

Horizontal inequality in post-conflict states:
Exploring the impact of International Financial
Institution interventions.



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Abstract

Horizontal inequality (HI) matters because it contributes to conflict outbreak and recidivism and prevents groups of people from accessing the opportunities required to enjoy real freedom. The post-conflict transition offers an opportunity for change and continuity as groups work to protect their interests. It is into this context of flux that International Financial Institutions (IFIs) come with significant financial resources, economic policy advice, and powerful statebuilding programmes.

Despite the importance of addressing HI and the economic power that IFIs hold at this moment of social and political realignment, little is known about what impact IFIs – the World Bank and the IMF – have on economic HI through their interventions. I use mixed methods (quantitative regressions and case study research on Liberia and Côte d'Ivoire) to investigate this question. I argue that IFIs reinforce contradictory progress on HI, leading to a gradual integration of the elite, while the poor remain the same previously disadvantaged groups.

IFIs do this by making important progress in certain policy spheres, while also providing the conditions under which the elite can reassert

their economic dominance. Both the World Bank and the IMF strengthen states' ability to address HI if they choose to, by building state capacity, increasing resources, and re-establishing macroeconomic stability. If the political settlement favours addressing HI, the World Bank can be instrumental in expanding universal basic services and pro-poor programming, which are indirect policies that address HI in the long term. (The IMF does little in this sphere.) Both IFIs however, pursue growth and macroeconomic stability in a manner that disproportionately benefits the more developed tier of the economy where elite groups are employed. Neither IFI engages in policies that reduce HI directly (broadly Affirmative Action policies). This patchwork of progress in some spheres and missed opportunities elsewhere, reinforces the contradictory progress that is characteristic of post-conflict, HI-affected countries.

Introduction

In 2015, five Afghan employees of the NGO Save the Children were kidnapped in Uruzgan province, where the Taliban had significant influence and contested control. The news reported that the Taliban had tried to use the workers to extract a prisoner release of Talib fighters held by the Afghan government. The government refused, and the aid workers were killed (Agence France-Presse 2015). What had circulated in Kabul at the time, however, was that these aid workers (or their agency) had been targeted because they were favouring their own villages, rather than distributing the aid projects to those most in need in the province. It is not clear this rumour was true; substantial evidence also indicates that the Taliban used force against aid actors who failed to channel assistance towards Taliban-aligned constituencies, typically Pashtun communities (Reuters 2025b). Still, it is a powerful illustration of how violence, even in the quintessential so-called ideological war of Afghanistan, was more often about distribution of resources, and that the identity of recipients mattered deeply to those receiving those resources (or not).

About a year later, I was reviewing a project that aimed to build a power plant to provide electricity to a region in Iraq. The proposal had not analysed whether the community receiving the power would be Sunni or Shi'a, despite the importance of the divide to recent violence and instability. The visceral importance of identity in the Afghanistan

example stood in contrast to how it had been forgotten in the Iraqi development project. This thesis is about these processes of resource distribution and the un-equalising or equalising trends that result. It seeks to understand whether post-conflict development actors try to use development projects to also build social stability and reinforce peace, or whether the pursuit of objectives (macroeconomic stability, rapid growth, electricity provision etc) drives investment into sectors, regions, and communities that were previously advantaged.

Horizontal inequality is “inequality in economic, social, or political dimensions or cultural status between culturally defined groups” (Stewart, 2008: 3). It is a context where certain groups have access to resources and public services such as jobs, education, health, political power and representation, and other groups do not. It is a strong motivator for conflict, and this forms the premise of the thesis: that horizontal inequality matters for peace and stability, and it therefore requires special attention in post-conflict countries. The thesis question follows from this: what impact do International Financial Institutions (IFIs) have on the evolution of HI in post-conflict countries? In this research, I focus on economic HIs, and the data used measures objective inequalities, not perceptions. The evidence and motivation for the research question will now be unpacked.

First, horizontal inequality matters because extensive empirical evidence has demonstrated the causal connection between horizontal

inequality and both conflict outbreak and conflict recidivism using quantitative methods (Cederman et al. 2011; Østby 2008; Bahgat et al. 2017; F. Stewart 2008). Case studies of ethnic conflict have often centred on narratives of exclusive ethnic control of the state, which in contexts of limited alternative economic opportunities, implies that the state becomes the economic prize replete with jobs and resources over which ethnic groups fight to control and profit (Lipka 2014; Gulalp 2006; North 1991; Ingiriis 2018). These group-based inequalities are more strongly connected with violence and conflict than more traditional measures of vertical inequality, suggesting that the identity aspect of horizontal inequality is important for explaining violence (Cramer 2003). This all indicates that reducing horizontal inequality (HI) in countries emerging from conflict should be a policy priority in cases where HI is a historical problem.

Beyond any conflict-inducing aspects, Horizontal Inequality undermines the effort to build a shared society (F. Stewart 2014). Most South Africans will agree that there is a massive strain placed on society when white owners of Ferraris and Mercedes Benzes drive past black, barefoot children begging at traffic lights, even if that inequality does not lead to active conflict. This also motivates the choice to study objective economic HIs, rather than perceptions. Reducing HI is therefore not only about reducing the likelihood of a return to conflict, but also about taking the opportunity offered by post-conflict reconstruction to build a more (objectively) equitable and fair society.

Horizontal inequality (HI) matters, and not just for a few, sporadic countries. It is a relatively widespread issue in developing countries (and in some developed countries, but this thesis will focus on the former). One of the explanations for the origins of HI is foundational shocks such as colonialism, conquest, and capture, and given the wide spread of colonialism, many countries continue to grapple with inequalities between the ethnic groups favoured by the colonial administrations and those considered best suited for cheap labour; or between groups closer to the colonial capital and those in the hinterlands (F. Stewart 2008).

Recent research generated data on HIs in 61 low- and middle-income countries in Africa, Asia, and Latin America, indicating that the number of countries facing vulnerabilities fuelled by HI is high (Tetteh-Baah et al. 2024; Østby 2008). Qualitative work has generated research on a number of important countries and the detrimental effects of HI on various measures of social and economic well-being including: Peru (Orihuela 2012), Guatemala (Caumartin and Sánchez-Ancochea 2012), Burundi (Nkurunziza 2012), Rwanda (Leander 2012), Afghanistan (Goodhand et al. 2012), South Africa (Bell et al. 2022), Bosnia (Woodward 2012), Ghana (Langer 2008), Nigeria (Ukiwo 2008), Bolivia (Caumartin et al. 2008), Haiti (Fukunda-Parr 2012), Nepal (Brown 2012), Indonesia (Boeke 1953), Malaysia (Gomez 2012), Zimbabwe (Mine 2013), Iraq (Lipka 2014), India (Dubey and Vanneman 2014), and more.

This is therefore not a small issue confined to particular cases like South Africa – it is far-reaching, contributing to outbreaks of conflict and social tension across some of the world’s largest emerging economies and most geopolitically relevant countries.

If HI is widespread and conflict inducing and / or destabilising to society, and to countries of global significance, it is necessarily also an economic variable that requires specific attention in post-conflict countries characterised by histories of HI, and by nature of being recently at war, vulnerable to a return to violence. Despite this, relatively little is known about how the International Financial Institutions (IFIs) tasked with reconstructing, developing, and monitoring the economies of post-conflict countries across the world – the World Bank and the IMF – impact HI.

There are several reasons to think that IFIs are worth investigating. Firstly, HI is an economic variable – affected by economic policy – and IFIs are the key international actors on economic policy the world over. In post-conflict countries in particular, IFIs have played a central role in rehabilitating economic institutions and advising on economic policy. For example, between 1980 and 1998, and in line with the increase in countries exiting conflict, the World Bank increased its lending to post-conflict countries by over 800 percent to USD 6.2 billion, affecting every region in the world, and every economic sector (Kreimer et al. 1998). Meanwhile a 2008 review of IMF work in fragile states, noted that the

Fund had been engaged in some form – surveillance, staff-monitored programs, financial assistance, or capacity building – in almost every fragile state in the world (Policy Development and Review Dept (IMF) 2008). The same paper noted the influence the IMF played in attracting aid to a country when it was engaged in a program (with influence over macroeconomic policy) indicating the kind of influence the IMF has not just over policy, but also broader aid flows. Given IFI influence over economic policy and aid in post-conflict countries, it is useful to know what impact this influence has on HI.

This thesis responds to this question using a mixed methods approach. I initially present the quantitative findings, which outline broad empirical patterns between IFI financial flows and change in HI in post-conflict states. This large-N analysis demonstrates increasing HI in contexts of more IFI loans – both from the World Bank and the IMF. A second set of interactive regressions begin to explore a factor that emerged strongly in the case study interviews, which is the domestic political settlement as a mediating factor of World Bank programmes and therefore of its impact on HI. The argument of these interviewees was that those with political power can direct resources in ways that benefit themselves and their supporters, and that the patterns of this resource distribution can influence IFI programmes.

To explore this quantitatively, this second set of regressions interacts IFI financial flows and a measure of clientelism and shows that the

correlation between World Bank loans and change in HI is influenced by the degree to which the political system is characterised by clientelism. In contexts of low clientelism, more World Bank funding is associated with more rapidly increasing HI. This positive association reduces as clientelism increases, suggesting clientelism attenuates the World Bank's association with increasing HI. At very high levels of clientelism, the interaction variable loses significance, implying that the data does not reflect a consistent pattern between World Bank funding and change in HI. This political influence does not emerge in the IMF regressions.

What the quantitative analysis demonstrates in broad empirical patterns, the qualitative chapters are able to explore in much more detail. Through the case studies I demonstrate the causal mechanisms through which IFIs influence HI. What is outlined in these chapters ties well with the quantitative analysis: it explains why IFI financial flows are likely to maintain or worsen HI, especially in the initial post-conflict years, corresponding well with the results of the first set of regressions. It also demonstrates how the political settlement can influence World Bank projects, thereby influencing the nature of its impact on HI. It equally determines that the domestic political influence over the IMF is significantly less, but it does not appear to be completely absent, as the quantitative regressions suggest.

The qualitative work finds that the impact of IFI interventions on HI emerges from an interactive process involving the IFIs, the domestic

political settlement, and the structure of the (dual) economy in the post-conflict country. This thesis therefore does not argue for a unidirectional causal relationship in which IFIs autonomously influence HI. Instead, it contends that IFI financial flows and policy advice interact with two domestic structures that both contributed to the creation of HI and that continue to maintain or transform it. These two structures are the political settlement and the dual economy.

A political settlement is “an ongoing agreement among a society’s most powerful groups over a set of political and economic institutions expected to generate for them a minimally acceptable level of benefits” (Kelsall et al. 2022). Where certain groups control the political settlement and agree to distribute the resources of the state amongst themselves, or to exclude groups, economic horizontal inequality results. Important to note: a political settlement that is structured in this way, would indicate political horizontal inequalities which exist when certain groups control the political structures of a country to the exclusion of other groups. In this sense, political horizontal inequalities are an explanatory variable of the outcome of interest, which is economic horizontal inequalities. This is because political HIs will be reflected in the political settlement. This is then reflected in the economic structure, which divides the economy between two tiers: the more developed tier of the economy employs and provides services to the privileged groups, and the less developed tier is where excluded groups are forced to survive with the sectors that are available to them:

typically subsistence or small-scale farming, the small, medium and micro-enterprise (SMME) sector, and the informal / shadow economy.

While, to the extent that political HIs influence the political settlement, they are considered as an independent variable in this analysis about economic HIs, this thesis does not have a major focus on cultural HIs for three reasons. The first, is that having a narrow focus is useful for research, and already economic HIs (and what influences groups' income over time) is an investigation into the structure and change of economies, which is already a large research project. Second, because my intuition is that many cultural HIs can be addressed through reductions in economic HIs. It is much easier to discriminate against someone (or a group) that has no money or education. Differentials in education will often validate people's prejudices during social interactions. Once those income and educational differences reduce, it becomes harder to validate prejudice, and people who experience that prejudice are in a much stronger position to defend themselves or reject them. Lastly, to the extent that reducing economic HIs does not reduce cultural HIs, the policy tools to address cultural HIs lean more heavily into legal solutions (i.e. passing anti-discrimination law and strengthening the judicial system to enforce this law) which are responses slightly outside the sphere of a thesis interested in economic development.

The process of ending the war may have shifted the political settlement, but lingering disparities between groups' levels of capital (human and physical), land, and experience means that the previously privileged groups are able to re-create economic opportunities in the post-conflict period. Previously excluded groups however will struggle to generate equivalent economic benefits from peace. It is into this context that IFIs come, with policy advice and significant financial resources. Understanding IFI impact on HI requires an understanding of how IFI policies and finances interact with the structures of HI – the political settlement and the dual economy. It also requires an understanding of what would be required for HI to decline.

Targeting and reducing HI would require support from the political settlement and the finances to make access to economic, social, and political resources more equal. It would also require an economic restructuring so that more people can access the higher incomes and services of the more developed tier, and / or in the short term, for the less developed tier of the economy to experience faster growth. From a policy perspective, this requires three categories of policies – work on the pre-requisites for addressing HI: broadly rebuilding the state, enhancing its capacity to enact economic policy (including through access to financial resources), and to maintain macroeconomic stability without which it is difficult for any economic activity to take place. Second, indirect policies for addressing HI are necessary, which target the poor without targeting a specific group. These include policies

expanding universal public services (health, education), social safety nets, regional development plans for lagging regions, microfinance for the SMME sector, expanded financial services, small-sector agricultural support etc. This category of policies targets the previously excluded group by virtue of targeting the poorest. The last category constitutes direct policies aimed at tackling HI through affirmative action or economic empowerment plans that legally require certain groups to be represented in economic and social institutions of influence. These are the most effective short-term policy responses to HI.

Both IFIs do important work on establishing the pre-requisites for addressing HI (a functional state, providing finances for development, macroeconomic stability). With a political settlement that is supportive of addressing HI, as in the case of Côte d'Ivoire, the World Bank can be a transformative actor in the indirect policies that address HI slowly over time. Without political support for addressing HI, as in Liberia's initial post-conflict administrations, the World Bank is more inclined to engage in investments that grow the economy more generally, but that are difficult for the previously excluded to use in a way that generates income and reduces inequality. The IMF does little work on indirect policies. Both the World Bank and the IMF however, engage in pro-growth development activities and advocate for policies that disproportionately grow the more developed tier of the dual economy that is characteristic of HI-affected countries. Neither IFI works on policies that directly target HI. This combination of HI-relevant

programming in some sectors, and missed opportunities in others, creates contradictory progress on HI. IFI support can enable some advancements in terms of poverty reduction and an expansion of public services, but simultaneously, it creates the enabling conditions for the privileged groups to re-claim their positions in the economic elite, creating enduring patterns of who the poorest and richest are.

This thesis provides novel contributions to the literature in two ways: first, it explains IFI interventions' impact on HI in post-conflict states, not as a unidirectional causal relationship, but as the result of an interactive process between IFIs and domestic structures. These interactions shape the evolution of HI through the way they direct state resources (including those made available by IFIs) and who benefits most from economic investment and macroeconomic stability. It therefore explains causal effect through an analysis of causal mechanisms. Second, and in doing so, the thesis provides a broader explanation for why HI is difficult to change without targeted policy action by outlining the mechanisms through which HI is maintained. Consequently, it provides both the reasons for continuity, and the opportunities for change: if these institutions of HI can be targeted, or at least accounted for in programme planning, the patterns of inequality can change. If they are left untouched, HI is likely to remain likewise consistent.

The remainder of this thesis is organised as follows. First, chapter 1 outlines the key concepts, literature, and methodology used in the

research. Chapter 2 provides theoretical insights on HI evolution in post-conflict states, and the impact IFIs have on this process. The thesis then turns to the empirical work from which this theory was drawn, starting with the large-N analysis in chapter 3. The case studies - Liberia (chapter 4) and Côte d'Ivoire (chapter 5) - provide significantly more detail than can be captured in the quantitative work and convey the casual mechanisms that are presented in the theory chapter. The final chapter concludes.

Chapter 1

Where to start: Concepts, Literature review, and methodology

Introduction

This chapter outlines the core concepts and the literature that is relevant for this research: both to provide conceptual clarity before outlining the full argument in the following theory chapter, but also to indicate that this research - important as I argue it to be - has not yet already been done. It goes on to present the methodological approach of the research which is abductive, starting with the theoretical and empirical foundations outlined in the literature review section below and

discarding and adding concepts and theories in line with what emerged in the inductive research that followed.

1 Conceptual and Empirical Scope

1.1 Horizontal inequality

As already outlined, horizontal inequality is “inequality in economic, social, or political dimensions or cultural status between culturally defined groups” (Stewart, 2008: 3). The relevant group marker depends on the country and is generally politically and culturally derived. In South Africa, the USA, and much of Latin America, the relevant identity is race; ethnicity tends to matter in the politics of African countries; religion mattered greatly in Europe but is less important now; caste is important in South Asia, alongside religion; and in some contexts it is language that matters (e.g. Cameroon) (F. Stewart 2016). The alignment of the relevant socio-cultural group and categories of (unequal) income distribution, is horizontal inequality.

Horizontal inequality (HI) can have several dimensions: economic, implying differences in income, wealth, employment, assets and similar; and social, relating to unequal access to basic services such as education, health, clean water etc. Political HIs refer to inequalities in political control and influence and include representation in the top levels of government, the civil service, in the military, and in civil society (F. Stewart 2016). The cultural dimension relates to respect for and recognition of the group’s practices including religion and language:

an absence of discrimination would mark an absence of cultural inequalities. This research focuses predominantly on economic and social inequalities (social because these are often the foundations of being able to access economic opportunities). Political HIs also form an important part of the analysis, but rather in an explanatory role.

1.2 Post-conflict

Post-conflict refers to post-*civil* conflict because HI refers to inequality *within* countries. As will be outlined, there is a strong theoretical and empirical connection between HIs and civil conflict outbreak and recidivism. Because HIs can generate powerful grievances that contribute to civil war, it is useful to study how HI evolves in those same post-conflict contexts. Ensuring long term stability will partly require the various grievances that led to the outbreak of war to be addressed, and therefore investigating whether, how, and how effectively HIs are addressed is a useful question for trying to understand how to build more stable post-conflict states. Empirically, post-civil conflicts are also the cases that have received the vast majority of international interventions since the end of the Cold War, which was relevant for the quantitative analysis, as it meant I could include 57 post-conflict countries in the analysis.

The post-conflict period is defined in line with the definition used in much of the HI literature and includes the time required to establish a functioning state, allow for economic recovery, and make progress

towards reconciliation and societal integration (Brown et al. 2008). As such, a fairly long period is studied. For the quantitative analysis, a country is considered post-conflict for 20 years after the end of the war. For the case studies, I investigated the transition period (in Liberia's case) plus three post-conflict administrations, totalling a little under twenty years. This definition does not deviate substantially from other research on HI in post-conflict states, which similarly take a long-run view of the post-conflict period (Woodward 2012; Caumartin and Sánchez-Ancochea 2012; Girod 2015).

There are two reasons to think that investigating the central question of this thesis will require a long-term definition of post-conflict. The first is that the World Bank and the IMF cannot extend new loans to countries that are in arrears, which is often the case for post-conflict countries. To clear arrears requires countries to either pay back their loans, or more commonly, to receive debt forgiveness. For the cases in this thesis, that required going through the process for Heavily Indebted Poor Countries (HIPC) before IFI lending could re-start (IMF HIPC 2022). The length of time to reach the HIPC "decision point", when disbursements can begin again, is variable, but requires a country to establish a track record of reform and sound policies, and to have developed a Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process in the country (IMF HIPC 2022). For countries emerging from conflict, this takes time – usually around 2-3 years, but in Somalia's case, it took 19 years (Chelsky et al. 2022). While the World Bank and IMF are engaged

during this time to assist the country pass through the process, their roles are limited to policy-advice, assisting with the PRSP, and, in the case of the World Bank, providing grants or small loans.

Once HIPC has been completed, negotiations can begin over large-scale loans and the roll-out of projects can begin. For complex projects like roadbuilding (World Bank) or establishing a functioning Central Bank (IMF), it can take years to be completed, and as such, assessing the World Bank and IMF post-conflict interventions requires an understanding that there are some years before the intervention, and its impact, will be in “full force”. To make a fair assessment of IFI interventions then, a longer time horizon is required.

The second reason for a longer time period is that sustainable reductions in HI take time, requiring the extension of social and economic infrastructure to the entire country and ensuring quality access to basic services; passing anti-discrimination legislation and affirmative action policies, and importantly, addressing un-equalising market tendencies (Langer et al. 2012). To provide a fair assessment of post-conflict interventions then, and to assess whether IFIs encourage or implement these HI-reducing activities and policies, it requires a longer-term assessment to get past the immediate “firefighting” activities such as disarmament and basic institution-building (that may or may not have HI implications). A longer time-period allows an assessment of the IFIs’ longer-term, strategic goals, how they were

implemented, and who benefitted. The 20-year post-conflict definition was therefore most appropriate for this research.

I've argued here that HI is slow to change, and therefore that it requires a longer time horizon to study. It is worth noting however, slow as it may be, that HI does change over time. A 2024 study used DHS data from 61 countries to create various indicators of HI over time between 1990 and 2016. The overarching trends are positive: HIs in education, child nutrition, and child survival tend to be declining across most of the Asia, Africa, and Latin America, while HIs in wealth have declined significantly less (Tetteh-Baah et al. 2024). Yet within these broadly promising trends, there is significant variation: while Africa experienced declines in child health related inequalities, southern Africa experienced significant increases in educational and wealth HIs, while Asia outpaced the other regions in terms of lowering educational inequalities. At the country level, again, there is significant variation with certain countries bucking the otherwise promising trends: Liberia has experienced increasing spatial inequality across measures of well-being; Chad saw an increase in ethnic inequality, and Zambia saw an increase in religious HIs. HI may be a slow-moving variable, requiring a longer post-conflict period to study its variation, but there is sufficient variation across time and space to warrant an investigation into what influences that change.

1.3 The IFIs

This thesis investigates the Bretton Woods Institutions: the World Bank and the International Monetary Fund (IMF). The reasons for selecting these institutions as opposed to other development institutions is related in part to the potential for their impact on HI, theorized below, as well as their jurisdiction, their impact, and matters of practicality. These organisations hold a global jurisdiction, with close to every country in the world as a member of both. This is relevant because any potential impact of the interventions on HI could have an impact on the greatest number of countries.

Beyond impact by numbers, IFIs also have significant influence over economic policy in post-conflict countries. Particularly in cases where the state is weak and would struggle to construct economic policy on its own, the international community relies on the World Bank and IMF to do much of the economic policy and institutional building in the early post-conflict years (Policy Development and Review Dept (IMF) 2008; Kreimer et al. 1998).

Both IFIs also bring substantial financial power to a post-conflict country's budget. The World Bank is consistently among the largest aid dispensers in many post-conflict countries, including in the case studies presented here. While the IMF does not dispense major aid in and of itself, its approval of a country's macroeconomic management can unlock major financial flows from aid actors who wait for the IMF's approval and see it as a guarantee of future macroeconomic stability

(Chami et al. 2021). This breadth and depth of action in and across countries makes the impact worth investigating. It also provides a greater sample size of countries to work with (relevant for the quantitative section of the research).

Lastly, there is the need to make the research scope manageable. The more development agencies that are included in the analysis, the more difficult it will be to understand the intricacies of each organisation's institutional culture, economic ideology, and nature of project implementation, in a manner that creates a nuanced and analytical argument. For these reasons, the World Bank and IMF are the focus of this research.

1.4 The dual economy

The dual economy forms a major explanatory role in this thesis, and while its application in HI-affected countries will be discussed in greater detail in Chapter 2, a brief outline here is useful. The dual economy is the existence of separate tiers of an economy within one country, which collectively reflect total production. Each tier is characterised by different levels of development, technology, and patterns of demand (Boeke 1953; Singer 1970). The term was initially coined by Boeke (1953) to describe the division between the subsistence agricultural sector in Indonesia alongside a market economy in which commodities were exchanged for profit. It has since been used to describe the division between the manufacturing and agricultural sectors (Blomstrom

and Wolff 1993); the formal and informal sector (Abdallah 2017); the urban and rural economy (Masson 2001); and the modern and traditional sectors (Blunch and Verner 1999). This thesis defines the two tiers as simply the more developed tier, where the privileged groups are employed, and the less developed tier of the economy, where the excluded groups are employed. For more, see Section 4, Chapter 2.

2 The literature: gaps and theoretical and empirical starting points

This literature review plays a double role: first it illustrates what the literature has to say about the research topic, and the gaps that this thesis aims to fill. Second, it provides the baseline for the abductive methodological approach that follows. For this, each literature subsection will outline what the literature says, and the ideas it gave for where to start looking in my own research. What followed (methodologically) was much more inductive.

There are two key spheres of literature that are important to outline as the framework for this topic. The first is that which deals with HI directly (either as it relates to conflict, or in the post-conflict context), and the second is the post-conflict peacebuilding and state-building literature more broadly, which mostly has economic growth (rather than any form of inequality) as its focus. These two spheres of literature provide the necessary backdrop to understand what is known and unknown about

the relationship between the research's dependent and independent variables: HI and IFI interventions in post-conflict states.

2.1 Horizontal inequality

A core aspect of the research on HI looks at its relationship with conflict and conflict recidivism. The well-documented connection suggests it is important that IFI interventions in post-conflict states do not exacerbate HI thereby risking a return to conflict. Frances Stewart's work (2008, 2009) and with Venugopal (2014) are the starting points, as it looks initially at the interaction between HI and conflict including the role HI plays in group formation and mobilisation; the reasons why HI is generally persistent over time and under what conditions it might change; and the kinds of policies that could affect HI. A key finding is that the probability of conflict rises where socioeconomic HIs are higher. According to Østby (2008), the likelihood of conflict is three times higher with ethnic group HIs and 2.5 times greater with regional HIs. Secondly, conflict is more likely where political and socioeconomic HIs are high and run in the same direction or are consistent. When they run in different directions, conflict is less likely.

This finding that connects HI with conflict and conflict recidivism was reinforced in the Cederman, Weidmann, and Gleditsch (2011) research, where the authors find that "in highly unequal societies, both rich and poor groups fight more often than those groups whose wealth lies closer to the country average" (Cederman, Weidmann, & Gleditsch, 2011:

478). Likewise, in Buhaug, Cederman, and Gleditsch (2014: 419), they find that “countries with one or more ethnic group(s) radically poorer than the national average and countries with large groups discriminated from national politics have a significantly higher risk of armed anti-governmental opposition”. These authors have also motivated the importance of analysing HI specifically, as opposed to inequality more generally, arguing that while the relationship between vertical inequality (or conventional measures of inequality) and conflict and conflict recidivism is somewhat unclear and contested, the same interaction with HI charts a far clearer and more robust relationship (Buhaug, Cederman & Gleditsch, 2014; Cramer, 2003).

A 2017 paper published by PRIO, by Bahgat et al, maps what is known (and not known) about HI and conflict, and importantly also includes HI in post-conflict contexts. They include discussions on various markers of identity; perceived and objective inequality; defining inequality; data sources on inequality; before condensing around the wide variety of policies and approaches (that could be implemented by international or domestic actors) and their impact on the risk of conflict onset and recurrence. Despite the extensive summary of literature on HIs, nowhere does the paper discuss the distinct role of IFIs or their approaches to post-conflict reconstruction. The study’s dependent variable throughout the study is consistently conflict recidivism, rather than HI itself.

Nevertheless, perhaps the most relevant finding, for the purpose of this research, is that post-conflict economic policies have a very mixed record regarding their impact on peace duration, suggesting that it is not yet clear whether economic policies – including those recommended by the IMF and the World Bank – strengthen or undermine the prospects for peace, or indeed HI.¹ The authors also note that while peace agreements often include, power-, military-, and wealth-sharing provisions, as well as attention to education, civil society, and gender, few agreements make specific provisions for important economic issues like systematic inequalities in employment and land reform, even though these issues are often key motivating grievances for rebellion.

In addition to this, the authors note that there is sufficient evidence to suggest that political institutional measures, including territorial decentralization, educational policies, and cultural recognition can help to avert the onset of conflict. In terms of reducing the risk of conflict recurrence, they note that some aspects of political and military power-sharing as well as territorial autonomy policies seem to reduce that risk. This does not appear to be the case for wealth sharing policies. (Bahgat et al, 2017: 161)

For much of this work on HI, the research treats HI as the potential cause that impacts a conflict-related variable (onset, recidivism). The distinct role of IFI approaches to post-conflict reconstruction, or how this

¹ Although the provision of education appears to increase peace duration.

may impact HI (as the outcome, rather than a cause), remains unaddressed.

Langer, Stewart, and Venugopal's (2012) book has a stronger focus on post-conflict development, as it maps the possible impacts that various macroeconomic policies are likely to have on HIs. Here, therefore, there is the treatment of HI as the outcome. There are chapters that provide a "deeper dive" on certain policies, such as employment (F. Stewart 2012) and privatisation and private-sector development (Venugopal 2012), as well as a number of case studies that expand on country-specific experiences of HI in their post-conflict years (Woodward 2012; Caumartin and Sánchez-Ancochea 2012; Orihuela 2012; Nkurunziza 2012). While the book explores many post-conflict policies and the impact they have had within certain cases, the discussion is largely theoretical or case-study driven, rather than large-N in its approach. The chapter on Poverty Reduction Strategy Papers (PRSPs) points to IFI intervention, because these are documents required by the World Bank and the IMF for a country to be considered for certain funding (such as debt relief), and IFIs should use the PRSPs to guide their interventions (Fukuda-Parr 2012). However, Fukuda-Parr's finding that external resources are misaligned with PRSP priorities, together with Stewart & Wang's (2003) finding that PRSP's do not always alter IFI programming, suggests that the investigation may need to go beyond PRSPs. The impact of IFI intervention on HI therefore remains unknown.

2.1.1 Evidence on what policies address HI

Brown, Stewart, and Langer (2010) look more closely at HI and aid by outlining what aid actors should do when entering a country with HI. This includes monitoring and measuring HIs, explicitly targeting exclusions and inequalities in the sector-wide approach (SWAP) programmes; and ensuring countries with high HI receive sufficient, and potentially more aid to reduce inequality. While this body of work has done much to expand our understanding of HI in post-conflict settings, it has remained largely focused on national actors, or what IFI programmes should look like, rather than what IFI programmes do target and look like. This remains an important question, given that IFIs have significant financial muscle and policy influence. Indeed, often in the earliest post-conflict years, when institutions and governments are slowly being rebuilt and may lack capacity, the World Bank and the IMF are often entrusted with the most basic economic functions: re-establishing economic governance institutions (such as the Central Bank and Ministry of Finance), working with the early government to put together the first state budgets, supplying the lion's share of the fiscal revenues, and other critical economic policy.

Langer and Stewart (2012) outline how various macro-economic policies are likely to affect HI, noting that redistributive fiscal policies (such as progressive taxation) are likely to reduce HI, while regressive taxation is likely to increase HI. They outline that monetary policy which keeps interest rates low in the formal sector, but allows high interest rates in

the informal sector, would help more privileged groups who have access to formal sector lending, therefore likely worsening HIs, but not significantly (Langer and Stewart 2012). They focus on trade and exchange policies – policies that generally aim to switch resources into tradeables to improve the external balance of payments. Noting the role of colonial administrations in privileging certain ethnic groups for educated or labour roles in the economy, they outline how policies privileging the tradeable sector can benefit the groups that control the tradeable resources and hurt those who exist in the non-tradeable sector, such as subsistence (Langer and Stewart 2012). Where these tradeable or non-tradeable sectors are controlled by different ethnic groups, policies which privilege one sector will invariably privilege the ethnic group tied to the sector.

Similarly, capital market policies that generously favour richer groups to prevent capital flight and attract capital into the banking sector will also benefit the wealthy. Lastly, the authors reference aid policies, and note that similar considerations that relate to public expenditure are also true for aid's impact on HI: greater allocations of public expenditure to already privileged groups are likely to worsen HI.

Specific policies that reduce HI include: the provision of comprehensive services with universal coverage, affirmative action, education and training programmes or special investment programmes for the poorest, anti-discrimination legislation, regional development programmes,

sectoral support programmes (in line with the ethnic division of economic sector control), and incentives for cross-group economic activities (Langer and Stewart 2012). The theory therefore suggests that the choice of economic and other national policy matters for how HI evolves over time. While it is clear that IFIs have some influence over such policies, and that certain prescriptions remain part of their conditionality, it is not clear if IFIs adjust policy advice and conditionality in contexts characterised by high HI.

This is a major limitation, because many of the measures outlined here as policy that would worsen HI (i.e. capital market policies in favour of the wealthy or policies that privilege the tradeable sector) form a major part of IFI policy advice that is trying to manage balance of payments issues or attract Foreign Direct Investment (FDI). It is therefore worth investigating IFI engagement in HI affected post-conflict countries.

As a final point, a 2024 study on HI trends in Africa did not find strong correlation between economic growth and reductions in HI, indicating that HI will require specific policy responses, and economic growth on its own is unlikely to address HI (Tetteh-Baah et al. 2024). This is especially relevant for what follows in terms of the literature on peacebuilding and statebuilding, which has had an especially strong focus on growth.

2.2 Assessments of IFI interventions in peacebuilding, statebuilding, and fragile states

The literature on peacebuilding and state-building has naturally had a stronger focus on IFI interventions: either to determine what policies and practices are best suited to preventing conflict recidivism (and therefore how IFIs should approach peacebuilding), or to evaluate (and often critique) the impact of their policies and interventions on either conflict onset and recidivism, or various economic variables, including vertical inequality (often outside of the context of post-conflict countries). Despite what is known about the connection between HI and conflict onset and recidivism, a study into the effect of IFI interventions on HI has not yet been undertaken.

2.2.1 Research advising IFIs on what they should do in post-conflict states to support peace

The research on what IFIs should do has largely focused on how IFIs should stimulate economic growth, reduce poverty, and re-structure away from natural resource dependencies to reduce conflict recidivism. An evaluation of how these policies might impact HI has not been part of the analysis. Collier and Hoeffler (1998, 2004), Fearon & Laitin (2003), and Hegre & Sambanis (2006) all note the importance of improving the level of GDP per capita to reduce the risk of conflict onset. Collier and Hoeffler (1998, 2004) add that slow current economic growth is associated with conflict, as is a higher proportion of natural resources in total exports. Conversely, higher levels of secondary school attainment are associated with lower risk of civil war.

This focus quickly leads us to an economic growth theory framework for post-conflict development, focusing on how to augment factors of production, in line with neo-classical economic models (Blattman & Miguel, 2010). Collier et al (2003) make detailed policy recommendations for countries at various degrees of post-conflict stability, including cushioning for adverse shocks, undertaking political reform, reducing corruption, diversifying from natural resources, and increasing economic growth through improved domestic policies, international aid, and access to global markets. This has been important for the growth of post-conflict economic advice but has never directly addressed how this policy advice (largely made to influence the work of IFIs) might impact or curb HI. While growth is almost certainly necessary for post-conflict countries, given the social and economic divisions, it may be important for IFI interventions to also target other economic variables - including horizontal inequality.

2.2.2 The critique of growth-focused / neo-classical approaches for its impact on various economic outcomes

There have been three major economic crises that IFIs have responded to, broadly with versions of the Washington Consensus, that have each generated strong criticism for their socio-economic impacts (political and conflict-related critiques will be addressed later). Specifically, various economists have critiqued the economic distortions that have resulted from the Washington Consensus. This section will briefly outline

the historical emergence of the Washington consensus, with each period's corresponding economic critique.

The debt crisis of the 1980s was the result of cheap loans available to developing countries from the international private sector as the massive surpluses of the Organization of the Petroleum Exporting Countries (OPEC) created an excess of liquidity within international capital markets, which sought customers that would borrow and pay interest on the loans serviced by this liquidity (Woods 2018). This was suddenly rolled back in 1979 when the US Federal Reserve increased interest rates and government creditors stopped rolling over loans, demanding repayments on very large loans that governments found difficult to pay back. To respond to this debt crisis, the IFIs stepped in to assist developing countries to pay back their loans by creating the ten elements of conditionality that would become the Washington Consensus: reducing inflation, stabilising the exchange rate, increasing interest rates, reducing public sector expenditure and investment, increasing taxation, reducing subsidies, liberalising trade, privatising state-owned enterprises, encouraging foreign direct investment, and deregulating their economies (Woods 2018).

This broad ideological approach generated strong critiques over time. The initial core critique was that the speed of (radical) implementation and sequencing was causing unacceptable hardship on the poorest, and on children especially. The strongest and most enduring critique came

from in UNICEF's report *Adjustment with a Human Face*, which highlighted the very negative effects of austerity on children and poor households (United Nations Children's Fund 1987). It marked an important transition, with a key international partner of the World Bank strongly criticising the on-the-ground impacts of rapidly scaled back government programmes. Academics joined the critique, including Roland Paris who argued that this mainstream approach to achieving economic growth (liberal peacebuilding and the (post-) Washington Consensus) increased inequalities, imposed economic hardships, and provided peace "penalties" instead of dividends (Paris, 2004).

The early 1990s brought the new challenge of transforming the former Eastern bloc economies. The structural adjustment aspects of the Washington Consensus were applied, and subsequently criticised for having too narrow an approach: engaging for example in privatisation without effective rule of law and transparency led, in some cases, to corruption and state capture alongside stagnant and mal-adapted economies. For example, Hellman (1998) wrote about the traditional cost-benefit thinking about reforms as one based on a J-curve of initial costs for short-term losers, followed by more significant wins for a greater number of winners. He argued however, that the more significant political obstacle to a completed economic reform process, were not the short-term losers but the short-term winners, who were able to generate significant rents (at considerable social cost) and therefore had a large incentive to maintain the country in a partial

reform equilibrium (Hellman 1998). Michael Pugh (2002) added to the critique, noting that in contexts with poor institutional capacity, liberalisation can reinforce the dominance of clientelist and mafia political economies (Pugh 2002).

The 2008 financial crisis brought a different kind of critique, which was less about the nature of the economic impacts themselves, but rather the uneven application of this (socially costly) oversight. While the IMF had heavily scrutinised emerging and developing economies, the USA had refused a financial sector assessment prior to the crisis, and the effect was a global growth slow-down, erasing years of progress in developing countries (Woods 2018). Non-Western wealthy countries (Japan, South Korea etc) and other powerful developing countries (Brazil, China, India) wanted to see a more even-handed approach: an IMF empowered with tools and the authority to deal with its founding members, as well as reforms to its governance structure.

From a policy perspective, out of the financial crisis came the idea that high income inequality within countries can become a *cause* (and not only an effect) of financial crises, and therefore something to address within countries across the world. And correspondingly, the idea that inequality would self-regulate over time with economic development fell away (Rajan 2011; Sturn and van Treeck 2013). Even the IMF began publishing research on addressing inequality and describing it as an important economic variable to address and target in macroeconomic

policy (IMF 2025; Kumhof et al. 2013). HI was not an aspect of these analyses.

2.2.3 Assessments of IFI interventions' impacts on vertical inequality

The IMF and the World Bank have argued that they have changed the way they offer financial support from the Structural Adjustment period, offering significantly more flexibility and more labour and social protection, listening more to governments' needs, and being more focused on the poor². However, a review of IMF policy conditionality from before and after the SAP programmes found little evidence of fundamental transformation in the conditionality imposed by the Fund. The same study also found that the policies introduced to ameliorate the social consequences of IMF macroeconomic advice were poorly incorporated into programme design, reducing their effectiveness (Kentikelenis et al. 2016). This suggests that the aspects of IMF work that negatively affected the poor and increased inequality may still be very much part of the IMF policy toolkit.

Recent studies of the IMF's work in countries broadly (i.e. not post-conflict only) have shown that IMF programmes do continue to increase inequality. A 2020 paper used a difference-in-difference approach to show that IMF programmes increase inequality; that this increased inequality is driven by income losses for the poor rather than income gains for the rich; and that this effect persists for up to five years (Lang

² (Interview 67, Senior World Bank official, 14 November 2025, In person, Washington)

2021). In another study of 135 countries over the period 1980 to 2014, the authors found that IMF policy reforms increase income inequality in borrowing countries (Forster et al. 2019). By disaggregating IMF conditionality, they found that four policy areas in particular have adverse distributional consequences: fiscal policy reforms that restrain government expenditure, external sector reforms stipulating trade and capital account liberalisation, financial sector reforms entailing inflation control measures, and reforms that restrict external debt. If IMF conditionality is driving vertical inequality, is it worth asking if this IMF programming affects HI; or whether the IMF does not impose the conditionality that would drive inequality and weaken the state in post-conflict contexts characterised with high HI.

Stewart and Langer outlined similar policy findings in their chapter on macroeconomic policy for HI. Reducing budget deficits by cutting expenditure; regressive taxes; high emphasis on deflationary policies, and certain trade policies (such as lower tariffs, pro-export policies in certain economic contexts) will tend to favour wealthy groups (Langer and Stewart 2012). These findings set the scene for the kind of economic change and conditionality-driven reform that might drive higher HI, and these findings will therefore be used to compare the conditionality implemented in the case studies.

The World Bank, like the IMF, has undergone various shifts in response to critiques that their programming did not sufficiently target the

poorest and the excluded. The 2013 World Bank strategy talked about pursuing inclusive growth by targeting the twin goals of eliminating absolute poverty and boosting shared prosperity. The World Bank's independent evaluation body, the Independent Evaluation Group (IEG) did a synthesis of findings on the World Bank's inclusive growth agenda from various IEG evaluations conducted between 2009 and 2018. The investigation found a growing focus on inclusive growth in World Bank strategies and operations over time, shifting from more abstract assumptions that growth would generate jobs (including for the poor) to more targeted work on ensuring that the benefits of growth were shared by focusing on social transfers, education and skills training, reaching the rural poor, and managing the environmental impact (IEG 2018, 7).

The report also found that while over three quarters of World Bank projects mention the shared prosperity goal, only 32 percent had an explicit theory of change linking projects to benefits for the bottom 40 percent of the population. In particular, the report noted that the Bank's work on land was not designed to target inclusion - a major lost opportunity given the foundational role that uneven access to land plays in embedding inequality in economic outcomes (Albertus 2025). It also noted that the Bank's infrastructure work reflected imbalances in channelling Bank resources to the poorest (IEG 2018, 13).

While the report mentions ethnic inequality, it does not give major attention to HI as an outcome worth monitoring. This does not mean its

findings are not useful for addressing HI because many of its considerations regarding the bottom 40 percent would benefit the previously excluded groups in a context affected by HI. Nevertheless, without a targeted perspective on HI, the review fails to assess the regional distribution of Bank projects and investments within countries that might impact heavily which groups benefit. The report also does not differentiate between post-conflict and other MICs / LICs, which is relevant because the political economy and inequality dynamics in post-conflict countries can require a more targeted focus on HI, given its relationship with conflict and the risks of returns to conflict that early post-conflict years pose. As such, the core question of this thesis remains unanswered - what impact IFIs have on HI in post-conflict states and why.

2.2.4 The critique of growth-focused / neo-classical approaches to development for its impact on peace and stability

The final stream of literature relevant for this research has looked at interventions by the World Bank and the IMF and critiqued them for weakening states' capacities to respond to grievances, thereby weakening prospects for long-term peace (Paris, 2004; Hartzell, Hoddie, & Bauer: 2010). In one sense, this literature conveys what is known in terms of IFI impacts on the post-conflict countries they work in (which does not include their impact on HI specifically). It also partially motivates this research: if IFI interventions have been known to impact

political and conflict outcomes, it is reasonable to consider whether they could impact an economic variable that is strongly connected with conflict outbreak and recidivism: horizontal inequality. If HI is a key source of grievance, and post-conflict countries are less able to respond to that grievance, because of IFI interventions and conditionality, that would be an important finding.

Structural Adjustment Programmes (SAPs), as the tool of economic liberalisation by the IMF, have been particularly criticised as “sowing the seeds of civil war” (Hartzell, Hoddie, & Bauer, 2010: 339). The authors found that countries that had signed on to an IMF programme were more prone to civil war onset than those that did not. While the authors acknowledge the risk of endogeneity, they also argue that the process of exposing an economy to neoliberal reforms was likely to negatively impact actors, generating “losers” that may increase the potential for violence (Hartzell, Hoddie, & Bauer: 2010: 344). Although the focus of their work is on conflict onset rather than recidivism (which is more relevant in post-conflict settings), it is possible that the negative impacts of SAPs are similarly experienced in post-conflict settings, undermining post-conflict peace sustainability. Likewise, the same process that generates losers could equally be worsening HI.

A 2021 book, authored by IMF economists, assessed the IMF’s work in fragile states (including, but not limited to post-conflict countries) (Collyns et al. 2021). The findings were in line with a 2018 evaluation by

the Independent Evaluation Office which collectively presented evidence to suggest that the IMF helped fragile states to increase their taxes, seemed to increase growth, and helped states to attract more aid (Collyns et al. 2021; Takagi and IEO 2018). Both the book and the paper (with overlapping authors) noted however that the IMF struggled to tailor its advice and conditionality to the specific context of fragile states, did not achieve meaningful collaboration with other development partners, and despite institutional claims that fragile states were an important part of the IMF's work, had poor staff incentives and weak resource allocation for its work on fragile states (Collyns et al. 2021; Takagi and IEO 2018). This research did not address the IMF's influence on horizontal (or vertical) inequality, but the weaknesses of IMF engagement outlined suggest that country specificities (such as high HI) may not be well considered, and therefore programmes may not be well adapted to address it (or not aggravate it).

A similar study was done in relation to World Bank post-conflict assistance programs (Flores & Nooruddin, 2009). The findings suggest that the World Bank selects the countries it supports according to their pre-existing probability of conflict recurrence, and that once this factor is controlled for, World Bank assistance programs have no significant effect on either conflict recurrence or economic recovery (Flores & Nooruddin, 2009). While this literature gives us a sense of some of the

impacts (or lack thereof) that the World Bank has in post-conflict spaces, it does not comment on its impact on HI.

2.2.5 The critiques worked? Are IFIs fragility- and inequality-focused?

While the critique of the economic aspects of liberal peacebuilding has been strong, the World Bank and IMF seem to have taken some of that criticism on board: del Castillo (2010) writes about the growing realisation within the IFIs that post-conflict economies cannot be treated in the same way as more robust economies, and that taking a more assertive approach to preventing conflict can be significantly cheaper than repairing a country after a return to war. This led to the World Bank releasing its Framework for World Bank Involvement in Post-conflict Reconstruction in 1997 – for the first time establishing goals and guidelines explicitly tailored to countries recovering from civil conflicts. The 2011 World Development Report entitled *Conflict, Security, and Development* explicitly designated conflict and insecurity as a development issue – both as an inhibitor of development once it had broken out, and as a consequence of failed development (World Bank 2011). It argued that building institutional legitimacy was critical for stability, and to achieve this, international organisations would need to approach development with a longer-term perspective, greater staying power, and realistic expectations. These major think pieces produced by the Bank could have made it more sensitive to potentially inflammatory policies – including those that may exacerbate HI.

In 2018, the World Bank in collaboration with the United Nations released a report focused on *preventing* conflict. This paper explicitly mentions HIs and the importance of using the SDG framework to track and reduce both perceived and objective inequalities (United Nations and World Bank 2018). When discussing with the author whether he thought that the findings of such a paper would filter into programming, he said that the aspects that had been incorporated into (mandatory) assessments that Country Directors do (such as assessing conflict arenas) would influence programming. Specific aspects that are not streamlined, he thought would be unlikely to be picked up³.

Lastly, the introduction of Poverty Reduction Strategy Papers (PRSPs) used by the IMF and the World Bank was intended to increase national ownership of programmes, and programmatic shifts towards good governance and institutional development took place contemporaneously, from around the end of the 1990s (Stewart & Wang, 2006: 1). These shifts may have changed IFI interventions in post-conflict countries, suggesting that the critiques outlined earlier in the chapter (and their potential connection to HI) may be no longer relevant. It is also possible that these changes were window dressing rather than substantive. To be sure, the cases studied in this research will only be selected from after the late 1990s onwards.

³ (Interview 3, Former Senior World Bank Official, 4 June 2021, Whatsapp)

This body of research has done much to lay the foundation on which this thesis builds. It provides the theoretical starting place, by making the following points: first, it argues that HI is relevant for all societies, but perhaps especially for post-conflict countries that risk falling back into conflict, and that face this entrenched grievance that is empirically connected with conflict and conflict recidivism. It also provides the baseline of the kinds of policies and development projects that would reduce or exacerbate HI in post-conflict countries. This will be useful for assessing the kinds of policies and development programmes that IFIs have implemented in the post-conflict countries I assess. The second body of research indicates why one might think IFIs could influence HI in post-conflict settings – much research (including from the World Bank and the IMF) has shown the economic and political consequences of IFI interventions, and IFIs have made changes in the way they function and interact with governments to address some of these critiques. Given the importance of reducing HI (most especially in post-conflict countries) and given the tendency of some IFI interventions to increase (vertical) inequality, it is worth investigating whether IFI interventions drive HI outcomes in any consistent way, and critically – what causal mechanisms might be driving this impact. The next section will outline the methodology that was employed to assess this.

3. Mixed Methods: an abductive approach

The methodological approach of this thesis is best described as abduction – where one starts with a set of existing concepts and

theories from various fields of study, but without the theoretical clarity of deduction; and collects facts and data on the topic of interest to infer propositions (inductively) that may or may not rely on the initial set of existing concepts (Friedrichs and Kratochwil 2009). It is a methodological approach that exists between induction and deduction, where one starts with ideas of what could matter, but little commitment to these ideas, and uses inductive techniques (including collecting facts, process tracing, and logic) to unpack what does matter – discarding and adding theoretical concepts as necessary. The literature review and concepts section above gives an overview of the theories, empirics, and concepts with which I began this research. What follows from this was largely inductive.

I wanted to achieve two things with this research: I wanted to discover something new in terms of how IFIs engage in post-conflict countries and the impact they have in terms of HI evolution; and secondly, I wanted to have an idea about the generalisability of those findings. To achieve the former, the qualitative approach was best suited, allowing for a close investigation of specific countries and specific IFI interventions: exactly what programmes were implemented, how these programmes were negotiated, who benefited, and how these interventions fitted in with the broader international and domestic development approach. To establish whether the qualitative findings had any generalisability outside of those cases, quantitative methods were used to study the correlation between IFI financial flows and

change in HI in all post-conflict countries after the Cold War. The methodological challenges of this quantitative work limit the extent to which we can talk about causality, but the alignment between the case study research and the quantitative research suggests that the findings of the case studies may be more broadly observed (or at least are unlikely to be specific to these two countries only).

This would suggest there was a clear order of completing the research, but in reality, the quantitative and qualitative work emerged much more in tandem. The early findings of the quantitative analysis were refined over the course of the research period, and emergent findings from interviews (including the political settlement component) were incorporated into the quantitative analysis. The quantitative chapter is presented before the case study research in this thesis because it is a useful overarching perspective on the research question, before the finer detail of the case study work is outlined.

3.1 Large-N research: the quantitative analysis

The quantitative chapter outlines the methodological approach, the data used, challenges etc in greater detail. This section will therefore not repeat this, but rather explain how the abductive methodological approach was used in the quantitative process (including some failed attempts), while also highlighting the connections between the quantitative and qualitative sections.

First, the quantitative section outlines OLS regressions that explore correlation between IFI financial flows and change in HI in 57 countries that exited civil conflict from 1991 onwards. It also builds on these baseline regressions to add an interaction term between the IFI financial flows variable and an indicator that measures the degree to which the political context is characterised by clientelism. The regression results are indicative of the relationship that is found in the case study chapters, although they are not able to speak to cause or direction of causality. They therefore provide an indicative starting point that the case study research speaks to in greater empirical detail.

The second set of interaction regressions emerged in an effort to see what might influence the correlation between IFI financial flows and change in HI. True to the abductive methodology, I began by exploring whether World Bank projects targeting the private sector vs public sector had any differential correlation. To do this, I started by coding every World Bank project in every post-conflict country since 1960. I coded the total amount committed to the project, as well as what percentage of each project targeted three types of outcome: policy and institutional change (as a measure of good governance and policy change); the private sector; and the public sector. This included a review of 1253 World Bank projects and how the World Bank had described the project in terms of which sector it had targeted. Where this information was unclear or not included, I read the project documents.

The aim was to investigate if certain types of projects might be driving increases / decreases in HI. My starting idea was that projects targeting the private sector and policy change might be correlated with increasing HI, with the private sector investments benefitting the previous elite, and with policy change still being inspired by Structural Adjustment ideas, which had been demonstrated to increase vertical inequality. I thought projects targeting the public sector might reduce HI, as these projects tended to invest in education and health, in ways that might help previously excluded communities. At least 4 months of continuous coding created a dataset that produced no consistent or robust results.

Alongside this quantitative work, I was beginning my interviews with development experts and with officials who had worked on Liberia. Repeated conversations and questions seemed to elucidate little interest from my interviewees about which sector the development work targeted. Interviewees seemed to say that what was more damaging for post-conflict progress was not a focus on the private sector rather than the public sector, but rather a development approach that was not especially interested in development at all: that had at its core the goal to direct as much state money into private hands for the economic and political advancement of a narrow elite⁴.

⁴ (Interview 1, Academic, 20 May 2021, Whatsapp; Interview 3, Former Senior World Bank Official, Whatsapp; Interview 25, Liberian Civil Society, 26 October 2021, Zoom; Interview 26, Liberian Civil Society, 1 November 2021, Zoom)

One interviewee even said that his opinion was that policy consistency was what mattered over the specifics of the policy itself: a state could support the private sector if that was its development approach, as long as that support was sustained for long enough that the private sector would begin expanding rapidly enough to employ more people, raise incomes, drive growth, and importantly, pay taxes for a government that would be better positioned to invest in social services⁵. Likewise, a state committed to expanding social services (education, health etc) would be a good approach as long as that approach was sustained – so that children would have sustained access to education for long enough to become capable of creating, expanding, and being employed in the private sector. The self-coded database was abandoned, and the political angle was something I began to explore in more detail, ultimately producing some interesting results which will be outlined in full in chapter 3. (It is worth noting that the lack of rigorous results with the self-coded dataset may be more a reflection of the noise in the data, rather than the lack of an underlying relationship.)

This political economy lens produced equally interesting results in the qualitative chapters, so that this aspect of the research fitted well with both the large-N analysis and case studies. This example of how the quantitative research evolved indicates two aspects of my methodological approach: the first is the abductive approach. That I started with certain theoretical concepts and ideas of what might

⁵ (Interview 67, Senior World Bank official, In person, Washington)

matter but was willing to discard and replace with new ideas that were emerging through the inductive research. The second point is that the inductive work being undertaken in the qualitative chapters was also used to inspire thinking on the quantitative work (and vice versa). This is not to say that the quantitative findings can be treated with the same causal confidence as the qualitative findings – but rather that the research presented in this thesis was abductively co-developed, with the quantitative chapter being suggestive of patterns that emerged strongly in the case study chapters. The Theory chapter will present this argument in greater detail.

3.2 The case studies: Liberia and Côte d'Ivoire

For the qualitative work, I chose two case study countries: Liberia and Côte d'Ivoire. The case studies were selected according to two sets of criteria. The first was the scope conditions that would make them suitable for the research, which required the countries to have HI that was relevant for the outbreak of conflict; countries where the evolution of post-conflict HI had not already been explored in great detail in the literature (in an effort to add something original, not just in terms of the question about HI, but also information about the country itself); conflicts that had ended after the end of the 1990s to avoid commenting on IFI approaches that were no longer in use; and lastly cases in which the IFIs were among the core development actors in the country (as opposed to cases where Chinese aid or the Asian Development Bank for example, dominated).

The second set of criteria was designed to facilitate the comparison between the two case studies, rather than simply being two siloed case studies. To enable this, the logic of the Most Similar Systems Design (MSSD) approach was employed, where two cases were selected with as much in common as possible (Przeworski and Teune 1970). Liberia and Côte d'Ivoire both experienced and ended their war at a similar time; their conflicts were related in the sense that violence spilled from Liberia into Côte d'Ivoire; and with both countries in West Africa there were regional and geographic similarities.

While the MSSD logic was applied to facilitate some degree of comparison, and certainly it formed part of how the cases were selected, I would not want to overemphasise this point. I do not think two countries can replicate the logic of a science experiment where two exact specimens receive different treatments and the divergent outcomes are compared. Some comparison is possible, and indeed there are comparative points that are extracted from the two case studies making it useful to have two countries that share some similarities, but the core value of having two case studies lies elsewhere.

The core value is about trying to tell a more generalisable (even if not completely generalisable) story about horizontal inequality in post-conflict states, and the impact of IFI interventions. This is the same

motivation for having the quantitative section: to provide as much information as possible to suggest that the theory extracted here may be relevant beyond only the cases. I do not argue this generalisability with certainty, but I try, with two cases, and with the quantitative chapter, to provide some evidence that this may be the case.

If the quantitative chapter provided some evidence of the nature of correlation between IFI interventions and change in HI, the two cases studies provided some evidence regarding the nature of the mechanisms that drive this correlation. The two components of the theory: the dual economy and the political settlement, emerged out of the case studies, and it was useful to see that it applied in both cases. This could not have been achieved with certainty with the quantitative chapter alone and a single case study.

While two cases are better than one case at suggesting that the theory is not derived purely from the specificities of one country case, more than two cases would have been difficult given the time taken to fully study each case, and the word limit of the thesis. Two cases were therefore selected and outlined in depth. I also, however, tried to read widely about HI evolution in other post-conflict countries in an attempt to build up the theory. This wider reading is reflected in the theory chapter that follows.

On a personal level, I had worked for four years on the Middle East and North Africa (MENA) region, and for two years on south, central, and east Africa. Working on West Africa provided the chance to learn about a new region and to pivot back to Africa. Despite these preferences, countries from across the world were evaluated including Haiti, Nepal, Guatemala, Peru, Indonesia, Burundi, Rwanda, Afghanistan, Lebanon, Sri Lanka, Timor Leste, South Africa, Northern Ireland, Angola, Mozambique, Myanmar, Iraq, Sierra Leone, Colombia, Senegal, Liberia, and Côte d'Ivoire. I have tried to reflect this broader case reading in the theory chapter, and also to reflect that the findings from this research may apply to cases not intensively studied by this thesis.

With my cases selected, I used four types of sources to explore how IFIs might be influencing HI in each case: secondary sources, grey literature produced by the IFIs, HI-data from various sources, and interviews. These set of sources helped me to understand the country, its history, patterns of HI structure and evolution over time, as well as the domestic politics and political economy. These sources also helped me understand what IFIs had done in each country, why, and how their portfolios had changed over time.

Secondary sources were used: academic research, journal articles, books, and media articles that described the country, its history, and core actors. In terms of grey sources, official documents released by the World Bank, the IMF, and the Independent Evaluation Office (IEO) which

independently assesses the IMF, and the Independent Evaluation Group (IEG) which evaluates the World Bank, were all incredibly useful. These include World Bank and IMF Country Reports (including Country Partnership Frameworks / Reviews, Interim Strategies, Joint Advisory reviews (conducted by the World Bank and the IMF), and project reports), press releases, published letters between ministries of finance and the IMF, and Article IV consultations in the case of the IMF. This reading included details on every World Bank project and IMF programme in the country since the end of its war (and often before the war), as well as any data the IFIs made available including maps of where World Bank funding was spent. This provided the detail to understand what IFIs did, why, who benefitted, and where in the country these projects were implemented.

A second key set of grey sources included documents produced by the Liberian and Ivorian governments on their development goals and approach. These included the Poverty Reduction Strategy Papers (written to outline a government development agenda that is intended to guide IFI interventions), policy documents, National Development Plans etc. This was important to understand where each government's priorities lay, and the extent to which this matched with what IFIs were suggesting, advocating for, and doing.

The next set of sources was country-specific data to track HI levels in each country in the post-conflict period. For this I used the nightlights

data that was also used for the large-N analysis (and that will be explained in greater detail in chapter 3). This data was used in both case studies and therefore provided some degree of comparison between the two countries in terms of the level of HI each experienced. In other words, how horizontally unequal the respective countries were. It also gave some comparable data on change in HI.

To complement this, I used other country-specific datasets on consumption, poverty, frequency of hunger, child mortality etc, that were either ethnically or regionally divided to get as clear a picture of the evolution of HI in the country over time. Here, the search for data was for the best available in each country and about painting a holistic view of HI (i.e. not just on income, not just on health-based variables). These complementary data was not necessarily for the purpose of comparison between the two countries, although it did provide some ideas about how each country had done (more generally) in comparison to the other.

This was significantly easier for Côte d'Ivoire which has a responsive state data collection office that collects reputable household data every few years. Regional multidimensional poverty is also tracked in Côte d'Ivoire by the Oxford Poverty and Human Development Initiative (OPHI), giving a sense of how poverty has shifted over time in different regions. For Liberia this was significantly more difficult, with ongoing efforts over several years to access state data proving impossible. Ultimately, I was able to use data from the Demographic and Health

Surveys (DHS), Afrobarometer, and Score for Peace (a civil society organisation in Liberia).

It is worth expanding a little on the choice of datasets for the case study section. Ideally, I would have wanted a dataset that captured income per capita, by ethnic group, on a year-by-year basis to track how relative inequality between groups changed over time. Each of those aspects were important: given that I was studying economic horizontal inequalities, I wanted to capture income as the standard measure of inequality, given that that is how (vertical) inequality is typically measured. I wanted it to be determined by identity (not region, initially) because I think identity is what defines HI, and region (conceptually) only matters for HI considerations to the extent that it is also an identity. The year-on-year measurement was necessary to assess *change* in HI: my primary dependent variable. These ideal constructions of data ruled out most datasets: DHS and MICS data were not based on income (rather health and well-being variables), usually regional, and collected every few years but not necessarily frequently enough to be used as the core dataset for change on HI. (Often a maximum of three times over a 20 year period.) The gaps inbetween surveys could be meaningful. Côte d'Ivoire for example had no data from the Gbagbo years, and then only two surveys from 2012 onwards. These are useful to provide snapshots and to provide a more diversified picture of change in HI, but are not numerous enough to describe change in HI over time on their own. Some surveys tracked ethnicity but not

consistently: Liberia for example had no ethnically tracked data, and Côte d'Ivoire had only one survey (2016) that measured ethnicity.

The dataset best suited therefore was the nightlights data which was used both in the quantitative chapter and in both case studies. This is because it measured nightlight year-on-year, providing an annual measurement allowing HI to be tracked from before the war, immediately after the war, and throughout the post-conflict period. Second, nightlights are a commonly used substitute for income, and has been statistically verified as a good income proxy (Li and Zhou 2017; Proville et al. 2017). Lastly, the data was collected for and labelled according to the politically relevant identity groups. That is, the authors used the EPR Atlas data on ethnicity and power in each country and how this changed over time: whether groups were politically dominant, partners, powerless etc. This data essentially determined which groups and identities were politically relevant. Using these divisions, the groups were graphically mapped (according to evolving data, so that if groups moved or were forcibly displaced, the map markings shifted). These group demarcations were then mapped onto nightlights. While nightlights are essentially data collected about a space (or region), the regions were drawn not according to administrative boundaries but according to the politically-relevant ethnic boundaries, and these ethnic boundaries were updated over time according to group movement. It was a dataset designed to measure horizontal inequality, and I felt it was closest to what the research needed. It had also been used in the

major quantitative studies of HI (Kuhn and Weidmann 2015; Wucherpfennig et al. 2011).

Nonetheless, nightlights have some limitations: nightlights (or indeed income) do not get at well-being necessarily, and therefore I tried in each case to supplement the nightlights data with the best, alternative data available in each country to provide the best picture of HI and its evolution over time. This picture of HI evolution I thought would still be comparable between countries, if necessary, but in broad terms: such as HI has decreased impressively, or HI has not decreased – in fact some regions are poorer. (It would, admittedly, not allow for more direct comparisons, like HI has decreased by x points vs y points.) But my goal was to have the best data, to have the clearest picture (that could then be compared) rather to have less good data, that was directly comparable. This meant, for example, for Côte d'Ivoire I relied on the government data which was broadly considered reliable, and that included income data, at several points in the post-conflict years. I supplemented it with MPI data (a measure of deprivation) because one of the specificities of Côte d'Ivoire was that while income had increased for most, reducing poverty, levels of deprivation remained stubbornly high. I felt these two datasets provided a good overview of how HI had evolved according to various measures of income and well-being.

In Liberia, this was not possible, given the challenge with state data (that I continued trying to access until the end, unsuccessfully). I

therefore relied on Afrobarometer (which measured ethnicity and deprivation), DHS (another measure of deprivation, by region), and Score for Peace data (income data, by region), which allowed me to piece together a picture of HI evolution over time. In both Liberia and Côte d'Ivoire, I also supplement this data with information from interviews that discuss how the experts viewed HI and its change over time. I believe this combination of ethnically-derived nightlights, best-available supplementary data, and interviews present the best overarching picture of HI and its evolution in each country, as well as sufficient comparability between the two cases.

A note on region vs identity

While HI is conceptually about identity, data and discussions around regions within countries will be frequent in this thesis, and especially in the case studies. This is for two reasons: first, region is a good proxy in the cases studies for identity. Data is rarely collected along ethnic lines, and never as frequently as it was needed here (apart from the nightlights data). Region is a good proxy also because the region often played a role in forming the identity-based inequalities to begin with: variation in land fertility, proximity to coastal ports and colonial capitals played a role in creating divergent incomes for groups in both case studies.

The second reason however is that those whose life outcomes are most determined by their identities, are often those who have not left their

places of birth. Migration might reduce poverty and offer higher incomes, but those who do not or cannot migrate rely on shifting investment patterns or targeted development to experience better lives. Taking a regional approach is then not only useful as a proxy, it also gives an indication of which groups (/regions) matter for the political elite who are choosing where investments should go. This applied to governments but also to the World Bank, who would often discuss regional inequality in cases where they were aware of HI, but didn't want to discuss ethnicity or identity directly, which was considered too risky or too political. Regional development therefore was often the policy response to HI, and therefore played an important role in the assessment of what was done to address HI, both by the World Bank and the governments in power.

Other datasets proved useful for tracking various variables such as IFI financial flows to each country and the flows of other aid actors to prove the financial relevance of the IFIs. For Côte d'Ivoire, I managed to get data on where (regionally) the Ivorian government was making public investments. This data was received directly from a senior government official and proved formative for the case. Some equivalent data for Liberia could be taken from publicly available national budgets, but it was not clear which regions were receiving these investments (although capital investment spending was nominal in Liberia's case.)

The final, and most informative source of information was the seventy-six interviews that I conducted for this research. This included thirty-two

for Liberia, thirty-five for Côte d'Ivoire, and nine general interviews with conflict or development professionals who work in this area of expertise and that helped to think through the challenges of post-conflict development more generally. The interviewees were predominantly World Bank, IMF, and government officials, but I also spoke with academics and CSO members from each country to get their sense of the country's trajectory. These were critical also to provide an external perspective on development and HI and to provide a more neutral voice to the commentary. For example, the political influence over the approach to development first emerged in my interviews with Bank officials, but it was hard to know if this was a fair assessment, or a convenient way to shift responsibility for any weaknesses in the development strategy away from the Bank and towards the government. My interviews with CSOs and academics were so heavily about the political aspects of development that it confirmed I needed to shift my initial approach (which had been focused more on whether the Bank had disproportionately benefitted the private sector) to a politically oriented approach. The breakdown of my interviews is provided in Table 1:

Table 1 Summary of interviews conducted by sector for Liberia and Côte d'Ivoire

	Liberia	Côte d'Ivoire
World Bank	8	10
IMF	5	6

Government	7	8
Academic / CSOs / other development actor (USAID, AfDB, UN)	12	11
Total	32	35

Most of these interviews were conducted online, because COVID prevented in-person fieldwork for several years. This meant that all the Liberia interviews were conducted online, which made it extremely difficult and time-consuming to advance in the process, most especially for the government officials, who were slow to respond to emails (if at all). I have a good comparative point with Côte d'Ivoire. Here I also struggled to get interviews, but once the COVID restrictions lifted, I was able to visit the country in person. In 5 days in Abidjan, I conducted 9 interviews, including with 7 (high-level) government officials. I had been trying to contact several of these officials online for months before going - being there in person sped up the process significantly. Being in person also made it easier to conduct the interviews in French, which was necessary for several interviews. Speaking a second language over a Teams call stimulates comprehension significantly.

IMF officials were also not easy to contact. The harsh academic criticism they have faced in the past (as the leaders of the Structural Adjustment Programmes) perhaps made them hesitant to interview someone studying inequality, and at least two interviews were antagonistic in tone. The World Bank officials were generally more responsive and open to discussing their experience. I did go to Washington for a very high-level interview, but my efforts to speak with other officials there were unsuccessful mostly because many people who had worked in Liberia and Côte d'Ivoire in the years of interest to me, were working in another country, and not in Washington. Still, I interviewed every World Bank Country Manager and almost every IMF Resident Representative for both countries since the end of the wars (and some from before the outbreak of war). I am therefore confident that despite the challenges that COVID posed for this research, and the additional time it took, the findings of this thesis were not significantly impacted.

Conclusion

This chapter aimed to offer conceptual clarity about what HI is, including its various dimensions, why it is important for all societies, but especially for post-conflict countries that need to (re-)build in a way that does not re-establish the same grievances that caused violence before. IFIs have been criticised for prioritising debt sustainability and economic growth over considerations of poverty and inequality; and IFIs are also the primary economic actors in many post-conflict states. It is therefore important to assess whether IFIs are having a consistent impact on HI in

post-conflict states, and if so, what casual mechanisms are driving that impact. The theory that has emerged from this abductive, mixed methods approach, and that will be presented in the following chapter, is different from the literature that has been presented in this chapter in several ways. It presents two core ideas: how HI evolves in post-conflict states (generating contradictory progress that IFIs reinforce); and the causal mechanisms through which this contradictory progress is generated. This has demanded a nuanced understanding of what happens between IFIs, domestic political settlements, and the structure of the economies under study.

Chapter 2

Theory Chapter: Contradictory Progress explained

1. Introduction

IFIs reinforce the contradictory progress on Horizontal Inequality (HI) that is common in post-conflict states. This contradictory progress implies a degree of upward mobility among previously excluded groups, even as the identity of the poorest groups remains essentially the same. Both the World Bank and the IMF do important work in laying the foundations for HI to be addressed by the state if it chooses to, including through (re-)building the state, increasing finances available for development, and establishing the macroeconomic stability required for the economy to function. This component of IFI interventions forms part of the prerequisites for addressing HI. Under conditions in which the political settlement is favourable to reducing HI, the World Bank can be an instrumental actor in expanding universal basic services and pro-poor programming – a key part of the indirect policies that help to reduce HI in the long term. (The IMF does little in this sphere.)

Both the World Bank and the IMF, however, engage in pro-growth development activities and advocate for policy change through conditionality attached to direct budget support. This work disproportionately grows the more developed tier of the dual economy and is likely to work against the positive impact of public service expansion on HI, especially in the short term. Neither IFI engages in policies that reduce HI directly (broadly Affirmative Action policies). This patchwork of progress in some spheres and under certain political conditions, and work that disproportionately grows the tier of the economy where the elite groups are employed reinforces the contradictory progress on HI that is characteristic of change in HI in post-conflict countries.

This chapter presents a tiered argument for how IFI interventions impact HI in post-conflict states. First, the chapter outlines what structures shape and maintain Horizontal Inequality (HI): the political settlement and the dual economy. This argument adds three important components to the thesis: first, it explains how HI is expected to evolve in post-conflict states without targeted interventions to address it. Second, it creates a nuanced understanding of what happens between IFIs, the domestic government, and the structure of the economy to produce HI outcomes. Lastly, it provides theoretical insights on the causal mechanisms (not only outcomes) that shape IFI interventions' impact on HI in post-conflict states.

This generates the second tier of the argument: what can be done about HI? This component of the argument is important because it assesses what influence the IFIs have over the structures driving HI outcomes (and vice versa). It therefore offers an explanation for variation in IFI impact across countries, particularly for the World Bank. I am then in a position to ask - in the third tier of the argument - whether IFIs engaged in the kinds of activities that would drive reductions in HI, and if not, to explain how the work that was done, shaped HI.

With this three-tiered foundation I can present an argument for the impact IFIs have on HI and under what conditions this impact is likely to be high and low. This argument is best summarised as follows:

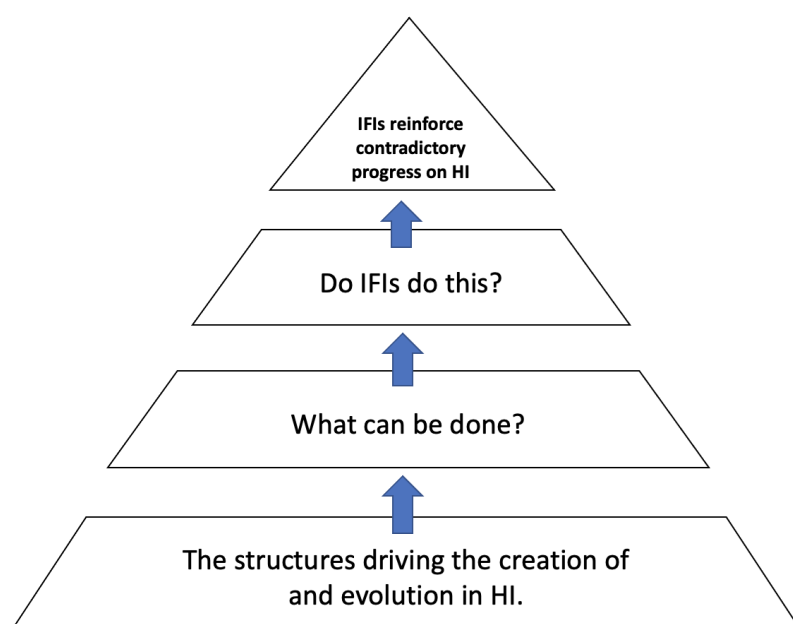


Figure 1 The tiered argument for why and how IFIs reinforce contradictory progress on HI. Source: The author.

This argument and the theory presented below were derived abductively by using several important theoretical contributions of other authors alongside the empirical work I conducted. This chapter does its best to provide theoretical inputs that are independent of this empirical work, but there are sections where the argument requires the account to be grounded in the empirical observations in line with Strauss and Glaser's Grounded Theory argument (Glaser and Strauss 1967).

This chapter will start by outlining the origins and persistence of HI. It then explains the two core structures that are central to the formation, maintenance, and evolution of HI (the political settlement and the dual economy). For the political settlement, it includes the aspects that might determine the nature of the political settlement, as well as an assessment of whether IFIs can influence, or are influenced by the political settlement. Next, the chapter outlines a theory for change in HI based on the structures that drive it, as well as an assessment of whether the IMF and World Bank engage in these activities.

2. Horizontal Inequality: explaining its origins and persistence

2.1 The Origins of Horizontal Inequality

Literature that has sought to explain the origins of HI can be broadly divided into two categories: those that attribute the inequality to (political) power and those that focus on the varying endowments of

nature – both usually have historic origins. Several sub-categories of explanation exist within each, and generally, the story of HI for any specific country involves a combination of several factors across both categories.

2.1.1 Power

These explanations centre on historical accounts of some combination of i) foundational shocks and ii) institutions. Foundational shocks, such as colonisation, conquest, and capture, create the conditions under which certain ethnic groups or identities are enriched, or stripped of their wealth, with long-lasting implications for their respective levels of income and wealth (F. Stewart 2008; Horowitz 1985). The institutional approach argues that it is the “humanly devised constraints that structure political, economic, and social interaction”, both formal and informal, that are most important for how an economy, and divergent economic outcomes evolve (North 1991, 97). These institutions matter for HI when they determine in some way how much access certain groups have to the protection or predation of the state – in ways that enhance or destroy wealth (Acemoglu and Robinson 2012). Important to note, is that these differential experiences result from institutions that are designed to produce the inequalities, or at least to accrue disproportionate benefits for one group at the expense or exploitation of another group. The foundational shock and institutional approaches are often connected if the foundational shock alters institutions in some permanent way. For example, the dual colonial efforts in South Africa

from the Dutch and the British (the foundational shocks) led to various institutional shifts that ultimately led to the incremental, structural disempowerment of black polities including through restricted access to land and property rights, which ultimately led to more targeted discrimination of increasing disempowered groups. These efforts created enduring patterns of income inequality.

2.1.2 Nature

The second category of explanations for the origin of HI is tied to nature: specifically, geography and climate. Alesina et al present research suggesting that differences in geo-ecological endowments “translate into larger disparities in ethnic contemporary development” (Alesina et al. 2016, 472). Relying on Diamond’s argument, geography matters by shaping human capital and affecting the diffusion and adoption of technology and innovation – factors that affect the wealth-generating activities that can be conducted (Diamond 1997). For similar reasons, climatic differences can also matter by altering the arability of land and therefore the capacity for primordial wealth accumulation. The power and nature explanations interact, so that militarily weaker groups can be pushed into more arid locations, as the powerful invade and conquer more prosperous land (Figueroa et al. 1996). Given that pre-urbanisation, groups were (and still are, in many cases) concentrated in geographically distinct regions, natural features that have implications for the accumulation of wealth create HI by giving certain groups more

access to fertile ground, technology, larger markets etc and restricting access for other groups.

2.2 The Persistence of Horizontal Inequality

Once these foundations of inequality have been laid, there are many reasons to expect that inequality will persist if it is not explicitly targeted. Stewart & Langer (2008: 63) neatly summarise the core reasons for persistence. In economic terms, they argue that the economy will tend to reward those with higher access to various forms of capital and income with more opportunities for accumulation and profitable investment. More practically, this means that returns from one type of capital are usually dependent on the availability of other types of capital (including social and political networks, education, physical capital etc.) Socio-politically, discrimination by governments, non-governmental institutions, and individuals is more likely under contexts of political inequality, and this limits economic opportunities for the excluded (F. Stewart and Langer 2008).

The path dependency literature, though varied, gives six core reasons for why history is important for determining contemporary outcomes (Mahoney and Schensul 2006). In doing so, this literature also gives reasons for why HI may persist. In brief, Path Dependency literature argues that initial conditions are causally important for what comes next, creating structural reinforcement of these initial and contingent conditions (Goldstone 1998; Wallerstein 1974; Mahoney 2000). Rather

than moving towards an equilibrium then, this “circular causation” means a social process tends to be cumulative and accelerating, driving outcomes to the extremes rather than to the centre (Myrdal 1958, 13). For example, a simple step like restricting access to education, can restrict heavily what jobs different groups can work in. Once one group is locked into low-paying jobs, there are fewer resources to invest in the education, health, and opportunities of their children; the inverse is true for the well-educated groups. This creates enduring patterns of who is better educated, better employed, more wealthy and, over the long term, which groups are perceived by society as intelligent and legitimate to lead the country. There may therefore be reasons to think that HI will be sticky in general, including in post-conflict settings.

Once HI is in place, it is unlikely to substantially reduce without the right policies to address it. The next section addresses the two structures that drive HI and will need to be addressed for HI to decline. I will start by outlining the role of the domestic political settlement: how the political bargain agrees to address or ignore HI, and how this shapes the World Bank intervention.

3. The political settlement: the state’s role in distributing resources

This chapter has already outlined the nature and power explanations of the origins of HI, but innovative people and states can overcome natural constraints if they decide it is important enough. There are policies that

can address HIs. The maintenance therefore of these inequalities is in part a political choice. In a sense, these political constraints construct a wall between the two tiers of the dual economy, making it very difficult for groups to cross from one tier to another. There is no better example of this than labour law in South Africa under Apartheid, which specified which jobs went to different racial groups, in favour of white groups (Mariotti 2009, 5). The political elite at the time, used their political power to create barriers that enriched and protected their group at the expense of the politically (and consequently economically) excluded groups.

Overcoming economic HIs therefore requires a change in the political HIs reflected in the political settlement. It is important for HI to be considered by the political elite as a challenge that should be addressed for the right policies to be put in place, including the kinds of programmes that are requested from the World Bank and IMF. Incentives to maintain the status quo are high for incumbents, which is why HI contributes to conflict as excluded communities finally turn to violence to demand change (Bahgat et al. 2017; Cederman et al. 2011).⁶ It is for this reason that this research focuses on post-conflict countries. The implication is that some of these political barriers may

⁶ Whether conflict succeeds in reducing HI depends on the intensity and length of the conflict; the existence of resources to distribute; and a “firm determination by the winner to redistribute” (Rustad et al. 2019; Ndayikeza 2021). Nevertheless, a cross-sectional study of horizontal inequality in post-conflict states found that countries that experienced intense conflict (surpassing 1000 battle deaths and lasting for longer than five years) experience higher HI in the initial post-conflict years, in part because the intense fighting often takes place in the poorer regions. That inequality tends to decline 10-15 years after the end of the conflict (Rustad et al. 2019, 4).

have been undone by the conflict, especially where the end to conflict has been a negotiated power-sharing agreement or a rebel victory, and therefore where previously excluded groups are actively brought into government (F. Stewart and Daga 2017).

Still, as much as this is likely to be a period of institutional flux, not all political horizontal inequalities will be solved. Former elites are often able to maintain power and influence in the post-conflict context and over institutional change. The threat of returning to violence and conflict – by both the former elite and the formerly excluded – is a threat that those in power need to take very seriously in the post-conflict period. For example, Collier and Hoeffler (2002) find that in the first five post-conflict years, the risk of a relapse into conflict is 53 percent (Collier and Hoeffler 2002).

The Kelsall et al. (2022) definition of a political settlement best captures the ongoing evolution and flux of this time: they describe a political settlement as “an ongoing agreement among a society’s most powerful groups over a set of political and economic institutions expected to generate for them a minimally acceptable level of benefits, and which thereby ends or prevents generalized civil war and/or political and economic disorder” (Kelsall et al. 2022, 27). They note that this relationship is often dynamic, with shifts in the relevant powerful groups, conflict, or institutional changes all generating change in the acceptable distribution of benefits.

Dercon (2022) makes a similar point and calls it the development bargain, which is how those with power (including government officials, businesspeople, journalists, CSOs etc) get their power from the elite bargain that determines the allocation of power and resources (Dercon 2022, 41). He argues that this elite bargain is typically informal and implicit and will determine whether a government puts development as its central goal, or whether the elite bargain is instead focused on distributing state resources to its own identity group (ethnic, racial, language group etc), its supporters, its friends and family. Based on this agreement taken by the elites, the state apparatus, economy, and government power will be used to ensure the chosen outcome.

The additional point Dercon emphasises about the elite bargain (which distinguishes it from the political settlement literature) is the capacity for agency: he makes the point that elites are not simply victims of the political context they are in, but that they have the agency to drive policy shifts. I argue that this is especially relevant for the post-conflict setting because new elites are likely to enter the political environment. Perhaps most especially in this period of flux, these new elites have a choice about whether to reassert the previous political settlement (usually an extractive one) but with themselves as the new beneficiaries, or to change the agreement to one in which the previously disadvantaged and the poor can also systematically benefit. The previous elite are likely to still have influence: they too can decide if they will fight for the ability to continue to be extractive, or if they will

forgo some privilege to allow others to also benefit and to build a more stable society.

A final concept worth outlining here is clientelism. The V-DEM dataset defines it as the targeted, contingent distribution of resources in exchange for political support (Coppedge, Gerring, Knutsen, Lindberg, Teorell, Altman, et al. 2022). It is a type of political settlement where the elite have decided that the best way to distribute resources is in ways that shore up their power directly through vote-buying or by offering material goods to constituents in exchange for more general political support (Lo Bue et al. 2021a). This is distinct from other kinds of political settlements or elite bargains that decide to pursue broad-based development from which the political elite then derive their legitimacy to govern. An elite that has selected clientelism as their political settlement might offer these contingent public services to their own ethnic group, but not necessarily: political strategies about which groups need coaxing to keep political incumbents in power is the core deciding factor for resource distribution.

The political settlement, whether it be clientelism or otherwise, is the negotiated outcome of elite preferences. There will likely be some contestation, so the resulting policy choice that is taken and implemented will reflect that negotiated outcome of potentially various elite preferences. The negotiation may be explicit, or it may reflect a more implicit and ongoing navigation of what is politically possible.

This thesis will often use “political settlement” as an actor that takes decisions. This is because it is less bulky than writing “the elite acting according to the implicitly or explicitly negotiated outcome of varying elite preferences”. In other words, it is this settlement – this negotiated outcome between various and multiple elite preferences – that is the driving force behind decisions. A government may take a decision that is best for a private company, or a private company may take a decision that is best for a political incumbent, because of the nature of the political settlement. This is slightly distinct from each elite acting in line with its own preferences, which may or may not be reflected in the specific choice under study. An elite’s preferences will certainly be reflected somewhere in the totality of political choices however, because to be an elite is to have influence on the political settlement in some way.

I therefore do consider that elites have some agency. While the preferences of other powerful elites might constrain what is possible, there will still be a range of possible options, and whether individual elites use their influence to push for the choice that drives progress for the country and its poorest, or simply maximises their own individual gain, reflects their agency. Another way to say this, is that each elite has complete agency over their own set of preferences that they bring to the (implicit or explicit) negotiating table. Whether those preferences reflect complete self-interest, or some desire to move the country and

its people forward, is completely within their control. How much those preferences are then reflected in the political settlement that ultimately determines the policy action or governmental choice, will be determined by their respective power and influence relative to other elites.

The crucial take away for economic HI, is the acceptable distribution of benefits: for economic HIs to reduce, this distribution needs to change, but for that to change, the political and economic institutions must shift, which requires an ongoing acquiescence of powerful groups: a political settlement that reflects an elite willing to reduce barriers to equality and increase investments in regions and people that need them. The section below will outline factors that shape this political settlement or elite bargain. These factors will shape what the government requests from the World Bank and how it implements an IMF programme, and it is therefore critical to explain variation in World Bank programmes from country to country, and the extent to which IMF conditions are implemented and how (i.e. IMF programme success rates).

3.1 How the war ended:

The way a war ends influences the balance of power between groups in the post-conflict setting, and therefore the way in which institutions and priorities evolve, ultimately shaping whether state resources (including those accrued through IFIs) will be used to address HI. Besides security, states have a legal and fiscal role, and how these roles are executed will

influence who has access to resources, as well as recourse to justice, and the protection or predation of the state. For example, Stewart and Daga (2017) show that whether the war ended with a victory on one side, a negotiated peace agreement and government of national unity, or by a ceasefire agreement will change which groups dominate the post-conflict government, and therefore who has the chance to determine policy. In particular, the authors find that when war ends in victory, countries experience higher growth and a lower index of civil liberties; a peace agreement attracts more aid and governments spend more in social sectors; and lastly, countries living under a ceasefire agreement tend to have the most civil liberties. The balance of power of opposing political groups (i.e. the political settlement), how the government is perceived by the international community, and what the post-conflict political system needs to provide to remain in power influences the nature of the policies implemented. It is therefore likely that peace agreements – with higher aid and more social investment – are more likely to lead to reductions in HI. It also indicates that the international community (including IFIs) is more financially generous to countries that have signed peace agreements. The way the war ended therefore influences how much finance is made available to the country for its policy priorities, which may or may not include tackling HI.

3.2 Immediate post-conflict institutional changes: legal and normative changes

Post-conflict legal changes, including a new constitution, the repeal of discriminatory laws, the broadening of the right to vote to universal suffrage amongst others can all make important changes that shift the likelihood of HI becoming a policy priority. This is because these institutional changes shift the capacity for the state to suppress protest, provide more avenues for previously excluded groups to access or influence the economy and / or the government, and shift who can vote, thereby changing electoral calculations of the political elite. These changes make it more likely for HI-related issues to attract political attention.

This was certainly the case in South Africa, where the post-Apartheid government wrote a new constitution which included socio-economic rights that require the state to provide certain public services that are deemed necessary to live a dignified life. This has allowed civil society to take the government to court for failing to provide certain public services. For example, the Treatment Action Campaign and the Children's Rights Centre took the Minister of Health to court over its failure to provide universal access to nevirapine for HIV-positive mothers. The anti-retroviral drug prevents mother-to-child transmission of HIV. The case went to the Constitutional Court (an institutional addition following the end of Apartheid), and the Court ruled that government policy was unconstitutional, and issued a number of mandatory orders forcing the government to make nevirapine available wherever it was medically indicated (Dullah Omar Institute for

Constitutional Law, Governance, and Human Rights 2025). This ruling meant that poor babies born to HIV-positive mothers would have dramatically better health outcomes than the counter-factual, containing the impact of the HIV pandemic (which disproportionately affected the poor Black population) on divergent health outcomes (Bell et al. 2022). This ruling would not have been possible without the constitutional changes: including the right to assembly which supported the expansion of civil society.

The post-conflict stage can also see a change in normative institutions. Thomas Piketty for example posited the idea of an “inequality regime – a set of discourses and institutional arrangements intended to justify and structure the economic, social, and political inequalities of a given society” (Piketty 2020, 2). Some of these discourses justifying the relatively deprived lives of identity groups may have shifted in the post-conflict context or there may be more possibility for groups to fight these discourses more openly. This may make it harder for elites to justify institutions that maintain inequality, increasing the chances that HI is tackled through public policy and through what is requested from IFIs.

Naturally, there will be push back against this change from those benefitting from the inequality regime. For example, in Guatemala the self-defined ‘white’ elite of Guatemala have used their wealth to fund political campaigns thereby building influence over politicians and

ministers. Their control of the media has allowed them to disproportionately influence the political debate, promote racist stereotypes, and run coordinated campaigns against change that is not in their interests – for example efforts to increase tax on the wealthy (Caumartin and Sánchez-Ancochea 2012). How institutional change evolves in the post-conflict period will thus be important for whether HI can be effectively targeted by the state, and in turn, the World Bank, whose actions are influenced by the state.

3.3 Electoral politics

The post-conflict setting may bring changes to whether and how elections take place. Economic horizontal inequality is often reinforced with some form of political horizontal inequality that restricts the political participation of those who are economically excluded. Some of these factors may change in the post-conflict setting. In Liberia for example, true universal suffrage only took place under President Samuel Doe in 1986, who had taken power through a coup d'état, and was the first indigenous president of Liberia, and even then, elections were only free and fair once they were supervised by UNMIL in 2005. Prior to this, only those with land were allowed to vote which effectively limited voting to the Americo-Liberian elite, who constituted roughly 5 percent of the population. The 1986 constitution remains the governing constitution of Liberia, and while it allows those without land to vote, the president is required to own “unencumbered real property of not less than twenty-five thousand dollars” (Liberian Judiciary 1986).

This example perfectly exhibits the contradictory progress on horizontal inequality in post-conflict contexts: the introduction of universal suffrage opens the door for every Liberian to vote, and this necessarily changes the calculus that politicians make. Nevertheless, with the land ownership requirement to be president, and in a country with dramatic land inequality, the presidential choices will be narrow and necessarily confined to the elite. In a government dominated by the economic elite, how development aid is spent and the nature of economic reforms (including who is taxed) will likely benefit those same elite. These components are therefore likely to shape what is requested from the World Bank and how IMF conditions are implemented (or not).

The introduction of elections also means that the size of respective identity groups can influence how economic HI evolves in the post-conflict state. Huber (2017) develops a theoretical argument to make this point by arguing that the government will decide how to divide the theoretical pie among citizens. Parties will compete in elections on the basis of their ideas on how this pie is divided, and voters will support the party that promises to give them the largest share. As such, Huber argues that there will be a strong electoral drive to divide the pie between the *smallest majority* possible (J. D. Huber 2017, 36). The result is that “there is a powerful force in democratic elections to form exclusionary electoral coalitions. Elections therefore often revolve around identifying who is “in” and who is “out” if a particular party or

candidate wins” (J. D. Huber 2017, 37). How the culturally defined groups (classified by ethnicity, language, race etc) add up to make the smallest majority, is likely to play an important role in how elections and electoral tactics evolve. For example, if one ethnic group forms 80 percent of the population, there may be a political interest in dividing that group into a smaller majority (for example, along clan lines, class etc). How this smallest majority is created will shape who benefits from the activities of the state: including what the state requests from the World Bank.

Considerations of the smallest majority may also influence electoral strategies: clientelism may emerge as the easiest way to keep distribution of resources to a narrow, elite minority, while securing the majority of votes. There is perhaps no better example of this than Nigeria. Nigeria distributes its oil rents amongst the government’s most influential supporters in business, the civil service, the military, and society generally, maintaining a multi-ethnic elite bargain that (more or less) keeps stability in Nigeria, but does not leave enough resources to ensure meaningful development for the millions of Nigerians who live in poverty, and with limited access to health, infrastructure, and education (Dercon 2022). This elite bargain has reduced political inequalities between different ethnic and regional groups, reducing the violence and instability of the 1970s and 1980s, but while the elites have benefitted across various ethnic and regional groups, patterns of inequality for the majority of northern and southern Nigerians remain starkly in place.

Dividing up the rents of Nigerian oil between the smallest majority, in a country of over 220 million, only made sense if that smallest majority consists of the elites only.

Elections can also distort the kind of investments that politicians are incentivised to make, and the timeline when these investments begin reaping benefits for the population. Several interviewees commenting on both Liberia and Côte d'Ivoire noted the power of "showy" investments in the year preceding an election. For example, the main bridge in Abidjan, soccer stadiums, large hospitals in large cities (as opposed to several small clinics in rural areas), renovated airports all tended to beat out investments that would benefit the least served communities or the most under-invested public service. Other research demonstrates that in Africa, democracies are more likely to abolish school fees (a policy action that is easily attributable to the executive) than to provide school inputs, which are harder to attribute (Harding and Stasavage 2014).

Environments without elections will no doubt have different challenges to sustained investment for the poor and excluded, but certainly this hesitancy over certain investments is part of electoral trends in the cases studied in this thesis. This is relevant then for what the government requests of the World Bank. For example, governments might be more inclined to request pro-poor or social investments from the World Bank in the year before elections as they seek public support

but be more inclined to request and implement investments that benefit the elite in the first years of their electoral mandate as they seek to pay back donors and wealthy supporters (for example by cutting export tax – something that might lead to problems with IMF programme implementation).

3.4 Power between elections: Special Interest Groups (SIGs), Political Economy, and CSOs

Influence over policies and public service investments and programmes will certainly be affected by elections, but much influence can also be directly exerted on governments between elections. Special Interest Groups (SIGs) – groups undertaking political lobbying to promote its objectives or pressure groups – are generally organised by those seeking to prevent change and maintain the status quo (Oxford English Dictionary 2023). Weak states and / or strong SIGs can make it difficult for HI-reducing policies to be passed and implemented. For example, in Guatemala, a weak party system and fractured indigenous movement kept indigenous influence over policy weak; and a strong coordinated conservative campaign against changes such as pro-poor tax reforms and greater economic rights has meant that the state has made little progress in terms of addressing HI (beyond efforts to make access to health and education services universal). Meanwhile, policies to protect the power and influence of the oligarchy have remained in place (Leipziger 2025; Caumartin and Sánchez-Ancochea 2012).

Likewise, groups (even large groups) that lack political or industrial organisation (through trade unions etc) are likely to be side-lined in political considerations and policy decisions, especially if other groups are better organised to protest and oppose policies. Côte d'Ivoire shows a powerful example of this: cocoa growers are numerous, very poor, and the only organising institution is state-controlled. Consequently, despite smallholder cocoa growers collectively producing more than 80 percent of the country's core export, they lack the political and organisational capacity to protect their interests against the state. When the state therefore needs to raise resources (in the context of IMF-led austerity, for example) it is often cocoa that is taxed, instead of (relatively wealthier) middle class jobs (including the private sector, civil servants etc) who are able to organise large-scale strikes and protests in the face of tax increases or dissatisfactory wages.

The nature of special interest groups can therefore shape how an IMF programme is implemented: the IMF under challenging economic circumstances, like deteriorating terms of trade, will set conditions that restrict government spending to prevent debt accumulation. How the government meets that condition is largely up to it, though many private conversations take place between the government and the IMF. Those with industrial and organisational power will be able to push for their incomes to be protected from austerity cuts, while those that lack this power will likely see increased taxes and levies. Likewise, the IMF may set conditions of raising revenue for the state: whether the state

increases revenue collection through higher income tax (a progressive tax likely to reduce inequality) or through VAT (a regressive tax likely to worsen inequality) will depend on how SIGs and CSOs are able to put pressure on the government for policies that align with their objectives. How IMF programmes are implemented therefore is likely to be affected by the political settlement.

A final point here is that how power is used (especially between elections) is likely to be shaped by the structure of the economy. If the economy is dominated by a few natural resources sectors, whose ownership is concentrated in the hands of a slim minority (such as the concession economy in Liberia), it makes it difficult for people to make money outside of those sectors: including the previously disadvantaged, but more importantly for this point – politicians. The more concentrated an economy is on a particular sector, the more likely that politicians will use their influence to benefit from this sector, and the easier it will be for those who control this sector to influence policy to their advantage (for example by preventing tax on the sector etc). This will, in turn, reduce state resources available to address HI, and keep the elite benefitting from profitable trade. The nature of this political economy will therefore influence how IMF programmes are implemented (what kinds of taxes are put in place) and what investments are requested from the World Bank (for example, roads to and from natural resources extraction points are more likely in this context than pro-poor programming in rural areas. This would have implications for HI, with

the former activity reinforcing the more developed tier of the dual economy, increasing the wealth of the elite employed in this sector.

3.5 The political settlement as a key driver of HI evolution, with influence over IFIs

Addressing and shaping the political settlement and political economy will deeply influence whether the state is likely to effectively tackle HI. The particular set of political-economy institutions that need to be dismantled will be different depending on the environment. In my research context, where post-conflict countries are under study, some of those barriers may have been undone by the resolution of the war; however, war and its end is unlikely to have changed all HI institutions or structures. Former elites are likely to remain (relatively) economically powerful and with this economic power comes the ability to maintain some political influence, and that influence is likely to increase over the post-conflict period as stability allows elites to build back their wealth and cultivate political relationships with the sometimes-new political elite (or indeed, resume their roles as the political elite). This influence may be used to push back against the positive institutional changes, ensuring the system does not dramatically change, for example, through increasing taxes, removing monopolies, engaging in land reform etc. Additionally, well-intentioned efforts to prevent the wealthy elite from leaving the country with their capital and skills, might mean even the most committed policy officials may be hesitant to enact dramatic redistributive policy. As the country enters its post-conflict

period therefore, there is likely to be a mix of political-economy institutional change and persistence that will critically shape the policy environment in which HI is tackled (or not).

3.6 The World Bank and the IMF: influenced by the political settlement?

The political settlement is crucial for understanding variation in the extent to which the World Bank engages in indirect policies that address HI. Depending on the nature of the political settlement, the government requests different kinds of loans, programmes, and investments from the World Bank to build different kinds of infrastructures in different kinds of regions to benefit different groups that the political settlement has implicitly agreed should benefit from the resources that the state can accrue and distribute. Equally, the government will resist World Bank assistance or programme intervention in sectors, regions, or groups that threaten their interests or that are otherwise not in line with the political settlement. There are moments where the World Bank (and the IMF) can really push its reform agenda - the period leading up to major debt forgiveness through the Heavily Indebted Poor Countries (HIPC) Initiative was one such example. This process was led by the IFIs and involved having debt forgiven (often huge debts that would have been close to impossible to pay back). This debt forgiveness was only approved following the implementation of a set of reforms that proved that the government would have the debt-management capacity in the future to pay back new debts that it would be able to accrue. This was

one such moment where the IFIs could push reforms in areas where there was strong resistance on the part of the political settlement. Without this very strong leverage however, the World Bank struggles to push agendas unaligned with the political settlement and will instead attempt to maximise what is possible within the constraint of the desires of the government.

If the political settlement is agreed on treating HI as a policy priority, the World Bank is instrumental in providing finance for, and effectively implementing, indirect policies (not direct policies). If the political settlement is disinterested in addressing HI (even indirectly) the World Bank will struggle to have these policies reflected in its portfolio. Without indirect policies to assist the populations employed in the less developed tier of the dual economy, broad pro-growth policies (that will certainly be part of any World Bank portfolio) is likely to disproportionately benefit the more developed tier of the economy. In contexts characterised by HI, the groups employed in this tier of the economy will be disproportionately the formerly privileged groups (this argument will be outlined shortly in greater detail). Given that the Bank is unwilling or unable to engage in direct policies around HI, indirect policies are the only way to counter this differential distribution of growth in a dual economy, and it is this category of World Bank project that is most likely to be shaped by the political settlement.

The content of an IMF programme is less influenced by the political settlement, but the success rate and / or the manner in which the programme is implemented often is. Empirical evidence already exists to show that governments are able to distribute the adjustment burdens on the partisan supporters of their opponents (Reinsberg and Abouharb 2022). Still, the extent of influence is less compared to the World Bank for two reasons: the first is that IMF interventions tend to happen close to or following an economic crisis (systemic banking crisis, balance of payment crisis etc). This is when the government has few options other than to take the advice, loan, and conditionality of the IMF. The second point is that the IMF is more willing to disengage with governments if there are serious disagreements. Unlike the World Bank – which is more or less constantly present in post-conflict countries – the IMF makes loans only intermittently in post-conflict countries and is far more likely to pause programmes (including loan disbursements) and/or withdraw to doing Article V consultations only (where the IMF essentially shares economic monitoring and advice with the government but makes no loans and therefore has very limited interaction with the government). This results in an institution – for better or for worse – that is more independent of government and the associated political settlement.

3.7 Can the World Bank and the IMF influence the political settlement?

If the political settlement is instrumental in changing HI, it is worth asking if the IFIs are able to influence it: in particular, if IFIs are able to

put HI on the agenda. The World Bank and the IMF are not able to influence the political settlement in any major way. However, the World Bank is more engaged on this point: pushing where it can to expand the approach of the government, and advocate for certain regions to be included more in the development strategy. The government's openness to this advice will depend on the degree to which it contradicts the political settlement. The government might be convinced on matters that are not directly against the interests of the elite, but it is more resistant on aspects that are. There is little evidence of the IMF attempting to change the political settlement.

One World Bank interviewee noted the inability of the Bank (and other members of the international community), despite efforts, to shift the political settlement:

“What amazes me is the inability of the international community from the UN to the EU to the [World] Bank, to the IMF, to be able to assert real influence. And we always think these are kind of hegemonic organizations that kind of run the world. But if you look at the failure to press for reform and change in such small states [like Timor Leste], if we can't do it there, then there's very little chance to be able to do it in a place like Cote d'Ivoire or Nigeria...”⁷

The interviewee said they thought this was because states understood that the Bank needed the government more than government needs the Bank. Bank officials are paid and stationed within a country and their careers depend on negotiating large loans, whereas government officials can get aid from several partners, most especially in the

⁷ (Interview 34, World Bank Official, 13 January 2022, Teams)

immediate post-conflict context when aid flows are large. The leverage of the Bank has also reduced in the face of a wider array of emergent and non-traditional financiers, namely Chinese development finance and increased international sovereign bond market access (Zeitiz 2024). States that are able to use this wider array of financing options to their advantage have been able to extract more favourable terms – more aid and fewer conditions.

Much research has also shown that leaders under particularly extractive political settlements are relatively content to allow development and growth to stagnate in their countries as long as their interests are protected: in the worst cases, a development project that provides no personal benefit, is a development project that the politician is happy to walk away from, regardless of the benefit to the population (Dercon 2022).

Several interviewees in both the World Bank and the IMF also noted their desire to be apolitical and technocratic. This emerged especially in IMF interviews, but also with World Bank officials. And for those IFI officials who are aware of and interested in the political, there are limited tools for achieving this, which leads many to simply focus on the technocratic implementation of the project. As the same interviewee outlined:

“Even in these small states, the political economy is such that the elite can get their hands on not just aid, but other resources so that they can survive. And then all we’re doing is making up for

the state's deficiency. And so, you're confronted with a dilemma which is what I'm faced here [in Timor Leste], which is do you put all your efforts in trying to shift the political economy, both through your own influence but also more importantly to try and alter the conversation in civil society: the dialogue between citizen and state...or do you just focus on your projects? [And think that] I'm never going to in any way have any agency over the political economy trajectory of this country. So, I'm just going to make sure that my school project as best as I can, succeeds, or my road project gets done. And I think there are a lot of people in the Bank and in development more generally who just focus on the second one.”⁸

Two key points are worth extracting here. The first is that the tools available to shift the political economy are weak and require long horizons to see results: supporting the civil society may be useful, but to strengthen and build civil society takes time, and it can be quickly crushed by an oppressive government. Shifting the relationship between the state and citizens can be achieved through progressive taxation: the notion that once citizens have to pay taxes, they begin to demand more from the state including outcomes that might shape HI (Björklund Larsen 2018; Acemoglu et al. 2020). The IMF could use its influence to increase the proportion of progressive taxation, but as I will outline later in the chapter, the IMF is not pursuing progressive taxation on scale, although there was some limited progress made in Liberia and Côte d'Ivoire⁹.

Whether the IMF is less interested in the manner that tax is collected and more interested in the resulting budget deficit levels, or whether political constraints make it difficult for progressive taxation to be

⁸ (Interview 34, World Bank Official, Teams)

⁹ There is some African-focused research which suggests that it is the political culture – both from the political elite (Acemoglu et al. 2020) and from the citizenry (Robinson 2022) – that maintains tax at especially low levels in Africa.

imposed, the result is the same: the influence of the World Bank and the IMF on the policies that could re-shape the political settlement is limited. This in turn, implies that the IFIs are unable to substantially shift the political settlement, which nevertheless remains important for explaining variation in World Bank impact on HI, and, to a lesser extent, the manner in which IMF programmes are implemented or not.

The second point is the focus on the effective, technocratic execution of projects without considering broader political goals. This emerged several times where interviewees outlined that politicians will always have political agendas, and the Bank makes efforts to isolate its projects from politicisation and to maintain control of its finances, but does not look to do more than this¹⁰. Other Bank officials spoke of trying to advocate for certain regions or types of projects that would support the poorest. In conversations with governments and in its research presented to the government, the Bank tried to put issues on the agenda and argue that it was in the government's interests to address certain issues¹¹. There is therefore some effort at advocacy, but ultimately, the take-up of this advice was dependent on government buy-in. Some interviewees spoke of conversations that seemed promising, but that ultimately went nowhere; others noted a government willing to take the advice and projects shifted accordingly.

¹⁰ (Interview 19, World Bank Official, 8 September 2021, Teams; Interview 28, World Bank Official, 8 November 2021, Teams)

¹¹ (Interview 20, 'Interview 20', 10 September 2021, Teams; Interview 33, World Bank official, 16 December 2021, Teams; Interview 23, World Bank Official, 5 October 2021, Teams; Interview 46, World Bank official, 14 June 2023, Teams; Interview 76, World Bank official, 6 December 2024, In person, Abidjan)

While this reflects some influence, it is nothing extensive enough to completely change the political settlement.

4. The economic challenge: The dual economy and how economic structure locks in HI trends

The second key institution driving outcomes in HI is the dual economy. In a context characterised by HI, different identity groups work in distinct tiers of the economy, and this becomes especially important for understanding the impact of IFI programmes that target economic growth, without any policies designed to reduce HI (either directly or indirectly). Without targeted efforts to grow the lower tier of the economy, the more developed tier of the economy is likely to extract greater returns on pro-growth investments as compared to the lower tier of the economy, which is characterised by low access to credit, less resilience to risk and economic shocks, and less access to physical and human capital. With the more developed tier able to extract higher return on pro-growth investments, and without any targeted support to the less developed tier of the economy, HI is likely to increase over time with pro-growth policies.

This is especially important in assessing IFI impact on HI: in contexts where addressing HI is not supported by the political settlement, IFIs engage in generic pro-growth investments and policy advice that target the economy more broadly: the World Bank for example works on large

infrastructure projects (roads, ports, electricity expansion) often concentrated in the urban areas, and the IMF works on stabilising the central and commercial banks, keeping government debt under control, and otherwise maintaining macroeconomic stability. If there is no support for the lower tier of the economy to access these investments (i.e. through rural road connections, intermediate markets, microfinance or expanded financial service provision etc), it is likely that the more developed tier of the economy will be able to extract greater returns on these pro-growth investments than the less developed tier. In the short term, or contexts where it is difficult for identity groups to transition from one tier to another (because of skill and education discrepancies, discrimination etc) these IFI-led growth investments will increase HI as the two tiers of the economy grow at different rates and therefore become increasingly divergent.

Countries that have economic HI are best understood within the framework of the dual economy which is the existence of separate tiers of an economy within one country. These tiers are divided by different levels of development, technology, and patterns of demand (Boeke 1953; Singer 1970). The concept of the dual economy has often been used to study distinctions between the manufacturing and agricultural sectors, or between the modern and traditional sectors (Blomstrom and Wolff 1993; Blunch and Verner 1999; Masson 2001). For the purpose of this research, however, this distinction will not suffice: for example large-scale farms that produce timber for export would be both the

agricultural sector and the more developed sector of the economy. In this research then, the division between the two tiers of the dual economy will be defined by the nature of the work that each tier creates, and therefore the labour that each employs. The more developed tier creates work that is well-paid and that requires higher levels of education (this broadly overlaps with the formal, urban economy, but not exclusively). The less developed tier creates work that is poorly compensated by the market, and that is generally low-skilled. It overlaps with four economic sectors: the informal economy; Small, Micro, and Medium Enterprises (SMMEs, such as street-side vendors, tailors, drivers, cleaning services etc), smallholder or subsistence agriculture, and the shadow economy. This work is characterised by little job security and / or unstable incomes that have little resilience to risk and / or economic shocks.

Within contexts characterised by HI however, these separate tiers also tend to service different identity groups. One sector can exist across both tiers, but only if that sector requires different types of labour - a skilled (or high-paid) and unskilled component. Mining or natural resource extraction is a good example: low-skilled and low-cost labourers are employed to extract the resource (sometimes seasonally), but the primary beneficiaries are shareholders and owners, executives, traders, and in contexts of rentier states, members of government. There is no more perverse example of this than child labourers in eastern DRC mining to make the elite of Rwanda wealthy (Leander

2012). These different labour groups will exist in different economic tiers: possessing different levels of human capital, different incomes and therefore levels of demand, and different capacities to invest in their children’s health, education, nutrition etc. The division is best summarised as follows:

Table 2: A breakdown of labour group characteristics in a dual economy characterised by horizontal inequality.

<p>Labour Group 1: Labour that exists in the more developed tier of the dual economy:</p>	<p>Labour group 2: Labour that exists in the less developed tier of the dual economy:</p>
<p>• In HI contexts a certain identity group will compose Labour Group 1</p> <ul style="list-style-type: none"> • Elite, highly educated, higher income, higher levels of demand • Higher access to better quality basic services (health, education, infrastructure, electricity) either through privileged access to services provided by the public sector, or able to purchase through the private sector • Access to the international 	<p>• In HI contexts a certain identity group or groups will compose Labour Group 2</p> <ul style="list-style-type: none"> • Limited education, lower incomes that are also less secure, limited access to financial services (including credit), lower levels of demand, high food insecurity • Low resilience to risk and / or economic shocks • Low access to basic services: relies solely on the public sector which may or may not provide

<p>market (able to import and export goods; work and study overseas; access high-level services in other countries)</p> <ul style="list-style-type: none"> • Able to access dignified work through a market that rewards this work financially (i.e. their skillset is matched to a market that will pay appropriately) • Able to invest in their children's education, health etc to ensure a similar future. 	<p>services. Where public services are provided it may be low quality or unstable in its provision</p> <ul style="list-style-type: none"> • Access to the international market is exclusively through brokers or those in the upper tier of the economy. Without this, there is no access.
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The structure of the dual economy is central to how HI evolves because the sectors that tend to exist in each tier of the economy have different capacities to generate growth. If growth-focused policies, including those implemented by IFIs, do not take into consideration the dual nature of the economy, pro-growth policies and investment may disproportionately favour the labour in the more developed tier of the economy, that has the capital and skills to take advantage of those investments. This will worsen HI. Conversely, if development policy aims to support the less developed tier of the economy and the identity group employed in this tier, it will support the reduction in HI both by narrowing the gap between the two tiers, and by strengthening the

capacity of the identity group(s) employed in the lower tier of the economy to transition to the more developed tier of the economy.

In cases where both generic (or non-targeted) pro-growth policies and support to the less developed tier policies are pursued, there may be contradictory progress: on the one hand, there may be an increasingly integrated wealthy elite - or a mix of identity groups enjoying the privileges of the more developed sphere of the economy, as certain individuals are able to transition from the less developed tier into the more developed tier of the economy. The upper classes may therefore begin to include various groups from across the country's identity groups. The progress is contradictory, however, because the poor remain predominantly from the previously excluded identity group and in the less developed tier of the economy. In other words, the poor segment remains homogeneously the same identity group that it has always been: the poor are still predominantly black in South Africa, northern in Côte d'Ivoire, indigenous in Liberia, Bumiputera in Malaysia (even if the elite in those countries looks much more mixed).

The World Bank, at best and when the political settlement supports it, pursues both types of policies: pro-growth, and policies to support the lower tier of the economy. The IMF predominantly pursues stabilisation and pro-growth policies with relatively little support to the lower tier of the economy. The World Bank also only pursues pro-growth policies if the political settlement is not in favour of targeting HI. Therefore, the IFI

impact on HI in the best case will be contradictory. In the worst case where no efforts are made to support the lower tier of the economy and the groups employed there, HI will worsen as the more developed tier experienced faster growth as compared to the less developed tier.

It is worth noting, however, that while inequality will worsen if the more developed tier grows faster, the less developed tier may be able to grow *somewhat* in the face of pro-growth policies (only), as markets for their products and labour improve and therefore, the objective situation for those in the less developed tier may be improved compared to *no growth policies* (or no intervention from IFIs), even if their growth is less than those in the more developed tier. It is also worth noting that while growth can be contradictory, there are varying degrees of progress. South Africa and Malaysia have done better at addressing HI – with more individuals from the formerly excluded groups elevated into the more developed tier of the economy – than Liberia for example, which has elevated far fewer indigenous people into the elite.

The following section will present an economic explanation, first addressing how growth is unequally distributed between the two tiers of the economy and then discussing the implications of that unequal growth for changes in HI.

4.1 A theory on the differential distribution of growth in a dual economy

Economic growth is the rate of change in a country's output or in the real income of its residents (World Bank 2025a). When using the production version of the definition, growth becomes a function of investment (in human and physical capital) and productivity growth. When using the income version of the definition, growth becomes a function of real income increases (which reflect the returns on investment and productivity growth). In a dual economy, total growth will be generated in the two tiers, but not necessarily at the same rate. Differing rates of growth will have different implications for the inequality between the two tiers, and correspondingly, the incomes of the groups employed in each tier. This next section will outline the three different divisions of growth between the two tiers of the economy, and the associated implications for change in HI. For now, I assume that there is no way for different groups to move from one tier to a different tier in the economy. This will be looked at later.

4.1.1 Higher growth in the lower tier of the economy

Relatively higher growth in the lower tier of the economy would allow income in that tier to grow faster than income in the upper tier, allowing this tier to catch up to the more developed tier, and reduce the income gap between the groups employed in each tier. Given that in HI contexts, each tier employs different identity groups, this would imply reductions in HI. The graph below indicates how this theoretical case would look if graphed:

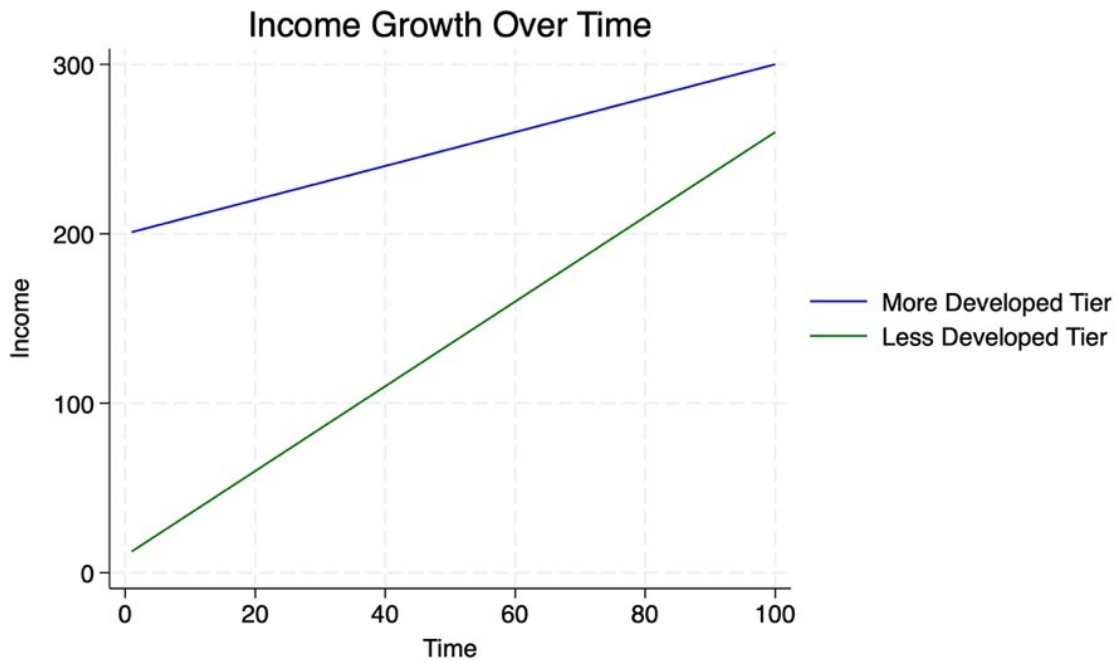


Figure 2 Higher growth in the less developed tier of a dual economy.

Source: the author

An example of such a case is the economic shifts that took place in Afghanistan during the war from the 1990s on. Several factors combined to slow growth in the traditional urban areas and shift it instead to the rural and peripheral areas. The collapse of the state in 1992 strengthened the regional politico-military formations that had begun in the 1970s. As Kabul declined in economic importance, regional power centres emerged, supported by neighbouring powers and tied to cross-border economies. Provincial cities, often tied to another city across the border, became ports for trade and investment (examples include Jalalabad-Peshawar on the northern Pakistani border; Herat-Mashhad on the Iranian border; Kandahar-Quetta on the southern Pakistani border) (Goodhand et al. 2012). Additionally, the expansion of

the poppy (opium) sector in the 1990s, counter-intuitively played a social protection role for farmers who, supported by security and trade facilitation services provided by the Taliban, suddenly found themselves able to produce and sell a high-price crop internationally, increasing rural incomes (Goodhand et al. 2012). The corresponding drop in urban incomes in Kabul, and increasing rural incomes, implied a reduction in regional and ethnic income inequalities. Considering this example, it is perhaps unsurprising that illegal activity (including drug trade) tends to be controlled by economically excluded and discriminated groups. It is hard to imagine a sector that could match the growth and returns of the opium (/ heroin / cocaine) sector.

4.1.2 Equal growth in both tiers of the economy

Equal growth would not change inequality, with the ratio of incomes remaining the same, even as the value of income increases. Nonetheless, equal growth would improve the lives of everyone but especially of those in the less developed tier, perhaps bringing groups out of poverty, reducing food insecurity, and increasing the capacity of households to save and invest. While it therefore does not shift inequality outcomes, it would shift other outcomes that are important. An economy under this context would resemble the following:

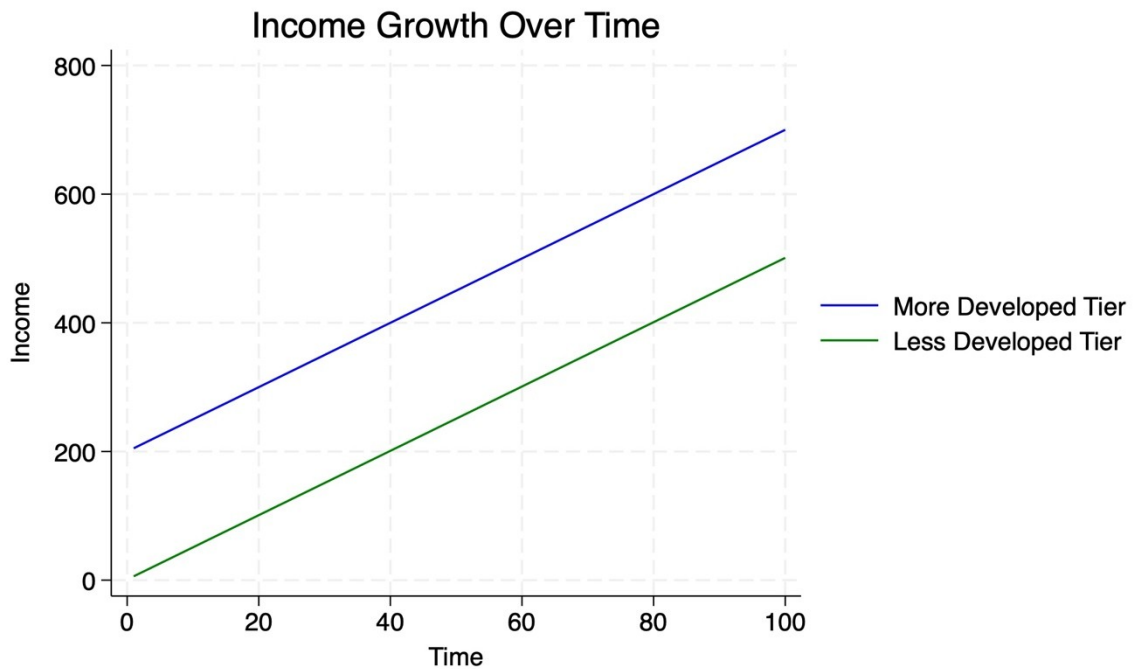


Figure 3 Equal growth between the more and less developed tiers of the dual economy. Source: the author

One example of this was the manufacturing sector in Mexico in the 1970s. A study of productivity growth and intra-national diffusion of technology in the manufacturing sector found that labour productivity growth showed no systematic variation between firms in the modern (large-scale, capital-intensive) sector and those in the traditional (small-scale, labour intensive) sector. Variation in total factor productivity across firm size classes also tended to be small (Blomstrom and Wolff 1993). With firms growing at more or less equal rates, it would be expected that incomes are also increasing at equal rates, and therefore that inequality would not be changing.

4.1.3 Higher growth in the upper tier of the economy

Higher growth in the more developed tier of the economy would lead the two tiers to grow increasingly apart, implying a larger gap in incomes generated in each tier. Some theory on the dual economy suggests that this would drive the lower tier into obsolescence, leaving only the upper tier of the economy which would provide high quality work for the whole population. In most economic contexts however, and in the context of increasing mechanisation, jobless or low-job growth means that these greater returns become increasingly concentrated in the elite, leaving many in a low growth, less developed tier of the economy.

This model is especially useful for assessing the work of the World Bank and the IMF which often create conditions for growth, without considering which tier of the economy can benefit from these investments. A major road is useful for growth, but without rural road connections, some capital (a car, money for petrol, intermediate markets en route), it will be difficult for poor agriculturalists to use the road in ways that increase their income. Natural resource exporters however will have the finances to pay the necessary costs to extract economic returns from the new road. Macroeconomic stability (provided by the IMF) is useful for poor communities who will not face inflation on necessities like medicine and imported rice, but it will disproportionately help the wealthy who spend larger proportions of their incomes on imported goods, who need foreign exchange for import / export

businesses, who take large loans from the commercial banking sector to make investments in the formal economy etc.

The theoretical case might resemble figure 4 below:

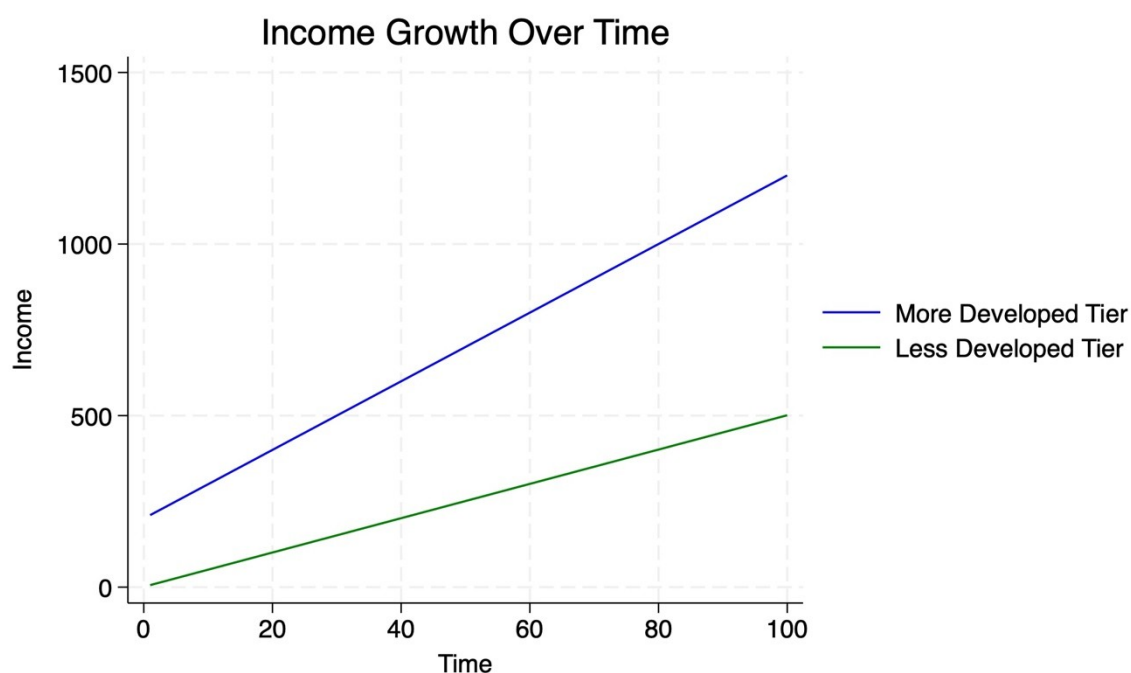


Figure 4 Higher growth in the upper tier of the dual economy

Both case studies in this thesis reflect this pattern, and below, I will argue that this is the more likely case because of constraints to growth that are intrinsic to the less developed tier of the economy (low access to physical and human capital as well as credit; no economies of scale etc). Guatemala is another case that would match this theoretical case. While indigenous groups have benefitted from an expansion in education and public sector jobs (in part through the expansion of education and therefore teachers' positions) - thereby indicating some

investment in the lower tier of the economy – non-Indigenous workers continue to be in relatively better jobs and economic positions. Meanwhile, the wealthy, self-identified “white” elite are concentrated in oligopolies within industry, commerce, and finance, and have benefitted from globalisation and low tax to experience high growth (Caumartin and Sánchez-Ancochea 2012). The result is some improvement for everyone, but significantly more profitable returns for those in the more developed tier.

4.2 How could we expect the different tiers of the economy to grow in post-conflict settings?

What theoretical judgement can be made for how different tiers in post-conflict countries will grow? As already outlined, the less-developed tier consists broadly of the following 3 economic sectors: smallholder / subsistence farming; the SMME economy; and the informal or shadow economy. These economic sectors may be overlapping, but not always. A small tailor may be licensed (and in the formal economy), but that does not mean the company exists under the same economic constraints and opportunities as a telecommunications company, for example. This section will briefly outline what literature has to say about growth in each sector of the less developed tier of the economy (i.e. SMME, informal, and agricultural) compared to the formal (large firm) economy. While there are exceptions, on average, these sectors all grow at a slower rate compared to large firm / formal economy, which has important implications for how HI is likely to evolve if groups remain

segmented in different tiers. It also explains how pro-growth policies that do not target the lower tier of the economy will shape HI.

Starting with the informal economy, most comprehensive studies of informal economies note that on average it is likely to grow at a slower rate compared to the formal economy. This is predominantly because it is characterised by lower productivity, tends to employ less-skilled workers, use less capital, have more restricted access to financing, services, and markets, and lack economies of scale (Elgin et al. 2021; Elgin and Birinci 2016). These factors drive lower initial incomes but also inhibit growth by generating lower levels of investment, less innovation, less market expansion, and less productivity growth. Several empirical microeconomic investigations in different country contexts confirm this theoretical claim: Raj and Natarajan (2007) in Kerala, India; Benjamin and Mbaye (2012) in Benin, Burkina Faso, and Senegal; Byiers (2009) in Mozambique; and Amin (2010) in Côte d'Ivoire, Madagascar, and Mauritius. All these studies show higher productivity (growth) and / or technical efficiency in formal compared to informal firms. Inability to collateralise assets and therefore to access finance constrains investment choices for firms and keeps production methods inefficient.

The SMME sector is sometimes included in the informal sector definition, and sometimes it is considered separate. I consider it apart. First, SMME growth prospects: overarching literature finds that SMMEs are, on average, less productive than larger firms (Bertanzetti et al. 2024). The

reasons for this are similar to those of the informal sector, most especially being unable to reap the benefits of economies of scale, lower capital intensity, and lower productivity. One study found, for example, that SMM enterprises in Kenya were only 6 percent as productive as large firms, while accounting for approximately half of the country's employment (McKinsey Global Institute et al. 2024). Lower productivity generates lower incomes, lower savings and collateral for investment, implying lower capacity for productivity *growth* which locks SMMEs (and many components of the less developed tier of the economy) in a low growth trajectory. While sectoral and country differences can lead to case-specific differences – the services sector for example is likely to experience smaller productivity gaps compared to manufacturing (Ciani et al. 2020) – the overarching prediction is that SMMEs are likely to grow more slowly than larger firms.

A final component for the less developed tier of the economy is smallholder and / or subsistence agriculture. The agricultural productivity gap: higher productivity in the non-agricultural sector compared to the agricultural sector is observed in almost every country in the world. On average the non-agricultural sector is three times as productive as the agricultural sector, and this is higher in developing countries (Gollin et al. 2014). While Gollin et al (2014)'s effort to reassess the productivity gap with new data and consideration of home production, the productivity gap remained remarkably large: in sub-Saharan Africa for example, agricultural labour productivity seemed to

be only 28 percent of non-agricultural productivity. Dercon and Gollin (2014) provide further evidence in support of higher productivity in non-agricultural sectors. This lower productivity creates the same inhibitors for growth as those already outlined – less ability to save, invest, capitalise, and therefore invest in technology, access new markets, or produce more. This suggests that in an economic context of a dual economy – with a more sophisticated private sector, and an underinvested smallholder agricultural sector – the former is almost certain to grow faster.

Beyond these technical and intrinsic limitations to growth, the fact that these economic actors are less rich, also limits their economic power, and therefore their political power. Large firms can attract and defend the need for state support through the costly (but profitable) process of lobbying for various inputs from the state such as subsidies, roads built to their factories and farms, even favourable exchange rates that all support their businesses and the capacity for their businesses to grow faster than smaller firms that cannot afford lobbying (De Figueiredo and Tiller 2000).

This literature suggests that, on average, one would expect most contexts to be characterised by higher growth in the more developed tier of the economy (the formal, large-firm sector), lower growth in the less-developed tier, and therefore in cases where groups cannot switch from one tier to another, for HI to widen in post-conflict contexts. In

cases where switching is difficult, or where for example, switching will take time for universal education and health to expand, allowing excluded groups to acquire the skills and experience to be employable in the more developed tier of the economy, broadly pro-growth policies, like those of IFIs, are likely to increase HI in the short term. In the short term therefore, without policies focused on growing the less developed tier of the economy, HI is likely to expand.

Over time, if universal public services expand (sometimes with the help and investment of the World Bank), and if anti-discrimination laws are in place and enforced, the formerly excluded groups will be able to become employed in the more developed tier of the economy. This process of identity groups transitioning between tiers in the economy will reduce the power of the dual economy in driving HI outcomes. It will also shift the role of growth in driving HI outcomes: if the more developed tier of the economy is growing faster than the less developed tier *and* groups can easily transition from the lower tier because these groups are better educated, more healthy, and have access to the cities (due to HI-reducing investments by the state and perhaps the World Bank), growth in the more developed tier will absorb more labour from the less developed tier, further reducing HI.

4.2.1. One sector split across two tiers?

There are cases where one sector might exist across both tiers – employing high-skilled workers for certain roles and having access to

international markets, capital, investment etc - while also employing unskilled labour for a large part of the production, extraction, or harvesting process. A good example of such a sector is the natural resource sector - platinum mining in South Africa, the rubber industry in Liberia, cocoa in Côte d'Ivoire, palm oil in Indonesia and Malaysia etc. These industries are often formalised, generate major contributions to the economy, and employ large number of skilled (and well-paid) and unskilled (and poorly paid) labour. These sectors are likely to benefit from generic pro-growth investments like roads and ports because it enhances their ability to expand production, and to cheaply transport and export this output. IFIs typically support the re-establishment of these sectors in post-conflict settings with the motivation that they provide a rapid source of tax for the state, and they are "easy wins" for getting the economy back on track. The latter is especially the case in contexts where there are few other obvious economic opportunities. It is necessary then to think through what impact growth in this sector would have on the incomes of the high-skilled vs low-skilled workers, and therefore HI.

From an HI perspective, growth in this sector is unlikely to lead to any automatic reductions in HI without accompanying policies to reduce the manner in which the sector can exist across two tiers of the dual economy. This is because the skilled and high-paid positions in the company will go to those who are well educated and therefore to those from the previously privileged group(s) who had access to good

education. The unskilled jobs will go to the uneducated and therefore previously excluded groups, who earn salaries significantly lower than the skilled workers.

Several trends, common in post-conflict states, are likely to make this difference in income between the skilled and unskilled groups larger: the first is an oversupply of unskilled labour and an undersupply of skilled labour, weakening (/ strengthening) their respective negotiating power, and driving salaries apart. The second aspect is that many post-conflict countries have limited manufacturing capacity, implying that the natural resources are often exported raw or unprocessed, limiting the intermediate, technical roles that unskilled workers can be promoted into over time with experience. This removes the ladder for unskilled workers to increase their incomes by ways other than intrinsic wage increases for the same role.

Empirically, there is also large numbers of empirical and anecdotal evidence that labourers in these sectors tend to earn very low salaries that experience limited growth, unless major efforts are made by the government (for example, through passing and enforcing minimum wage legislation, taxing exports and investing in social sectors etc) and / or through certification schemes (such as the Fairtrade International, Rainforest Alliance, Social Accountability International) that all work to protect low skilled workers in these sectors (International Labour Organization (ILO) 2019). This documented need

for intervention in many natural resource sectors to prevent exploitation and raise the incomes of low skilled workers, either from the state or from certification schemes, implies the lack of automatic benefits for workers despite growth (and even booms) in these sectors. Indeed the need for strong governance institutions to reign in the excesses of the natural resource sector is well documented as the only way to prevent the “resource curse” (including higher income inequality, lower growth, and conflict) (Ross 2007; Corden and Neary 1982; Gylfason and Zoega 2002).

A final point worth making is that the identity-based allocation of labour across tiers often began in natural resource extraction industries: Indian indentured labourers were brought to South Africa to work on sugar cane plantations, African slaves were taken to the Caribbean and Latin America for the same reason, or to the USA to work on cotton plantations, the Bumiputera in Malaysia were considered under the colonial administration as best suited for agricultural labour, and mining across southern Africa created a massive and socially destructive migrant labour system that forced black African men to leave their families to work on the mines for months at a time. The foundational shocks that created HI are to be found across the natural resource extraction industry. The implication is that growth in a sector that exists across both tiers of the dual economy is unlikely to reduce HI, unless explicit measures are taken.

Arthur Lewis writes about this more eloquently when he describes his dual economy as the division between capitalist (modern, urban, industrial) and subsistence (traditional, rural, agricultural). He makes two very important points that are relevant to this discussion: the first, is that in underdeveloped contexts, the wages of unskilled labour in the capitalist sector are in practice about 30 percent higher than subsistence wages (for various reasons that are not necessary to elaborate for the point, but are outlined on page 150 of his paper) (Lewis 1954, 150). This effectively creates an unlimited supply of labour, which applies as well to a natural resource context, as it does to the early industrialisation of which Lewis writes. The key take-away is that the surplus labour means that capital formation and technical progress (or expansion of natural resource cultivation) do not raise wages but rather raise the share or profits in the national income – a share of profits that is claimed by the industrialists.

My primary point, building on Lewis' point above, is that, likewise, in post-conflict settings with a large supply of low-skilled labour and an economy damaged by war, labour is also effectively unlimited. Profits then, will be generated by the capitalist class that have the land, capital etc to make the necessary investments to extract the profits, without the accompanying increase in demand for labour shifting the wages for the low-skilled labour. Where the capitalist class and the low-skilled workers exist across different identity groups, the impact of this pattern

of growth and stagnation of real income will have meaningful impacts on HI trends.

The second key point Lewis (1954) makes is that where this profit (what he calls “capitalist surplus”) is reinvested in creating new capital, “the capitalist sector expands, taking more people into capitalist employment out of the subsistence sector...The surplus is then larger still, capital formation is still greater, and so the process continues until the labour surplus disappears” at which point low-skilled wages start to increase (Lewis 1954, 152). This is essentially what he describes as the process of economic development. The channel of this development is the creation of capitalist surplus, which raises savings of the wealthy top 10 percent, who (critically) reinvest these savings in productive ways. He is clear however, that this inequality is only useful for growth if they are reinvested in capital formation, and not in rents. He outlines several expenditures of the top 10 percent (tombs, country houses, temples, pyramids) which would not grow the economy, and several classes of elite (landlords, traders, moneylenders, priests, soldiers, princes) who do not think like capitalists or industrialists. Should these classes of elite engage in the kind of unproductive and rent-seeking activities listed, the inequality generated from higher profits does not stimulate economic growth (Lewis 1954, 160).

Building on this analysis, I would argue that rent-seeking is common in poor, post-conflict states (and beyond). Additionally, profit-seeking

capitalists might seek to invest their capital in investment options abroad, that they see as less risky, diminishing the productive effect of that capitalist surplus in the post-conflict country where it was generated. This applies not only for investments but also for taxes that capitalists should pay. Recent research on windfall taxes for oil companies indicates that when oil prices are low, those lower profits are registered in the country of extraction, so that those countries receive lower taxes. However, when oil prices increase dramatically, those windfall profits are instead registered in low-tax havens (Chiocchetti and Moreau-Kastler 2026).

The leaks on capitalist surplus in the global era are therefore significantly more diverse, most especially for the natural resource sector. The mechanism therefore to convert these inequalities into rapid economic growth and ultimately, higher wages for all, is hamstrung in many post-conflict economies. Even in the best case, during the post-conflict period it is unlikely that all surplus labour will be employed in a growing industrial sector, and therefore the equalising effects of rising wages (following a period of rapid industrial expansion) are unlikely to be present in post-conflict contexts. Widening inequality, in a dual economy that employs different identity groups, is the more likely outcome.

4.2.2 The Public Sector

How and where the public sector fits into the dual economy warrants a separate discussion because its expansion has been credited with reducing income inequality generally by absorbing redundant labour force, but also with reducing HIs by employing socially marginalised populations and other labour market outsiders (Lee et al. 2011; Gustafsson and Johansson 1999; Kenworthy 2008). This section makes four points: the first is that the public sector forms part of the more developed tier of the economy. Second, while it can be a tool to address HI, whether it is used in this way is largely a political choice. Third, as I have argued throughout this chapter, domestic political choices and institutions interact with IFI interventions in several ways, and this is no different for public employment. How IFI interventions influence the HI-reducing aspect of public sector employment will be outlined. Last, I explain what role productivity (which plays a major role in my earlier explanation) plays in relation to the public sector, which I argue is marginal but not absent.

Public sector employees exist in the more developed tier of the economy by virtue of the relatively higher incomes that public sector employees earn, the stability of their employment, and the additional remuneration benefits (pensions etc) (Lee et al. 2011). These factors distinguish it from employment in the less developed tier.

While public employment can be useful to address HIs by directly employing excluded groups, there are several important caveats. The

first is that whether it is used in this manner, will depend largely on the political choice of elites, or how the political settlement has agreed to use public employment. Liberia's history, for example, shows governmental changes bringing different ethnic groups into power, with a penchant for employing only their own ethnic group - the pre-coup government employed mostly Americo-Liberians, Samuel Doe's junta government employed mostly Krahn, the first post-conflict Johnson Sirleaf administration employed mostly Americo-Liberians, and Weah shifted employment quite dramatically to employ indigenous groups who had voted him to power. Depending on which group is being favoured, and where they sit in the spectrum of horizontal inequality, will shape how political choices around public employment shape the evolution of HI. There are many governments who do not choose to use public employment as a tool for reducing inequalities. Research on industrialised economies has indicated that social democratic governance is one of the most important determinants of the expansion of public sector employment, indicating that political ideology might play an important role in how public employment is used (E. Huber and Stephens 2000).

It is worth flagging too, that in many post-conflict and HI-affected contexts, the previously excluded groups are large: in Liberia the indigenous groups account for around 95 percent of the population; in South Africa, black, Indian, and coloured groups account for over 90 percent; and in Malaysia, the Bumiputera account for close to 70

percent of the population. In such contexts, public employment – even in cases where the government is actively using it as an equalising tool – will not be sufficient to rid the society of HI. The degree of employment that can be provided will not match the population size of excluded groups. This will especially be the case in fiscally constrained, post-conflict governments. As such, for most of the formerly excluded, economic opportunities will need to be created in the economy, and that is why the structure of the economy is such an important part of the analysis presented in this chapter.

As I have argued, the IFIs enter this domestic political and economic context, with their own policy ideas and significant finances. Three points need to be made in relation to public employment as a tool to reduce HI and IFI interventions: the first is that often in the early post-conflict years, IFIs finance much of public employment. State budgets are often almost completely financed by aid and grants because the state has such limited capacity to generate tax or other revenue. The first key point then, is that IFIs (and other bilateral donors) dramatically increase the capacity of the state to be an employer.

Two points mitigate this potentially positive effect: for various reasons, IFIs are often encouraging states to reduce their wage bill, either by cutting (ghost) employees or reducing salaries. There are several reasons for this: IFIs prefer states to be spending money on investment (infrastructure etc – things that will make the economy grow) rather

than on consumption, especially if this expenditure is financed through loans that need to be repaid. Limited fiscal space and growing debt (crises) lead IFIs to push states to cut back on expenditure, and state employees are often first to be reduced. Lastly, exactly because public employment can be a political tool, IFIs are often sceptical that these state employees are not simply clientelist or patrimonial hand-outs to secure politicians' careers rather than a genuine provision of public services. For this reason, IFIs often set conditionality to reduce the expansion of public sector employment.

The final point relates to the manner in which IFIs engage in civil service reform. The first steps often include reducing ghost workers and setting educational and experience standards for each level in the public sector employment scale. While the latter is useful for reducing corrupt hiring practices, and potentially for improving the efficiency of the state, it can reduce the HI-reducing impact of public employment. Formerly privileged groups will tend to have better education and better work experience, and therefore more readily meet these requirements (especially for the most senior, most influential roles). Formerly excluded groups, who might benefit from public employment to reduce HI, might be auto excluded by these guidelines.

While there are benefits to this work in ensuring an adequately educated civil service, there are also risks. Formerly privileged groups often know very little of the lives, contexts, and struggles of the

formerly excluded. This can impact the nature and implementation of development policies. In Liberia for example, the election of President Weah (an indigenous leader) and replacement of the Americo-Liberian elite in government led to a shift in government policy away from concession farming and towards agricultural support for rice and cassava farming. Discrimination by privileged groups in the public service against excluded groups that are seeking public services from those public employees is another risk. The IFI civil service interventions would do well to consider these factors to improve the HI-reducing capacities of public employment.

Finally, how does productivity and growth fit into this analysis of public sector employment and change in HI? I argue productivity and growth play a negligible role in determining the expansion of public employment, who is employed, or what they earn, most especially in the post-conflict years. The key drivers have already been outlined: the choices of politicians (based on the political settlement), availability of finance (often through IFIs), and the approach to civil service expansion and reform. However, over the long term, productivity and growth may play a more important role in the expansion or not of the public sector, for two reasons. Firstly, as countries exit the post-conflict stage, aid and grants reduce dramatically. If countries do not have a growing economy from which they can extract taxes as revenue, or natural resources from which they can extract rents, financing public employment and its expansion will be severely limited.

Second, Lee et al (2011) make a convincing argument that as economies grow, the productivity gap between the private sector and the public sector widens. (They argue that the productivity gap in early industrialisation is relatively small.) As that gap widens however, public support for expansionary and equality-inducing public employment reduces as the private sector increasingly views it as a tax burden and as coordinated wage-bargaining institutions between public and private sectors break down. This would imply that productivity and growth might matter for public employment, and its capacity to reduce HIs, but only in the long term, arguably long after the end of the post-conflict period.

4.3 Solutions for the Dual Economy

In contexts characterised by HI, should IFIs pursue economic growth policies that do not consider the dual economy, HI is likely to increase during the post-conflict period. Two factors will be important to consider, if this increase in HI is to be avoided or at least mitigated: first, the different capacity for growth in each tier of the economy and targeted support for the less developed tier of the economy. The second factor is the capacity of the identity groups traditionally confined to the less developed tier to switch to the more developed tier. If IFIs engage in these kinds of activities, the HI-increasing tendency of pro-growth policies will be reduced, and over the long term, growing the more developed sector may reduce HI as previously excluded groups are

increasingly employed there. This section will briefly unpack these two factors, before going on to outline whether the World Bank and the IMF engage in these activities, in order to assess the overall impact of IFI interventions on HI.

Growing the less developed tier will include development policy that supports the sectors in the less developed tier of the economy through supply-side interventions: expanding finance and support to SMMEs, reducing predatory state behaviour, creating and expanding public employment, skills development programmes that target low-skilled workers, and supporting smallholder and subsistence agriculture. Infrastructure targeting the less developed tier of the economy (e.g. rural roads and markets), research and development targeting rural produce can all help these sectors become more profitable. Direct support to the workers in this sector will also grow incomes, including cash transfers to the poor, vouchers that are redeemable in local shops, reducing or removing taxes on low-income groups, or otherwise reducing the cost of living will all benefit the groups employed in the less developed tier of the economy, creating work opportunities, and increasing income.

Switching from the less to the more developed tier of the economy will require an increase in education and skills for labour groups previously under-educated, and / or the removal of legislation banning certain groups from working in certain positions, reducing bias and prejudice in

hiring practices, and affirmative action policies that expand formerly excluded groups' access to employment, land, assets, and ultimately income (F. Stewart et al. 2008). This should also be accompanied with growth in the more developed tier, generating new employment opportunities, rather than other groups being replaced - this will likely mean less resistance from the previously advantaged group(s). To assess the overall impact of IFIs on HI therefore, we will need to assess what balance of pro-growth, and pro-poor / pro-less-developed-tier policies there was (if any) in order to understand the impact. This will be more comprehensively outlined later in the chapter, but one aspect warrants further explanation here, because it will not be part of the over-arching theoretical solution, and it is not the kind of activity either IFI engages in.

In political economy contexts where economic opportunities are portioned out by the state (e.g. clientelist governments), changing the political elite can shift who is allocating those opportunities and who benefits. This includes a wide range of actions: allocating concession plots to companies provides the elite in Liberia with opportunities to generate income, either by providing concessions to companies of which they are secret and partial owners; or by extracting bribes for the award of the concession. This therefore provides the new political elite - who are also from the previously excluded identity group - with immediate increases in income. Political elite can also allocate civil service jobs to their extended family or connections, allowing different

groups access to some of the most stable and well-paid jobs in the economy. In Nigeria, the new political elite divides the rents from the oil sector amongst its supporters and enemies to maintain an elite bargain that is more concerned with personal benefits from the oil rents, than investing them in the developmental needs of the country's poorest (Dercon 2022). Nevertheless, the ethnic and regional beneficiaries of this elite bargain are fairly diverse, making an economic elite that is fairly well integrated. In South Africa, state tenders were provided to companies that were able to pay private bribes to senior government officials. These are all examples of ways in which government officials and their connections can privately and immediately benefit from taking the reins of power. A clientelist government, run by the previously excluded group(s), will therefore lift certain individuals into the more developed tier of the economy, as the political elite use their power to obtain economic assets. This is unlikely to benefit the majority of the previously excluded but is it a tool used to shift tiers, and it does generate a new (narrow) elite that is heterogenous in identity: multi-ethnic, multi-racial, or otherwise.

This clientelist approach of using political power to extract financial rents and allocate them to a range of identity groups (using corruption and other methods) would not be an approach advocated by the IFIs (in fact, some of the anti-corruption governance methods may slow this down). For IFIs then, there are two options: growing the less developed tier of the economy or increasing opportunities to switch tiers. Which

approach (or what mix of each) might be influenced by the degree of divergence between the two tiers. Growing the less developed tier will be especially important in contexts where a large majority of the population has been severely deprived for many decades, and where the gaps between the two tiers are large. For example, the chances of a subsistence farmer living below the poverty line becoming a banker in their lifetime is low. If much of the two tiers can be defined with similarly large degrees of disparity, more targeted actions for the less developed tier will need to be taken. If the gap is less narrow: where groups are similarly educated, and it is perhaps only a matter of removing discriminatory legislation, pursuing the latter approach may be more desirable. Northern Ireland may be a good example of this, where the gaps between Protestants / Loyalists and Catholics / Republicans in education were not large, but prejudice in law and in practice had kept Catholics out of many highly paid positions. A change in the law meant that government contracts were only offered to private firms where the firm could prove they had not been discriminatory. Close monitoring and implementation changed the employment dynamics relatively quickly and effectively, so that income gaps between the two groups reduced dramatically (F. Stewart 2012).

The exact combination of policy change, and development support will depend on the country-context: the extent of the divide between the two tiers, the presence of natural resources, opportunities for economic growth, and the timeline for impact etc. Regardless of the approach,

during the post-conflict period (defined here as up to 20 years), even with good policies, and especially with bad policies, one is likely to see an increasingly integrated elite, as clientelism or good policy lifts some individuals into the more developed tier. The previously excluded groups are likely to remain excluded while they await the expansion of universal public services, and growth in the formal and the informal economy to produce limited improvements in their lives in the short term. This is the contradictory progress that is characteristic of post-conflict countries characterised by HI.

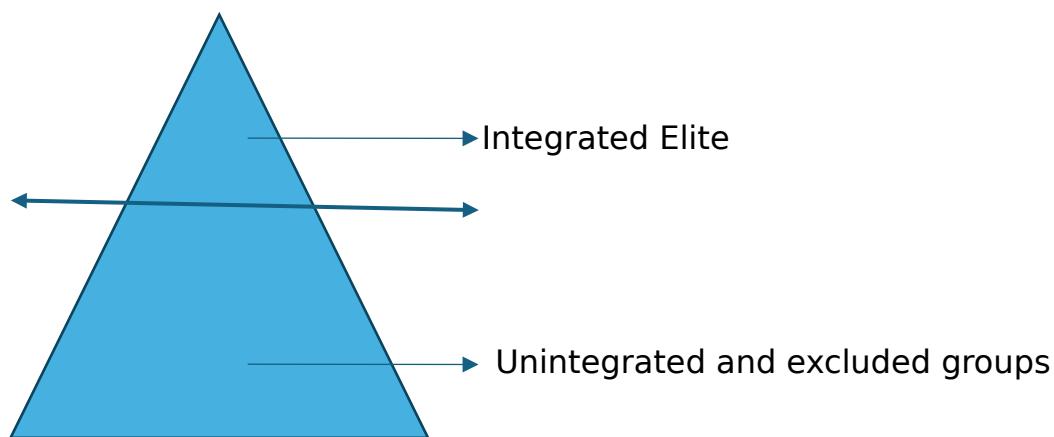


Figure 5 Figure depicting the nature of contradictory progress on HI in post-conflict countries. Source: the author.

5 The technocratic solution to HI

Addressing HI requires three categories of technocratic solutions: the pre-requisites (the foundation, without which very few HI solutions will be achievable - and broadly relates to having a functional state);

indirect policies targeting HI; and direct policies targeting HI. The nature of these policies should be informed by the nature of the dual economy. These categories of technocratic solutions will be briefly outlined before addressing how and whether the World Bank and the IMF engages in each of these solutions.

5.1 The pre-requisites

These technocratic solutions will not end HI, but without them, it will be impossible to address it. These are the necessary but not sufficient conditions for reductions in HI. The first is the existence of a functional state with sufficient capacity to engage in the activities that address HI: collect taxes from the wealthy elite, invest them in public services, pass or repeal laws, and provide a degree of security. As such, statebuilding activities broadly are likely to be useful – most especially those that include strengthening the tax administration, closing leaks in the budget execution system, or improving the capacity of key ministries (health, education etc) to effectively carry out their mandate. Whether states care to convert these investments in capacity into improved service delivery is a political-economy question, with some states employing various methods to mask non-accomplishment and deflect pressure for improvement (Pritchett et al. 2012). Still, a low-capacity state interested in reducing HI, will need to improve its functioning to achieve this goal.

The second pre-requisite is a macroeconomic context that is not in crisis. Macroeconomic volatility negatively impacts both growth and inclusiveness, and as evidenced by the Global Financial Crisis of 2008, high and rising inequality can cause macroeconomic volatility and crisis (Davoodi et al. 2021). While a subsistence farmer in rural Liberia is less likely to be affected by macroeconomic instability than a rubber exporter, he or she will find medicines and imported consumption more expensive, which can quickly affect consumption as larger proportions of income go to cover rising living costs (Coady et al. 2015). It will also make it more difficult to take the necessary steps to reduce HI, not least of all because policymakers will be distracted by fixing the macroeconomic crisis. As such, relative macroeconomic stability is a pre-requisite for reducing HI, but it will not be sufficient.

Lastly, it will be important to have finances to make the necessary public service investments in previously excluded groups and regions to allow for those groups to catch up. Post-conflict states typically are very limited in their capacity to collect taxes to fund state activities, and even as this capacity improves, tax income is likely to dramatically lag public service and investment needs. As such, additional cheap credit or grants will be important to address HI.

5.1.1 The World Bank and the IMF on the pre-requisites

The World Bank and the IMF are instrumental in building state capacity, and in restricting corruption and theft of state resources. In terms of

providing finances, the World Bank is amongst the world's largest donors – in 2023, it was outspent only by the EU, Germany, and the US (OECD 2025a).

The IMF is financially a less generous actor, dispensing globally similar figures to what the African Development Bank spends in Africa alone. It however acts as a multiplier for aid, because if it approves a country's macroeconomic policy and performance, other bilateral and multilateral donors are more likely to make loans and grants (Collyns et al. 2021). It can therefore help to unlock significant financial resources for a country. Nevertheless, in and of itself, the financial aid it brings is often much less than other actors.

A broader point here is also that the IMF is especially risk averse in terms of debt and is often encouraging governments to reduce debt loads through various austerity measures. This may be appropriate in cases like Liberia, where state capacity is very low, and corruption is very high, meaning that there are significant leakages on state finances, inefficient tax systems, and smaller multiplier effects and returns on state investments. In addition, the economy is heavily reliant on natural resource exports, making it especially susceptible to balance of payment crises should commodity prices fluctuate (as commodity prices often do). In contexts like Liberia, the government taking on large loans is probably unwise, given that there is little resilience in the economy in the face of shocks, and limited capacity in the government to manage

the economy and disburse the aid in ways that are likely to earn back the money.

However, for a country like Côte d'Ivoire, which has achieved GDP growth averaging over 7 percent in the 7 years preceding the COVID pandemic; which has a significantly more skilled and capable bureaucracy; a government that is broadly working for development outcomes (and not only state capture for the elite), this risk-averse approach may be constraining growth, and reducing the availability of funding for HI-reducing activities by setting too-stringent conditions on debt accumulation. Risk-averse or not, the IMF certainly achieves its primary mandate of ensuring macroeconomic stability in the countries where it works, and where its policies are enacted. In relation to the prerequisites then, the World Bank and the IMF are very useful. If the government uses this state capacity, additional finances, and macroeconomic stability to target HI, it will be significantly more effective after the IFI interventions have laid these foundations.

5.2 The indirect policies

The expansion of universal public services, including health and education but also roads (especially rural roads), water and electricity, financial infrastructure, social safety nets, even ID registration all support previously excluded groups' capacity to participate in the more developed tier or extract higher incomes in the less developed tier of the economy. The timeline horizons however are expected to be long:

the quality of public services (such as education and health) lag the physical infrastructure, and therefore wealthy groups will generally continue to benefit from higher quality education, health, roads, electricity etc for several generations. Nevertheless, the expansion of universal services is an important foundational step in tackling systemic HI. Without this, there is little chance that HI will drop sustainably.

Other quasi-indirect policies include any pro-poor policies that do not specify the group. These include regional development programmes, progressive tax policies, and general antipoverty programmes (F. Stewart et al. 2008, 311). The legal enforcement of human rights and anti-discrimination policy can also help reduce the likelihood for certain groups to be excluded and discriminated against. These policies do not specify the group that should benefit, but by virtue of targeting certain regions or certain income groups, benefit disproportionately the identity groups that were previously excluded.

5.2.1 The World Bank and the IMF on indirect policies

The degree to which the World Bank targets these social sectors to provide universal or pro-poor public goods depends on the extent to which the government is willing to invest in these sectors. With the government's backing, the World Bank can be transformative in this sector, bringing high-level technical expertise to indirect policy implementation, reducing poverty, improving education and health indicators, and improving HI. Without political backing, it can design and

implement projects that disproportionately benefit the developed tier of the economy, support the re-establishment of the dual economy, and strengthen the elite, worsening HI.

The case studies presented in this thesis show two very different World Bank portfolios in terms of investment in universal public service expansion and / or pro-poor projects. Liberia received a relatively small allocation of funds in either sphere, with most of the country's lending going to building major roads and statebuilding. Côte d'Ivoire, however, shows a World Bank that is much more forward leaning in terms of universal public service expansion and pro-poor projects.

My research argues that part of what drove the distinction between the World Bank's work in Liberia and Côte d'Ivoire were the interests of the governments in power. The first two Liberian governments after the war were dominated by Americo-Liberians who essentially sought to re-establish the previous concession-based economy. There was no doubt self-interest in this calculation, but some interviewees also suggested that the government had few other economic options¹² or that they simply hadn't lived the lives of indigenous Liberians and so they struggled to know their reality and empathise with their poverty¹³. The result was that efforts by World Bank staff to suggest smallholder agricultural support projects targeting indigenous groups were repeatedly rebuffed. By the third post-conflict Administration, an

¹² (Interview 10, 30 July 2021, Whatsapp)

¹³ (Interview 23, World Bank Official, Teams)

indigenous Liberian president (George Weah) was elected, and much of the government was likewise replaced with indigenous Liberians. Projects dealing with small-scale agriculture, land reform, and rural finance increased from 5 percent to 22 percent of World Bank financing, and the social sector received 24 percent. Rural road investment increased.

Given the degree of poverty in Liberia, this is probably not enough to greatly shift poverty for the indigenous groups. This is especially the case because the World Bank's budget for Liberia is greater than the budget of the state in Liberia, whose budget is mostly taken up with the expenses of running the state itself. The implication is that what the World Bank does not do, the state does not do either. Still, in a political context where roads are especially valued as evidence that the state is doing something, and in a context where large swaths of the country are cut off completely from Monrovia in the rainy season, roads need to be *part* of Liberia's development strategy, even if the disproportionate focus as in the initial post-conflict years failed to tackle HI. The Liberian case therefore demonstrates the importance of political support for HI-oriented policies. It also indicates the challenges of targeting HI in a context where almost every kind of investment is necessary to rebuild the society, economy, and state; and where resources are limited.

In Côte d'Ivoire, the government was much more invested in tackling HI, and with this political backing, the World Bank did significantly more to

tackle HI using indirect policies. Côte d'Ivoire's first stable post-conflict government was under Alassane Ouattara: a northerner who had come to power in part for his fight to have the north better represented in Ivorian centres of power. His government had and continues to have many northerners in powerful positions, and therefore the government requested significantly more from the Bank in the social sectors and in projects targeting the north. The first education projects conducted by the World Bank were concentrated in the north, before being scaled to the whole country¹⁴. Thirty-six percent of World Bank funding went to social service provision and small-scale agriculture during the first Ouattara administration, and 57 percent in his second term.

It is worth noting that the problem of HI was well documented (in substance, even if not using the term) in World Bank documents for both Liberia and Côte d'Ivoire. Interviewees also noted raising the matter in discussions and negotiations with the government in both cases. But in Côte d'Ivoire, with a political elite supportive of the north, with a larger economic base, with less destruction to recover from, and with a richer state, the political settlement was willing to direct large portions of World Bank funding to the kind of indirect policy work that would support the reduction in HI, either by supporting the less developed sector of the economy, or by more directly increasing the skills and incomes of the previously excluded north. With the right

¹⁴ (Interview 42, World Bank Official, 25 May 2023, Teams)

political support then, the World Bank's resources can be transformative.

The IMF, however, does relatively little in terms of indirectly targeting universal social services or regional spread of development. In response to severe criticism for its Structural Adjustment Policies and claims that frequent austerity hinders a country's development after the end of a war and increases inequality (Paris 2004a), the IMF has made some efforts to protect social spending from cuts when austerity measures are put in place. For example, social spending floors have become a frequent part of conditionality. There are also increasingly conditions or suggestions to increase taxes or decrease government spending *except in social sectors* - typically specified to include health and education only. While these are good steps, they are not major enough to greatly shift the impact of IMF-led austerity plans or shift HI dynamics. Indeed, some IMF officials have admitted that the social spending floors are very low and easily achieved. And in cases where countries failed to meet these conditions, such as Liberia, these conditions were often easily waived.

Ensuring a government does not overspend in the IMF's estimation is central to the work of the IMF, and their macroeconomic monitoring means that challenges to the economy (such as reductions in natural commodity prices) can result in rapid reductions in what the IMF sets as fiscal balance floors and debt accumulation caps. This requires

governments to either reduce spending or increase revenues (predominantly through taxes), neither politically popular choices. In the face of austerity requirements, empirical evidence suggests that government will cut investment first (namely infrastructure), followed by the administrative / defence sectors. This is largely because the political costs of cutting future consumption and investment are less than cutting current employment / social benefits spending that can be politically very costly (Hicks and Kubisch 1984). Cutting future investment and consumption is deeply problematic for HI reduction. Reducing HI implies expanding state investments in regions and groups that didn't previously receive them (e.g., building schools, hospitals, and roads where none were before etc). Maintaining current expenditure in favour of future expenditure will only maintain HI.

This was confirmed in the case of Côte d'Ivoire: in 1979, global commodity prices for coffee and cocoa dropped and continued dropping over several years. In the end, the country was forced to enact austerity measures under several IMF programmes. The first reductions in government spending were cutting major investments planned for the north of the country - exactly the region that was poor and that needed investment the most.

In 2017, cocoa prices dropped again, and various government efforts to both increase tax and reduce government salaries led to soldiers' mutinies, civil service strikes, and private sector protests - indicating

the political cost of reducing current consumption. Eventually many of these measures were scrapped or scaled back, and the price paid to cocoa farmers for their cocoa was dramatically reduced. Cocoa farmers are amongst the poorest groups in Côte d'Ivoire. This creates a pro-cyclical bias, where government spending increases when the economy is strong and decreases when the economy is weak and most in need of stimulation. While debt distress – the root of these IMF conditions – is a core concern for many developing countries, the way in which cuts in government spending interact with political strategies at these moments may be weakening states in already vulnerable post-conflict contexts. Importantly for this research, investment and expansions in spending that are necessary to reduce HI, are likely to be scrapped first.

The one caveat worth mentioning is that, in the case studies of Liberia and Côte d'Ivoire, the IMF intensified its work on tax policy, tax capacity, and revenue mobilisation. This would reduce a country's vulnerability to debt by increasing its revenue, rather than decreasing its expenditure, which will be necessary to address HI. Progressive tax – like income tax, corporate tax, inheritance tax etc – also reduces HI by taxing the wealthier classes. This work – well within the IMF mandate – would therefore reduce HI. In Liberia, for example, the IMF pushed the Liberian government to increase corporate income tax, which is amongst the lowest on the continent, reduce loopholes and waivers for export taxes, and establish a Large Taxpayers Unit (The World Bank 2021b; International Monetary Fund 2007). Likewise, in Côte d'Ivoire,

the IMF pushed the government to increase excise taxes on targeted products, expand its tax base in the more developed sectors of the economy (telecommunications, real estate, digital economy etc), and simplify taxation of business to reduce the scope for tax avoidance (IMF Africa Department 2018). These were all useful steps in decreasing the country's vulnerability to debt distress by increasing its capacity to collect revenues as opposed to reducing expenditure.

Beyond these case studies, the IMF has allocated the majority of capacity building resources to fiscal affairs, which includes tax administration, suggesting that tax may be increasingly dominant in its country engagement (Takagi and IEO 2018). Its research and rhetoric on taxes especially for developing or fragile states has also had a stronger focus on ensuring tax policy addresses inequality, even if this comes at some efficiency costs (Mansour and Schneider 2019). In practice however, the IMF hosted a series of webinars celebrating its "world-wide leading role" in spreading the use of VAT: a regressive form of tax. Indeed, data on VAT shows the dramatic increase in VAT since 1993 in all country income-groups, including low and low-middle income countries (Brettonwoods Project 2020). Several civil society organisations have repeated concerns that VAT is an indirect and therefore regressive tax, and have called for taxes linked to wealth and income - such as Personal Income Tax (PIT), Corporate Income Tax (CIT), Capital Gains Tax (CGT) and Property Tax (Oxfam 2017; Action Aid 2018). This suggests that the progressive tax advice that the IMF gave

in Liberia and Côte d'Ivoire may not be generalisable to other post-conflict countries. Some regressive taxes worsen HI despite taxing the rich and the poor equally because their proportions of consumable income differ dramatically, thereby disproportionately affecting the poor.

5.3 Direct policies

In part because indirect policies can take time, or may be ineffective, direct policies have often been adopted in contexts of severe HIs. These are Affirmative Action policies: “positive steps taken to increase the representation of women and minorities in areas of employment, education, and culture from which they have been historically excluded” (Fullinwider 2024). The additional definitional distinction to be made, is that these policies can target previously excluded majorities (as well as minorities) as they do for black communities in South Africa or the *Bumiputera* in Malaysia (both majorities).

There are a wide range of affirmative action policies depending on the approach (legal, expenditure-led, quantitative targets and quotas, and redistributionary approaches); the category in which the improvement is sought (health, social sector, employment, education and training, housing, land); and at the economic level (macro, meso, and micro) (F. Stewart et al. 2008, 311). The more common policy choices target asset distribution, incomes and employment, and education.

In the category of asset distribution, examples include land reform via redistribution of government owned-land, forcible eviction, purchases, and restrictions on ownership. Shifting financial asset ownership laws such as bank regulations, subsidisation, and requiring certain portions of corporate equity to be owned by certain groups (Gomez 2012). Income and employment targeting policies include public procurement policies (where state procurement favours companies owned or partially owned by previously disadvantaged groups) or employment policies including public sector quotas or legal requirements for the public sector to reflect all cultural groups in their employment (McCrudden 2007). In education, there can be quotas for university entrants and language policies can be used to strengthen the capacity of certain groups to learn (F. Stewart et al. 2008). The principle of these policies is that they outline the beneficiary by identity more explicitly than the indirect range of policies.

5.3.1 The World Bank and the IMF on direct policies

The IMF and World Bank do not work on direct policies. Indeed, a framing finding here, is that both institutions are deeply uncomfortable discussing identity. As one interviewee who worked with the Bank on its development work in unstable contexts said:

“One thing that we are [encouraging people to do] is to focus on certain regions: you cannot say we only want to support a certain ethnic group, but you can identify that you have problems in the north-east or north-west, because that’s where you have this type of group that feels very limited, let’s increase our programme there. The big tension is still between people who say that we need to go to the place where growth is possible, where you go for

opportunities, and that will trickle down, or the people who think the most important is stability.”¹⁵

This quote points out what was reiterated in several interviews: that World Bank officials don’t believe it is their place to discuss identity, and that the closest they will go to tackling HI is through the quasi-indirect policies discussed above: where certain regions are targeted.

The IMF – hesitant even with quasi-indirect policies, or policies that aim to do anything other than achieve macroeconomic outcomes – does nothing on direct policies. Several interviewees asked me why I was discussing HI in relation to the IMF at all. With neither IFI engaging in direct policies, the most powerful tool for addressing HI remains unused.

These findings can be well summarised as follows:

Table 3: Summary of HI-relevant policies

<u>Type of policy</u>	<u>Capacity to influence HI</u>	<u>Tendency for the World Bank to implement and advocate for this policy</u>	<u>Tendency for the IMF to implement and advocate for this policy</u>
<u>The pre-requisites</u>	Highly dependent on what the increased state	High	High

¹⁵ (Interview 3, Former Senior World Bank Official, Whatsapp)

	capacity, finances, and macroeconomic stability are used for and who benefits.		
<u>Indirect policies</u>	Medium	Medium (strongly influenced by the political context. Advocacy depends on local staff - my research suggests staff are advocating for indirect policies, even if it is not implemented in unfavourable political contexts)	Low (only a slight increase in progressive taxation)
<u>Direct policies</u>	High	Low	Low

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It is this mix of progress in certain policy spheres, and under certain political conditions, and lost opportunities in other policy categories, that implies that IFIs reinforce the contradictory progress on HI that is characteristic in post-conflict states. The domestic political settlement explains variation in IFI impact by explaining varying portfolios and policy advice (of the World Bank) and to a lesser extent, variation in the manner in which IMF programmes are implemented, and who bears the brunt of austerity. The dual economy shapes which groups can extract the most returns on the stabilising and growth-inducing investments made by both the World Bank and the IMF, and also explains why, without policies that target the less developed tier of the economy or the groups employed in this tier, IFI interventions are likely to maintain or worsen HI.

Conclusion

The evolution of HI in post-conflict states is best understood as contradictory progress: with advances usually made in the extension of universal public services like health and education and the removal of the worst discriminatory laws. The change in the political elite, especially in the contexts of reduced political HIs, in the best case shifts the political settlement so that tackling HI becomes a political priority for the state. This shift in the political elite also allows clientelism and

corruption (where it exists) to benefit the previously excluded group. Altogether, some progress is made at integrating the economic elite.

The IFIs have little influence over the political settlement, but both are influenced by it, although the IMF less so. The degree to which the World Bank engages in indirect policies targeting HI (pro-poor policies, or policies that target certain regions where the previously excluded are concentrated) will be determined by the extent to which the political settlement believes that HI should be addressed. Where the political settlement seeks to ignore HI, the World Bank will struggle to see indirect policies targeting HI in its loan portfolio. The IMF is less influenced by the political settlement, following similar policy recommendations from country to country. The political settlement is likely to affect the success of implementation of IMF programmes: if the political settlement is against the IMF programme, it is more likely to fail and for the IMF to reduce funds, withdraw from a programme, and scale back to economic advice only (Article IV engagement).

Concurrently however, the structure of the dual economy and the growth inhibitors, often intrinsic to the less developed tier of the economy, make it difficult for the entire economy, and therefore all of society to be integrated. Very often, the majority of the poor remain homogeneously the same groups that were previously excluded. This will be especially the case where the political settlement is tilted in favour of the rich or is disinterested in addressing HI; where the state is weak or

finances are low; where the roll-out of universal public services is slow and where quality is poor and/or where the more developed tier of the economy is unable to absorb more labour from the less developed tier of the economy (i.e. jobless growth in the developed sector); where little development activity is targeted at the less developed tier of the economy; and where affirmative action policies are not pursued, at least in the short term.

The World Bank and IMF are both very useful at helping to achieve the pre-requisites for tackling HI: a (better) functioning state, finances for development, and macroeconomic stability that allows economic activity to take place. With the right political backing, the World Bank can be very effective at indirect policies tackling HI: expanding universal public services and targeting development to poorer groups and regions. Without political backing, the Bank's development work disproportionately benefits the more developed tier of the economy, leaving the less developed tier without support.

The IMF does relatively little work on indirect policies targeting HI: setting easily reached social spending floors, and frequently waiving this condition, being especially risk-averse with state debt and therefore restrictive with state spending and investment. This may be appropriate for some states with limited capacity and high graft, but less so for states with more capacity and that have broadly proved themselves to be interested in spending state resources in useful ways. Its work on

progressive taxation in Liberia and Côte d'Ivoire is useful for addressing HI, but other research shows that this is not generalisable. Neither the Bank nor the IMF works on direct policies, failing to use the strongest tool to tackle HI and directly lift the previously excluded groups into the more developed tier of the economy. This means that the World Bank and the IMF are participants in the contradictory progress on HI: doing part of the necessary work to address it, while leaving important aspects of the work undone.

The World Bank and the IMF are a core part of the international community's response to post-conflict countries, providing the finances, policy advice, and technical support for economic stabilisation and for growth and development generally around the world. While the existence of the dual economy means that certain pro-growth policies and investments are likely to make HI worse, especially where the capacity of identity groups to transition from the less to more developed tier of the economy is limited or where the gap between the two tiers are large. In the worst cases then, where the indirect and direct policies required to address HI are left undone, the World Bank and IMF are likely to maintain (at best) or increase HI (at worst). Where the World Bank brings its expertise and finance to indirect policies, it can be a meaningful part of reducing HI, but it will require support from the political settlement. The IMF is much slower at driving the indirect policies that can address HI within its mandate, most notably progressive taxation and enforced social spending floors. It is therefore

much more likely to reinforce the dual economy and hence drive increases in HI. This is not majorly influenced by the political settlement.

Chapter 3

Quantitative Analysis: Empirical patterns between IFI interventions and change in horizontal inequality

1 Introduction

Recent theoretical and empirical research has generated strong evidence to support the existence of a causal connection between horizontal inequality (HI) and both conflict onset and conflict recidivism (F. Stewart 2008; Langer and Stewart 2013; Langer et al. 2012; Østby 2008; Cederman et al. 2011; Buhaug et al. 2014). Despite the knowledge that HI undermines peace and stability, little is known about its evolution in post-conflict states, or whether it is targeted, improved, or worsened by the economic actors tasked with post-conflict economic stabilisation, namely the World Bank and the IMF. This chapter begins the empirical work to fill this gap in the literature by outlining robust empirical patterns between IFI interventions and change in HI using fixed-effects, panel data regressions.

The process of investigating this question is inductive and I do not argue that any outlined empirical relationships are causal. Nevertheless, the findings in this chapter align well with those of the case study research. In this large-N analysis, I present two sets of regressions. The first set includes the baseline regressions that explore the linear association between IFI loans and change in HI. These regressions show that

additional loans – both from the World Bank and the IMF – are associated with increasing HI in post-conflict countries.

The second set are interaction regressions and begin to explore how the political settlement might shape the empirical pattern between IFI financial flows and change in HI. As already argued in the preceding chapter, the political settlement plays an important role in shaping HI outcomes. Given that this aspect continued to emerge in my case study interviews, I decided to explore whether similar empirical patterns could be observed in the large-N analysis. This necessitated a variable to capture the political settlement, and clientelism was chosen to indicate the extent to which the government was concerned with genuine development or rather preoccupied with channelling resources (including those from IFIs) to its supporters. This begins to outline the degree to which the state, or more specifically, the interests of the actors that control the state, can shape the relationship between IFI interventions and change in HI.

The political settlement, proxied by clientelism, could influence IFIs in two ways. First, government officials may make requests that are driven by clientelist concerns during the negotiations with IFIs, shaping the kind of programmes and interventions selected. Secondly, government officials may (during the implementation phase of IFI programmes and projects) be able to divert gains and losses to clients and opponents respectively. Who these clients are, and who benefits as a result, could

shape the relationship between IFI interventions and change in HI in post-conflict states.

Analysis in this chapter provides some pertinent evidence in this regard. For the World Bank, additional per capita financial flows are associated with increasing HI. This empirical relationship is stronger in contexts with low levels of clientelism, so that as clientelism increases, the extent of the positive association between World Bank spending and rising HI declines. In short: clientelism attenuates the positive association between World Bank loans and increasing HI. Under high levels of clientelism, the interaction variable loses significance, implying that high levels of clientelism do not influence the relationship between additional World Bank financial flows and change in HI in a consistent way.

I speculate (drawing on findings from the case study chapters) that the reason for this attenuating effect is that, in post-conflict contexts with some new political elite, the clientele may have shifted somewhat to include the formerly excluded groups. These kinds of clientelist requests to the Bank (i.e. ones in which the previously excluded or poor benefit) are more likely to be accepted and incorporated into the Bank portfolio than requests that are benefiting an elite clientele. This post-conflict shift in the clientele combined with the Bank's tolerance for certain kinds of clientelist requests might explain this attenuating impact. It is also possible that the growth-inducing impacts of Bank projects – that

disproportionately support the more developed tier of the economy – are weaker in contexts of clientelist governments. Regardless of what is driving these results, they nonetheless suggest that the political context of World Bank lending matters for its empirical relationship with HI.

The IMF regressions yield similar baseline results: additional IMF lending is correlated with increasing levels of horizontal inequality (HI) in post-conflict states. However, unlike the World Bank, levels of clientelism do not appear to influence this relationship, suggesting that the political environment does not shape the empirical relationship between the IMF and change in HI.

This chapter will proceed as follows: section 2 begins by outlining some theoretical priors on the relationship between IFI interventions and horizontal inequality. This section will also outline the factors that might define this relationship and explain in greater detail why governing authorities and levels of clientelism may influence both horizontal inequality and IFI interventions. Section 3 will describe the data used to measure the key variables, and section 4 will outline the empirical approach. Section 5 outlines the results.

2 Theory and Empirics

In the literature review, I outlined various literature that relates some combinations of inequality, IFI interventions, conflict onset and recidivism, as well as policies that improve or worsen HI. It illustrates

the historical evidence of IFI interventions (especially Structural Adjustment Policies) leading to increases in (vertical) inequality. This produces a prior expectation of a similar relationship between IFI interventions and HI that will be tested below. This section therefore aims to achieve two different outcomes from that set of literature: the first is to briefly outline the clientelism literature, to motivate why it was chosen as the interaction variable in the second set of regressions. I argue that clientelism captures well the nature of the political settlement, without proxying for a measure of HI that would cause collinearity concerns. The second objective is to provide more evidence for how IFIs and governments might interact, and why that interaction might shape the way that IFI interventions impact HI.

2.1 Public policy, clientelism, and horizontal inequality

Empirical and theoretical research provides evidence that HI is, in part, shaped by public policy. This includes macroeconomic and development policies, as well as the programmes and projects that the government chooses to implement (Langer et al. 2012). IFIs often influence or advise on the nature of these very policies in post-conflict states, including fiscal, monetary, and external sector (trade and exchange rates) policies. Indeed, policy choices can be firmly imposed through loan conditionality (in the case of the IMF) and through the Prior Actions and Project Development Outcomes (PDOs) attached to direct budget support (through the World Bank) (World Bank Country Department AFCW 1 2015). In the case of the World Bank, development projects are

also funded. Therefore, if public policy matters and if IFIs can shape public policy in ways that matter for HI, we can expect IFI interventions to shape HI in the post-conflict period. This is the premise from which this analysis begins.

Still, if IFIs influence and advise, sometimes quite firmly, the actor to be influenced and advised, and who has the de jure determining voice is the government itself. The policies ultimately enacted will be influenced by IFIs especially in contexts of tough conditionality or limited alternative lenders. However, the political and electoral concerns of actors within the government have been extensively argued to shape equality outcomes in the broad literature on the politics of distribution (Nazareno et al. 2013; Anderson et al. 2015; Acemoglu and Robinson 2012). As Nazareno et al (2013, pg 3) note, “Political authorities make choices about distribution. When these authorities’ hold on office depends on their winning elections, their choices become bound up with political strategies.” Even in autocratic states, governments frequently use clientelist methods and corruption to prevent democratisation and revolution, and such states have been shown to be more institutionally stable than their low-corruption counterparts (Fjelde and Hegre 2014). These decisions to distribute resources to certain groups, constituencies, or individuals shape who can accumulate wealth, and who cannot.

Over time, these instances of clientelism – exchanging votes for access to an emergency food programme in Argentina (Stokes et al. 2013), or the exchange of job security for workers in exchange for their support of landlord electoral candidates in India (Anderson et al. 2015) – solidify into institutions that systematically privilege certain groups at the expense of others. Many political economy scholars have described how ethnic, or other identity-based imbalances in governance filter into inequality in economic outcomes. Acemoglu and Robinson (2012) for example describe the reinforcing nature of unequal political systems generating and preserving the economic superiority of a group, and vice versa. Institutionalists argue that the nature of the political and economic institutions, both formal and informal, often work to maintain an unequal status quo. This only changes following a turning point such as conflict or some other smaller, cumulative shifts that changes the nature of those institutions to ones that create more equalising outcomes (North 1991; Acemoglu and Robinson 2012).

Empirical evidence for this is rich. In Kenya educational inequalities have been attributed to the unequal distribution of resources, power, and privilege along ethnic lines. Ethnic groups receive (educational) resources if their ethnicity is dominant in government, and fewer resources when excluded from government (Alwy and Schech 2007). Likewise, the Apartheid regime in South Africa, a political system built on notions of white supremacy, developed a differential system of public goods distribution that dramatically privileged white communities and

under-served the black population, who were also disenfranchised (World Bank 2022). These examples show that public policy (including macroeconomic, economic reform, and industrial policy) and the distribution of public goods through development projects can influence HI if desired.

Still, many governments characterised by high clientelism are not directing resources to their own identity groups: they may be rather directing the resources of the state to special business interests, rural notables, tribal chiefs (from different ethnic backgrounds), or even criminal networks. This implies that clientelism will not always imply the distribution of resources along identity or ethnic lines. Conversely, if a government is characterised by very low levels of clientelism, resources would be distributed according to merit, need, or universal rules, enhancing the likelihood that previously excluded groups without political connection can benefit from the policies and resources of the state without needing to first provide political support (Stokes et al. 2013).

These factors come together to make clientelism the best possible proxy for the political settlement for two reasons. First, while I have argued in chapter 2 that clientelism is a type of political settlement, the data that is used in these regressions captures the *extent* to which politics are based on clientelistic relationships (this data is further outlined in sections 3.2 below). A low clientelism score would therefore

capture a political settlement that is not clientelist in nature – perhaps one in which elites have agreed to distribute resources in a way that stimulates economic growth, or reduces inequality, or otherwise creates outcomes that legitimises their political power. The 0 to 1 scaling of the data therefore captures a range of political settlements, that makes it a useful proxy for the nature of the political settlement.

Second, and importantly, clientelism is not a good proxy for political or economic horizontal inequality, which removes the concern of collinearity between an independent and dependent variable. While clientelistic governments could be distributing resources to their own ethnic groups, there are other examples of clientelistic distribution of resources going to non-incumbent groups because those groups matter more politically, either because they are more numerous, or more wealthy, or in need of more convincing to vote etc.

Earlier versions of this quantitative work used a V-DEM variable that tracked whether public services were distributed according to social groups. Ultimately however, concerns about collinearity between this variable and horizontal inequality led to this variable being replaced with clientelism which captured something about the political choices around distribution of resources, without the group-based element which might be collinear with the HI variable.

2.2 Interaction: Governing Authorities and IFI Interventions

If governing authorities matter for public policy and the distribution of resources, there is reason to believe that any IFI Intervention has an interactive effect with the government. The primary reason for this is that both the World Bank and the IMF negotiate their projects and programmes with the government, and while there may be a power imbalance in those negotiations, it provides the platform through which government and the political elite can shape IFI interventions.

How this works is likely to vary for the World Bank and the IMF, given their different mandates. The World Bank distributes development projects and direct budget support that are designed and implemented with the support of government ministries. The projects frequently involve the provision of public services and are determined with the government: including what is provided, and where¹⁶. If the government has an interest in reducing HI, it is likely to request projects in the poorest parts of the country. If, however, the government has an interest in serving their own ethnic group, which may already be the wealthier group, it is likely that they will request projects that benefit the region or sector most beneficial to their own group. Burundi in the late 1980s is a good example of this, where up to sixty percent of foreign aid for the education sector was allocated to Bururi province from where many civil service employees and several successive presidents originated (Nkurunziza 2012). It is therefore reasonable to expect that the degree of clientelism and / or the set of political

¹⁶ (Interview 3, Former Senior World Bank Official, Whatsapp; Interview 18, IMF Official Côte d'Ivoire, 7 September 2021, Microsoft Teams)

priorities that characterise the incumbent government's preferences may be reflected in World Bank projects.

Lastly, the governing authorities may be able to shape who benefits more from a project during its implementation phase, as opposed to its negotiation phase. While it is unlikely that major changes to a project will occur after the negotiation of the project (such as shifting the region receiving the investment or the overarching goal of the project)¹⁷, it is possible that smaller details may be adjusted to serve the interest of those in power. For example, government officials can recruit staff into the Ministry to work on the project in ways that benefit their constituent group. While regions for project implementation may be pre-selected, government ministries may have control over, for example, which schools in the region receive investment, or who is employed in a jobs-for-cash project¹⁸. According to one interviewee, the World Bank will push back against wholesale project misappropriation, but has "I think, a pretty high tolerance for certain kinds of corruption if the job is moving forward"¹⁹. It is thus possible that domestic political calculations can influence which groups benefit from World Bank loans during the implementation phase of a project.

In addition to this public goods provision, both the IMF and the World Bank shape public policy through the conditions, reforms, and prior

¹⁷ (Interview 42, World Bank Official, Teams)

¹⁸ (Interview 42, World Bank Official, Teams)

¹⁹ (Interview 37, International Consultant on Liberia for several IOs, 11 July 2022, Zoom)

actions that are attached to the loans and direct budget support that each provides. These often aim to shift the structure of the economy, fix current account imbalances, reduce government debt and deficits, make the economy more open to foreign direct investment etc (World Bank 2008b; World Bank Country Department AFCW 1 2015; Forster et al. 2019; IMF and World Bank 2018). Depending on how central the IFI considers a given condition to be for the economic well-being of a country, there may be room to negotiate the nature or number of these conditions and prior actions.

There is evidence, for example, that IMF lending programmes in democratic countries and countries with upcoming elections involve less conditionality because IMF staff realise that these governments face greater policymaking constraints (Forster et al. 2019). Interviews with IMF and World Bank officials provided several examples of conditions and prior actions (reinstating rice duties²⁰, and reducing the civil service²¹, for example) that were ultimately not included in the final loan / direct budget support agreements because governments expressed their opposition. There are also examples where the IMF went to great lengths to block policies by the governor of the Central Bank which were considered outside of the traditional and proper scope of the Central Bank²².

²⁰ (Interview 54, World Bank Official, 10 July 2023, Microsoft Teams)

²¹ (Interview 50, IMF Official, 29 June 2023, Microsoft Teams)

²² (Interview 39, Senior IMF Official, 26 October 2022, Whatsapp; Interview 50, IMF Official, Microsoft Teams; Interview 54, World Bank Official, Microsoft Teams)

Outside of my own research, recent empirical work on the distributional consequences of IMF programmes has argued that governments allocate the adjustment burden of IMF programmes strategically to protect their own partisan supporters while seeking to impose adjustment costs upon the partisan supporters of their opponents. The authors find that negative evaluations of IMF programmes are more prevalent among ethnically powerless groups compared to ethnically powerful groups, and most especially when governments have some discretion about how to achieve IMF targets (Reinsberg and Abouharb 2022). This is in part because IMF programmes provide some leeway on how fiscal and macroeconomic targets are met – for example, broader tax targets can be met by imposing greater indirect taxation on the poor and protecting favoured groups.

The capacity of the government to influence conditionality is likely to depend on a wide range of factors: the sensitivity of the IFI country manager or director to the concerns of the government; how important IFIs believe a reform to be; the country's political proximity to a global power; the capacity of the government officials etc. Still, there is certainly evidence that government can shape at least some conditionality to its benefit, and therefore it is also likely that this influence is used to protect its own political interests.

Both IFIs have argued that the advent of Poverty Reduction Strategy Papers (PRSPs) which is the government's vision of development has

become central to the manner in which the IFIs develop their programmes (The World Bank 2021a). Others have argued however that this government voice is still relatively weak and especially in the case of the IMF, from which countries are borrowing as a last resort, and where conditions for the loans are more strongly imposed (F. Stewart and Wang 2003). The degree to which the political settlement can influence IFI interventions will begin to be investigated in this chapter.

2.3 Questions under study

Having outlined why an empirical relationship might exist between HI and IFI Interventions in post-conflict states, I turn to outlining the questions that this chapter will be investigating:

Q1. a) Is more World Bank lending per capita associated with increases in HI in post-conflict states?

b) Is this empirical relationship shaped by the nature of the political context (operationalised in this research as levels of clientelism)?

Q2. a) Is more IMF lending per capita associated with increases in HI in post-conflict states?

b) Is this empirical relationship shaped by the nature of the political context (operationalised in this research as levels of clientelism)?

3. Data and scope conditions

3.1 The Post-conflict period

I am especially interested in the relationship between IFI interventions and HI in *post-conflict* contexts. In line with other work on HI in post-conflict states the post-conflict period is seen as a continuum. It is a process involving the achievement of several peace milestones, including not only the signing of a peace deal and the demobilisation of combatants, but also the establishment of a functioning state, economic recovery, and progress towards reconciliation and societal integration (Brown et al. 2008). Given the complexity of achieving these outcomes, a country is likely to be in post-conflict for some time, and therefore this quantitative chapter has defined the 20-year period immediately after the end of a conflict as a country's post-conflict period. This time horizon does not deviate strongly from any quantitative or qualitative norm regarding the post-conflict period, with academics generally choosing varying lengths of time to study the post-conflict period.

Theoretically, there are two reasons which motivate a longer post-conflict period to make a fair assessment of IFI interventions' impact on HI. The first relates to the length of time it takes for IFIs to begin disbursing large loans and the second relates to the time period required for those loans to, in turn, begin shaping HI outcomes. First, countries that are in arrears to either the Fund or the Bank cannot receive new loans, and the arrears clearance process takes time – usually 2 to 3 years, but it can take longer. Once the IFIs can begin lending, it can take another few years before projects and interventions

are completed. For complex projects like road-building (World Bank) or establishing a functioning Central Bank (IMF), this can take years to complete, and as such, assessing the World Bank and IMF post-conflict interventions requires an understanding that there will be some years before the intervention, and its impact, is in “full force”, and therefore a longer time horizon is required.

3.2 Horizontal Inequality Data

Data is a challenge for quantitative studies of HI. In post-conflict or otherwise fragile contexts, data collection practices and techniques remain poor, if they exist at all. Additionally, data collection along ethnic or politically-relevant identity lines faces political challenges: most commonly in contexts where HIs are sharpest (Canelas and Gisselquist 2018). Finding a measure of HI that covered the world, that is re-assessed every year (for an annual measure), and that is collected in a uniform manner, was a major challenge.

Commonly used alternatives are all inappropriate for various reasons: the DHS and MICS health surveys and Afrobarometer do not cover many of the countries of interest, only collect data on ethnicity in some cases, and only do the surveys every few years, removing the possibility of a year-on-year assessment of HI. Even the Cederman, Gleditsch, & Weidmann (2011) HI data could not be used, although their methodology for creating the data is used to construct the measure used in this chapter. Their data uses the geo-mapped GDP data from

Nordhaus et al (2006) and geo-mapped ethnic group data that is superimposed to generate a group-based GDP per capita measure (Cederman et al, 2011: 485). Crucially however, the geo-mapped economic data was only collected in one year - 1990 - and additional years were adjusted according to population growth (Cederman et al, 2011, footnote 14). This restricted the reliability of any *changes* in HI in post-conflict contexts, which was purely driven by population change in their case.

Given these limitations, I use a novel dataset to measure HI. It is built off an ethnically-derived nightlights per capita measure, taken from ETH Zurich's Geographical Research on War's platform (Vogt et al. 2015). Here, geo-mapped data denoting where various ethnic groups live are superimposed on geo-mapped annual nightlight data, and, together with population measures, an ethnic nightlight per capita figure is derived. The ethnic data is taken from the geo-Ethnic Power Relations (geoEPR) dataset, which is the only data that codes dynamic settlement patterns (Wucherpfennig et al. 2011). Large cities where it is difficult to code ethnic group presence, are excluded from the calculations. Nightlight data is available from 1992, and therefore the data is restricted to the 1992 - 2018 period. Practically, this means only post-Cold War cases are considered in the regression analysis.

This is best possible measure of HI for the purposes of this research for two reasons: the nightlight data is reliably and uniformly collected for

every country, on an annual basis from 1992. This allows the development of a cross-country panel dataset. Secondly, while nightlights are not a perfect proxy for income or wealth, they are used by economists in contexts where there is little other data, including for economic research on HI requiring fine-grained economic data (Gibson et al. 2021; Kuhn and Weidmann 2015). Long-term studies of nightlights and socio-economic trends find strong correlation, including with measures of GDP and poverty (inverse correlation) (Proville et al. 2017).

Equipped with a per-capita nightlights measure for each ethnic group, I made the necessary conversion to a group-level measure of horizontal inequality: indicating whether the group is generally richer or poorer than the country's average in a given year. I follow the approach of Cederman, Gleditsch, and Weidmann (2018, 486), who use a symmetric, logged measure of group inequality, as follows:

$$\left| \ln \left(\frac{\text{nightlight per capita of ethnic group } g}{\text{average nightlight per capita of all groups in the country}} \right) \right|^2$$

where g = the nightlight per capita measure of the ethnic group and G = the average nightlight per capita of all groups in the country.

This approach produced a single measure of group inequality for each ethnic group in each country for every year from 1992 until 2018. Because the measure is squared, a greater value for Group Inequality

indicates a larger deviation from the average nightlight per capita measure, regardless of whether the group is poorer or richer. The larger the number, the higher the inequality.

Finally, I converted group measures of relative inequality into a single country-year measure. This provides a sense of how much HI the country faces as a whole. To generate this figure, the average was taken of each group's inequality measure. The final annual country-year measure was therefore:

$$\left| \text{Country HI} - \text{World HI} \right|^2$$

3.3 World Bank Data

To measure World Bank interventions, I use two measures. The first is the Total IBRD loans and IDA credits to post-conflict countries (World Bank, International Debt Statistics 2019). This variable measures the total debt outstanding and disbursed (DOD) by the two core instruments of World Bank lending: the IBRD and IDA. The International Bank for Reconstruction and Development (IBRD) provides loans, guarantees, risk management products, and advisory services to middle-income and credit-worthy low-income countries (IBRD 2022). The International Development Association (IDA) provides interest-free loans (called credits) and grants to the poorest countries. These two core institutions

therefore provide the bulk of development assistance to post-conflict countries. For the regressions, I use a per capita measure.

3.4 IMF Data

The IMF data used in this chapter is the per capita net financial flows of the two types of IMF loans: concessional and non-concessional (World Bank International Debt Statistics 2020, 2025).²³ The variable used in the regressions is the sum of these concessional and non-concessional, converted to a per capita measure.

3.5 Clientelism Index

The Clientelism Index from the Varieties of Democracy (V-DEM) dataset is used in this chapter to capture the political context in which IFI and government negotiations and programmes implementation takes place. This variable captures the extent to which politics is based on clientelist relationships (Sigman and Lindberg 2017; Pemstein et al. 2022; Sigman and Lindberg 2018; Coppedge, Gerring, Knutsen, Lindberg, Teorell, Altman, et al. 2022). Clientelist relationships are considered in this dataset to include the targeted, contingent distribution of resources (goods, services, jobs, money, etc) in exchange for political support (Coppedge, Gerring, Knutsen, Lindberg, Teorell, Altman, et al. 2022, 295). It is coded as a number between 0 and 1, with 1 indicating a political context completely dominated by clientelist relationships.

²³ Net flows indicates disbursements minus repayments; concessional loans are those that accrue interest and non-concessional those that are provided with a zero interest rate. The bulk of loans to post-conflict countries are non-concessional.

V-DEM's Clientelism index is a composite of four other measures: indicators for vote-buying; particularistic vs. public goods; whether party linkages are programmatic or clientelistic; and the electoral regime index which measures whether regularly scheduled national elections are on course (Coppedge, Gerring, Knutsen, Lindberg, Teorell, Altman, et al. 2022). Each of these questions is posed to 3500 expert country experts across the world, and each country-year indicator is coded by a minimum of five experts who give their responses to questions on ordinal 5-point scales. Using a Bayesian item response theory model, V-Dem then aggregates the experts' responses into one indicator-country-year observation (Lo Bue et al. 2021b).

Other measures exist, including survey data on individuals' direct experience of clientelism and vote buying (in Afrobarometer, for example) or measures of patronage employment and public sector overstaffing as proxies of clientelism (in IMF Government Finance Statistics). The composite nature of the index however means it is one of the most detailed indicators of clientelism, that is collected across all the countries, for every year studied in this large N analysis. Other measures were either less detailed, less frequently collected, or not collected in the full set of countries. While there can be concerns with expert-based data collection, including low intercoder reliability, and conceptual and measurement issues, the broad base of expert coders for the V-DEM data and the aggregation strategies used are generally

considered the best available to reduce these risks (Knutsen et al. 2024; Marquardt 2019).

This measure is likely to capture two aspects of the domestic government that are of interest to this research, and that are likely to filter into negotiations with the World Bank and IMF. The first is the interests of the incumbent government, or who it is that the government aims to serve. This variable will partially capture the extent to which the ruling political dispensation has a “development bargain” – an elite bargain that aims to achieve development outcomes for the majority of citizens, or if the goal of the elite is to allocate state resources to fellow elites or a narrow client base (Dercon 2022).

Secondly, while most governments will have some special interests, this variable will partially capture the ability of the government to achieve a narrow-interest agenda. Put differently, this variable partially captures the political-economy environment, as well as the constraints on government action (including for example, civil society, social norms etc) that restrict or permit the extent to which government can cater to a narrow minority. In other words, the clientelism index captures something not only about political structure and not only about resource distribution. Rather, it captures how these two intersect in ways that other measures of only political structure (i.e. from the Database of Political Institutions) or only resource distribution (i.e. measures of corruption) do not do.

4. Regression Specification

4.1 World Bank Regressions

For the regressions, I constructed an annual panel dataset with all countries that had experienced conflict as coded by the Uppsala Conflict Data Programme (UCDP) as 3 or 4, implying an internal or civil conflict, with or without international involvement respectively (Pettersson et al. 2019; Gleditsch et al. 2002). Based on this conflict assessment, a post-conflict variable was developed. The post-conflict period is defined as lasting for 20 years following the end of the war, at which point, countries exit the post-conflict status.²⁴ If countries experienced multiple conflict periods, multiple post-conflict periods were established, so that a single country may have multiple entries in the dataset. In total, the sample size included 57²⁵ post-conflict countries covering the period 1992-2018.

This research aims to understand the empirical relationship between World Bank loans and change in HI in post-conflict countries. It is therefore investigating a dynamic relationship with key temporal aspects that are important to incorporate into the regression specifications. Firstly, the regressions will need to investigate the

²⁴ The regressions are not sensitive to this choice, and except for the IMF interaction regressions, all other regressions are still significant if only a 10-year post-conflict period is used.

²⁵ The full list of countries are: Angola, Argentina, Azerbaijan, Bangladesh, Bosnia-Herzegovina, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Colombia, Comoros, Republic of Congo, Côte D'Ivoire, Democratic Republic of Congo, Djibouti, Egypt, El Salvador, Eritrea, Ethiopia, Georgia, Ghana, Guatemala, Guinea, Guinea-Bissau, Indonesia, Iran, Kenya, Laos, Lebanon, Mali, Mauritania, Mexico, Morocco, Mozambique, Nepal, Nicaragua, Niger, Nigeria, Pakistan, Papua New Guinea, Peru, Russia, Rwanda, Senegal, Serbia, Sierra Leone, South Africa, Sri Lanka, Tajikistan, Thailand, Togo, Turkey, Uganda, Uzbekistan, Venezuela, Zimbabwe

change in HI. The data for HI described in section 3.2 described how *levels* of HI were measured, but to investigate the desired relationship, this levels variable is converted into a change variable. This is especially important because contemporary levels of HI are likely to be, in part, the product of history. These regressions do not seek to explain this historical component of HI but rather how it evolves and changes in the post-conflict years alongside IFI activities. It is therefore transformed as follows:

$$\text{ChangeHI}_t = \text{HI}_t - \text{HI}_{t-3}$$

The variable implies that if *ChangeHI* is positive, HI has increased over the last 3 years. A negative value denotes a reduction in HI.

The second key framing point is that World Bank loans are unlikely to shape this change in HI in the same year that the loans are disbursed. As such, it will be important to cater to this temporal component of the research question by incorporating lags in the regression specification. In part to respond to this temporal aspect, and in part to smooth World Bank loans over time, I therefore transform the World Bank variable into a rolling three-year average. This averages the three previous years' loans, so that each year's variable necessarily is constructed by an unlagged World Bank observation, a one-year lagged observation, and a two-year lagged observation. Constructing the World Bank variable in

this way provides variation in the lags, thereby better accommodating the temporal aspect of the research question.

The World Bank variable is therefore transformed. The level of World Bank loans per capita in a given year is averaged over three-year rolling periods as follows:

$$\left[\frac{\text{World Bank loans per capita}_{t-1} + \text{World Bank loans per capita}_t + \text{World Bank loans per capita}_{t+1}}{3} \right]$$

When this version of the World Bank variable is used in the regression, it is lagged three times effectively regressing average World Bank spending over a three-year period on change in HI in the following three-year period. However, robustness tests with constructions of the World Bank variable as single-year, two-year, four-year averages all yield similar results. This accommodates the dynamic nature of the relationship I am interested in and provides the World Bank variable time to shape the change in HI.

There are few theoretical guidelines for deciding i) the appropriate time-period to use to measure Change in HI and ii) how long World Bank disbursements might take to alter HI. For Change in HI, the three-year period was chosen to accommodate two factors: the first is that HI is likely to be fairly sticky, and it is therefore unlikely to change dramatically year-on-year (Cederman et al. 2011). From an empirical

perspective it was necessary to balance this understanding of the slow-moving nature of HI, with the need to have sufficient observations to maintain statistical power. A three-year period balanced these two concerns well.

The time it takes for World Bank loans to shape HI is likely to be driven by several variables that are difficult to capture in a single transformation, or lag, of the variable. If the loan is for a project, the nature of the project will shape the expected delay. Some World Bank projects such as cash-for-work projects or direct cash transfers are likely to have very little lag, shifting income levels almost immediately. Agricultural investment projects that provide fertilisers and quality seeds to farmers may shape HI-outcomes within a year, depending on the harvest cycles, and over time as farmers accrue improved harvests over time. Longer term investments in education and roads may take several years and even decades before more highly educated students are able to earn higher salaries or profit from the use of roads.

How long a government ministry takes to effectively spend the disbursements that have been made by the World Bank, will be different from government to government. Direct budget support (loans made directly into the government budget with various policy reforms and prior actions attached) will also have different timelines depending on how long the policy change takes to implement, and how long that new policy takes to affect HI. By averaging the last three years of spending,

	previous three years. Recall that the data used to measure HI is the nightlight measure described in section 3.2.	2018	al. 2015) Transformation by author.
WB3yavg	Average IBRD loans and IDA credits per capita over rolling three-year periods.	1970 - 2018	(World Bank, International Debt Statistics 2019) Transformation by author.
GDP per capita	National GDP levels (in current USD) divided by the country's total population.	1960 - 2020	(World Bank national accounts data and OECD national accounts data 2021a)
GDP per capita squared	To control for a potentially non-linear relationship between economic growth and	1960 - 2020	Variable transformed by author.

	inequality (Kuznets 1955)		
Regime type	A measure of the regimes of the world. A country is classified either as a Closed Autocracy, Electoral Autocracy, Electoral Democracy, or a Liberal Democracy. These labels capture variations in the competitiveness of access to power, as well as the extent to which liberal principles govern politics (Coppedge, Gerring, Knutsen, Lindberg, Teorell, Altman, et al. 2022, 287)	1900 - 2021	The Varieties of Democracy (V-DEM) dataset (Coppedge, Gerring, Knutsen, Lindberg, Teorell, Alizada, et al. 2022)
Clientelism Index	Described in section 3.5 above.	1789 - 2021	The Varieties of Democracy (V-DEM) dataset (Coppedge,

			Gerring, Knutsen, Lindberg, Teorell, Alizada, et al. 2022)
Natural resources as a % of GDP	Total natural resources rents are the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents, as a percentage of GDP.	1970 - 2019	(World Bank 2020)
Log of total population	Total population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship. The values are midyear estimates. (Log transformation by author.)	1960 - 2020	(United Nations Population Division 2021b)
Investments / Gross Capital	Gross capital formation (formerly gross domestic	1960 -	(World Bank national

Formation (% of GDP)	investment) consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories.	2020	accounts data and OECD national accounts data 2021b)
Trade (% of GDP)	Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product.	1960 - 2020	(World Bank national accounts data and OECD national accounts data 2021c)
Life Expectancy	Life expectancy at birth indicates the number of years a new-born infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life.	1960 - 2020	(United Nations Population Division 2021a)

Correlation between the controls in the sample is low: only GDP per capita and GDP per capita squared have an expectedly higher

correlation score over 0.6. Life expectancy and GDP per capita are correlated at a level of 0.5741, but it was considered important to have at least one non-GDP measure of wellbeing. All other levels of correlation are negligible: even trade as a percentage of GDP does not display high correlation with natural resources as a percentage of GDP, with a correlation score of only 0.1196.

The regressions are run as panel, fixed-effects regressions. The country-specific fixed effects accounts for unobserved, time invariant factors, including colonial and other history, geographical region, and culture. The panel structure of the data means that there is still likely to be correlation in errors within countries over time. To correct for this, the regression is also run with standard errors clustered by country. \bar{t} represents the year dummies that are included in the regression to account for period-specific shocks that affect all countries in a given year. Finally, the regressions ignore extreme outliers in the sample. Roughly 98% of observations for *ChangeHI* occur within the range of -10 and 12, whereas the full range of the variable stretches from -59 through to 60. Figure 6 below indicates the shape of the distribution, and motivates the dropping of these outliers:

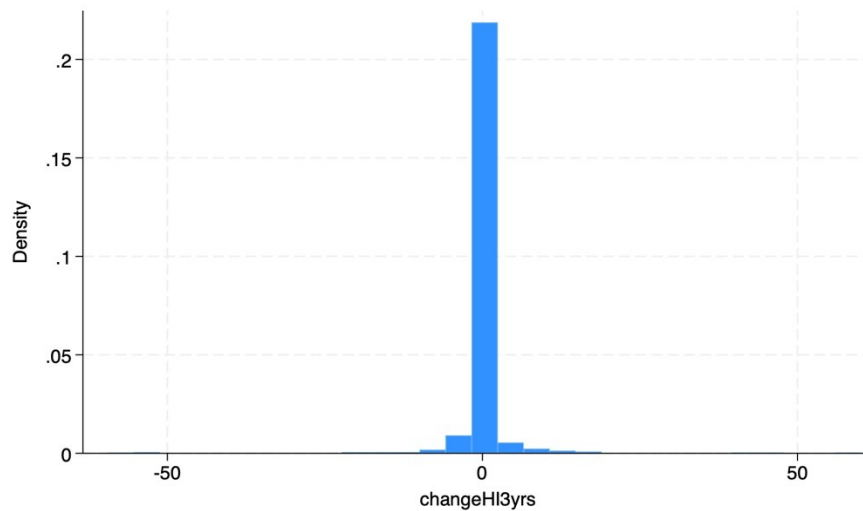


Figure 6 Histogram plotting the distribution of ChangeHI indicating the extreme outliers.

Given the noisy nature of nightlight data, it is not certain that these outliers reflect an empirical reality in terms of inequality. As such, the 1% of outliers on either extreme of this range are dropped when the regressions are run.

To test whether the effect of World Bank spending varies according to how much the political context is clientelist, I estimate the following regressions with the interaction terms:

$$\begin{aligned}
 \ln(\text{Nightlight}_{i,t}) &= \beta_0 + \beta_1 \text{WB spending}_{i,t} + \beta_2 \text{WB spending}_{i,t} \times \text{Clientelism}_{i,t} \\
 &+ \beta_3 \text{WB spending}_{i,t} \times \text{GDP}_{i,t} + \beta_4 \text{WB spending}_{i,t} \times \text{GDP}_{i,t} \times \text{Clientelism}_{i,t} + \epsilon_{i,t}
 \end{aligned}$$

where $\text{WB spending}_{i,t}$ = World Bank spending in US\$ million

This regression essentially tests whether the empirical relationship between World Bank loans per capita, averaged over three years, is altered by the extent to which politics is based on clientelist relationships.

4.2 IMF Regressions

4.2.1 IMF net financial flows

The IMF regressions explore the empirical association between IMF net financial flows and *ChangeHI*. As with the World Bank regressions, I average the IMF variable over the previous 3 years as follows:

(5)

$$\left| \frac{IMF_{net\ flow}_{i,t} - IMF_{net\ flow}_{i,t-1} - IMF_{net\ flow}_{i,t-2}}{IMF_{net\ flow}_{i,t-1} + IMF_{net\ flow}_{i,t-2}} \right|$$

In addition, the World Bank regressions are modified to include additional controls to target the covariates of IMF programmes specifically. As with the World Bank regressions, GDP per capita and its square is included, along with regime type, trade as a % of GDP, natural resources as a % of GDP, and the Clientelism Index. To account for factors determining the selection of a country into an IMF programme specifically, several different controls were included. These are outlined in Table 5 below.

Table 5: IMF regression covariates

Variable name	Description	Dates available	Source
Current Account Balance (% of GDP)	This is the sum of net exports of goods and services, net primary income, and net secondary income.	1960 - 2021	(IMF et al. 2022)
Debt (% of GDP)	Public debt as a % of GDP	1800 - 2015	(IMF Fiscal Affairs Departmental Data 2022)
UN General Assembly Voting Behaviour	Ideal point of voting behaviour in the UNGA (as a measure of proximity to the US)	1946 - 2014	(Bailey et al. 2017)
Systemic banking crisis	Dummy variable (=1) indicating the	1970 - 2017	(Laeven and Valencia 2020)

	presence of a systemic banking crisis in year t in country i		
--	--	--	--

Correlation between these controls is low, with the highest correlation score between the Current Account Balance and Debt, but with correlation of only 0.1939 in the post-conflict sample. All IMF regressions cover a slightly shorter time period (1992 - 2014) in line with data availability. I estimate the following fixed-effects, panel regression:

$$\Delta HI_{it} = \alpha + \beta_1 IMF_{it-3} + \beta_2 CA_{it} + \beta_3 Debt_{it} + \beta_4 \text{Systemic Crisis}_{it} + \beta_5 \text{Year Dummies} + \beta_6 \text{Country Dummies} + \epsilon_{it}$$

As before, the IMF variable is lagged by 3 years, so that the regression compares average IMF loans in the 3 years preceding the period in which the change in HI is measured. As before, the *ChangeHI* outliers are excluded from the regression, and the regression is run with fixed country effects, year dummy variables, and standard errors clustered by country.

As before, I also estimate non-linear models with interaction regressions between IMF per capita loans averaged over three years, and lagged by 3 years, and the Clientelism Index as follows:

$$\begin{aligned}
 \Delta \text{Change in HI}_i &= \beta_1 \text{IFI financing}_i + \beta_2 \text{IFI financing}_{i-1} + \beta_3 \text{IFI financing}_{i-2} \\
 &+ \beta_4 \text{population}_i + \beta_5 \text{population}_{i-1} + \beta_6 \text{X}_{i-1} + \beta_7 + \beta_8 \epsilon_{it}
 \end{aligned}$$

4.3 Challenges of Empirical Identification

My empirical analysis only seeks to present robust empirical patterns. The regression estimates are not causal, primarily because of two key empirical challenges: simultaneity bias and unobserved factors. First, the simultaneity bias is connected to the co-evolution of HI and IFI interventions. Specifically, the concern is that countries where HI is expected to increase in the future might be predisposed to receiving more intensive IFI engagement. Second, there might be unobserved factors that are correlated with both change in post-conflict HI and IFI engagement. The omission of such factors might bias my results. These two factors make it difficult to know whether any correlative relationship between IFI financing and HI is because the IFIs select countries for their programming according to HI levels, or according to other factors that are likely to influence change in HI.

Controlling for economic and political variables that determine participation, year dummy variables, and country-specific fixed effects mitigate this problem of endogeneity to a certain extent. However, time-varying unobservable variables that predict programming and IFI interventions may still bias regression results (Forster et al. 2019). This section will briefly present evidence to suggest that these concerns are

unlikely to be dominant in this case, and may, in fact, be underestimating correlation.

Broadly, I expect this to be less of a concern for World Bank which is present in every post-conflict country in the dataset and has only a few years of zero net financial flows. World Bank assistance was absent in only 3 cases: South Africa, Venezuela, and Haiti. However, it is still possible that the World Bank makes larger loans to post-conflict countries where HI is likely to increase, having assessed these countries as high-risk, and therefore in need of more resources. If this were the case, higher World Bank lending would be correlated with increases in HI levels due to inverse correlation. Simple data comparisons suggest that this may not be the case: basic correlation between *ChangeHI* and World Bank loans per capita is negative (-0.0148).

Additionally, it is possible that higher HI levels have some impact on how HI changes in the post-conflict context, and that the World Bank invests more in countries with higher levels of HI, considering these countries to be at higher risk of conflict resurgence, and therefore in need of greater resources. As outlined in Table 6 however, World Bank loans per capita are actually lower, on average, in countries with above-median levels of HI in post-conflict states.

Table 6 World Bank Loans in Above and Below Median HI countries

	Average	World	No.	of
	Bank	loans	per	

	capita	Observations
Above Median* HI	77.96445	469
Below Median HI	95.47543	410

* Median HI in post-conflict countries is .8434123

This suggests that any selection effect may be under-estimating the empirical relationship, rather than overestimating it.

Selection concerns are potentially stronger in the case of the IMF because years with zero financial flows to post-conflict countries are more frequent in the dataset. This is to be expected given that the IMF is the lender of last resort, and where loans are generally only made in contexts of severe economic distress. Simple data comparisons between IMF net financial flows and HI provide mixed evidence for the presence of simultaneity bias or the presence of unobserved variables. First, correlation between IMF per capita financial flows and *ChangeHI* is negative (-0.0082), suggesting that the IMF does not loan more to countries with increasing HI. Conversely however, on average the IMF loans slightly more to countries with above median levels of HI, although the difference is not large (see Table 7 below). Nevertheless, the immediate data is not suggesting a significant selection bias.

Table 7 IMF loans in Above and Below Median HI countries

	Average IMF loans per capita	No. of Observations
Above Median* HI	1.225494	412
Below Median HI	0.9695735	361

* Median HI in post-conflict countries in this dataset is 0.817659.

While coarse, these tests suggest the absence of very strong selection concerns, at least in the case of World Bank regressions. Nevertheless, I take care to include, to the extent possible, economic, and political controls that could possibly drive selection of countries into a major World Bank or IMF programme, but it is admittedly difficult to rule out all potential concerns. As a result, the empirical patterns I will present should not be treated as causal, but suggestive of a correlative relationship that will be further explored in the case study in subsequent chapters.

A final empirical limitation relates to the geo-mapped nature of the data used to construct the HI measure. It includes only ethnic groups with a clear regional settlement, and therefore excludes urban areas and ethnic groups that are categorised as either migrant or dispersed (Wucherpfennig et al. 2011). The exclusion of urban areas is primarily because cities attract all groups, and therefore geo-mapping ethnic

groups is difficult. It is unclear whether the exclusion of urban areas (and the data on groups that live there) is likely to over-estimate or under-estimate true HI: in some cases, cities can offer opportunities to all ethnic groups, regardless of their background, offering opportunities for reducing HI. It is also possible however that those who are wealthy in cities are those who come from privileged backgrounds – with access to good education and jobs – while ethnic groups who arrived from poor rural areas often struggle to find work, and if they do, it is low paid. Regional analyses suggest that the latter is more often the case in Africa, where urbanisation has not been associated with falling overall poverty, and in Latin America which has the world’s largest problem of urbanised poverty (Ravallion et al. 2007). (Urbanisation meanwhile in Asia has been associated with lowering poverty levels.) There is unfortunately no alternate global measure of HI that includes urban areas: the Cederman, Gleditsch, and Weidmann equivalent dataset also excludes urban areas. Alternative comparisons could be made based on country-specific data, but the generalisability of any similarity or difference between a country-specific HI and the HI measure used here would be limited given the regional differences already outlined, and domestic specificities. The resulting HI data therefore presents an incomplete picture of true HI in each country, but it remains the best global, time-sensitive measure of HI.

5. Results

5.1 World Bank Regressions

With a clear understanding of the data used, the patterns they suggest, and the specification of the regression equations, I am ready to present the regression results. Table 8 shows the OLS regression results for the baseline World Bank regressions. Recall these results are equation (3).

Table 8: Baseline regression results for World Bank regression	
	<i>ChangeHI</i>
L3.WB3yravg	0.00208**
	(0.000909)
GDP per capita	-0.0000150
	(0.000116)
GDP per capita squared	2.34e-09
	(6.59e-09)
Regime	0.146
	(0.195)
Clientelism Index	0.978
	(0.723)
Population (logged)	1.406
	(1.202)
Natural Resources (% of GDP)	-0.00244
	(0.0109)
Investments	0.0259**
	(0.0117)
Trade (% of GDP)	-0.0109

	(0.00762)
Life Expectancy	0.0731
	(0.0547)
Fixed Effects	Yes
Year Dummies	Yes
Clustered Standard Errors	Yes
_cons	-28.51
	(17.71)
<i>N</i>	609
<i>R</i> ²	0.101
adj. <i>R</i> ²	0.054
F-stat	10.87
F-stat p_value	0.0000

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

The coefficient on the World Bank variable remains positive and significant regardless of whether World Bank loans are averaged over four-, five-, or six-year periods. (In all these alternate regressions, the 3-year lag was applied to the World Bank variable.) The empirical relationship outlined here is therefore robust across various constructions of the World Bank variable.

In addition, different lags were explored on different World Bank variable constructions. On the variable which captures the 3-year average of

World Bank loans, 4-year, 5-year, and 6-year lags all continue to produce a World Bank coefficient that is positive and significant at conventional levels of confidence. Only at the 7th lag, does the World Bank variable lose significance. The 1 and 2-year lags are not significant at conventional levels of significance but only just miss it (p-values of 0.129 and 0.115 respectively).

Similar results are achieved when the World Bank variable is constructed as a 2-year average of World Bank loans²⁷ (significance drops off at the 7-year lag), 4-year average²⁸ (significance drops off at the 7-year lag), and 5-year average (where significance drops off at the 6-year lag). Similarly, if the World Bank loans variable is used in a single-year format (i.e. not averaged over previous years, but simply the level in the given year) it remains positive and significant until the 7th lag.

The empirical pattern between World Bank loans and change in HI is therefore positive: or HI increases in the presence of World Bank loans, across various constructions of the World Bank variable, and with various lags. While the size of the coefficient is small, given that the World Bank variable is in dollars per capita (not tens or hundreds of dollars per capita), and given that the mean and median levels of HI in post-conflict countries is 1.893 and 0.843 respectively, the size of the World Bank coefficient suggests that the additional HI correlated with an

²⁷ The 2-year lag just misses significance with a p-value of 0.155.

²⁸ The 1-year lag just misses significance with a p-value of 0.121.

additional dollar of World Bank loans per capita is meaningful. A one standard deviation increase in World Bank loans per capita, for example, is correlated to a 0.17 increase in HI, signifying a 20% increase of the median level of HI.

There is one control which is statistically significant. Investments has a coefficient that is positive, suggesting that additional gross capital formation is correlated with increases in HI. The effect of Foreign Direct Investment (a key source of gross capital formation) on individual income inequality has been debated in the literature considerably since the 1970s, with Hein (1992) arguing that the growth effect of FDI improves incomes, and thereby reduces inequality. Dependency theorists meanwhile have argued that FDI creates “labour elites” in recipient countries that typically earn up to ten times the normal wage, driving increases in inequality (Girling 1973). Pan-Long’s (1995) work suggests the latter explanation may have greater support in the empirics; while other studies have suggested that mitigating factors such as institutional quality (Huynh 2021) or human capital (Lin et al. 2013) might shape the impact of FDI on individual inequality. The findings in this regression suggest that higher investment is associated with increasing HI, in line with the dependency theorists who argue that only the pre-existing elite groups can capture the financial benefits of investments.

5.2.2 The World Bank and Clientelism

The interaction regressions explained in equation (4) are presented below. In section 2.3 I hypothesise that the nature of governing authorities and the political economy could shape World Bank programmes during the negotiation of the project or policy conditionality, or during the project implementation stage. Building off the baseline regression, the World Bank variable is lagged 3 times, and the Clientelism Index is lagged two and four times to explore this potential interaction before (i.e. during the negotiation phase) and after (i.e. during implementation) loans are made. The results are presented in Table 9 below:

Table 9: World Bank Interaction Regression Results		
	Change HI	
Specification	Four-year lag on Clientelism	Two-year lag on Clientelism
L3.WB3yavg	0.00731***	0.00522**
	(0.00246)	(0.00211)
L4.Clientelism Index	1.686**	
	(0.839)	
L3.WB3yavg * L4.Clientelism Index	-0.00868**	
	(0.00420)	

L2.Clientelism Index		1.726**
		(0.777)
L3.WB3yragv * L2. Clientelism Index		-0.00541*
		(0.00317)
GDP per capita	-0.0000203	-0.0000236
	(0.000127)	(0.000123)
GDP per capita squared	2.32e-09	2.65e-09
	(7.21e-09)	(7.20e-09)
Regime	0.146	0.172
	(0.192)	(0.184)
Population (logged)	1.382	1.339
	(1.255)	(1.217)
Natural Resources (% of GDP)	-0.00283	-0.00213
	(0.0107)	(0.0104)
Investments	0.0247**	0.0251**
	(0.0117)	(0.0118)
Trade (% of GDP)	-0.0119	-0.0115
	(0.00769)	(0.00776)

Life expectancy	0.0694	0.0727
	(0.0542)	(0.0539)
Fixed Effects	Yes	Yes
Year Dummies	Yes	Yes
Clustered Standard Errors	Yes	Yes
_cons	-28.21	-27.81
	(18.74)	(18.18)
<i>N</i>	609	609
<i>R</i> ²	0.102	0.102
adj. <i>R</i> ²	0.054	0.054
F	12.54	12.04
p_value	0.0000	0.0000

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

While only the two- and four-year lags on clientelism are presented here, various other lags were attempted, and all are significant from 1 year to 7 years, except for the 3-year lag, which only just misses conventional levels of significance ($p=0.158$). To facilitate interpreting the interaction results predicted margins and average marginal plots are presented in figures 7 and 8 below.

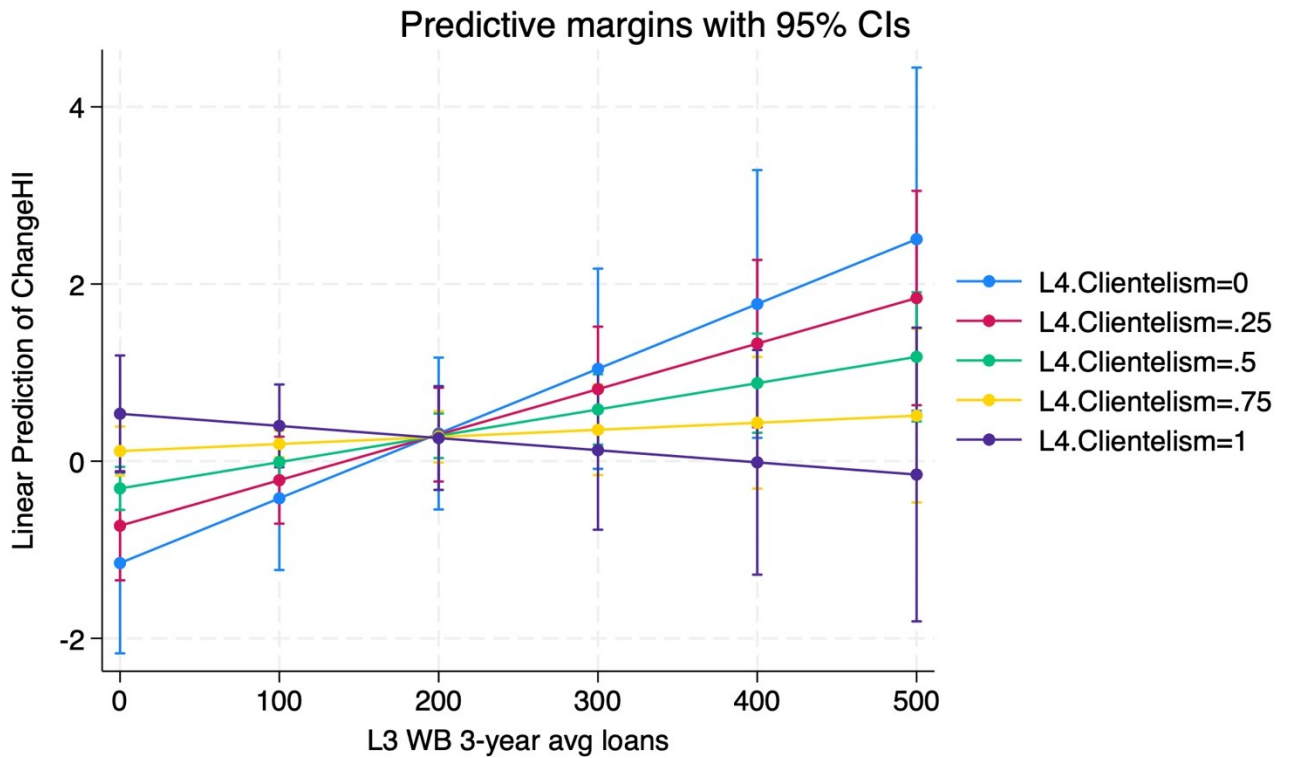


Figure 7 Predictive Margins Plot of *I3.WB3yavg* at varying levels of clientelism.

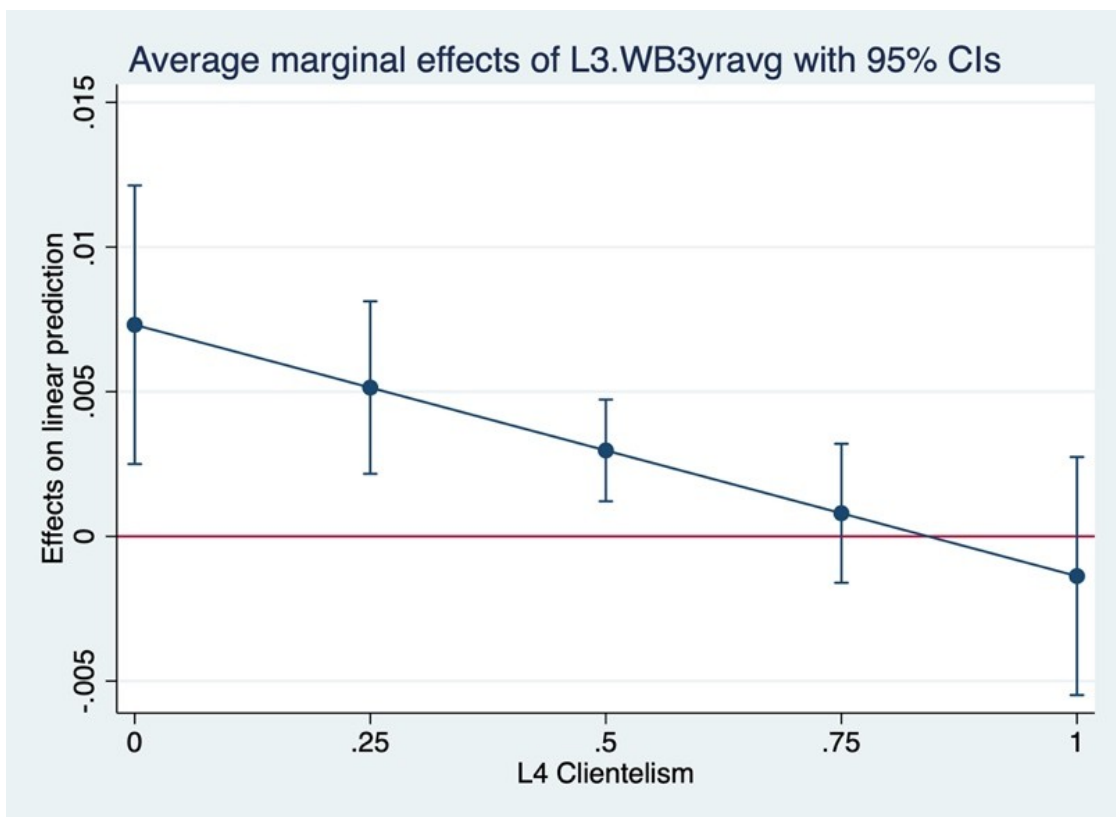


Figure 8 Average Marginal Effects Plot at varying levels of Clientelism with confidence intervals.

Figure 7 describes the linear predictive margins of *ChangeHI* under various levels of World Bank loans and the Clientelism index. Figure 8 summarises figure 7, by calculating the effects of a one-unit change in the World Bank variable for every observation in the data at each measure of *Clientelism* and averaging the results. The graphs show that at low levels of *Clientelism*, 1 US dollar of additional World Bank loans per capita are likely to predict an increase in *ChangeHI*. As clientelism increases however, this relationship between World Bank loans per capita and increasing HI weakens, so that additional World Bank loans per capita are associated with lower and lower predicted increases in HI. The confidence intervals in Figure 8 show that this pattern loses statistical significance when clientelism reaches about 0.75 (i.e. at high levels of clientelism). We can therefore have confidence in this predicted relationship at low and medium levels of clientelism, but as clientelism reaches high levels, the relationship loses consistency.

It is relevant also that the variable *Clientelism* on its own is statistically significant, and positive. This implies that with zero World Bank lending, more clientelism is associated with increasing HI. As World Bank lending increases however, the total impact of clientelism on HI reduces. Both variables therefore attenuate the impact of the other on HI, but individually (i.e. in the absence of the other) increase HI. These nuances are more closely explored in the case study chapters, but I propose a possible explanation below. It hinges on the idea that clientelism can

benefit previously excluded or elite groups, and the World Bank is likely to take stronger action against the latter.

- 1) Under very low levels of clientelism, and with World Bank loans, additional World Bank loans are correlated with increasing HI, because the nature of World Bank loans support (disproportionately) the more developed tier of the economy, which can more easily generate financial returns on these investments.

- 2) With new political elite, the clientele of the state may have shifted somewhat to include the formerly excluded (although some elite are likely to remain as clientele as well.) As clientelism increases in post-conflict states therefore, clientelist requests could emerge for Bank projects and resources to be directed either to formerly excluded groups or to elite groups, depending on the nature of the post conflict political settlement. For projects that target previously excluded groups, these may not be the kind of project that generates the greatest (economic) returns overall, because returns are slower and more difficult to build in the less developed tier of the economy. These therefore may not be the first-choice projects of the World Bank, but it might better target formerly excluded communities, helping to reduce HI.

Evidence will be presented in the case study chapters that the World Bank is fairly tolerant of this kind of politically-driven development: if poor people are benefitting, and it is also politically useful, the World Bank is fairly permissive. For projects disproportionately targeting the elite, the World Bank is more inclined to push back. This resistance will be more successful when clientelism is not as entrenched as at much higher levels discussed below. This suggests that clientelism that benefits the formerly excluded may be allowed by the Bank. This attenuates the association with increasing HI. Meanwhile, the elite-targeted type of clientelism that increases HI may be more easily avoided as opposed to contexts with high levels of clientelism.

It is also possible that clientelism dampens the growth in the more developed tier of the economy, reducing the divergent effect of growth on the different tiers.

- 3) At high levels of clientelism, the interaction loses significance, and this might be because it becomes increasingly difficult to prevent resource capture and therefore the impact will depend on who the clients are. The capacity to completely remove clientelism from the political system is limited. World Bank projects can target specific financing streams, and ringfencing can protect project money, but broad structural change is difficult to achieve and therefore will be necessarily limited. As such, some resources are

likely to go to client groups, including elite groups. Growth in the more developed tier may also be more severely handicapped by high clientelism, keeping the benefits to very few individuals that would not reflect systemic change in HI.

These exploratory ideas suggest reasons for the mutual attenuation that is represented in the interaction regressions, but the case study research will be able to outline the impact of the political context on World Bank lending with greater detail and nuance.

5.2 IMF Regressions

The results from the IMF regressions are presented below in Tables 10 in line with equation 6.

Table 10: IMF Baseline Regression Results	
	Change HI
L3.IMF3yragv	0.0137**
	(0.00525)
GDP per capita	-0.000126
	(0.000151)
GDP per capita squared	3.60e-09
	(7.58e-09)
Regime	0.209

	(0.284)
Clientelism Index	0.726
	(0.842)
Natural Resources (% of GDP)	0.0227
	(0.0197)
Trade (% of GDP)	-0.00678
	(0.00912)
Current Account Balance (% of GDP)	-0.0103
	(0.00890)
Debt (% of GDP)	0.00215
	(0.00323)
UN General Assembly Voting Behaviour Ideal point	0.215
	(0.381)
Systemic Banking Crisis dummy	-0.152
	(0.652)
Fixed Effects	Yes
Year Dummies	Yes
Clustered Standard Errors	Yes

_cons	-0.683
	(1.001)
<i>N</i>	467
<i>R</i> ²	0.079
adj. <i>R</i> ²	0.020
F	1.760
p_value	0.0401

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

As with the World Bank regressions, additional IMF loans are correlated with increasing HI. In addition to the three-year lag on the IMF variable, two-, four-, and five-year lags were all significant and positive, so that the empirical relationship outlined in Table 10 is robust across various lags.

The IMF variable was also constructed as the average net flows over 2, 4, 5, and 6 years, and again, all these constructions of the variable produced positive and significant coefficients for the IMF variable. IMF flows averaged over two years were significant when lagged 3, 4, or 5 times. IMF flows averaged over 4 years produced positive and significant coefficients when lagged between two and five years. The 5-year average of IMF flows were positive and significant when lagged 2,

3, or 4 times; and the 6-year average of IMF flows was significant when lagged 1, 2, or 3 times. The results presented in Table 10 are therefore robust across various constructions of the IMF variable and various lags.

With the interaction regressions, the IMF variable on its own remains positive and significant, but few of the interaction terms are statistically significant at conventional levels, and as such the results are not presented here. Where clientelism is lagged by 5 years and interacted with the IMF variable, the interaction term is significant and negative. However, other year lags are not significant and therefore there is little confidence that this interaction is empirically supported. These results suggest that the empirical relationship between IMF average flows and change in HI is not strongly influenced by clientelism.

6. Conclusion

In this analysis, both World Bank and IMF loans are associated with rising HI in post-conflict states. The World Bank interaction regressions suggest that the political environment, operationalised here as the degree of clientelism, shapes the empirical relationship between World Bank programmes and HI. Specifically, low levels of clientelism have the strongest positive empirical relationship between World Bank loans and increasing HI. This relationship breaks down as clientelism increases, and therefore suggests that in contexts of low clientelism, the World Bank may be better led by the government who may have a stronger understanding of how best to counter HI. At medium levels of

clientelism, the World Bank may tolerate some clientelism that may lead to investments that reduce HI, by rewarding formerly excluded groups that are now politically relevant as clients. Clientelism that benefits previous elite groups may be more effectively reduced and avoided by the Bank, especially at low to medium levels of clientelism. Conversely, in contexts of higher levels of clientelism, the statistical significance of the empirical relationship falls away. A potential explanation for this finding, is that the World Bank is more inclined to oppose clientelism at very high levels, constraining the capacity of the government to funnel resources for purely political reasons. Depending on who the client is, this may will shape the impact on HI. This restraining role will however be imperfect and therefore, some resources are likely to go to the respective state clients. Depending who that client group is, will shape the impact on HI. The observed relationship could also be explained by lower returns on investment in the more developed tier of the economy from World Bank loans in contexts of increasing clientelism. This would dampen the divergent effect of growth-inducing investments in the dual economy.

The weak findings in the IMF interaction regressions suggest that levels of clientelism do not shape the empirical relationship between IMF financial flows and change in HI. This aligns somewhat with the qualitative work: while it is clear in the case study research that the IMF is significantly less influenced by the political environment, there is some evidence of the political-economy context influencing how a

particular IMF programme is implemented (who is taxed, for example, to meet revenue targets). This influence is more fine-grained however, and therefore it is not altogether surprising that it does not emerge in this large N analysis.

Chapter 4

Liberia

1 Introduction

Modern-day Liberia is a country founded by liberated and transplanted slaves, was afflicted by over two decades of political instability and conflict, hosted arguably the most invasive of international post-conflict governance reconstruction programmes (called GEMAP) along with a 15-year United Nations Peacekeeping Mission, and in 2021 was still listed as a fragile state according to the World Bank (World Bank 2021). It has experienced high levels of horizontal inequality at least since the arrival of liberated slaves and has also garnered significant international attention. It is therefore a useful case through which to explore the impact of IFI interventions on Liberia's post-conflict horizontal inequality (HI).

As with the quantitative chapter, Liberia's "post-conflict" period is understood to include the more complex processes of establishing a functioning state, economic recovery, and making progress towards reconciliation and societal integration (Brown et al. 2008). While much progress has been made towards stability in Liberia, it only exited fragile status in 2022, but continued to rank low on the Human Development Index (178 out of 191 countries) (UNDP 2022). As one interviewee stated, "we are a post-conflict fragile nation, still"²⁹. As a result, the period since the end of the war in 2003 until 2022 is addressed in this chapter.

²⁹ (Interview 40, Former Liberian Official, 2 February 2023, Zoom)

Horizontal Inequality (HI) in post-conflict Liberia reduced in the initial post-conflict years but then plateaued from around 2008 onwards, still at a very high level of inequality. The pre-conflict elite group – the Americo-Liberians – aided by better levels of education and connections, acquired many of the key post-conflict political positions (Gerdes 2011). Despite this, the elite also widened to include more indigenous players, and it is this institutional shift that played the dominant role in reducing post-conflict HI. However, the re-establishment of a dual economy, where a few players benefit from the natural resource wealth of the country, while the majority struggle to have even enough to eat, continues to reproduce high HI levels. Political connections determine who can access the resources of the state, including state jobs, public goods, and in some cases, opportunities for corruption. With the introduction of indigenous elites after the war, more indigenous people could access these resources, an important cause of the reduction in HI. However, the Liberian political settlement is far from one that will create the kind of development outcomes for the poorest Liberians that will generate a more substantive and sustained reduction in HI. The increasingly integrated elite has not changed who remains poor in Liberia, so that for the vast majority of Liberians, their ethnic identity (Americo-Liberian or indigenous) continues to determine their income status.

The first proposition of this chapter is that many steps taken both by the Bank and by the Fund were likely to have helped to reduce poverty, in ways that supported declining levels of HI. Because the poor are indigenous ethnic groups, reducing poverty levels would reduce the gap between them and the elite – narrowing HI. The Bank has also pushed against the political settlement which has and continues to circulate state resources among the political elite and those connected to it. Steps taken by the Bank and the Fund have slowed the ease and rate at which state resources could be diverted from development and strengthened the capacity of the state: both necessary but insufficient steps for achieving a sustained reduction in HI.

The second proposition of this chapter, however, is that neither the Bank nor the Fund put the restructuring of the economy, required to address long-running HI, at the centre of their programmes. This, and the challenge of restructuring the economy, meant that Liberia has largely seen the reestablishment of a dual economy that serves some, but not the indigenous majority. While it is unlikely that either the Bank or the Fund could have singlehandedly shifted the structure of the economy, the failure to have it as a focus meant that several key opportunities were missed.

The third component of this chapter investigates what conditions may have shaped this relationship between Bank activity and HI. I argue that the political context played a central role in shaping the World Bank

portfolio, and provide evidence of changes in government, government ideology, and clientelism shaping both what was requested from the Bank and what it implemented. Other factors, including the pre-existing distribution of public goods and the immediate post-conflict needs are also assessed as key factors shaping the Bank's work in Liberia.

The structure of this chapter proceeds as follows: it begins with a summary of Liberian history, ethnic makeup, and the structures that created and maintained HI over time, while the third section describes how post-conflict HI evolved. Section 4 outlines all international actors active in Liberia and argues that the World Bank and the IMF played critical roles in Liberia's post-conflict economic reconstruction. Sections 5 to 7 outline the World Bank's work in Liberia alongside an assessment of whether the intervention reinforced or challenged the existing structures of HI. Section 8 provides the same analysis of the IMF in Liberia, before section 9 concludes.

2 A brief history: Ethnicity, war, and the institutions of Horizontal Inequality in Liberia

The foundation of modern-day Liberia began with the arrival of liberated slaves from America, who endeavoured to establish a state very much in the image of the American state, and with its military and financial support (Liebenow 1987). In addition to forming a government, these Americo-Liberians acquired land from indigenous Liberians through varying coercive methods. These included convincing tribal chiefs to

sign over land in contracts they could not read and did not understand, to full-scale military incursions, backed with munition supplies and other military support from the US Navy (Liebenow 1987; Sawyer 1992; Gobewole 2021). Over the course of the next century, Americo-Liberian control of Liberia was extended from the coastal regions towards the hinterlands, and legal instruments were used to alienate control and ownership of land from indigenous Liberians, making it easy for the state to allocate it to fellow Americo-Liberians and later, to concessionaires (Sawyer 1992).³⁰

With the resource boom of the 1960s, those with land who could negotiate concessions generated large wealth, while indigenous populations were relegated to subsistence farming on land they often did not legally own, and could not protect from concessionaires if they arrived (Kepe and Suah 2021). Other legal and political parameters protected the Americo-Liberian dominance, including the Liberian founding constitution, which was designed purely for the needs of the settler population, and laws which prohibited indigenous people from voting. After 1951 only indigenous men who owned land were granted the right (UCA, 2022). While Liberia had always been a highly centralised political system, under Tubman (president of Liberia from 1944 until 1971), “neopatrimonialism and the presidential cult reached its peak” (Mulbah 2019, 51). One of the roles accrued to Tubman during

³⁰ The Liberian Code of Laws of 1956 for example, deemed tribal land to be “public” land that tribal communities were allowed to use for their “tribal necessities”, but ownership was not automatically granted even though communities had owned and occupied this land for centuries (Sawyer, 1992: 242).

this time was to decide on land disputes, including in rural areas³¹. This meant those with access to the president (principally Americo-Liberians) accrued significant benefits in terms of land and related economic opportunities, while leaving the disconnected indigenous majority vulnerable to expropriation (Gobewole 2021).

The result of this foundational process was that Americo-Liberians controlled most of the economic and political power in Liberia, despite comprising only about three to five percent of the population (Dennis 2006). This dominance also created an institutional context in which the distribution of resources was largely controlled by the state, and this was driven by rewarding those connected to and supporting those in power³².

Out of this history, two core institutions emerged that drove both the formation, and the evolution of HI in Liberia. The first is a political settlement in which the political elite have sought to claim, control, and distribute resources to allies, political supporters, or ethnic peers (i.e. their fellow elite), as already described.

The second institutional driver of HI in Liberia was and remains the dual economy. In Liberia, the concession- and natural resource-based tier of

³¹ (Interview 37, International Consultant on Liberia for several IOs, Zoom)

³² (Interview 26, Liberian Civil Society, Zoom; Interview 11, Liberian small-scale businessperson, 28 July 2021, English; Interview 15, Senior International Organisation Official, 19 August 2021, English, 15; Interview 25, Liberian Civil Society, Zoom, 25; Interview 30, Embassy Official in Liberia, 26 November 2021, Zoom, 30; Interview 37, International Consultant on Liberia for several IOs, Zoom, 37; Mulbah 2019)

the Liberian economy generates significant wealth for a minority, while the vast majority of the country exist in subsistence farming. The process of land acquisition, combined with a commodity price boom in the 1950s concentrated wealth in the hands of a narrow Americo-Liberian elite, and only a very limited effort was made to convert the increase in wealth into broad-based development outcomes for all (indigenous) Liberians (Dennis 2006). The second tier of the economy - which existed for those cut off from land and the political elite - produced very little wealth and was largely restricted to subsistence activities. These two structures - the elite bargain and the dual economy - would drive the creation and evolution of HI in Liberia over time.

This would also, however, also drive growing discontent in Liberia. Among indigenous Liberians this discontent with the lack of opportunities and widescale marginalisation manifested as growing labour unrest in 1950, 1966, and 1967. There was such a large demonstration against the government in 1979 that the Government of Guinea sent 100 soldiers to assist the Liberian government to suppress it, resulting in the death of at least 40 people (Univeristy of Central Arkansas UCA 2022). In addition, two alleged assassination attempts on the president were foiled in 1955 and 1973, and the accused perpetrators were sent to jail.

In 1980, Samuel Doe, an indigenous master sergeant in the Armed Forces of Liberia overthrew the government in a coup d'état and purged the government of its allies (Paris 2004b). Doe's coup was initially broadly supported by the indigenous population, in the hopes that the first indigenous Liberian president would put their interests first (Paris 2004b). Unfortunately, Doe defaulted to the same approach of the former regime: privileging his own ethnic Krahn in political and military appointments, which occupied only 4% of the population³³. For most Liberians then, the Doe regime did not bring any great advantage, but it did overturn Americo-Liberian governance and brought indigenous people into powerful positions. At least in part, the roots of an indigenous elite are to be found here.³⁴

While Doe's preference for his own ethnic group was similar in approach to the previous Americo-Liberian regime, his political inexperience resulted in the breakdown of the previous highly centralised political system that relied on patronage. In its place, a networked and decentralised system based on connections to illicit commerce, rather than to the president, emerged (Reno, 2008). This, together with the post-coup purge of governmental elites, drained the state of institutional capacity. Along with the unravelling of the political centre, the economy faced a combination of poor management and difficult international conditions as commodity prices declined. The fraudulent

³³ (Interview 31, Transparency and Anti-Corruption Expert, 29 November 2021, Zoom; Liebenow 1987)

³⁴ Previously, Liberian indigenous people could enter the Americo-Liberian elite through marriage, or if indigenous children were taken as "wards" into Americo-Liberian families (Putnam 2006).

elections of 1985 led to reductions in per capita international aid (Mulbah, 2018). The cumulative result of all of this meant that between 1980 and 1985, the country experienced a cumulative decline in real GDP of more than 18 percent.

A failed coup led by an ethnic Gio, Thomas Quiwonkpa, in 1985 resulted in Doe's enhanced targeting of Gio and Mano peoples in northern Nimba County, where the Armed Forces of Liberia (AFL) subjected them to remorseless arrest, torture, rape, and killings. Doe played Mandingos against these ethnic groups, and after the abortive coup, prominent Mandingos went on television to pledge support for Doe. This would fuel the ethnicization of militias during the start of the first civil war (Minority Rights Group 2020).

Disappointment and frustration grew over the Doe regime's failure to provide for the indigenous majority grew, and accelerated with the worsening economic conditions. Security also deteriorated: being apart from the state apparatus meant not only poverty, but also exposure to some of the most brutal forms of state predation and violence. Long-term frustration with inequality and the dominance of the Americo-Liberian people, combined with short-term economic and political sources of fragility, coalesced to create the conditions for war. In 1989, the first of two civil wars started with an insurgency in Nimba county, led by Charles Taylor.

The two wars ended in 2003, and beyond the mass destruction that the war had caused, it also reshaped the political elite, so that indigenous groups occupied a larger proportion of key positions. The National Transitional Government of Liberia (NGTL) was composed largely of the main warring factions: (Taylor's) Government of Liberia (loosely Mano and Gio), LURD (predominantly Mandingo), and MODEL (predominantly Krahn) (Joshi et al. 2015). Subsequently under Ellen Johnson Sirleaf's administration, Americo-Liberians, who had been educated by the state prior to the war, were also able to regain key state positions, as Johnson Sirleaf sought to bring educated Liberians (and allies) into her government.

Still, it is notable that the end of the war brought reductions in political HIs (i.e. in the group-based inequalities in the structures of power), though this varied across various administrations. Johnson Sirleaf for example was criticised for having too many Americo-Liberians in her first (and to a lesser extent second) administration. The election of George Weah, whose 2017 election campaign focused on his indigenous background, resulted in political appointments that included more indigenous ministers (Girardin et al. 2020). The nature of the elite bargain, however, has remained largely unchanged – the increasingly integrated but narrow elite continued to distribute resources to those with whom they were connected, rather than to aggressively pursue broad-based development outcomes³⁵.

³⁵ (Interview 25, Liberian Civil Society, Zoom; Interview 26, Liberian Civil Society, Zoom; Interview 31, Transparency and Anti-Corruption Expert, Zoom)

2.1 Ethnicity and Identity: How Horizontal Inequality is constructed in Liberia

The core economic divide in Liberia has been and remains between the Americo-Liberians and indigenous groups. This thesis will refer to it as an ethnic divide, although the historical origins of Americo-Liberians are diverse. All share a history of slavery, although they were taken from various parts of Africa. Some were brought to Liberia as liberated slaves from the US, while others were recaptured repatriates: returned to Africa after the ships transporting them from the Congo basin to the Americas were intercepted by American and British navies after slavery had been made illegal³⁶. It is this history that has given the contemporary name for Americo-Liberians used in Liberia – the Congo people. Still others were emigres from Barbados, also with their histories in slavery³⁷. A select few indigenous children were taken as “wards” in Americo-Liberian families, thereby allowing them access to the benefits of being part of the elite: education, wealth, and access to power. Despite this diversity of background, these groups formed the Americo-Liberian class that benefitted from the structure established prior to the 1980 coup, and that accounted for somewhere between 3 and 5 percent of the population.

³⁶ (Interview 31, Transparency and Anti-Corruption Expert, Zoom; Interview 37, International Consultant on Liberia for several IOs, Zoom)

³⁷ (Interview 37, International Consultant on Liberia for several IOs, Zoom)

Likewise, this thesis refers frequently to the indigenous majority. This indigenous majority however is composed of approximately 16 ethnic groups (depending how clans and sub-clans are divided) (Minority Rights Group 2020). Ethnicity has always determined the social and cultural life of Liberians, and it continues to play an important role in driving identification and connection³⁸. However, in terms of determining the political and economic prospects of Liberians, the divide that mattered was between the Americo-Liberians and the indigenous groups. The section below will explore this divide with data and interviews, and argues that economically, this divide continued to define much of economic inequality in the post-conflict period. Politically however, the transitional and subsequent governments introduced indigenous leaders into the political elite, reducing political horizontal inequalities, or group-based inequalities in political structures (Gerdes 2011). I argue this reduction in political HIs has expanded the access of a few indigenous individuals to state resources and political power, allowing them to amass wealth; however not at any scale that would shift broader economic horizontal inequalities.

3 Horizontal Inequality in post-conflict Liberia

This section uses the best available data to outline that while post-conflict HI reduced in the immediate post-conflict years, it remains very high, with evidence that the far east and far west corners of the country have experienced reductions in well-being. Americo-Liberians remain

³⁸ (Weah et al. 2017; Interview 26, Liberian Civil Society, Zoom)

powerful and privileged, but the indigenous elite and those connected to them have benefitted in the post-conflict context, explaining the partial reduction in HI. However, most Liberians across every indigenous ethnic group continue to experience some of the world's highest levels of poverty, supporting the assertion that the Americo-Liberian/indigenous divide continues to be the main HI divide, and that no indigenous group has fared significantly better than another in the post-conflict context. While no indigenous ethnicity has fared significantly better, between 2007 and 2013, certain regions experienced reductions in child mortality, while other regions actually experienced increases in child mortality, with the central regions of Liberia experiencing lower child mortality, with the outlying regions (the far west and far east) experiencing increasing child mortality (Tetteh-Baah et al. 2024). All regions continued to experience relatively high child mortality, reinforcing the former point that indigenous communities continue to face major poverty and suffering.

Altogether, this section presents four sets of data: nightlight data which displays HI evolution over time; Afrobarometer data to show that poverty continues to be experienced by all indigenous groups; Demographic and Health Surveys (DHS) data which shows changes in child mortality across regions of Liberia, and Score for Peace data, which shows that even in 2021, the coastal areas continue to enjoy higher household income as compared to the indigenous hinterlands. This

section also refers to several interviews to support the narrative emerging from the data.

The nightlight data presented here is the same used in the large-N analysis. Recall that it is derived from geo-mapped data denoting where various ethnic groups live, which is superimposed on geo-mapped annual nightlight data. Together with population measures, an ethnic nightlight per capita figure is calculated. This is used to create a country-year measure of national HI. Figure 9 below shows the evolution of the average HI levels in post-conflict Liberia compared to the global median level of HI in all post-conflict countries.

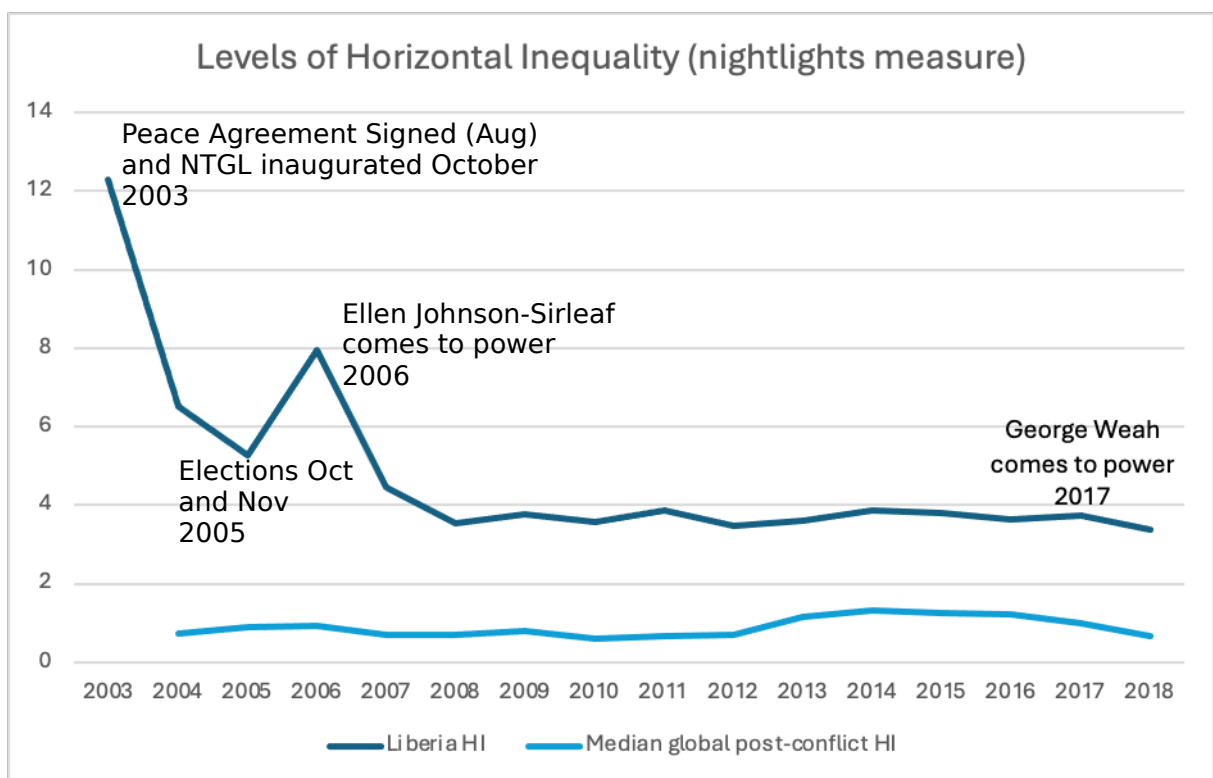


Figure 9 HI in Liberia from 2003 onwards, compared to the global median level of HI in all post-conflict countries. Source: Vogt et al, 2015, graph created by Author.

War was still waging in Liberia in 2003, including in Monrovia until August 2003, when Charles Taylor resigned. This meant total national electricity supply roughly halved between 2002 and 2003, with Americo-Liberians retaining much of their supply, driving the high level of inequality in this year (Vogt et al. 2015). In the first completely post-conflict year (2004), nightlights HI was a little over 6. Between 2004 and 2007, electricity supply rapidly expanded – in part with the help of the United Nations Mission in Liberia (UNMIL)³⁹ – so that total country nightlights increased five-fold, and this drove much of the fluctuation in those years. From 2007 onwards, electricity provision continued to expand, as indicated in the figure 10 showing access to electricity in Liberia.

³⁹ While UNMIL also used many nightlights, the location of their main bases do not correlate with the brightest areas in all cases: UNMIL had bases in Monrovia and Zwedru (brightly lit areas) but did not have major presences in other brightly lit areas (Buchanan and Harbel city). This together with the exclusion of urban areas from the calculation means UNMIL's presence did not drive HI measurements.

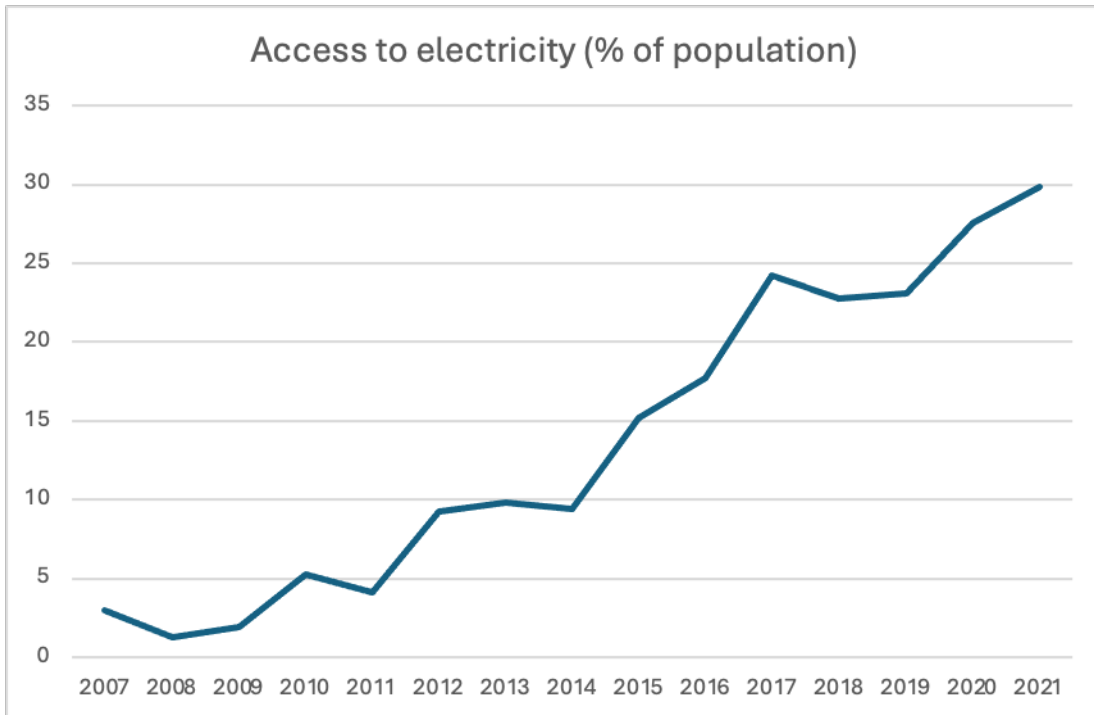


Figure 10 Access to Electricity (% of population) in Liberia from 2007 - 2021. Source: World Bank Global Electrification Database; graph constructed by Author.(World Bank et al. 2021)

Despite this expansion, the nightlights measure of HI from 2007 onwards remained stable at around 4 – significantly higher than the median level of global post-conflict countries. This suggests that even as electricity expanded, disproportionate access continued to go to areas in which Americo-Liberians were concentrated. In addition, with only 30 percent of the population having access to electricity in 2021, nightlights have remained a relevant measure of inequality in Liberia: not only is Liberia some way from universal electrification (which may reduce the relevance of access to electricity as a measure of inequality), but during the post-conflict years decisions were being taken about

which areas should receive electricity, and therefore which regions and communities to connect to the grid first. Figure 11 below confirms this by showing the country’s total nightlights, compared to the total nightlights in Americo-Liberian areas only:

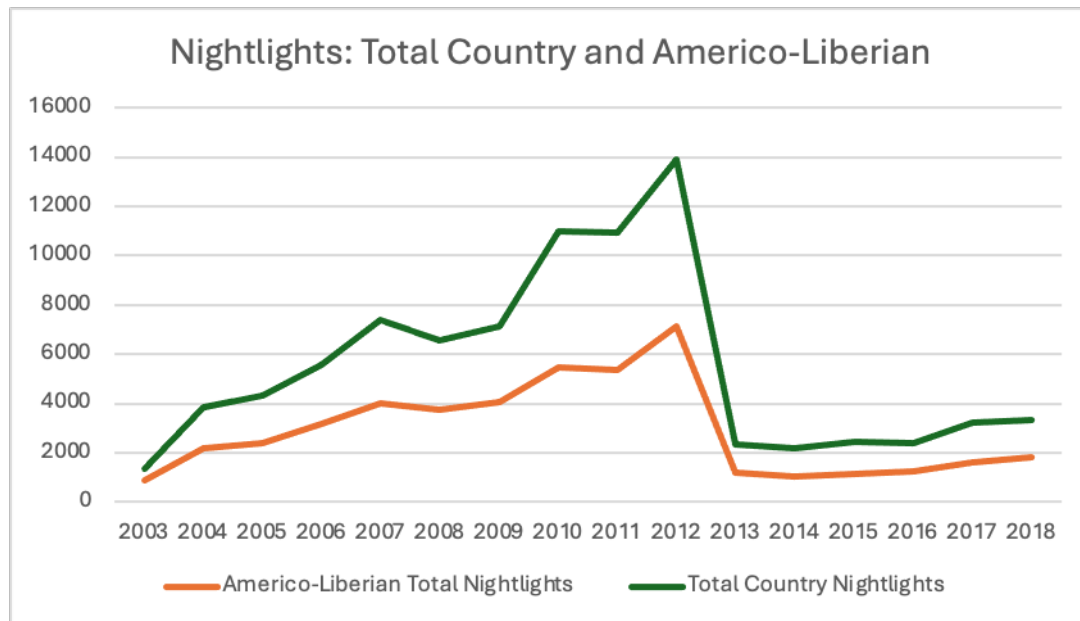


Figure 11 Total Nightlights vs nightlights in Americo-Liberian areas only.

Source: Vogt et al, 2015. Graph generated by Author.

During and until the end of the war in 2003, almost all nightlights are in regions where Americo-Liberians are concentrated. They continued to be the main beneficiaries as electricity access expanded after the war, so that in 2012, 51% of total country nightlights were in areas marked by the Vogt et al as Americo-Liberian, despite their population size of about 5%.⁴⁰ This suggests that while Indigenous groups have benefitted from public goods distribution in post-conflict Liberia, with more people

⁴⁰ Note that cities are not coded geographically for the purpose of this data, because cities tend to attract many different people and it is difficult to ascertain where different groups live. This therefore excludes the risk that this inequality is simply because electricity was restored to the capital, Monrovia, first.

gaining access to electricity, disproportionate access continued to go to Americo-Liberians areas. Note that the drop between 2012 and 2013 is the result of changes in the way nightlights data was collected before and after 2012, not an intrinsic drop in nightlights (Li and Zhou 2017). As Figure 9 shows, the relative nightlights – i.e. the inequality – is not affected by this measurement change. Americo-Liberians have continued to be disproportionate beneficiaries of electricity provision. This was noted in a World Bank Systematic Country Review in 2018 where the authors noted that, “Access to improved water sources, sanitation services, and electricity has increased but remains heavily skewed toward wealthier urban households, while in rural areas, geographic and economic isolation contribute to both high poverty rates and low human development indicators.” (World Bank Country Department AFCW1 2018, 14).

The Afrobarometer data was collected at various time intervals, so that the earliest data was collected in 2008, and the latest in 2021. While the immediate post-conflict years are missing, this provides different data points to bulk up the narrative of how development outcomes have changed for indigenous Liberians in the years following the end of the war. As the two measures indicate (the deprivation of cash and food), large proportions of Liberians across all indigenous ethnic groups continue to experience high levels of poverty, failing to meet even their

most basic nutritional and income needs. (No Americo-Liberians were interviewed by Afrobarometer.)⁴¹

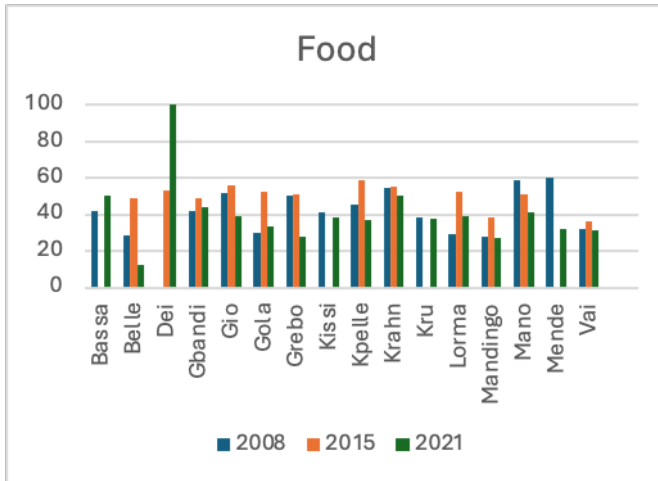


Figure 12 Percentage of respondents (or family members) who have gone without enough food to eat several or many times, or always, in the last year. Source: Afrobarometer Graph generated by Author

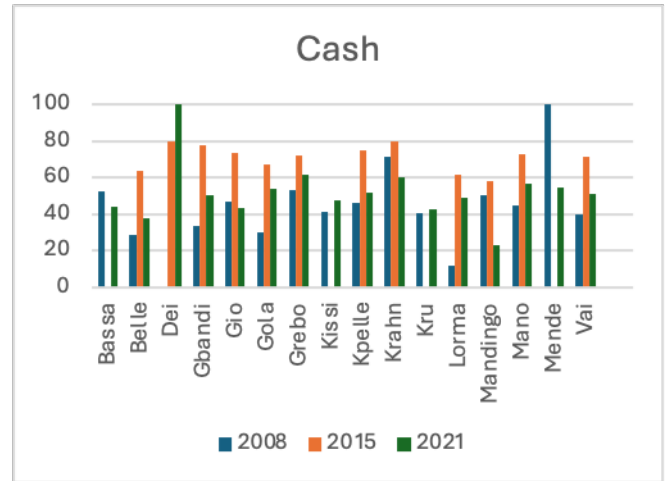


Figure 13 Percentage of respondents (or family members) who went without a cash income several or many times, or always, in the last year. Source: Afrobarometer. Graph generated by Author

All ethnicities suffered the worst deprivations in 2015 with the Ebola pandemic, but even comparing 2008 and 2021 data shows no ethnic group experiencing sustained improvement over time and across variables. For example, the Bassa experienced higher food deprivation between 2009 and 2021, but reduced levels of going without cash over that same period. This pattern is reversed for the Grebo. The key takeaway then is that no single indigenous ethnic group has disproportionately benefited in the post-conflict years, and all ethnic groups continue to experience high levels of deprivation. The most

⁴¹ The proportion of each ethnic group in the population is as follows: Bassa 13.4% of population, Belle 0.8%, Dei 0.3%, Gbandi 3%, Gio 8%, Gola 4.4%, Grebo 10%, Kissi 4.8%, Kpelle 20.3%, Krahn 4%, Kru 6%, Lorma 5.1%, Mandingo 3.2%, Mano 7.9%, Mende 1.3%, Vai 4% (Minority Rights Group 2020).

salient HI division remains between Americo-Liberians and indigenous groups.

While the ethnicity data does not show any one group experiencing sustained improvements over time and across variables, the regional DHS data shows that some regions may have benefitted more than others. Table 11 below outlines change in child mortality between 2007 and 2013 in the 5 DHS regions that correspond to all 15 Liberian counties. Figure 14 shows the disparate trends.

Table 11 Change in Child Mortality Rates by region between 2007 and 2013. Source: based on author's calculations using (Liberia Institute of Statistics and Geo-Information Services (LISGIS) et al. 2014, 2007).

DHS data collection regions	Counties	Deaths under 5 per 1000 live births in 2013	Percentage change in Child Mortality between 2007 and 2013
North Central	Bong, Nimba, and Lofa	67	-32.14%
North Western	Bomi, Grand Cape Mount, and Gbarpolu	125	+11.74%
South Central	Montserrado,	93	-23.79%

	Margibi, and Grand Bassa		
South Eastern A	River Cess, Sinoe, and Grand Gedeh	70	-29.49%
South Eastern B	River Gee, Grand Kru, and Maryland	143	+34.62%

Note: the global median under-five mortality in 2013 was 46 deaths per 1000 (UNICEF Data 2025).



Figure 14 Increased or reduced child mortality between 2007 and 2013 by region. Author's map created using DHS survey data (Liberia Institute of Statistics and Geo-Information Services (LISGIS) et al. 2007, 2014).

This data suggests that the centre of the country fared better between 2007 and 2013 than the far east and far west. All regions however continue to experience significantly higher rates of child mortality compared the global median rate in 2013 (which was 46). The lowest mortality rate was 67, and the highest was 143, indicating that all regions were experiencing high child mortality rates, but the southeast corner of the country was especially affected. This data also suggests, unlike the nightlights data which suggested a plateauing of HI from 2008 onwards, that spatial or regional HI may have deteriorated over time. While this data is only two points in time, it provides some insight into development conditions over time in Liberia.

The final set of data which is consistent with this analysis is a snapshot of household income conducted in 2021 by Score for Peace. Also regional, it provides figures from 2021. This measure of household income indicates higher income the higher the number (Score for Peace 2021):

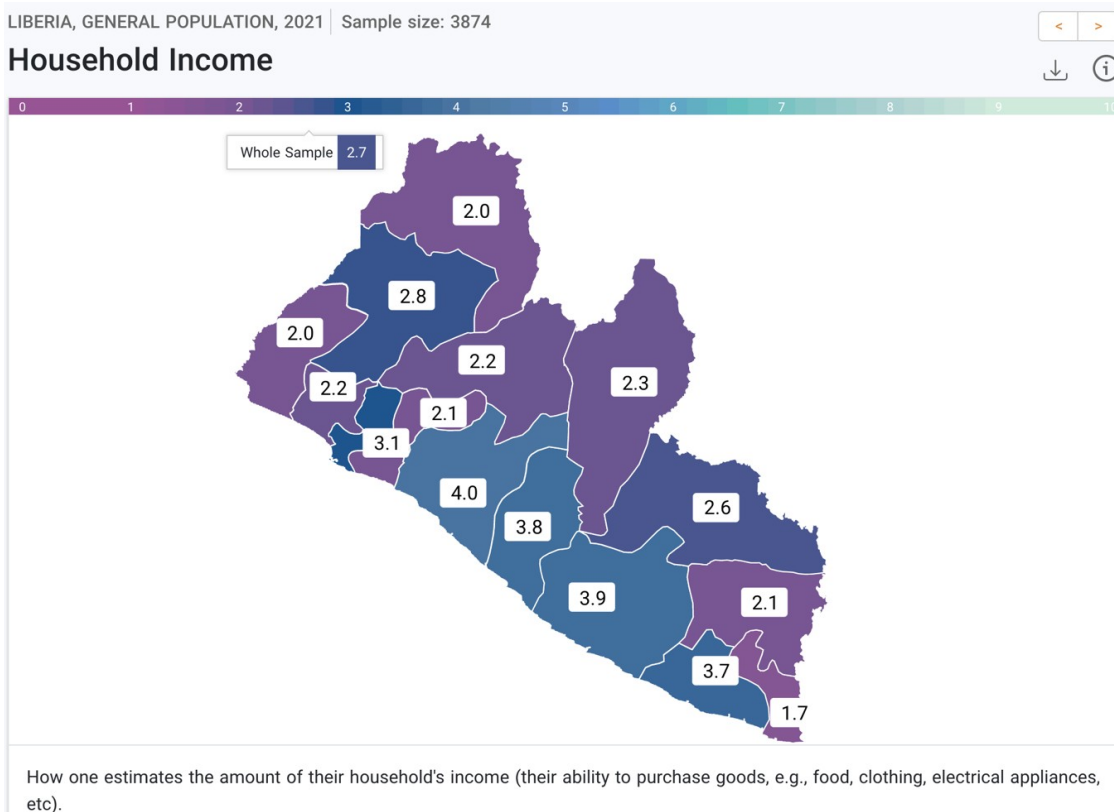


Figure 15 Household income in Liberia, 2021 Source: Score for Peace (2021)

The central coastal areas continue to be the wealthier parts of the country, even in 2021, apart from the north and south coastal corners, in line with the DHS data. The indigenous hinterlands, far north, and far south-east remain the poorest parts of the country. This confirms that the almost two decades of post-conflict stability have been unable to overturn the patterns of HI in Liberia: the central coastal areas remain the wealthier, the hinterland and corners remain the poorest. While some progress has been made in child mortality figures in the central hinterlands, other regions have actually experienced deteriorating child mortality figures. All indigenous ethnic groups however continue to

experience high levels of cash and food deprivation. All regions experienced child mortality rates that was higher than the global median in the same year. Americo-Liberians were not experiencing this level of deprivation.

One author noted, “As of 2014, the elites [Americo-Liberians] comprise less than 10 percent of the Liberian population and yet they still control Liberia much like they have for the 150 years prior to the conflict. Members of the elite fill the most lucrative government positions in ministries, agencies, commissions, and SOE(s). These officials further award their friends and clientele, who are also members of the same elite cadre, with lower-level positions.” (Mulbah 2019, 79). This indicates that Americo-Liberians continue to occupy a significant portion of the elite.

One interview quote summarises the distribution of income in Liberia well:

“So predominantly Liberians are poor people, really, really poor people. And what you call middle class – we don't have that. We have a group of people who are between what you call middle class and poverty in Liberia. They can get a house to live in. They can get better education from their own earnings. If they have a car, they have an apartment, they have [to look after] their families. If they lose their job, they soon go back into having nothing...Meanwhile, on the other hand, you have a small number of Liberians who are well off. Most of them are politicians, right? They have access to a lot of state resources. There's perceived corruption they are involved in. But that's a very small number. And all those people are concentrated in the capital, Monrovia.”⁴²

⁴² (Interview 49, Liberian civil society member, 28 June 2023, Microsoft Teams)

The elite then, are Americo-Liberian as well as indigenous individuals who have managed to acquire political positions or connections that they can use to access state resources to generate personal wealth.

When asked how this unstable middle class could develop, and whether a certain ethnic group had benefitted more, the respondent noted that this vulnerable middle class had managed to get educated, which they had to pay for. He noted that the belligerent ethnic groups in the war (the Mano, Gio, and Mandingo) had received political asylum in neighbouring countries, and some had managed to convert their status into residence which allowed them to work and send money back to pay for the education of family members, and therefore perhaps these groups were better represented in this unstable lower-middle class⁴³. Still, this hard-won, and easily lost income status was not where the new post-conflict elite existed. Political connection, and access to the state remained the key to sustainably generating significant wealth in Liberia. The number who have benefitted in this way, are few. Another interviewee reiterated this perspective:

“One elite takes over from the next, and the resources and the benefits are recycled [in the chain of] political elites. They acquire influence in government contracts... and therefore they afford for their families to access education abroad or in the [West African] region, health facilities in the region, but the ordinary people despite the rebuilding efforts, find it difficult to bridge the gap in services...one government after the other has not been able to reinvest in social services to help bridge the inequalities.” Rather, the interviewee outlines, political elite are too busy “investing and

⁴³ (Interview 49, Liberian civil society member, Microsoft Teams)

paying off their political cronies”, leaving little budgetary support for social services.⁴⁴

Who then, comprises this elite? As the quotes above suggest, the reduction in political HIs has allowed indigenous individuals access to political positions and the state, and therefore access to opportunities for wealth accumulation. As one interviewee outlined,

“The elite [is] comprised of all the ethnic groups because you go to the legislature and judiciary, you see Liberians from every ethnicity block. It’s more about an elite politics, playing by a certain rule that is against the majority of Liberian interests. Some of the elites are aligned as spoilers of the transitional justice agenda, other elites are aligned at trying to accumulate more wealth at the expense of larger society.”⁴⁵

As much as this elite has become integrated as political HIs have reduced, the data continue to show that Americo-Liberians continue to enjoy disproportionate access to public goods. Finding data on income, wealth, or land disparities along ethnic lines has been impossible in Liberia. While capacity limitations are part of this, it is also clear that there are vested interests in concealing these disparities. “Everything is in hiding. Nobody wants you to know what they own.”⁴⁶

When asking another interviewee on land ownership data, he responded: “some of these things are also very sensitive....That's why it's difficult to do. I'm not sure the King family [wealthy landowners in Monrovia] would want this...or the Tubman family [former president’s family], or the Hodge family [well known Lebanese merchant family]”⁴⁷.

⁴⁴ (Interview 25, Liberian Civil Society, Zoom)

⁴⁵ (Interview 26, Liberian Civil Society, Zoom)

⁴⁶ (Interview 49, Liberian civil society member, Microsoft Teams)

⁴⁷ (Interview 37, International Consultant on Liberia for several IOs, Zoom).

He went on to explain when he interviewed Liberians about what should be kept private under privacy laws, money emerged as one of the key topics that were considered important to keep private. Still, he noted that Americo-Liberians were “absolutely” the largest landowners in Liberia – this was self-evident.

Despite the challenges with data, it is clear that Americo-Liberians have not been disposed of their positions in the elite. The first reason is because there has been no major land reform or reconciliation tax, or major effort to address the major wealth inequality that was established during the country’s founding years. Several interviewees noted that they continued to own much of the land:

“[The Americo-Liberians] are not, you know, visible as before, but, you know, they still own the land.... I know that in Monrovia city and the centre of Monrovia, they own the majority of the land.”⁴⁸

Another interviewee noted the same:

“The inequalities between the Americo-Liberians who governed for many years as compared to the other ethnic groups was part of the structure and condition of the war, so that cannot be excluded: that continues to be. But we have not altered our governance framework, so we replace one elite by another, and the disparity takes a different form. But certainly, the Americo-Liberians division is a historical problem, and it remains a problem.”⁴⁹

When discussing business opportunities in Liberia with a World Bank IFC official, she noted:

“Liberia is one of the few countries where a single owner will own acres and acres of land. So typically, when you see a Liberian in

⁴⁸ (Interview 54, World Bank Official, Microsoft Teams)

⁴⁹ (Interview 25, Liberian Civil Society, Zoom)

agriculture, that's their own private land: they've inherited from their family."⁵⁰

This continued control of land in a natural resource economy not only meant that Americo-Liberians maintained their positions in the elite, but also meant they continued to access opportunities to grow their wealth. The first evidence of this is in the commercial banking sector where several interviewees noted the importance of having an Americo-Liberian surname for accessing commercial credit. One indigenous businessman in Robertssport described the challenge:

"If you have a certain surname [an American surname] you'll get loans more easily, or get certain jobs. Now they're saying that we've passed that line...but it always plays a role everywhere: what's your last name and who do you know - often they won't really look at your business plan, but maybe you know someone in the bank, and maybe you can provide a kickback to someone in the bank."⁵¹

Your surname, and access to some level of wealth enhanced your access to credit, even if your business idea was poor. This trend was echoed in an interview with the IMF, who mentioned the challenge of dealing with non-performing loans in Liberian banks because bank managers didn't "know how to select good projects". The only benefit of this was that the owners of the non-performing loans didn't run away from the country: "They know if they run, then that would affect their friends [in the bank]"⁵². This quote shows how even the private sector acts to serve a narrow, connected elite, and those with the wrong (indigenous) surname, even with a good business project, will not be

⁵⁰ (Interview 17, World Bank Official, 31 August 2021, Teams)

⁵¹ (Interview 11, Liberian small-scale businessperson, English)

⁵² (Interview 52, IMF Official, 6 July 2023, Microsoft Teams)

able to access credit to establish a business. Conversely, even with a poor business plan, connected elite can access credit.

Lastly, the same access to power that has created opportunities for an indigenous elite to emerge continue to apply to Americo-Liberians. Particularly during the first term under Johnson Sirleaf, many high-level political positions continued to be filled by Americo-Liberians who were attracted to work for the government with salary incentives paid for under the UNDP-funded Liberia Emergency Capacity Building Support (LECBS) programme. This USD 3.25 million fund recruited 200 Liberians from the US to staff her Administration (Friedman 2012). Following criticism that her Administration was too heavily Americo-Liberian heavy cabinet, she brought more indigenous Liberians into Cabinet in her second Administration, but the environment remained dominated by Americo-Liberians. As one interviewee outlined:

“But I think because he [the finance minister] was local [indigenous], he had a hard time as finance minister as well and that might also be part of the goal to have somebody that that's not too powerful and that that she could control.... It was harder for him to be to be an effective minister of finance - to get the respect of the other ministers and get people to actually do what he said.”⁵³

The Weah government was more indigenous, but even under Weah, Americo-Liberians continue to hold political power (Girardin et al. 2020; The Carter Center 2017; Gerdes 2011). In the Ethnic Power Relations Atlas, the Americo-Liberians have been coded as the (only) Senior Partner, with all other ethnic groups either coded as Junior Partners or

⁵³ (Interview 50, IMF Official, Microsoft Teams)

powerless, between 2006 and 2018 (i.e. under Johnson-Sirleaf). Only under Weah, were they coded as Junior Partners, with only the Kru (Weah's ethnic group) coded as the higher Senior Partner (Girardin et al. 2020). This enduring political influence has continued to provide opportunities for enrichment. With continued ownership of land, easy access to commercial credit, and political power, Americo-Liberians remain a key part of the Liberian elite.

High HI therefore dropped in the early post-conflict years, as new indigenous political elites emerged, and basic services were restored. This dropped the nightlights measure of HI from just over 6 in 2004, to one that hovered around 4 from 2007 onwards. While the narrow elite became increasingly integrated, the realities for the majority of indigenous Liberians remained unchanged, leaving the overarching picture of HI in Liberia improved (with an integrated elite) but still vastly unequal, as most indigenous Liberians and Americo-Liberians continued to live lives of relative deprivation and privilege. To understand this observed outcome, and the contributions of IFIs to it (if any), the analysis turns to outlining the central role both IFIs played in Liberia, before addressing the World Bank intervention in Liberia.

4. The Broader International Context of the World Bank and the IMF in Liberia

In this section, I argue that the World Bank and the IMF were and remain the core economic actors in Liberia, while also placing their work within

the broader international context. The World Bank and the IMF have been the largest donors to Liberia since the end of the war, seconded only by the US, as figure 16 below demonstrates:

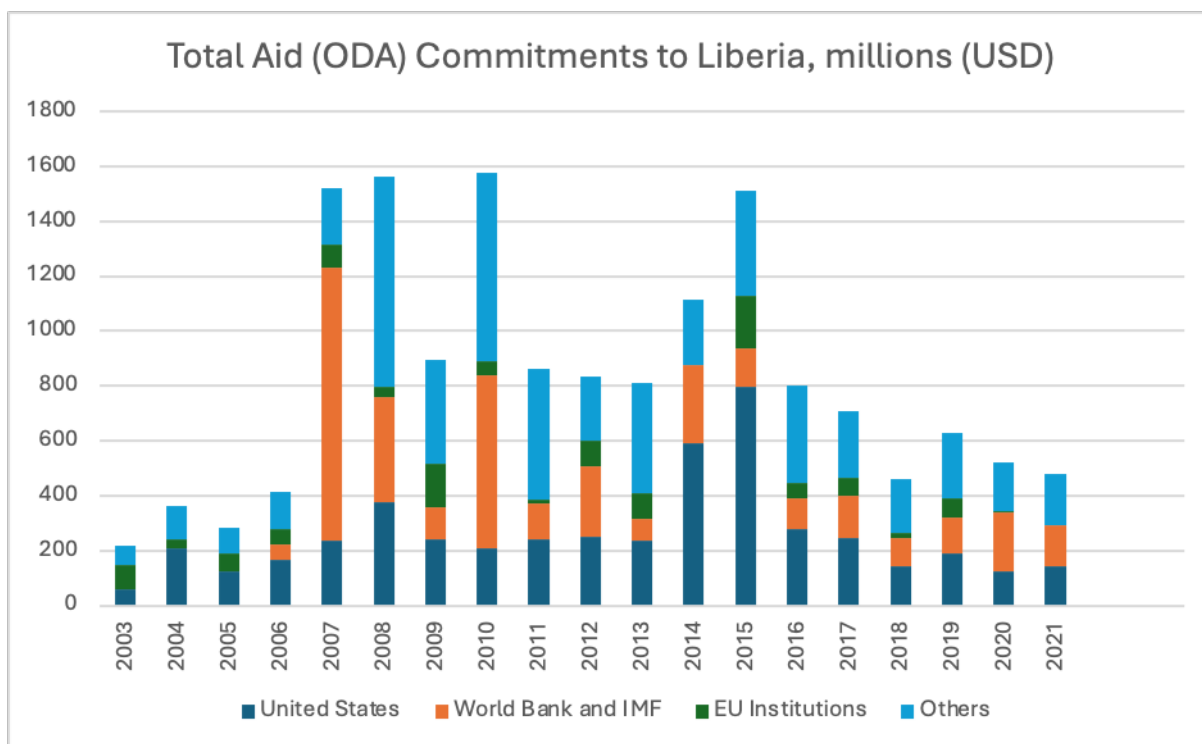


Figure16 OECD DAC data, graph constructed by Author (OECD 2023)

Other donors include all branches of the United Nations, all other DAC and non-DAC countries, and all other multilateral banks (notably the African Development Bank). As individual donors then, the US and the World Bank and IMF have alternated as Liberia’s top donors but have remained key partners to Liberia’s post-conflict development throughout.

Beyond the financial commitments, both the World Bank and IMF have played important roles in shaping the development space in Liberia. The Governance and Economic Management Assistance Program (GEMAP) for example, was a major intervention by all key donors in Liberia to stem corruption and graft by installing foreign advisors with co-signing capacities on all payments made by key Ministries and state-owned enterprises. (This will be expanded on in the sections below.) This programme however came into being because the IMF country representative at the time flagged the level of graft as something that was beyond what the international community could accept and urged a united solution⁵⁴. The GEMAP programme grew into a coordinated, international effort, in part because the IMF did not wish to take the lead on what it perceived as a political issue, but nevertheless an issue that needed to be addressed. As one interviewee noted: “And it would make sense that the IMF identified the risks because it started off looking at central bank outflows. ... Now, the IMF, of all the organizations working in conflict, post-conflict, remains the most reticent on engaging at the political level.”⁵⁵ Nevertheless, it played a key role in the identification of the problem, and initiating the solution.

The problem of graft was identified during the transitional government, and as one observer noted, was extreme.

“And it's hard to capture the extent of the graft... the extent of the destruction in the country and the extent of just devastation was shocking even for people who are used to conflict zones. There

⁵⁴ (Interview 56, UN and GEMAP official, 20 July 2023, Microsoft Teams)

⁵⁵ (Interview 56, UN and GEMAP official, Microsoft Teams)

wasn't a thing that wasn't stolen or gone or it was like somebody had been through every public institution building like a prey of locusts. I remember going to the parliament and just every single thing - even the light fitting was gone."⁵⁶

The interviewee went on to argue that part of the problem was in the design of the peace deal, which blocked key members of the transitional government from running for political office in the first democratic elections which followed, increasing the incentive to capture as many state resources as possible while there was still access.

As a result, when GEMAP came to be implemented, the new democratic government was in power under Ellen Johnson Sirleaf, and some argued that there might be no longer a need for GEMAP. It was here that the World Bank played a critical role in arguing for its continued implementation.

"Now, when it [GEMAP] moved on after it was implemented, there was a sense of people saying this is much ado about nothing because now that [transitional] government is gone. ... Why don't you just start to lift it? ... That's where I think the World Bank played quite an important role of saying we really should use this framework... And I think that Ellen Johnson Sirleaf herself, as a former bank official who knew the issues, knew the challenges, understood how to harness that, and use that vehicle as a promise for reform, as a way of soliciting aid and as a way of maintaining donors."⁵⁷.

The World Bank also funded many of the international advisors who were installed in the ministries and SOEs. The IMF and the World Bank therefore played central roles in the initiation and implementation of GEMAP.

⁵⁶ (Interview 56, UN and GEMAP official, Microsoft Teams)

⁵⁷ (Interview 56, UN and GEMAP official, Microsoft Teams)

This quote also points to a second aspect increasing the World Bank and IMF's role in Liberia: Ellen Johnson Sirleaf herself was a former World Bank employee, and therefore was familiar with the IFIs, and what they could offer. This enhanced both her willingness to work with the IFIs and their access to her as president⁵⁸.

A third factor inflating the World Bank and IMF's role beyond the financial resources was the debt relief programme for Highly Indebted Poor Countries (HIPC). In June 2007, Liberia's debt totalled USD 4.7 billion – over 600% of national GDP – by far the highest debt-to-GDP ratio in the developing world at the time (IMF and World Bank 2018). This made it impossible for the World Bank and IMF to make new loans to Liberia and made it highly improbable that any other financial actor would risk providing a loan: essentially cutting Liberia off from much-needed international finance. This made progressing through HIPC a key priority for Johnson Sirleaf, and with the IMF and the World Bank at the core of that process, elevated their role in Liberia to a central one⁵⁹.

A final point is that the World Bank and IMF were involved in many of the development and coordination teams that worked closely with government and other actors to determine the country's approach to development. For example, the Liberia Reconstruction and Development

⁵⁸ (Interview 57, Economic Advisor to Ellen Johnson Sirleaf, 20 July 2023, Zoom)

⁵⁹ (Interview 27, Senior IMF Official, 2 November 2021, Microsoft Teams; Interview 39, Senior IMF Official, Whatsapp).

Committee (LRDC) was chaired by Johnson Sirleaf and consisted of representatives from the key ministries and international partners including the IMF and the World Bank. This committee coordinated the Poverty Reduction Strategy Paper (PSRP), which outlined the government's vision on development, and that most donors including the World Bank and IMF are meant to use to guide their interventions in the country (IMF and IDA Staffs 2008). This provided both the Bank and the Fund a direct role in the formation of Liberia's PSRP, that was meant to guide their interventions (IMF and IDA et al. 2005; IMF and IDA Staffs 2008; World Bank (IDA) and The IMF 2010). The World Bank was also a permanent attendee at informal meetings at Johnson Sirleaf's house to discuss development approaches and disagreements between government and donors. These meetings involved the World Bank, the EU, the UN, and the US on the donor's side, and the Ministers of Finance, Health, Public Works, and Defence on the side of the government⁶⁰. (The IMF declined to participate because these meetings were mainly regarding development assistance projects which it did not provide.)

Despite the important role played by both IFIs, it is necessary to contextualise this role within two other major international actors in Liberia: the United Nations (Peacekeeping) Mission in Liberia (UNMIL) and the US. I argue that despite collaboration between both IFIs and these major actors in Liberia, they did not constrain either the World

⁶⁰ (Interview 57, Economic Advisor to Ellen Johnson Sirleaf, Zoom)

Bank or the IMF's activities in Liberia and may have strengthened the IMF's influence in the case of the US.

UNMIL's mandate was focused on security; disarmament, demobilization, rehabilitation, and reintegration (DDRR); humanitarian and human rights assistance; and security and justice reform (UN Security Council 2003). While the work of UNMIL was mostly focused on security and policing, two aspects made it an important actor within the development space⁶¹. The first is that its mandate was broad, and included establishing a mechanism for the coordination of its activities with the humanitarian and development community (Gledhill et al. 2021). The second point was that UNMIL engaged in Quick Impact Projects (QIPs), many of which aimed to generate short term jobs quickly through the basic rehabilitation of roads, schools, and county state infrastructure (UNMIL n.d.). These development-related activities extended beyond traditional peacekeeping activities, in part because UNMIL was deployed towards the end of the period of optimism around big post-conflict interventions.⁶²

These two points had important implications for the work of the World Bank and the IMF. Firstly, within its coordination role, UNMIL co-chaired the steering committee for GEMAP with the government of Liberia. This was not because UNMIL was a key player in the substantive aspects of GEMAP, which were held primarily by the World Bank and the IMF, but

⁶¹ (Interview 8, UN Official, 22 July 2021, Whatsapp)

⁶² (Interview 56, UN and GEMAP official, Microsoft Teams)

rather because it provided political cover for IFIs that were hesitant to be seen in such a political role.⁶³

For understanding the role of the World Bank and the IMF in Liberia then, it is clear that both IFIs played central roles in GEMAP's initiation, implementation, and functioning, but both organisations were aided by building an international coalition around the project, and using the convening role of UNMIL to shelter it from political risk. Coordination went beyond GEMAP however, with the World Bank also coordinating with UNMIL on local dynamics, because UNMIL was one of the few international actors with a presence in every county, and the World Bank was eager to leverage this local presence for its own projects and planning⁶⁴.

The Quick Impact Projects (QIPs) were not a significant part of UNMIL's expenditure in Liberia: amounting to only USD 16.4 million out of a total expenditure of USD 7.5 billion over its 14-year deployment (UNMIL 2018). Still, this concept of investing in early recovery by employing people and encouraging them to return to their homes and their former lives was something that UNMIL was investing in, and something the World Bank was also funding for the first time, in coordination with UNMIL. For example, some of the early cash for jobs programmes involving employing people to do basic road fixes etc, were

⁶³ (Interview 56, UN and GEMAP official, Microsoft Teams)

⁶⁴ (Interview 56, UN and GEMAP official, Microsoft Teams)

administered and implemented by UNMIL, but funded by the World Bank⁶⁵. This willingness to collaborate was fuelled by a number of factors: the in-country leadership in both organisations were eager to collaborate; the fragile states agenda was growing in relevance at the World Bank; and because these projects were not seen as “big-D” development projects which might lead to competition between UNMIL and the Bank, but rather early recovery projects that both organisations were eager to participate in⁶⁶. This combination therefore opened the Bank to engaging in early recovery-style projects which, while not a significant part of its spending, nevertheless shaped the nature of the Bank’s early engagement in Liberia.

The US has been one of the largest donors to Liberia since the end of the war (OECD 2023). For contextualising the role of the World Bank and IMF in Liberia, two points are worth making. The first is regarding the Millennium Challenge Account which brought major funding into roads and energy in Liberia. The second is that the IMF and US Treasury worked closely, which enhanced the IMF’s influence in Liberia beyond its loans, because its opinion on progress on key issues was important for the US⁶⁷. The Millennium Challenge Account (/ Corporation) was an initiative started under President Bush to stimulate private sector growth in developing countries that were considered to be committed to good governance, economic freedom, and investing in their citizens

⁶⁵ (Interview 56, UN and GEMAP official, Microsoft Teams)

⁶⁶ (Interview 56, UN and GEMAP official, Microsoft Teams)

⁶⁷ (Interview 52, IMF Official, Microsoft Teams)

(Millennium Challenge Corporation, n.d.). An assessment made under this programme determined that the core inhibitors to Liberia's growth were roads and energy, and therefore significant US resources were dedicated to these two sectors, including a major energy infrastructure project⁶⁸. While several World Bank employees noted the US as a key donor to Liberia, none mentioned that their own focus on roads and energy had been shaped by the US funding⁶⁹. Indeed, during interviews, evidence of coordination between the World Bank and UNMIL⁷⁰, UNDP⁷¹, the African Development Bank⁷², the IMF, and various embassies including the Chinese embassy for example⁷³ emerged. However, coordination with the US to avoid programme duplication was conspicuous by its absence in both interviews and World Bank grey documents, aside from the initiation of GEMAP (Dwan and Bailey 2006). One USAID employee bemoaned the centralisation of USAID's decision-making processes regarding budgets and priorities in Congress and elsewhere in Washington as undermining the organisation's capacity to adapt to local capacities, suggesting that the independence may have stemmed from the US⁷⁴. Nevertheless, it is worth noting that while the World Bank was spending significantly on these two sectors, the US was too.

⁶⁸ (Interview 22, Liberian Government Official, 17 September 2021, Whatsapp; Interview 54, World Bank Official, Microsoft Teams)

⁶⁹ (Interview 48, Liberian government and World Bank official, 26 June 2023, Microsoft Teams; Interview 54, World Bank Official, Microsoft Teams)

⁷⁰ (Interview 56, UN and GEMAP official, Microsoft Teams)

⁷¹ (Interview 38, UNDP Official, 18 November 2021, Microsoft Teams)

⁷² (World Bank Country Department AFCW1 2009; Interview 19, World Bank Official, Teams)

⁷³ (Interview 55, World Bank Official, 19 July 2023, Zoom)

⁷⁴ (Interview 12, USAID employee, 3 August 2021, Whatsapp)

The IMF, conversely, worked very closely with the US Treasury, who valued its views on the macroeconomic stability and trajectory of the country⁷⁵. This mattered especially for the Millennium Challenge Account, which in part relied on assessments of good governance and macroeconomic stability, which was informed by IMF analysis⁷⁶. While the IMF would not have influenced the development approach of USAID, it certainly could use the US' political support when pushing for governance or policy changes⁷⁷. The strength of the US in Liberia therefore enhanced the strength of the IMF there.

Before concluding, it is necessary to address the wider network of financial actors, including China which has gained significance on the continent, and access to international credit, for example through Eurobonds. The headline takeaway is that Liberia's level of poverty, and the limited state budget dramatically inhibited Liberia's capacity to access more sophisticated and risky financial access, including Eurobonds⁷⁸. "No, I mean, they really were not anywhere in a position to start issuing Eurobonds...They didn't even have a domestic securities market."⁷⁹

⁷⁵ (Interview 52, IMF Official, Microsoft Teams)

⁷⁶ (Interview 54, World Bank Official, Microsoft Teams)

⁷⁷ (Interview 27, Senior IMF Official, Microsoft Teams; Interview 57, Economic Advisor to Ellen Johnson Sirleaf, Zoom; Interview 50, IMF Official, Microsoft Teams).

⁷⁸ (Interview 50, IMF Official, Microsoft Teams; Interview 52, IMF Official, Microsoft Teams, 52)

⁷⁹ (Interview 52, IMF Official, Microsoft Teams)

China too, has not been a major financial player in Liberia⁸⁰. Data collected on bilateral engagements between the Chinese Ministry of Foreign Affairs (state-to-state) and between bilateral party-to-party engagements (between the Chinese Communist Party and domestic political parties) across the world showed Liberia was low on the Chinese agenda, with only 2 party-to-party encounters from 2020 – 2022 – placing it amongst the least contacted countries on the continent (Nagatsuji 2023). The Chinese Loans to Africa Database notes that only 2 loans were made to Liberia from China between 2000 and 2020, totalling USD 55 million, again placing it amongst the lowest recipients of loans from China in Africa (Boston University Global Development Policy Center 2022). In terms of aid, the same aid data used for figure 16 above, shows very limited aid commitments from non-DAC countries (including China). The largest annual inflow was in 2015 and amounted to USD 22.68 million (for all non-DAC donors). This is only 1.5% of total aid commitments that year (OECD 2023). Despite this, Chinese companies won various World Bank tenders to build the major roads in Liberia, and therefore the Bank interacted with the Chinese embassy to manage those major projects⁸¹. Nevertheless, most lenders agreed that “China was not an actor on the donor scene per se.”⁸²

⁸⁰ (Interview 50, IMF Official, Microsoft Teams; Interview 52, IMF Official, Microsoft Teams; Interview 54, World Bank Official, Microsoft Teams)

⁸¹ (Interview 55, World Bank Official, Zoom)

⁸² (Interview 50, IMF Official, Microsoft Teams, 50).

The World Bank and IMF were therefore the central international financial actors in Liberia, because of the financial resources they committed to the country over time, their central role in many of the key financial programmes conducted in and for Liberia (GEMAP, HIPC), their formal and informal roles in shaping the development approach in the country, and because Liberia had relatively limited access to other international financial markets given its small cash-based state budget and underdeveloped financial markets. With a clear idea of the international context in which the World Bank and IMF were operating in Liberia, it is possible to turn to the World Bank's work there.

5. The World Bank in Liberia

This section will describe what the World Bank did in Liberia from 2004 until 2022. It argues that the Bank's interventions interacted with existing structures of HI in various and opposing ways, with some projects pushing against, and others reinforcing these structures. Actions taken to oppose HI structures included taking steps to try to improve governance and reduce corruption in Liberia - an important step towards building a government capable of systematically reducing HI, and ensuring resources were available for development, and not simply distributed to elites. The Bank also brought significant financial inflows to Liberia after the end of war, which delivered public goods and jobs to communities that would almost certainly be worse off without them, and these poverty-reducing steps have helped (to slightly) improve HI in the areas that benefitted.

There were, however, also World Bank projects and policy decisions that assisted in the re-establishment of a dual economy that primarily served those who could capitalise on the concession economy and provided few opportunities for everyone else. Given pre-existing HI, those with resources to invest, and those without, fell along the same identity lines as before. These projects included, for example, building major roads to natural resource locations, with limited additional support to allow local communities to benefit from the roads; a civil service reform project that failed to consider historic inequalities; and a concentration of resources in the capital and other politically relevant states, but an absence of investment in some of the poorest parts of the country. These aspects of the World Bank portfolio, that were blind to HI or that prioritised other economic concerns, created opportunities for those with resources and education, but generated few opportunities for the historically excluded majority. From an HI-perspective then, the World Bank's work in Liberia generated mixed outcomes: with some projects reducing poverty and therefore narrowing the inequality gap, and others aggravating HI by creating opportunities that only the elite could capture.

I argue that this mixed impact on HI was driven by several factors, including the political settlement. Portfolio decisions were made in collaboration with Liberian governing authorities, whose priorities and interests often lay more with grand scale economic projects and

electoral concerns, than with providing basic services and economic opportunities to the poorest Liberians. In part, these concerns (especially those relating to large-scale economic recovery) fell in line with the thinking of Bank officials. However, Bank officials and documents also encouraged the government to engage in more pro-poor programming, especially small-scale agricultural support and social investment, but the Johnson Sirleaf administrations in particular felt the investments should go to restoring economic activity. Without government leadership, it was difficult to push for pro-poor investments, and low levels of agricultural and social investment in the early years emerge as clear evidence of this.

Despite this, the Bank also agreed that investing in the former economic sectors were worthwhile investments, and therefore while there is evidence that they would have wanted to see a more diverse Bank portfolio, targeting both economic growth and poverty / inequality, they were generally happy to follow the government's agenda of large-infrastructure investment. Under the Weah Administration, these priorities shift, and with it, the Bank portfolio shifts to include more pro-poor programming, which more directly targets the previously excluded, indigenous population.

Despite this distinction across administrations, both the Johnson Sirleaf and Weah governments display evidence of clientelism shaping the nature of the requests made to the World Bank, with varying impacts on

HI. Here, the Bank pushed back more heavily against obvious diversions of funds – most especially those that did not also have a clear growth or pro-poor benefit. Those requests that displayed both good economic reason and a political or clientelist benefit to the government were more likely to be accepted by the Bank.

5.1 Overview of World Bank Projects in Post-Conflict Liberia

World Bank spending in post-conflict Liberia totals USD 2.2 billion. Figure 17 below shows which sectors received this investment:

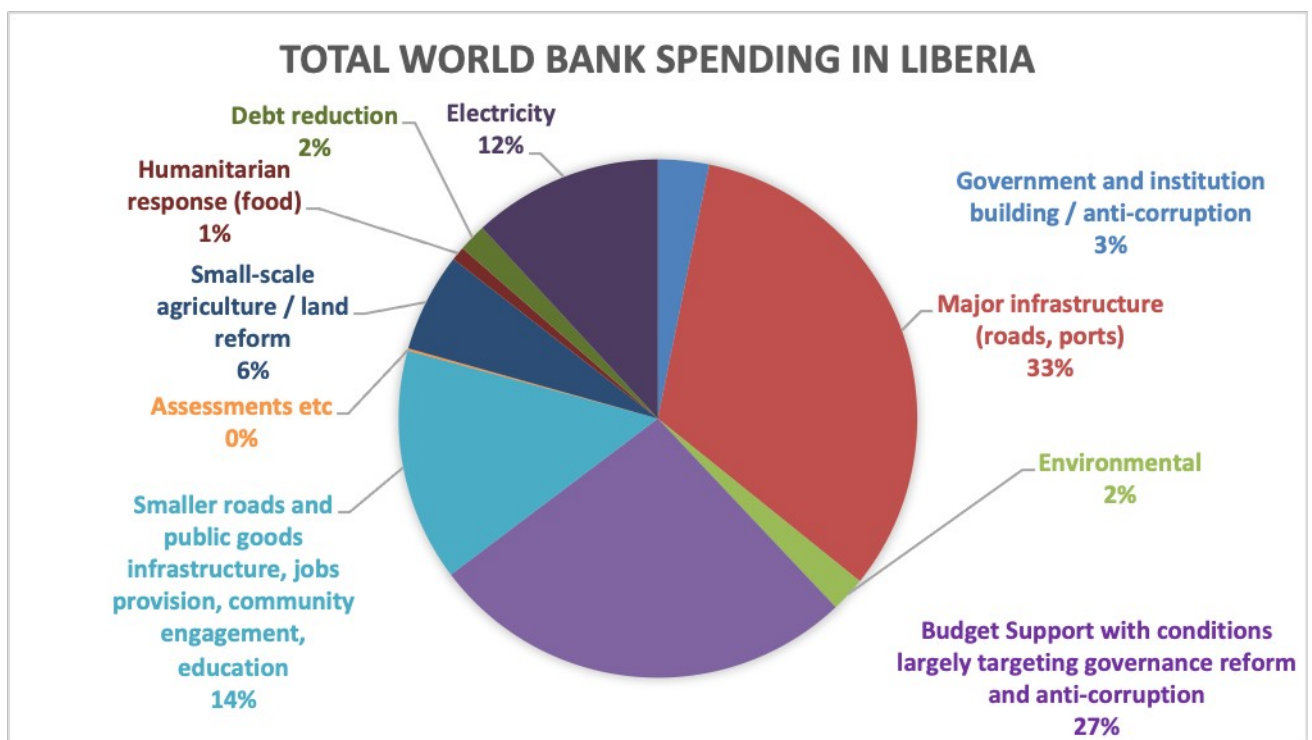


Figure 17 Sectoral division of World Bank spending in Liberia (Author's calculations based on publicly available World Bank data.)

As is evident, the two largest components of spending were on infrastructure projects (almost all of these projects were roads), and governance reform, anti-corruption, and institution-building efforts. The latter was achieved both through projects that directly targeted these outcomes, and through conditionality and prior actions attached to direct budget support. These categories account for 63 percent of expenditure, and if major energy projects are included under infrastructure, total 75 percent of Bank expenditure in Liberia since the end of the war. The projects that directly targeted poor communities account for 21 percent of expenditure and exist across three categories: Smaller roads and public goods infrastructure (including local, off-grid energy supply), direct jobs provision, community engagement and education; small-scale agriculture and land reform; and humanitarian aid. This section will primarily explore the two core activities – institution-building and infrastructure – while later sections will discuss projects directly targeting the poor.

5.2 Institution-building: The World Bank’s effort to support statebuilding and curb corruption

The World Bank’s contributions to the reconstruction of core state functions began in 2004. It involved restoring the bare minimum of financial governance, starting with the monitoring of aid-financed spending through GEMAP and continued through the conditions or “Prior Actions” attached to Direct Budget Support. The latter involves the Bank making loans which are paid directly into the government’s budget

contingent on achieving certain prior action or conditions. These can include passing an anti-corruption law through the legislature, conducting audits, or improving budget planning and implementation⁸³. This section will briefly outline the main governance reform projects and aims of the Bank over this period, before summarising in more detail the exact direct budget support programmes and their aims over the post-conflict period. This work largely focused on extensive institutional and capacity building to move the country away from rampant corruption and mismanagement: including making “substantial achievement in the core area of public management” particularly in relation to the Ministry of Finance, Planning and Health, the Civil Service Agency, and the General Audit Commission (IEG 2013, 31).

The initial post-conflict governance work started with the Governance and Economic Management Assistance Program (GEMAP) which began in September 2005 as a response to an audit conducted by the European Union of the Liberian Central Bank and five state-owned enterprises, which revealed such pervasive corruption in Liberia that the Commission did not immediately release results for fear that they would destabilise the country (Dwan and Bailey 2006). The core component of GEMAP was therefore to deploy international controllers to key state institutions such as the Central Bank, the Ministry of Finance and major revenue-gathering agencies and state-owned enterprises such as the National Port Authority (NPA) and the Forestry Development Authority

⁸³ (Interview 53, World Bank Official, 10 July 2023, Microsoft Teams)

(FDA). These were considered the places where corruption could happen most easily and at the largest scale⁸⁴. International staff were required to co-sign payments and were therefore fully integrated into the day-to-day line function of major state organs (Hope 2010). This approach made it amongst the most interventionist approaches by the international community in a post-conflict country (Andersen 2010).

The six components of GEMAP were: Financial Management and Accountability; Improving Budgeting and Expenditure Management; Improving Procurement Practices and Granting of Concessions; Establishing Effective Processes to Control Corruption; Supporting Key Institutions; and Capacity Building (Hope, 2010). These centred around reducing corruption, and monitoring spending, and included the requirement to re-negotiate every concession deal that had been signed during the years of the transitional government, which all had terms that were detrimental to the government (IMF 2004).

While GEMAP has received criticism for overstepping national sovereignty and not solving issues of corruption in the long run (Andersen 2010; Reno 2008), it was generally considered a success in terms of restoring the international community's confidence in the Liberian state and reducing large-scale corruption and state capture⁸⁵. The international community's reassurance is evident in the increase in

⁸⁴ (Interview 27, Senior IMF Official, Microsoft Teams).

⁸⁵ (Interview 27, Senior IMF Official, Microsoft Teams; Interview 35, Liberian Peacebuilding Office, 16 January 2022, Zoom)

aid: in 2007, net ODA and official aid received exceeded USD 1.1 billion, a three-fold increase as compared to the previous year (OECD 2022). It also enhanced coordination between its international members: the World Bank, the IMF, the United Nations, ECOWAS, African Union, World Bank, United States, Ghana, Nigeria, United Kingdom, Germany, and Sweden.

In addition to GEMAP, the World Bank worked with the government to create the Governance Commission in 2007 and established Liberia's involvement in the Extractive Industries Transparency Initiative (EITI) to improve the government's capacity to better manage its natural resources. This was widely seen to be successful, even if that institution's capacity has waned since it has been turned over to the Liberian authorities⁸⁶. While the programme on judicial reform is considered to have been limited, it did succeed in passing several laws aimed at improving governance and financial management including the Public Procurement and Concessions Act, Freedom of Information Act, and a new Forestry law (IEG 2013).

In addition, and to establish the grounds for debt cancellation, the Bank (with the IMF) assisted the Liberian government to put a fiscal system in place. This included instituting a balanced cash budget, establishing a tax administration, reforming the customs administration, preparing and publishing the budget, reducing ad hoc tax waivers, and reducing

⁸⁶ (Interview 31, Transparency and Anti-Corruption Expert, Zoom)

variations between budgeted and actual budget outcomes to less than 10%⁸⁷. Fifteen state-owned enterprises saw improved financial and operational performance, with governance projects and conditions that required internal and external audits. These measures also funded capacity building, strengthened procurement regulations, and broadly strengthened oversight and transparency measures (World Bank Country Department AFCW 1 2015; Tweah and Laporte 2022).

The Liberian Electricity Corporation received special attention in the reform agenda, as efforts focused on improving efficiency, reducing electricity theft and commercial losses, establishing the Liberia Electricity Regulatory Commission (LERC), and lowering tariffs (World Bank Governance Global Practice 2023; World Bank Press 2022). Despite this, spending capacities remained weak, with large capital spending being subject to significant delays, and challenges with corporate governance (IEG 2013). More recently, the World Bank has called on the Liberian government to improve the efficiency of its expenditure, which is disproportionately spent on state wages (68% higher than a pool of neighbouring countries), and to increase corporate income tax, which is amongst the lowest on the continent (The World Bank 2021b). This indicates that many of the challenges from 2007 remain.

⁸⁷ (World Bank 2008b; World Bank Macroeconomics, Trade and Investment Global Practice 2019; World Bank et al. 2019; Interview 23, World Bank Official, Teams)

A final component of governance reform has been the Bank-led reform of the civil service, which restructured ten ministries, and led to a reduction of 11,000 employees including ghost workers by 2010. Additional rounds of civil service reform were undertaken, particularly after the Ebola pandemic, when health professionals who had been recruited and paid by international actors came under the government's administration as the pandemic receded and aid actors reduced their presence⁸⁸. In addition, a framework for the biometric registry and management information systems was established (IEG 2013). The World Bank civil service reform never attempted to ensure that the civil service was ethnically balanced, rather focusing on ensuring that each position had minimum requirements in terms of education and experience, and that positions were filled accordingly⁸⁹.

5.3 Direct Budget Support programmes in Liberia's post-conflict period

5.3.1 Re-engagement and Reform Support Programmes (I, II, III, and IV)

This budget support programme had four iterations in 2008, 2009, 2010, and 2011. The majority of the first loan in 2008 allowed Liberia to clear its arrears and service future debt payments. Most conditions related to clearing domestic and international arrears and improving fiscal management (e.g. eliminating non-cash payment of taxes, enforcing pre-shipment inspection, improving budget processes such as developing monthly cash-based plans, and submitting to the president a

⁸⁸ (Interview 52, IMF Official, Microsoft Teams)

⁸⁹ (Interview 23, World Bank Official, Teams)

review of the legality of all concessions signed during the National Transition Government of Liberia).

In terms of institution-strengthening, the project initiated civil service reform and saw the anti-corruption policy and strategy adopted by Cabinet. This loan was a single tranche of USD 430 million, most of which was subsequently forgiven under HIPC, and many prior conditions were effectively subsumed under GEMAP (World Bank 2008b). The remaining three Re-engagement and Reform Support Programmes were for smaller amounts: 4 million, 11 million (as a grant), and 5 million respectively. The goals of all 3 were the similar: “to strengthen governance and improve the environment for private sector-led, inclusive growth” (World Bank 2013). For the second Budget Support, conditions focused on improving budget preparation and execution, and reforming the private sector and investment regimes (World Bank Country Department West Africa 1 2010). The third continued to focus on budget preparation and execution and included land administration reform (World Bank Country Department AFCW1 2016). The final iteration involved improving capacity for public procurement, internal audits, revenue administration, and land administration reform (World Bank 2013).

5.3.2 Poverty Reduction Support Development Policy Operation (I, II, III, IV)

These budget support programmes were approved in 2013, 2014, 2017, and 2018 for amounts totalling USD 10 million, USD 10 million, USD 40 million, and USD 20 million respectively (World Bank Macroeconomics, Trade and Investment Global Practice 2019). The four iterations aimed to strengthen governance, with an emphasis on transparency, accountability, and enhanced budget execution and oversight. The majority of the programme's indicators were concentrated in this pillar. The second pillar aimed to remove key constraints to growth, including in the energy, transportation, and (concession) agricultural sectors, and specifically the three indicators focused on improving the efficiency of the Liberian Electricity Corporation (LEC) and reducing the price of electricity; digitalising land deeds, and increasing commercial credit to the agricultural sector. The final pillar aimed to improve human capital development and had two indicators relating to increasing education enrolment rates; and improving the health budget execution rate (World Bank Macroeconomics, Trade and Investment Global Practice 2019). The latter example shows that even when indicators or prior actions were classified under non-governance pillars, the thrust of the work remained governance orientated: improving efficiency of state-owned enterprises or improving the functioning of health-related ministries.

5.3.3 Inclusive Growth Development Policy Operations (IGDPO) (I, II, III)

These three iterations were direct budget support for the government led by President George Weah – the first indigenous president of Liberia. It totalled USD 40 million in 2020, USD 40 million in 2021, and USD 55

million in 2022 (World Bank et al. 2019; World Bank Press 2020, 2022). All three programmes focused on a similar set of conditions: reforming agricultural input markets including by promoting (small-scale) farmers' access to certified seeds and promoting the private sector participation in the agriculture seed supply chain; reducing the price of electricity to low-income households; improving the transparency of tax waivers; increasing oversight of state-owned enterprises; amending the Payments Act and addressing regulatory challenges that have inhibited the introduction of digital credit; as well as working on a social safety net system (World Bank Press 2021, 2022). The conditions attached to these IGDPO iterations have been the most forward-leaning in terms of addressing poverty and serving the excluded.

5.4 Institution-building and the structures of Horizontal Inequality

To what extent did these institution-building activities reinforce or push against existing structures of HI? The Bank's institution-building work has been generally considered to have made important improvements to Liberian governance, both by building institutions of state, and making efforts to curb corruption. It is primarily through these anti-corruption measures that the Bank has acted to constrain the extractive political settlement – a key driver of HI. By distributing state resources to fellow elites and clients, the political settlement in Liberia undermines broad-based development that might lift indigenous groups out of poverty and keeps state resources in the hands of the privileged. I

argue that the Bank constrained the political settlement, but it did not fundamentally change it. Several interviewees argued that the rules of the game did not change between pre- and post-conflict Liberia, and across elected governments. As one interviewee argued:

“Liberia is designed in a way that different elite can capture the resources. And what Liberia needs to do in its system of governance is to change the rules of the game...So, one group of elite replace another group of elite and that's the cycle that [repeats]. And this elite is not – I wouldn't say it's linked to Americo-Liberian or indigenous – it's a mix who have access to the resources... So, if people are protected to steal massive amounts of resources regardless of where they are, then you will get people who get rich on this state.”⁹⁰

These discussions of corruption emerged in almost every interview, across the full range of interviewees (from international actors to Liberian analysts), and in reference to all Liberian administrations from the National Transitional Government of Liberia, both Johnson Sirleaf administrations, and the Weah government. As one Liberian commentator described in 2023:

“I would say corruption is still deeply entrenched and it's worse in the public service...If you're in procurement, there's this thing they call the 10% kickback – where in every contract there is an understanding from the recipient of the contract that you have to hand 10% back over. We know people who participate in this. And also, if you're an elected official who served in the legislature passing laws – all those things bring envelopes around. Visitation at construction site gives you extra. The list is long.”⁹¹

Elsewhere, an IMF official detailed the struggle to close out an IMF programme before the end of the last Johnson Sirleaf term in office,

⁹⁰ (Interview 30, Embassy Official in Liberia, Zoom)

⁹¹ (Interview 49, Liberian civil society member, Microsoft Teams)

which required acknowledgement on her part of the improper use of Central Bank funds:

“She [Johnson Sirleaf] agreed to publish this forensic audit report on the Central Bank injecting essentially capital into the failing bank, which was owned by her son.”⁹²

Other examples emerged when discussing land reform, and the effort to digitalise land records:

“Former deeds were written longhand in a register. And it was possible to pay bribes to get these registers altered to accrue more land or have land that had been assigned to multiple people to be assigned to you.”⁹³

While the political settlement remained centred on serving and enriching itself and those connected to it, the work of the Bank did constrain the rate and ease with which this could take place. The introduction of GEMAP for example, contributed to a 6 percent reduction in the V-DEM measure of regime corruption (Coppedge, Gerring, Knutsen, Lindberg, Teorell, Alizada, et al. 2022) and several interviewees argued that corruption was reduced with the help of World Bank measures, including the EITI⁹⁴. One interviewee outlined for example that the EITI had made Liberians aware of the financial resources coming into the state from concessions, had strengthened the legal system for awarding concessions, making it more difficult for concessions to be awarded illegally, and importantly, was working to uncover the “beneficial” or real owners of concessions, who were often

⁹² (Interview 52, IMF Official, Microsoft Teams)

⁹³ (Interview 37, International Consultant on Liberia for several IOs, Zoom).

⁹⁴ (Coppedge, Gerring, Knutsen, Lindberg, Teorell, Altman, et al. 2022; Pemstein et al. 2022; Interview 31, Transparency and Anti-Corruption Expert, Zoom; Interview 35, Liberian Peacebuilding Office, Zoom).

politicians that were both taking the state decisions to award the concessions, and secretly owning concession companies⁹⁵.

Other examples of this work included attaching a prior condition to direct budget support that required the government (in 2009) to pass a bill eliminating its capacity to provide ad hoc incentives to individual investors which were amenable to corruption (IDA and Poverty Reduction and Economic Management 4 2009). Similarly in 2022, a prior action of another direct budget support programme restricted the sectors that could receive tax and duty-waivers as a means to reduce rent-seeking behaviour and leakages (Ndione 2022). These steps restricted the capacity of government officials to personally benefit from the resources of the state, and to illegally allocate them to fellow elite, forcing the government to collect revenue, and spend it appropriately.

The Liberian government officials who were eager to reduce corruption noted that it was much easier to get these anti-corruption measures passed (through the legislature, for example) because the World Bank was requesting them⁹⁶. The Bank's work on governance reform is therefore important because it can help overcome the incentive challenge of changing an elite bargain that works well for the elite, but not well for the excluded. By reducing the rate and capacity of government officials to divert state resources to fellow elite, and by building institutions to both manage and hold the state accountable,

⁹⁵ (Interview 49, Liberian civil society member, Microsoft Teams)

⁹⁶ (Interview 40, Former Liberian Official, Zoom)

this branch of World Bank work increased both the likelihood and the capacity of the state to engage in the kind of development work that would reduce poverty, narrow the inequality gap, and ultimately change HI. This work therefore targeted an important structure of HI – the political settlement.

From an HI perspective, the challenge with the structure of the political settlement is not about who gets rich as a result, but rather, who remains poor. As the first quote suggests, some indigenous elite did get rich in the process. However, this is not widespread enough for it to structurally change HI. To really shift the nature of inequality requires broad-based development for the indigenous majority, and this necessitates state resources to be spent on development, rather than an accumulation of wealth for a few indigenous elites. While the World Bank work did not match the severity of the corruption challenge, it did reduce the scale and pace with which corruption could take place in Liberia, particularly during GEMAP, and to a lesser extent thereafter.

The World Bank's work on civil service reform on HI requires separate consideration. On the one hand, the meritocratic requirements for state jobs pushed back against structures of HI by reducing the opportunities for nepotism and patrimonialism that would benefit a few connected individuals but hamstringing the state's capacity to effectively carry out development by hiring qualified employees. On the other hand, while establishing educational benchmarks for state roles is important, it may

be equally important to include affirmative action policies within the recruitment of the civil service to ensure that the employment capacity of the state is used to reduce HI. This was not an aspect of the World Bank's work on civil service reform, missing a key opportunity to reduce HI⁹⁷.

This is particularly problematic in the Liberian context for two reasons: firstly, educational opportunities for indigenous Liberians before the war were extremely limited, and often required the Liberian to become a "ward" of an Americo-Liberian family (Mulbah 2019). While the active exclusion of indigenous Liberians from universities ended with the war, the educational inequalities did not disappear, meaning that employment policies that privileged education disproportionately privileged Americo-Liberians⁹⁸. Secondly, throughout the post-conflict period much of state spending from the national budget has gone to paying state wages, leaving limited spending capacity for other development activities by the state (The World Bank 2021b). This means that state employees emerge as the key beneficiaries of state spending, and given that these staff require education levels that disproportionately existed in the Americo-Liberian community (Mulbah 2019), it reinforced existing patterns of HI. Under the Weah government, this shifted somewhat, so that more indigenous people were put into government positions. The World Bank played no role in this shift, however.

⁹⁷ (Interview 23, World Bank Official, Teams)

⁹⁸ (Interview 8, UN Official, Whatsapp).

In short then, the World Bank did much to build the necessary institutions for the state to exist, and to curb corruption – with the latter constraining the functioning of the elite bargain and therefore pushed against a key existing structure of HI. However, without centring HI as a clear strategic priority, some opportunities were missed, and in some cases, the failure to streamline HI concerns into project design meant that projects aimed at improving state capacity, inadvertently allowed already-privileged Liberians greater access to the largest chunk of state resources, reinforcing existing structures of HI.

5.5 The World Bank's Development Projects: Rebuilding Liberia's major roads

With an understanding of what the World Bank did in terms of institution-building, it is necessary to also investigate where the development projects were conducted in Liberia to understand who benefitted, and whether the distribution of benefits had an impact on existing structures and levels of HI. This is particularly important for the second major portion of World Bank spending, road-building, which is necessarily geographically confined. As before however, this section argues the elite were the core beneficiaries, with no widescale benefit accruing to the indigenous majority or to certain indigenous groups. In brief, the areas prioritised by the World Bank have been primarily Montserrado (the county with the capital, Monrovia), Nimba, and Grand Bassa counties (outlined in figure 18 below).

From an HI perspective, these decisions have mixed implications. The wealthier parts of Liberia, including where the Americo-Liberian population lives, is in Monrovia and along the coastal regions, and therefore benefitted from the focus in Montserrado and Grand Bassa. However, many indigenous people also live in these areas, and therefore also benefitted. Those living in the indigenous hinterlands outside of Nimba and in the south-east received significantly less investment in the post-conflict years. The implication for HI is therefore mixed - with some indigenous communities benefitting more than others, and Americo-Liberians also continuing to benefit. Despite this, World Bank investment has simply not been significant enough, or sufficiently community-based for it to have generated inequality between indigenous groups, or for rural communities in Nimba to be significantly better off, though some evidence suggests slightly lower poverty levels in communities close to roads (Iimi and Rao 2018).

This is because the core beneficiaries have been those able to access key economic resources with the roads - land concessions, natural resources, mines, and ports. This large-scale economic activity requires capital and political connections, and therefore this activity has reinforced a key HI structure in Liberia: the dual economy. Without complementary initiatives to enhance small-scale agricultural productivity, provide microfinance, or otherwise provide communities with the tools to grow their income through use of the roads, the major

economic gains are captured by those who already own the capital or have the political connections required to extract the financial advantage of the roads (Orihuela 2012). While road-building was therefore an important investment in Liberia, without complementary programmes, this intervention reinforced existing structures of HI by maintaining an economy from which only the elite could meaningfully benefit. This is not to say that there have not been any feeder roads to rural agricultural areas, but this has been a far smaller part of the portfolio, and generally disconnected from the large-scale road and port projects which have consumed much of the Bank's budget. The road and port investments were specifically targeted to create the means for the former concession-based economy to resume, and therefore the same dual economy that existed before, where the few have large-scale access to economic opportunities and other groups are relegated to subsistence agriculture on land with limited land rights, was revived.

5.5.1 Where did the World Bank invest?

Figure 18 below outlines which areas received the largest investments from the World Bank since 2003, with darker areas reflecting higher levels of investment. Montserrado, Nimba, and Grand Bassa (Buchanan port) have been the largest recipients of post-conflict assistance.

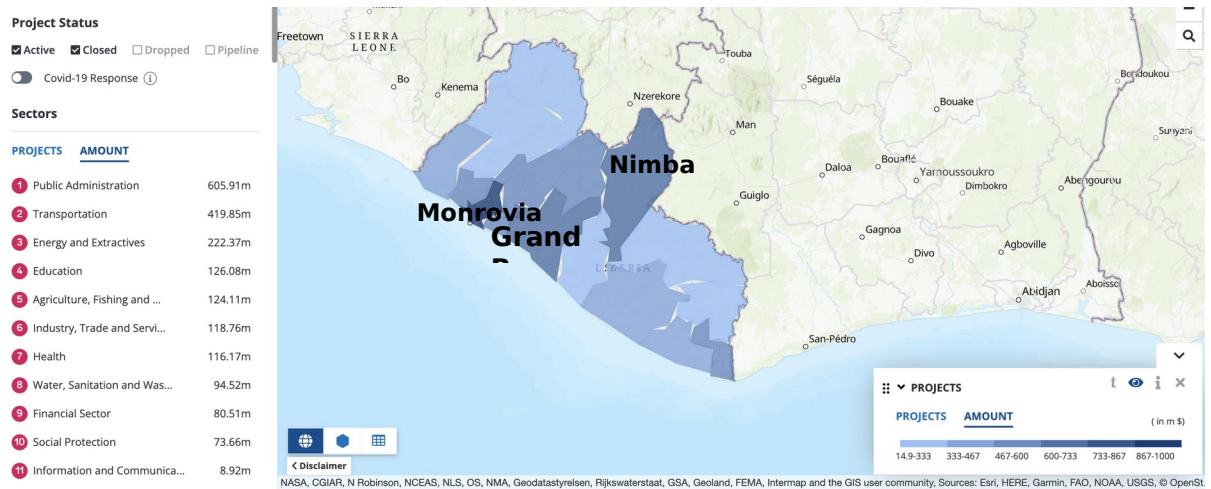


Figure 18 A map of the regional spread of World Bank spending, taken from the World Bank maps database (World Bank, 2022).⁹⁹

The concentration of resources in Monrovia is unsurprising given that Monrovia hosts the central government as well as by far the largest population concentration in Liberia¹⁰⁰. Knowing which indigenous groups live where will help to assess which ethnic groups were most likely able to benefit from World Bank investment:

⁹⁹ <https://maps.worldbank.org/projects?status=active,closed>

¹⁰⁰ (Interview 19, World Bank Official, Teams)

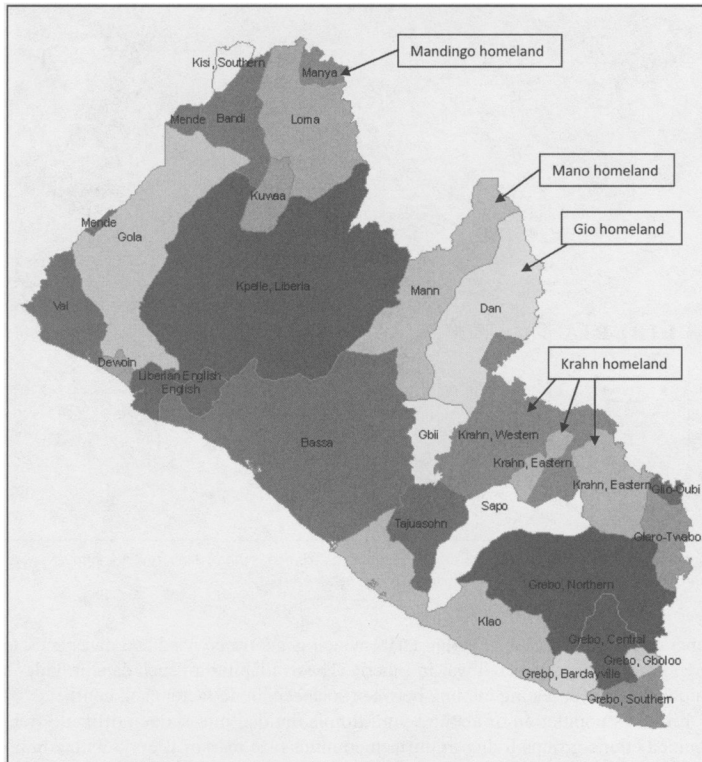


Figure 19 Ethnic-linguistic groups in Liberia. Source: (Hegre et al. 2009, 606).

These two maps suggest that it is the Americo-Liberians (based in the coastal regions and Monrovia), the Mano and Gio of Nimba (together with small Krahn populations), as well as Bassa that benefited most from World Bank investment.

Of the World Bank non-institutional spending (i.e. excluding the state building and anti-corruption efforts already mentioned) about 47% was dedicated to major infrastructure (largely roads, but also ports). This excludes small feeder roads in agricultural and other rural areas. As such, understanding where these roads were built can offer insight into which geographic areas were prioritised for World Bank spending. This

in turn, provides an understanding of which regions, and ethnic groups may have most benefitted from World Bank spending.

Recent major World Bank-financed road improvement projects



Figure 20 Where the World Bank built roads in Liberia Source: (Iimi and Rao 2018, 19)

Figure 20 shows the major roads built by the World Bank in the post-conflict years. The orange, light green, and purple strips of road were built across two projects: the Liberia Road Asset Management Project (Rao 2014), and Liberia Urban and Rural Infrastructure Rehabilitation Project (World Bank Africa Transport Sector 2009) (Iimi and Rao 2018). These roads essentially connected Monrovia to Nimba, and Monrovia to Buchanan. Additionally, a third project was agreed upon between the

World Bank and the Government of Liberia to finance the roads between Ganta (Nimba county), Tapeta (Nimba), and Zwedru (Grand Gedeh County) in 2018 through the Southeastern Corridor Road Asset Management Project – this project is set to be completed in 2027, and certainly targets a long-excluded and poor part of the country, but this has not yet been built¹⁰¹¹⁰². Road construction will therefore continue to be a major focus of World Bank spending in Liberia.

Despite these efforts to build roads in Liberia, in 2018, approximately 58 percent of the rural population (around 2.3 million) did not live within two kilometres of a road in good condition (Iimi & Rao, 2018). Connectivity is particularly low in Lofa County (the fourth most populated county after Montserrado (Monrovia), Nimba, and Bong) and the south-eastern regions (Iimi and Rao 2018; LISGIS 2009).

In places where the roads were built however, there is evidence to suggest correlated reductions in poverty:

“A simple comparison at the regional level indicates that poverty declined in Monrovia and the northern areas for the last 2 years [between 2014 and 2016]. This is broadly consistent with where the major road interventions were carried out, that is, Monrovia-Ganta corridor. Unsurprisingly, there is broad correlation between poverty incidence and rural accessibility: poverty is high where accessibility is limited. Causality remains open to debate, but rural accessibility seems to be necessary to reduce poverty.” (Iimi and Rao 2018, 18).

¹⁰¹ (Interview 19, World Bank Official, Teams; Ramanankirahina et al. 2019)

¹⁰² The African Development Bank is planned to construct the road from Zwedru south to Fish Town – albeit in a cheaper manner (Interview 19, World Bank Official, Teams).

This provides some limited evidence that the roads raised incomes for the communities where roads were built: the Americo-Liberians, Gio, Mano, Bassa, and Krahn. The investment discrepancy has not been significant enough to generate inequality between indigenous groups, or dramatically shift the fortunes of counties receiving investment vs. those that did not – certainly not for most Liberians living there. Figure 15 above ranked average household income in Nimba as still amongst the poorest in the country – along with the hinterland and south-east. Bassa county was relatively richer in 2021, but this aligned with the trends of the central coastal regions, which were historically better off. Overall, however, poverty, hunger, and child mortality has remained oppressively widespread in Liberia, with concessionaires, international companies, and the politically connected elite being most able to extract the economic benefit from these roads. Given that Americo-Liberians remain a key component of the elite, and that the poor remain indigenous Liberians, the additional indigenous elite do not change the broad picture of HI in Liberia.

For roads to have equalising effects, complementary initiatives are required to strengthen the capacity of poorer communities to use the roads in income-generating ways (Orihuela 2012). At the request of the government, the Bank's focus has been primarily on roads, with little supporting work on these complimentary initiatives, such as microfinance, investing in the development of local market towns, or small-scale agricultural support. For many of the most profitable uses of

the road then, it is incumbent on the individual to find the resources to transport their produce to cities and ports – easy for large-scale concession or mine owners with the capital – less so for small-scale subsistence farmers. From an HI-perspective then, the roads reinforced an important structure of HI: the dual economy. The roads connected resource-rich regions, with mines (such as the iron ore mines in Nimba county) and natural resources, to ports in Monrovia and Bassa county, allowing the concession, natural resource-based economy to become once again dominant. As before however, this economy has served only a slim portion of the population, while the majority of Liberians remain cut off from economic opportunity.

According to interviewees, the elite that is able to benefit is no longer solely Americo-Liberian and includes indigenous Liberians that have political connections¹⁰³. An example illustrates this well. A 2017 report found that several logging companies were illegally hiding their owners, so that logging companies were found to be illegally owned by three powerful House of Representatives members – at least two which can be confirmed to be indigenous (Global Witness 2017). Several timber companies were also failing to pay taxes, owing an estimated USD 25 million to the government. Lastly, several companies were found to be logging more than their licenses allowed. The report ultimately found that all large logging contracts in Liberia were illegal in some way. These companies control 10 percent of Liberian land (Global Witness 2017, 1).

¹⁰³ (Interview 25, Liberian Civil Society, Zoom; Interview 26, Liberian Civil Society, Zoom; Interview 30, Embassy Official in Liberia, Zoom)

This example points out a few aspects of Liberian political economy: the (increasingly integrated) elite can benefit disproportionately from infrastructure because they have the roads and ports to export the resources that in some cases they illegally own. Tax avoidance, and the exploitation of community land licenses, means very little of this economic activity benefits indigenous Liberians who live in poverty. The challenge for HI then, is not who is getting rich in Liberia – this group are increasingly integrated – but who remains poor.

6. What shaped the World Bank's portfolio impact on HI? The political settlement mattered.

This section argues that the government influenced World Bank programmes in ways that mattered for HI. Using interviews, project examples, and shifts in World Bank spending over time, this section argues that government officials had preferences for where and what projects should be implemented, and they tried to see those preferences reflected in World Bank projects, with varying degrees of success. The influence governments have over World Bank programmes is neither linear, nor unidirectional: there are examples that will be outlined in which the World Bank pushed back against government preferences, where it saw projects as being too heavily driven by political or clientelist interests and where the cost for development was too high. Likewise, there are examples where the World Bank pushed for a project or approach that was not taken because the government

refused it. It is clear however that the World Bank tried to give the government what it asked for in as many cases as possible, and this means that the government had a determining role in the outcome on HI.

6.1 World Bank programming in Liberia: A government-led agenda?

The Liberian case provides evidence that the government's preferences and ideological approaches to development do shape World Bank projects in ways that matter for HI. This sub-section will provide evidence that the Johnson Sirleaf administration's requests to the World Bank, and other aid organisations, were defined more by preferences for economic growth and concerns about votes, than about pro-poor, grassroots development programming. This is reflected in a World Bank portfolio that is more about roads and infrastructure built to politically relevant states and / or key economic assets, with very few projects that directly target the poorest, for example through small-scale agricultural support. The result of this set of preferences is that the first infrastructure to be restored to Liberia was that which would aid the concession economy and export business.

This reinforced the dual economy, reinforcing pre-war HI, because only those with capital to invest, or political connections, could benefit from the concession economy. This is in line with what the data on post-

conflict HI outlined above which showed that while HI reduced somewhat in the immediate post-conflict years, the core of the country's resources have been concentrated in the hands of those with political connections or capital, but little has substantively changed for most Liberians who continue to experience severe deprivation. The nature of requests under the Weah government shifted somewhat: roads and energy remained key priorities, but agriculture and social safety nets became important, and the World Bank portfolio mirrored this shift.

The government approach of prioritising the restoration of major infrastructure was not in itself something the Bank disagreed with, and evidence will be presented as such. However, there is evidence both in interviews and World Bank documents of staff encouraging the Liberian government to respond to historical inequalities or rural poverty more strongly, though little of this translated into the Bank portfolio under the Johnson Sirleaf regime. This section provides evidence that with the change of government from Johnson Sirleaf's Administration to the Weah Administration, the World Bank portfolio shifted in ways that matter for HI.

This shift under Weah does not suggest an elimination of clientelism or political interest in the government's engagement with the World Bank, however. Indeed, this section argues that clientelism shaped the nature of requests made to the Bank by both governments, with varying rates

of success. The impact of clientelist requests on HI depends on who the clients are, and this section will outline how varying political interests shape the requests, projects, and impact on HI.

6.1.1 The World Bank's shifting portfolio over various administrations

The three graphs below map the focus of the World Bank expenditure in Liberia over the three post-conflict presidential terms: the first two Johnson Sirleaf administrations followed by the Weah administration. They summarise the projects and budget support that were agreed to during each administration's tenure.

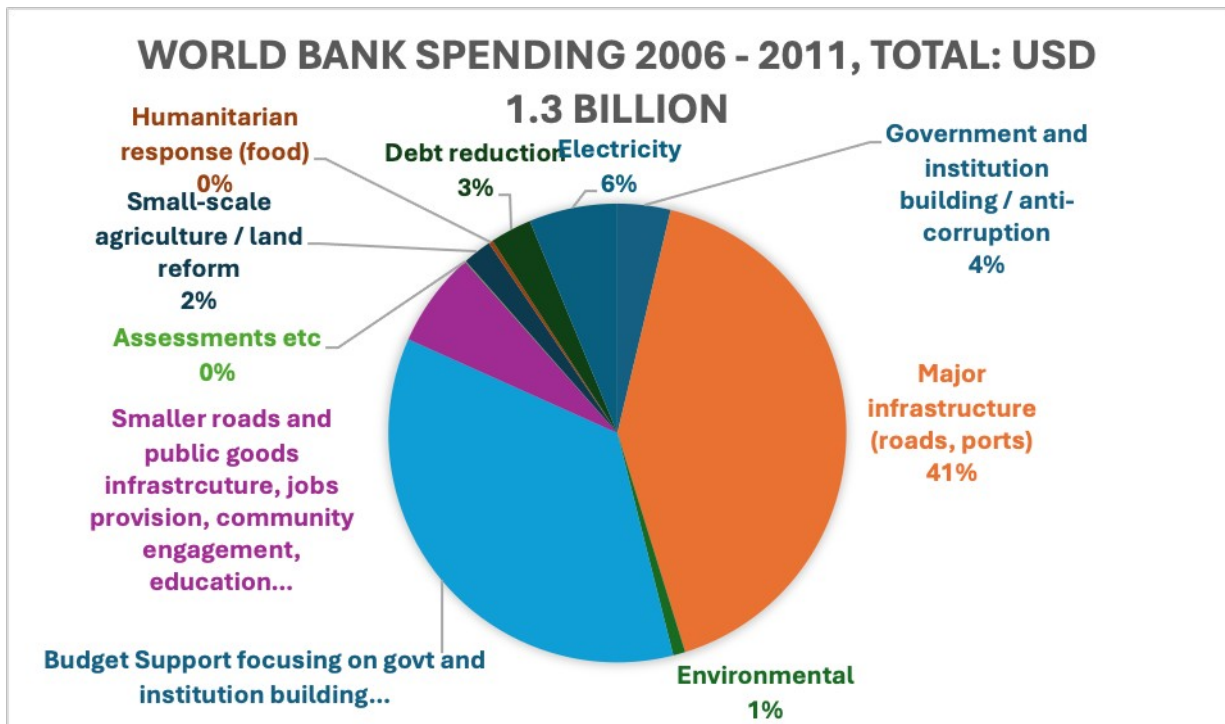


Figure 21 World Bank projects and budget support provided during the first Johnson-Sirleaf Administration. Author's own calculations based on publicly accessible data (World Bank 2025b).

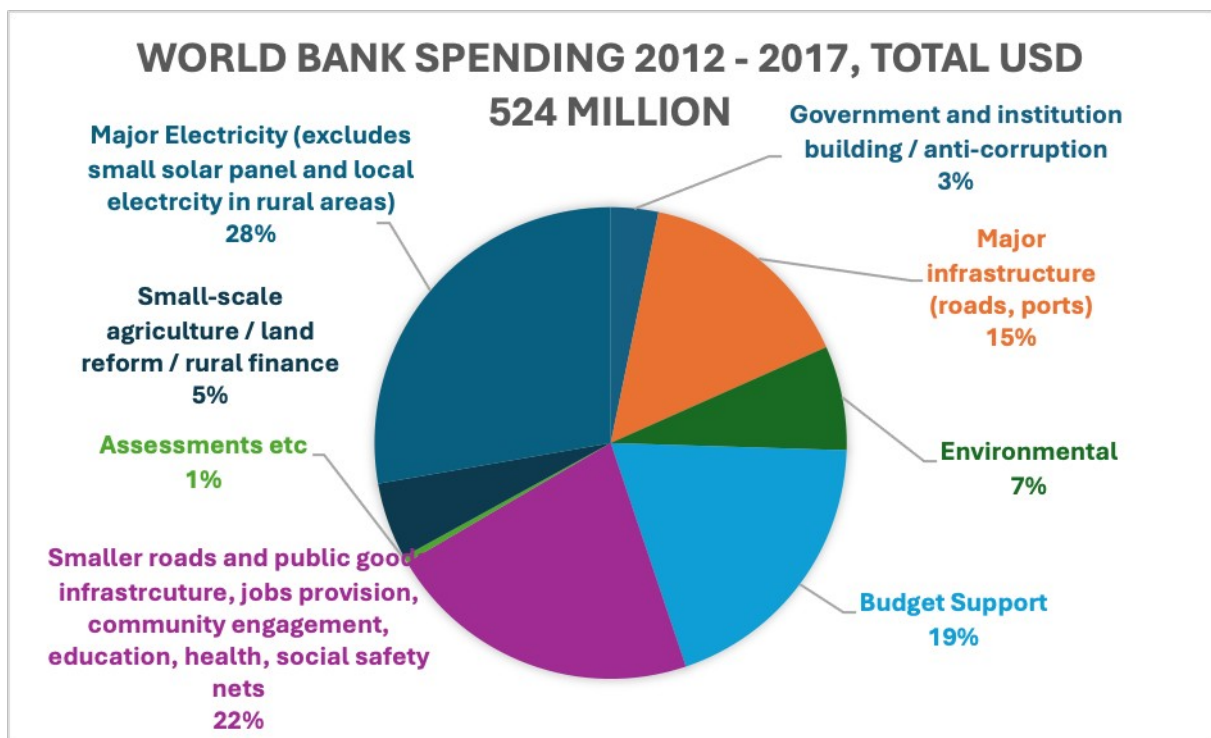


Figure 22 World Bank projects and budget support provided during the second Johnson-Sirleaf Administration. Author's own calculations based on publicly accessible data (World Bank 2025).

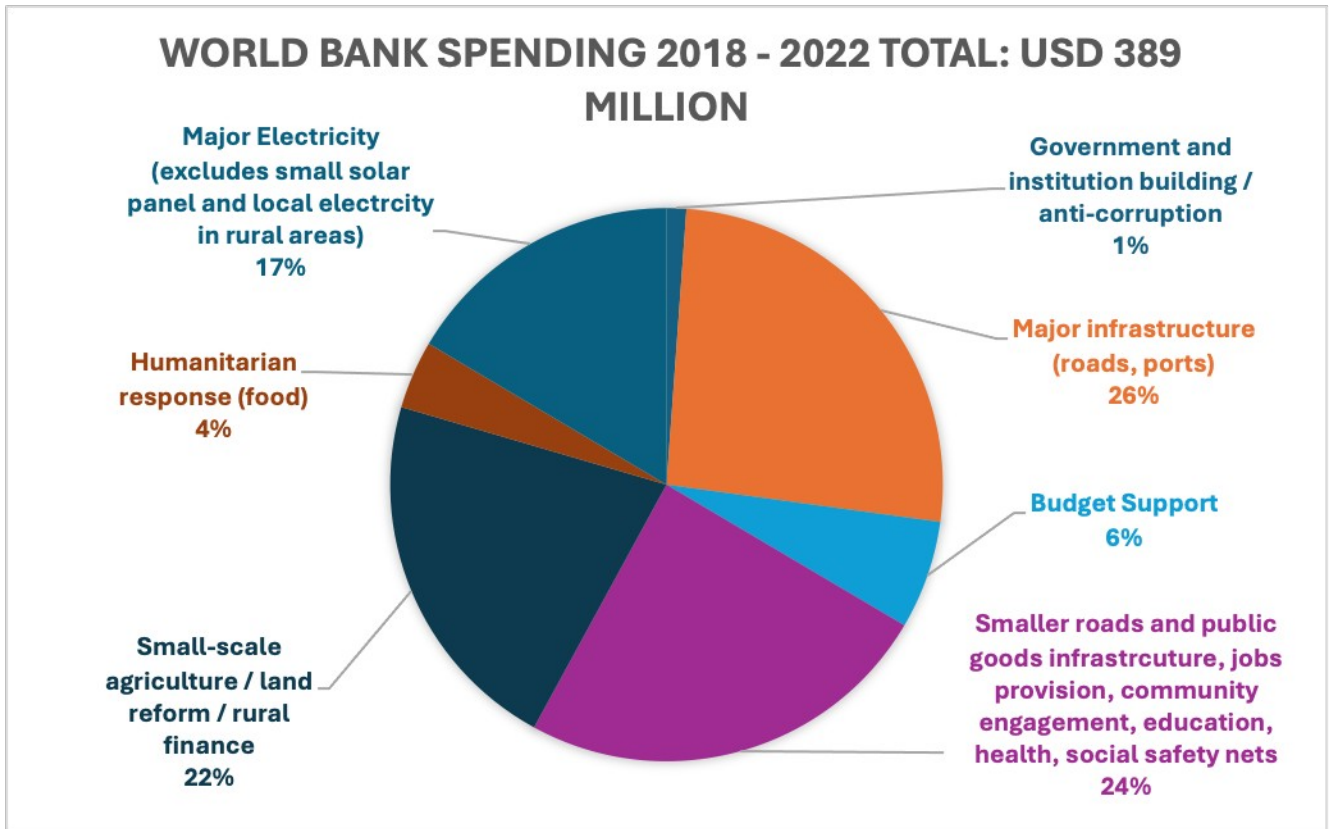


Figure 23 World Bank projects and budget support provided during the Weah Administration. Source: Author’s own calculations based on publicly accessible data (*World Bank 2025b*).

This breakdown in data indicates that large-scale infrastructure (roads, ports, and major electricity investments) has remained a key part of the World Bank portfolio across all three administrations. This is supported by several interviewees:

“The Minister of Finance at the time [under Johnson Sirleaf] really wanted to step up investment...Within that they also had very little willingness to spend whatever left over on social spending. They really favoured water and bridges and roads.”¹⁰⁴

The same interviewee noted, “So as much as the government was interested in doing infrastructure investments, the government was

¹⁰⁴ (Interview 50, IMF Official, Microsoft Teams).

complaining that the donors wanted to do only soft investments like governance and social things.”

Lower-level Liberian government staff under the Johnson Sirleaf administration noted that levels of investment in education, health, and agriculture were below what was required to really shift poverty levels:

“From my point of view, I would think, while it is true [that] you’re addressing the infrastructure issue, the energy issue... the amount put into agriculture, into health, into education: if you check by regional and international standards, these are insignificant to make the kind of change that you would have desired in those [poor] areas.”¹⁰⁵

This focus on large infrastructure and hesitancy to invest in social services is reflected most strongly in the first administration, with only 7% of the largest Bank expenditure in Liberia over the 3 administrations (USD 1.3 billion) going towards a very large category of social expenditure including smaller roads and public goods infrastructure, jobs provision, community engagement, education, and health.

While this category increased in the second administration and infrastructure declined, this is partly because the large-scale infrastructure projects signed in the first administration were still under construction during the second. The large category for social spending increased to 22 percent but given that the country was facing the Ebola pandemic at the time, even this amount is surprising next to the 43 percent allocated to large scale infrastructure and electricity.

¹⁰⁵ (Interview 48, Liberian government and World Bank official, Microsoft Teams)

Infrastructure too, has remained a key priority for the Weah administration.¹⁰⁶ When asked what the true priorities were for the Weah government, one World Bank official responded: “It is obvious - it is energy, roads, and agriculture.”¹⁰⁷

This inclusion of agriculture as a priority under the Weah government is perhaps the most obvious shift from one government to the next: from levels as low as 2% and 5% under the Johnson Sirleaf Administrations, the Bank portfolio increased expenditure on small-scale agriculture, land reform, and rural finance to 22% under Weah.

The World Bank had been pushing for more agricultural investment under the Johnson Sirleaf administration, with little success. For example, in the Joint Advisory note on the Interim Poverty Reduction Strategy Paper (i-PSRP) in 2007, the authors “agree with the government that the private sector should be the main engine of economic growth” – signalling that the World Bank was not opposed to a private sector (in Liberia, this means concession-based) economic recovery (IMF and IDA et al. 2005). However, the review also comments on the government’s lack of focus on small-scale agricultural recovery and advises a stronger focus in the final PSRP:

“The policy reforms [addressing the agricultural sector] must emphasize the need for a more integrated approach that addresses the inequalities facing small-holder farmers, which have contributed to the crisis and conflict. Revitalizing the sector

¹⁰⁶ (Interview 52, IMF Official, Microsoft Teams).

¹⁰⁷ (Interview 54, World Bank Official, Microsoft Teams)

will also require complementary investment in infrastructure and agricultural markets.” (IMF and IDA et al. 2005, 3)

Again, in the Joint Advisory Note on the final Poverty Reduction Strategy Paper, the authors make two important points signalling that the PSRP did not sufficiently embed the strategy in the historical context, and that the economic recovery plan was too heavily centred on restoring traditional sectors. Noting that the PSRP blamed the war for the levels of poverty, the authors note:

“The fact that the war was driven in large part by the inequalities of the past development path highlights the need for the new development path to be inclusive in sharing the benefits of growth, the provision of services, the ownership of assets and the distribution of public resources.” (IMF and IDA Staffs 2008, 3).

This shows that the World Bank was aware of the history of HI in Liberia and was encouraging the government to tackle the issue.

Later, in responding to the government’s Structural Policies for Growth and Investment the staff encourage a focus on small-scale agriculture alongside the concession-based economy:

“The staffs agree that it is appropriate in the short to medium term to focus on supporting the restoration of traditional sources of growth... However, given that most of the poor are in the rural areas and are engaged in agriculture, there is need for greater specificity in the articulation of the plans for agriculture.” (IMF and IDA Staffs 2008, 6).

Again, in a 2012 World Bank Poverty Note on Liberia, the authors push back on the government’s growth-centric approach:

“As cross-country evidence has shown, growth alone is not sufficient for poverty reduction. The Government must also take steps to break the cycle of chronic poverty by ensuring that the

poor are given opportunities and support to emerge from poverty” (World Bank PREM 1 2012, vi).

Out of 6 categories of recommendations relating to poverty included in this document, 3 of the categories discuss agricultural and livestock related interventions, including crop loss support, revolving livestock schemes, and the rehabilitation of rural roads and market infrastructure (World Bank PREM 1 2012, xiii).

Despite this, discussions around small-scale agricultural support, a stronger focus on poverty, and warnings of the dangers related to focusing on restoring the concession-based economy only, led to few changes. One World Bank employee describes this:

“They were not able to feel the way the people were feeling. Because they had lived privileged lives, and they didn’t understand the struggle. For them life was getting better and therefore the focus should be on infrastructure.... But I wouldn’t say it was deliberate. One critical area which people use against the Ellen regime, is that she didn’t pay attention to agriculture in her time. Now, agriculture is one of the areas where there could have been a linkage with the poor communities in the country if they had done a lot in that area. But because they didn’t do a lot in that area, even if the priorities were still in the interest of the country, it didn’t help to address the exclusion bit.”¹⁰⁸

According to this interviewee, and another UN official¹⁰⁹, the predominantly Americo-Liberian Johnson Sirleaf administration had other priorities. When asked what he would have liked to see in order to address social exclusion in Liberia, he noted,

“I would have liked a very conscious effort to bridge the gap in terms of education, health, make agriculture a priority, and also to have looked at the support that could have been given to the

¹⁰⁸ (Interview 23, World Bank Official, Teams).

¹⁰⁹ (Interview 8, UN Official, Whatsapp)

youth in the cities,” but he noted that the government did not lead the way, and that it is “very difficult to bypass the government and lead the agenda in this way”¹¹⁰.

Another interviewee argued that it was rather the ideological positioning of the first Johnson Sirleaf administration that made it less inclined to focus on social spending:

“I think there was a genuine interest among the leaders to boost economic development in parts of the country that had previously marginalised. I do not think they knew how to do that. The party at the time was similar to the Republican Party: a lot of Baptist people, Sirleaf came from the neo-liberal international background, a lot of people were trained in the US and not in Western Europe, so not familiar with large social safety net programmes that benefited people. They were interested in providing jobs... but these jobs weren’t going to be paying minimum wages, and the things that would provide a decent life, that was the challenge that never got broached.”¹¹¹

This hesitancy to invest in the social sector, perhaps because of the ideological standpoint, perhaps because there was a disconnect between government officials and the poor majority emerged clearly when discussing development with a Liberian government official. The interviewee bemoaned young consultants who knew little about the Liberian context but consistently disagreed with him¹¹². While this is likely a fair critique in many cases, his main example was to describe an interaction where Liberian government advisors (in his words, young, well-educated Liberians) and foreign consultants were debating the use of a USD 50 million loan. He described how “every Liberian in the office” wanted the loan to be spent on a new airport terminal, motivating that

¹¹⁰ (Interview 23, World Bank Official, Teams).

¹¹¹ (Interview 10, Whatsapp)

¹¹² (Interview 22, Liberian Government Official, Whatsapp)

this first impression of the country was not only important for investors arriving in the country, but also a matter of national pride. Every foreign advisor had argued that the loan should instead be spent on renovating hospitals. The money was finally spent on the airport¹¹³.

This was not a World Bank loan but nevertheless outlines a key point: government preferences do shape how loans are disbursed, and more importantly, that the Liberian government preferences lay more firmly with attracting investment into the concession economy, and their national pride, and not with improving basic services for the poorest. Additionally, while the World Bank did not fund this project, it did repair the Airport road from the airport to the city. What is particularly striking in this example is that wealthy Liberians obtain much of their health care in the private health sectors in neighbouring or overseas countries and are therefore unlikely to be affected by poor local hospitals but may well be affected by poor airports¹¹⁴. The impact of these preferences and policy decisions on HI is clear: they are much more likely to attract foreign investment in economic sectors that only elite Liberians can benefit from, leaving little and in this case, no investment for the poorest Liberians.

This indicates that addressing HI - either overtly, or indirectly through pro-poor programming - was a part of the World Bank's advice and advocacy in Liberia. For a range of reasons however, it did not gain

¹¹³ (Interview 22, Liberian Government Official, Whatsapp)

¹¹⁴ (Interview 25, Liberian Civil Society, Zoom)

traction with the Johnson Sirleaf governments. The result is clear: no more than 5% of the World Bank budget was spent on small-scale agricultural support or rural development under the Johnson Sirleaf administrations. The broad category of pro-poor programming labelled “Smaller roads and public goods, jobs provision, community engagement, education, health, social safety nets” received only 7% in the first Johnson Sirleaf administration. These preferences would reinforce the dual economy and therefore a key structure of HI.

Under the Weah administration however, small-scale agriculture emerged as a key priority, as has social services, alongside the traditional roads and energy sectors. This is not obvious when looking at the government’s development strategy and PSRP – the Pro-Poor Agenda for Prosperity and Development (PAPD) – which does discuss agriculture, but not before it details plans for youth and sports development (Liberia Ministry of Finance and Development Planning 2020). Yet, it emerged as a clear priority in interviews with various officials.

“There is a stronger focus [on agriculture]... because the government made it clear ...that they want to develop the counties outside Monrovia.... But this government said that, okay, we need to do that [focus on large concessions]. But at the same time, we need to focus on rice and cassava. Those are the two that the poorest in the villages need the most and that they cultivate the most. They eat rice every day and they eat cassava every day. So if you target those, you are targeting the poorest of the country.”¹¹⁵

¹¹⁵ (Interview 54, World Bank Official, Microsoft Teams)

This is reflected in the Country Partnership Framework (CPF) which guides the World Bank's support in a country. It notes not only the shift in portfolio, but acknowledges the disproportionate focus on infrastructure before:

“The CPF lending program embodies the key strategic shifts from the heavily skewed infrastructure portfolio of the previous Country Partnership Strategy (CPS) towards a strong focus on education, agriculture, economic empowerment of women and youth, and maternal and child health.” (IDA et al. 2018, 1).

This is also reflected in the Bank's expenditure over this time: agricultural support increased to 22 percent of World Bank expenditure. As outlined in the summary of direct budget support, measures to strengthen the agricultural sector, and provide seed to farmers was included as part of the conditionality attached to the Direct Budget Support provided to the Weah government (World Bank Press 2022).

Developing a social safety net also emerged as a key condition attached to Direct Budget Support and other World Bank projects, and the spending on “Smaller roads and public goods, jobs provision, community engagement, education, health, social safety nets” occupied an additional 24 percent of Bank expenditure. Contrary to the Johnson Sirleaf administration that focused on providing jobs, the World Bank under the Weah government worked on a major project to develop a social safety net system. Despite significant complications and setbacks, cash grants have been rolled out to a few counties.¹¹⁶

¹¹⁶ (Interview 54, World Bank Official, Microsoft Teams)

Therefore, while it is clear that the World Bank did not think that road-building and supporting the traditional economy was a bad idea, there were clear and consistent warnings that the government should extend its support beyond these sectors to reach the poorer, excluded portions of the population to avoid re-creating the same inequality that had contributed to the outbreak of war. With little support from the government however, these types of programmes never grew to be a major part of the World Bank portfolio in Liberia, until the Weah government arrived and shifted priorities that fell in line with what the World Bank had been asking for under the Johnson Sirleaf administrations.

6.1.3 The Common Feature of the Johnson Sirleaf and Weah Administration: Clientelism

The quantitative chapter found that clientelism shaped the nature of the empirical relationship between World Bank loans and change in HI. This relationship was statistically significant at low to medium levels of clientelism, but the statistical significance fell away at very high levels of clientelism. The research on Liberia shows that clientelism certainly influences what the government asks for from the World Bank. If clientelism is overly motivating the request however, the Bank is more likely to push back. If there is a good economic reason to pursue a project that also has an aspect of clientelism, the Bank is more willing to

support the project. Whether this clientelist influence shapes HI in a particular direction is dependent on who the clients are.

Recall from figures 18 and 20, that the counties that received the largest investment from the World Bank were Montserrado and Nimba and the counties connecting these two counties. This reflects, certainly, where the population concentration is, but it also reflects the counties most essential to win presidential elections. Nimba in particular – among the most populous, and most politically homogenous – is most likely to vote as a block. Former warlords – particularly Prince Johnson while he was alive until 2024 – held significant sway in terms of garnering votes in Nimba for the presidential elections. As one interviewee described:

“The most powerful politician from Nimba has been Prince Johnson. Prince Johnson almost always runs to be president. And he takes a lot of the votes in Nimba. And then people [politicians in the run-off election for president] reach out to Prince Johnson to say, you know, can you campaign with me in a runoff? Most times it's, you know, patronage politics for Prince Johnson.”¹¹⁷

A second interviewee made this point as well, and went on to explain how this shaped public goods provision:

“So access to electricity: I'll give you an example of two cities in rural Liberia that are sitting next to each other. Ganta is in Nimba County and Gbanga is in Bong County, they are 45 minutes drive apart. Yet, one city is connected by 24 hours in electricity [Ganta] and another is not connected by electricity [Gbanga].”¹¹⁸

¹¹⁷ (Interview 36, Liberian Government Official, 26 April 2022, Teams)

¹¹⁸ (Interview 30, Embassy Official in Liberia, Zoom)

He assessed that the reason the city in Nimba had been connected to electricity, and Gbanga had not, was because of the political priority afforded to cities in Nimba.

Beyond these reasons, there are major mines in Nimba (US International Trade Administration 2022). With major political reasons and economic reasons to invest in Nimba, it is unsurprising that this county received the second most investment from the World Bank after Montserrado.

However, in the most recent case of building the connecting road from Nimba to the South-East (a sparsely populated region of Liberia with limited connectivity and high poverty), government preferences that appeared (according to the World Bank official) to be too heavily driven by political interests were pushed back against to serve the poorer, less connected part of the country.

The Bank official outlined that once the road to Nimba had been built, the discussion turned to extending the road to Zwedru in the hinterlands and eventually down to Harper on the coast, servicing the cut-off and very poor south-eastern part of the country. The full plan intends on also building the coastal road to connect Monrovia with Harper.

According to the interviewee, the Weah government was in favour of building the coastal road first, and that perhaps this preference was

driven by electoral considerations, and servicing communities that were not automatic supporters of Weah, but that might vote for him in the next elections if they were to benefit from such a road. Servicing these wealthier coastal areas however would mean not building the road in the poorest and most excluded parts of the country¹¹⁹. The interviewee explained that while for some projects, they followed the government preference because the difference in poverty from one area to another was minimal, in this case the Bank really pushed to service the hinterlands first, because the coastal areas could be navigated by boat, and were therefore more accessible¹²⁰. Ultimately it was agreed to build the road in the hinterlands first. These examples show that, in some cases, the government pushes for Bank projects in areas that service their political or clientelist interests above the development imperative; but that the Bank can be effective at pushing back against these requests where they sense that the development outcome would be too significantly affected by following the government's approach.

Monrovia also emerged in various interviews as a key place to distribute resources. As one interviewee noted:

“[For] the rural projects, they still want to spend 25% and 30% on buying cars for people in Monrovia, and to hire people in Monrovia.”¹²¹

Another interviewee noted a similar trend in his projects:

¹¹⁹ (Interview 19 World Bank Official, 2021)

¹²⁰ (Interview 19, World Bank Official, Teams)

¹²¹ (Interview 53, World Bank Official, Microsoft Teams)

“In education, the Minister of Education wanted us to buy cars so that school inspectors could go and collect data from various schools for monitoring and evaluation.... We said do you really have to go there physically in this in this age of internet connectivity?”¹²²

Having cars and jobs to distribute in Monrovia emerged as a key resource for politicians.

The division of World Bank expenditure I mapped out in figures 21-23 separated out small feeder roads, because these can benefit rural agricultural areas and poor areas in ways that major highways cannot. Still, one interviewee noted that some of the smaller road projects were built in Monrovia and Montserrado, and that they elicited complaints for being built to Ministers’ houses¹²³. A government official under Johnson Sirleaf’s government admitted that when they needed to test concrete roads instead of asphalt, “the two roads we picked to run the tests were the one that ran by my house and the one that ran by my deputy ministers house.”¹²⁴ He noted that he had little to gain because he was renting the house, and therefore would have no long-term benefit. Interestingly, this official said that he left the government after some years, because he felt it would become harder to avoid being entangled in major corruption over time.

¹²² (Interview 14, World Bank Official, 19 August 2021, Teams)

¹²³ (Interview 53, World Bank Official, Microsoft Teams)

¹²⁴ (Interview 36, Liberian Government Official, Teams)

A final example emerges from the IFC: the branch of the World Bank that focuses on building the private sector in developing countries. The interviewee noted:

“A few years ago, we received a lot of pressure from the government to invest in the rubber sector. We said it makes sense, because it’s the largest employer. I can’t get into the details, but the counter party had a number of issues, so we had to go back to the government and say that we can’t provide funding in this structure, we can look at it again in the future in a different structure... And we received a lot of negative press because of that, but we tried our best, and it’s still a sector we’re looking at.”¹²⁵

Electoral concerns, political allies, and even personal interests all filter into the nature of requests that the government makes to the World Bank. Small projects like building minor roads may be easier to direct according to these interests than major road projects. However, even with major projects, as is clear with the road to Nimba, if political interests and good economic reason can co-exist in the project, the World Bank are willing to agree. Perhaps this balance is best captured in this quote:

“Look, if a president will tell me, I would like to you to also include that region there or that area: look, if it's something that I can do without compromising any governance issues on my side – yeah – you know, you are there to try and help...But if it comes to a point where I cannot do it, I will just not compromise...”¹²⁶

This quote indicates a few factors that may influence whether special requests are catered for in Bank programming: the country managers and country directors’ willingness to provide what they can when the government requests it, the relationship between the World Bank staff

¹²⁵ (Interview 17, World Bank Official, Teams)

¹²⁶ (Interview 28, World Bank Official, Teams)

and the local government (or level of trust), the nature of the project, and how much the request seems to be breaking the rules. Overall, World Bank projects can be influenced by clientelist or political interests, as long as there are other good reasons to conduct the project in the requested way, or if the project does not seem to be too heavily driven by goals other than those related to development.

7. Other factors that may shape the World Bank's impact on Horizontal Inequality

Two additional points emerge from the Liberia case as factors that shape the relationship between the World Bank and HI. The first is that historical inequalities in the distribution of public goods and services shape who benefits most from World Bank projects and investments. The second point is that Liberia's infrastructure, government, and economy had been almost completely gutted by the war. This meant that, particularly in the early years, options may have been heavily constrained by the need to return the most basic functionality to infrastructure and the state. For example, for a government with no tax revenue and therefore close to no national budget, it may have been important to restore the concession economy in the short-term to provide a fiscus for the state. This may have fallen within the government's economic and ideological preferences, as the previous section argued, but the nature of the context likely also played a role.

In Liberia, the historic distribution of public goods, while certainly uneven before the war, was almost completely destroyed during the war. The country's 170-megawatt power generation capacity and national grid were destroyed, so that in Monrovia in 2003, just 0.1 percent of households had access to electricity. According to the 2008 National Census, access to piped water fell from 15 percent of the population in 1986 to less than 3 percent in 2008 (Foster and Pushak 2010). The national road network was left in severe disrepair, 75 percent of educational infrastructure was destroyed, and the health sector had collapsed (Paczynska 2016).

The main remaining post-war inequality related to the “stock” of education or human capital, which was certainly unevenly distributed, because Americo-Liberians had significantly greater access to state-sponsored educational opportunities both at home and abroad (Mulbah 2019). This meant that when the World Bank conducted civil service reform, removing several thousand ghost workers from the state payroll, and, crucially for this point, setting educational requirements for each government position, it benefitted the more highly qualified Americo-Liberians, even if the rationale for the programme was related to improving state functioning and reducing, nepotism and corruption. During this work, the World Bank did not try to ensure an ethnic balance in the civil service.¹²⁷

¹²⁷ (Interview 23, World Bank Official, Teams)

Roads were largely destroyed, but also more easily re-built where they had once existed, making it easier to distribute humanitarian aid and cash grants to areas with roads, rather than those without, particularly during the rainy season when the eastern part of the country – long neglected by Monrovia’s elite – is cut off completely. Interviewees discussed the importance in the early post-conflict years (until 2013) of simply injecting money into cash-strapped households and especially ensuring that the youth had employment opportunities¹²⁸. Many of these projects were conducted in cities, where youth were paid to sweep the streets for example, indicating the relative ease with which simple cash transfer projects could be conducted in cities / areas with road access. These examples are therefore consistent with the first factor – that historic distributions of public goods can shape where and who can benefit from subsequent World Bank projects.

There is however evidence of the World Bank going to great lengths to overcome access challenges, including in one case hiring a helicopter and flying to remote parts of Liberia with large bags of cash for distribution¹²⁹. This example shows that the World Bank can overcome access limitations (in cases where it is willing to hire a helicopter, for example), suggesting that existing distributions of public goods can be overcome. However, it is also clear that helicopter-use is not possible in most cases. Long-term, more complex development projects like small-scale agricultural development, or educational investment, generally

¹²⁸ (Interview 23, World Bank Official, Teams)

¹²⁹ (Interview 19, World Bank Official, Teams)

require frequent access not just for the roll-out and monitoring and evaluation of the project. As such, access limitations may be overcome for short-term, simple projects like cash transfers, but large-scale projects are likely to be influenced by where there is access. This was part of why the World Bank focused heavily on road-building in Liberia and also makes the choice of where roads were built, ever more important for HI trends¹³⁰.

As already outlined, the Liberian state and economy had been gutted by the war. For example, the state's capacity to collect tax and other domestic revenue was so severely limited, that in the 2005/2006 fiscal year, the entire state budget amounted to only USD 84.6 million (Andrews et al. 2006). The majority of this and subsequent budgets went into paying state wages or fixed costs of governance, so that very little was left for development orientated investments¹³¹. This continues to be a challenge despite improvements in the size of the national budget, which in fiscal year 2020 / 2021 amounted to just over USD 535 million (IMF Communications Department and Vilkas 2019; Ministry of Finance and Development Planning 2020). Matched with the extreme poverty and destruction of the war, it is perhaps possible that Bank and government officials felt the need to generate the kinds of economic activities that could easily rebound, and that could generate taxable income for the government. As one interviewee outlined:

¹³⁰ (Interview 19, World Bank Official, Teams; Interview 22, Liberian Government Official, Whatsapp)

¹³¹ (Interview 50, IMF Official, Microsoft Teams)

“Typically, the problems come where the Fund is advising a country on how it can raise revenue. If we're going to reach the SDGs, for example, you know, domestic revenue mobilization is a key part of any process. Getting your domestic revenue mobilisation going is not the only part of the solution, but an important one.”¹³²

This challenge of where and how to generate domestic revenues is likely why the World Bank and IMF staff wrote in 2008:

“The staffs agree that it is appropriate in the short to medium term to focus on supporting the restoration of traditional sources of growth, such as agriculture, forestry and mining, while also establishing an environment that in the longer run will support economic diversification.” (IMF and IDA Staffs 2008, 6).

It is clear from the previous section that the Bank wished to see more investment in economic diversification, and greater support for the small-scale agricultural and social sectors. Nevertheless, the initial conditions may have provided motivation for an approach that ignored HI concerns and the re-establishment of the dual economy, in favour of achieving the basics of an economy and a state. Liberia’s revenue collection remains low however, implying that this trade-off has not generated the state revenue gains that could have been converted into social investments later.

8. The IMF in Liberia

The IMF in Liberia engaged most extensively in the kind of policy work that would establish the pre-requisites for addressing HI if the state chose to use its improved capacity for this purpose. Indeed, the degree of destruction that characterised the Liberian state and its institutions

¹³² (Interview 28, World Bank Official, Teams)

at the end of the war shows the importance of this category of policy work to address HI, because it is clear that without the assistance of the IMF (and the World Bank and the broader international community) there simply would not have been a state capable of any policy action, let alone the kind that addresses HI.

The Central Bank's reserves, for example, had been almost completely depleted, and the level of graft undertaken by the transitional government was so extreme (including removing light fittings from the parliament building for example) that the state lacked even the most basic capacities to engage in policy and implementation. The IMF did much to build the basic institutions and functionalities that would allow the state to begin engaging in policy actions, that if it chose to use for addressing HI, would be better placed to do so. These pre-requisites included two categories of activities. The first were conditions and activities that helped to restore the fiscal capacities of the state - including establishing the mechanisms for budget processing and execution, oversight of government spending, HIPC debt forgiveness, and then limiting of the accrual of debt, tax policy, and anti-corruption and GEMAP. The second category of IMF activities revolved around the state's monetary policy capacities: the Central Bank and enhancing its capacity to manage its reserves and financial market monitoring. Assisting the commercial banking sector was connected to this work.

There are three components of this work that warrant additional attention because they fall into the category of indirect policies that affect HI. These are the IMF's progressive tax policy work, its (exclusive) work with the commercial banking sector (with no work on financial inclusion or microfinance provision despite opportunities for this kind of work), and its (poorly enforced) social spending floors. The tax work conducted by the Fund advanced important HI-reducing policy, but the work on the commercial banking system and failure to enforce social spending floors rather benefited the more developed tier of the economy.

As important and foundational as the pre-requisite work was, the more developed tier of the economy disproportionately benefited from its outcomes, and the missed opportunities in the indirect policy space meant that the less developed tier received very little support from the Fund, despite this assistance being well within its mandate. While a functional exchange rate and low inflation certainly help the poor, who do not have to pay higher prices for imported medicines and other consumables, the groups that are able to generate profitable returns and engage in complex financial activities are those employed in the more developed tier, which in Liberia is the natural resource sector. These groups are largely the same former elite (the Americo-Liberians), foreign companies, some indigenous political elite, and a Lebanese minority. For the majority of indigenous Liberians, constrained in the less developed tier of the economy, with limited capital, the capacity to

generate higher income was limited, and incomparable with the more developed tier. The work of the Fund therefore, while necessary, missed some crucial opportunities to address HI, and in doing so, supported the re-establishment of the dual economy.

This section will start by providing an overview of IMF loans and conditionality in Liberia before outlining the two overarching categories of work in the pre-requisite category, and the three smaller categories of work that are part of the pool of indirect policies that affect HI.

8.1 Overview of IMF loans and conditionality in Liberia during the post-conflict years

Prior to 2006 when the Johnson Sirleaf administration came to power, the relations between the Fund and Liberia were poor, with limited meaningful activity taking place. Efforts were made to work with the National Transitional Government (NTG) between 2004 and 2006 with a Staff Monitored Programme, but with the various factions in the NTG, it was difficult to get agreement on a particular course of action, so that the Programme failed almost as soon as it had begun¹³³. In 2006, with GEMAP and the Johnson Sirleaf administration in place, engagement stepped up significantly. GEMAP was designed (in part) to lay the foundations of macroeconomic stability, budget processing and execution, and to reign in governance issues so that Liberia could have its debt forgiven through HIPC, and so that the IMF (and many other

¹³³ (Interview 39, 2022; Takagi et al, 2018)

lenders to whom Liberia was indebted) could begin lending again. In 2008, Liberia reached the HIPC “decision point” when it could receive interim debt relief and from then on, the IMF made 4 loans over three time periods:

- In March 2008 two loans were made totalling SDR¹³⁴ 1132,03 million (about USD 1852 million) – the vast majority of these loans were used to pay back Liberia’s long-term outstanding debt. This allowed the IMF to begin disbursing again, as Liberia’s arrears were cleared. The mechanism for this was unorthodox: the US made a large loan to Liberia which it used to pay off its arrears to the IMF. The IMF immediately granted a loan to Liberia which it used to pay back the US, and this large loan (now no longer in arrears) was forgiven by the HIPC process in 2010. This process effectively allowed the IMF (and several other lenders) to begin loaning to Liberia again sooner and more intensely than under the usual timeline, which would have allowed only interim debt relief in 2008, and full debt relief in 2010 with the HIPC completion point. (About SDR 31.76 million of these loans were monies that Liberia could access directly for expenditure.)
- In 2012, the IMF signed a new Extended Credit Facility (ECF) that expired 5 years later and totalled SDR 51.68 million (approximately USD 78.9 million).

¹³⁴ SDR, or Special Drawing Rights, is an international reserve asset created by the IMF, and it is defined by a basket of currencies: the US Dollar, Euro, Chinese Yuan, Japanese Yen, and the British pound.

- In 2019, the IMF signed a four-year ECF allocating SDR 155 million (approximately USD 213.4 million) to Liberia.
- In 2020, USD 50 million was lent to Liberia under the Rapid Credit Facility to respond to COVID-19.

Aside from loans, the IMF's influence in a country is enacted partly through the conditions it imposes through the loans. It is therefore useful to know the kinds of conditions the IMF imposed on Liberia over time. Conditionality is a key way for the IMF to shape domestic policy, and policy is able to shape HI. Research has shown that fiscal policy reforms that restrain government expenditure, external sector reforms stipulating trade and exchange rate liberalization, financial sector reforms entailing inflation control measures, and reforms that restrict external debt have been found to increase vertical inequality (Forster et al, 2019). The logic in those arguments would be the same for HI: reducing HI requires expenditure on economic and social infrastructure in poorer areas, and therefore conditions that dramatically curtail government spending in these sectors are likely to increase HI. Figure 23 below outlines exactly which conditions were implemented in Liberia and when.

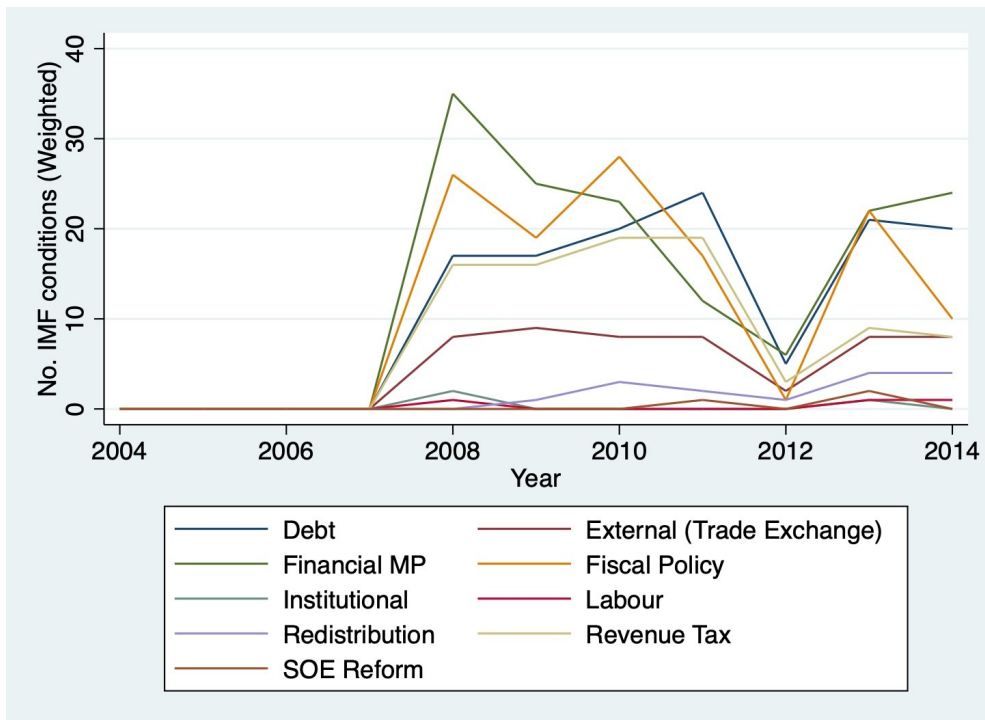


Figure 23 IMF Conditionality in Liberia (Kentikelenis, Stubbs, and King, 2016).

In line with the loans provided, IMF conditions appeared in 2008 with the first loan, and dip in 2012 during the transition from one loan to another. The five largest categories are, in descending order: Financial sector, monetary policy, and Central Bank issues (Financial MP); Fiscal Policy; External debt issues (Debt); Revenue and tax issues (Revenue Tax); and conditions relating to the external sector, i.e., trade and exchange sectors (External (trade exchange)) (Kentikelenis, Stubbs, and King, 2016). There were no conditions in the categories relating to environmental, [restrictive] social policy, and SOE privatisation, and very few conditions relating to redistributive policies, institutional reforms, and labour issues.

The takeaway from these conditions is that the IMF was watching Liberia's debt levels closely, reigning in expenditure and attempting to expand tax revenues. It was also working on establishing key state institutions like the Central Bank. There is no evidence that it was thinking about HI in its conditions: redistribution conditions were almost non-existent.

8.1.1 Restoring the fiscal capacities of the state

The IMF worked hard across the whole post-conflict period to restore the state's capacity to establish and dispense a budget. This required several components: the first, was to get Liberia's (immense) debt forgiven through HIPC so that it could begin to receive loans; establish a functional budget and ensure its appropriate implementation; manage its debt; and importantly (for all of these factors to be achieved) slow the corruption that was crippling the state's capacity to do anything. Tax is a major part of any fiscal capacity but as this falls under an indirect policy to address HI, it will be discussed later.

8.1.2 The IMF acronyms: HIPC and GEMAP

In June 2007, Liberia's debt totalled USD 4.9 billion - about 700% of national GDP - by far the highest debt-to-GDP ratio in the developing world (Liberian Ministry of Foreign Affairs, 2008). This meant that Liberia essentially could not get any additional loans - most international lenders cannot lend if a country is in arrears (including the World Bank

and the IMF) and no private lender would be willing to lend to a country in such an economic situation. Liberia therefore had to function on a cash-based balanced budget. A key priority was to get Liberia through the debt relief process, in order to normalise its financial and lending positions.¹³⁵ Ellen Johnson Sirleaf, who came from working at the World Bank, understood the importance of this and prioritised it accordingly. This meant that the IMF had a very strong negotiating position, with strong institutional support, most especially up until the point that HIPC was completed, after which that leverage declined.¹³⁶

In order to get through HIPC, Liberia needed to demonstrate that it would be able to pay back its future loans:

“The three-year program that we had was to demonstrate both fiscal and monetary discipline: having budgets that reflected the amount of resources available rather than having budgets that had twice as much spending as could possibly be financed through revenue and borrowing.”¹³⁷

This required in equal measure, establishing normal and functioning budgetary processes and state institutions and addressing severe governance concerns.¹³⁸ Perhaps the most crippling of these, was issues with governance and corruption. As the IMF documented in a press release in early 2006 (B, 1):

“Revenue collection stagnated, largely reflecting a breakdown of controls in customs, while expenditure decisions were taken in a non-transparent manner.... Excessive allotments granted for some ministries and the indiscriminate issuance of vouchers by line ministries led to a cash deficit. Economic governance remained a

¹³⁵ (Interview 27, IMF Official, 2021)

¹³⁶ (Interview 39, IMF Official, 2022)

¹³⁷ Interview 39, IMF Official, 2022

¹³⁸ IMF, 2004; Interview 27, IMF Official, 2021

concern in 2005 as new concessions and contracts, mainly associated with natural resources, were granted in a non-transparent manner in recent years and on terms unfavourable to the government.”

This was the context in which GEMAP was agreed to in September 2005 (IMF, 2006). During and after GEMAP, steps were taken to create a functional budgetary process and state institutions that could prove that Liberia would be able to pay back future loans. The Liberian system, like the American system, divided the Finance Ministry (which allocated the budget) from the budget implementation process, and this created serious issues as the budget was spent differently to what had been agreed to in the budget formulation process.¹³⁹ To counter this, steps were taken to empower the Bureau of the Budget to only allocate to line ministries according to monthly cash plans, to reduce the frequent authorisations of emergency expenditure that had generated significant deficits in 2004 and 2005, and ultimately to merge the two financial entities.¹⁴⁰

Control over expenditure in Liberia during the immediate post-conflict years was especially limited: individuals without any authority to spend state money were running up debt in the name of the state, leading to a rapid build-up of domestic arrears. To solve this, the IMF tax expert brought a 100-year-old seal back from India, and announced that any state requisition order without the seal would not be paid.¹⁴¹ Whether

¹³⁹ (Interview 27, IMF Official, 2021).

¹⁴⁰ (IMF, 2006; Interview 40, Liberian government official, 2023)

¹⁴¹ (Interview 27, IMF Official, 2021).

that illegitimate expenditure was pure corruption and nepotism, or whether the disorganisation of the first post-conflict government was a contributing factor is unclear, but it is clear that the IMF helped put in place the basic mechanisms to protect state funds from theft and misappropriation and create some degree of accountability and control. This was a key pre-requisite step: a necessary but not sufficient step to reducing HI in Liberia.

The reward for the improved management of the state's fiscal and monetary balances, was debt forgiveness. In 2008, Liberia was designated as a "decision point" country under HIPC, which meant it could begin receiving interim relief on its debt service falling due. In Liberia's case however, it received additional assistance in the form of a bridge loan from the US. This loan was essentially used by Liberia to pay off its debt to the IMF, which allowed the IMF to disperse loans once again. The IMF then immediately made two large loans to Liberia which it used mainly to pay back the US, and a small portion could be kept by the state for expenditure. These large loans were forgiven by the IMF once Liberia had reached the HIPC completion point in 2010. According to one official, this was the first time this process had been used, and that it was used in subsequent countries to speed up the disbursement of new loans to heavily indebted countries, including Côte d'Ivoire.¹⁴² Such unorthodox steps would have been unlikely without the support of the US who had a vested interest in supporting Liberia's reconstruction.

¹⁴² (Interview 39, IMF Official, 2022)

Once Liberia could receive loans, managing its debt became central to the IMF's work in Liberia. This work involved cutting ghost state workers; strengthening financial oversight and reporting of state-owned enterprises (SOEs); enhancing budget programming, control and monitoring; improving capital spending execution; and containing non-priority current expenditures (IMF, 2012 B). Various ceilings were also placed on new external and domestic debt, for both the government and the Central Bank. While generally performance on the quantitative measures was good, ensuring inflation under ten percent and control over debt, the achievement of structural reforms was more mixed (Takagi, 2018). This implies that while the debt ceilings were met, reform of SOEs and tax institutions and the curtailing of "non-priority" spending (e.g., new government buildings etc) were less well implemented.

Weah's election in 2017 combined with the winding down of foreign aid for Ebola-related containment, and the departure of UNMIL meant that the government (and the country) had significantly less resources coming in. The (state) nurses that had been paid by international organisations to manage Ebola were suddenly on the government's payroll, so that at its peak in 2018/19, the civil service wage bill accounted for 10 percent of GDP (or 70 percent of domestic revenue), heavily restricting the government's fiscal space for development spending. Other policy slippages (both fiscal and monetary) led to

inflation of around 30 percent, lower growth, and rising debt (IMF African Dept, 2019; IMF, 2019).

Reducing state spending (and accommodative monetary policy) was necessary to get inflation and debt under control again. Consequently, cutting the wage bill by 10 percent, except for the lowest earning state employees, was required by the IMF (Saito, 2020). Several restrictions were placed on the Central Bank (to be discussed below), and once again a cash management and control system was introduced at the Ministry of Finance and Development and the Central Bank to get control over state expenditure (IMF 2019).

A final aspect of the IMF's work in Liberia was its Capacity Development (CD) work which it conducted both in the fiscal and monetary policy spheres. Between 2012 and 2022 Liberia was the largest recipient of CD in sub-Saharan Africa, and the third largest recipient in the world (Legg & Sembene, 2022). Even after the expiry of the ECF in 2017, CD activities remained intense until the approval of a new ECF in 2019: the exceptions being when activities were affected by Ebola and Covid-19 (Legg & Sembene, 2022). The focus of this CD was fiscal: initially Public Financial Management (PFM), before shifting towards revenue mobilisation from 2014 onwards. In addition, significant CD was provided in the field of Monetary and capital markets, particularly on monetary operations, bank supervision and regulations, reserve management, and payment systems development. Lastly, CD was

committed to improve Liberia's statistical capacities (Legg & Sembene, 2022). There were several factors that inhibited the efficiency of this training of government officials, including high turnover of staff and limited absorption capacity. Nevertheless, the state needed and certainly benefitted from the additional capacity building.

These actions to build the fiscal policy capacities of the state were certainly necessary - they institutionalised the basic mechanisms for the state to establish a budget and to ensure that it was executed according to those decisions. It worked to prevent (often significant) leakages on state monies, prevent the accrual of major debts (for current expenditure rather than investments). Overall, these fiscal policy actions were important to building a state more capable and able to engage in HI-reducing policies if it chose to, and certainly this work prevented major macroeconomic crises that would have undermined development and made life more expensive for everyone, including the poorest. This work was important, but it did not directly address HI.

This was largely because the Liberian state has and continues to struggle to engage in complex investment spending that might expand public services or reduce HI in some consistent way. Because of this, the work of the IMF has effectively prevented macroeconomic crises and very high debt, but the state budget is largely allocated to current expenditure with limited HI-targeting policies.

For example, in the 2013/2014 fiscal year budget, the total expenditure of the state was USD 584,164,017, and of this expenditure, 33.9 percent was spent on national investment projects (12.9 percent), grants (20.8 percent), and social benefits (1.8 percent) – the remainder was spent on the state itself (compensation of employees, use of goods and services etc) (Ministry of Finance and Development Planning 2014). In the 2020/21 budget, total expenditure had decreased slightly to USD 535 452 173, and of this, only 8.9 percent was spent on public services: grants (8.5 percent) and social benefits (0.38 percent) (Ministry of Finance and Development Planning 2020). No investment was budgeted for this year. As a comparative point, 54.5 percent of this budget went on compensating employees of the state alone (before any goods and services had been paid for). Despite the efforts to protect state monies from corruption and diversion, the corresponding increase in social services and public goods that might have shifted HI, did not substantially materialise.

8.1.3. Restoring the Monetary Capacities of the State

The second major pillar of the IMF's work in the sphere of pre-requisites that improves the state's capacity to address HI if it chooses to, was related to Monetary policy. This largely involved work with the Central Bank (and the commercial banking sector, to be discussed in the next section). While the specific challenges related to the Central Bank changed over time, they were nevertheless severe enough that the work done by the IMF was necessary to prevent macroeconomic crises and ensure basic institutional capacity for monetary policy to be

possible. This is of course, useful for Liberia because it is hard to imagine any economic activity (for the benefit of any income group) taking place without a functional Central Bank. High inflation, low access to foreign exchange, balance of payments crises and other macroeconomic crises would restrict both economic activity and the ability of the government to invest in the necessary sectors to reduce HI (if it chose to). It was therefore useful (and difficult to achieve) this state functionality.

At the same time, not enough was done to support the less developed tier of the economy, and therefore the primary beneficiaries of this work were those in the more developed tier. The work allowed the dual economy to re-establish itself – most especially the exports of natural resources (rubber, timber), but no effort was made to extend financial inclusion or to provide microfinance to the majority who were both credit-deprived, and unable to access the commercial banking sector. It also missed opportunities to push the government to support the lower tier of the economy: for example (and to be discussed later), the IMF frequently waived conditionality around social spending floors, it put a stop to the Central Bank's efforts to provide microfinance (what the IMF called quasi-fiscal activities), and with the World Bank also doing little to support the lower tier of the economy, this monetary policy work was much more useful (and profitable) for the developed tier of the economy, where Americo-Liberians and the new political elite could benefit.

In 2005, the reserves of the Central Bank were almost completely depleted: this was likely connected both to governance and corruption concerns, as well as institutional problems.¹⁴³ In 2004, the Fund discovered that large amounts of foreign reserves had been removed from the Central Bank of Liberia (CBL)'s balance sheet, and that the Central Bank governor at the time had taken steps to underrepresent monetary growth, collectively weakening the currency in circulation (IMF, 2004). Additionally, accounting practices did not meet international standards, reducing the transparency of the CBL.

Other more functional aspects reduced the CBL's reserves: loans for example were made to the government in local currency, but the government would frequently request the exchange of those loans into dollars to purchase fuel or other international imports, reducing foreign reserves.¹⁴⁴ Beyond this, ensuring that businesses could access foreign exchange meant developing money markets, transparent foreign exchange auctions, and the legal and operational environment for the provision of securities (or debt) (IMF, 2004). The Central Bank also required an efficient national payments system that stretched beyond Monrovia to be able to pay state employees and collect taxes outside of the capital (IMF, 2004). The initial steps then relating to the Central Bank were to get it to a functional and transparent state institution, capable of carrying out its mandate.

¹⁴³ (Interview 27, IMF Official, 2021)

¹⁴⁴ (Interview 39, IMF Official, 2022)

With GEMAP in place and under Johnson Sirleaf, governance issues improved. The IMF had complete oversight over the CBL's budget and were able to drag its feet on expenditures that they considered unnecessary, including for example, the construction of a new Central Bank building¹⁴⁵. (Once the government had passed through HIPC however, this influence waned, and the new Central Bank building was ultimately built.)

Other disagreements in this period centred around the Central Bank's preference for a more interventionist approach, and its willingness to take on risk and engage in non-conventional, "quasi-fiscal" activities to achieve development outcomes. For example, the CBL resented the requirement to keep three months of foreign reserves for import coverage, and wanted to loan out more money, because of Liberia's credit-starved system (Takagi et al, 2018). In a similar way, the Governor of the Central Bank wanted to engage in lending schemes to the private sector, including rural credit guarantee schemes and microfinance, which the IMF believed should be activities restricted to the commercial banking sector or the state-run development bank.¹⁴⁶ There was also some concern that these activities were in part driven by the governor's presidential ambitions, and the desire to see these prospects strengthened through the (personal) provision of public goods.

¹⁴⁵ (Interview 39, IMF Official, 2022)

¹⁴⁶ (Takagi et al, 2018; Interview 39, IMF Official, 2022)

Regardless of the motivation, it is clear that microfinance provision would have been a powerful tool to grow the less developed tier of the economy (Khandker 2005), but instead the Governor's efforts were halted by the IMF, and no subsequent support to the sector was provided. The Fund did not do any work to improve the credit and risk market for the poorest Liberians by supporting microfinance and credit guarantee systems elsewhere. For example, in 2010, the CBL established a Microfinance Unit, which prepared a draft of the National Microfinance Policy for Liberia. The IMF did not do any specific activities to support this microfinance work, or to strengthen the capacity of commercial banks to provide the service despite its strong engagement with the sector. This reinforced the dual economy by supporting the more developed tier to reassert itself, while blocking efforts to grow the less developed tier.

As already mentioned however, at several points in Liberia's post-conflict period the Central Bank engaged in accommodative monetary policy which led to rapid inflation of around 30 percent, and growth declined and eventually the country fell into recession in 2019 and 2020 (IMF African Dept, 2019). The withdrawal of UNMIL also contributed to reduced USD in circulation and general economic decline. The IMF responded by enhancing the Central Bank's ability to monitor flows of foreign exchange, improving the structure and management of foreign exchange auctions to ensure market-based allocation of scarce foreign currencies, and enhancing Central Bank governance (IMF 2019). The IMF

also significantly tightened the monetary policy stance and reduced the operational deficit: all steps which succeeded in reducing inflation to around 5 percent. This period shows the important work the IMF did to restore macroeconomic stability and prevent crippling inflation that would punish both tiers of the dual economy.

The monetary policy pillar of the IMF's work is more mixed in impact than the fiscal pillar: it is clear that its work avoided the kind of macroeconomic crises that would damage both tiers of the economy, but some of its efforts to contain the "quasi-fiscal" efforts of the Governor combined with strong work in the commercial banking sector (which largely services the previous elite) did much more for the more developed tier of the economy, and halted assistance to the less developed tier of the economy. This therefore provided the conditions for the dual economy to reassert itself, which at best maintained, and at worst, worsened HI in Liberia.

8.2 Indirect policies that relate to HI: tax policy, commercial banking sector, and social spending floors

There are three sub-categories of the monetary and fiscal policy work that the IMF did in Liberia that deserve specific attention because they are amongst the policies that indirectly affect HI, for better or worse. The three categories that deserve elaboration are: the IMF's work on progressive tax policy, its work with the commercial banking sector, and its conditionality on social spending floors. The tax policy work was

perhaps the most important for targeting HI. However, the failure to expand financial inclusion and to enforce social spending targets limited the positive effect that increased state revenue could have had on the less developed tier of the economy, and therefore the potential to reduce HI.

8.2.1 IMF Tax Policy: progressive taxation

A consistent problem in Liberia has been the extremely limited capacity of the state to collect revenues through taxation (or other means), leaving the state budget small. The entire state budget in the 2005/2006 fiscal year was only USD 84.6 million that was almost completely spent on the running costs of the state (Andrews et al. 2006). In the 2020 / 2021 fiscal year the budget had increased to just over USD 535 million, and while this is a substantial improvement, Liberia remains one of the poorest states in Africa (IMF Communications Department and Vilkas 2019; Ministry of Finance and Development Planning 2020). For long term debt sustainability, as well as to achieve an expansion in public services increasing the fiscal revenues of the state was and remains a key priority for Liberia. The IMF helped in several ways.

In the very initial post-conflict years, the tax system needed to be both simplified and the scope for ad hoc tax reductions removed. For example, the practice of exempting companies from pre-shipment inspection or voluntary inspection made it easier to avoid tax and customs with the support of the right authorities - this was stopped as

part of IMF engagement (IMF, 2004). In 2006, steps to strengthen the Large Taxpayers Unit (LTU) were taken, including increasing the number of large taxpayers from 60 to 110; making Tax Identification Numbers (TINs) mandatory on all import permits; and increasing the Unit's mandate (IMF, 2004; IMF B, 2006). Steps to dramatically simplify timber tax and strengthen the tax and customs administration through technical assistance were also implemented (IMF, 2005).

The impacts of this work are measurable: in 2010, the IMF reported that increased vigilance in tax collection, the expansion of the tax base and the reduction of discretionary exemptions in tax increased tax revenue by 13.5 percent, to USD 235 million in fiscal year 2008/09 (International Monetary Fund 2010). In 2011, the IMF worked with the government to pass a new tax law (the Liberia Revenue Code – LRC), codifying tax policy changes underlying the fiscal year 2012 budget. This included tax on telecommunication services, various excise taxes, property taxes, and special investment tax incentives. It also centralised all revenue legislation, providing standard terms for mining taxation which removed the need for complex negotiations with each mining company which both removed the bargaining power asymmetry, increased administrative simplicity, and reduced the administrative discretion in the granting of tax incentives (which could become opportunities for rent-seeking) (IMF 2011). In 2017 however, this LRC was still under debate with ongoing edits and adjustments being argued for in the legislature, indicating the challenge of making these kinds of legal

adjustments to the tax code (IMF 2020). Still, in the same year tax revenue of the government had continued to increase to USD 401 million (IMF 2020, 9).

The IMF also set benchmarks requiring Liberia to implement the Automated System for Customs Data (ASYCUDA) system at several tax collection points, including the Monrovia oil terminal and international airport. Within the state management of tax revenues, the integrated tax administration system (ITAS) was launched, and fiscal accounts began to be prepared according to the international public sector accounting standards (IPSAS) (IMF 2013). This work also continued over several years (IMF 2016, 2013, 2017). All these systems and mechanisms improved tax collection, reduced opportunities for corruption, and ultimately increased tax revenue.

From 2012 onwards the IMF helped the government of Liberia to begin tax audits and ensure that tax receipts from the petroleum sector generated appropriate revenue for the government (IMF 2013). The IMF worked with the government over several years to introduce a VAT, which was ultimately introduced in 2019 (IMF 2017). There was therefore a broad effort across various sectors and institutions and over several years to improve the state's ability to generate revenue through tax.

These steps are likely to reduce HI for two reasons: first, it reduces the ability for leakages on tax receipts as a result of corruption or poor capacity. Automating tax collection, removing administrative discretion over tax levels, and aligning various tax systems into one homogenised system all helped to improve tax collection. From an HI perspective increased tax was essential to bolster the revenues of the state for making the necessary investments in public service expansion and other indirect and direct policies targeting HI.

Secondly, taxing the “large taxpayers”, including the concession sector and major exporters, is a progressive form of taxation, that works to decrease inequality generally. It is a way of taxing the developed tier of the economy, and (if used correctly) investing in the lower tier of the economy. Even if the taxes are not invested in the lower tier of the economy, progressive taxation will increase the government’s income and reduce the chances of debt crises and severe austerity measures in the future. The IMF’s work on progressive taxation therefore provided the pre-requisites for tackling HI and even achieved the implementation of some indirect policies that target HI through progressive taxation. These were important steps taken to tackle the dual economy and HI.

8.2.2 The IMF’s work with the commercial banking sector

The next two indirect policy actions are less promising for HI and represent rather lost opportunities in terms of HI reduction. The first is its work with the commercial banking sector which formed an important

component of its work on monetary policy because a functional central bank requires a functional commercial banking sector for monetary policy changes to reach the market. The IMF invested much time and energy on the commercial banking sector: firstly, by ensuring the CBL could adequately supervise commercial banks, including through the passing of Commercial Banking laws and the provision of technical assistance. It also worked with the CBL to restructure banks with high levels of unpaid debt and removed ceilings on interest rates thereby allowing commercial banks to decide the level of interest themselves (IMF, 2004; IMF 2010; IMF 2011). It also worked to establish a collateral register to make it easier for banks to see the creditworthiness of the loan applicant. It monitored which new banks were given licenses to operate in Liberia and encouraged caution and strict monitoring to ensure that the banking sector would not become overloaded with bad debt and collapse. Preventing financial collapse is undoubtedly useful as pre-requisite for creating a stable economic condition, from which HI can be tackled.

Despite this, those who used and accessed the commercial banking system were almost exclusively Americo-Liberian or Lebanese. One interview with a small business owner in Robertsport described the difficulty of getting credit. He emphasised that the same people always got the loans:

“If you have a certain surname you’ll get loans more easily or get certain jobs. Now they’re saying that we’ve passed that line [where ethnicity matters]...but it always plays a role everywhere:

what's your last name and who do you know - often they won't really look at your business plan, but maybe you know someone in the bank, and maybe you can provide a kickback to someone in the bank. So maybe they'll get a loan of 200 000, and they'll ask for a kickback of 20 000."¹⁴⁷

Having the "right name" meant having western names like Robinson etc, which indicated an Americo-Liberian background. Lebanese businessmen, he said, were also unfairly privileged. This was reiterated in an interview with an IMF official who commented on how much bad debt banks tended to have - she said commercial banks tended to be poor at selecting projects that would be able to pay back the loan. The only redeeming factor was that because the bank owners and people taking out the loans knew one another, the debtors tended not to leave the country without paying back the loans.¹⁴⁸ This confirms what the first interviewee claimed: that loans were allocated according to connection over merit. With a commercial banking system essentially serving the Americo-Liberian elite, strengthening its functioning supported the continuation of HI by ensuring the sustained provision of credit. Successful projects would grow the more developed tier of the economy, and those hoping to access credit to start or grow projects in the less developed tier would be left without.

The quote also points to something emergent in many interviews - where interviewees will argue that ethnicity no longer has relevance, and in the same breath, explain how it continues to matter. This suggests that the elite bargain has agreed to effectively remove

¹⁴⁷ (Interview 11, Liberian small businessman, 2021).

¹⁴⁸ (Interview 52, IMF Official, Microsoft Teams)

ethnicity from the public discourse, without removing the inequality itself.¹⁴⁹ The IMF's work to support the commercial banking sector without any work in the microfinance sector, strengthened the more developed tier of the economy, reinforcing the dual economy, and ultimately maintaining HI.

8.2.3 Social spending floors

Frequently in my writing about the IMF, I mention that the work was crucial for laying the foundation of a functional state that would be more able to address HI if it chose to. One of the key (indirect) policy actions to address HI is social spending or public service expansion. The IMF in fact has several conditions in its policy toolbox that it can use to encourage the state to engage in these indirect policies: including redistribution conditionality and social spending floors (i.e. minimum social spending levels) in the performance criteria (the strictest type of conditionality). As is seen in Figure 23, the IMF imposed close to no redistribution conditionality in Liberia.

At several points this conditionality included floors on social spending: with the Extended Credit Facility signed in 2012, quantitative conditions on a floor of total revenue collection and social spending, although for the latter the floor was quite low (USD 30 million per quarter) and the categorisation was somewhat flexible, with energy being included alongside the more traditional education, health, and social

¹⁴⁹ (Interviews 25 & 26, Liberian civil society members, 2021)

development services (Liberian Ministry of Finance et al, 2012). Despite the generous definition of social spending, the spending floors were frequently not met (on 40 percent of the test dates between 2013 and 2015), and the IMF waived these conditions, allowing the disbursement of the next portion of the loan (Takagi, 2018). This failure to implement conditions well within the mandate of the IMF, is a key missed opportunity for HI in Liberia. It was particularly missed because these conditions could have connected the strong work the IMF did to build the capacity of the state into a state making an impact on HI by expanding social services.

8.4 The IMF's impact on HI in Liberia

The combination of the ease with which social spending conditionality was waived, the actions taken against microfinance provision, and the lack of other targeted measures to address HI indicate that HI was not a priority for the IMF. This is despite the Fund being aware of the history of inequality in Liberia, as well as its re-emergence in the post-conflict context. In an (unpublished) Article IV consultation document (essentially a surveillance tool from the Fund during which the IMF discusses major economic developments and policies in greater depth), the Fund discussed its concern that the government was rebuilding the same dual economy that had existed prior to the war. According to one official, the document,

“Pointed to the fact that the administration was largely descended from the pre-civil war elites. And that all of the economic activity that was coming back was basically the extractive industries that

dated back pre-Civil War. And this, you know was not necessarily a long-term stable situation.”¹⁵⁰
When asked if there was much more that the Fund could do, aside from flagging this as a concern in a paper that the government declined to make public over concerns that it would destabilise the country in the run-up to the 2012 elections, the interviewee responded:

“The nuts and bolts of the program that we had didn't really touch on this sort of broader development strategy issue. In fact, that's really the World Bank's job, not the Fund's.”¹⁵¹

The narrow focus of the Fund is well known, and there may be very many good reasons for an organisation to have a narrow, specialised mandate, in terms of being very good at providing one, core public good in the form of macroeconomic stability. Assessing the post-conflict economic context of Liberia, particularly immediately after the war, it is also clear that the work and technical assistance required to provide even the most basic functionality in important state institutions like the Central Bank and Ministry of Finance required significant input from the IMF. Lastly, the speed and creativity used by the IMF to get Liberia through HIPC, and able to borrow more money as soon as possible, and the relatively generous loans that followed HIPC, suggest an IMF that was relatively forward-leaning in terms of getting Liberia back to being a borrowing country. These were all very useful steps to ensure the prerequisites were in place to address HI if the state chose to address it.

¹⁵⁰ (Interview 39, IMF Official, 2022)

¹⁵¹ (Interview 39, 2022)

Still, the IMF missed several opportunities in terms of ensuring the implementation of indirect policies target HI. This, combined with an initial post-conflict state that was not heavily interested in addressing HI, and without much budget to invest in public service expansion, meant that the IMF largely helped to re-establish the dual economy, with a disproportionate degree of support going to the more developed tier in the economy. Without social spending floors being met (which were already set at low levels) and limited microfinance provision, the less developed tier of the economy simply did not have the tools to grow. The more developed tier however could benefit from a functioning foreign exchange market, low inflation, macroeconomic stability, and a state that had significant oversight and therefore less able to be predatory. While certainly consumers benefit from a stable economy too, and that includes the poor, it has not brought them into a more equal position. Rather, they are simply not worse off.

8.5 Did Governing Authorities influence the IMF?

While the IMF did reference the Poverty Reduction Strategy Papers (PRSPs) as the guiding principle of its intervention, there is fairly limited evidence that the government could have altered the decisions taken by the Fund in any fundamental way. The Fund's impact on HI, and the re-establishment of the dual economy, is much less attributable to state preferences. It is true that debt forgiveness was a major priority of the Johnson Sirleaf administration prior to 2010, but it is difficult to imagine any government having a different focus, with a debt load seven times

the size of the country's entire economy. In all of the cases where there were disputes between the IMF and the Central Bank governor, the Fund's advice generally trumped the Governor's preference, until the Fund's supervisory control over the CBL was weakened after HIPC and the conclusion of GEMAP.

This does not however suggest that the government was able to change the IMF's view, but rather that the IMF's control weakened. Evidence from interviews is clear that the Fund's programme was derived from what it thought the economy needed, and any outcome that it failed to achieve was not the result of the government convincing or influencing the Fund, but rather other factors outside of the Fund's control.¹⁵² The interviewee that described the Fund as a disciplinarian or surgeon reiterates this interpretation: there is less negotiation available with the Fund.¹⁵³

Part of this may be because there are fewer options for solving macroeconomic instability: reducing deficits requires more tax receipts or less government spending, whereas development as carried out by the Bank can include projects in education, health, microfinance, infrastructure, cash transfers, electricity, and much more, as well as selecting the region for implementation. But the negotiating position of the government is different with the Fund and the Bank: the Bank is frequently engaged with countries, and internal incentives exist to

¹⁵² (Interviews 15, 27, 29, 39, 2021 and 2022)

¹⁵³ (Interview 36, 2022)

increase loans, whereas the Fund is only loaning in the last instance – when there are no other options and in order to prevent a crisis.¹⁵⁴ There is therefore not the same incentive to agree to loans, and when they are agreed to, the economic situation is generally requiring significant adjustment.

Liberia does not even provide evidence that the IMF creates different types of programmes for different governments: for example, the Johnson Sirleaf government was substantially different from the Weah government, both in terms of skillset, international experience, and elite composition, and yet all programmes focused on similar short-term goals of lowering inflation, increasing government revenues, and capacity development. It may be that these have remained the key economic issues to address, but it does not provide evidence that the government has much influence over Fund programmes. The only exception is in the capacity development programmes, which were reportedly relatively well adjusted to the needs of the those receiving the training. Overall, then, there is little evidence to suggest that the Fund’s activities which improved the state’s capacity to reduce HI, but failed to enforce conditions that would see that capacity used for HI-reducing activities, was because of the state’s influence over the Fund.

9 Conclusion: How much of the evolution in HI in Liberia can we attribute to the World Bank and the IMF?

¹⁵⁴ (Interview 19, 2021)

Liberia experienced a drop in HI immediately after the war, as the new transitional government brought indigenous people into all the key institutions of power, but according to nightlights data, HI has largely plateaued since then, and DHS data suggests spatial HI may have deteriorated. Those with access to the state continue to benefit more from state projects, state jobs, and access to concession spoils, while those who are disconnected from the state (the indigenous majority) are deprived of even their most basic needs, such as food, water, and health care for their children.

Without the World Bank and the IMF, those levels of deprivation would almost certainly be higher – the loans, projects, capacity development, and economic policy work of both the World Bank and the IMF enhanced access to public goods directly (as in the case of the World Bank building roads into indigenous areas), and indirectly through efforts to improve government functioning, reduce corruption, ensure macroeconomic stability, and increase funds for government public service provision. With a state that spends disproportionately large amounts of its budget simply on paying state salaries, without the additional funds of the World Bank and IMF, significantly less would have been built and, without the controls put in place on corruption, even more money would have been siphoned away from the state, and into private bank accounts.

However, despite this important and difficult work, neither the World Bank or the IMF centred HI as a core concern in either of their programmes, and the result is that key opportunities for reducing HI were missed. For the World Bank, roads were built to provinces and cities with natural resources and ports, allowing the export industry to benefit, and likely the incumbent government too, which had an interest in appeasing the politically important Nimba state. Civil service reform failed to include affirmative action policies, to ensure an even access to state jobs, with the result that educated Liberians (disproportionately Americo-Liberian) could gain precious state positions under Johnson Sirleaf's leadership. Directly pro-poor programmes, such as small-scale agricultural development or microfinance, were not included in the World Bank until Weah came to power in 2018. The result is that, while some indigenous Liberians benefited from new roads (in the regions stretching up to Nimba), and the accompanying benefits (access to city markets, access to clinics, access to aid organisations) the groups who could reap the greatest financial rewards from the roads were those with the capital to invest in natural resources or export industries that could transport produce to the ports: the elite and the more developed tier of the dual economy.

The IMF likewise made many improvements to governance in Liberia: committing extensive resources to improving state capacity, monitoring the Central Bank and the Commercial banking sector, and reducing opportunities for corruption and theft. This brought macroeconomic

stability to Liberia, and additional resources into the state, particularly after HIPC, but it also failed to centre HI. Key opportunities – such as enforcing social spending floors, adding substantial redistribution conditions to loan agreements, and supporting the microfinance sector – were missed. The result is that much of the economic activity that returned to Liberia – by the IMF’s own account – was the natural resource sector that provided little broad-based economic benefit. The improvement in governance and additional resources for the state budget were necessary but not sufficient to reduce HI, and the IMF did not enforce the one condition that might have helped to convert a more capable state, into a state actively reducing HI: social spending floors. The result is that the macroeconomic stability, access to US dollars, and stable commercial banking sector benefited those with collateral and the right surnames: the former elite in the more developed tier of the economy. Those without such privilege continue to live in poverty.

Restructuring the economy is a mammoth task for any government or international community to successfully achieve, and often short-term concerns, like preventing impending macroeconomic collapse reasonably get precedence. Without a targeted focus on HI from the initial post-conflict administrations however, or the IFIs, Liberia’s patterns of inequality have only changed to the extent that some indigenous Liberians have managed to access political power, and with it the resources and patronage of the state. The overarching picture of HI remains the same however: Americo-Liberians have largely managed

to maintain their position in the elite, and the poor and excluded are indigenous Liberians. Equality is not on the horizon.

Chapter 5

Côte d'Ivoire

1 Introduction

The story of the evolution of horizontal inequality in post-conflict Côte d'Ivoire is a more optimistic one: reducing poverty across the country has helped to lower levels of inequality between the north and south –

most especially in the centre-north and north-west where absolute reductions in poverty have been significant. Two trends however have made the reductions in Horizontal Inequality (HI) less impressive than the poverty figures alone might suggest: the first is sluggish reductions in poverty in rural areas and the second is impressive reductions in poverty in urban areas - most especially in the southeast cities of Abidjan and Yamoussoukro. While poverty has reduced significantly in some northern urban cities (Bouaké most notably), rural areas in the northeast remain, in the words of one observer, dirt poor. The western parts of the country also lag in development, leaving the urban areas in the south-east (Abidjan, Yamoussoukro) as the most economically advanced. This reflects the same pattern of inequality that predated the war, even if overall, most Ivorians are better off.

The reasons behind these trends are three-fold: the first is political. With the post-conflict government under Alassane Ouattara having many northerners (including Ouattara himself), there has been a political contingent focused on development in the north. This is shown most especially in the most recent PSGouv social spending figures as well as where World Bank spending has been directed. Equally indicative of the political trends: the west which is a Gbagbo-stronghold, has been largely excluded from the post-2011 government. It is also a region in Côte d'Ivoire that has seen less attention, most especially in the first six post-conflict years, where poverty increased in the west, contrary to trends in other parts of the country.

The second reason for these trends, is that growth is more easily generated in the cities, most especially Abidjan. The initial post-conflict years saw impressive growth, and this has been partly driven by the technocrats of the Ivorian civil service (often former-World Bank and IMF officials) who have pursued growth where returns are most easily made: in the urban areas, and especially Abidjan. Indeed, the lion's share of state investment has been in Abidjan. This spectrum of focus (or lack of focus) certainly explains part of why HI has evolved as it has.

The third explanatory factor relates to the second: the differing returns of the dual economy. With so many poor concentrated in rural areas, there has been a focus on rural development, including through small-scale agricultural investment and land reform work. The World Bank, for example, has worked extensively in both these sectors, targeting some of the poorest workers in Côte d'Ivoire – farmers – but it has enjoyed limited returns on these investments. It has also worked on important pro-poor projects, including expanding cash transfers to poor households throughout the country, education projects initially in the north, and then expanded throughout the country, small rural roads, rural electrification etc. In its own assessments, however, these projects have not managed to meaningfully shift HI trends. This is despite impressive national growth – averaging 7.6 percent post-conflict years before COVID. What this implies is that growth has been disproportionately generated in urban areas. Rural areas on the other

hand, have struggled to convert investments into equivalent reductions in poverty, and gains that are made, are easily reversed in the context of shocks like COVID or lower commodity prices.

What then are the impacts of improvements in urban areas and limited long-term shifts in rural areas, alongside an increasingly north-south-integrated political elite? An increasingly integrated economic elite, a slowly expanding middle class, as an expanded political settlement and growing urban economy pulls some people from the less developed and into the more developed tier of the economy. Despite this progress, the less developed tier remains characterised by the same groups: northern and to a lesser extent western farmers of cash crops that are vulnerable to commodity price shocks and subsistence farmers who remain susceptible to health and climate shocks.

Côte d'Ivoire is a good example of the challenge of addressing horizontal inequality in a dual economy. Côte d'Ivoire's more developed tier of the economy includes sectors such as telecommunications, agribusiness, construction, retail, services etc: the sectors that use modern technology, capital, and skilled labour, and generate sizable returns on investment and therefore growth. In the less developed tier of Côte d'Ivoire's economy is the informal economy, smallholder agriculture including cocoa, coffee, cashew, and cotton agriculture, and subsistence agriculture. While this tier makes up the majority of the economy, it is subject to fluctuating global demand and prices, has

limited capital investment and largely employs low-skilled labour. Returns on investment and labour in this sector are low for most people that the sector employs, and certainly lower than returns on investment and labour in the developed tier of the economy. These divergent returns and incomes in the two sectors mean that the groups each sector employs become more unequal, even if there is *some* growth and poverty reduction being experienced in the lower tier of the economy.

Despite this challenge, Côte d'Ivoire has made progress on increasing the ability for groups to transition from one economic tier to the other, by expanding health, education, roads, and other public services across the country. This means that, with time, the middle class is slowly expanding and together with the economic elite, increasingly reflects different ethnicities and regions. The political change that occurred after 2011 has meant that several important government positions have been taken over by northerners, importantly shifting the political horizontal inequalities. Additionally, many people in the less developed tier have experienced reductions in poverty and increases in consumption, which are important to note, even if these groups remain significantly poorer than the elite. Côte d'Ivoire is therefore a strong example of the challenge of overcoming the dual economy and therefore of reducing HI.

The World Bank was significantly more engaged with development projects that target HI in Côte d'Ivoire but struggled to extract the kind

of returns that could compete with the growth and disproportionate investment from the government in Abidjan. The IMF's work in Côte d'Ivoire was dominated by efforts around fiscal consolidation (reducing debt). In the very initial post-conflict years under Gbagbo, the IMF was engaged, achieving this debt reduction in ways that targeted HI – both through pre-requisite actions (passing the government through HIPC and increasing accountability) and through indirect policies that targeted HI. The latter included reducing the government's extractive reliance on the cocoa and coffee sectors by overtaxing poor farmers and encouraging more government spending in social sectors and in the north, and less on military spending and monuments. Later work, however, was too risk averse in the face of low commodity prices and led to cuts in prices paid to cocoa farmers, effectively reducing their income by over a third, and cutting investment outlays by the government. I argue this risk averse approach did not consider the country's strong growth, the government's capacity, or HI, and took measures that were too severe. These measures undid progress on HI and could have been better attuned to the complexity of inequality and stability in Côte d'Ivoire, without risking macroeconomic or debt distress.

2 A brief history: Identity, war, and the structures of horizontal inequality in Côte d'Ivoire

This section aims to lay the foundation for understanding horizontal inequality (HI) in Côte d'Ivoire: it begins by outlining how HI was

constructed and maintained and along which identity lines. It goes on to explain how the main economy (cocoa and coffee) fed into this unequal economic structure. It concludes by outlining how this long-term HI combined with tough economic conditions and flammable politics to create the war that followed.

2.1 Identity in Côte d'Ivoire: ethnicity, region, and religion

Identity in Côte d'Ivoire is a multi-layered construction: ethnicity, religion, region, and whether one's family immigrated to Cote d'Ivoire during the previous century all form part of the matrix of identities that have been politically relevant in Côte d'Ivoire. While these identities overlap in relatively consistent ways – and particularly in the country's political imagination – there are many exceptions. This section will briefly outline ways in which these identities overlap, and how the country's political-economic history brought them into alliance or enmity.

Côte d'Ivoire has approximately sixty ethnic groups which are generally clustered into three groups for the purpose of political analysis. Figure 24 below indicates the rough borders of these core ethnic groups in Côte d'Ivoire.

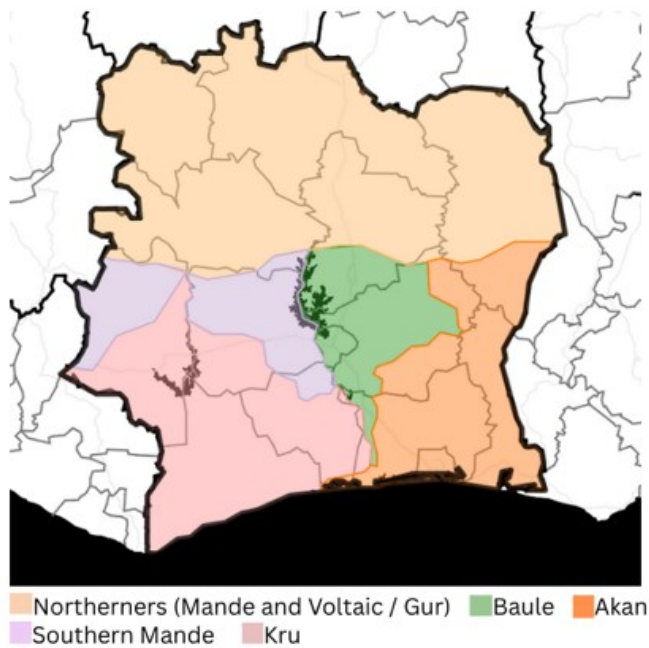


Figure 24 Ethnicity in Côte d'Ivoire by region. Source: ('GROWup - Geographical Research On War, Unified Platform', n.d.)

In the southwest, there is the Akan which includes the politically powerful Baule sub-group. The Akan (including the Baule) are Christian and traditionally inhabit the south-eastern and central parts of the country. To the west, there is the Kru and Southern Mande who are also Christian. The north holds the Northern Mande, Voltaic and Gur, often Muslim with strong ties to ethnic groups in neighbouring countries (Girardin et al. 2015; Langer 2005). While the war pitted the north against the south (and the west), in terms of income the southern Akan (and especially the Baule who controlled much of the government during the 31 post-colonial years) were dominant, while the north and to a lesser extent the west were poorer.

Overlapping this already layered set of identities is a history of migration: in the 1940s the French colonial administration organised the transfer of forced labour from the Upper Volta, today's Burkina Faso, to the cocoa and coffee plantations in the southern parts of Côte d'Ivoire (Langer 2005). These groups were mostly Mande and Gur – adding to the northern, Muslim groups in Côte d'Ivoire – and laying the foundation for these groups (whether Ivorian or immigrant) to be seen as immigrants.¹⁵⁵ The country's first post-colonial president Félix Houphouët-Boigny continued this trend, actively encouraging immigration and emigration by introducing liberal landownership laws under the slogan 'the land belongs to those that develop it' (Gonin 1998, 174). The result was that many Ivorian northerners and immigrants (often conflated) migrated south to work on cocoa plantations. With time, available land in the southeast diminished and many looking for land to cultivate went to the southwest parts of the country.¹⁵⁶

This “frontier agriculture” took on unprecedented proportions in the 1980s when the global commodity prices dropped dramatically, and more production was required to maintain the same levels of income. When the economic situation deteriorated in the 1980s, and southerners who had lost their jobs in the cities returned to their villages to farm and found land had been cultivated by northern groups,

¹⁵⁵ (Interview 75, Former Government Official (Under Gbagbo), 6 December 2024, In person, Abidjan)

¹⁵⁶ (Interview 64, Development professional 2024)

dissatisfaction frequently morphed into outbursts of violent community conflict. This was partly because property rights were unclear – while the land was intended to be owned by “those who cultivated it” there was little formalisation of this ownership, and community ownership continued to carry weight. This confusion about land ownership brought frontier agriculturalists (often northern ethnic groups – both Ivorian and immigrants) into conflict with “local” owners.

This influx of people meant that in 1998, before the coup d'état, about 26% of the population were considered foreigners, even if their families had lived in Côte d'Ivoire for several generations (Langer 2005). From an administrative perspective, most immigrants had not applied for naturalisation, according to one publication, because there were no additional rights or privileges that came with naturalisation (Skogseth and Landinfo 2006). Beyond this, Ivorian northerners also didn't always have documentation, making it difficult to discern who was “Ivorian” and immigrant. This history meant that Mandé / Voltaic and Gur ethnic groups were also conceived in the political imagination as northerners, Muslims, and often as foreigners, while the Christian Akan in the south-east and the Christian Kru in the south-west were seen as “real” Ivorians. This would prove useful for politicians looking to exploit divisions to gain power.

In reality, these various identities did not overlap with such easy consistency. In addition to this agriculturally driven immigration,

urbanisation and the rapid growth of Abidjan led to significant migration to Abidjan and agricultural areas both from other parts of Côte d'Ivoire and from neighbouring countries (Skogseth and Landinfo 2006). This meant that large numbers of Muslim, northerners lived in the south and east of the country, and some poorer Akan from the centre had also been part of pushing the agricultural frontier westwards and were therefore also viewed as non-natives of the west. Still these broad divisions – north, west, and southeast – define how HI will be discussed in this chapter.

2.2 The roots of horizontal inequality in Côte d'Ivoire: the establishment of the dual economy

There are three core components to the formation of Côte d'Ivoire's economic HI: an ecological-geographic divide that benefitted the south; colonial policies that privileged the south; and an economic downturn that undermined government investment plans aimed at reducing inequalities in the north. Political HIs during the post-colonial period were less sharp than economic inequalities – in part due to Houphouët-Boigny's skilled management of the elite. Still, the more powerful political positions remained with the Baule / Akan. His death however launched a fierce battle for political control of the country, and identity quickly became a method to exclude powerful opponents. Pre-existing socio-economic HIs meant this division found fertile ground and ultimately led to civil war.

The north of Côte d'Ivoire receives less rainfall than the south, with corresponding implications for land fertility (Climate Research Unit of University of East Anglia and World Bank 2021). The south has a humid equatorial climate, while the north is a dry tropical climate. Despite these ecological differences, there were not major inequalities between the north and the south in the 1950s, but from then on, the colonial government promoted the production of cash crops in the south and southeast, in part because of the climate differences, and the ease with which these crops could be transported to the coastal ports. This initiated a diversion of development trajectories for the various regions, and with it, regional incomes (Hinderink and Tempelman 1979). The south's advantageous position was deepened by the presence of the colonial capitals, and associated greater investments in infrastructure, markets, and industrialisation (Langer and Stewart 2015; Marc et al. 2015). Lastly, while French colonial education policy was very narrow, focusing mainly on tribal chiefs and their families, even this was disproportionately concentrated in the south and southeast, so that in 1967, primary enrolments in the north and west were less than half the national average (Salem 1975).

The result was an entrenched HI, with the south-east Akan regions benefitting from government investments, employment in the government, and the associated wealth and opportunities of the capital; the west struggling to catch up by growing cocoa that provided the taxes to invest in the southeast, but not attracting the same political

attention or investment as the southeast, and the north more or less ignored. The north did not have the climate to grow coffee or cocoa and therefore did not have access even to the low incomes these sectors provided and it did not benefit from any state investment or attention. The south was growing in prosperity, the west became a centre for conflict over land as excluded groups tried to cultivate cash crops that provided a slightly better life than subsistence farming, and the north fell further behind with a climate that did not allow cocoa and coffee farming.

In 1974 for example, the income per capita in the northern departments were significantly below Côte d'Ivoire's national average (CFAF 67,679): Boundiali (CFAF 28,480), Ferkéssédougou (CFAF 49,554), Korhogo (CFAF 45,041), and Odienné (CFAF 29,034) (Den Tuinder 1978, 380-81). Likewise, the distribution of educational infrastructure and access varied widely. In the academic year 1973-1974, about 50 percent of the population aged 7-12 was enrolled in primary school, but there was significant variation across the country. For example, in Toubou department in north-west had only 13 percent of this age group enrolled. Conversely, in Agboville (south-east) and Abengourou (south-east) had enrolments of 86 and 78 percent respectively (Den Tuinder 1978, 290).

Although nationally there were 14.7 secondary school students for each thousand inhabitants, the departments of Gagnoa (south), Abidjan (south), Adzope (south-east), Guiglo (south-west), and Agboville (south)

had between twenty and twenty-five secondary students for each thousand inhabitants, while at the other extreme Korhogo (north), Boundiali (north), Odienne (north-west), and Sguela (north-west) had only six secondary students for each thousand inhabitants and Touba (north-west) had only four (Den Tuinder 1978, 290). This is because the state used the taxes (often from the cocoa and coffee plantations) to invest in the Akan regions first, which could then transition out of agriculture and into more educated positions. The government turned to regional development plans in the 1970s but unfortunately, almost as soon as this effort began, the cocoa prices dropped, along with state income. Investment plans were quickly cut.

2.3 How cocoa and coffee shaped the establishment of horizontal inequality

While cocoa and coffee – crops grown predominantly in the south and major pillars of the Ivorian economy – are part of the foundations of HI, it is not because cocoa farmers are the wealthy elite. During the colonial period and in the early post-colonial years (from 1960 onwards), cocoa cultivation was largely controlled by the Baule (a sub-group of the Akan) plantation owners who relied on workforce from the north ('GROWup - Geographical Research On War, Unified Platform', n.d.). As commodity prices increased, and with the removal of the colonial power, these Baule certainly profited. However, what really created the relative prosperity in the south-east was the state investment that the region attracted (funded by taxes from these agricultural sectors) that built on the

disproportionate investment already started by the colonial administrators, and that allowed the privileged access to education and opportunity in the southeast that has already been outlined.

Still, the cocoa and coffee farmers did better than subsistence farmers in the north. As a result, and alongside President Houphouët-Boigny's promise that the land belonged to those that cultivated it, cocoa farming expanded rapidly out from the south-eastern areas, westwards (where land was fertile). The expansion of this "agricultural frontier" was mostly done by northern Ivorians or immigrants from Burkina Faso, Bete (a sub-group of the Kru from the west of the country) as well as Baule from the less wealthy centre of the country (Chauveau 2000, 4). These groups sought to escape subsistence farming. As this agricultural frontier was pushed westwards there was no clarity on who owned the land - the customary groups or the farmers who had arrived. As one interviewee described:

"And a lot of the resentment by the Bete, you know, the Baule didn't [complain?] much because they all got jobs down in the civil service in Abidjan. But the Bete - when the land pressure was exacerbated became very unhappy with the situation."¹⁵⁷¹⁵⁸

While the cocoa sector was certainly in the south of the country, and while it formed a major pillar of the Ivorian economy, farmers were not the main beneficiaries, nor did they amass any significant wealth,

¹⁵⁷ (Interview 33, World Bank official, Teams)

¹⁵⁸ While those working in the cocoa and coffee sectors were ethnically diverse, it is worth noting that during some of the land conflict that occurred after Houphouët-Boigny's death and in the run-up to the 1999 overthrow of the government, not all ethnic groups received equal protection from the state. Indeed, some commentators claimed that Henri Bédié, the then president of Côte d'Ivoire, rushed to protect Baule involved in land conflicts but "left others to their fate" (Chauveau 2000, 2).

although they generally did better than the subsistence farmers of the north. In fact, in 2013, the World Bank estimated that 700 000 farmers lived below the poverty line, and accounted for 28 percent of poor households (IDA et al. 2013).

Instead, through taxes and the functioning of the state-led stabilisation mechanism which set the prices for farmers, the cocoa sector became a major source of income for the state. Under Houphouët-Boigny this was largely directed to investment, but under Gbagbo became increasingly a purse from which to fight the war and pay off crony allies.¹⁵⁹ Indeed, between 2001 and 2007, the IMF estimated that \$6.4 billion was raised from the cocoa sector through fiscal and quasi-fiscal levies. Overall taxation reached 40 percent of the cost insurance-freight (CIF) price leaving 35 to 40 percent to farmers once the intermediaries had taken their share (IMF 2012, 16). The report noted that 60 percent of farmers live in poverty, accounting for 28 percent of the country's poor. The beneficiaries then, of the cocoa sector were not the farmers, but rather those that received state investments paid for by these taxes, and those that were connected to the government. In relation to the latter, while Houphouët-Boigny endeavoured to have ethnic balance in his governments and administrations, the powerful government positions and ministries were disproportionately Akan and even more so, Baule (his own ethnic group) (Langer 2005). One author described Ivorian politics as the Akan's "business" (Bakary 1984, 35).

¹⁵⁹ (Interview 32, World Bank official, Teams, 1 December 2021)

Unlike in Liberia however, where indigenous groups were largely ignored and / or exploited by the pre- and post-conflict elites, President Houphouët-Boigny did make efforts to increase investment in the north and create a more even spread of development. Immediately after independence (1960) the focus was heavily on economic development, and on investing where “easy wins” could be made. This meant significant investment in the south-east, where Abidjan was and where cocoa and coffee expanded rapidly, and with strong results. Côte d’Ivoire’s economic growth rates averaged 8.8 % in the first decade following its independence, reaching growth of 17.6% in 1964, and exceeding 10% in 5 of the 10 first post-colonial years (World Bank and OECD national accounts data 2024). Côte d’Ivoire quickly became one of the world’s major producers of cocoa, coffee, and cotton.

With increasing state income (acquired through the taxes of the agricultural sectors), and as the foundation for growth was established in the south-east, in the 1970s, regional development received increasing emphasis as the government looked to reduce regional disparities in income and development (Den Tuinder 1978, 147). This effort started in the southwest partly driven by the desire to build a second port to export cocoa and coffee in San Pedro, and partly because the southwest was poorer compared to the southeast. Investments were also made in the centre, before turning to the north. The 1971-75 national development plan began to identify regional and sectoral

investments that the government could take, and in 1972 the *Direction de l'Amenagement du Territoire et de l'Action Regionale* (DATAR) [Regional Planning and Action Department] was created in the Ministry of Planning to develop regional investment plans. The northern programme (programme du Nord) received special focus and investment following the president's visit to the north in 1974, and in response to the Sahelian drought and expressions of social discontent there (Den Tuinder 1978). (It is notable that it required the president to visit the north personally, fourteen years after coming to power, to recognise the urgent need to develop the north.) The result was that between 1971-1977, the north received the second highest rate of investment per capita in the country (Langer and Stewart 2015).

2.4 The collapse of commodity prices and, with it, regional development

In the 1980s commodity prices dropped: most especially for cocoa and coffee, the cornerstones of the Ivorian economy, in part because its own meteoric increase in production had increased global supply to the point of reducing global prices (Naiman and Watkins 1999). Côte d'Ivoire's economy struggled, and with the significant reduction in state income, IMF-backed austerity plans were implemented. This had two reinforcing impacts on HI in Côte d'Ivoire: the first was that it forced the rapid reduction in the regional development plans, cutting investment in the regions that needed it most. (Conversely investment that was continued was mainly in the southeast.) The second point is that while more

privileged communities were also affected by austerity (e.g. civil servants, private sector workers etc) these groups were more able to organise to protest to protect their interests, often resulting in postponed or reduced cuts in wages. Given that Akan / Baule were disproportionately in these groups, it meant these groups could maintain their privilege. This entrenched the dual economy of an urban elite that were paid with the taxes earned from the agricultural sector and / or able to access the private sector; a planter class that struggled under lower incomes and depending on the region, could access some education (significantly less in the south western areas); and the poorer north who were often subsistence farmers and severely lacked the resources (health and education) that the southeast and to a lesser extent southwest enjoyed.

In the face of much lower commodity prices, Côte d'Ivoire ultimately entered two stabilisation programmes (in 1981 and 1985), two stand-by agreements with the IMF in 1989 and 1991 and a full IMF programme in 1994 in an effort to resolve its growing economic woes. Austerity was central to the IMF requirements: from 1989-1993, the IMF required a 30% reduction in government expenditure, and a 15% reduction in capital expenditures (i.e. investment), in addition to tax increases. Privatisation and some financial reforms were also applied (Naiman and Watkins 1999). The manner in which the government met these austerity requirements is instructive on how political economy arrangements maintain HI. Even for a government like Côte d'Ivoire,

which was interested in securing a more even spread of development, ultimately sought to protect their core political base (predominantly Akan southerners) when liquidity and growth dried up.

Facing a liquidity crisis, the government undertook a 40% reduction in investment in just 2 years (Morrisson 1996). With this, the effort to develop the north evaporated (Langer and Stewart 2015). Some figures are telling for which regions continued to receive investment despite the economic woes: in the period that immediately followed the IMF programmes, from 1994 to 1998, the changes in access to electricity for the different ethnic groups was as follows: Akan (+16.4%), Kru (+5.3%), Southern Mandé (+19.6%), Northern Mandé (-11.6%), Voltaic (+6.1%). The Akan, the politically dominant group in Côte d'Ivoire, and already in an economically privileged position, disproportionately benefitted from electricity expansion, and the poorer northern groups (Northern Mande and Voltaic) benefitted the least (DHS variable v119, in (Langer 2005).

Reductions in education and health spending – part of the austerity measures connected with the IMF programmes – had severe implications for the poorest components of the population. User fees were introduced to public health care, and this, together with the devaluation of the CFA franc meant that many families shifted to traditional medicine with severe consequences. The incidence of stunted growth in children increased from 20% in 1988 to 35% in 1995, and women interviewed in a UNICEF study ranked health as their

primary problem (Naiman and Watkins 1999). Likewise, during the period of structural adjustment (1990-1995) real per capita spending on education dropped by 35%: one of the results was that between 1986 and 1995, the gross enrolment rate in secondary school declined from 34% to 31%, with only 45% of girls in the poorest quintile of households receiving even a primary education (Naiman and Watkins 1999). The graph below shows primary school enrolment across regions in Côte d'Ivoire in 1998:

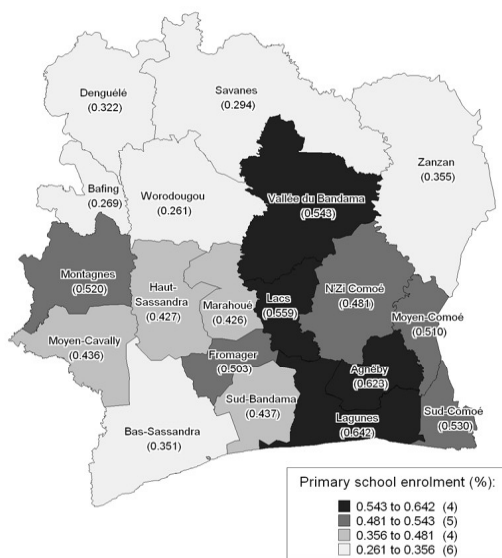


Figure 25 Source RGPH 1998 Census Source: (Langer 2004)

As Figure 25 shows, the southeast maintained its relative advantage over education, with the west fairing worse, and the north severely behind. With the poorest being most affected by the cuts, it is clear that the west and especially northern regions would have suffered both from

a retraction in spending and by the cutting of investment expenditure that might have helped to lift communities out of poverty.

The austerity measures also demanded cuts in civil service wages and other more developed sectors which were more oriented to the Akan / Baule. For example, the measures cut civil service wages by 15-40% and applied a 10% levy on private sector wages in 1990, triggering student demonstrations, followed by looting, and then by strikes in education, the health professions, and banks (Morrisson 1996). The government therefore had to postpone the application of these measures, but even so, there was a subsequent general strike which endangered the stability of the regime, because soldiers and police took part in the demonstrations. This shows the second aspect that maintains HI in the context of austerity: the ability of the relatively more privileged groups to organise and protest to protect their incomes, while rural northern villages would not have had the same ability to protect their interests.

The history of HI in Côte d'Ivoire does not, therefore, have the same state-led story of violence and discrimination as does Liberia. It is rather an example of how ecological differences led to a colonial focus on the south of the country, which was maintained by the post-colonial government as it sought to grow the economy on the same foundation of agricultural cash crops as quickly as possible. Once the severity of the north-south inequality was recognised, the state attempted to

bridge the gap, but the drop in global commodity prices (driven in part by Côte d'Ivoire's rapid increase in production and supply) crippled the same engine for growth that had paid for the potential for northern investment. As Houphouët-Boigny sought to navigate the difficult path of austerity and protect the interests of his political base, the north fell farther behind. While it is not an example of explicit exclusion, it does show how HI creates dominant groups that are able to exert stronger influence over government in times of crisis to continue demanding service delivery; while less dominant groups are only serviced a) when their needs are noticed (in this case, because the president decided to visit the north); b) when the economic situation is strong; and c) when there is a president in power that is sensitive to inequality. When resources dry up, and short-term concerns take the focus, poorer, politically disconnected groups fall first.

2.5 Political horizontal inequalities

Houphouët-Boigny's political party *Parti Démocratique de la Côte d'Ivoire* (PDCI) [Democratic Party of Côte d'Ivoire] controlled Côte d'Ivoire under his reign from 1960 until his death in 1993 and remained in power after his death until the coup d'état in 1999. Under Houphouët-Boigny the south-western ethnic groups – the Akan, and especially his own Baoulé sub-group were over-represented in governance, but he also incorporated other ethnic groups in the political elite, including northerners (Skogseth and Landinfo 2006). The result was that until the

1980s, all former opposition leaders had found a place in the Ivorian polity or economy, and those that had not were either in jail or in exile (Zartman and Delgado 1984, 10). He also endeavoured to ensure an ethnic balance within the major political institutions from 1959 - 1980, as shown in table 12 below. Despite this balance, the Akan were over-represented, most especially in the most powerful political institutions (Bakary 1984).

Table 12 Ethnic distribution within political institutions

Ethnic Group	Total Political Elite	Ministers	Deputies	Economic and Social Councilors	PDCI Politburo	Total population in 1975
	%	%	%	%	%	%
Akan	50.9	53.4	50	56.1	55.1	41.4
Kru; Southern Mande (southwest)	24.9	23.2	27	19	17.9	26.9
Malinke and Voltaic (Northerne	19.36	17.7	14	15.6	19.2	30.5

rs)						
Others /	4.09	5.4	3.5	7.8	6.4	1.2
Unknown						

Source: (Bakary 1984, 36).

The result was therefore some political HIs, but with sufficient elite inclusion to prevent any major appetite for conflict and change on the part of that elite. This changed when Houphouët-Boigny died, and suddenly competition for control of the PDCI and the country was unleashed. Alassane Ouattara (a northerner) and Henri Konan Bédié (a Baoulé southerner) emerged as the core competitors. In an effort to delegitimise Ouattara as a presidential candidate, Bédié invented the concept of *Ivrité* [“Ivorianness”], hoping to question Ouattara’s nationality and have him disqualified from the election (Skogseth and Landinfo 2006).

As the debate on *Ivrité* evolved however, it grew into a debate about whether Northern Mande and Voltaic / Gur (northern ethnic groups) were legitimate Ivorians. The challenge was that these ethnic groups are split across northern Côte d’Ivoire and neighbouring Mali and Burkina Faso, making it difficult to divide Ivorian northerners from immigrant Mande and Voltaic / Gur. Additionally, intensive immigration from these countries before and after independence over several

generations meant that third or fourth generation immigrant communities often did not have national IDs or even birth certificates.¹⁶⁰

Three points made this issue especially flammable: the first was that politically, these northerners (ultimately living throughout the country) could be more numerous than the southerners if everyone was to be granted an ID and the opportunity to vote. This northern group – socio-economically poorer – posed a risk to Bédié’s presidential bid should they support Ouattara. The second aspect making *Ivorie* flammable was the deteriorating economic situation which soured sentiment towards immigrant and northern communities working in the south and southwest¹⁶¹. Thirdly, although strongly connected to this, competition over land became more frequent and violent, made more fierce as Liberian fighters on the border became involved (Skogseth and Landinfo 2006). Much of the toughest violence experience during the war, took place in the west. Critically, in 1998, a law was passed that barred non-Ivorians from owning customary or rural land: making the question of being Ivorian all the more powerful, and reigniting violence between local communities and those cultivating the land, even in cases where the cultivators had purchased the land (Human Rights Watch 2013). The south-west was largely Kru, including the important Bété ethnicity to which Laurent Gbagbo belonged.

¹⁶⁰ (Interview 64, Development professional, 15 October 2024, In person).

¹⁶¹ (Interview 64, Development professional, In person)

2.6 Outbreak of conflict and instability

Long term HI combined with a flammable political rhetoric to create the conditions for conflict to emerge. The PDCI split, and three main political parties emerged, largely organised along ethnic lines: the *Front Populaire Ivoirien* (FPI) under Laurent Gbagbo, dominated by the Kru [/Bete] ethnic group of the south-west, the Rassemblement des Republicains (RDR) representing the northern ethnic groups, while the PDCI became dominated by Akan and Baoulé of the south-west, as other ethnic groups were squeezed out. The concept of *Ivrité* was useful for both the PDCI and the FPI, as the RDR could possibly rally more voters than both parties combined should all northerners be registered as voters.

In 1999, a coup by young officers of northern origin came to be controlled by General Gueï, who was disgruntled at having been pushed out of the PDCI as it became increasingly Baoulé-oriented (Skogseth and Landinfo 2006). He used his newly obtained power over the courts to exclude his main rivals from the 2000 elections (Henri Konan Bédié of the PDCI and Alassane Ouattara of the RDR). He however allowed Gbagbo to run, a miscalculation on his part, viewing Gbagbo as less of a threat. Gbagbo's FPI however went on to win the elections after entering a coalition with the PDCI. The RDR called for new elections, and ongoing political tension and shifting coalitions led to a second coup in 2002, by the *Forces Nouvelles*, a military group dominated by northerners, ultimately forced into an uneasy alliance with the RDR. This

northern militia only succeeded in taking control of the northern half of the country, however, resulting in a de facto separation of the country with the RDR and the *Forces Nouvelles* governing the north, while Gbagbo controlled the south, with a French and ECOWAS, and then UN international peacekeeping force (UNOCI) enforcing the peace from 2002 onwards (Skogseth and Landinfo 2006).

In 2007, following several unsuccessful peace negotiations and an increasingly untenable financial situation for Gbagbo's government, a comprehensive peace agreement was reached.¹⁶² The core agreement of the peace deal was that Gbagbo would allow elections to take place. Gbagbo delayed the elections, finally allowing them to take place in 2010 under intense pressure from the international community.¹⁶³ With Ouattara announced as the winner of the elections, Gbagbo claimed the results were false and attempted to take power by force, leading to the second major outbreak in violence in 2011. The international community, led by France and UNOCI, arrested Gbagbo and Ouattara became the president of a unified Côte d'Ivoire. In essence then, there were two post-conflict periods in Côte d'Ivoire: from 2007 - 2010 under Gbagbo; and from 2011 onwards under Ouattara. This thesis will mostly focus on the post 2011 period, but certain aspects will cover Gbagbo's period in power.

3. Horizontal Inequality in post-conflict Côte d'Ivoire

¹⁶² (Interview 33, World Bank official, Teams)

¹⁶³ (Interview 64, Development professional, In person)

This section outlines how horizontal inequality (HI) has evolved in the post-conflict years. The chapter will then go on to explain what drove these dynamics, and how IFIs assisted in the reduction or maintenance of HI. The take-away for this sub-section is that HI has declined, albeit slowly. This has been driven by decreasing poverty across the country, but most especially in the urban areas. This declining poverty has improved livelihoods across the country, and large absolute reductions in poverty in the centre, centre-north, and north-west of the country has helped to reduce HI. Despite this positive progress, two trends have slowed reductions in HI: Abidjan – already the least poor part of the country – has also experienced the largest relative reduction in poverty, making it exceptionally not poor by Ivorian standards. The second trend is the stickiness of poverty in rural areas. With the north and north-west being mostly rural, this means HI remains a challenge for Côte d’Ivoire. A final takeaway is that the west has been somewhat marginalised with few representatives from this region in government to advocate for it.

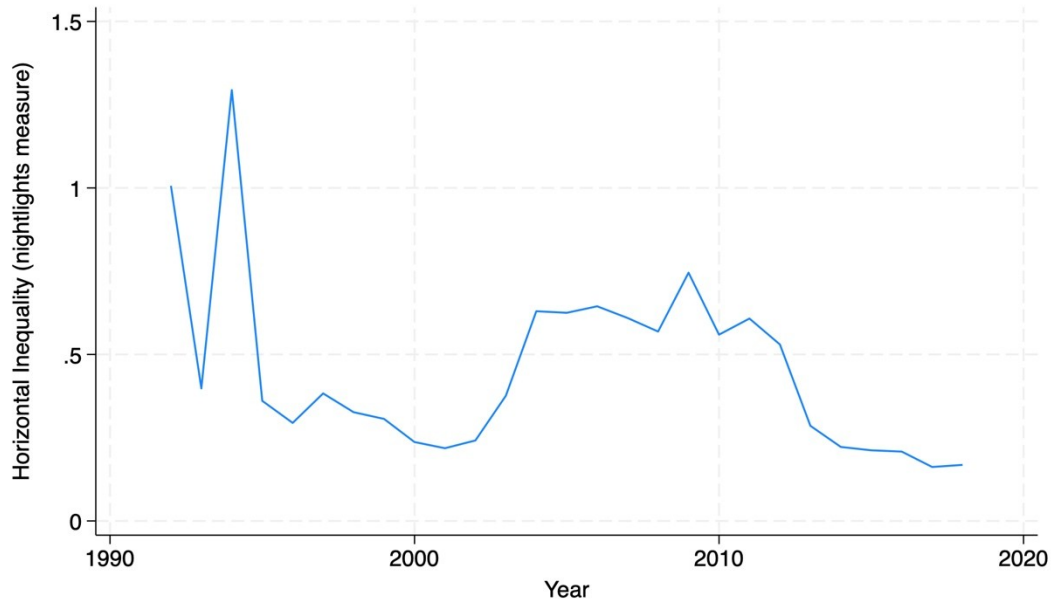


Figure 26 HI in Côte d'Ivoire over time. Data taken from Girardin et al. (2015)

Horizontal inequality fed instability in Côte d'Ivoire and ultimately contributed to the fracturing of politics that would create both the 2002 war, and the 2011 electoral crisis. The 2002 outbreak of war and the splitting of the country between the north and the south however, made HI worse in the country - as demonstrated in Figure 26 above. With the north and the south divided, and the government and cocoa trade all in the south, the south could continue to function - certainly less effectively - but nonetheless with greater continuity than the north.¹⁶⁴ The north however fell under the control of the rebel government, which managed to trade with the poor neighbouring countries with the resources based in the north: mostly, cotton, cashew, and some gold

¹⁶⁴ (Interview 43, World Bank Official, 26 May 2023, Teams; Interview 75, Former Government Official (Under Gbagbo), In person, Abidjan)

and diamond mines but as in the south, social sectors and investment were neglected for the benefit of the war.¹⁶⁵ An already poor area was now increasingly isolated from wealthier markets – both abroad and those within Côte d’Ivoire, with few social services, and even less investment. The north therefore became increasingly poor.

This was flagged in the World Bank Country Partnership Agreement between 2010 and 2013:

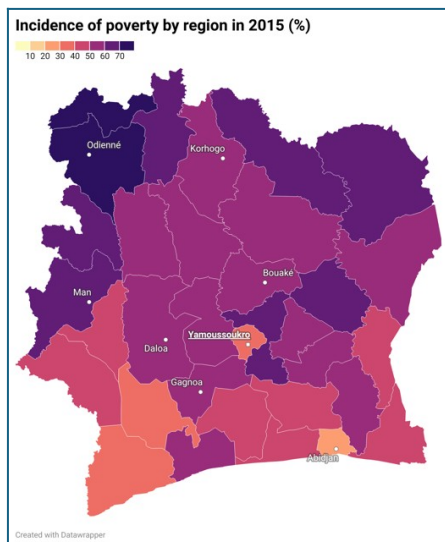
“Poverty has increased most dramatically in rural areas and in the CNW [rebel-controlled northern] zone, underscoring issues of geographic inequality. Although agriculture has for years accounted for about 25 percent of GDP and 40 percent of exports, rural poverty has grown steadily, from 49 percent in 2002 to 63 percent in 2008. The regions with the highest incidence of poverty are the North—where poverty has nearly doubled during the crisis, from 40 percent to 77 percent—followed by the West, the Centre-West and the North-West. By comparison, poverty in Abidjan is estimated at 21 percent.” (World Bank Group 2010, 4)

As the quote suggests, the western parts of Côte d’Ivoire suffered too: violent competition over land, aided by Liberian fighters crossing the border, made conflict in the west especially violent. This ongoing instability undermined economic wealth and prospects for growth. This area is predominantly Kru – the same ethnic group as Gbagbo – and was therefore a stronghold for Gbagbo before and during the war. This created post-conflict political dynamics that meant it received less attention than the north, although this will be discussed in more detail below.

¹⁶⁵ (Interview 46, World Bank official, Teams; Interview 75, Former Government Official (Under Gbagbo), In person, Abidjan)

Figure 26 also shows that HI started to reduce most consistently after the 2011 electoral crisis. The graph shows HI levels continuing to reduce, but at a much slower pace, and only reaching levels slightly lower than pre-war levels. Nevertheless, the overall trend in inequality is downwards.

These trends also reflect in the government’s Household Living Standards Surveys that were conducted in 2015, 2018, and 2021. These data are summarised below in two ways: as 3 maps in figures 27, 28, and 29 that have been placed alongside for easy comparison. Table 13 contains the exact figures, as well as the change in poverty between 2015 and 2021.



This first map shows the blocks of poverty that were confronting Côte

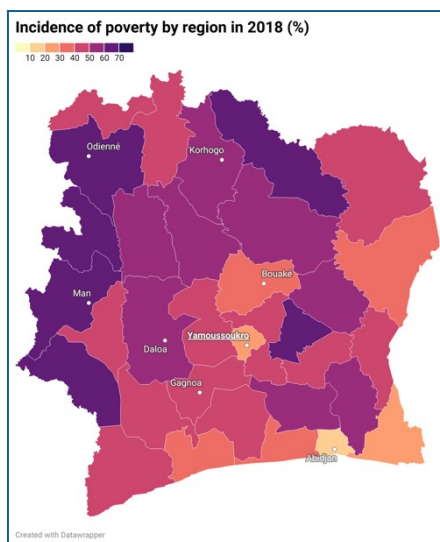


Figure 28 Regional distribution of Poverty in Côte d'Ivoire in 2018. Source: (Institut National de la Statistique 2018)

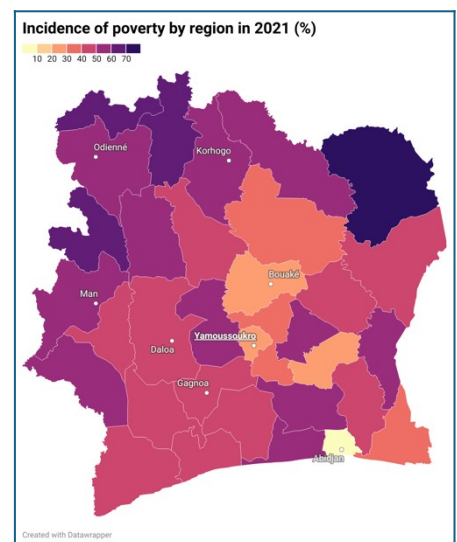


Figure 27 Regional distribution of Poverty in Côte d'Ivoire in 2015. Source: (Institut National de la Statistique 2015)

four years after the 2011 the electoral crisis: the poorest areas in the

north and north-west; slightly less poverty in the centre, and the lowest poverty in the coastal south. The national average level of poverty was also very high at 46.3%.

Between 2015 and 2018, some interesting trends are visible: most importantly the north (from Bouaké up) is starting to experience reduced poverty. The southeast and centre too are experiencing reductions in poverty. Conversely however, the southwest corner of the country – Gbagbo’s former stronghold – either has the same levels or higher levels of poverty. Still the dichotomy of the poor north and wealthier south of the past begins to break into a more pixelated picture of poverty. By 2021, this trend continues. The main urban centres – Abidjan, Yamoussoukro, and Bouaké as the centres of government and business remain the regions with the lowest levels of poverty. Abidjan dropped to a low of only 6.8 % incidence of poverty making it a national outlier, with the next poorest place (Yamoussoukro) experiencing a much higher 20.5% of poverty. In 2021, some parts of the north (most especially those at the border) experienced increases in poverty, partly driven by COVID and the rise in violent extremism on the border, indicating the fragility of poverty reduction gains in these regions. It also demonstrates the connection between high poverty and ongoing violence and fragility.

The figures demonstrated in these maps are outlined in table 13 below. Note that poverty is calculated as the monetary value below which

fundamental needs (of cash and consumption) cannot be met. The values listed are the percentage of the population in each region with consumption and income below the poverty threshold. In 2021, the threshold was 369 516 FCFA (Institut National de la Statistique 2021, 54).

**Table 13 Poverty by region in Côte d'Ivoire 2015, 2018, 2021;
Change in poverty levels**

Region	2015	2018	2021	Change 2015 to 2021
Abidjan (S)	22.7	10.2	6.8	-15.9
Yamoussoukro (S / C)	39.4	26.5	20.5	-18.9
Gbeke (N)	54.9	33.1	26.8	-28.1
Moronou (S / E)	54.1	42.3	28.7	-25.4
Sud-Comoe (S / E)	46.8	25.8	31.0	-15.8
Belier (C)	61.8	40.9	32.7	-29.1
Hambol (N)	56.1	58.5	33.8	-22.3
Nawa (S / W)	37.4	48.8	40.6	+3.2
San-Pedro (S / W)	35.4	46.3	41.2	+5.8
Guemon (W)	42.9	48.7	41.7	-1.2
Iffou (E)	60.5	54.6	41.8	-18.7
La Me (S)	52.7	52.7	42.3	-10.4
Gontougo (N / E)	51.2	32.1	44.4	-6.8
Haut-Sassandra (C / W)	54.9	50.8	45.8	-9.1
Gôh (S / C)	53.3	41.2	46.8	-6.5

Gbôkle (S)	51	35.7	47.4	-3.6
Lôh-Djiboua (S)	49.6	45.4	48.3	-1.3
Bere (N)	55.8	54.1	48.7	-7.1
Cavally (W)	41	65.8	50.3	+9.3
Tonkpi (W)	60.6	66.1	50.5	-10.1
Worodougou (N)	54.5	58.7	50.7	-3.8
N'zi (C)	59.1	62.8	51.3	-7.8
Poros (N)	54	50.6	51.6	-2.4
Indenie-Njuablin (E / S)	48.7	41.8	51.8	+3.1
Marahoué (C)	53.6	43.4	52.0	-1.6
Grands-ponts (S)	48.9	37.6	53.4	+4.5
Kabadougou (N)	71.7	66.4	56.6	-15.1
Agneby-Tiassa (S)	49.5	56.4	58.2	+8.7
Tchologo (N)	65.6	62.8	59.7	-5.9
Bafing (N / W)	69.2	67.8	63.8	-5.4
Bagoué (N)	68.5	44.7	64.7	-3.8
Folon (N)	70.1	44.8	69.1	-1
Bounkani (N)	61.8	45.7	71.6	+9.8

The data in Table 13 are arranged in ascending order according to poverty levels in 2021 so that the least poor regions are at the top of the table, and the poorest at the bottom of the table. It is striking that the least poor 7 regions have all experienced dramatic reductions in poverty, on average a 22.2 percentage point reduction in poverty. Four

out of the seven least poor regions are broadly in the south. Conversely, the regions at the bottom of the table have experienced a much lower reduction in poverty, in some cases even experiencing an increase in poverty. The 5 most poor regions are all in the north, suggesting that overcoming the poverty in the north remains a challenge for Côte d'Ivoire, while the south continues to disproportionately benefit from the country's growth.

Côte d'Ivoire's poverty figures as measured by the percentage of people living on less than USD 1.25 (as measured by the World Bank) are substantially lower than the multidimensional poverty index (MPI) data. For example, the poverty figures for 2008 measured the poor as 23.8 percent of the population. The 2005 MPI measurement however measured that 61.5 percent of the population were poor (OPHI 2023). As a complementary measure then, the data below shows how Côte d'Ivoire's Multidimensional Poverty Index changed between 2011 and 2016, by region.

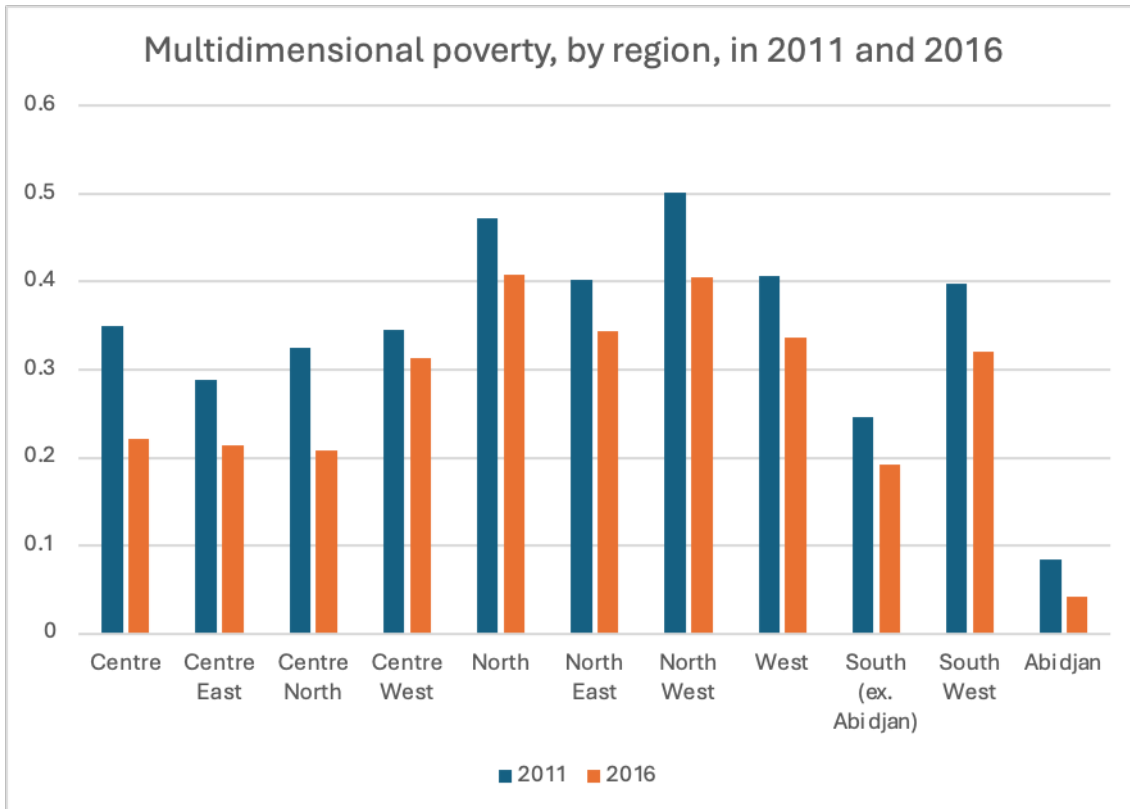


Figure 30 MPI by region, 2011 and 2016 Source: (Kanagaratnam et al. 2023)

This graph shows the same trends however: Abidjan and the south are the regions with the least poverty, the north with the highest levels of poverty, followed closely by the west. To map how these levels of poverty have changed between 2011 and 2016, figure 31 below shows how poverty has reduced in each region, both as an absolute number, and relative to its original levels of poverty.

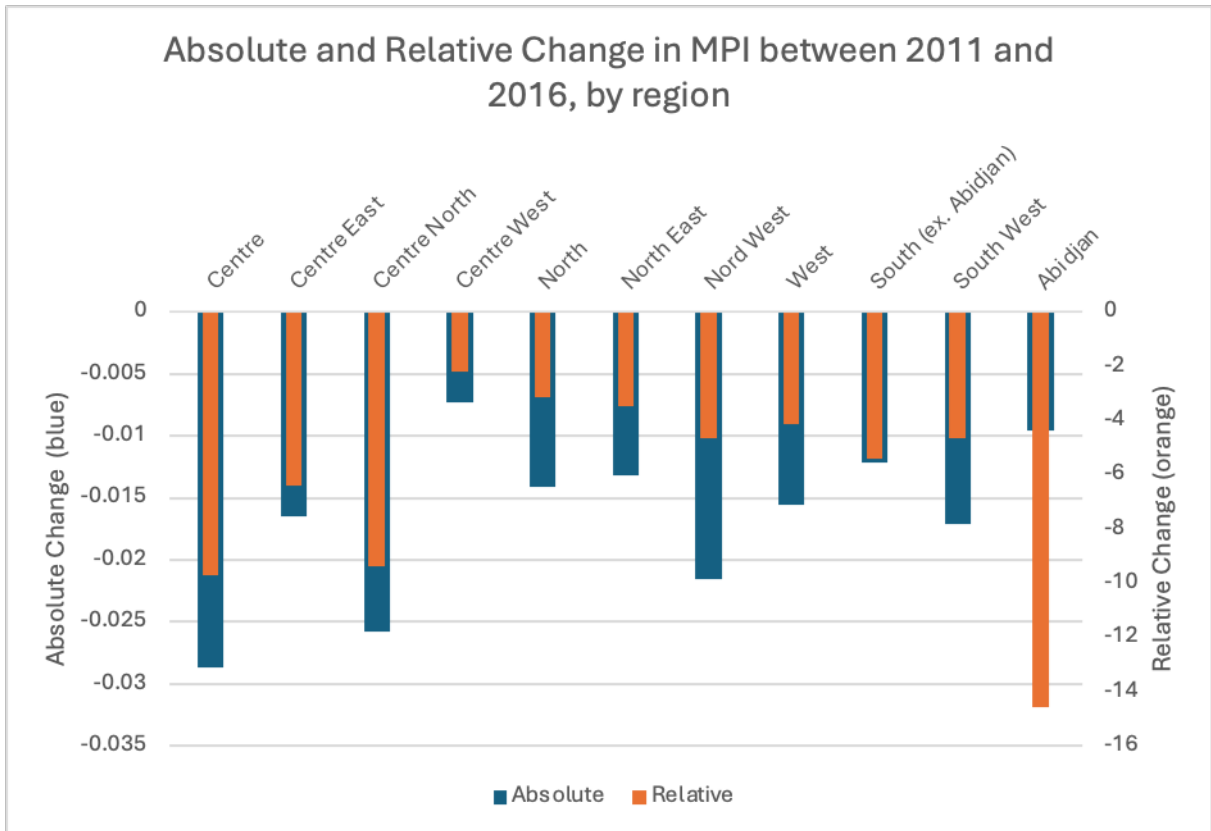


Figure 11 Absolute and relative change in poverty levels, by region between 2011 and 2016. Source: (Kanagaratnam et al. 2023)

This graph shows two interesting dynamics: the first is that the largest absolute reductions in poverty during Ouattara’s first term took place in the centre, centre-north and north-west. These trends have helped to reduce HI. Relative to initial levels of poverty however, the city of Abidjan and the south (excluding Abidjan) have experienced relative reductions in poverty far greater or equal to their absolute change in poverty. These two regions have therefore experienced reductions in poverty that are high compared to the initial state of poverty. This trend of rapid poverty reductions in already better off parts of the country have slowed the reduction in HI.

The second aspect that has slowed the reduction in HI despite impressive poverty reductions in parts of the north and centre-north has been a slow reduction in rural poverty. As one interviewee outlined:

“The big problem Cote d'Ivoire has is that poverty outside urban areas is not moving. They grow like crazy or they grow fairly fast for Africa in terms of the 6% on average for the last so many years. So then poverty reduction should also happen. And it doesn't outside the urban areas. In general, it's slow, but the slow bit that's there is in urban areas. So why not in rural?”¹⁶⁶

The concentration of rural areas in the far north and parts of the west means that these regions have fared worse, and in the case of the north, keeps aspects of HI intact.

The reasons for these trends will be explored at greater length in the remainder of the chapter, but one extract from an interview is interesting to both describe trends in HI, and to begin providing an explanation for these trends – shifts in political control.

“The West is the worst... I think it is the most neglected part. I think the north... a lot more people in the north that are very poor can benefit from at least one elite who is now represented in a position of power in Abidjan. Every village has this one person who's like the social safety net of the village, right?... And I think the north is doing better, even the vulnerable population, because the elite has invested. They built houses, the airport...and they brought businesses. So definitely the West is not well represented in the government... The South has accumulated. The south is the elite. Most of the elite has been from the south for a long time. So, I think the parents and the grandparents have had [international and educational] exposure. So, they're no longer linked to the current power [but] they've developed abilities outside of the political arena [in the economic sphere].”¹⁶⁷

¹⁶⁶ (Interview 76, World Bank official, In person, Abidjan)

¹⁶⁷ (Interview 43, World Bank Official, Teams)

One should not overestimate the improvement in the north, however. Informal discussions with one development professional outlined that in their travels to the north and north-west areas close to the border especially, they had seen poverty that is normally only seen in significantly poorer and administratively weaker countries in Africa – dirt, dirt poor was the phrase¹⁶⁸. HI therefore remains a core issue in Côte d’Ivoire, but its dynamics might be shifting: the north, still (dirt) poor in many parts, has some more access to resources in some areas to do a little better, while the west, badly hit by the war and not as well off as the southeast, is lagging behind. Because of political dynamics around these regional differences, these HIs remain a threat to Côte d’Ivoire’s long-term stability.

Nevertheless, what this data also shows, is that poverty has reduced across the country in almost all cases, and in some cases very dramatically. Even if it appears that poverty has reduced most exceptionally in the south (especially relative to original levels of poverty) it is impressive to see poverty reductions along these levels, especially given that the period includes (in the case of the Ivorian government data) data collected during the COVID pandemic. These reductions in poverty have contributed to an overall reduction in HI in the country, though this was especially sharp in the initial years, and has slowed in more recent years, in part because of the impressive growth in urban areas and the slow reductions in poverty in rural areas.

¹⁶⁸ Development expert, personal communication, 18 October 2024

4. Government-led interventions

Before tackling the role of the international community in these HI trends, it is worth briefly outlining the government's approach to post-conflict development. The overriding point here, is that the Ivorian government is a dramatically different development actor as compared to the Liberian government. It has significantly more capacity, with ministries and state structures that work, resources that can be spent on development and not only on the core functioning of the state, meaningful international and regional standing, and a government that is broadly committed to development. This changes dramatically the role of the state in development. It therefore warrants an exploration of exactly what role the state plays.

When looking at where the government has done most of its investments, Abidjan and Yamoussoukro stand out as key centres of government expenditure. Below are several figures outlining government investments by region, over time.

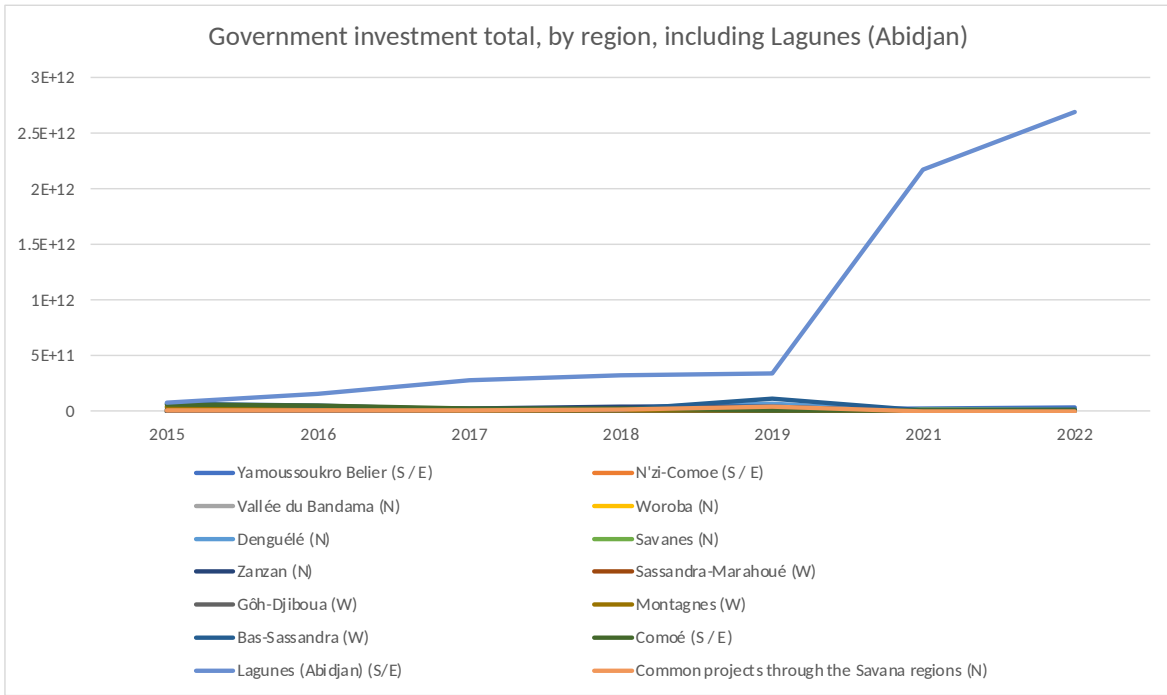


Figure 32 Source: Data of investments by region obtained from the government.

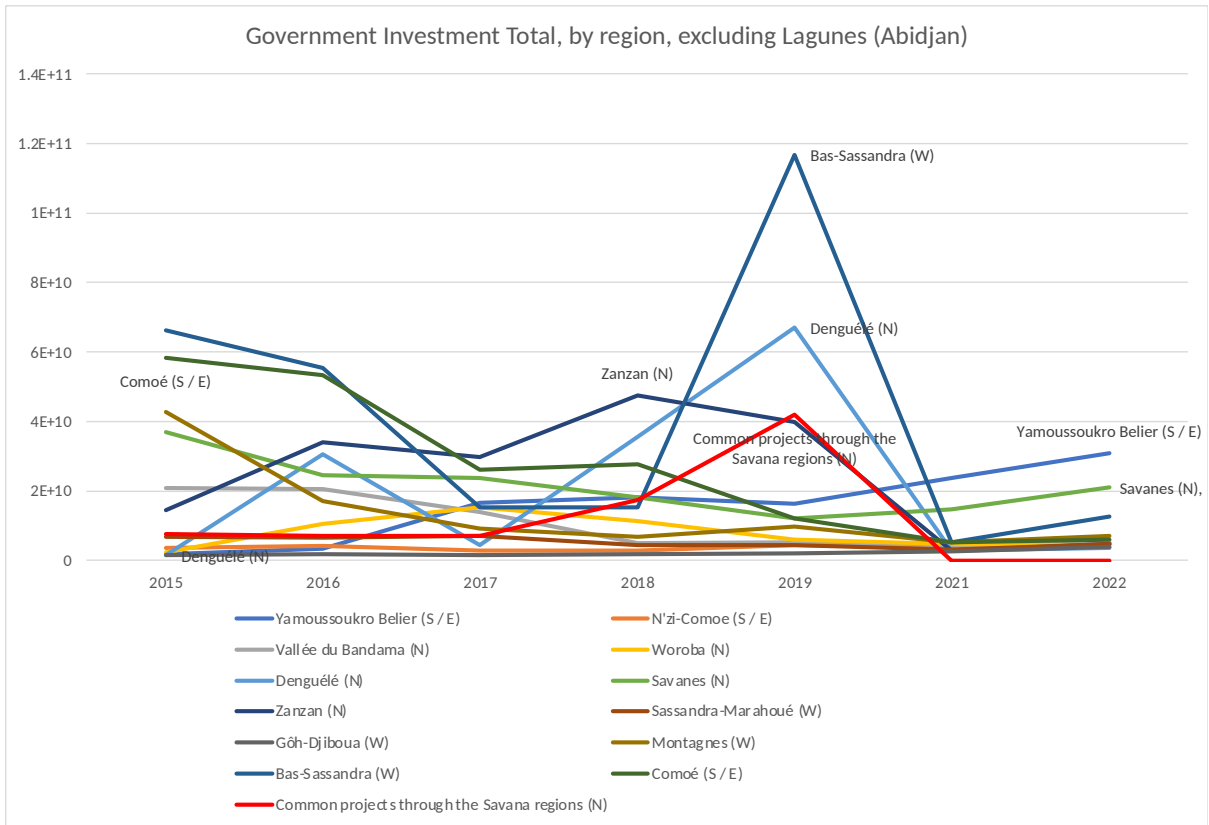


Figure 33 Source: Data of investments by region obtained from the government, graphs by author.

The two take-aways from these total investments by region is that Abidjan has received by far the most investment. Figure 32 shows this so dramatically that it is hard to see where else resources have been directed. Figure 33 therefore removes Abidjan, indicating significant investments in the north, a once-off investment in the west (for the cocoa-exporting port in San Pedro), and relatively high investments in Yamoussoukro. Given that the population is concentrated in the south and in Abidjan, it is worth comparing the per capita investment figures. These are outlined below:

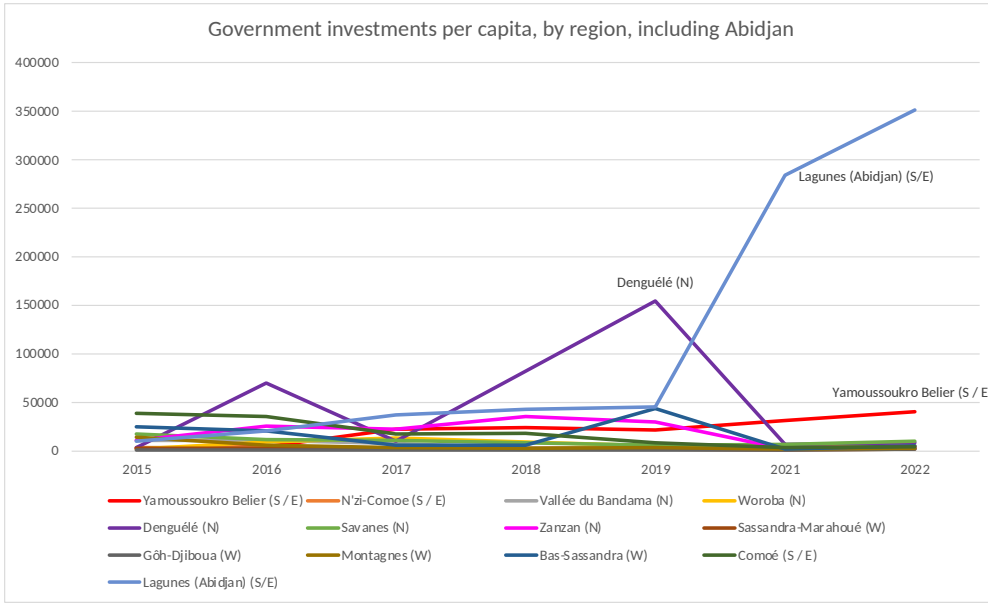


Figure 34 Government investments per capita, by region. Source: government figures, graphs by author.

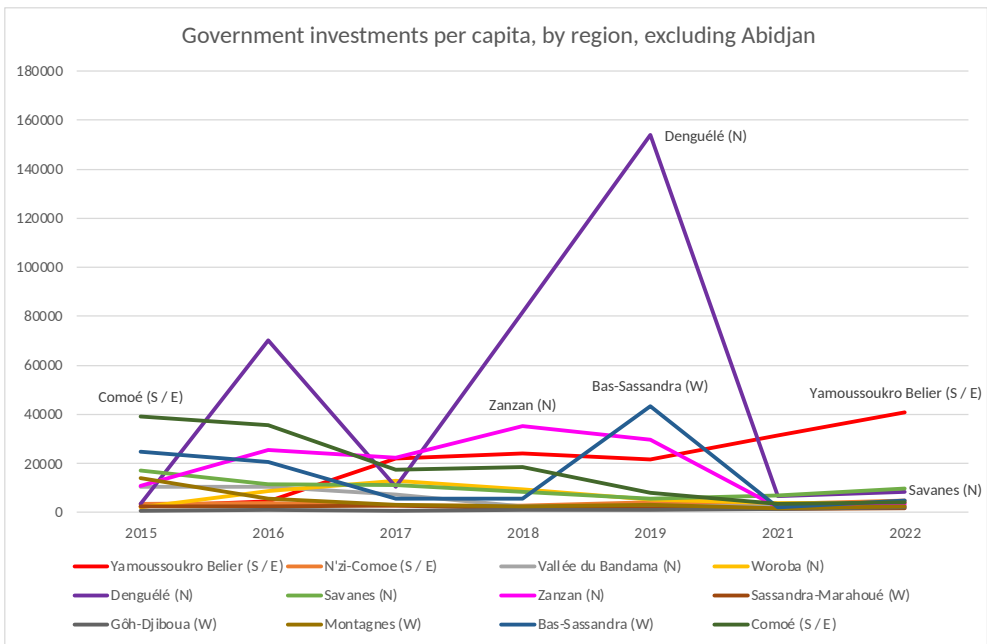


Figure 35 Government investments per capita, by region, excluding Abidjan. Source: government figures, graphs by author.

Again, even with the population differentials accounted for, Abidjan stands out as an exceptionally high recipient of government investments. This was reinforced in an interview with a government official who worked at the Ministry of Construction, Housing and Urban Planning, who estimated as much as 60% of the budget was spent in Abidjan.¹⁶⁹ Figure 35 therefore excludes Abidjan, high investments have also been made in Yamoussoukro, the north (Denguélé stands out here possibly because of an exceptionally small population), and Bas-Sassandra in the west. San-Pedro, the second major port of Côte d'Ivoire, and the cocoa-exporting port, is situated in Bas-Sassandra - explaining relatively high and consistent investments there. Even here however, in informal discussions, one Ivorian described San Pedro as a city that was essentially only a port, with little additional infrastructure and investment. The comprehensive development then has really been focused on Abidjan.

Two points are worth noting here in terms of more recent government plans. The first is in the last National Development Plan for 2021 - 2015 [Plan national de Développement (PND)] there was a plan outlined to broaden investment and economic activity outside of Abidjan by developing competitive economic poles [PECs - Pôles Économiques Compétitifs] across the country. These seven PECs include Abidjan, but also 6 regions across the country (as the main economic engines), 7 secondary PECs (as logistic centres or transformers), and 19 smaller

¹⁶⁹ (Interview 73, World Bank official 2024)

local PECs (labelled proximate catalyts) (Ministère du Plan et du Développement 2021, 59).

Connected to this system is a similar breakdown of agricultural areas into nine Agro-pôles that cover the entire country with priority sectors in each region around which they plan to develop food value chains. This would allow for agricultural processing and for small producers to be integrated into broader markets. For example, several projects stemming from the National Plan for Agriculture investments [*Plan National d'Investissement Agricole* (PNIA 2)], aim to regroup production to create points of sale, provide advice, conduct research on the agricultural needs of the region, and invest in storage infrastructure. There are zones established for transforming the agricultural output, and infrastructure including roads, markets, and health and community centres. There is an overall focus on key services such as electricity and drinking water (Ministère du Plan et du Développement 2021, 71).

In conversations with development officials, the desire to create the potential to process agricultural products emerged frequently.¹⁷⁰ According to one official, an overarching investment incentive structure had been created to stimulate investments in the PECs and agripoles, but limited or unreliable electricity, low levels of human capital, and other structural constraints limited private sector interest.¹⁷¹ Combined with these structural challenges which are difficult to solve immediately,

¹⁷⁰ (Interview 74, Senior Government official, 6 December 2024, In person, Abidjan)

¹⁷¹ (Interview 74, Senior Government official, In person, Abidjan)

one interviewee also noted that the failure of the government to take clear decisions on crucial issues – such as who would own the land on which processing sites might be built – was curbing confidence and investment too. As one interviewee noted,

“But then the government doesn't seem to agree among themselves on who should manage the zones where these cashew factories will be. Because there's a lot of different interests... Just about the ownership and the management...they seem to be too controlling in a way, because obviously there's money to be made by the elite. Yeah, the zones are a good idea, but it's implementation, right?¹⁷²

Nevertheless, there was a clear desire to make these regional development projects work, in the hopes that the country could reduce rural poverty, and especially important for the government: engage the youth in productive work. Indeed, the latter point – the threat of a growing unemployed youth – emerged as a key concern in several interviews.¹⁷³

The second point worth noting is that beginning in 2019, partly in response to public complaints from communities that they do not eat tar¹⁷⁴ (as a reference to the expansion of roads but not incomes), and with an eye on the 2020 elections, the government launched the Government Social Programme [Programme Social du Gouvernement, PSGouv] in 2019-2020. It focused on the following twelve sectors:

¹⁷² (Interview 76, World Bank official 2024)

¹⁷³ (Interview 74, Senior Government official, In person, Abidjan; Interview 76, World Bank official, In person, Abidjan; Interview 42, World Bank Official, Teams)

¹⁷⁴ (Interview 69, Ivorian academic, 3 December 2024, In person, Abidjan; Interview 77, international embassy official, 9 December 2024, Teams)

electricity, rural toilets, potable water, maintaining roads, education, social nets, universal health coverage, an enlarged vaccination programme, health infrastructure, social housing, and youth and women employment (Cabinet du Premier Ministre 2021).

The opening discussion in the final report, explicitly signalled this programme as a “concrete response to the issue of inclusive growth” (Cabinet du Premier Ministre 2021, 32). This introduction did much to convey that the government had already done much to help the poorest and to tackle inequality – interestingly, listing first the guarantee to provide farmers at least 60 percent of the CIF price. However, the introduction eventually conceded that some Ivorians continued to be vulnerable to shocks and fragility, and therefore this project had been created.

In a relatively short 2-year span, the project brought many impressive development changes, touching all regions of Côte d’Ivoire. For example, the year before PSGouv, 4940 (about 58 percent) of rural localities had electricity. During the 2-year programme, the number increased by 1841 localities: a 37 percent increase in electrified localities. The maps below show the extension (Cabinet du Premier Ministre 2021, 39):

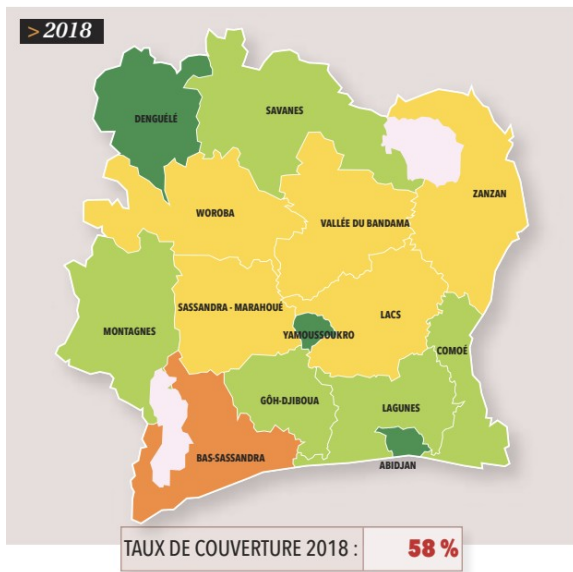


Figure 36 Electrification rates by region, 2018. Total coverage: 58%

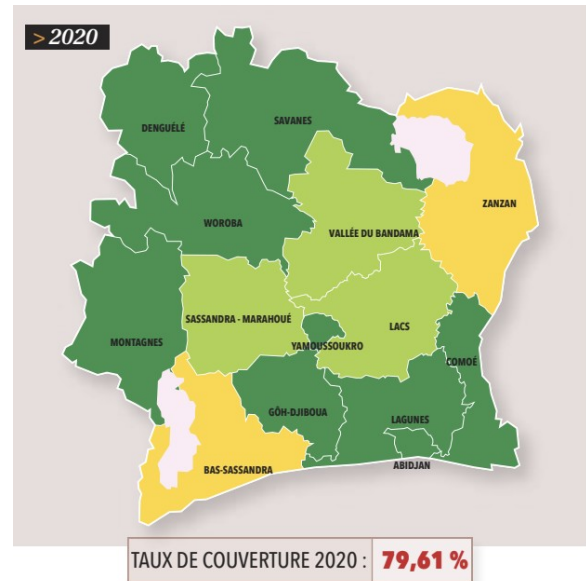


Figure 37 Electrification rates by region, 2020. Total coverage: 79.61%



In the field of education, 10 300 new teachers were recruited and deployed, 95 middle schools began construction, and about 200 000 school desks were provided. In terms of water provision, the government evaluated existing water pumps in villages and discovered that 45% of the 21 000 water pumps were no longer working. During the two years, over 20 000 pumps were serviced, over 6000 were repaired, about 3000 were replaced altogether, a little under 2500 committees were established to maintain the pumps, and almost 600 tests for water quality were conducted. The social service grants were extended to the whole country, including with the support of the World

Bank and the African Development Bank. In health, the number of people enrolled in the universal health care increased from a little under 300 000 people in 2018, to over a million people by the end of 2020 (Cabinet du Premier Ministre 2021). This is not the full list of achievements in the two years, but perhaps it is sufficient to make the point that the government dramatically increased its spending and focus on social goods provision.

Indeed, the conclusion noted that changes needed to take place within the functioning of the government to achieve such rapid outcomes, and that this was driven by political pressure for the programme to succeed:

“This period was marked by the need to reorganize the way in which public services operate in order to satisfy the requirement to produce more results. It was marked by the joint commitment of all the operational players in the various Ministries, State Structures and Institutions, to find rapid solutions to the bottlenecks that can affect the efficiency of public spending. Above all, it was marked by a political commitment that created the urgency essential to the success of a project of this scale. Finally, during this period, technical and financial partners shared the government's desire to move faster and reach more people in terms of poverty reduction and, in particular, access to basic social goods.” (translated from the French, (Cabinet du Premier Ministre 2021, 112).

One interviewee describes how people had begun to feel like the government was doing something:

“I arrived in 2017, and I found people were quite critical [of the government] and I have the feeling that now, people say... ‘well, finally, at least he has done something now’.”¹⁷⁵

¹⁷⁵ Translated from the French: (Interview 77, international embassy official, Teams)

The success of PSGouv was therefore extended to PSGouv2 which ran from 2022 to 2024, and had an initial budget of FCFA 3,182.4 billion (EUR 4.8 billion) on social expenditure (Portail Officiel du Gouvernement de Côte d'Ivoire 2021). While no official announcements have been made, there is discussion that this will be extended once again.¹⁷⁶ Since 2019 therefore, there has been a dramatic increase in government investment in social goods, including outside of Abidjan, with some impressive results. Despite this, the overarching story of government investment in Côte d'Ivoire has been a disproportionate focus on Abidjan. These subsequent projects were partly in response to critiques from the population and efforts to win elections. Other impressive projects such as efforts to develop economic development poles across the country are limited by implementation and logistical questions. This focus of the government on Abidjan forms an important part of the explanation for the evolution of HI in post-conflict Côte d'Ivoire.

5. The Broader International Context of the World Bank and the IMF in Côte d'Ivoire

Côte d'Ivoire's financial situation is dramatically different from Liberia: it has achieved impressive growth since the end of the war, the war itself was not nearly as destructive (especially in and around the capital) so there was a stronger base to build back from, and it has been led and managed by an impressive technocratic staff. Indeed, every interviewee

¹⁷⁶ (Interview 77, international embassy official, Teams)

who had worked on both Côte d'Ivoire and Liberia mentioned the stark difference in capacity between the governments: most government officials are well educated – in-country or abroad – and many have spent years as staff at the World Bank and / or IMF.¹⁷⁷ The result is that Côte d'Ivoire has been able to attract a wider array of aid and investment and has also been able to seek out debt on the international market (thereby accessing financial resources outside of the IFIs) through Eurobond sales. While this implies that Côte d'Ivoire has access to a larger pool of financial options, the IFIs continue to play a prominent role, in part because their finance is cheap (issuing Eurobonds, for example, has relatively more expensive interest rates, with higher risk in cases where they are issued in currencies other than the Euro, which is tied to the local currency). The result is that the World Bank and IMF remain key financiers for Côte d'Ivoire.

In the field of development assistance, the graph below plots Official Development Assistance (ODA) commitments to Côte d'Ivoire, by actor, over time:

¹⁷⁷ (Interview 16, IMF Official, 24 August 2021, Teams; Interview 28, World Bank Official, Teams; Interview 60, two government officials, 31 May 2024, Teams; Interview 74, Senior Government official, In person, Abidjan)

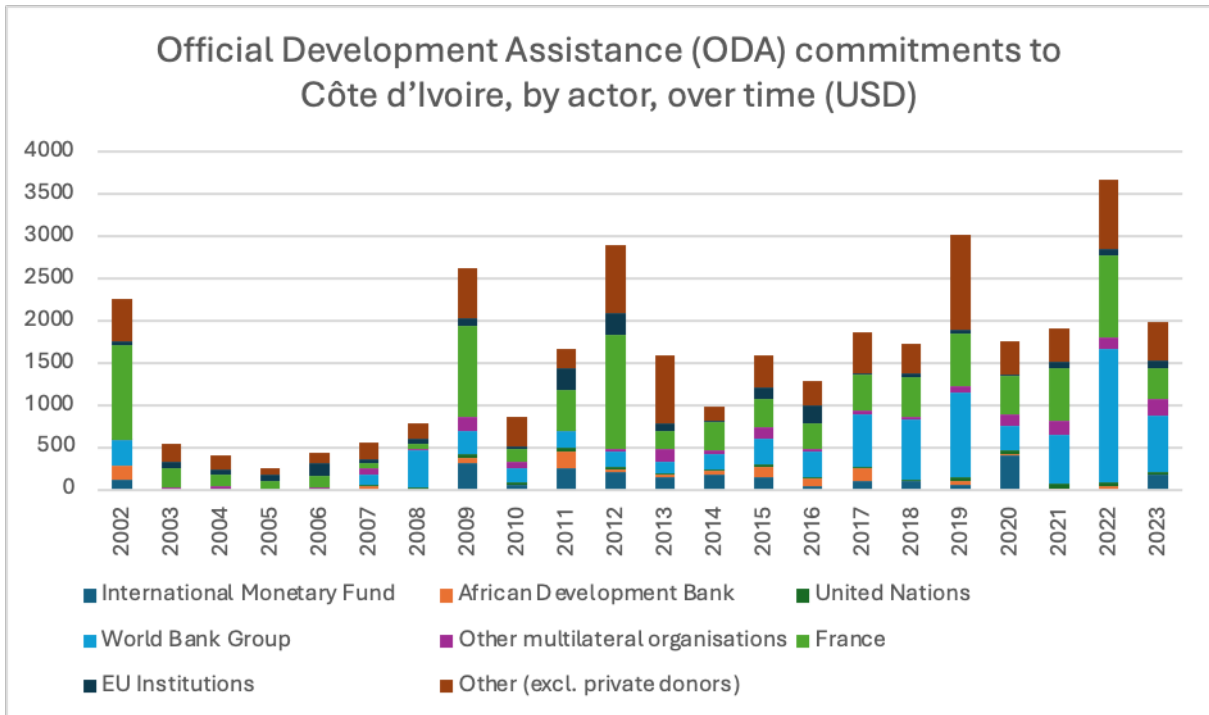


Figure 32 Source: (OECD 2023)

Despite the variety of aid options, the World Bank (blue) remains a central aid actor in Côte d'Ivoire and depending on the year, the largest. Just purely on scale then, the World Bank stands out as a key actor in Côte d'Ivoire, most especially from 2017 onwards. Only France as a bilateral aid actor comes close, as Côte d'Ivoire has historically been an important ally of France in West Africa. One senior government official described the World Bank as the most important multilateral funder, and amongst the most important funders.¹⁷⁸

The IMF contributes relatively less in terms of finances, but as in all countries, plays the ever-crucial signalling role, which indicates that a country is being well run and that it is likely to be able to pay back any

¹⁷⁸ (Interview 74, Senior Government official, In person, Abidjan)

loans. Indeed, many multilateral banks (including the African Development Bank for example) cannot provide loans if the IMF assesses the debt to be too high.¹⁷⁹ This role means that it will always have significant influence. In the immediate post-conflict environment, the IMF also plays a key coordination role. This is best explained by the interviewee:

“The final thing for the IMF as a coordinating agency, is to put a minimum macro framework together, that the government sees, the donor sees, and then they can link their activities to it... Everyone wants to see what is the gross framework: what can the government collect and spend, what are possible donor contributions and put it together to get a normal budget again. Donors need to see that, and it’s only the IMF that can provide it”.¹⁸⁰

These coordination and signalling roles mean that the IMF plays a disproportionately important role in post-conflict states, compared to its financing role alone.

While the government will always aim to cover as much of its budget deficit through relatively cheaper debt from the IFIs such as the World Bank and the IMF, Côte d’Ivoire has several times turned to the international Eurobond¹⁸¹ market to generate financing. Figure 39 below maps the issuance of Eurobonds in the post-conflict setting:

¹⁷⁹ (Interview 24, Development organisation official, 12 October 2021, In person)

¹⁸⁰ (Interview 18, IMF Official Côte d’Ivoire, Microsoft Teams)

¹⁸¹ A Eurobond is a debt instrument and international bond that is denominated in a currency other than the home currency of the country (or market) in which it is issued.

Côte d'Ivoire: International Bonds by Interest Rate
(Percent; balloons are issuance in USD millions)

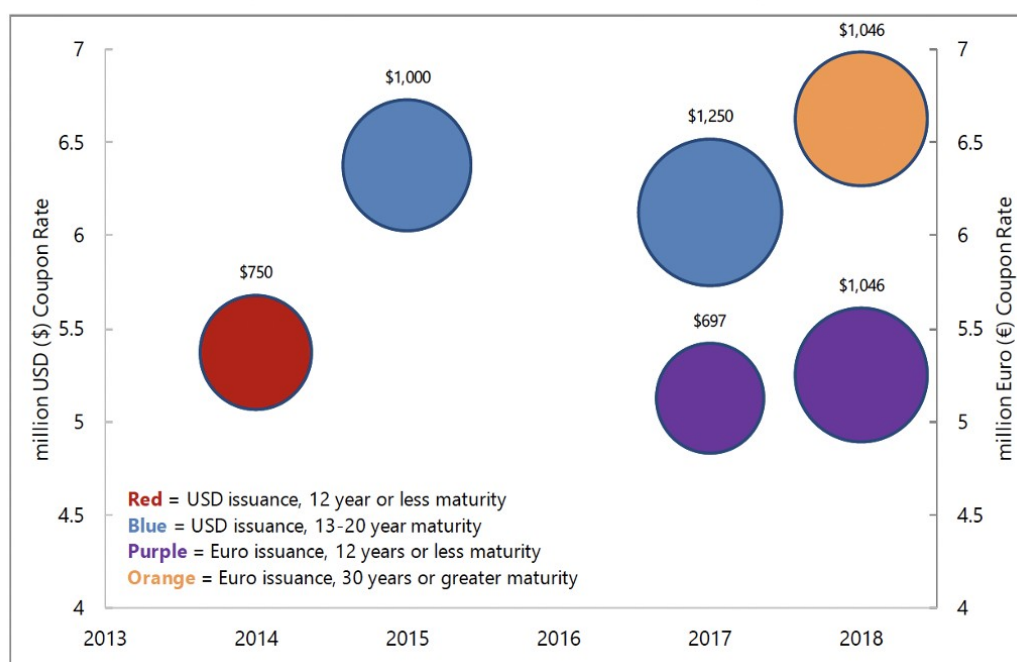


Figure 33 Source: (IMF Africa Department 2018, 20)

To convey the scale of these operations: in June 2017, Côte d'Ivoire issued a 16-year US dollar-denominated bond, with principal repayments spread over three years, as well as an eight-year euro-denominated bond. These operations netted about USD 1.2 billion for deficit financing. In March 2018, it issued two euro-denominated bonds with 12- and 30-year maturities, with principal repayments spread over the last 3 years. These operations raised EUR 1.7 billion (or USD 2.1 billion). As a comparison with World Bank funding, between 2016 and 2020, the World Bank disbursed a little under USD 4 billion. This suggests that the World Bank remains a critical financier in Côte d'Ivoire, even if the country is increasingly capable and confident in

international financial markets, and able to find supplementary finance when it deems necessary.

The final growing influence to assess, that is not included in the OECD data, is the financial role of China. According to the Chinese Loans to African Database, between 2000 and 2023, China has made 41 loans to Côte d'Ivoire totalling USD 5.5 billion. Until 2011, China had only made 6 loans to Côte d'Ivoire, but the number has increased in the post-conflict period, reaching a peak of 9 loans totalling USD 1.2 billion in 2019 alone (Boston University Global Development Policy Center 2022). About two-thirds of those loans were made by Development Finance Institutions, but large portions are made by commercial banks: predominantly in the transportation and energy sectors (Boston University Global Development Policy Center 2022). This suggests that China is gaining influence in Côte d'Ivoire and increasingly becoming a more central financier, particularly for infrastructure. Despite this, most interviewees, including Ivorian government officials agree that the IFIs studied in this chapter remain the core both in terms of funding flows, and in terms of policy influence.¹⁸²

6. The World Bank in Côte d'Ivoire

This section outlines what the World Bank did in Côte d'Ivoire. In outlining what was done, who the beneficiaries were, and what sector and region of the country benefitted, I argue that the World Bank was a

¹⁸² (Interview 20, 'Interview 20'; Interview 34, World Bank Official, Teams; Interview 60, two government officials, Teams; Interview 74, Senior Government official, In person, Abidjan)

critical actor for funding and leading social service investments most importantly in regions outside of Abidjan and in the north, helping to reduce HI by making the necessary investments to both shift the dynamics of the dual economy and allow different groups to participate in the more developed tier of the economy. I argue that the World Bank was able to do this work – most especially in the north of the country – because it was in line with the political priorities of the post-conflict government that had significant representation from the north. For aspects that help to tackle HI and severe poverty but that are not in line with government priorities are significantly more difficult for the World Bank to work on, except at critical moments of leverage such as during the HIPC (debt forgiveness) preparation phase.

The post-conflict work of the World Bank in Côte d'Ivoire began in earnest after the 2011 electoral crisis. Under Gbagbo, the Bank was constrained by the political situation, the country being divided, limited government resources devoted to development, limited international confidence in the country, and perhaps most importantly the fact that the government was in arrears to the Bank. One World Bank official described the Gbagbo government in this way:

“Now the Bete [sub-ethnic group of the Kru, to whom Gbagbo was a member] had said, it's our turn. The thing with Gbagbo is firstly the Bete didn't have the support of the administration because they were all Baoule [sub-group of the Akan]. Secondly, he had no intention of running the administration. ...when he got power, all of his socialist ideas went out the window. And he surrounded himself with ...various fairly unsavoury people who really wanted

to make the most - and who saw their role in a way, it was revenge.”¹⁸³

As an example of this revenge, the interviewee described the Minister of Development and Planning, Ministre Bohoun Bouabré: “He was awful... he completely raided the BNI, which had been the caisse de stab.”¹⁸⁴ [The BNI is the development bank and Stabilisation mechanism for agricultural prices.]

In another interview, one government official who worked under Gbagbo during these years said of the division between military spending and development spending at this time:

“When you have a fire somewhere, you should not look for filtered water. Everything that we have at hand, we use.”¹⁸⁵

When asked whether any kinds of investments could be made, they noted that only a minimum could continue - that would allow for the maintenance of the state. Expenditure during this time was clearly limited to military spending, state salaries, and (unofficially) private capture by those with access. When asked if there were challenges with the World Bank and IMF during this time, he said it was not always easy to work with either actor.

The political settlement under the Gbagbo administration was therefore not especially clientelist, as much as it was corrupt. People in power sought to capture public funds for their own, private benefit (rather than

¹⁸³ (Interview 33, World Bank official 2021)

¹⁸⁴ (Interview 33, World Bank official, Teams)

¹⁸⁵ Translated from the French (Interview 75, Former Government Official (Under Gbagbo), In person, Abidjan)

for any long-term goals of remaining in power). The political settlement seemed to reflect an elite happy to become directly wealthy, and to channel other state resources to the army and police, which were then used to suppress challenges to their power (including to groups in the southern half of Côte d'Ivoire). Still, I will argue that that political settlement shaped the manner in which the World Bank engaged with the government (by opposing the corruption and lack of a clear development agenda) and ultimately the programmes and policies implemented.

Despite the political situation and the corresponding challenges in the relationship with the Bank, there were three key roles that the World Bank played during this time that were critical to Côte d'Ivoire. The first, is that they managed to clear the arrears to the Bank, through a fairly complicated and unusual mechanism. This would allow the Bank to begin loaning again in earnest under Ouattara. The second is the Bank tried to push back on the rampant corruption and irregularities occurring under the war-time government, and lastly, played a role on the election monitoring committee, including a mediatory role between Gbagbo and Soro. During this time then, the Bank played an important role at limiting the loss of resources on war and corruption and preparing the financial position of the government for when Ouattara came to power, making it easier for him to begin the work of the state in earnest (unencumbered by high debt etc). This would be important for the Ouattara government's capacity to tackle HI, if it chose to use those resources for HI-reducing activities.

The clearance of arrears was essential for development financing to resume. This is perhaps best shown in the breakdown of Bank expenditure during the Gbagbo years:

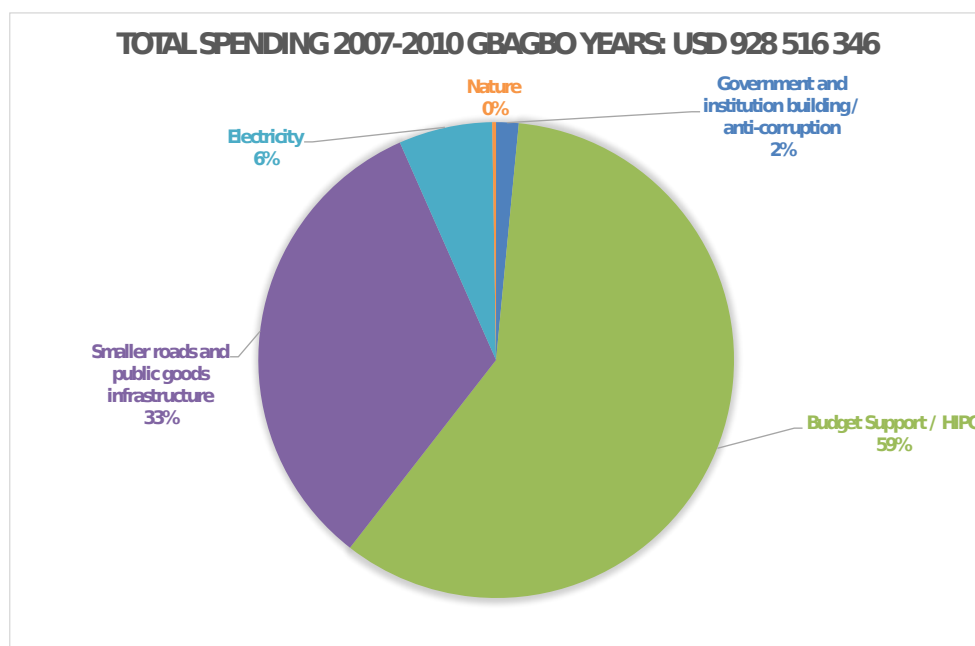


Figure 4 Breakdown of Bank spending in Côte d'Ivoire 2007-2010, data taken from World Bank project data, calculations by the Author

The vast majority of spending (59 percent) went on arrears clearance – predominantly through three Economic Governance and Recovery Grants (EGRG I, II, and III) (World Bank 2008a, 2009, 2010). Here the Bank helped to secure a short-term loan from France to pay for Côte d'Ivoire's debt, which the Bank immediately reimbursed to France.¹⁸⁶ This large World Bank loan was later cleared through the HIPC debt forgiveness process in late 2012 (Pazce et al. 2013).

¹⁸⁶ (Interview 33, World Bank official, Teams)

The flagship project of the social sector spending was the Post-Conflict Assistance Project (PCAP) which followed the peace agreement in 2007 and aimed to support peace and prepare the country for elections. The project worked to reintegrate ex-combatants and youth-at-risk; modernise the civil registry including to provide identity documents to Ivorians without (this population existed especially in the north) in preparation for the election, and the basic rehabilitation of social and economic infrastructure (World Bank, Global Practice Social, Urban, Rural, and Resilience 2016).

During the Gbagbo years, the Bank also pushed back against corruption. For example, on the opening page of the Interim Strategy Note for Côte d'Ivoire in 2008, it is written:

“There is a general governance malaise in Cote d'Ivoire... Corruption and lack of transparency has been associated with the cocoa and coffee regulatory bodies, the government's procurement methods in some large public private sector contracts and the important oil/energy sector.” (World Bank Group 2008, i)

This passage refers to two cases of corruption that were particularly powerful at the time. The first has already been mentioned – the “*caisse de stabilisation*” or regulatory body for the cocoa and coffee sectors was meant to function as a means to stabilise and support cocoa and coffee farmers by essentially taxing them during periods of high global prices and subsidising them in periods of low global prices. Instead, however, this became a valuable source of income for paying off cronies and

supporters. To indicate how serious this corruption was, the report goes on to add,

“The disappearance and presumed death of a Canadian journalist in 2004 who was investigating the cocoa sector is but one illustration of the deep vested interests in resisting transparency and reform. In turn, recent analysis of the cocoa sector suggests that revenues from cocoa exports have contributed to the financing of the armed forces on both sides of the conflict.” (World Bank Group 2008, 7)

In the previous 2006 Interim Strategy note, the Bank noted that,

“Attempts to audit these bodies were met with inadequate cooperation and even outright hostility by some of these bodies, which claimed – on the grounds of being private entities – to have been partly exempt from government scrutiny.” (Bogetic and Blake 2006, 7).

One interviewee listed coffee and cocoa as one of the “small disagreements” that existed between the Bank and the government at the time.¹⁸⁷ The Bank was therefore working on this issue, but the progress made was fairly limited until the war ended.

The second major corruption scandal of this period is best told by the World Bank interviewee who brought it to my attention:

“And [a colleague] says I think you better come to my hotel room. The Minister of Finance has just called me and told me that he has something he needs to urgently tell us about. So, I came, and the Minister of Finance proceeded to tell us about a horrendous corruption scandal which involved sending entire boatloads of Cote d'Ivoire Petroleum to – I think it was Amsterdam – in payment to a contractor who was building the new capital at Yamoussoukro.... So they managed to hide these exports. And, you know, this contractor was building all these incredible monuments in Yamoussoukro. When I talk about monuments, I mean a basilica which is as big as Saint Peter's. I'm talking about the Houphouët-Boigny Foundation with its marble floors and wooden doors. Wooden doors crafted by the finest Italian

¹⁸⁷ (Interview 75, Former Government Official (Under Gbagbo), In person, Abidjan)

architects and woodsmen. A new parliament building and all of this going on...you know when the economy is in crisis and people are... poverty is increasing.... Presumably that contractor is also paying the government official that's okaying all of this. I'm sure there were nice kickbacks. In fact, what he had done was they had negotiated the amount of petroleum based on the world price several years before, which when it was quite low and then the price of oil went up. So, this guy was making a windfall gain because he was getting the same amount of petroleum and then he would share some of that windfall gain with the authorities."¹⁸⁸

After this, issues about construction of the new capital emerged in several World Bank and IMF documents, including the Joint Staff Advisory of the Poverty Reduction Strategy Paper:

"In light of the large post-conflict rehabilitation needs - notably in education, health, water, and roads - the authorities are advised to reassess the scale and pace of construction of the new capital in Yamoussoukro for consistency with PRSP goals. Staffs support the authorities' commitment to incorporate all spending and financing for these works in the budget and follow regular budget procedures and have the execution of the works regularly validated and audited by reputable bodies." (IDA and IMF 2009, 4).

The last major activity the Bank played in this time was as a part of the election monitoring committee. One World Bank official recounted stories of meeting Guillaume Soro in a suit, with Soro in the Côte d'Ivoire soccer outfit and drinking beer - and proceeding to have a conversation about what it would take for him to join the Ivorian government under a government of national unity. He also recounts pushing Gbagbo to hold the elections he had agreed to in the final Ouagadougou agreement, and using HIPC debt forgiveness as part of the incentive for his holding the elections.¹⁸⁹ These were all important

¹⁸⁸ (Interview 32, World Bank official 2021)

¹⁸⁹ (Interview 33, World Bank official, Teams)

steps for getting Côte d'Ivoire to a position where real peace could take hold, and where the country could begin to develop – where loans and investments could be made that could target HI if so-designed. It essentially lay the groundwork for what would follow under Ouattara. It was therefore the necessary but not sufficient work required to tackle HI.

6.1 The World Bank from 2011 onwards: Under Alassane Ouattara

In the immediate years after the November 2011 electoral crisis, peace began to take hold in Côte d'Ivoire more concretely than after the 2007 peace agreement. The country was re-united, the financial situation normalised rapidly with the country receiving the full HIPC debt forgiveness at the end of 2012, and the uncertainty that had surrounded the elections and the longevity of the peace agreement began to dissipate.

To further secure this peace, the Bank spent heavily and quickly. Under Ouattara, the World Bank could move from a position of constraining some of the worst excesses of a state interested in using the instruments of the state to win a war, to a position of true partnership with a state that broadly shared the Bank's interests and assessments of what the country needed. This was the time when the foundations laid during the Gbagbo years could be built upon, including getting Côte d'Ivoire through HIPC debt relief quickly, and delivering major

development financing. The Bank certainly made important pro-poor investments that fall under the category of indirect HI-reducing policies. In particular, it worked to tackle the constraints of the dual economy by working to improve the incomes of poor farmers, expand agricultural activities and education in the north, and assist in the roll-out of national IDs (benefitting northerners) and post-conflict reintegration. These were all important for expanding opportunities and access to state services for the north.

The World Bank portfolio was a major investor in pro-poor sectors under the Ouattara years: over a third in his first term as president, and over 50% in his second term. This is a meaningful and substantial contribution to indirect HI-reducing policies. Despite this, assessments of HI levels conducted by the World Bank's own independent evaluator – the Independent Evaluation Group – indicated that these measures had not managed to majorly move the needle on HI trends (Ansola and Martinez 2022). As already outlined in this chapter's HI section, the reason for only a limited reduction in HI since the end of the war, despite impressive reductions in poverty, is largely driven by rural poverty that is difficult to shift, and an urban elite that is especially able to benefit from Côte d'Ivoire's impressive growth. This section seeks first to outline the impressive World Bank portfolio and policy actions taken to address social issues (including HI) and poverty, before offering an explanation for the limited impact on HI, via slow growth on rural income and fast growth on the incomes of the urban elite. The theory of

the differential distribution of growth in the dual economy is central to the explanation.

The World Bank's approach in the initial post-2011 years are best described by one interviewee:

"I did what I call the Big Bang strategy that I argued [for] at the Bank. Basically, I said, this country needs a lot of money very quickly and streamlined procedures so that we can push as much money on the ground as quickly as possible. And I remember my three-year allocation: I basically spent it in 12 to 16 months because I did what we call the renewal program. So, I did a lot of infrastructure, not just in Abidjan, but in about 18 major cities where I basically paved roads in the centre of the town. I put electricity so that it can come out of the dark. I repainted public buildings... of course, I had promised that I would not go back and ask for more money. But once I spent the money, of course, I went back and said, 'We need more'."¹⁹⁰

This approach of spending extensively throughout the country was noted on the first page of the IDA, IFC, MIGA Country Partnership Strategy Progress Report:

"The Bank responded swiftly to support Côte d'Ivoire's recovery efforts in the aftermath of the 2011 crisis. The World Bank Group (WBG) used existing International Development Association (IDA) operations to address post-crisis needs and frontloaded remaining IDA 16 resources in FY2012..." (IDA, IFC, and MIGA 2013, 1)

This inflow of aid was not limited to the Bank - as one interviewee described:

"We got a lot of support from the IMF, from the European Union, from the US, from, you know, all the cooperation basically came in because, again, everybody wanted to help President Ouattara to ensure that once you have democracy, once you have a normal political process with a duly elected president, then of course the international community supports you."¹⁹¹

¹⁹⁰ (Interview 46, World Bank official, Teams)

¹⁹¹ (Interview 46, World Bank official, Teams)

Significant as the Bank's spending was in Côte d'Ivoire during Ouattara's first term, it almost quadrupled in his second term. The following two graphs show the total, and breakdown of World Bank spending in Côte d'Ivoire under Ouattara:

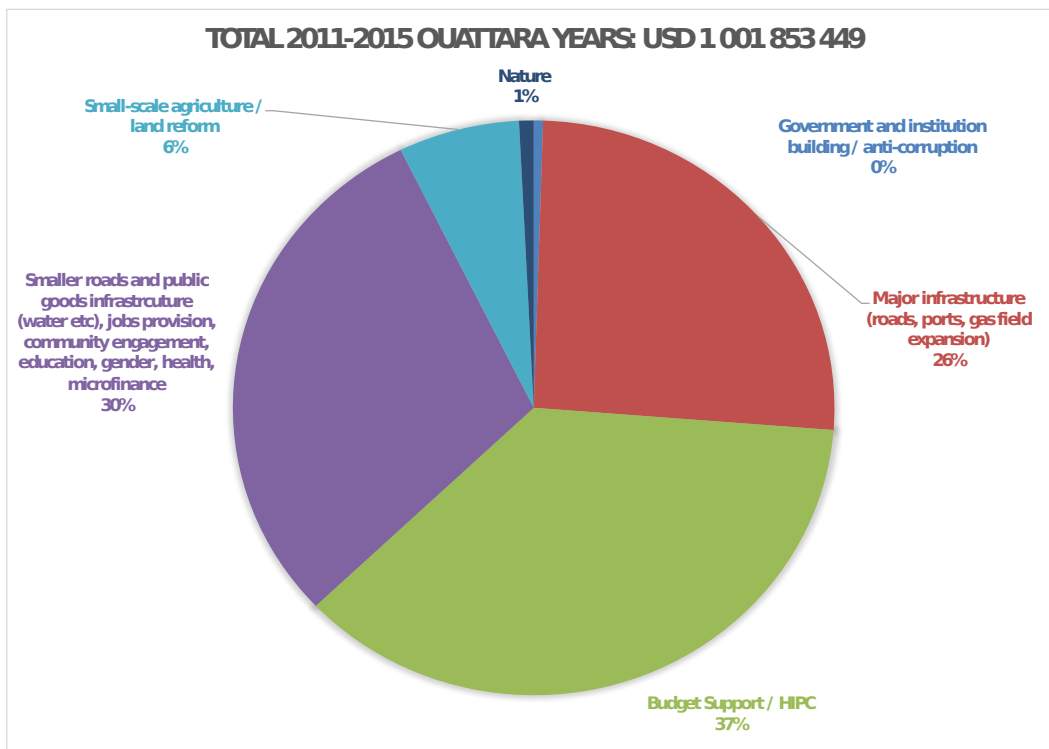


Figure 5 World Bank spending by category from 2011 - 2015. Source: (World Bank 2023b)

In this initial graph, spending is focused on direct budget support, social goods, and major infrastructure. Still, small scale agriculture and land reform form 6 percent of spending.

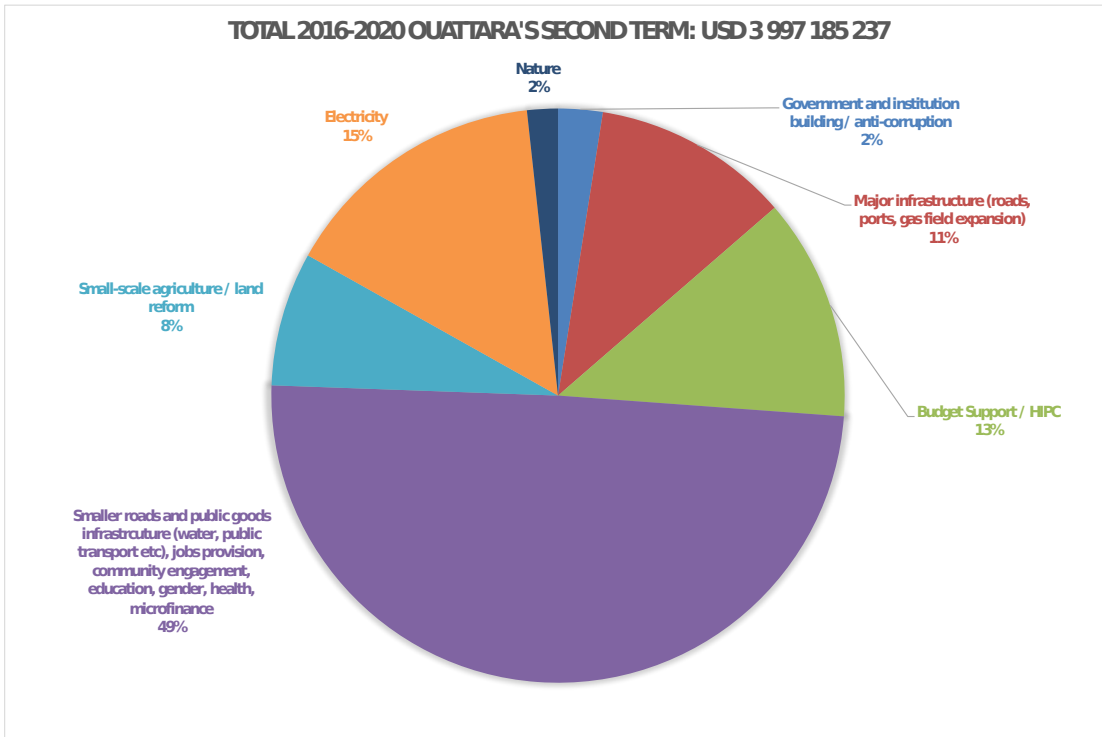


Figure 6 World Bank spending by category from 2016 – 2020. Source: (World Bank 2023b)

In the subsequent years, social spending becomes a much more significant proportion of spending – with almost half of World Bank spending falling into this category. Electricity overtakes major infrastructure investments, and small-scale agriculture and land reform almost equals what is spent on infrastructure. The focus then across these 10 years is heavily social spending and agriculture oriented – an important step in expanding universal public services and growing the less developed tier of the economy, which helps to reduce HI.

Where the money is spent within Côte d'Ivoire is also important. The image below shows the spread of disbursements across the country:

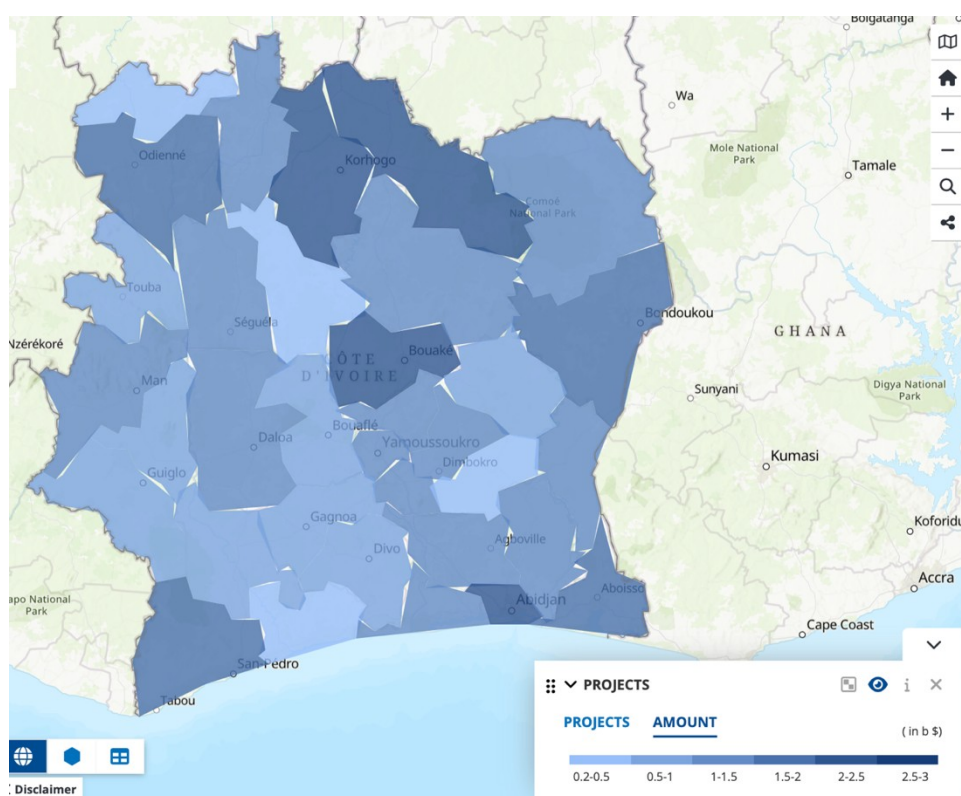


Figure 43 The spread of World Bank spending throughout Côte d'Ivoire. Source (World Bank 2023a)

A few take-aways are important here: first, unlike in Liberia, spending was high in Abidjan but not only in Abidjan. The northern regions of Gbêkê (Bouaké), Poro (Korhogo), Tchologo just alongside (Ferkessédougou), and to a lesser extent Gontougou (Bondoukou), and Kabadougou (Odienné) all received relatively high funding. Given the levels of poverty in the West, it is perhaps surprising that this appears to be one of the regions to have attracted the least World Bank spending. The exception is San Pedro in the south-west which holds the country's second major port and therefore forms an important economic hub for the country.

Figures 41 and 42 show that the Bank's portfolio in Côte d'Ivoire has been wide and varied – agriculture, infrastructure, electricity, education, vocational training, support for the private sector, microfinance, social safety nets, and some anti-corruption work. From an HI perspective, the following components of the Bank's post-conflict work had the potential to reduce inequality by either targeting certain regions (the north), targeting certain sectors (the cashew and cotton industry that is based in the north), targeting certain issues (the lack of national IDs – a problem disproportionately experienced by northern ethnic groups), or by targeting the poor.

6.1.1 The roll-out of National IDs

Starting in 2008, the Bank's first Post-Conflict Assistance Project worked on a project to update the national civil registry and ensure those without IDs could receive them. This allowed communities to vote and access state resources, an important first step to resolving HIs as northerners were more likely to be without formal IDs (World Bank, Global Practice Social, Urban, Rural, and Resilience 2016). It also strengthened international and domestic confidence in the 2010 election results.

6.1.2 Agriculture and the cocoa sector

The Bank has worked extensively on strengthening agriculture, and most especially in ways to increase the incomes of farmers, many of

whom live in or close to the poverty line. This has included work to strengthen the cashew industry in the north, which most directly addresses a key structure of HI: lack of income generating activities in the north. For example, the World Bank Group's work during the years 2016-2019 was assessed by the Independent Evaluation Group (IEG) to have increased the share of raw cashew nuts processed domestically to 15 percent from 5 percent; and to have increased cashew productivity from 0.50 metric tonnes per hectare to 0.57 metric tonnes per hectare. The Bank has also worked on the value chains of cocoa, cashew, cotton, rubber, palm oil, and coffee, generating adequate results in the cotton and palm oil sectors, and poor results in the cocoa, cashew, and rubber sectors (according to IEG because it overreached on the number of value chains it could invest in over the time) (Ansola and Martinez 2022, 12). While not all of these sectors are based in the north, they certainly target the poorer rural areas, and are therefore important contributors to the dropping poverty across the country that has contributed to reductions in HI. The mixed results however show the difficulty of moving rural poverty figures, even when investments are being made.

The advocacy work of the Bank (with the IMF) during the Gbagbo years and subsequently pushed to reduce taxes and levies on farmers in order to increase the price received by farmers to a minimum of 60 percent of the global price. As the sector that employs two-thirds of the labour force, and many of the poor, it is a sector with the most direct channel to the poorest via economic growth (IDA et al. 2013, 12). Indeed, in

2009, the World Bank's research estimated that "poverty among cocoa farmers is higher than the national average", despite being the country's most important sector (IDA and IMF 2009, 6). Interestingly, both a former Gbagbo official (in an interview¹⁹²) and the Ouattara government in a programme summary document, has in some way claimed obtaining the 60 percent minimum price for farmers (Cabinet du Premier Ministre 2021). However, the reduction of taxes on the CIF cocoa price was the first completion point trigger for HIPC debt forgiveness – a concession made by the government in exchange for debt forgiveness, and therefore is most fairly accredited to the World Bank and the IMF (IMF 2012, 17). As already outlined, many farmers are from northern ethnic groups who have travelled south to work on cocoa plantations (IMF 2012, 17). As such, increasing the income of cocoa farmers also reduces HIs.

The Bank has also pushed (from its first post-conflict engagement) to increase transparency in the cocoa and energy sectors, ensuring that these sectors are audited annually, reducing the state's capacity to use earnings in illegal or self-serving ways (2010-2014) (Vandendries and Goswami 2015, 4). As one World Bank interviewee, who was working in Côte d'Ivoire between 2008 and 2011 said:

"I was very concerned by the way in which the poor cocoa farmers were being exploited by their own elites...The towers of Abidjan were built on the rents from cocoa and coffee initially. And for such a significant number of cocoa farmers to continue to live in poverty while an urban-based elite skimmed off huge rents just seemed like highway robbery... We were trying to reduce the

¹⁹² (Interview 75, Former Government Official (Under Gbagbo), In person, Abidjan)

number and the amount of taxes and levies and fees and all kinds of things they dreamed up which were being imposed at the port ... which I remember depending on the year and depending on the world price could amount to over 30% of the world price. And through very tough negotiations, we got them to agree to lower them to around 22.5%...and to ensure that the cocoa farmers got at least 60% of the world price. And that was negotiated both through budget support [i.e. loans paid directly to the government budget in exchange for policy changes] and through the HIPC relief... And because they desperately wanted that, they reluctantly agreed... And the IMF was also intimately involved in those discussions.”¹⁹³

This quote makes two important points: one that cocoa farmers, while from a diverse ethnic background (including northerners), were not the elite. The second is that it took the promise of HIPC – the cancellation of over USD 3 billion in debt – as well as direct budget support (essentially loans that are made to the national budget directly in exchange for policy shifts like this one) to convince the government to ensure that farmers could receive 60 percent of the CIF (cost, insurance, freight) price of cocoa (IMF 2012). Without this strong incentive, more recent efforts from the Bank to work on cocoa have been rebuffed by the government. This will be discussed in greater detail later.

6.1.3 The SMME sector

The Bank’s work on the private sector has been heavily focused on Small and Medium Enterprises and expanding the percentage of Ivorian adults with bank accounts (Vandendries and Goswami 2015; Ansola and Martinez 2022). It is therefore a sectoral focus that could shift HI dynamics, most especially if it targets the micro-business sector (tailors,

¹⁹³ (Interview 32, 1 December 2021, Teams)

street-sellers etc) which are part of the less developed tier of the economy. This work is therefore important to enhancing growth in the less developed tier, attenuating the impact of the dual economy on HI trajectories.

6.1.4 Social protection and public service expansion

The Bank has made significant investments in pro-poor services, spending as much as 49 percent in these activities in Ouattara's second term [see figures 41 and 42 for the sectoral division of Bank spending]. During this term, the World Bank grew the cash transfer programmes into a national system (via the PSGouv programme discussed above). This increased the number of individuals receiving cash transfers from 22,000 to 210,000 households; and increased the number of beneficiaries of the safety net programme from 950 to over 47,000 (Ansola and Martinez 2022, 18). The Bank's work on education has included 3 major components: technical training, primary education (initially implemented only in the north, and subsequently scaled to the entire country), and tertiary education which was scaled back during COVID¹⁹⁴. While tertiary education has the potential to benefit more the elite, the northern primary education programme and technical training was much needed to address core development concerns of the poorest. While this social service work did not measure the recipients'

¹⁹⁴ (Interview 42, World Bank Official, Teams)

ethnicity, this kind of work that targets the poorest is key to reducing HIs.

6.1.5 The geographical spread of World Bank investment

The geographical spread of the Bank's investments in Côte d'Ivoire was not solely concentrated in Abidjan in the same way that the government's investments have been. There was an equally strong presence of Bank projects in the north as in Abidjan, which is important for reducing HI. (See Figure 43 for further detail.) One interviewee noted that because of spatial inequalities, they had pushed colleagues at the Bank and the government to get out of Abidjan and into both secondary and tertiary cities and into rural areas: to focus less on industrial free zones which can have mixed outcomes, and more on rural connectivity, small shareholder farmers, equitable energy distribution.¹⁹⁵ This pushing was required because there was a desire to be where the action was – in Abidjan. The interviewee added that with the government, while there was rhetoric around rural support, it was not matched in the allocation of investments, something also reflected in figures 32-35.

Another Bank official also pushed for some of the earliest post-conflict projects to be in Bouaké (a city in the northern half of the country) as well as Abidjan even if only “for optical reasons”.¹⁹⁶ A separate interviewee noted that during his time, one of the disagreements had been over a government request for a major hospital:

¹⁹⁵ (Interview 20 2021)

¹⁹⁶ (Interview 34, World Bank Official, Teams)

“They wanted me to build a modern hospital. And I said no. I said a modern hospital serves people in urban areas... you already have five hospitals in Abidjan, but you have regions in the north where you have nothing.... So sometimes we have conflicts with government in terms of the choices. Politically, you get a lot more mileage from building a nice modern hospital in the city that you can show than going and doing 15 health posts that nobody sees.”¹⁹⁷

The same interviewee said that as part of their post-conflict renewal project, he did infrastructure projects in 18 major cities: repainting state building, fixing the central roads in each town and the like to convey the sense that the war had ended – throughout the country, not only in Abidjan. The push to get development out of Abidjan and into both other cities and into the rural areas emerged in several interviews, suggesting that this has been a meaningful part of the World Bank engagement.

6.1.6 Spatial inequality: considered but difficult to change

These interview extracts and data suggest that the Bank prioritized concerns about equitable development in various ways across its portfolio, in part because it recognised this as a core issue facing Côte d’Ivoire and because it was also in line with government priorities. In its strategic documents spatial inequalities were also identified as a key cross-cutting issue in the World Bank country strategy (Ansola and Martinez 2022). This broader regional focus is important for targeting HI, but despite this attention, poverty numbers in rural areas have stagnated or become worse.

“Some of the recent stats that the Bank has produced show that the rural communities or regions have gotten worse. They're

¹⁹⁷ (Interview 46, World Bank official, Teams)

getting poorer. And the cities that are driving the high reduction in poverty are Abidjan and Yamoussoukro and Bouaké.”¹⁹⁸

The authors of the Completion and Learning Review noted that many World Bank projects would have addressed the foundational causes of spatial inequalities - by targeting the correct areas and poorer populations. Despite this targeting, broad measures of inequalities suggest no great shift took place:

“To some extent, the root causes of conflict are still present...At the risk of over-simplification, the northern part of the country is significantly poorer, and its ethnic composition (Voltaic and Northern Mande) reflects a large immigration from Burkina Faso and Mali, the neighbouring countries to the north. The southern part of the country—where Abidjan, the capital, is located, and the country’s elite resides—is richer and ethnically Akan and Kru. The resolution of regional disparities and ethnic divisions remains a major challenge, and Cote d’Ivoire made only modest progress on this front during the CPF period. The population living in the southern part of the country benefited the most from the country’s recent economic success” (Ansola and Martinez 2022, 4).

Two issues remain then: rural incomes don’t seem to be increasing enough to break out of poverty, and urban elites seem to be benefiting disproportionately from the impressive economic growth. I argue that this is a good example of a difficult problem: the differential distribution of growth in a dual economy. The income growth that can be extracted from agricultural growth, particularly agricultural growth that is based on relatively small family plots, and a capped global commodity price, is limited, and cannot compete with the kind of income growth that can be generated in the service sector and industrial growth that is happening more easily in the developed south. This remains the case, despite the

¹⁹⁸ (Interview 43, World Bank Official, Teams)

fact that many of the overarching principles and components of the Bank's portfolio were well targeted to help the poorest populations and the populations in the north.

While Côte d'Ivoire is a good example of differential growth in a dual economy, three trends have exacerbated the problem, making it less likely that a well targeted World Bank portfolio would reduce HI. First, World Bank projects targeting foundational aspects of HI, but that did not have government backing, largely failed to be implemented; second, as already outlined in section 4, a disproportionate focus of government investment in Abidjan; and third, a hesitation on the part of the government to take key decisions that might strengthen private investment in agro-industries in other regions of the country.

In the same way that a lack of government interest seems to inhibit the success of World Bank projects, this section also provides evidence that World Bank projects that are in line with government interests can be very successful, allowing World Bank expertise and finances to be brought to complex projects (such as cash transfer roll-out). In conclusion then, this section is evidence that the political context, including the interests of the government in power, the political economy arrangements, and the balance of political power, are all essential to the explanation of why HI evolves as it does, and the nature of the World Bank's impact on HI.

6.2 Explaining limited reductions in HI: the dual economy and political interests.

6.2.1 Sectors with limited World Bank success due to a lack of government interest

In addition to these structural issues with sectoral growth returns and initial endowments, there are also some sectors that have not received significant World Bank attention, or efforts at creating World Bank projects have failed – all sectors that could have targeted important foundational causes of HI and / or aspects of the dual economy. The consistent factor driving this lack of (successful) intervention is, as with Liberia, a lack of government interest, strengthening the argument that it is difficult for the Bank to work on issues without the backing of the government. This section outlines three factors – the cocoa sector (following the initial interventions), investment in the west, and land reform – that the Bank has attempted to work on, without success. This aims to argue that the Bank’s portfolio is limited by government interests at times where the Bank does not have strong leverage.

The first sector is cocoa: while the Bank, working closely with the IMF, made good progress on increasing farmer’s incomes during the early post-conflict years when HIPC debt relief and direct budget support loans could be used as leverage, more recent progress has been sluggish:

“The cocoa sector is really, really captured. It's a big problem for us because we would like to be helping the government to make it more productive and to raise farmers’ incomes. But the

government says, no, no, we're here. We don't need you. As a consequence, the sector is not doing too well. It's still quite big and large. But in terms of diseases and climate impact and raising people's livelihoods it's very weak and a lot of potential. They could do so much better. Because farmers' incomes are low, because of the pricing scheme and lack of investments in productivity at the farm level are poor. And so there's a lot of poor people in the West working in cocoa."¹⁹⁹

When asked why the government rebuffed efforts from the Bank to address this, the interviewee suggested it might be because the government is hesitant to release control of such a key sector – to allow some private sector to come in and innovate – and also that potentially there were some people making a lot of money in the sector that were hesitant to see it evolve.

The Bank has also worked on the cashew sector, which as a high-value crop primarily grown in the north, has the potential to reduce regional inequalities. This work has been supported by the government, and the review of World Bank projects showed “an increase in the volume of raw cashew nuts processed domestically and an increase in cashew productivity in the World Bank project area” (Ansola and Martinez 2022, 1). Cashew and cotton crops – both grown in the north – have increased substantially in the post-conflict period, offering a much-needed source of economic activity and income to northern rural communities. This was outlined in an interview as one of the sectors that the government allowed to grow.²⁰⁰ The comparison between the cashew and cacao

¹⁹⁹ (Interview 76, World Bank official, In person, Abidjan)

²⁰⁰ (Interview 76, World Bank official, In person, Abidjan) (Interview 74, Senior Government official, In person, Abidjan)

sectors is interesting: where the government is engaged, but not overly controlling or exclusive in its engagement, the World Bank is able to generate impressive growth.

These two examples are also indicative of the core reasons why HI is slow to change. Both cocoa and cashew/cotton employ the poorest groups, and most especially cashew and cotton which are grown in the rural northern regions of Côte d'Ivoire. Despite impressive growth in this sector, rural poverty has not decreased significantly according to multiple assessments. The slow returns to growth in the agricultural sector already outlined in the theoretical chapter are unable to compete with the kind of growth that can be generated in urban centres, and especially Abidjan. The cocoa sector shows the second inhibitor of change in HI: lack of government interest in receiving the expertise and oversight of the World Bank in a captured sector that allows an urban elite to disproportionately benefit, while the farmers themselves are left to battle climate change, pests, commodity price fluctuations, and decreasing yields without the necessary investments that could shift outcomes.

The second point to make here is that, as Figure 43 shows, the Bank's investments in the west of the country have been relatively light. This matches the government's overarching strategy of focusing on Abidjan and the north, but with less political representation from the west, it has failed to attract the necessary attention to receive either much

government or Bank investment. One interviewee suggested this might be starting to change:

“If you talk about regions, for example we just produced some poverty maps...We're showing, you guys have a problem in the north...but there's a very strong representation from the northern people in the government: Ouattara and team. So that's something they are aware of. And they are investing...But if you look at the poverty map in terms of the number of poor people, the West is also a strong area of attention, if not stronger...But generally they [westerners] are a little bit outside government influence and sidelined. But we say that you have a problem in the West in front of the government. And they know. It's not that they say get out.”²⁰¹

This take-away is two-fold: first that certainly World Bank projects are influenced by the state: with fewer westerners in the government, fewer World Bank resources have been directed to the west. Despite this however, the quote shows that engagement and advocacy work by the Bank, also through its research and publications can bring issues to the government, in ways that could shift the way the government thinks about its interests. This quote suggests that the Bank is trying to show the government that the west could become a concern, and if the government is convinced, it may begin to shift the way it perceives its interests, and therefore, where government and Bank investments go. Ultimately however, government interests shape the course of development.

The third issue that the Bank has tried to work on more recently with limited success is land. Land ownership was flagged in 2009 and again in 2010 as an issue that should be dealt with urgently by government

²⁰¹ (Interview 76, World Bank official, In person, Abidjan)

(World Bank Group 2010; IDA and IMF 2009). It is worth noting here that in 2010, in a country where agriculture forms the backbone of the economy, of the estimated 25 million hectares under cultivation, less than two percent had official titles (World Bank Group 2010, 11). Clarifying land ownership has meaningful benefits for HI for two reasons: first, poor farmers who can get certificates of land ownership (even if the land itself is small) can then use this as collateral for necessary investments. Secondly large landowners can be taxed to increase Côte d'Ivoire's tax base which would increase its capacity to invest in HI-reducing policies and programmes. Despite this, the issue only emerged in a World Bank strategy in the FY2016-FY21 Country Partnership Framework, where under Focus Area 1 (Accelerating Sustainable Private Sector-Led Growth), Objective 4 was to "Formalise and enhance access to land for business and agriculture" (Ansola and Martinez 2022, 11). In the Bank's review of progress on its objectives however, it was noted that "no progress was observed... primarily due to delays in the implementation of the land policy project (Ansola and Martinez 2022, 1). The issue therefore entered the World Bank portfolio relatively late given its relevance and then was not very successfully implemented.

One interviewee explained the lack of progress on land issues with the government:

"Our work on land, which just means, look, just do your cadastral properly, make it transparent and open, and give people the land certificates and don't make it too expensive so the poor can also

get it and then use that as a base for taxation. It's not really making much progress. Although we obviously keep pushing because there's a huge potential for the generation of domestic revenue.... you talk to governments, some parts say let's do this and then nothing happens. So, you know it gets stuck somewhere in government. So...the elite bargain is preventing it from happening."²⁰²

The situation is complicated for different reasons in urban and rural areas but broadly clarifying land ownership runs counter to government interests. In the west for example, where much cocoa is grown by northerners and immigrants, sometimes over several generations, there is conflict over land ownership between local Kru ethnic groups and cultivators. Houphouët-Boigny's phrase that the land belongs to those who cultivate it is something the government can no longer commit to following the land conflicts in the west but also cannot completely abandon as the production of cocoa there is so extensive. Tackling this issue is likely to be complicated, and potentially destabilising.

In urban areas however, especially Abidjan, land is expensive, and one interviewee suggested that the government's role in allocating land to the private sector to build social housing was not achieving the social housing outcomes intended. They described:

"So, the government decided - years ago, to give the construction of social and economic housing to the private sector. But...the private sector was selling social housing at very high prices, right? In fact, they decided to invest in luxury housing. Okay, so they left poor people aside... So, the government was giving them [the private sector] incentives, giving them land to build social housing, but they were building luxury housing using the incentive of the government, the subventions everything from the government. So, after that, the government saw the social

²⁰² (Interview 76, World Bank official, In person, Abidjan)

housing were dying for more than ten years. But recently, 1 or 2 years ago, since they noticed that the elections are coming up next year, they decided to relaunch it.”²⁰³

The causes of this policy failure are unclear: on the surface it seems to be a case of outright corruption – with those close to the government benefiting unjustly from state support and, critically for this point, a lack of clarity about land ownership. However, some, including the interviewee itself said that at least part of the problem was that the state used the private sector to provide housing because it was unable to shoulder the full cost itself, and was then unable to reign in the private sector once it had been empowered with the resources and right to build social housing.

Some analysts have argued that the dysfunction of state regulation has been intentional in order to maximise the rent-seeking opportunities for political clientele and international allies (N’goran et al. 2020). What is clear from an HI perspective, however, is that a social policy aimed at creating affordable housing for the poor (therefore for those more likely to be northern or western) has instead created houses for those able to afford luxury, and economic opportunities for those connected to the government. The beneficiaries are not the poorest groups. What is also clear is that the uncertainty over land, allows government to take control of land and apportion it, and therefore it is unlikely that the World Bank’s efforts will see much success here.

²⁰³ (Interview 73, Government official, 5 December 2024, In person, Abidjan)

Source: (Cabinet du Premier Ministre 2021, 56)

What figures 44 and 45 show is that the World Bank was brought on to finance predominately second or third tier cities' safety nets (the dark green regions in figure 44), and mostly the northern and northwestern regions of the rural safety nets (the orange regions in figure 45). As already noted, the Bank had been encouraging the government to also focus on areas outside of Abidjan for some time. This advocacy found fertile ground in a government with strong northern influence, and that needed to respond to critiques that roads were not filling stomachs. This project was assessed by the IEG as largely successful, indicating that where World Bank expertise and advocacy is combined with government support, the World Bank can make meaningful policy changes that address HI by targeting the poorest.

This was echoed in an interview with a government official:

“So we discuss with the IMF, the World Bank. We look at them as supporting, assisting us – not in terms of leading. We are preparing the National Development Plan for 2026-2030. We asked the World Bank to support us on a study of the quality of the growth. We will take a look at the findings, and the main conclusion of that report. The government asked the World Bank to do that. We are having a synergy, and I don't think it's challenging. The government is in the driving seat: we know how we can use each development partner to support our development process.”²⁰⁴

²⁰⁴ (Interview 74, Senior Government official, In person, Abidjan)

This suggests that, like the things the Bank failed to make progress on, the successes of the Bank portfolio might be because they have fallen well into the government's priorities and programmes.

I have argued here that the priorities of the government and the elite (forming the political settlement) have constrained (and, in other cases, enhanced) the work of the World Bank. It is worth outlining the extent to which the political settlement is characterised by clientelism, in line with the quantitative work. Clientelism is not the defining feature of the political settlement in Côte d'Ivoire, and certainly less than the case of Liberia. Some factors of clientelism exist: the disproportionate focus on the north by a northern-dominated government over the west, for example, suggest some clientelism at play, because a northern-dominated government might seek to ensure political support in the north through public investment there. Still, other factors like high poverty in the north, a large population that require public services, insecurity on the border and the threat of jihadism are a more important part of the explanation for this northern focus.

The preferences of the various elite seem to be a mix of i) genuinely wanting to see rapid economic growth and reductions in poverty, ii) a desire to see the north less unequal as compared to the south, iii) an economic elite who are hesitant to open certain sectors of the economy to real competition or rapid productivity growth (including in cocoa, but also sugar, urban housing etc) that they may not be able to control and

also because the status quo in those sectors are favourable to them; and lastly, iv) the desire to earn votes in the elections. How these preferences compete to create the political settlement ultimately determines policy choices and actions (or inactions), including those that influence the work of the World Bank.

There are two final points to make which impact reduction in HI. The evidence for these points has already been presented in the chapter, and therefore this section will briefly draw out the analysis that is relevant for this section. The first is the government's disproportionate investment in Abidjan also makes it difficult for spatial inequalities to shift dramatically. Even a well-balanced World Bank portfolio will struggle to compete with imbalanced government investments, and therefore to have the kind of equalizing effects that one might expect. From 2016-2019, 52.8 percent of government investment was spent in Abidjan (Lagunes) district. Even large and well-balanced World Bank investment will struggle to make up for this disproportionate Abidjan investment. This will keep spatial inequalities intact.

Lastly, the government's hesitation to take key decisions about the agripoles and PECs that could pull investment into different parts of Cote d'Ivoire, prevents industrialization from happening outside of Abidjan in ways that might compete with the growth that Abidjan can create. These are all factors slowing the potential for growth to alleviate poverty, generate income, and solidify peace outside of the wealthier

districts of Abidjan. It also explains why rural inequalities have not dramatically changed in Côte d'Ivoire despite the growth of the cashew and cotton industry in the north, despite the expansion of social safety nets, education, and health to the north, and despite the impressive economic growth.

7. The IMF in Côte d'Ivoire

The story of the IMF in Côte d'Ivoire is one of fiscal consolidation: monitoring the country's fiscal deficit as a percentage of GDP and encouraging the country to reduce this deficit over time. This is a much more conventional engagement from the IMF: unlike in Liberia where the IMF had to work to establish and improve the basic functions of economic governance (the Central Bank, the Ministry of Finance etc), Côte d'Ivoire's degree of post-conflict destruction was significantly less, and especially after Ouattara, state officials were generally considered to be competent.²⁰⁵ Ouattara himself came from the IMF, and therefore there was a shared understanding of what the economy needed, and the importance of macroeconomic stability.

Despite this shared understanding, the pace of fiscal consolidation led, often, to disagreements between the IMF and the government, and public protests against increases in the electricity price or taxes, for example. I argue that the pace of fiscal consolidation follows the IMF's risk aversion to debt accumulation that, depending on the context may

²⁰⁵ (Interview 16, IMF Official, Teams; Interview 74, Senior Government official, In person, Abidjan)

be appropriate, but in Côte d'Ivoire case was excessively risk averse, restricting the government's capacity to access debt that would have been important to address HI (amongst other concerns).

In Liberia, restricting debt made sense – a low-capacity government that spends almost its entire budget on current consumption, and has limited capacity to engage in investments that will generate future revenues, in an economy with very limited resilience, is not a government that should be accruing major debts. In the case of Côte d'Ivoire however, with a capable government broadly committed to development and macroeconomic stability, an economy that is achieving significant growth (generally over 7 per cent – even when terms of trade are not favourable), with an increasingly diversified economy, suggests an economy and a government able to use its loans both for the benefit of the country, and to enhance its long-term capacity to re-pay loans (i.e. driving growth and economic resilience) while maintaining national stability. Such a government could have benefitted from a less risk averse approach to debt.

Not just the government, but the poorest groups, including northerners working in the agricultural sector (in the south) and those still in the north, would have benefitted (or, more accurately, would not have lost out in the way that they did) with a less risk averse approach to debt. The analysis will show that under the strictest fiscal debt restrictions, measures were taken that were especially harmful to HI and poverty

reduction, including reducing the price to cocoa farmers by over a third and reducing investment by 0.6 percent of GDP (with investment urgently needed in less developed parts of the country). Had fiscal austerity been a bit less tight, these cuts may have been prevented, and HI may have been more effectively targeted.

Nonetheless, in addition to this predominant focus on fiscal consolidation, there are several policies worth outlining, because they impacted HI. The first were the policies that laid the pre-requisites by enhancing the government's capacity to address HI if it chose. In this category, there are four spheres of the IMF's work: getting Côte d'Ivoire through the HIPC debt clearance process, addressing governance and corruption issues including SOE reform; loans from the IMF to increase the availability of low-interest debt, and work to strengthen the commercial banking sector. The next category of policies worth outlining, are those that indirectly affect HI: and in the case of Côte d'Ivoire this work revolved around two sectors: the commodity sector (coffee / cocoa / cashew etc), and its work on tax (which ultimately did not succeed in shifting tax policy but did improve implementation). This work should have been able to reduce HI with its focus on the less developed tier of the economy, however, because of the overarching focus on fiscal consolidation, these gains were reversed by restrictive (and pro-cyclical) conditionality in 2016.

Under the worst governance conditions then: with heavy corruption and extraction on the back of poor farmers, the IMF (in collaboration with the World Bank, and with the leverage of HIPC) can be instructive in protecting the poorest. However, with governments that are conscious of the risks of macroeconomic instability and with a focus on development, the risk-averse focus of the Fund on fiscal consolidation undermines a reasonable expansion of the fiscal deficit at the cost of investments and incomes that would support the poorest in the lower tier of the economy. This section will start by outlining the loans and conditionality that the IMF negotiated with post-conflict Côte d'Ivoire, before addressing this overarching focus on fiscal consolidation. This includes a discussion on whether governments can influence IMF programmes: they cannot, but they can influence the way in which programmes are implemented. It ends by outlining other components of programmes that addressed the pre-requisites for addressing HI, and the indirect policies that affected HI.

7.1 An overview of IMF loans and conditionality in post-conflict Côte d'Ivoire

The IMF loans to Côte d'Ivoire began in 2007 and continued under Ouattara, with favourable reviews of the country's growth and prospects. In particular, the Fund made the following loans to Côte d'Ivoire in the post-conflict years²⁰⁶:

- A three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) accessing a USD 565.7 million loan (SDR 373 980) (IMF Africa Department 2009).
- A three-year Extended Credit facility (ECF) loan, extended for one year starting in 2011 and worth SDR 520 320 (Camard 2011; IMF External Relations Dept 2011a).
- A Rapid Credit Facility also in 2011 worth SDR 81 300 (IMF External Relations Dept 2011b)
- In December 2016, the IMF approved two loans under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF) for a combined total of SDR 487.8 million (about US\$658.9 million) (IMF Africa Department 2016).
- Two loans in 2020, both relating to COVID drawn from the Rapid Credit Facility and the Rapid Financing Instrument for COVID totalling an impressive SDR 650 400.

The graph below reflects the flow of these loans (which are disbursed in several instalments) from the IMF from 2007, including significant liquidity in the face of the COVID pandemic. These loans indicate one of the ways in which the IMF helped strengthen the pre-requisites to

²⁰⁶ As with the World Bank section, I study the Gbagbo years, as well as two of the three Ouattara Administrations, stretching until 2020.

addressing HI – access to cheap debt – that the government could use to address HI if it chose to.

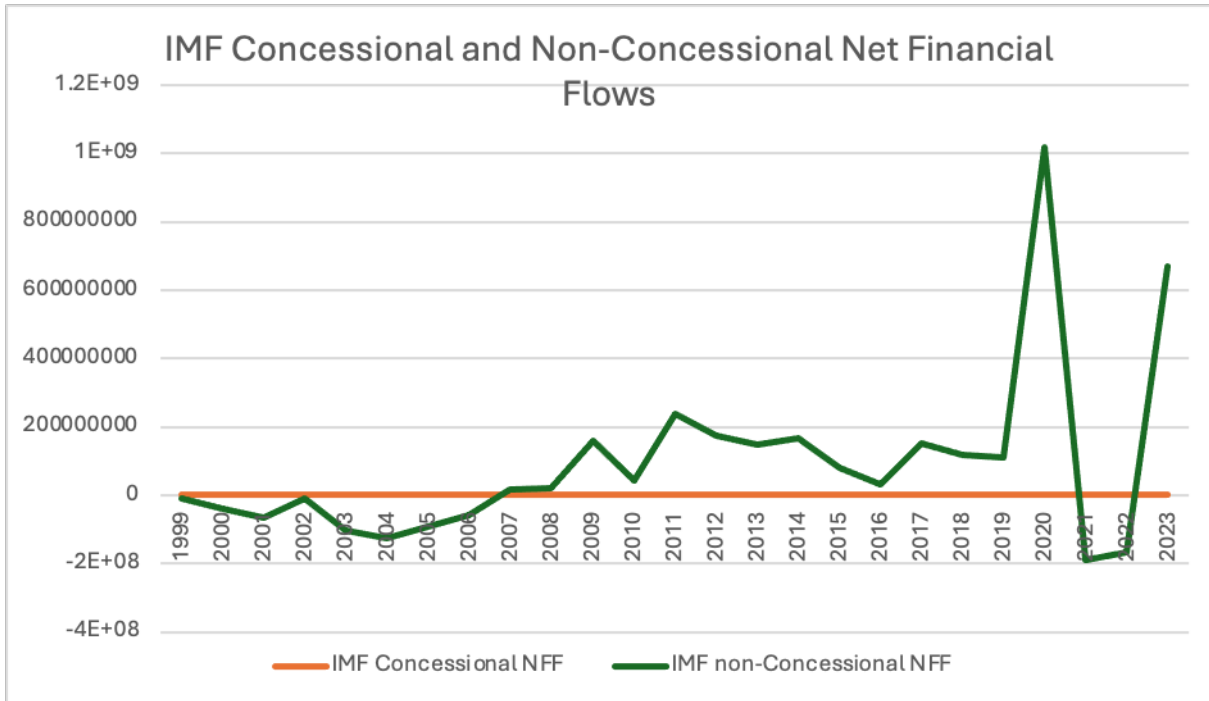


Figure 46 IMF net financial flows to Côte d'Ivoire over time. Source: (World Bank International Debt Statistics 2025)

The graph shows that Côte d'Ivoire has exclusively received non-concessional loans. The negative financial flows before 2007 indicate repayments to the Fund continued under Gbagbo. Consequently, the IMF was one of the few multilateral (or bilateral) actors in the initial post-conflict period (after 2007) to which the country was not in arrears. This meant IMF staff came under immediate pressure to loan to the country after the peace agreement.²⁰⁷ Disbursements dropped off (along with the conditionality attached with it) with the elections at the end of

²⁰⁷ (Interview 18, IMF Official Côte d'Ivoire, Microsoft Teams)

2010 (followed by the crisis), when the international community restricted liquidity for the Gbagbo regime significantly, pushing him to hold elections and pull back from the post-election violence. Financing rebounded quickly in 2011 with Ouattara coming to power, and the country remained a net recipient of IMF funds except for 2 years after the significant COVID disbursement. As one government official outlined, the extent of IMF loans showed the faith the organisation had in the government. At the time of the interview (2024), the IMF had a loan with Côte d'Ivoire that amounted to 400 percent of its (overarching) allocation, and within the specific post-COVID Resilience and Sustainability Trust, Côte d'Ivoire was accessing 150 percent of its quota.²⁰⁸ The IMF was therefore relatively forward-leaning in terms of providing Côte d'Ivoire with loans beyond its quota, making cheap debt (more) available for HI-reducing activities if the state chose to use the money for this purpose.

In addition to net financial flows, is it interesting to assess the array of conditionality imposed on the country by the IMF.

²⁰⁸ (Interview 60, two government officials, Teams)

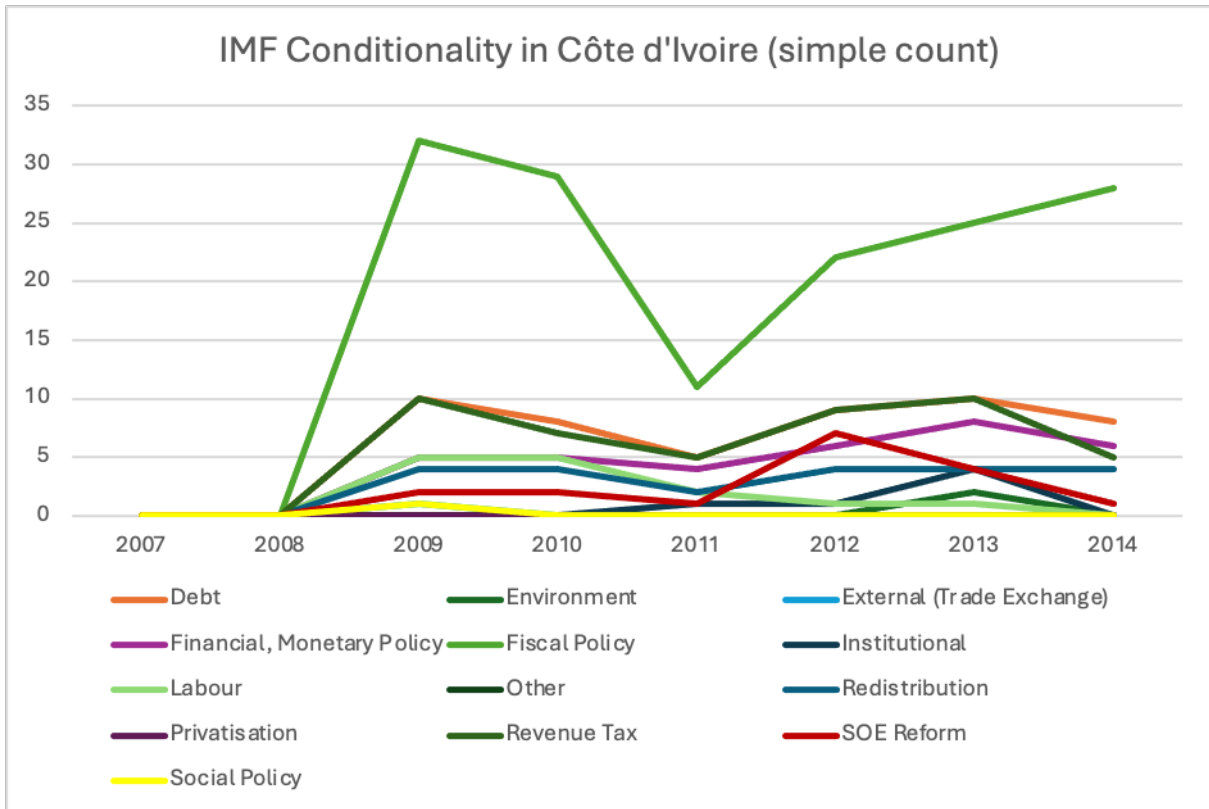


Figure 47 IMF conditionality imposed on Côte d'Ivoire. Data represented is the BA1 variable - a simple condition count. Source: (Kentikelenis et al. 2016).

From 2008 onwards (after the peace agreement that reunified the country under Gbagbo in 2007), fiscal policy conditions dominated the IMF's conditionality, which is not surprising given that Côte d'Ivoire is part of a monetary union - the West African Economic and Monetary Union (WAEMU) - limiting the scope for monetary policy conditions. The category of fiscal conditions includes expenditure audits, accounting, and financial controls; audits of ministries; domestic government borrowing; and publication of data relating to the budget execution. This

set of conditionality also reflects the overarching focus of the IMF in Côte d'Ivoire: fiscal consolidation, to which the thesis will now turn.

7.2 The IMF's overarching focus in Côte d'Ivoire: Fiscal Consolidation

There are two moments in the post-conflict period where the demand for fiscal consolidation emerged most strongly: HIPC (2011) and following a large drop in cocoa and other commodity prices in 2016. These major adjustments dominated the IMF programmes in their respective years, but clearing arrears and keeping debt low through various performance criteria (e.g. a floor on the overall fiscal balance, a ceiling on net domestic financing, ceiling on the present value of new external debt, and a zero ceiling on the accumulation of new arrears) was in place throughout the post-conflict period (IMF 2015; IMF Africa Department 2017a).

When assessing the impact of fiscal consolidation on HI, one has to balance the negative impact of a debt crisis (high inflation, low growth, macroeconomic crisis) which is bad for most measures of economic performance including HI, with the need to take on a reasonable amount of debt that is used responsibly to invest in the kinds of infrastructure and public services that drives economic growth, income generation, and crucially for HI, the ability for those employed in the less developed tier to access the more developed tier. Addressing HI requires an expansion of public services, and an increase in investment in regions

that were previously under-serviced by the government. For most post-conflict countries, these needs are going to outstrip the government's capacity to collect revenue (through taxes). It is for this reason that grants are important, and these are usually substantial in the very initial post-conflict years but peter out over time. In some senses then, the investment and expenditure needs to address HI are likely to be in contrast with the IMF's agenda to keep debt low. Assessing whether the IMF's measures are reasonable is therefore a question of degree: it is clear that debt to the point of macroeconomic crisis is to be avoided, and the IMF's work to prevent this is useful. At the same time, it is possible that the IMF is too risk-averse, and that it keeps debt at levels that constrains what would otherwise be possible in terms of addressing HI.

I have argued in the case of Liberia that the IMF's constraints were reasonable given the limited capacity of the state to use the funds in ways that would grow the economy and lift communities out of poverty. A gradual increase in the state's absorptive capacity alongside modestly expanding debt makes sense. In the case of Côte d'Ivoire however, I argue that the IMF was too risk averse and could have allowed the deficit to grow slightly (most especially to avoid cutting the incomes of the poorest) given both the history of strong economic growth and the government's own capacity to manage its debt.

In particular, cutting the prices offered to cocoa farmers by 36.4 percent and a 0.6 percent of GDP reduction in investment were steps taken to meet IMF criteria that was most detrimental to addressing HI. Other steps like reducing subsidies on rice imports and oil, and rising electricity prices are more reasonable given the share of this expenditure that goes to high-consumption households, but nevertheless would have reduced the purchasing power of low-income households. Given the PSGouv investments, this (inefficient) use of state resources on subsidies might be worth the cost for the poorest families, which may have been compensated through the PSGouv investments. The Fund's initial work on fiscal consolidation to pass Côte d'Ivoire through the HIPC process was, conversely, very helpful to laying the pre-requisites to addressing HI if the state chose to. Each component of this work will be addressed in chronological order.

7.2.1 Fiscal consolidation: reaching fiscal deficit floors

In the initial post-conflict period (under Gbagbo) the focus of the IMF programme was on ensuring transparency and accountability over how the government was spending its resources. Certainly, oversight over debt accumulation was part of this – most especially in relation to building a track record for debt forgiveness under HIPC. The impetus of this work however seemed to be rather an understanding that the government was using the tax resources (extracted from the commodity sector – notably cocoa, cashew, cotton) for non-productive expenditure (monuments, military spending, soldiers' bonuses – expenditure the IMF

often labels “non-priority”²⁰⁹) (IMF External Relations Dept 2007). Other key fiscal issues included fixing the customs administration²¹⁰; improving the tax administration to increase spending in the north and reduce debt; issuing quarterly budget execution statements; and reducing non-wage government current spending (IMF Africa Department 2008; Kireyev and Le Hen 2009). Reducing subsidies on oil and reforming the electricity sector was also a continuous part of the IMF programme.

In 2009, Côte d’Ivoire entered a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) accessing a USD 565.7 million loan. The programme focused on:

“(i) continuing fiscal consolidation, while creating fiscal space for pro-poor and pro-growth spending; (ii) reducing public debt to a sustainable level through HIPC/MDRI debt relief and gradual fiscal adjustment; and (iii) pursuing an ambitious structural reform agenda in public finance management, civil service, the coffee/cocoa and energy sectors, and private sector development, including the financial sector.” (IMF Africa Department 2009, 1)

As with the World Bank, the IMF was closely working on the coffee-cocoa sectors, as well as on the corruption scandal of the construction of the Yamoussoukro monuments being paid for with the country’s oil. Indeed, the story recounted above took place with an IMF colleague and featured in the IMF’s conditionality on sectoral audits.

²⁰⁹ (Interview 61, IMF Official, 5 June 2024, Teams)

²¹⁰ (Interview 61, IMF Official, Teams)

Many IMF publications mention the importance of pro-poor spending, push for transparency and audits of government institutions that were leaking money, and seek to limit the government's injection of funds into failing banks servicing the elite. These were conditions well suited to targeting inequality and shifting resources towards pro-poor spending. As one interviewee described:

“The programme under Gbagbo was to contain the damage, to address blatant governance issues...keep the repression spending down - the police that was used against the north and even groups as far as the south... And then shift whatever spending the government was able to do - because there was still money: the cocoa continued, there was a little bit of oil, there's coffee, cotton, some fruit, and everything continued fortunately... so the programmes had to shift spending towards social spending.”²¹¹

The impetus of this work was different from what came later: in the initial post-conflict years under Gbagbo, there was a feeling that the government was misspending its money, overtaxing the already-poor cocoa and coffee farmers for the benefit of the politically connected in Abidjan. Certainly, some of these measures were also to develop a track record for HIPC which would prove that the government would be able to re-pay debt in the future, but the big push was to slow the misappropriation of funds, improve the incomes of farmers (which had been slowly whittled away by a state finding it an easy source of revenues), and otherwise get state spending in the sectors that might grow the economy.²¹²

²¹¹ (Interview 18, IMF Official Côte d'Ivoire, Microsoft Teams)

²¹² (Interview 18, IMF Official Côte d'Ivoire, Microsoft Teams; Interview 32, Teams)

Because these policy changes were something the government resisted, with many entrenched interests, HIPC gave the Fund (and the Bank) the leverage to get these changes passed, including lowering tax on cocoa and coffee farmers. This was undoubtedly useful for HI: increasing the price received by the commodity farmers surely helped to reduce poverty of the poorest, including northerners who had travelled south to work in the sector. Increasing accountability and encouraging the government to expand its spending in the north was useful for increasing state expenditure in both the kinds of activities and the regions that would target HI. It was therefore both a pre-requisite policy for addressing HI – increasing state accountability and funds for development – and an indirect policy for addressing HI by directing spending to the north and to northerners.

Following the election of Ouattara, a former IMF Director, the IMF programmes became more standard – efforts to protect cocoa and coffee farmers dropped off the agenda after 2013, and while some social sector discussions might take place (such as the IMF encouraging a minimum 9 percent expenditure on educational infrastructure) these rarely made it into conditionality, and if they did, were easily achieved (such as minimum social spending with easily achievable floors). During this time, the conventional IMF package was implemented: clearing domestic arrears, reforming the business environment, reducing government involvement in the banking sector, including through privatising and restructuring public banks and enforcing prudential

banking rules; and reducing energy subsidies (IMF Africa Department 2014). Throughout this programme fiscal consolidation were the only measures in the performance criteria – the strongest form of conditionality. These conditions all related to keeping the deficit under a certain level and ensuring that the deficit was not too heavily financed from the domestic and regional financial market to prevent the state crowding out the private sector’s access to debt (IMF 2015, 52).

During the initial years of Ouattara’s administration (most particularly from 2013 to 2016) cocoa prices were unusually high, which meant that the price provided to farmers could increase while the government could receive strong tax revenues from these sectors. Figure 48 below shows cocoa prices over time.

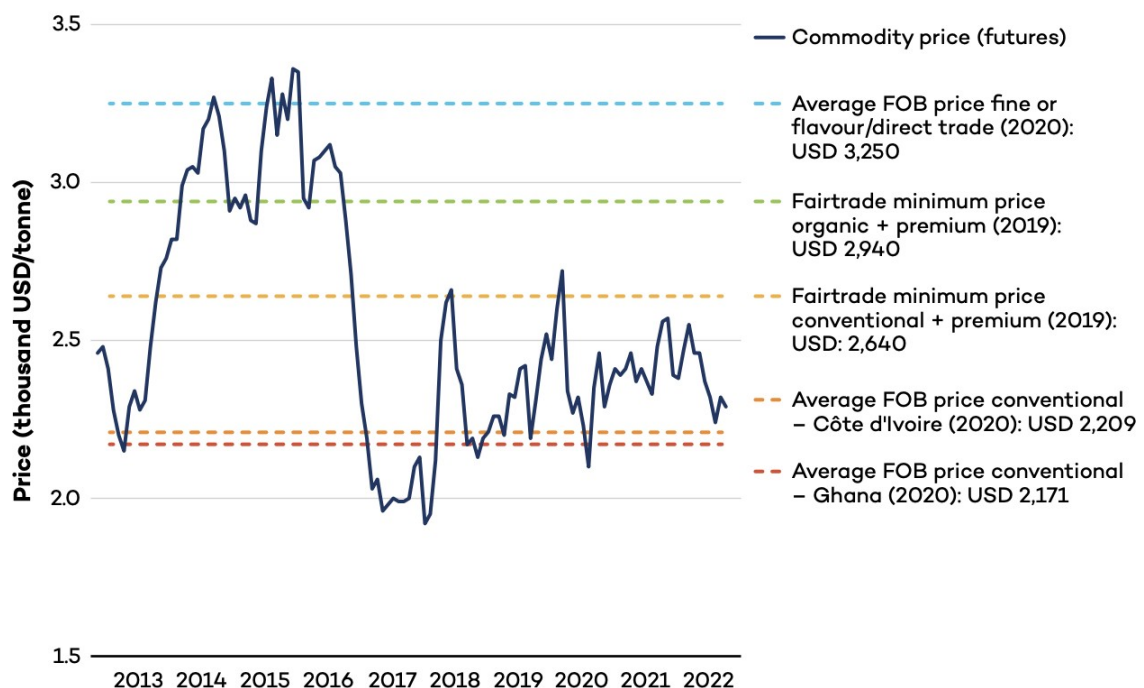


Figure 48 Cocoa Market Prices from 2013 - 2022. Source: (Bermudez et al. 2022, 21)

During the years of strong cocoa prices, the IMF programme was conventional, but not too strict. Aside from the performance criteria monitoring fiscal debts, structural benchmarks (economic reforms that are less strictly enforced) focused on reforming the business environment, reducing government involvement in the banking sector, including through privatising and restructuring public banks and enforcing prudential banking rules; and reducing energy subsidies (IMF Africa Department 2014).

There is however, no evidence of restrictions of the fiscal deficit that were especially negative for HI during this first programme under Ouattara: indeed, during this time the government's expenditure and investment grew. For example, pro-poor spending (as classified by the IMF) increased from 1622.4 billion CFA Francs in 2014 to 2014.8 billion CFA Francs in 2016, a 24 percent increase over two years (IMF 2015, 78). Likewise, state expenditure (alongside revenues) increased over the period: 3054.1 billion CFA Francs in 2012 to 4469.8 billion CFA Francs in 2015. Perhaps most importantly, there were no major protests over the period to oppose major reductions in government spending. Under good macroeconomic conditions then, with a capable government, the fiscal consolidation measures seemed well targeted to

allowing the necessary expansion in state spending (including pro-poor spending) that include indirect measures to address HI.

With the cocoa price drop in 2016, the government budget quickly came under strain as both tax revenues of cocoa dropped, and subsidised prices for farmers created ballooning demands on the budget (IMF Africa Department 2017a). In December 2016, the IMF approved two loans under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF) which crucially requested the government to cut the guaranteed price to cocoa farmers by 36.4 percent as a prior action – that is, as a step that must be met before the IMF disbursement begins at all (IMF Africa Department 2017a).

Additionally, to keep the fiscal deficit low in the context of reduced cocoa revenues, the IMF requested that the government increase the price of gasoline by 4 percent, curtail current expenditure by 0.2 percent and cut domestic capital outlays (i.e. investments) by 0.6 percent of GDP. These adjustment measures amounted to 1.5 percent of GDP, keeping the fiscal deficit at 4.5 percent of GDP. This was higher than the initially predicted 3.7 percent (without the cocoa price drop), but lower than the 6 percent of GDP it would have been with the lower commodity prices and without the adjustment measures.

Pro-poor spending (as measured by the IMF) plateaued in 2017 following significant prior growth. Crucially, although the total plateaued, budgets were cut in agriculture and rural development; education; and social

spending. Conversely, increases were measured in energy, roads, and water and decontamination (IMF Africa Department 2017a, 78). That is, the social sectors that targeted HIs more directly experienced big reductions in spending, while infrastructure spending increased. Structural benchmarks also included applying a retail fuel price mechanism to preserve fuel tax revenue; and increasing electricity rates despite protests over rising electricity prices the year before (IMF Africa Department 2018, 95). The cuts therefore involved many of the indirect policy measures that would tackle HI most effectively: new investment, rural development, education, social spending, and reducing the incomes of poor farmers by over a third.

These (and other) measures led to widespread protests. These are described in the IMF second review under the extended credit facility and extended fund facility arrangement. The language is interesting for the placid way in which it outlines the major social impacts of its conditionality:

“Understandings reached between the authorities and mutinous soldiers and striking civil servants on meeting their demands secured social peace and stability. The authorities paid the equivalent of about 0.5 percent of GDP to soldiers to end quickly their mutinies in January and May 2017. Furthermore, the authorities tightened security measures after attacks on police and security installations over the summer. Reflecting improving security situation, the mandate of the UN peacekeeping forces in the country officially ended at end-June 2017. In early 2017, the authorities reached understandings with public civil servants who went on a general strike. The government recognized wage arrears of about 1.1 percent of GDP claimed by the civil servants and agreed to repay them over 8 years from 2018. In exchange, trade unions agreed to a 5-year truce aimed at avoiding new

strikes and maintaining social peace.” (IMF Africa Department 2017b, 5).

The composed language could disguise the extent of the backlash: in the same year as the withdrawal of the peacekeeping forces, the price received by farmers for cocoa was reduced by a third, and the government was faced with two mutinies, civil servant strikes, and popular protests requiring significant pay-outs. There were also private sector protests, not mentioned in this quote. Interestingly, there was no protest by cocoa farmers reflecting some of the structural challenges that cocoa farmers continue to face, including the lack of mechanisms for collective bargaining and organisation, while other sectors are well protected by trade unions. One document describes this well:

“Most of these domestic [agricultural] producers own small-size farms, estimated to vary between 1.5 and 5 hectares. Collectively, these smallholders represent more than 80% of the country’s total production per year. Surprisingly, these smallholders are generally poor, without formal education, credit-constrained, disorganized and scattered across the country.” (Kanga et al. 2018, 2)

What this meant was that in this context of reduced government revenues and expenditure, where other groups could better organise and coordinate to protest expenditure cuts, the cocoa and cashew farmers were targeted with lower prices and higher taxes respectively to prevent government increasing the fiscal deficit beyond 4.5 percent of GDP. A new export tax was levied on cashew nut exporters, and the government worked to accelerate reforms in the tax and customs administrations.

In an effort to safeguard cocoa farmers' income a cocoa registration tax was cancelled in 2017 but it was reintroduced in 2019 as part of the government's efforts to keep the fiscal balance low (IMF Africa Department 2018). While the government tried to protect farmers' wages in other ways, for example negotiating directly with major cocoa buyers (Nestle, Mars etc) to increase the purchasing price of cocoa, when fiscal restrictions are met with the challenge of different groups having different capacities to mobilise and defend their interests, the groups least able to protect their interests are likely to be taxed to achieve macroeconomic objectives.

While it is clear that these cuts were detrimental to the kinds of spending that needs to happen to (indirectly) address HI, one has to balance this against the potential impact of a macroeconomic crisis or an economy and government facing debt distress. I argue that the Fund was too risk-averse in its cut back during this time, creating not only expenditure cuts in necessary areas, but also protests at a crucial time of the withdrawal of the UN peacekeeping mission. There are three components of this argument: first, the government had proven itself to be committed to economic growth, achieving an average GDP growth of 7.64 percent between 2012 and 2019 inclusive. Alongside this growth, were growing revenues largely through improved tax implementation and reductions in tax waivers, that nevertheless reflected the government's capacity to reap the economic benefits of a stronger economy.

Secondly, its debt had been well managed: even by the IMF's own assessments of Côte d'Ivoire's debt sustainability, and even during this time of falling commodity prices, the Fund assessed the country's risk of external debt distress as moderate. These assessments, while not especially harsh, were also a point of disagreement with the government, that felt these assessments were too conservative. The authorities argued in a letter to the IMF that the baseline macroeconomic assumptions used to make the assessment, including economic growth projections, failed to consider the consistently impressive growth since 2011, and "called for a more realistic view on growth assumptions" in the process of assessing Côte d'Ivoire's risk of debt distress (IMF Africa Department 2017a, 102).

Lastly, fiscal deficits of other major economies in the region, continent, and the world at the time were not so different from what Côte d'Ivoire would have had, under the maximum level of expenditure (i.e. without the cuts that it undertook to keep the fiscal deficit at 4.5 percent of GDP). The cuts or adjustment measures amounted to 1.5 percent of GDP and brought the fiscal deficit from 6 percent down to 4.5 percent of GDP. In table 14 below, I list data on net lending / net borrowing as a percentage of GDP in 2017. This data shows government revenue minus expense, minus net investment in nonfinancial assets. It is also equal to the net result of transactions in financial assets and liabilities and is

frequently used a global comparison of government deficits because of how it is harmonised.

Table 14 Net borrowing as a percentage of GDP in comparison with regional, continental, and global key economies Source: (IMF 2024)

Country	Net borrowing (percentage of GDP)
United Kingdom	-3.4
France	-3.4
Côte d'Ivoire	-3.5
Senegal	-4.0
South Africa	-4.7
Ghana	-4.7
Kenya	-10.5

How this deficit was calculated is slightly different, therefore listing Cote d'Ivoire's deficit as 3.5 percent (rather than 4.5%), but nevertheless is useful to compare. As is clear, Côte d'Ivoire is not an outlier in terms of debt and is outperforming equivalent economies in the region facing similar commodity price drops (e.g. Ghana - also a major cocoa producer, and Senegal). While some cuts were probably necessary, the level of risk aversion from the Fund pushed cuts in ways that undermined efforts to address HI, poverty, and development. This was

despite Côte d'Ivoire's track record and the capacity to manage its debt. The IMF could have afforded a slightly larger deficit in the short term to maintain support for the poorest, without risking the kind of macroeconomic crisis that would have dramatically undermined Côte d'Ivoire economic performance.

A framing point to the argument is not that cocoa prices offered to farmers should not have decreased at all. Figure 48 shows that the price for cocoa decreased dramatically in 2016, but when it rebounded it never quite reached the highs of the earlier three years. Some downwards adjustment in the price was therefore likely necessary to prevent large and continuous fiscal outlays by the government to maintain a higher price. But reducing the price received by already the poorest workers in Côte d'Ivoire by over a third in a single year is a degree of fiscal consolidation that created immediate reductions in income at a scale that did not need to be quite so rapid. For example, the government could have engaged with cocoa farmers about the likelihood of reduced prices in the coming year or two and assisted to transition farmers into other more profitable agricultural sectors, while reducing prices offered more incrementally. The IMF setting this immediate and major reduction in cocoa prices as a Prior Action was too drastic, with too strong of an impact on HI, poverty, and well-being.

A final point on this is that these cuts are pro-cyclical. They imply more fiscal expenditure when the economy is doing well, and cuts when the

economy is suffering. Procyclical policy has been shown to increase the poverty rate, income inequality, unemployment rate, and domestic conflict, and is generally considered suboptimal (Vegh and Vuletin 2014; Alesina and Tabellini 2005). With a country with an urgent need to address many of these measures – income inequality (including HI), poverty, unemployment, and ensuring stability – a risk averse approach keeping debt at levels below or equivalent to most economies – could have given way to a slightly higher deficit to protect the indices and communities most in need of it. This risk-averse focus on fiscal deficit measures, in the context of a generally productive and growing economy and responsible and capable government, without a view on other crucial economic measures – is detrimental to HI.

7.3 Indirect policies targeting HI

This thesis has already discussed several pre-requisite steps the IMF took (getting Côte d'Ivoire through HIPC, relatively generous financial flows, improved governance) that all enhanced the government's capacity to address HI if it chose to. It's initial work to decrease taxes and increase the price received by cocoa and coffee farmers, support the cotton and cashew sectors in the north, and encourage Gbagbo to invest in the north, all formed an important part of indirect policies to address HI. The overarching focus of the Fund on fiscal consolidation undermined these steps however by being too risk averse when cocoa prices dropped and stripping away some of those earlier gains for poor farmers. There are two additional indirect policies the IMF engaged in in

Côte d'Ivoire more peripherally, but that nevertheless deserve attention for their ability to address HI. The first is addressing Côte d'Ivoire's tax system (successfully increasing its capacity to collect revenues in line with existing tax policy but not managing to expand the tax policy to increase the scope of those taxed). This helped increase government revenues but did not make dramatic improvements to the redistributionary nature of the tax system, missing an opportunity to improve policy for addressing HI. The second indirect policy which is useful for growing the less developed tier of the economy was its efforts to increase and improve microfinance provision and expand financial inclusion. Each of these two themes will be outlined.

7.3.1 Tax

Changing Côte d'Ivoire's tax policy has been a consistent part of IMF engagement - not necessarily for the benefit of cocoa and coffee farmers, but broadly to push the government to broaden its tax base and tax compliance in line with levels achieved in the region. According to the IMF, Côte d'Ivoire has made progress since 2012 in all spheres, except increased taxes: it has succeeded in restructuring and modernising the revenue administration, improving tax compliance and reducing informality: in short, it has succeeded in improving the implementation of existing tax policy, but it has failed to increase tax rates in line with levels in the region (IMF Africa Department 2018).

In a 2018 report the IMF wrote that Côte d'Ivoire's tax policy measures should be centred on increasing tax to regional standards to prevent

smuggling, expanding the tax base, and simplifying the taxation of business to minimise the scope for tax avoidance. There has also been maintained engagement on rationalising tax incentives and eliminating tax exemptions to reduce the capacity for wealthy investors to escape tax through loopholes and politically-influenceable exemptions (IMF Africa Department 2018, 18).

Despite the failure to make progress on this issue, tax policy or implementation has only ever been included in the structural benchmarks, and these have been relatively minor. Specifically, the benchmarks have centred on preserving fuel tax revenues by passing the global fuel price onto consumers; assigning a Single Taxpayer Identification Number to new businesses; auditing the companies that received VAT refunds; and reducing the number of temporary tax exemptions (IMF Africa Department 2020, 2018). These are all benchmarks aimed at improving the implementation of existing tax policy. The only tax policy change benchmark was to increase excise taxes on beverages in 2017 (IMF Africa Department 2018). Increasing tax in Côte d'Ivoire is contentious: an attempt to increase corporate taxes in 2018 was rescinded following private sector protests, and as already mentioned, a new cocoa registration tax was applied instead.

Nevertheless, as mentioned before, reducing a fiscal deficit can be done in two ways: reducing expenditure or increasing government revenues. It is therefore curious that tax has formed a relatively light part of IMF

programmes in a country with tax rates low for the region, and yet it has set as a Prior Action (the IMF's strongest conditionality because a programme does not even begin without these actions) reducing the price for cocoa farmers by over a third. With the right redistributionary tax, Côte d'Ivoire could reduce its fiscal deficit and address HI at the same time. Instead of targeting this sphere, the IMF chose to cut expenditure in relatively crucial spheres, and de-centre tax from its programmes. This missed a key opportunity to address HI through the indirect policies very much within the IMF's mandate.

7.3.2 The commercial banking sector

As in Liberia, the IMF's reform programme, particularly in the immediate programme after 2011, focused on ensuring stability in the commercial banking sector. Over the course of the programme, several Structural Benchmarks and other structural reform programs were carried out to restructure public banks in various ways: privatise VERSUS BANK, have the government sell its shares in SIB (Société Ivoirienne de Banque), and liquidate BFA - the agricultural financing bank. It also placed the CNCE (Caisse Nationale des Caisses d'Epargne - the National Savings Bank) under provisional administration (IMF 2015, 38). The latter stretched over into the subsequent IMF programme, where ongoing measures to recapitalise the bank were included in the structural benchmarks (IMF Africa Department 2018). This work on the major banks formed the bulk of the IMF's work on the financial sector, with

structural benchmarks existing on various components of this reform through until 2020.

The goal of this work was to bolster the soundness of the banking system. Unlike in Liberia however, where the work with the banking sector enhanced the stability of a sector that effectively lent only to the former elite, the work in Côte d'Ivoire seemed much better designed to also address inequalities. For example, there was work on reforming the microfinance sector, including strengthening entities in difficulty and strengthening oversight to prevent predatory lending. Some of the work on the National Banks targeted agricultural lending. Both microfinance and agricultural lending can support the lower tier of the economy to grow, reducing poverty and increasing incomes for the groups employed there. Partly because of this, and partly because of other major developments in the finance sector (including the introduction of mobile money), access to financial services expanded. The percentage of people with a bank account grew from 12.7 percent in 2012 to 16.3 percent in 2014. Access to financial services more generally (including through mobile money) increased from 43.94 percent in 2012 to 71.4 percent in 2014 (IMF 2015, 38).

It is not clear from the report if the microfinance work was driven by the IMF or the Ivorian government. For example, there was no microfinance structural benchmarks in the IMF conditionality. Nevertheless, the IMF supported this work, and the fact that this was taking place alongside

the strengthening of the commercial banking sector meant that financial inclusion was considered as part of the overarching reform agenda. The work on the state banks was much more clearly led by the IMF and featured in the structural benchmarks along the course of the IMF programmes over a decade. Ensuring the stability of the banking sector is a pre-requisite for addressing HI, as it is very difficult to have any economic activity in the context of limited financial services, let alone economic activity that addresses HI. But as outlined in the Liberia chapter, it is essential that these financial services are accessible to those that are in the less developed tier of the economy – typically the previously disadvantaged. The reform agenda to strengthen microfinance and expand financial inclusion, while keeping two banks public to ensure that financial services would be provided throughout the country and according to need, were well designed to also support the less developed tier of the economy.

7.4 Does the government have influence over IMF interventions?

The work the IMF does in a country is driven by the macroeconomic realities – in Côte d'Ivoire over the period outlined, this was heavily influenced by cocoa and other raw material prices – which ultimately drove IMF conditionality and loans. Under high commodity prices IMF programmes pursued fiscal consolidation at a relatively gentle pace, and in the immediate post-conflict years, also took into consideration aspects such as reducing tax on cocoa farmers, improved governance

and stricter controls over spending in an effort to see the government invest more in social sectors, more in the north, and slow its extractive taxes on poor farmers.

Under low commodity prices however, these hard-won gains (initially only possible with the leverage of the promise of HIPC) were scaled back dramatically with a pace of fiscal consolidation that demonstrated the IMF's risk-averse approach to debt consolidation. The government complied, but noted in its correspondence with the IMF that the Fund should assess its debt distress with more appropriate growth predictions based off of the country's high growth track record. It also noted the difficulty the lower cocoa price had imposed on many poor workers. The IMF's conditionality – most especially prior actions and the performance criteria – are therefore significantly less influenceable than the case of the World Bank.

While there are certainly some disagreements between the IMF and the government regarding the pace of fiscal consolidation, fuel price increases, and how debt distress is assessed, the overarching relationship between the IMF and Côte d'Ivoire does not emerge as adversarial.²¹³ This is because, according to one interviewee: the government shares the same interest of the IMF in achieving a strong macroeconomic foundation, managing its debt well, and building an economic environment that attracts investment.²¹⁴ The second point

²¹³ (Interview 60, two government officials 2024)

²¹⁴ (Interview 74, Senior Government official, In person, Abidjan)

made in this interview is that the government is in control of its relations with multilateral actors: implying that it is not forced or coerced into agreement on conditionality.

That Côte d'Ivoire is in agreement with the IMF on the importance of achieving macroeconomic stability through the prudent application of, if not IMF conditionality, at least the principles that inform that conditionality, is perhaps not surprising given that the president is a former Director of the African Department at the IMF (Présidence de la République de Côte d'Ivoire 2011). Still, there is no evidence that the government drives conditionality, in the same way that the government can influence the World Bank projects. The macroeconomic reality is the real driver of conditionality.

8 Conclusion

Côte d'Ivoire shows a clear example of the challenges of addressing HI in the dual economy context: the more developed tier attracts more investment, is able to generate higher returns on those investments, and therefore gives a significant advantage to those groups and regions that were previously advantaged. Meanwhile, sectors in the less developed tier (cash crops, subsistence farming, low-income SMMEs) are vulnerable to both shocks and predatory taxation, attract less investment, and are less able to generate high returns on the

investments they do receive (including, in Côte d'Ivoire's case from the World Bank).

With the expansion of education and the removal of ethnic barriers (including through the reduction in political horizontal inequalities), the more developed tier can become increasingly ethnically integrated, as it grows and absorbs better educated labour from the less developed tier. The less developed tier remains predominantly the same groups as before however and lags the more developed tier in terms of growth, even if in some parts of Côte d'Ivoire these groups have experienced impressive reductions in poverty. Unfortunately, these gains in terms of reductions in poverty are also more easily reversed in the case of terms of trade and health shocks.

The World Bank was significantly more forward-leaning in Côte d'Ivoire in terms of targeting the less developed tier (in part because the government requested these kinds of investments) but struggled to see the returns on investment that translated into significant income increases or reductions in HI, especially in rural areas. The IMF was initially also useful at both stabilising the economy, pushing for government to invest in the north, and shift spending from military and monuments to social sectors - all useful for targeting HI. Over time however, the IMF became increasingly conventional and risk-adverse, so that when cocoa prices dropped, the most vulnerable received a lower price for their crops, and the government cut social spending in several

crucial sectors and in investment (all essential for addressing HI). I argue these measures not only undermined important progress made in addressing HI, but were not necessary given the government's capacity, the economy's growth rates, and regional and global deficits that suggest Côte d'Ivoire was not exceptionally high in debt. The government's influence over IMF programmes was significantly less than in the case of the World Bank.

Conclusion

Academically and analytically, horizontal inequality is something of a poor sibling to (vertical) inequality which is much more readily tracked,

analysed, and included in international financial institutions' (IFI) mandates. This is despite well-established evidence that horizontal inequality contributes to conflict outbreak and recidivism and is therefore especially relevant for states emerging from conflict, but also for any country hoping to build a shared and less fractured society. This is the value added of studying HI: it undermines stability and peace in all contexts (more so than vertical inequality), and post-conflict countries are especially vulnerable to a return to conflict. In particular, little has been written about whether the IFIs charged with economic policy formation and reconstruction the world over, have any systematic effect on horizontal inequality (HI).

This is the gap in the literature that this thesis has endeavoured to fill. But while HI has a stronger causal connection to conflict outbreak and recidivism than vertical inequality, many of the tools and policy responses for addressing HI overlap with those that address vertical inequality. This is especially the case for IFI policy choices, because direct policies such as affirmative action are considered too political, and because IFIs are deeply uneasy with discussing identity (ethnicity, race etc.) As such, this thesis has heavily engaged with policies that address vertical inequalities as measures that could address HIs as well. This seemed a fair approach to assessing the work of IFIs, by acknowledging the failure to use the most effective policy toolkit (direct policies) while recognising that IFIs contribute to much of the important legwork required for HIs to reduce through their work on indirect policies

such as the expansion of universal health and education, pro-poor policies etc.

Nevertheless, the HI-lens generates important distinctions from research that focuses purely on vertical inequalities. The first is a regional approach to the spread of development. In Côte d'Ivoire, if you were only looking at vertical inequalities, or even rural-urban inequality, you might think that a rural poverty reduction project in the north, east, and south is equally useful. (And in fact, this argument was suggested in several interviews.) With a HI-lens however, one can understand that long-term stability would be better supported by locating that project in the north and, increasingly, the west, rather than the (rural) south because those are the regions where HI is high. Finding the right solutions, requires having a clear view on the problem, and many developing countries are facing a horizontal inequality problem, and acknowledging this is perhaps the first step in finding the correctly-designed solution.

This thesis has used mixed methods to investigate its core question. OLS fixed effects regressions were used in the quantitative chapter to outline robust empirical patterns between IFI loans and change in HI. The baseline regressions of both the World Bank and the IMF indicated that IFI loans are associated with increasing HI. The interaction regressions explored whether the nature of the political settlement, operationalised as clientelism, influenced this empirical relationship.

The World Bank interaction regressions suggest that clientelism attenuates the positive association between Bank loans and increasing HI. I speculate that this could be driven by two possible reasons. First, it is likely that in the post-conflict period, new political elite emerge with some clientele from the formerly excluded groups. Requests to the Bank for projects that benefit these formerly excluded are more likely to be financed, even if the clientelist motivation is clear. Second, it may be that the growth in the more developed tier of the dual economy is dampened by clientelism, thereby narrowing the divergence between the more and less developed tiers. The IMF interaction regressions did not produce a statistically significant interaction term, suggesting that clientelism does not influence the empirical pattern between IMF loans and change in HI.

The case study research is where the structures of HI – the political settlement and the dual economy – emerged most clearly. The Liberia case illustrated the challenge of reducing HI when investments are made from which the more developed tier of the economy can generate significantly more profit as compared to the less developed tier. It also illustrated the challenge of directing resources to previously excluded communities without a political settlement that reflects an elite interested in doing so. Indeed, if the origins of HI lie in an extractive political settlement, post-conflict political elites (including those from formerly excluded groups) can choose to become the new beneficiaries of an equally extractive political settlement. If so, it will lift a few

previously excluded individuals into wealth but do little for the majority without connections to those in government. IFI governance projects can slow (but not stop) the pace of that private accumulation. No evidence emerged in these case studies to suggest that IFIs can substantively change the political settlement. Without pro-poor programming or policies targeting the less developed tier, growth is likely to be disproportionately in the more developed tier, at best maintaining and at worst increasing inequalities.

Côte d'Ivoire shows that, even with a supportive political settlement, it can be difficult to overcome the challenge of the dual economy and divergent returns on investments in each tier. A supportive political settlement does however, lead to a more pro-poor and diverse World Bank portfolio, increasing the likelihood of the Bank bringing its expertise and finances to the indirect policies that are likely to reduce HI. This does not eliminate the contradictory progress on HI, but it does broaden the extent of integration that can happen in the more developed tier, the degree of population transfer from the less to the more developed tier of the economy, and increase the investments made in the less developed tier with important social benefits.

Coming into this research, I had fairly strong priors that the World Bank might be increasing HI. As a student of Structural Adjustment Programmes in my undergraduate years and having read several papers suggesting not much had changed since these programmes officially

ended, I was expecting to find a less complex story than what emerged in the research. The first striking point was the importance of the domestic political context. In cases where the political settlement was not especially interested in the formerly excluded, the World Bank was often one of the few (influential) advocates of the poor and excluded. Some advisors on this thesis suggested this might be specific to my cases, and that in other cases, the World Bank was still pursuing neo-classical inequality-enhancing policies to the detriment of the excluded. I believe those advisors, but this did not emerge strongly in the cases and evidence I reviewed.

Having acknowledged the positive work of the Bank, there are areas in which it could do more to adjust its policy, advice, and practice to take account of HI. The first is in its civil service reform, where the requirements for each grade in the civil service could be adjusted so that points are awarded for education, experience, and belonging to a formerly excluded group. This would strengthen the capacity of public employment to address HI, while also building the capacity of the state. The same would apply to the IMF, which also works on civil service reform.

Just like gender and climate change are increasingly streamlined into strategic analyses, so that each project considers how these factors can be addressed, I would argue that in countries where HI is a concern, it should likewise be streamlined into the country diagnostic, strategic

plan, and ultimately, projects. In practice, this might look like a stronger focus on the regional spread of projects, more agricultural support projects, the provision of IDs to far-flung, unregistered communities, or the construction of clinics and schools in far-flung rural areas as well as the outskirts of cities. The exact design of the policy would depend on the country context and the project being financed, and this is why I argue for an HI-streamlining approach, in which HI is considered in all World Bank projects and policies.

The IMF in Liberia shows the institution-building power that the Fund brings to post-conflict reconstruction. It is important that the Fund helped to establish a functional Central Bank, improved tax collection, and steadied the commercial banking sector. Its work to identify and slow the mass diversion of state resources was key. Given the governance and economic limitations in Liberia, the IMF's constraining role in debt accumulation seems well suited to the context. In Côte d'Ivoire, however, with a more capable bureaucracy and more functional state institutions, the limitations of the IMF's risk-averse approach to debt are highlighted. Mandating the reduction of the price received by some of the poorest workers in the country by over a third, calls to mind the "Adjustment with a human face" report. Greater flexibility on debt can protect the most politically vulnerable groups from carrying disproportionate burdens in ways that restrict the reduction of HI in the long-term. This would be the major policy implication from the IMF section: that where countries that have demonstrated commitment to

good economic governance and growth, real care should be taken at imposing major reductions in state expenditure, particularly if those cuts have major impacts on HI or the poorest.

This point I want to make is more delicate than “give states more debt”. There are many reasons this may not be a good idea, and the kind of governance that plagues Liberia is a good reason to restrict debt. But there is a certain confidence that IMF officials have in relation to their work, and importantly, their predictions, that could be better replaced with a more questioning attitude or an openness to other considerations, including HI. An anecdotal exchange with one junior IMF official who had worked on Côte d’Ivoire told me the cuts were partly driven because they believed the cocoa prices would stay low permanently (they later rose again). Likewise, an Ivorian official spoke of IMF officials relegating the hard-earned early post-2011 growth as simply a return of economic activity, rather than structural change. He happily spoke of a meeting where the IMF had to admit that real economic growth had, indeed, been taking place. Another interviewee opened our discussion with an insistent discussion on how the war in Côte d’Ivoire occurred only because of one awkward decision taken by the president about payment of the army, and that there were no preceding vulnerabilities in Côte d’Ivoire. From this, I believe I was meant to take, that the IMF Structural Adjustment policies had nothing to do with the outbreak of war. (I should add I also had many more nuanced and engaged interviews with thoughtful IMF officials.)

Nevertheless, there is a certain confidence in IMF predictions and therefore conditionality that could be softened in cases that merit it. This should be coupled with the realisation that development takes risks, and if reasonable risks are not permitted in the right cases, rapid development of the kind many countries need, will not take place either. A final, more technical point, is that the IMF could do more to expand its work on progressive taxation. While in Liberia, the IMF did much important work in this field, a wider analysis of IMF tax work suggests a heavy reliance on VAT (a regressive form of taxation). Progressive taxation rarely makes it into the IMF's strictest conditionalities. In poor countries with large natural resources, progressive and windfall taxation should be a clear priority for the IMF.

Altogether, these findings have led me to argue that the World Bank and the IMF reinforce the contradictory progress on HI that is common in post-conflict states. While progress is contradictory, that is not to imply that it is equal: Côte d'Ivoire has done significantly more for its poor population than has Liberia. But both countries have experienced some integration of the elite (more so in the case of Côte d'Ivoire), yet the poor remain broadly the same groups as those that were previously excluded in both cases, and vulnerable to reductions in income in the face of trade or health shocks.

The political settlement and the dual economy are critical to shaping both how HI changes, and what kind of impact IFIs are likely to have on HI. The political settlement shapes how state resources are collected and distributed, and therefore influences whether formerly excluded groups remain excluded, or whether resources are directed to regions and groups that have lower incomes. In the case of the World Bank, the political settlement shapes the nature of the Bank's portfolio and which regions receive more investment. The political settlement has less influence over the IMF, although some evidence emerges in the Côte d'Ivoire case study that it does influence how an IMF programme is implemented, and who is taxed to meet revenue conditions.

The dual economy makes it more difficult to address HI and means that if it is not set as a clear policy priority, traditional investments are likely to create more opportunities for the more developed tier. This tier has the human and physical capital to take advantage of new markets or better roads and therefore is more able to extract financial rewards. The less developed tier - which is credit constrained, typically less productive, and low-skilled - will struggle to generate major returns on investments, and these returns are more easily lost in the face of economic or health challenges. This is the case even where efforts are made to invest in the less developed tier, as evidenced by low returns on World Bank investments in rural Côte d'Ivoire. It is structurally more difficult to generate growth in the less developed tier of the economy, and these investments are likely to require sustained policy action over

several decades for growth to catch up. Still, these investments in the less developed tier do lower poverty and create growth, as Côte d'Ivoire's impressive cashew sector in the north indicates.

Both the World Bank and the IMF do important work in laying the foundations for HI to be addressed by the state if it chooses to, including through (re-)building the state, increasing finances available for development, and establishing the macroeconomic stability required for the economy to function. This component of IFI interventions forms part of the prerequisites for addressing HI. Under conditions in which the political settlement is favourable to reducing HI, the World Bank can be an instrumental actor in expanding universal basic services and pro-poor programming – a key part of the indirect policies that help to reduce HI in the long term. (The IMF does little in this sphere and could do more on tax.)

Both the World Bank and the IMF, however, engage in pro-growth development activities and advocate for policy change through conditionality attached to direct budget support. This work disproportionately grows the more developed tier of the dual economy and is likely to work against the positive impact of public service expansion on HI, especially in the short term. Neither IFI engages in policies that reduce HI directly (broadly Affirmative Action policies). This patchwork of progress in some spheres and under certain political conditions, and work that disproportionately grows the tier of the

economy where the elite groups are employed reinforces the contradictory progress on HI that is characteristic of change in HI in post-conflict countries.

The points I have made so far leave two key areas for research, and they both relate to the dual economy because I am pessimistic about the capacity for external actors to influence the political settlement. The first is an understanding of how to optimally grow this lower tier of the economy. The Côte d'Ivoire case suggests that some of the usual ideas (agricultural support, cash transfers) might not be as efficient at stimulating growth or reducing poverty as one might hope. Is that because these investments simply need more time to mature? Is money better spent on different kinds of investments?

On the one hand, there is much research on macroeconomic growth, and on the other hand much microeconomic research on how to reduce poverty comparing different modalities of cash-based and agricultural-input support. Something could exist between these two schools: a more systemic approach that treats the less developed tier or informal economy as a "macroeconomy" worth growing (with less focus on formalisation). This might involve taking the point of measurement not as the macroeconomy, nor the household, but rather the village or region. It might be thinking about how one could grow the township or slum economy on the outskirts of cities.

The Dercon and Golan paper on whether it is worth investing in the agricultural sector, or whether industrialisation should be pursued in its place, given the productivity gaps in each sector is what might get us closer to understanding how to grow the less developed tier (Dercon and Gollin 2014). Dani Rodrik's research on alternative development paths, and whether manufacturing is a necessary step in the development process is also interesting. If these analyses were scaled (down) to regions or microeconomies within cities, we might get new, useful ideas for the dual economy.

Alternatively, from a research question perspective, one could accept that investments in the lower tier of the economy simply will not yield much growth (or at least not the impressive growth that can be seen in the more developed tier). Still, it is worth acknowledging what these investments do achieve: there is much micro evidence that these interventions reduce (the severity of) poverty, improve nutrition, reduce inter-partner violence etc. It is very likely they reduce the appetite for violence and conflict.

If this is the case, the question becomes one of trade-offs: how do we think about dividing national fiscal resources between activities that disproportionately grow the more developed tier (where better quality jobs can be generated, but will likely worsen HI in the short term) and those investments for the less developed tier that create socially-desirable outcomes and that strengthen stability? This perspective

views growth not as the manner in which to reduce inequality or poverty (at least in the short term). Rather, it views growth as the necessary evil to generate the tax to pay for the kinds of investments that reduce poverty and inequality. Understanding exactly how this trade-off works, and over what timelines, might provide clearer options to policy makers. These research questions assume, however, that there will still be development aid and financing available, most especially for investment in the low-growth, less developed tier of the economy. Contemporary trends however suggest that the financing for socially-desirable outcomes is rapidly declining, regardless of the impacts on stability and conflict these withdrawals might have. When I began this research, fragility seemed to be high on the agenda of many development actors, including the World Bank and the IMF. The IMF released its first strategy for fragile states and the World Bank website highlighted that, as poverty declined in most parts of the world, it remained stagnant in fragile countries, concluding that the challenge of poverty would become increasingly a problem of fragility (International Monetary Fund 2022).

Now, with the Trump Administration ending USAID and cancelling 80 percent of its projects, and European states cutting aid budgets in order to increase support for Ukraine and pay ballooning debts, aid has declined (Faguy 2025; CONCORD 2025; OECD 2025b). Sweden, for example, recently announced that it would be phasing out development

aid to five countries – Liberia, Zimbabwe, Tanzania, Mozambique, and Bolivia – in order to increase support to Ukraine (Reuters 2025a).

As aid has declined, infrastructure has become increasingly central to the development conversation, where the private sector can be brought on board to pool public and private resources. The latest OECD International Economic Forum on Africa was on infrastructure, and even an Agence Française de Développement (AFD)-EU conference on inequality reduction was predominantly about infrastructure investment in upper-middle-income countries like South Africa and Mexico (OECD 2025c). The EU Global Gateway project which helps to mobilise public and private capital for infrastructure investments formed a dominant part of both conferences (European Commission 2025).

The second major global trend in development is growing debt and reduced fiscal space. The IMF recently warned that global government debt was on track to hit 100 percent of global GDP by 2029, which would make it the highest level of global debt since the end of World War II. It added that developing countries were facing tough fiscal challenges, and that as many as 55 countries were experiencing or close to debt distress (H. Stewart 2025). The implication is that there is less aid, larger portions of developing country budgets are going to servicing debt, there is little capacity to take on more debt, and so the fiscal space for development is shrinking.

The World Bank is facing fewer financial challenges than other development agencies. In fact, World Bank Group commitments grew between 2024 and 2025 (World Bank Group 2025). The challenge is that much of these commitments remain loans, not grants. Developing countries may feel that it is increasingly difficult to take on debt. Still, the Bank's four core priorities are jobs (which includes infrastructure but also SME support, tourism etc), agriculture, electrification in Africa, and health. These seem well suited to the challenge of growing both tiers of a dual economy. It is possible then that, moving forward the World Bank is one of the few development actors able to maintain investment in the sectors that are not only profitable and therefore attractive to the private sector, but that are also able to restructure and transform (dual) economies in ways that give more options to previously excluded groups. This assumes however, a favourable domestic political settlement.

The IMF is likely to play an ever-stronger role in fiscal consolidation as countries seek help in managing increasingly unwieldy debt. The kind of scaling back in investments that was seen in Côte d'Ivoire is likely to continue, in part because (according to the IMF) there are strong political red lines against tax increases globally (H. Stewart 2025). Those communities that are not able to demand continued fiscal disbursements are likely to lose them in countries looking to cut state expenditure. This process is likely to undermine progress on addressing HI.

While infrastructure investment and fiscal consolidation may be pragmatic responses to a crisis in aid and ballooning debt, this thesis would argue that it poses risks for HI. This is well indicated in the Liberia case study, where major roads built to natural resources disproportionately benefitted the elite. Fiscal consolidation, or reducing government debt, almost always involves a reduction in state investment in lagging regions, and a curtailing of current expenditure that impacts the poorest. The more developed tiers of domestic and global economies are likely to be the ones most able to generate financial returns from major infrastructure investments. Without fiscal space or aid, it is difficult to see where the necessary investments for the lower tier of the economy will come from. Even the World Bank, which does not appear to be suffering financially in the same way as many national development agencies and the UN, will be unable to lend to countries unable to take on more debt. The short-term prospects for HI reduction then, are dim.

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