Economic Update for Côte d’Ivoire

Cacaoland: How to transform Côte d’Ivoire

KEY MESSAGES

Cocoa is essential to Côte d’Ivoire. This sector mobilizes close to one million producers who provide income to five million persons (one-fifth of the country’s population) in order to meet 40% of global supply. Cocoa is also the country’s leading foreign exchange earner and is among the sectors making the biggest contribution to government revenue. In short, cocoa plays a central role in Ivorian society and in the lives of many families.

However, despite its importance to the Ivorian economy and society, the cocoa sector is not fully playing its role as the engine of economic development. Some even go so far as to cite the curse of “brown gold,” for at least three reasons. First, more than half of producers live below the poverty line—on less than CFAF 757 (roughly $1.2) a day. Second, the price paid for the expansion of cultivated areas in recent decades has been the destruction of virtually all the country’s forests. Third, Côte d’Ivoire has not yet managed to increase its share (between 5% and 7%) of the profit made along the cocoa-chocolate global chain.

Given this situation, it is not surprising that cocoa is at the center of a host of economic policy discussions in Côte d’Ivoire and that the Government has sped up its deliberations aimed at improving the performance of the sector, in particular through the Abidjan Declaration signed jointly in 2018 by the Presidents of Côte d’Ivoire and Ghana, which seeks to harmonize their policies and thus maximize their profit (these two countries account for approximately 65% of global production).

After analyzing the most recent trends in the Ivorian economy, this ninth economic update for Côte d’Ivoire therefore focuses on how the cocoa sector could support the structural transformation of the country and, in so doing, promote greater economic and social inclusion.

Economic situation

The Ivorian economy is continuing its sound performance that started at the end of the political crisis in 2011. 2018 was the seventh consecutive year that the GDP growth rate exceeded 7%. This rate is projected to reach 7.2% in 2019 and to remain at this level in the coming years.
The private sector has once again become the main engine of growth after a decline in 2016 and 2017. Enterprises seem to have stepped up their investments in 2018, following reforms aimed at improving the business climate and, perhaps, in order to anticipate the October 2020 presidential elections, which will create uncertainty for the economic actors. However, private sector recovery has revolved around only three sectors (telecommunications, agribusiness, and construction), unlike the 2012-2015 period when all sectors expanded.

Private sector momentum served to offset the negative impact of the external sector on economic growth, following an exceptionally favorable year in 2017. The current account deficit increased from 2.9% to 4.7% of GDP between 2017 and 2018, with the country’s trade flows—which are relatively undiversified—remaining exposed to changes in some commodity prices (in particular cocoa and oil). This increase in the current account deficit was, however, easily financed by the rise in foreign direct investment (FDI), in particular in agribusiness, and by the government issuance in March 2018 of international bonds worth over $2 billion.

The government reduced its fiscal deficit from 4.5% to 4% of GDP between 2017 and 2018 and has set a target deficit of 3% of GDP starting in 2019, in line with WAEMU economic community goals. Special attention should, however, be paid to the nature of this adjustment as it was based solely on a reduction in public expenditure (-0.7% of GDP), in particular government investment. These budget cuts have been greater than anticipated owing to lower tax revenue, which fell by 0.3% of GDP between 2017 and 2018 and by as much as 0.7% of GDP relative to the 2012 level.

This decline in tax revenue is both paradoxical and disturbing—paradoxical because it occurred at a time when several administrative reforms had been implemented to improve tax collection, such as digital platforms for electronic submission, and disturbing because low tax revenue reduces the Government’s fiscal space and its ability to pursue an ambitious policy of investment in infrastructure and social services. Although public investment had been the main source of growth since the end of the crisis, it does not support the Ivorian economy as much anymore. The Government is now focusing on the quality of its investments and on developing private sector partnerships. In the near term, the authorities may also try to have some public works prefinanced by commercial banks, which could create significant public finance risks.

The outlook for the Ivorian economy remains positive in the short and medium term, with a growth rate that should continue to be one of the fastest in Africa—roughly 7% per year. Moreover, the public deficit and external accounts are expected to improve and the BCEAO’s prudent monetary policy should keep inflation in check. The drivers of the economy should continue to be the services sector, followed by industry, in particular as a result of the Government’s efforts to improve the business climate, develop industrial zones, and promote agroprocessing.

On the external front, exports are expected to increase gradually owing to stable international market prices, in line with World Bank and IMF projections. The support provided by government programs to several strategic sectors (cashew, cotton, and rubber) should lead to productivity
gains. Imports are projected to increase on par with the economy, even taking into account the possibility of significant fluctuations linked to changes in the price of oil on international markets. Financing of the current account deficit with FDI inflows and government borrowing on fairly favorable terms in international markets is expected to continue.

The 2018 fiscal drive is expected to be maintained as the government ought to reduce its deficit to roughly 3% of GDP to ensure public debt sustainability in the medium term. Revenue collection efforts are projected to be stepped up, with the increase in a number of excise taxes and the reduction in tax exemptions granted, particularly with respect to the value added tax (VAT). Higher tax revenue will allow the Government to keep its investment program in place with the aim of improving infrastructure and social services in the years ahead.

There are, of course, several risks that can impact these projections. Externally, the risks (changes in commodity prices, tightening of financial markets, and regional and global insecurity) should be manageable, barring major shocks. Internally, the main risk is the approaching October 2020 presidential elections, as investment and consumption spending by private operators could slow down in the event of instability. The government could then attempt to support the economy by increasing its expenditure, a situation that would lead to fiscal slippage.

In addition to cyclical risks, Côte d’Ivoire’s economic development model is built around the agricultural sector, which remains the country’s prime employer and foreign exchange earner, and is key to poverty reduction in the rural areas. However, the contribution of this sector to growth in Côte d’Ivoire remains limited (1.2 percentage points of growth per year on average between 2012 and 2018) and is well below its potential and the support provided by the industry and services sectors.

This marginal contribution by the agricultural sector to economic growth in Côte d’Ivoire is linked to two deficiencies, which are becoming more acute. First, average yields of the main food and cash crops remain relatively low compared to countries that have successfully carried out their green revolution. Second, agriculture is not sufficiently diversified, as evidenced by the limited supply of more labor-intensive products (such as fruits and vegetables, meat, and dairy products) as well as processed products. Rural households in Côte d’Ivoire are not adequately combining agricultural and non-agricultural activities to boost their incomes, unlike their counterparts in Thailand or Vietnam for example.

The government has made boosting the productivity of the agricultural sector and its diversification the centerpiece of its National Development Plan (NDP) for the 2016-2021 period. Given its importance to the Ivorian economy, the cocoa sector is a priority and is therefore the subject of the second part of this report.

How cocoa could finally transform Côte d’Ivoire
Since its independence in 1960, Côte d'Ivoire has become the leading global cocoa producer, virtually quadrupling its harvest from 550,000 metric tons per year in 1980 to more than 2 million metric tons in 2018. However, this success has not fundamentally changed the living conditions of producers and their families. Based on the most recent household survey, 54.9% of cocoa producers were living below the poverty line in 2015. Producers in particular have been impacted by the downward trend in international prices since the 1960s and in particular after the price surge in the mid-1980s.

In addition, Ivorian producers receive only a small share of the export price on international markets, even though their situation improved slightly following the implementation of the new regulatory framework at end-2011 guaranteeing them a minimum threshold of 60% of international prices, which is nonetheless lower than the current thresholds in other producer countries such as Ghana (>70%) and Cameroon and Nigeria (between 80% and 90%). Low profit-sharing by Ivorian producers in export sales is attributable to high domestic marketing costs and to heavy taxation amounting to 22% of the cost, insurance, and freight (CIF) value of exports. Although cocoa earnings account for up to 10% of the government’s tax revenue and allow it to finance its expenditures, these taxes are onerous and even unfair to producers whose families are among the poorest in the country.

Furthermore, the increase in cocoa production in recent decades has led to the destruction of a portion of Côte d'Ivoire’s natural capital. For a long time, it has been easier (and more profitable) for a producer to cut down trees than to invest in modern production techniques. While this expansion of cultivated land has also allowed families to increase their land resources, it has led to a sharp decline in the country’s forest cover, which fell from 12 million hectares in 1960 to under 3 million hectares currently.

Despite the fact that production has virtually quadrupled since 1980, Côte d'Ivoire continues to collect only a tiny share of the profit accumulated along the cocoa-chocolate global value chain. While considerable effort has been made to promote the first phase of cocoa processing by making Côte d'Ivoire the lead milling country in the world, the value added and jobs associated with this activity are limited, a fact that serves as a reminder that most of the sector’s profit (almost 80%) is concentrated in the second phase of processing (chocolate paste) and in the distribution phase of finished products to consumers, two phases in which Côte d'Ivoire does not yet play a major role.

The cocoa sector is facing rising challenges on both global demand and supply. From a demand standpoint, the emergence of new consumer countries, in particular China and India, is changing the traditional distribution channels. Malaysia is therefore positioning itself to play the role in Asia enjoyed by the Netherlands in Europe in terms of the marketing of cocoa. More important, consumers in industrialized countries are stepping up their demands following several investigations that uncovered practices detrimental to the environment (destruction of forests) and to society (child labor) linked to cocoa production. Because it is becoming increasingly difficult to sell uncertified cocoa, producer countries (including Côte d'Ivoire) and multinationals along the value chain must change their behaviors by adopting codes of conduct and establishing partnership frameworks. Countries such as Germany have already banned the sale of uncertified chocolate, a move that is expected to gain traction in the years ahead.
The global cocoa supply is also undergoing profound changes. New producer countries in Latin America are expanding their productive capacity. More important, constraints are increasing in the countries that currently lead global production, including Côte d’Ivoire. Thus far, the Ivorian response to greater global demand has been to increase cultivated areas by using the large land reserves and labor (including labor from neighboring regions such as Burkina Faso) available to it. However, this expansion-based development is nearing an end as there is virtually no more land available in Côte d’Ivoire to increase cocoa cultivation. In addition, cocoa orchards are ageing and plagued by epidemics and will have to be replaced quickly.

Furthermore, the agricultural labor force is shrinking as labor moves toward the cities and aging farmers, whose average age is over 45, grow old. Such situation will have be managed in farms by by placing greater emphasis on mechanization and higher yields.

Lastly, these changes in cocoa demand and supply are taking place at a time when the impact of climate change is becoming increasingly evident in Côte d’Ivoire. Rising temperatures are leaving cocoa-producing land parched and reducing its fertility while numerous plantations have lost most if not all of their shading. Several studies have shown that many plantations would have to move from the east to the west of the country if nothing is done before 2050.

**What can be done?** Significant challenges must be addressed in order to remedy the weaknesses of the sector and achieve the Government’s ambitious goals to secure the future of the cocoa sector. The changes occurring offer an opportunity to move the cocoa sector beyond the status quo, which is no longer sustainable in the medium term.

Three approaches are proposed to ensure the equitable and sustainable development of the sector:

- Establish a reliable system to forecast production and track the methods and location of this production.
- Enable Côte d’Ivoire to obtain a bigger share of the value added created by the global cocoa sector by improving (i) the productivity of plantations in an environmentally sound manner through the adoption of environmentally friendly technologies; (ii) the quality of beans and producing much more lucrative niche products; (iii) the marketing of Côte d’Ivoire’s cocoa by streamlining the distribution channels and implementing credible certification and traceability systems; (iv) the tax policy related to cocoa sales; and (v) the industrial transformation of Côte d’Ivoire with a view to developing its capacities.
- Ensure better value-added distribution among the Ivorian actors in the sector, in particular through more equitable application of the fiscal and parafiscal levies currently imposed on cocoa producers.

These three approaches, which are mentioned in the report, must be jointly implemented so as to allow Côte d’Ivoire to make the cocoa sector a key instrument of its economic development policy. While special attention has already been paid to these approaches by sector actors, including the government, they must be studied in greater depth in order to serve as the foundation for an integrated and ambitious action plan. These approaches should be viewed as contributions rather than recommendations to enable Côte d’Ivoire to improve the living conditions of its cocoa producers, as stated by the President of the Republic of Côte
d’Ivoire in his January 1, 2019 speech: “I would like to say a special word to our farmers, who make an enormous contribution to the country’s wealth and whose incomes have declined considerably owing to the sharp drop in global coffee and cocoa prices. I want to assure them that we will continue to see to it that they are provided with as much as possible in the interest of their well-being.”