



## **A Country Study of Côte d'Ivoire in Relation to its Banking Sector**

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**Abstract:** The objective of this paper is to analyze the external environment of the Ivorian banking sector to identify relevant factors that may affect it somehow. To do so, we use the Political, Economic, Socio-cultural, Technological and Legal (PESTL) basic framework as inspiration to implement our analytical process. We conduct our analysis by looking at factual elements and secondary data collected from trustworthy institutions. On the one hand, it appears that Côte d'Ivoire is a well-positioned country with numerous endowments, important investments opportunities, and a relatively open market. Banks can take advantage of the country's development trend by managing and channeling the inflow of money. On the other hand, socio-political unrests, regional issues, and corruption are threats. Moreover, the strategic role of this country seems to be a significant factor to consider in relation to competition, political actions, and bank regulation.

**Keywords:** Côte d'Ivoire, Banking Sector, PESTL Analysis

### **1. Introduction**

Microeconomics as a discipline refers to the economic implications of individual human, firm or any other "small" entity action, in an attempt to explain the effect of this action on the use and distribution of scarce resources. For instance, microeconomics investigates differences in goods prices or productivity levels and interactions between economic agents. As per macroeconomics, it looks at the wide phenomenon of the economy such as changes in gross domestic product and level of employment, a relationship between poverty and demand, etc.

The two disciplines are indeed interdependent since a unit of a given economic environment is part of a whole intrinsically. It is then unavoidable or rather important to take into account a diverse range of factors when dealing with specific matter pertaining to an economic entity. It is in respect of this we included a country study in our process to identify and analyze the main factors affecting deposit collection as well as credit's allocation in the Ivorian banking sector.

Côte d'Ivoire, officially the Republic of Côte d'Ivoire, is a country located in West Africa. Ivory Coast's political capital is Yamoussoukro, and its economic capital and largest city is the port city of Abidjan. Its bordering countries are Guinea and Liberia in the west, Burkina Faso and Mali in the north, and Ghana in the east. The Gulf of Guinea (Atlantic Ocean) is located south. After some years of economic stagnation because of socio-political troubles, the country is back to work fulfilling its leading position in Sub-Saharan and West Africa. Such a position requires all sectors to perform their activities as well as possible.

In order to conduct a study on the banking sector following different steps, we have chosen understandably to analyze some areas of the country in an aim to apprehend the external environment of banks properly. Indeed, banks and the banking industry as well is part of the economy with many other players. According to Porter, external factors are highly influential to internal factors of an organization and its business operations (Porter, 1996). And an efficient analysis of external environmental factors enables an organization to exploit its core capabilities, competencies, and resources to gain a sustainable competitive advantage in the marketplace relative to competitors (Porter, 2008).

The present article takes a look at Côte d'Ivoire to highlight some facts that may, in some way or other, have a direct or indirect impact on its banking industry. To do so, we elaborate our analytic framework using that of PESTL as a source of inspiration. In the next sections we present first of all the PESTL analysis, then our methodological framework before implementing it.

## **2. An overview of PESTL Technique**

The first record found about this tool is the fact of Harvard Professor Francis Aguilar in 1967. Through his book titled "Scanning the Business Environment", he analyzed the environmental factors affecting a business. They were qualified as "Economic, Technical, Political and Social", in short ETPS.

Some years later in the early 70's, for the account of the United States Institute of Life Insurance, Arnold Brown introduced the Strategic Trend Evaluation Process (STEP) as a reorganized approach in line with the original framework of Aguilar. Moreover, he tried to extend the investigation to ecology related elements likely to impact a business, tweaking the acronym into STEPE (Social, Technical, Economic, Political and Ecological). Thus throughout the years the term has been turned and twisted by many authors and practitioners to match with the context of their study object or area. In the present case study, we develop our reasoning around political, economic, socio-cultural, technological and legal facts.

Since its first use, the main purpose of this tool is to analyze business environment. The Cambridge online Business English Dictionary defines it as a management method that examines the effect that events or influences from outside may have on the performance of a company or organization. Actually, aside from some internal resources and variables under the control of the company, several other elements are beyond its reach. Those ones come from the macroeconomic environment and can have a deep impact on the results of a company. When it comes to decision-making there is no place for uncertainty; the worse scenario should be to minimize risks as much as possible. All the inputs, variables and parameters need to go through careful analysis.

Despite its usefulness, our technique has some shortfalls. First, most of the external factors considered for analysis, vary over time and can do so at a very fast pace. Some of them, like environment-related events, are not always noticeable during their starting stage. The variables are dynamic. A second issue is a presentation adopted within the framework of the technique. Usually, it presents a simple list of factors that could affect the business without a deep analysis. In such a way, the conclusions that will come out may not be sound or valuable enough. Then there are weaknesses coming from data collection. Information to conduct the analysis can be a lot and diverse. Their relevance and accuracy depend highly on the type of source. The process to get the right data and find a reliable source to provide them is also time-consuming and costly. Sometimes even after important efforts, the information might not be available or out of date. Finally, because of a lot of information users handle, they may get confused. Consequently, a non-critical factor may be considered at the expense of the more critical ones, misleading the investigation.

## **3. Methodology**

We will build our analytic process by taking a look at the Political, Economic, Socio-cultural, Technological and Legal aspects of the country. We use the technique introduced above as a background to develop our framework with respect to the study's context. Also, as it is not possible to cover exhaustively everything, we emphasize on a few of the external variables and facts that may affect the banking industry in one way or another considering literature, basic statistical analyses, graphs and figures as main sources. Our argumentation will incorporate all or some of the following points, not in a strict order, when dealing with the five dimensions of our analysis:

- Brainstorm and list of key issues or facts
- Broad identification of their implications
- Rating or estimation of their relative importance
- Brief consideration of their implications

## **4. Implementation**

### **4.1 Political environment**

As a former French colony, most of the political actions implemented in Côte d'Ivoire result from this link. Regarding factual elements in relation with banks, there is the signature in 1939 by France of decrees to establish a strict exchange control between itself and its colonies and the rest of the world (Lelart, 2003). Then the "franc zone", a geographical area with currency convertibility guarantee and common economic rules came into effect (Bloch-Lainé, 1956).

With the ratification of the Bretton Wood agreement in December 1945, the country gets its official currency pegged to French francs on a fixed exchange rate. A major decision behind this monetary connection is that the country should keep most of its foreign exchange reserves in the form of French francs on the one hand, and deposit them into the treasury of France (BCEAO, 2000). Those monetary principles continue today.

Between 1945 and 1962, during the independence time, the Central Bank of West African States (BCEAO) was born endowing the country with a key financial authority. As its name shows, the same central bank does not focus only on Côte d'Ivoire but also includes seven other countries all former France's colonies. The creation of a monetary union, the West African Monetary Union (WAMU), will follow on May 12 of the year 1962. The main provisions of its founding treaty are the rule of currency issue, the centralization of foreign exchange reserves, the free circulation of money and the freedom of transfers within the union. Many other agreements exist between Côte d'Ivoire and France since the early stage of the independence, maintaining a tight and strong relationship between the two countries.

From this link, the country gains a relative stability of exchange rate, monetary policy, inflation rate and regulation. However, French companies dominate the market, and French banks do not make an exception. Also, because of the numerous interests France has in the country, it is not impossible that it interferes directly or indirectly into the political sphere. Moreover, the fixed exchange rate system resulting from the peg of the CFA Franc to the French Franc involves a unanimous parity adjustment agreement among zone members. For this reason, according to Shantayanan and Jairne (1987), CFA countries cannot use nominal devaluation of the exchange rate as an instrument of macroeconomic adjustment effectively.

### **4.2 Economic context**

Economic growth: Côte d'Ivoire occupies a unique position as far as economic growth is concerned after the independence period in Africa. As noticed by the World Bank in 2015, the country realized a high and inclusive growth in the 70s due to a peaceful and stable environment, favorable measures towards labor productivity and profitable terms of trade. A distinct deterioration regarding trade stroked the 80s, causing an important currency overvaluation that an internal adjustment could not correct. This situation led to ten years of economic slowdown. The currency devaluation in 1994 implemented along with complementary macroeconomic policies and structural reforms helped in restoring internal and external balances boosting the economy.

After some years of socio-political struggles, the Ivorian economy progressed rapidly. The World Bank development database shows an average 6 percent GDP per capita growth between 2012 and 2015, against -1.9 percent between 2002 and 2011, the period of crisis. There is a domino effect due to government's policies towards economic and social improvement. As developed by Cerra and Saxena (2008), after a major crisis in a country production starts over (although only partially) generally. Through an empirical study, they looked at some conflicts around the world from 1960 to 2001. It appeared into evidence that production decreases by 6 percent on average, at the early stage of a socio-political crisis in part because of capital destruction. Then about half of the loss disappears the four years following the conflict, thanks to capital reforming.

The International Monetary Fund explains the recent fast economic growth in Côte d'Ivoire by an increase in productivity and an accumulation of capital coming from an increasing demand that has not been satisfied during trouble time as well as higher use of production capacity. The latter is due to specific measures undertaken by the government to reduce the deficit in infrastructure, ameliorate agricultural productivity and business environment.

The same institution attests that most of the economic and financial indicators of Côte d'Ivoire are positive (World Economic Outlook, 2017). Sectors like telecommunications, finance, transport, energy, and trade are performing well. Prospects for the next three years are bright with a growth rate expected to converge toward 7.5 percent in 2019.

These are encouraging indicators for inward investments. However, socio-political instability is a major threat to the economy. Aware of this the government is making important efforts in order to create a peaceful, stable and viable environment for businesses. The inflow of money through investment is without any doubt a godsend for banks as the main money circulation channel.

Country position: Côte d'Ivoire is the biggest economy and leading country of the West African Economic and Monetary Union with 40 percent of the union's total GDP. Its revenue per capita is relatively high (USD 960 in 2007).

The port in Abidjan (Port Autonome d'Abidjan), besides the second one, in San-Pedro which is currently under tremendous modernization and extension projects, is the second largest deepwater port in Africa and the main port of trade for neighboring inner land countries. Standing as the first producer of cocoa and cashew in the world, the country occupies the fourth rank in sub-Saharan Africa in terms of goods exportation after South Africa, Nigeria, and Angola.

By developing-country standards, it has an outstanding infrastructure. It is made of more than 8,000-mile paved roads; modern telecommunication services, including a public data communications network; rail links in the process of being upgraded both within the country and to Burkina Faso; regular air service within the region and to and from the world; etc. Its location and connections to the neighboring countries make it a preferred platform from which many companies conduct their West African business operations. Apart from that, the city of Abidjan is one of the most modern and liveable cities in the region for wealthy expatriates.

In summary, the country's natural endowments, its modern infrastructures along with remarkable economic performances are good comparative advantages that give it an edge over other West African countries. The other side of the coin is that those advantages make it a high strategic place attracting big multinational companies. In such a context conflict of interests and high market concentration due to a domination of the market by a small group of large enterprises are direct important impacts factors to consider by any decision maker.

Main economic sectors: Agriculture employs almost three-quarter of the population (70%) in Côte d'Ivoire, according to the World Bank development indicators database, largely on an informal basis as a majority of small-scale farmers dominates the sector. A few agricultural aggregators settled in the country. The contribution of Agriculture to the GDP represents almost 28%-35%, and Côte d'Ivoire is the world largest producer and exporter of cocoa beans accounting for 40% of the global exports along with coffee, cashew nuts, and palm oil. Consequently, the economy is highly sensitive to fluctuations in international prices for these products and to weather conditions.

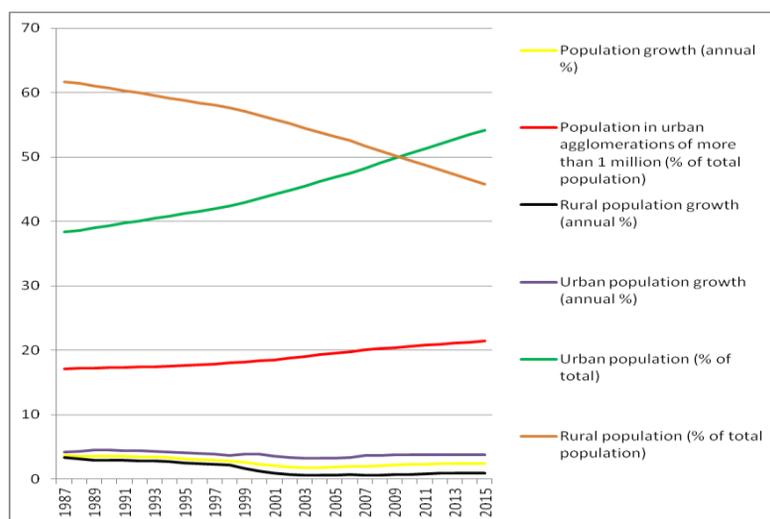
While waiting for the effects of various initiatives in favor of economic diversification, the country is still largely dependent on agriculture and related activities. The products from this sector are mostly exported unprocessed or semi-finished to a lesser extent; therefore, they have low added value. There is a need for more investments into agro-industry to achieve the goal of the government to transform at least 50 percent raw agricultural products locally. It is also necessary to move quickly from an extensive agriculture with low productivity to an intensive mechanized one using techniques that are more productive. Further, since agriculture employs around 70 percent of the workforce, it is obvious that any change occurring in the sector is likely to have an impact, be it high or low, on the entire economy hence on banks. Modernizing the agricultural sector will surely attract more bank contribution in this vital sector.

Information and communication technologies: This sector is the second largest contributor to GDP, at around 7%. The country is equipped with modern telecommunications services, including a public data communications network, cellular phones, and internet access. Côte d'Ivoire is one of Africa's most vibrant mobile markets with five main competing telecom operators. The mobile penetration rate is close to 83% with 19.3 million mobile subscribers according to the telecommunication agency (Agence de Régulation des Telecommunication de Côte d'Ivoire-ATCI). The government funds important projects to develop and enhance the existing equipment.

The development of ICT drives the rise of mobile money. One alternative way to remedy the lack of banking service in the countryside. It is also a good opportunity for financial inclusion. In view of this, banks and Mobile Network Operators work together under a regulation issued by the central bank pertaining to electronic money. Also, other major sectors such as energy and petrol, transport and tourism are among the country's most uprising sectors at present.

### 4.3 Socio-cultural facts

Demographics: The population of Côte d'Ivoire is urban and young. Indeed out of the 24 million inhabitants, 56 percent (United States Aid) live in urban area, 42 percent (World Bank Data) of which staying in the largest cities on average. The remaining 44 percent of the total population dwell in the rural zone and are mostly engaged in agricultural and small farming activities. 96 percent are under the age of 65 years old based on the USAID statistics. As per the density, it is estimated at 75 people per squared Kilometer (United Nations, World Population Prospect, the 2015 revision), with a net disparity between large cities and small ones.



**Figure 1:** Population growth comparison

Figure 1 tries to summarize some of the demographic specificities in Côte d'Ivoire. As the population in rural areas (orange line) is decreasing, the urban population (green line) is increasing. The number of people moving to big agglomerations (red line) is also going up at a fast pace. Moreover, the growth of the number of urban inhabitants (purple line) is higher (and steady) than that of the total population (yellow line) and rural population (dark). Thus in addition to the factual observations, it looks like the country is experiencing rural exodus, from a rural area to relatively big cities where most of the economic activities are concentrated. Table 1 presents the major cities with their populations.

**Table 1:** Population in Major Cities of Côte d'Ivoire

City	Population (as of 2016)
Abidjan	3,677,115
Bouake	567,481
Daloa	215,652
San-Pedro	196,751
Yamoussoukro	194,530
Korhogo	167,359
Man	139,341
Divo	127,867
Gagnoa	123,184

**Source:** World Bank, 2017

Such a disparity leads banks to operate essentially in these cities. For instance, between 2010 and 2011, more than 66 percent (345 over 515) (the Treasury of Côte d'Ivoire, 2011) of their agencies were located in the major cities. This can prevent a part of the population from using formal financial services because rural residents do not have easy access to agencies.

Education: The United Nations Educational Scientific and Cultural Organization (UNESCO) defines adult literacy as the percentage of population aged 15 years and over who can both read and write with understanding a short, simple statement on his/her everyday life. Generally, 'literacy' also encompasses 'numeracy', the ability to make simple arithmetic calculations. The average literacy rate of Côte d'Ivoire was at 43.3 percent in 2015 (UNESCO institute for statistics Database, 2015), almost half lower than the world average (85%), far behind that of lower income countries (82%) as well as Sub-Saharan countries (67.6%). Female adults, more affected, are literate by 32.7 percent against 53.3 percent for males.

Individuals using the Internet count for 21 percent while the region average is 17.5 percent. This advance may be due to the huge investments into internet and telecommunication technologies network improvement. In this way, the increasing use of internet and mobiles together with the state's actions to enhance ICT infrastructure and the improving education level open a way to the development of the banking sector. For example, in order to tackle the issue of low banking service access in small cities and rural area, banks can invest more in mobile money operations. Change in lifestyle: Following its independence from France, Côte d'Ivoire like other former colonies chose to develop its economy on agriculture and the related activities. Therefore, the main part of the workforce was involved in this sector. They used to produce raw agricultural cultures to supply European and American markets.

Meanwhile, sectors such as distribution, trade, and services among others remained under the control of expatriates from the aforementioned continents. At this time Ivorian were more agriculture-oriented and doing other businesses was not their concern. Because of various economic, social and political troubles, the country through the actions of the government has turned to a new path. Economic diversification, agro-industry development, private investment incentive and technological enhancement to cite only those are now the leitmotiv. Now there is a dynamic toward private investments through a creation of Small Medium-sized Enterprises. The financial sector can follow the trend by supporting and accompanying these companies.

### **4.3 Technology**

As mentioned earlier the government is deploying important effort to develop the ICT sector. One noticeable effect is the increasing use of mobile devices as well as mobile money system with formal partnerships between banks and mobiles network operators. As per the use of technologies such as automatic teller machines to ease financial transactions, it dates only to 2012. Fortunately, the number of those machines is increasing rapidly.

### **4.4 Legal Environment**

The government undertook major actions pertaining to the business environment in particular. Now a one-stop shop exists and eases company's registration process. The signature of a memorandum of understanding on February 23, 2013, between the chamber of notaries and the one-stop shop, reduces notary fees to a fix forfeit of 120,000 CFA for Limited Liability Company with a minimum capital of XOF 1,000,000 (World Bank Doing Business Project, June 2016). Opening a company takes only seven days maximum now according to the same agency.

The government has demonstrated its commitment to sound business practices by embracing a progressive investment code, a new mining code, and by acceding to both the Kimberley Process and the Extractive Industries Transparency Initiative (EITI) (United States Department of State, 2014). Those decisions offer incentives, including tax reductions and in some cases exemptions from value added taxes (VAT) on equipment for private investors.

Corruption is a challenge for business development in the country. Many companies cite it as the major obstacle to investment in Côte d'Ivoire. It has the greatest impact on judicial proceedings, contract awards, customs, and tax issues. The legal authority erected specific domestic laws and regulations and appointed various entities to tackle the problem. All the actions and decision need to be effectively enforced.

## **5. Conclusion**

This study conducted to understand the macroeconomic environment of the Ivorian banking sector reveals interesting points for the country as well as some issues. Côte d'Ivoire benefits from its favorable geographical location right near the gulf of a guinea and its natural endowments. With two modern ports and one airport, it is the principal transit to supply the inner land countries in West Africa making it a significant contributor of this region. Its position as the world's leading producer of cocoa, along with other products, constitutes another advantage.

From a cash crop based agriculture focusing on production and export of raw products, its economy is diversifying rapidly around sector such as agro-industry, telecommunication, energy, and so on. Projects executed so far provide the country with a modern and important infrastructure network. In terms of investments, there are many ongoing development plans opened to investors. Also, thank new regulations, the business environment is friendlier, attracting more foreign and domestic investments. Its membership of the West African Monetary Union (WAMU) and the CFA franc zone provides relative monetary stability, a common currency and access to a regional central bank with the low exchange rate and transfer risk.

Apart from those mentioned above, there are some weaknesses. Despite recent advances, the domestic political environment retains some fragility. Ethnic and regional tensions are also threats for the country as well as the uncertain regional influences including borders with Mali, Liberia, and Guinea.

Although we notice remarkable efforts toward diversification, the economy still relies on agriculture. Thus, the country is vulnerable to climatic effects on agricultural output and to changes in internationally determined commodity prices. The structural business environment strengthening is still weak because of a lack of enforcement or insufficient follow-up. Thus corruption, an important obstacle for businesses in the country, is disappearing hardly. The favorable position of the country and its endowments attract powerful international companies. It is surely a source of conflicts of interests and the rise of monopolistic competition.

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