CAR and Chad), raising to seven the CAEMC average. However, since the number of civil servants per thousand inhabitants was twice as high in CAEMC as in WAEMU, the public wage bills measured as percentage of government receipts were about the same in the two sub-regions. Table 17, page 60, "La Devaluation du Franc CFA, Un Premier Bilan Apres la Devaluation" by L. Goreux, World Bank, December 28, 1995.
remained closed for two full academic years (1991/92 and 1992/93). In Chad, which had the lowest enrollment rate of the sub-region at the end of an extended war period, the situation has been improving lately and the education projects supported by the Bank are now doing well. By contrast, the situation has been sharply deteriorating with the civil wars in Congo, which was the CFA country with the highest enrollment rate in the 1980s.

**Basic Health Services**

2.17 In the adjustment of the 1980s, the emphasis was placed on reducing the budget deficit, which often resulted in lower allocations to the health sector. This led to strong protests by NGOs and the United Nations Children’s Fund (UNICEF) which advocated in 1987 “Adjustment with a Human Face” and health became a top priority of the donor community in the 1990s. In spite of this new priority and higher economic growth, life expectancy at birth stagnated during the 1990s in Sub-Saharan Africa, while it had increased by 2.5 years during the 1980s (Table C5.1). The improvement in the 1980s was largely due to a decline in infant mortality, while the stagnation in the 1990s reflected the increasing prevalence of HIV which reduced the projected life expectancy at birth. According to World Health Organization (WHO) estimates, with only 10 percent of the world population, Sub-Saharan Africa accounts for 80 percent of AIDS related deaths worldwide.

2.18 Although HIV prevalence in CFA countries remains much lower than in Southern Africa it is rapidly increasing, notably in CAR, Côte d’Ivoire, Togo, Congo and Burkina Faso (Table C5.1). Experience shows that, once rates exceed seven percent as they already do in several CFA countries, HIV can spread very rapidly and reach catastrophic proportions within ten years. The epidemic was contained in some countries (such as Senegal and Uganda) because the authorities took the lead in launching a comprehensive communication campaign with large scale participation. But this has not yet occurred in several CFA countries with high HIV prevalence. The Bank joined the UNAIDS efforts in 1996 and launched a vigorous campaign to contain the HIV spread toward the end of 1999. But, in view of the complexity and magnitude of the task, the Bank should work very closely with the other agencies which can contribute to containing the HIV spread. An example of successful partnership was the introduction of generic drugs in the CFA zone.

2.19 At the time of the devaluation, it was feared that medicinal drugs would become unaffordable to the vast majority of the population, since virtually all drugs were imported. To prevent this the European Community, the Bank and other major donors combined their efforts to promote generic drugs, which had the same effect but were considerably cheaper. This was not an easy task, because generic drugs were virtually unknown in the CFA zone and because powerful lobbies were opposed to the import of generic drugs which were expected to reduce marketing margins. Thanks to this strategy, the cost of essential drugs hardly increased in CFA francs from 1993 to 1998 in most

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20 The promotion of generics in some CFA countries started in the early 1990s, but the devaluation provided a new impetus. The promotion campaign was officially launched in a meeting of the health ministries of the CFA countries held in April 1994 in Brussels.
CFA countries. This provides an example of successful partnership among donors (Box 2.3).

Box 2.3 Generic Drugs and Central Stores: Côte d’Ivoire, Burkina Faso and Mali

On the eve of the devaluation, many public health services were lacking essential drugs, because the government agencies responsible for importing the drugs were virtually bankrupt. The first step was to restructure the agencies administratively, financially (by clearing debts) and physically (by rehabilitating stores). The second step was to provide the seed capital needed to make the system financially viable by enforcing a cash-and-carry policy and financing two rounds of drug purchases. The first round paid for the initial stock of drugs and the second for the working capital needed to replenish the stock. By selling drugs with a small mark-up, health centers were expected to cover their current expenditures. The system was to become self-financing and it worked reasonably well along the lines of the “Bamako Initiative.”

In Côte d’Ivoire, which received strong support from the EC, sales by the government central store reached about US$21 million in 1998, of which 34 percent for generics, 22 percent for specialties, 18 percent for vaccinations and injections, 14 percent for small equipment, and 12 percent for other items. Metropolitan Abidjan accounted for about 40 percent of the sales. In spite of the devaluation, the cost of the package of essential drugs increased by only 13 percent in nominal terms from 1993 to 1998, which means that costs fell by some 25 percent in relation to the purchasing power of the population. In Burkina Faso, sales by the central store reached US$7 million in 1998 and the use of generics progressed rapidly; according to customs data, imports of generics rose from 8 percent of all drug imports in value terms in 1994 to 25 percent in 1997 and sales of generics by the private sector now exceed those by the public sector. The central stores have not been allowed to supply the “for profit” private sector, because it was feared that this sector would attempt to disrupt the scheme by acquiring the entire stock of generics. But the existing scheme is not without leakage and part of the drugs imported by the central store end up with the “for profit” private sector. The prohibition to sell to the “for profit” sector may have been justified in the initial stage, but this prohibition should be progressively removed and the central stores should ultimately be privatized.

In Mali, a parastatal (the “Pharmacie Populaire du Mali” PPM) retained a monopoly on the imports of medicine and pharmaceuticals through the early 1990s. After the system was liberalized in 1994 in the context of a Bank project, PPM started purchasing generics under international competitive bidding and the cost of the package of essential drugs declined in spite of the devaluation. According to a 1998 Bank report, generics accounted for a larger share of drug sales in Mali than in most other West African countries in 1997.

2.20 It was initially thought that public health service centers were poorly attended before the devaluation because patients were unable to get the drugs they needed. It was expected that, once drugs became available and centers rehabilitated, attendance would improve. But this did not happen. As a matter of fact, in several countries, attendance declined at public centers, while it increased at private ones. In Burkina Faso, attendance at public centers declined steadily since 1986. The decline was generally attributed to the poor quality of services delivered by government employees. Moreover, with the introduction of cost-recovery, the quality/price ratio moved against public centers.

2.21 In Mali, where the private practice of medicine was illegal until 1985, the percentage of the national budget devoted to health steadily declined from 9 percent in 1970 to 4 percent in 1987 and stagnated in the 5 percent range through 1994.²¹ Since public health services hardly existed in rural areas, health community centers came to fill up the vacuum. A federation of community health associations was created in 1994 and,

with the support of the Bank and other donors, 300 community health centers had been established by 1998. Attendance was greater at community centers than at those managed by the public administration. But community centers offered neither job security nor pension, which made it difficult to retain staff. Moreover, since salaries were determined by the communities, the staff was induced to work in the more prosperous areas where the pay was better.

2.22 In Côte d’Ivoire, the bright spot is the recent establishment of community health centers in the Abidjan metropolitan area. The head and treasurer of the centers were elected by the community and they were responsible for hiring the staff. Because attendance was much higher than in government centers, the authorities expressed interest in community centers. But a top-down approach may not be appropriate to replicate a successful experiment which started from the bottom. Moreover, the legal status of community centers remains ambiguous.

2.23 Cameroon is one of the CFA countries where the quality of public health services deteriorated most dramatically. Doctors employed in government centers consider that they are underpaid and they devote most of their energy in building up a private practice on the side. Although doctors are better paid in private centers, the cost per patient is lower because attendance is much higher.

2.24 The percentage of children immunized increased from 1992-93 to 1997-98 in 9 of the 13 CFA countries and in 8 of the 12 non-CFA counties for which data are available (Table C5.2). Among CFA countries declines were recorded in Congo, Gabon and Togo. Although improvement was, on average, greater in CFA than non-CFA countries, rates of immunization in 1997-98 remain lower in CFA countries. Immunization rates in 1992-93 were lower in CAEMC than in WAEMU and the differential widened in 1997-98. But changes in immunization rates have to be interpreted with great caution in view of discrepancies between different statistical sources.

2.25 Assistance by the Bank and Other Donors. While the first health project in CFA countries was financed only in 1983, during the last five years, Bank commitments have been higher for health than for education (8.1 percent of total commitments versus 5.7 percent, Table C15). This rapidly increasing involvement of the Bank was not without problems. As noted by OED (footnote 13), “The overarching recommendation of the review is that the Bank should seek to do better, not more.” “Paradoxically, Bank project designs were usually more complex —with a greater number of components and organizational units—in countries with weak institutional capacity.” Moreover, progress was often assessed in terms of inputs (budget share allocated to health or number of new public health centers), instead of results (increase in the number of visits to public health centers and in the percentage of the population vaccinated). In January 1999, the Bank had 13 active health projects in CFA countries and half of the amounts committed in these projects was at risk, compared with only one quarter for non-health projects (Table C16.3). By contrast, for the group of 28 non-CFA countries, the relative amounts at risk were about the same for health (31 percent) and non-health projects (30 percent).

2.26 The European Commission (EC) started financing health projects on a significant scale in 1987 and became more involved in 1990 with its new structural development facility. Health accounted for 36 percent of EC's total budgetary assistance to the CFA zone in 1991-97 and assistance for health increased by 42 percent (in current ECU) from 1991-93 to 1994-97. But the EC encountered implementation problems. In particular, during the course of a routine control in Côte d'Ivoire, the EC identified major leakage and decided, at the beginning of 1999, to interrupt disbursement of all budgetary assistance to the country, pending the implementation of appropriate corrective measures.

2.27 Donors did not adjust fast enough to the rapidly changing structure of the health sector. Through the early 1980s, basic health services were expected to be delivered essentially free of charge by the State and non-profit organizations. With the crisis, it became clear that the State did not have the resources to fulfill these expectations and the principle of cost-recovery became widely accepted. Because public health centers were not anymore free while the quality of services was generally lower than in private centers, attendance to public centers declined in many areas. The share of health expenditures financed by the State also declined; in Cameroon, it fell to 11 percent. In Mali, which is one of the poorest countries, 17 percent of health expenditures were covered by the State in 1997, 31 percent by donors and the remaining 52 percent by NGOs and households. In Côte d'Ivoire as in Mali, only 20 percent of doctors join the civil service after graduation, which means that the non-government sector is already the dominant one or soon will be. The State has to remain responsible for the provision of essential services which the private sector will not provide (such as reproductive health, vaccination campaigns, HIV prevention and services to the very poor). But these services do not need to be delivered by civil servants; they may be contracted to private agencies, if those are able to deliver services more efficiently. The State has to facilitate service deliveries by the private sector, while regulating private activities in the public interest. This requires basic changes in the training and the philosophy of health officials which will only occur progressively.

2.28 Since IDA resources are scarce and donors other than the Bank are increasingly interested in the health sector, the Bank has to concentrate on what it can do best. The Bank has no comparative advantage over NGOs and specialized agencies (such as WHO or UNICEF) in traditional health projects aiming at the delivery of specific health services. But it may have a comparative advantage in assisting governments in finding how the relationships between the public and the private health sectors should evolve. The attention of donors, Bank included, has been too narrowly focused on public sector deliveries and too little is known on the health sector as a whole.

2.29 With the new HIPC initiatives, savings from debt forgiveness have to be used to improve basic health and education. For this purpose, IMF and Bank programs often specify the increase in the budget shares which have to be devoted to these sectors; but such simple criteria can be misleading for two reasons. First, an increase in budgetary allocation does not mean that the money will reach the intended beneficiaries. Second,

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23 With the "Bamako Initiative", basic health services were to be delivered by public centers which were expected to finance most of their current expenditures through cost-recovery. The donor community was to provide the seed capital needed for current operations and the resources required to construct (or renovate) public health centers.
even if the resources reach the intended beneficiaries, public expenditures may not be used efficiently; what matters is achieving better results, not spending more money. To this end, the bank should assist governments in improving the collection and monitoring of basic social statistics. Better statistics are needed to assess the development effectiveness of public expenditures. The Bank should focus its attention on a small number of indicators which can be monitored.
3. World Bank Assistance

Financial Assistance from the World Bank and from other Sources

3.1 The following developments characterized the external financial assistance to the CFA zone since 1985:

3.2 (i) From FY85-88 to FY93, gross disbursements to the 13 CFA countries fell by 60 percent in relation to gross disbursements to the 28 non-CFA countries.

3.3 (ii) The World Bank accounted for a modest share of official development assistance (ODA) to CFA countries. During the period 1985-97, net disbursements by the World Bank (IDA and IBRD combined) to the 13 CFA countries accounted for 15 percent of net ODA disbursements from sources other than IDA, and net transfers for only 7 percent. France accounted for 41 percent, EC for 12 percent, Germany for 8 percent and Japan for 5 percent. The share of France increased throughout the crisis, rising from 28 percent in 1985 to 48 percent in 1993.

3.4 (iii) Even if official development assistance to the CFA zone increased during the crisis, the increase was much lower than the terms of trade loss. From 1985-86 to 1991-93, the 13 CFA countries gained 1.6 percent of GDP from external assistance, but lost 8.6 percent of GDP due to the deterioration in the terms of trade. During the same period, the 28 non-CFA countries gained 5.7 percent from external assistance and lost 3.4 percent on account of lower terms of trade, which resulted in a net gain equivalent to 2.3 percent of GDP. This partly explains why non-CFA countries did better than CFA countries during this period.

3.5 (iv) Net external transfers from all sources (official or private, concessional or not) to the CFA zone expressed as percentage of GNP doubled on an annual basis from 1990-93 to 1994, but declined sharply afterward (Figure 3.3). For the zone as a whole, net external transfers fell from 5.2 percent in 1990-93 to 3.3 percent of GNP in 1995-98; for Cameroon and Côte d'Ivoire net external transfers became negative in 1995-98. This is the context within which the Bank lending strategy has to be evaluated.

The Bank Lending Strategy

3.6 After recognizing the need for a devaluation in 1988, the Bank reduced its lending to CFA countries, but did not stop lending. One of the main purposes of Bank lending in 1988-93 was to provide debtor countries with the breathing space needed to
strengthen their repayment capabilities. But, since in 1987-93 the interest rate on the new debt exceeded the growth rate of export earnings the problem only worsened. For Paris Club creditors, this led to repeated re-schedulings and a series of debt reduction initiatives with terms becoming progressively more generous (Toronto 1988, Houston 1990, Naples 1993, HIPC 1997 and EHIPC 1999). For the World Bank, it led to the repayment of the IBRD debt by IDA credits.

3.7 Stopping new lending would have led to large net transfers to the World Bank from Cameroon and, especially, from Côte d’Ivoire (about 2.5 percent of GDP) precisely when they were suffering enormous terms of trade losses. This did not appear right for a development agency and it could have raised the risk of default. But committing US$1.5 billion to Côte d’Ivoire and Cameroon under IBRD terms in FY86-90 (with half of it as adjustment lending) was not right either, since their creditworthiness at the time was doubtful and the projects thus financed did not turn out well.

3.8 In FY86-90, IBRD committed US$1 billion to Côte d’Ivoire for 13 projects and US$0.5 billion to Cameroon for 8 projects (Table C10). The performance of the 13 Ivory Coast projects was poor: only 41 percent of the amounts committed was rated with satisfactory outcome and 8 percent with likely sustainability and substantial institutional development impact. The performance of the 8 Cameroon projects was even worse: none of the projects was rated with satisfactory outcome and, of the amounts committed, 90 percent was rated with unlikely sustainability and 88 percent with negligible institutional development impact. The situation was not the same when the Bank committed US$450 million to Côte d’Ivoire under three adjustment loans in FY92, because the loans were designed to support the expected devaluation. Moreover, only US$200 million (half of which as IDA credits) were disbursed before the devaluation. It had been specified that the remaining US$250 million could not be disbursed before restoring competitiveness, which was understood to mean before devaluing the currency and this understanding was respected. Still, net World Bank transfers to Côte d’Ivoire remained negative for ten consecutive fiscal years (FY89-98) and those to Cameroon for seven consecutive fiscal years (FY92-98). At that time, France argued that external assistance to countries suffering major terms of trade losses should be raised and not reduced. The Bank on the other hand, argued that a devaluation was needed and that greater financial assistance would only delay the unavoidable. At times relations with France became quite tense. Exerting pressure while avoiding open confrontation was the difficult role played by the Bank for several years. Beginning in 1988, IMF and Bank staff discussed the measures needed to prepare for a devaluation with senior officials in the CFA zone. In July 1992, the IMF Managing Director undertook a mission to selected CFA countries to discuss a devaluation; but several Heads of State were not ready to devalue. In March 1993, the ways in which the Bank could support a CFA devaluation were reviewed with French treasury officials. On January 10, 1994, the Heads of State of the CFA countries were invited to meet in Dakar under the pretext of reviewing the problems of Air-Afrique. Two days later, the devaluation was announced to the public.

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27 Over a ten-year period (1981-91) Senegal went nine times to the Paris Club and Togo went eight times.
3.9 Immediately after the devaluation, Cameroon, Congo and Côte d’Ivoire were declared eligible only for IDA. IDA disbursed US$585 million after the devaluation under the three projects which had been negotiated before the devaluation. IDA was thus able to disburse US$150 million to Côte d’Ivoire in the month following the devaluation and the World Bank has to be credited for this timely IDA intervention which contributed to the success of the devaluation. The IBRD investment portfolio was not, however, restructured rapidly enough. Most investments loans were allowed to complete their cycle under IBRD terms and the last IBRD investment loan was closed in FY99. In countries with poor portfolio performance such as Cameroon, it would have been preferable to cancel more loans.

3.10 Commitments from the World Bank to the CFA zone increased sharply after the devaluation, but net transfers did not because of the heavy servicing of the IBRD debt. As a matter of fact, average annual net transfers in current US dollar were 13 percent lower in FY94-99 than in FY90-93 (Figure 3.1). When net transfers are expressed as percentages of GNP instead of current US dollar, the picture appears somewhat more favorable, because the GNP of CFA countries fell in US dollar terms after the devaluation. World Bank net transfers to the CFA zone increased from 0.2 percent of GNP 1990-93 to 0.4 percent in 1995-98, while IMF net transfers increased from −0.4 percent to +0.4 percent (Table A3.1). However, due to large repayments of arrears to AfDB which had been accumulated before the devaluation, net transfers from all multilaterals (including the IMF) remained unchanged at 0.3 percent of GNP (Figure 3.2). It is clear that policies of CFA countries were better in 1995-98 than in 1990-93, but the countries were not rewarded for this improvement by multilateral development agencies.
Fig. 3.1: World Bank Commitment and Net Transfer to the 13 CFA Countries, FY90-99
(in millions of current US $)

Fig. 3.2: Net Transfers to the 13 CFA countries from Multilateral Creditors
with and without IMF, 1985-98
(as percent of GNP)

Fig. 3.3 Net Transfers to the 13 CFA countries from all sources and
from multilateral creditors excluding IMF, 1985-98
(as percent of GNP)

1 Official and private long-term creditors at concessional and non-concessional terms, IMF and grants
other than technical assistance grants. See Annex A Section 1.3, paragraphs 12-14 and Tables A3 and A4
Non-Lending Assistance

3.11 The quality of Bank lending and non-lending services is often affected by the size of the administrative budget. The share of Africa in the Bank's administrative budget fell from 36 percent in FY90 to 25.5 percent in FY99. During the same period, the share of CFA countries in Africa increased only marginally, because most of the gain in WAEMU (from 14.2 percent to 16.7 percent) was offset by a loss in CAEMC (from 8.2 percent to 6.2 percent). The administrative budget of the Africa region valued in real terms remained almost unchanged from FY90 to FY94, but fell by 16 percent from FY94 to FY99 (a fall larger than in any other region) with declines of 5 percent for WAEMU and 33 percent for CAEMC (Table C12). The budget constraint became tighter in FY00 and the situation is expected to become more difficult in FY01. The reduction in the administrative budget has probably become the major problem in improving the quality of Bank assistance to CAEMC countries.

3.12 Expenditures on Bank economic and sector work managed by the Africa region (CESW) fell even more. From FY94 to FY98, CESW expenditures valued in real terms fell by 56 percent for CAEMC and 49 percent for WAEMU, against 49 percent for Africa as a whole and 37 percent Bank-wide (Table C13). Some economic and sector work may have been conducted in the context of lending operations, but such work has a relatively narrow focus since it has to be closely related to the specific objectives of the loan. At the same time, according to the QAG which evaluated 40 CESW issued by five regions in FY98, Africa had the lowest percentage of satisfactory reports (55 percent against 72 percent Bank-wide).

Performance Ratings

3.13 Since country performances have been rated by the Bank every year since 1977, Bank ratings provide the obvious starting point to assess the performances of CFA countries. For each of the four periods retained in this report, CFA countries were classified into six groups. Equatorial Guinea was the CFA country with the most steady rating; it remained in the bottom group throughout the 22 year period. Cameroon and Côte d'Ivoire were the two CFA countries with the most dramatic changes in rating. They remained in the top group through 1986, but fell down to group 3 in 1987-93. In the post-devaluation period (1994-97), Côte d'Ivoire moved up to group 5 (the second from the top) while Cameroon moved down to group 2 (the second from the bottom). In retrospect, Côte d'Ivoire in 1977-80 and Cameroon in 1981-86 should not have been rated in the top group. If country performance were to reflect the efforts made by the country, Côte d'Ivoire should be rated better in 1994-98 than in 1977-80 and Cameroon better in 1994-98 than in 1981-86.

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28 Expenditures financed from budget and trust fund resources combined. Expenditures financed from trust funds increased sharply in FY94, but fell in FY97-98 to less than one-quarter of the FY94 peak. Expenditures shown in Table C12 do not include Trust Fund. Moreover, they are adjusted backward to the reduction of benefits (from 70 percent to 50 percent) introduced in FY99, while expenditures growth in Table C13 are not since they do not include FY99.
Projects

3.14 The composition of Bank lending changed considerably during the last 20 years and changes were greater in CFA than in non-CFA countries. The share of investment projects in agriculture and infrastructure fell from 83 percent of total Bank commitments before FY81 to 26 percent after FY94 in CFA countries, compared with a decline from 73 percent to 44 percent in non-CFA countries (Table C15). The sharp decline in CFA countries was compensated by increases from 0 to 8 percent for health projects and from 0 to 53 percent for adjustment lending. 29

3.15 The quality of projects, as rated by OED, was affected by the economic environment, especially by the fiscal situation which prevailed during implementation. For projects approved through FY83, the proportion of projects with satisfactory outcome was higher for CFA than non-CFA countries (72 percent versus 59 percent, Table C16.2). But the reverse was true for projects approved during the FY84-89 period (36 percent versus 61 percent), with the greatest deterioration in CAEMC (Table C17 and Figures C1.1 and C1.2). In the FY99 portfolio, the percentage of projects at risk (weighted by commitments) was lower in WAEMU (16 percent) than in the 28 non-CFA countries (30 percent) and, especially, in CAEMC (77 percent, Table C16.3). In the case of health projects, however, risk was higher in WAEMU (48 percent) than in the non-CFA group (31 percent).

World Bank Performance

3.16 During the period ending in 1980, Bank performance was broadly satisfactory. OED project ratings30 were significantly higher for CFA than non-CFA countries for outcome, and marginally higher for sustainability and institutional development (Table C17). The Bank did not succeed in convincing governments to cool down overheated economies, but the Bank’s main objective at the time was to promote good investment projects.

3.17 During the second period (1981-86), Bank performance was marginally satisfactory in WAEMU and marginally unsatisfactory in CAEMC. OED project ratings remained higher for WAEMU than for non-CFA countries for both investment and adjustment projects; but public enterprise restructuring was not successful, although it was supported by large Bank lending. CAEMC countries did not receive any adjustment lending and the three oil countries, which were booming, were not receptive to Bank policy advice. In the climate of euphoria, poor investment decisions were made and, even for projects financed by the Bank, OED ratings of investment projects fell dramatically, far below average ratings for non-CFA countries.

3.18 During the third and the fourth periods, the rating is more complex. Taking a short-term view, Bank performance would be rated unsatisfactory in 1987-93 and satisfactory in 1994-98, which is consistent with OED rating on adjustment lending. In

29 Of total adjustment lending to the zone, 43 percent went to Côte d’Ivoire, 15 percent to Cameroon, 12 percent to Senegal and the remaining 30 percent was shared among the ten other CFA countries.
30 Average weighted by commitment size.
particular, in the case of adjustment loans approved by the Board in the FY86-89 period, outcome was rated satisfactory in only 25 percent of the cases for CFA countries (45 percent for WAEMU and 2 percent for CAEMC), against 61 percent for non-CFA countries; ratings for sustainability and institutional development were even worse. By contrast, for adjustment loans approved in FY94-95, outcome was rated satisfactory in 86 percent of the cases for CFA countries. Recent improvements are also noticeable. Quality at entry was marginally lower for CFA than for non-CFA countries in FY97, but it became marginally higher in FY98. Regarding rapid supervision assessment, WAEMU was rated equal to non-CFA countries in FY97 and marginally better in FY98, but CAEMC remained below the non-CFA average.

3.19 Taking a longer-term view, it is not possible to draw a clear demarcation line between Bank performances before and after devaluation day. The Bank contributed to the success of the devaluation, not only by what it did after devaluation day, but also by what it did before.
4. Support to Regional Integration

4.1 Although the Bank normally conducted its work at the country level, it followed a regional approach to restructure the WAEMU banking sector in the late 1980s. This led to a study of the competitive position of the entire CFA zone and the preparation of contingency programs to support the expected devaluation. The regional approach was relevant and efficacious in these two cases. It has become relevant again with the present drive toward regional integration, notably with the recent decision made in six ECOWAS countries to establish a new monetary union which could later be merged with WAEMU.

Table 4.1: ECOWAS GNP, GDP, Population 1997-98

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4.2 The Bank, together with the IMF, assisted BEAC (the central bank of CAEMC countries) and COBAC (the banking commission) in the restructuring of the financial sector. Starting five years before the devaluation, the Bank advised UDEAC (the Central African Customs and Monetary Union, which has been replaced by CAEMC) in designing a major tariff and tax reform which was implemented in 1994. But, while the regional tariff reform was in place earlier in CAEMC than in WAEMU, the CAEMC treaty was ratified in June 1999, almost five years after ratification of the WAEMU treaty. Due to this delay, external assistance in the post-devaluation period was focussed on the WAEMU Commission.
4.3 France, the EU, the Fund and the Bank have been the main partners of the WAEMU Commission. The EU has been supporting the operating budget of the commission; it also financed numerous studies, workshops and ad hoc technical assistance. France provided technical assistance and contributed to the financing of specialized regional institutions, such as AFRISTAT and OHADA. The Bank and the Fund, in close cooperation with the EU and France, have been advising the WAEMU commission in the establishment of a common external tariff (which is in place since January 2000) and on other aspects of trade policies. They have also assisted the commission in harmonizing indirect taxes, formulating a “competition policy” and designing a common investment code (which has not yet been ratified). The Bank, jointly with the Fund, became involved in the area of multilateral surveillance (public finance in particular). IDA and IFC assisted WAEMU in establishing a regional stock exchange to improve capital mobility within the sub-region. The regional exchange opened in Abidjan in September 1998.

4.4 When its mandate was renewed in January 1999, the WAEMU commission was asked to focus its work on sectoral policies; particularly, as regards agriculture, energy, transportation and telecommunications. The Bank responded by giving attention to telecommunications and power interconnections not only within WAEMU, but also between WAEMU and Nigeria and Ghana. The Bank is well equipped to assist the WAEMU commission in reviewing sectoral policies at the regional level and such reviews could benefit both WAEMU and the Bank. Reviews should also cover the social sectors (poverty reduction, education and health); such reviews would provide the opportunity of establishing and monitoring sets of social indicators comparable among countries of the sub-region. Regional workshops could be organized on specific issues with representatives of the countries and the Commission. Their purpose would be to identify missing or unreliable information, to determine what works and what does not, and to understand why. Once appropriate and reliable social indicators become available, the Commission could select some of them as convergence criteria to monitor social progress in the Union.

4.5 The Bank could assist the regional commissions efficiently in areas where it has comparative advantages, notably sectoral reviews and relations with the outside. Within the Bank, a regional approach could generate synergies and cross-fertilization among country teams. It could also provide a framework for harmonizing country assistance strategies, thus improving the effectiveness of country-based work.
5. Conclusions and Recommendations

5.1 The CFA arrangement induced a fiscal discipline which was beneficial through the mid 1980s; afterward, it introduced a rigidity which was detrimental until it was relaxed by the 1994 devaluation. Because foreign exchange and monetary policies are determined at the supra-national level, the burden on national fiscal policies is particularly heavy. It became unbearable in the second half of the 1980s with the deterioration of the terms of trade and the appreciation of the CFA franc. In hindsight, it is clear that delaying the devaluation was very costly in economic and social terms. But the Bank was not responsible for the postponement, and it is not clear that a successful devaluation could have taken place earlier if the Bank would have acted differently. When it occurred in January 1994, it was well prepared and it was successful. The Bank reacted promptly, and during the first year it was able to support the best performers with significant increases in financial assistance on IDA terms.

5.2 Poverty assessments had the merit of drawing public attention to the poverty problem, but their efficacy was limited. Assessments have to become more action oriented and they have to be better integrated in the overall country strategy; this is the purpose of the PRSP now under preparation in most CFA countries. Strategies to support rural development are needed since the majority of the poor live in rural areas. These could become the cornerstone of the PRSPs.

5.3 Setting up minimum budget shares to priority sectors can be misleading unless the nature and the impact of public expenditures are closely monitored. To monitor progress and assess development effectiveness, the Bank needs reliable indicators expressed in terms of results. The Bank should assist in the collection of reliable statistics and the development of indicators to monitor improvements in these sectors and the effectiveness of its assistance.

5.4 The Bank is right in intensifying its efforts to contain the spread of HIV. In view of the complexity and the magnitude of the task, the Bank has to work very closely with the other agencies which can bring a contribution. An example of successful partnership was the introduction of generic drugs through central public stores. These stores were generally not allowed to sell drugs to the private profit-oriented sector. This prohibition may have been justified in the initial stage; but it is a source of leakage and it should be progressively eliminated.

5.5 The attention of donors, Bank included, has been too narrowly focused on the delivery of health services by the public sector. More attention should be given to delivery by non-government agencies, which is the sub-sector expanding most rapidly. The Bank appears better positioned than other agencies to assess the appropriate balance between service delivery by government and non-government agencies and to analyze the links between the health sector and the rest of the economy.

5.6 Bank assistance followed a regional approach only in a few cases, and this approach has been fruitful. With the present drive toward regional integration, this approach would be fruitful again.
5.7 The Bank has a comparative advantage in assisting the WAEMU commission in two areas: first, assessing the relations of WAEMU with the outside world and, in particular, with the six ECOWAS countries aiming at establishing a new monetary union; second, within WAEMU, reviewing national policies by sectors. Moreover, within the Bank, a regional approach could generate fruitful synergies among country-teams; it could also provide a useful framework for harmonizing country assistance strategies within the region.

5.8 The Bank should play a more active role in reviewing sectoral policies at the regional level; notably, as regards agriculture, energy, transportation and telecommunications, which are of particular interest to the WAEMU commission. The Bank should also assist the commission in: (i) organizing workshops on key social issues in order to determine what works or does not work in the region and to understand why; and (ii) selecting realistic and monitorable social targets which could be later adopted by the Commission as social convergence criteria.