West Africa Economic Outlook 2021

Debt Dynamics: The Path to Post-COVID Recovery

AFRICAN DEVELOPMENT BANK GROUP

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EXECUTIVE SUMMARY

This report complements the African Development Bank's African Economic Outlook 2021, providing more detail on West Africa's economic situation and growth prospects in the face of the COVID-19 pandemic. It also analyzes public debt in West African countries and explores financing options. Finally, the report provides recommendations for facilitating sovereign debt resolution in the region while also supporting healthcare needs and accelerating the economic recovery to build back better after COVID.

West Africa comprises 15 countries, with Nigeria alone accounting for roughly two-thirds of the region's GDP. Half the countries in the region are classified as fragile and face a multiplied burden from the coronavirus, which could undermine development, peace, and social cohesion.

After experiencing GDP growth of 3.4 percent in 2018 and 3.6 percent in 2019, West Africa's GDP contracted –1.5 percent in 2020 because of COVID-19—far below the 4.0 percent growth rate forecast by the African Development Bank before the pandemic. COVID-19 has unveiled the extreme vulnerability of West African economies and magnified the importance of accelerating their structural transformation for a transition to middle- and high-income status. Despite the limited spread of the virus and less restrictive lockdowns in the region, many West African countries have been hit hard by the pandemic. It has increased poverty and inequality by disproportionally affecting vulnerable groups including women, young people, and informal sector workers.

Many West African economies suffered because of their reliance on commodity exports, prices of which fell with the pandemic-induced global downturn. In addition, most countries in the region are importers of essential foodstuffs, which became more expensive due to severely disrupted supply chains. COVID-19's impacts in several West African economies were exacerbated by a decline in financial inflows such as remittances, foreign direct investment, portfolio investment, and official development assistance). Finally, West African economies where tourism is important were penalized by shutdowns of commercial flights.

West Africa's economy is projected to recovery in 2021 thanks to the faster deployment of more effective vaccines, sustained government stimulus policies, and potential acceleration in digital transformation, facilitating remote work. But downside risks remain, including lower commodity prices, slower tourism recovery, weaker remittances, and financial market volatility unfavorable to capital flows and debt overhangs.

Over the past decade sustained public spending—especially on infrastructure—and low resource mobilization were key drivers of the region's persistent fiscal deficits, resulting in soaring public debt. To mitigate the economic consequences of COVID-19, West African governments implemented fiscal stimulus packages that aggravated fiscal deficits and complicated the resolution of debts and external imbalances.

In addition, West Africa's central banks relaxed monetary policies in various ways, including cutting policy rates, injecting liquidity into banking systems, easing collateral requirements, temporarily suspending loan payments from businesses and nonfinancial corporations, and relaxing prudential constraints. Moreover, central banks in many countries that are not members of the West African Economic and Monetary Union (WAEMU), supported by accumulated international reserves from commodity exports, intervened in foreign exchange markets to contain variations in their currency values.

As part of their fiscal stimulus packages, Ghana and Nigeria withdrew funds from their oil-based sovereign wealth funds. Thus the pandemic provided an opportunity to promote the use of sovereign wealth funds to reduce countries' vulnerability to fluctuations in commodity prices.

In 2020, by increasing health and social spending and lowering tax revenues (because of weak economic activity), COVID-19 sharply amplified the average fiscal deficit in West Africa to 8.3 percent of GDP. Fiscal stimulus packages cost an average 1.3 percent of GDP, ranging from 0.3 percent in Nigeria to 6.9 percent in Guinea-Bissau. The pandemic also induced a slight increase in the region's average current account deficit, from 4.1 percent of GDP in 2019 to 4.3 percent in 2020.

To get back on the path of inclusive growth, West Africa should implement two main types of policy reforms: short-term measures aimed at mitigating the immediate impacts of the pandemic while stimulating the post-pandemic economic recovery and creating conditions for more durable growth, and medium- and long-term measures to enhance resilience to future shocks while building capacity to tackle poverty and fragility.

The measures proposed and the pace of their implementation should be tailored to country endowments. The short-term measures include:

- Protecting lives and livelihoods, especially for vulnerable groups.
- Avoiding falling into debt traps, particularly by considering use of the G20 Debt Service Suspension Initiative as temporary relief rather than a permanent resolution to growing debt burdens. In addition, debt management needs to improve to isolate transitory pandemic-induced debt from infrastructure-based borrowing.
- Enhancing instruments for fiscal consolidation and macroeconomic stability by improving macro-fiscal forecasting and analysis—and, in commodity-intensive countries, creating commodity-based sovereign wealth funds.

Medium-term measures include:

- Facilitating growth recovery by making public spending more efficient.
- Increasing domestic resource mobilization by strengthening tax collections, rationalizing tax exemptions, broadening tax bases (including the informal sector and digital platforms), and fighting tax evasion and illicit financial flows.
- Developing public-private partnerships as a major vehicle for attracting foreign direct investment in infrastructure.
- Supporting small and medium-size enterprises by making it easier for them to access financial services.

Long-term policies should focus on:

- Accelerating structuration transformation by expanding production and implementing the African Continental Free Trade Area (AfCFTA) agreement for more resilient, equitable, sustainable growth.

- Promoting human capital and skills development in line with market needs by enhancing training in science, engineering, and technology and developing research activities that facilitate structural transformation and economic diversification.
- Fostering the development of domestic capital markets and limiting external borrowing in foreign currencies, to avoid domestic public borrowing from crowding out private sector access to credit.
- Issuing diaspora bonds to take advantage of remittances as an alternative to borrowing from official creditors and international capital markets.

CHAPTER 1

RECENT MACROECONOMIC TRENDS AND PROSPECTS

This chapter analyzes West Africa's macroeconomic performance over the past decade, with a focus on disruptions caused by the COVID-19 pandemic in 2020. It discusses the causes of recent macroeconomic outcomes, highlights heterogeneities across countries and sectors, and makes some comparisons between West Africa and other African regions. In addition, the chapter provides a post-COVID outlook for 2021–22, highlighting the key drivers of and downside risks to recovery.

1.1 GROWTH DRIVERS AND DRAGS

Most West African economies are commodity-dependent and service sector-led, with less developed manufacturing sectors and declining agriculture sectors. After averaging GDP growth of 3.4 percent in 2018 and 3.6 percent in 2019, the region saw growth fall an estimated –1.5 percent in 2020 because of COVID-19—against a 4.0 percent pre-pandemic forecast by the African Development Bank (table 1.1).

Table 1.1: GDP growth in West Africa by group and country, 2018–20 (Percent)

	2018	2019	2020 (Jan 2020 projection)	2020 (Jan 2020 projection)	2020 (estimated)
West Africa	**3.4**	**3.6**	**4.0**	**-2.2**	**-1.5**
Group					
Oil exporter	1.9	2.2	2.9	-4.4	-3.0
Other resource intensive	6.0	5.8	5.6	1.7	1.0
Non-resource intensive	6.5	6.1	6.7	2.7	0.9
Tourism dependent	4.5	5.7	5.0	-4.0	-8.9
Country					
Benin	6.7	6.9	6.7	3.3	2.3
Burkina Faso	6.7	5.7	6.0	1.6	-0.2
Cabo Verde	4.5	5.7	5.0	-4.0	-8.9

Côte d'Ivoire	6.9	6.4	7.2	3.0	1.8
Gambia, The	7.0	6.2	5.2	1.9	-2.4
Ghana	6.3	6.5	5.8	2.1	1.7
Guinea	6.2	5.6	6.0	1.4	5.2
Guinea-Bissau	3.4	4.5	5.0	-1.5	-2.8
Liberia	1.2	-1.4	1.6	-2.5	-3.1
Mali	5.2	5.1	4.9	1.4	-2.0
Niger	7.0	5.9	6.0	1.1	1.2
Nigeria	1.9	2.2	2.9	-4.4	-3.0
Senegal	6.4	5.3	6.3	2.8	-0.7
Sierra Leone	3.5	5.4	4.7	1.7	-2.7
Togo	4.9	5.5	5.3	0.9	0.4

Source: African Development Bank statistics.

There has been significant heterogeneity in growth performance across West African countries and over time (figure 1.1). During 2012–18, 9 of the 15 West African countries had an average growth rate of real GDP per capita above 2 percent. Three (Côte d'Ivoire, Ghana, Guinea) experienced average growth rates larger than 3 percent, and six (Benin, Burkina Faso, Niger, Senegal, Sierra Leone, Togo) recorded average growth rates ranging between 2 and 3 percent.

Côte d'Ivoire recorded the strongest performance in West Africa during this period, with real per capita GDP growth averaging 5.8 percent. This growth momentum reflected the country's recovery after a decade lost due to political crisis. After that crisis ended in 2011, the Ivoirian economy regained its dynamism through large public investments in infrastructure, improvements in the business environment, and favorable government policies for private investment—leading to the rise in incomes and creating an emerging middle class.

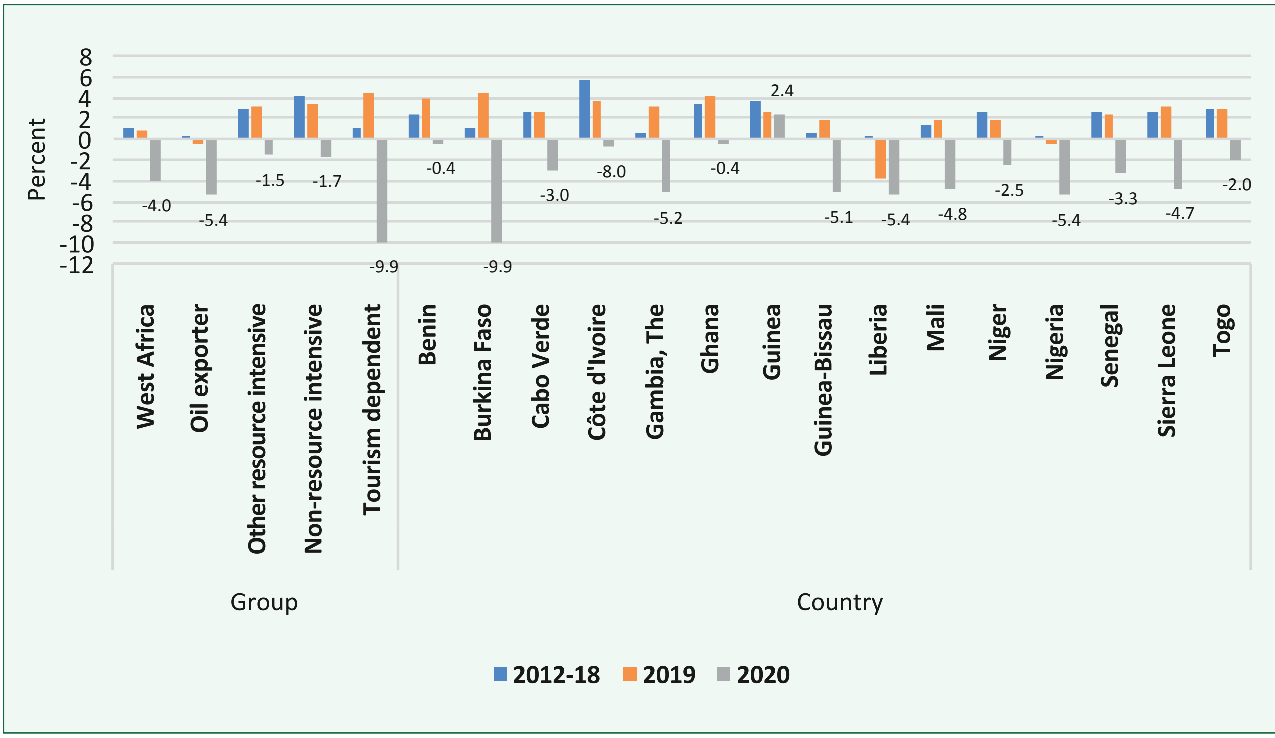
Guinea experienced relatively massive investment in mining, triggering strong growth in the economy. Between 2012 and 2018 the economy experienced average real GDP per capita growth of 3.8 percent (despite the Ebola epidemic, which was the main cause of a 1.3 percent decrease in 2015). Over the same period, Nigeria—the region's economic giant—recorded annual average growth in real GDP per capita of just 0.1 percent, driving the region's 1.2 percent average growth rate. In 2016 Nigeria's real GDP per capita contracted –1.6 percent due to lower oil revenues. During this recession, all sectors of its economy shrank except agriculture.

Liberia's real GDP per capita grew by an average of only 0.2 percent during 2012–18, partly due to the adverse impacts of the Ebola epidemic between 2014 and 2016. Sierra Leone's average real GDP per capita grew 2.5 percent in 2012–18 but was also hit hard by the Ebola epidemic in 2015, when real GDP per capita contracted –22.2 percent.

Due to major security and political concerns, real GDP per capita growth in Mali averaged 1.4 percent between 2012 and 2018. Niger, which also faces fragile security conditions, had average GDP per capita growth of 2.6 percent over the same period. For both countries, agricultural production is a main driver of economic growth. Similarly, Benin—which also depends on subsistence agriculture—experienced average growth of 2.2 percent from 2012 to 2018.

In 2019 the average real GDP per capita of West Africa grew by just 0.9 percent. This weak performance mainly stemmed from Nigeria's negative real GDP per capita growth rate (–0.4 percent) due to poor performance in the oil sector. Liberia also experienced negative growth in real GDP per capita in 2019, at –3.8 percent, due to deteriorating terms of trade. But real GDP per capita in six West African countries (Benin, Cabo Verde, Côte d'Ivoire, The Gambia, Ghana, Sierra Leone) increased more than 3 percent in 2019. Ghana and Côte d'Ivoire—the region's two largest economies after Nigeria—had growth rates of 4.2 and 3.7 percent in 2019, mainly spurred by investment.

Figure 1.1: Real GDP per capita growth in West Africa by group and country, 2012–20 (Percent)



Source: African Development Bank statistics.
Note: Data for 2020 are estimates.

To contain the spread of COVID-19, West African countries implemented containment measures such as curfews, states of emergency, closures of schools and restaurants, cancellations of public events, and restrictions on public gatherings and domestic and international travel. The stringency of these measures differed. For example, in the 2020 academic year, schools were closed for more than 150 days in Guinea; between 100 and 150 days in Cabo Verde, The Gambia, Liberia, Niger, and Nigeria; between 50 days and 100 days in Burkina Faso, Ghana, Mali, Senegal, Sierra Leone, and Togo; and fewer than 50 days in Benin and Côte d'Ivoire (AfDB 2021). The African Development Bank estimates that stringent lockdowns have been associated with fewer COVID-19 cases but sharp economic contractions in Africa, though these have been modest relative to those in other parts of the world because of the importance of the informal sector in African countries.

The contraction of West Africa's economy was moderated by limited spread of the virus and less restrictive lockdowns, because high informality makes it difficult to enforce such restrictions. As noted, West Africa's economy contracted –1.5 percent in 2020, against a growth rate of 4.0 percent projected by the African Development Bank in January 2020 (see table 1.1). Due to some extent to the stimulus policies implemented, the contraction was less than the –2.2 percent projected in June 2020.

In addition to domestic containment measures, the economies of most West African countries were adversely impacted due to their reliance on commodity exports, whose prices fell with the pandemic-related global downturn. In addition, almost all West African countries are importers of essential foodstuffs, whose prices rose due to severely disrupted supply chains. Several West African economies also depend on diaspora remittances as a source of external finance. Remittances declined as the pandemic affected key source markets. Finally, in some West African countries where tourism is important, economies suffered from by the shutdown of commercial flights.

Vulnerability to COVID-19 shocks was also heterogenous across West Africa. In response to the crisis, nonoil-resource intensive economies and non-resource intensive economies grew, while oil- and tourism-dependent economies contracted (see table 1.1). Among country groups in West Africa, Nigeria is the region's only oil exporter, and Cabo Verde as the only tourism-dependent country, as well as a non-resource intensive one (table 1.2).

Table 1.2: Country groups in West Africa

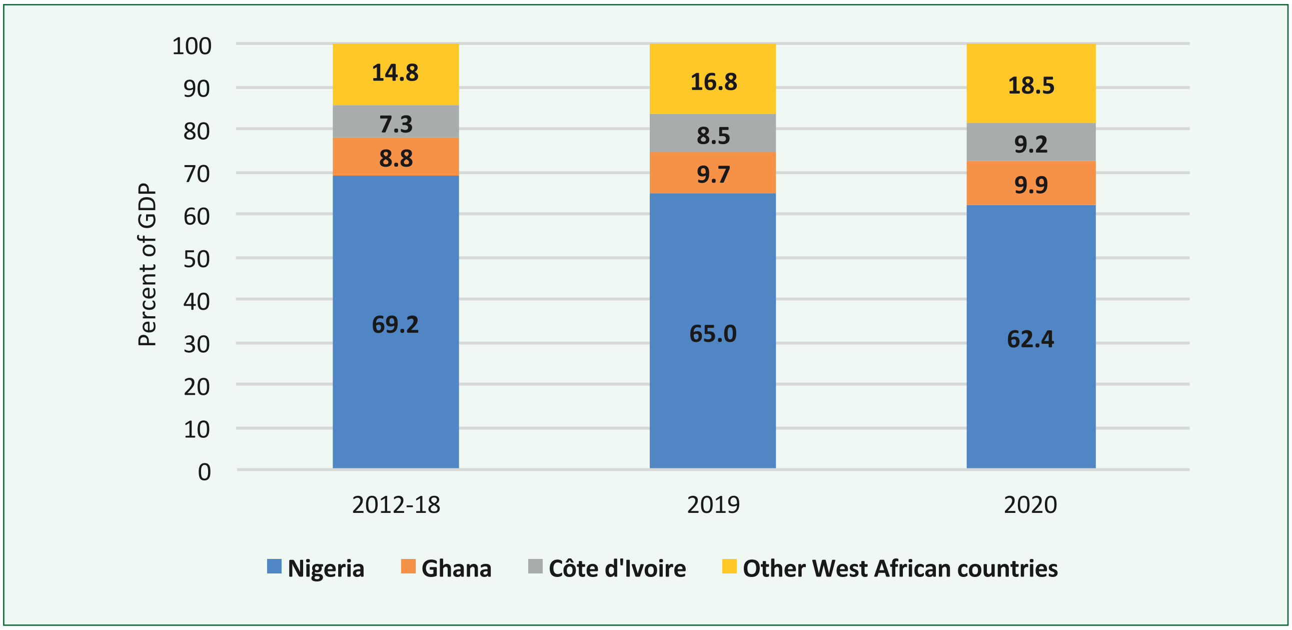
Oil exporter	Other resource intensive	Non-resource intensive	Tourism dependent
Nigeria	Burkina Faso Ghana Guinea Liberia Mali Niger Sierra Leone	Benin Cabo Verde Côte d'Ivoire Gambia, The Guinea-Bissau Senegal Togo	Cabo Verde

Source: AfDB 2021.

In 2020 Nigeria, the region's largest economy—accounting for nearly two-thirds of regional GDP (figure 1.2)—experienced a –3.0 percent contraction in GDP growth due to lower oil revenue, against 2.9 percent growth predicted by the African Development Bank before the pandemic. Cabo Verde shrank –8.9 percent because of strong containment measures, restrictions on international tourism, and a drop in remittances.

By contrast, Ghana (a nonoil-resource intensive country) and Côte d'Ivoire (a non-resource intensive country)—the region's second and third largest economies, accounting for 9.7 and 8.5 percent of regional GDP in 2019 (see figure 1.2)—saw GDP rise by 1.7 and 1.8 percent in 2020. Under the African Development Bank's pre-pandemic forecasts, the two countries were projected to grow 5.8 percent and 7.2 percent in 2020. In 2020 Guinea was the most buoyant economy in West Africa, with estimated GDP growth of 5.2 percent. The country's outstanding performance reflected an 18.4 percent increase in mining activities and extensive exports of bauxite and aluminum to China (AfDB 2021).

Figure 1.2: Country shares in West Africa's GDP, 2012–20 (Percentage of regional GDP)



Source: Staff calculations based on African Development Bank statistics.
Note: Data for 2020 are estimates.

Reflecting the pandemic, in 2020 real GDP per capita declined in all West African countries except Guinea, with different magnitudes (see figure 1.1). Thus the growth in output posted in some countries (Benin, Côte d'Ivoire, Ghana, Guinea, Niger, Togo) was insufficient to offset population growth, resulting in a contraction of per capita income. The contraction in Nigeria also contributed to negative growth in the region's average per capita income. In Nigeria real GDP per capita contracted –5.4 percent in 2020, mainly due to the decline in oil prices and the impacts of the COVID-19 containment measures on other sectors. In Guinea the growth in real GDP per capita was estimated at 2.4 percent in 2020. As noted, much of Guinea's outstanding performance in the wake of the pandemic stemmed from an increase in mining activity. Cabo Verde saw the region's largest decline in real GDP per capita, at –9.9 percent, reflecting strong containment measures, disruptions in tourism, and a drop in remittances.

The COVID-induced decline in remittances exacerbated the harmful economic impacts of the pandemic in some West African countries where such inflows are large. In four countries remittances averaged more than 10 percent of GDP in 2015–19: Liberia (15.2 percent), The Gambia (13.3 percent), Cabo Verde (12.3 percent), and Senegal (10.3 percent; World Bank 2021). In Mali, where remittances represented 6.0 percent of GDP, the COVID-19 pandemic, combined with a disruption in economic activity due to political uncertainty following a military coup d'état in August 2020, led real GDP per capita to fall by –4.8 percent in 2020 (see figure 1.1).

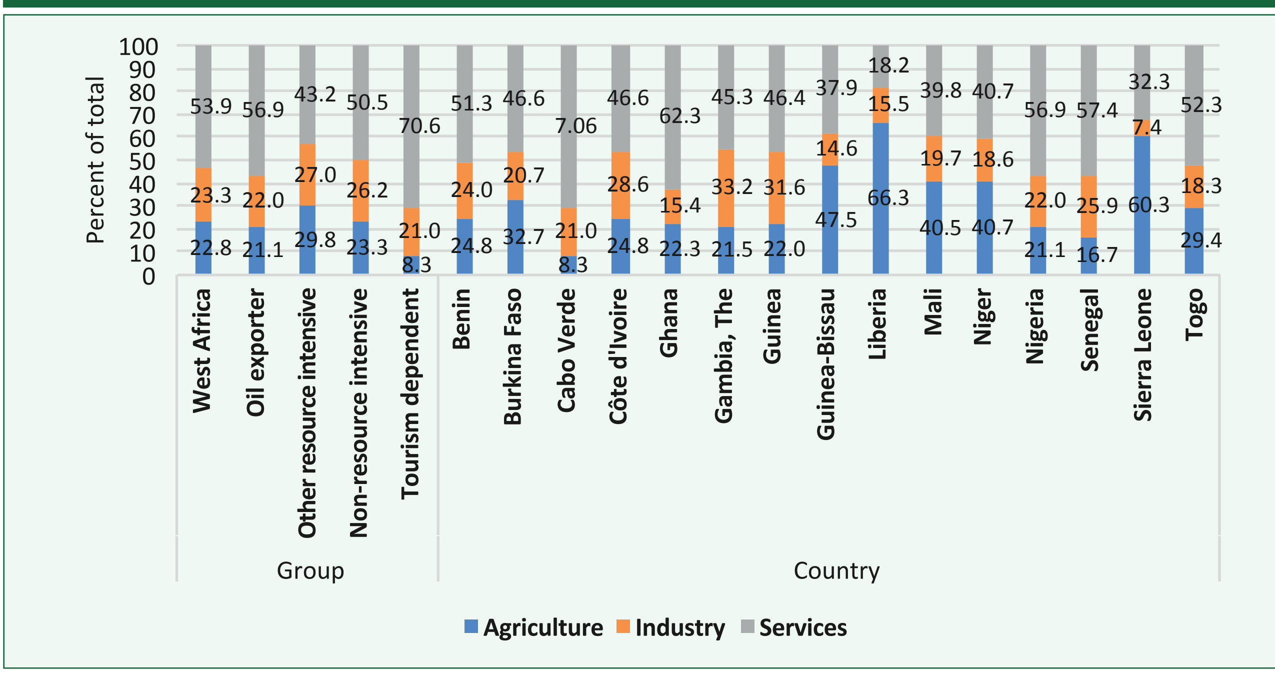
1.1.1 Supply-side contributions reflect structural transformation

On the supply side, West Africa's growth has been led by services. In terms of GDP and GDP growth, industry sector is a less important driver of the region's economy. This is a result of a structural transformation over the past two decades that reallocated workers from agriculture to services rather than industry. Because services generally generate weaker productivity gains, services-led growth is unsustainable and not favorable for reducing poverty.[1] So, structural transformation remains a key challenge—particularly in resource-intensive economies.

In 2015–19 services accounted for 53.9 percent of GDP in West Africa (figure 1.3). Agriculture represented 22.8 percent, and industry 23.3 percent. Manufacturing represents a small share of industry and mainly consists of weak processing of primary products and consumer goods.

In Nigeria services accounted for 56.9 percent of GDP in 2015–19, explaining the regional average. The contribution of agriculture is higher in nonoil-resource intensive economies such as Liberia and Sierra Leone (accounting for more than 60 percent of GDP). Compared with the regional and continental averages, the share of services is slightly lower in non-resource intensive economies such as Côte d'Ivoire (46.6 percent of GDP). The contribution of services is highest in Cabo Verde (70.6 percent of GDP) due to its strong reliance on tourism.

Figure 1.3: Sectoral components of GDP in West Africa by group and country, 2015–19 (Percent)



Source: Staff calculations based on African Development Bank statistics.
Note: Data for 2020 are estimates.

[1] In West African countries such as Cabo Verde and The Gambia, while labor productivity rose by more than 40 percent in 2010–19 in industry, it was stable or declining in services (African Development Bank statistics).

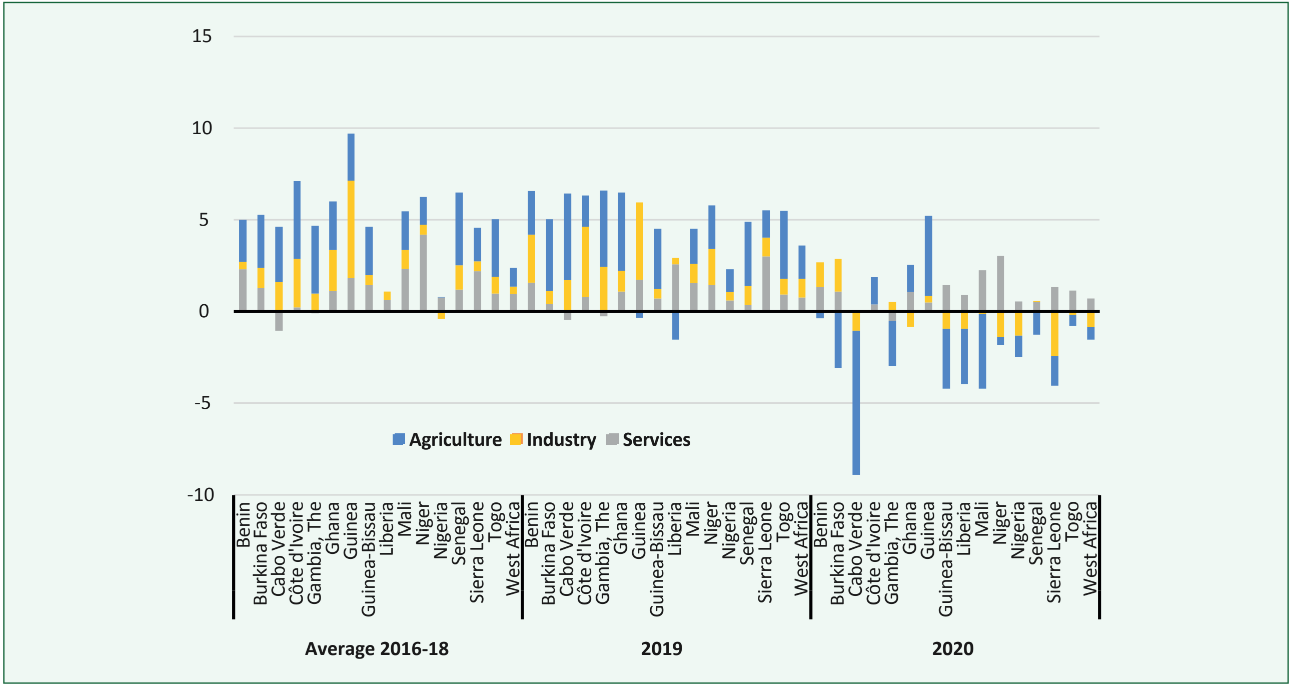
Over 2016–18, agriculture and services each contributed about 1 percentage point to real GDP growth in West Africa, while industry contributed 0.4 percentage point (figure 1.4). During this period the highest sectoral contributions were recorded by Niger for agriculture (4.2 percentage points), Guinea for industry (5.3 percentage points; mainly due to mining production), and by Côte d'Ivoire for services (4.3 percent points). In 2019 the sectoral contributions in the region were 1.8 percentage points for services, 1.0 percentage point for industry, and 0.8 percentage point for agriculture.

In 2020 the sectoral contributions to real GDP growth in West Africa were altered by COVID-19, with a positive contribution from agriculture (0.7 percentage point) and negative contributions from industry (–0.9 percentage point) and services (–0.7 percentage point). All of the region's countries except Côte d'Ivoire, Ghana and Guinea registered negative contributions from services. The sector's contribution to real GDP growth was about 1.5 percentage points in Côte d'Ivoire and Ghana and 4.4 percentage points in Guinea (due to mining-related services). The contribution of agriculture was positive in 2020 for all West African countries apart from The Gambia, with a contribution of –0.5 percentage point.

Though the sectoral contribution of industry was negative in 2020 for most countries, it was positive for Guinea because of increased mining production. As noted, the increase in mining activities allowed Guinea to register positive growth in 2020 for real GDP and real GDP per capita. The industrial sector in Sierra Leone was hit hardest by the pandemic, with a contraction of –2.4 percentage points.

In 2020 the largest COVID-induced contraction in West Africa was in Cabo Verde, reflecting the –7.9 percentage point contribution of services to real GDP growth. This mainly reflected a 69 percent drop in tourism revenue (AfDB 2021).

Figure 1.4: Sectoral contributions to GDP growth in West Africa by country, 2016–20 (Percent)



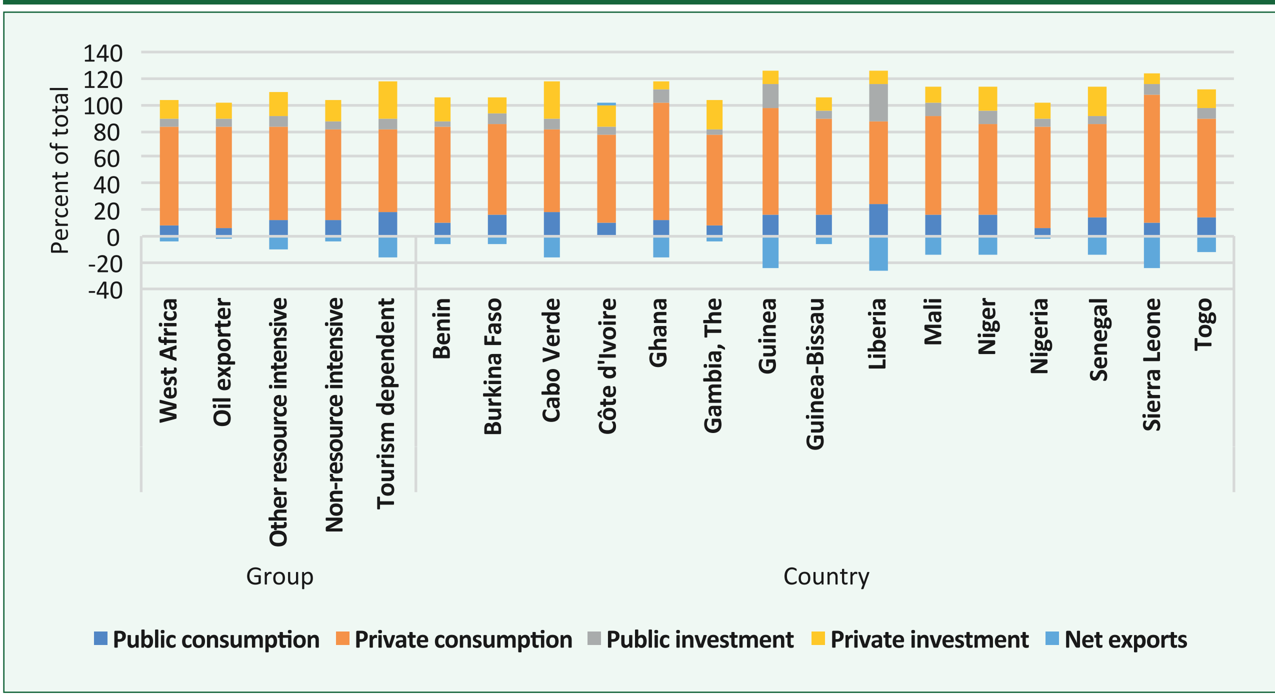
Source: African Development Bank statistics.
Note: Data for 2020 are estimates.

1.1.2 Demand-side contributions are driven by private consumption

On the demand side, most West African economies are domestically rather than externally driven, though net exports are important for commodity-dependent countries. Having household consumption as the main driver of aggregate demand is a concern for economies that are less developed and need strong investment to enhance infrastructure for sustained growth.

During 2015–19 private consumption averaged 75.6 percent of GDP in West Africa (figure 1.5). For all country groups and countries, private consumption was the top contributor to aggregate demand. The contribution of private consumption was highest in Sierra Leone, at 98.1 percent of GDP. In most countries, including Côte d'Ivoire, Ghana, and Nigeria, private consumption was sustained by a growing middle class.

Figure 1.5: Demand-side components of GDP in West Africa by group and country, 2015–19 (Percent)



Source: Staff calculations based on African Development Bank statistics.

Despite the need for infrastructure development, the share of investment in output was moderate in West Africa in 2015–19, at 20.3 percent of GDP (6.2 percent for public investment and 14.1 percent for private investment)—below the global average of 24.0 percent. Thanks to large investments in mineral production, Guinea and Liberia had the highest contributions of investment, at 27.5 percent of GDP (19.0 percent for public and 8.5 percent for private) and 38.0 percent of GDP (27.4 percent for public and 10.7 percent for private).

The regional average contribution of net exports to GDP is negative, though small. The largest negative contributions of net exports were in Liberia (25.5 percent of GDP) and Sierra Leone (24.3 percent), partly because of food imports.

On average, over 2016–18 private consumption contributed 1.0 percentage point to real GDP growth in West Africa, followed by investment with 0.7 percentage point and net exports with 0.6 percentage point (figure 1.6). During the same period the average contribution of government consumption was almost zero. Côte d'Ivoire had the highest contribution from private consumption, at 6.5 percentage points. In Guinea-Bissau and Niger the contribution of private consumption was 4.4 percentage points during the same period.

During 2016–18 Senegal recorded the highest contribution of investment to real GDP growth, at 5.6 percentage points, because of strong private investment (see figure 1.5). Cabo Verde also saw strong contributions of investment to GDP.

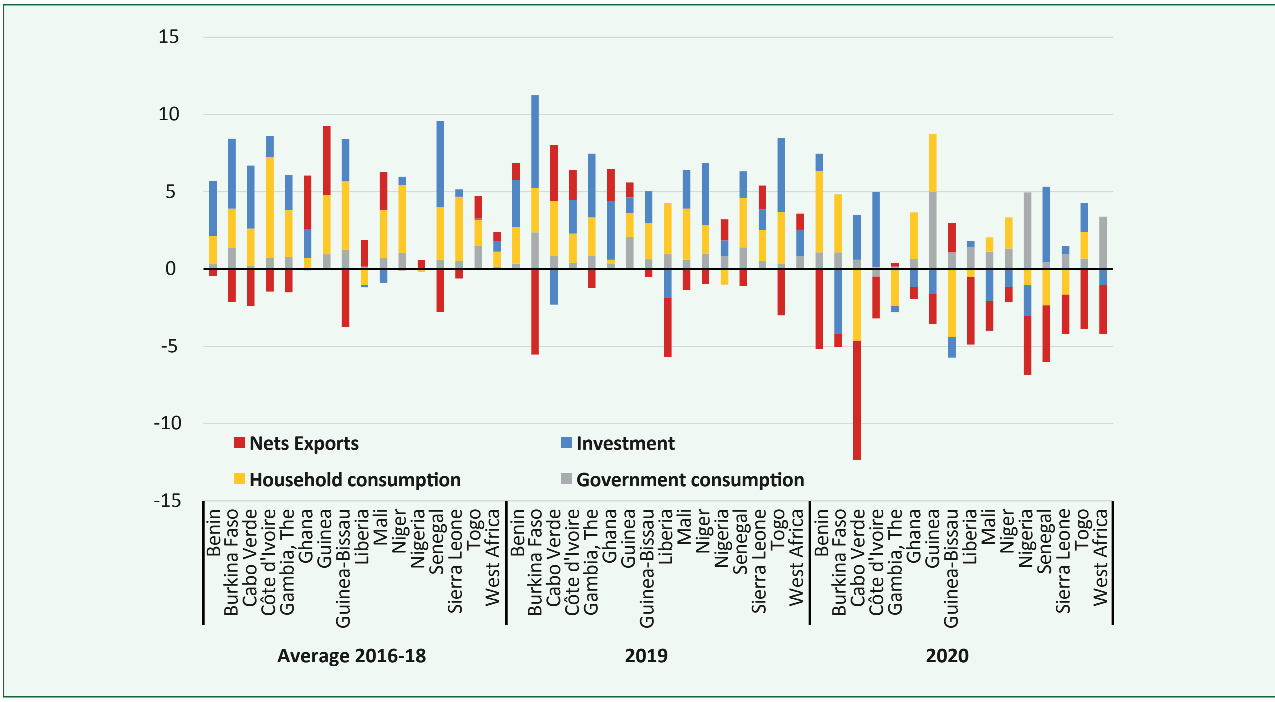
Guinea had the highest positive contribution of net exports to real GDP growth in 2016–18, at 4.5 percentage points, mainly due to earnings from mineral exports. Over the same period, Guinea-Bissau experienced the largest negative contribution of net exports, at –3.8 percentage points, due to a drop in exports of cashew nuts, which account for 90 percent of the country's exports.

In 2019 private consumption contributed almost nothing to real GDP growth in West Africa, reflecting the 1.0 percentage point decline in Nigeria. That same year, Burkina Faso had the highest positive contribution of investment (6.0 percentage points) as well as the largest negative contribution of net exports (–5.5 percentage points), reflecting the fact that most investment goods were imported. Liberia also saw a strong negative contribution of net exports (–3.8 percentage points) due to weaker mineral export earnings.

In 2020, with the COVID shock, only government consumption contributed positively to real GDP growth in West Africa, at 3.4 percentage points. Investment and net exports contributed negatively, with –1.0 percentage point and –3.2 percentage points. The contribution of private consumption to real GDP growth was about zero in the region. Nigeria had a large positive contribution of government consumption (5.0 percentage points) and a strong negative contribution of net exports (–3.8 points) and investment (–2.0 points).

The large positive contribution of government consumption was the result of fiscal stimulus measures to mitigate the socioeconomic impacts of the pandemic. The pandemic-induced drop in capital spending from the budget and in foreign direct investment explain the negative contribution of investment. Soaring prices for commodity exports mostly explain the negative contribution of net exports to real GDP growth in West Africa (see below). The largest contraction was in Cabo Verde, due to the decline in tourism and remittances, as reflected in the strong negative contribution of private consumption (–4.6 percentage points) and net exports (–7.7 points).

Figure 1.6: Demand-side contributions to GDP growth in West Africa, 2016–20 (Percent)



Source: African Development Bank statistics.

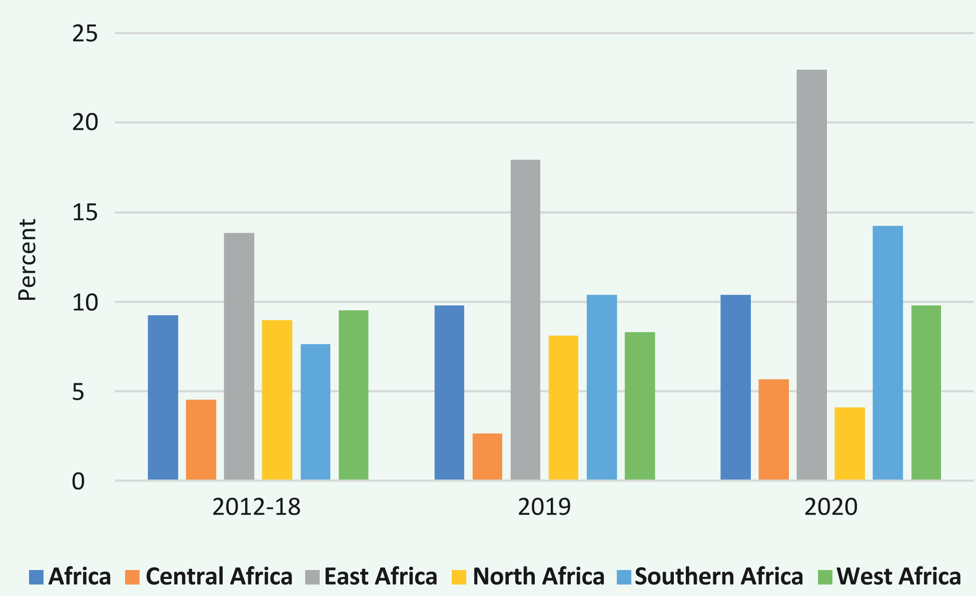
1.2 MONETARY POLICY AND INFLATION

West Africa has varying monetary policy frameworks due to different exchange rate arrangements for two groups of countries. Among members of the West African Economic and Monetary Union (WAEMU)—Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo—the CFA franc (CFAF) exchange rate is pegged to the euro. Non-WAEMU countries—Cabo Verde, The Gambia, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone—can periodically intervene in foreign exchange markets to manage their currency values. In Ghana monetary policy operates under an inflation targeting framework.

Inflation in West Africa averaged 9.5 percent in 2012–18 and was 8.3 percent in 2019 (figure 1.7). Inflation is generally higher in West Africa than in Central Africa and North Africa, but lower than in East Africa. Inflation differs across West African countries. During 2012–18 it ranged from 0.5 percent in Senegal to 11.7 in Nigeria.

Inflation is higher in resource-intensive West African economies. In 2012–18 average inflation was 1.2 percent in non-resource intensive countries compared with 11.7 percent in Nigeria (an oil-intensive economy) and 9.7 percent in nonoil-resource intensive countries (table 1.3). For a resource-intensive country that is not a WAEMU member, such as Nigeria, higher inflation resulted from imported inflation due to exchange rate depreciations under the pressure of lower commodity prices.

Figure 1.7: Inflation in Africa and by African region, 2012–20 (Percent)



Source: African Development Bank statistics.
Note: Data for 2020 are estimates.

The differences in inflation can first be explained by the different exchange rate arrangements for WAEMU countries and non-WAEMU countries. Due to the CFAF peg to the euro, WAEMU countries benefit from lower inflation imported from the euro zone. In 2012–18 the average inflation in every WAEMU country was below 1.5 percent, compared with 11.7 percent in Nigeria, 11.0 percent in Liberia, 10.3 percent in Guinea, and 9.8 percent in Sierra Leone. Cabo Verde was the only non-WAEMU country with lower inflation—averaging 0.7 percent over 2012–18, 1.1 percent in 2019, and 1.0 percent in 2020.

Central banks in many non-WAEMU countries, supported by accumulated international reserves from commodity exports, can intervene in foreign exchange markets to contain variations in their currency values. A resource-intensive country like Nigeria may face a tradeoff between holding international reserves (to buffer in case of lower commodity export earnings) and maintaining a stable exchange rate to limit price variations. But in such an economy, the desire to preserve a stable real exchange rate may not facilitate economic adjustment if commodity prices fall. It can also lead to an appreciation of the real exchange rate that undermines trade competitiveness.

Table 1.3: Inflation in West Africa by group and country, 2012–20 (Percent)			
	2012–2018	2019	2020
West Africa	**9.5**	**8.3**	**9.8**
Group			
Oil exporter	11.7	11.4	12.8
Other resource intensive	9.3	7.3	9.2
Non-resource intensive	1.2	0.6	1.9
Tourism dependent	0.7	1.1	1.0
Country			
Benin	1.2	-0.9	2.0
Burkina Faso	1.3	-3.2	1.4
Cabo Verde	0.7	1.1	1.0
Côte d'Ivoire	1.1	0.8	1.8
Gambia, The	6.4	7.1	6.0
Ghana	13.3	8.7	10.0
Guinea	10.3	9.5	10.4
Guinea-Bissau	0.9	0.2	1.9
Liberia	11.0	23.0	17.2
Mali	1.3	-2.9	0.5
Niger	0.8	-2.5	2.8
Nigeria	11.7	11.4	12.8
Senegal	0.5	0.9	1.9
Sierra Leone	9.8	14.8	17.0
Togo	1.1	0.7	1.6

Source: African Development Bank statistics.
Note: Data for 2020 are estimates.

A major driver of inflation in West African countries is fiscal expansion stemming from chronic fiscal deficits. These deficits often breach the 3 percent of GDP threshold for macroeconomic convergence set by the Economic Community of West African States (ECOWAS). Imported food inflation is another driver of inflation since West African countries are net importers of foodstuffs. In West Africa spending on food accounts for at least half of household budgets. Moreover, due to lack of or limited modern farming techniques (mechanization and irrigation systems), inflation is influenced by domestic food supply constraints that are frequently magnified by climate shocks such as droughts and flooding. Furthermore, while higher oil prices benefit oil-exporting countries like Côte d'Ivoire, Ghana, and Nigeria, they increase inflation in the region's oil-importing countries.

For many West African countries, inflation was higher in 2020 than in 2019, mostly due to pandemic-induced supply chain disruptions, especially for food. But the rise in consumer prices was mitigated by the fall in demand resulting from containment measures. Lower energy prices resulting from the pandemic also mitigated the rise in consumer prices in oil-importing countries.

To ease the severe economic impacts associated with COVID-19, central banks in West Africa have taken various steps to relax monetary policies. Before the pandemic, monetary policy was less accommodative. These steps have included cutting policy rates, injecting liquidity into banking systems, using unconventional monetary policies (collateral easing measures, temporary suspension of loan payments to relieve businesses and nonfinancial corporations), and relaxing prudential constraints. For instance, even though the WAEMU policy rate was one of the lowest in Africa, the Central Bank of West African States (BCEAO) cut its ceiling and floor policy rates by 0.5 percent point, to 4.0 and 2.0 percent. The BCEAO also decided to delay by one year the transition to Basel III norms.

The Central Bank of Nigeria also cut its policy rate—by 1.0 percentage point, to 11.5 percent—to stimulate private credit, and disbursed more than NGN 300 billion (about $732 million) to small and medium-size enterprises to mitigate the adverse impacts of the pandemic on their operations. The Monetary Policy Committee of Ghana cut the primary reserve requirement from 10 to 8 percent and the policy rate by 1.5 percentage points, to 14.5 percent.

COVID-19 accentuated global risk sentiment, causing reversals or decreases in capital inflows, particularly in frontier market economies, with declines in foreign exchange reserves (see below). This induced depreciation pressures on the currencies of non-WAEMU countries with floating or managed float systems, such as Nigeria and Ghana. In the wake of the pandemic, the Central Bank of Nigeria devalued its official exchange rate from NGN 360 per U.S. dollar to NGN 379. The Ghana cedi depreciated by 3.1 percent in 2020, though that was lower than the 10.0 percent depreciation that occurred in 2019 due to the Bank of Ghana's monetary policy. In Liberia, due to declining international reserves, the exchange rate depreciated from LRD 193 per dollar in June 2019 to LRD 198 per dollar in June 2020 and moved to LRD 160 per dollar in December 2020.

1.3 FISCAL AND CURRENT ACCOUNT BALANCES

1.3.1 COVID magnified fiscal deficits

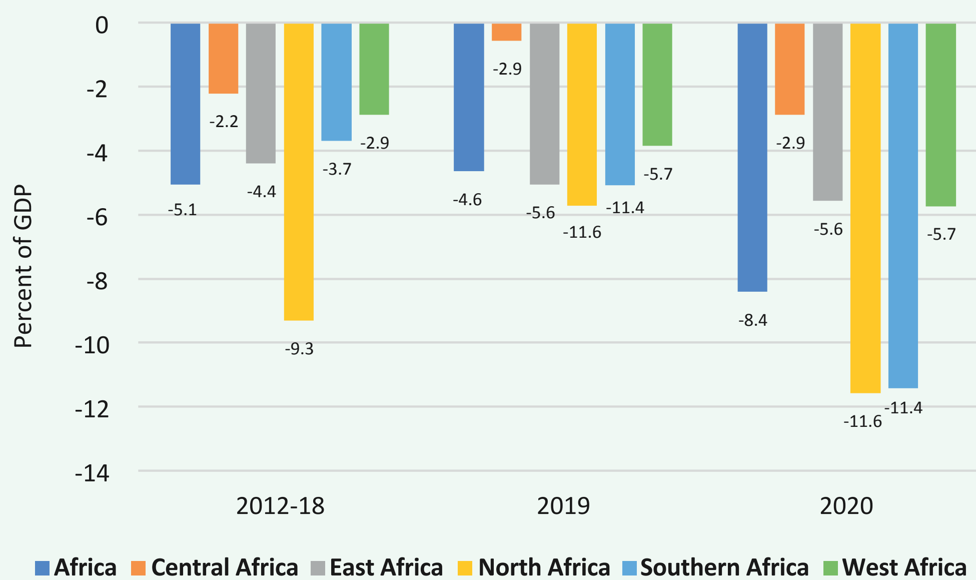
Over the past two decades West Africa, like other African regions, has registered chronic fiscal deficits due to higher spending against lower resource mobilization. Fiscal deficits on the continent averaged 5.1 percent of GDP over 2012–18 and 4.6 percent in 2019 (figure 1.8). The fiscal deficit in West Africa was higher than in Central Africa but lower than in other African regions, with North Africa recording the largest deficit.

The dynamics of fiscal deficits vary across West African countries, with considerable fiscal challenges for many (figure 1.9). Over the past two decades the fiscal deficit was higher in Nigeria due to decreased oil revenue, and in non-resource intensive economies due to weak revenue mobilization.

To address the socioeconomic effects of the pandemic, African countries deployed fiscal packages that support to promote the resilience of healthcare systems, tax relief for households and businesses, and expansion of social assistance. The average fiscal stimulus package in West Africa was about 1.3 percent of GDP and ranged from 0.3 percent in Nigeria to 6.9 percent in Guinea-Bissau (see chapter 2).

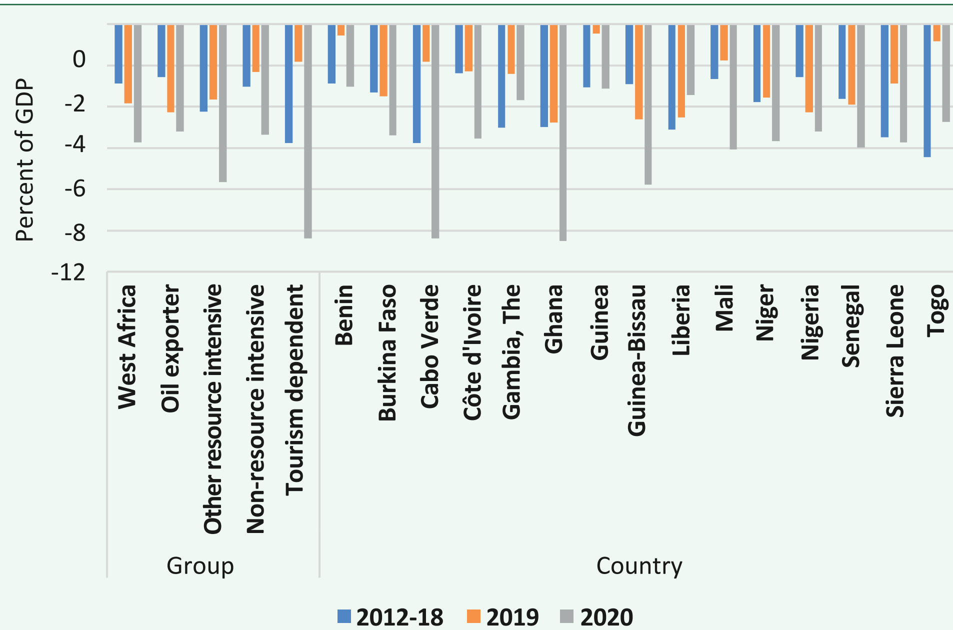
By increasing health and social spending and lowering tax revenues due to weak economic activity, COVID-19 sharply magnified fiscal deficits in West Africa to an average 5.7 percent of GDP in 2020, up from 3.8 percent in 2019. Southern Africa was the region with the greatest deterioration in fiscal balance, from 3.7 percent in 2012–18 to 11.4 percent in 2020. North Africa had the highest fiscal deficit-to-GDP ratio in 2020 at 11.6 percent, up from 9.3 percent in 2012–18.

Figure 1.8: Fiscal balances in Africa and by African region, 2012–20 (Percentage of GDP)



Source: Staff calculations based on African Development Bank statistics.
Note: Data for 2020 are estimates.

Figure 1.9: Fiscal balances in West Africa by group and country, 2012–22 (Percentage of GDP)



Source: Staff calculations based on African Development Bank statistics.
Note: Data for 2020 are estimates.

In all West African countries except Nigeria, taxes on goods and services, trade, incomes, profits, and capital gains are the main source of public revenues (see chapter 2). These revenues dropped in 2020 because of the sluggish economy. Ghana had the highest deficit in West African in 2020, at 10.5 percent of GDP, because of falling oil revenues, lower tax collections, and increases in health and social spending to support affected households and businesses. The pandemic-induced deterioration in fiscal balance was also pronounced in Cabo Verde, at 10.4 percent of GDP, mainly due to a sharp decline in tourism revenue.

Fiscal consolidation in West African countries has been made difficult by low domestic resource mobilization, which mainly consists of tax revenues. Over 2010–19, due to narrow tax bases and inefficient tax collections, taxes collected in West Africa averaged less than 8 percent of GDP, against around 17 percent for the continental mean. This reflects weak tax revenue mobilization in Nigeria, the region largest economy. Indeed, Nigeria's nonoil revenue barely accounted for 4 percent of GDP in 2010–19—the lowest level in West Africa. The country's total revenue (including oil revenue) was less than 8 percent of GDP. Cabo Verde succeeded in reaching total revenue (and grants) equivalent to 30 percent of GDP in 2010–19. This was due to administrative measures to strengthen revenue mobilization (such as strengthening the decisionmaking capacity of the tax administration, combating tax avoidance and evasion, and enhancing formalization of the informal economy). In comparison, Senegal, Togo, and Benin registered revenues of 20.5, 18.9, and 13.5 percent of GDP in 2010–19.

As part of their fiscal stimulus packages to mitigate the impacts of COVID-19, in 2020 Ghana and Nigeria withdrew money from their oil-based sovereign wealth funds. Nigeria's government took $150 million from the Nigeria Sovereign Investment Authority, a sovereign wealth fund with an explicit stabilization mandate. Ghana allocated $200 million from the Ghana Stabilisation Fund to cover COVID-19 emergency costs, decreasing the fund's assets to $100 million. The Ghana Heritage Fund has not been touched since its aim is to save oil revenues for future generations.

The pandemic unveiled the opportunity to promote the use of sovereign wealth funds to reduce vulnerability to oil price fluctuations. To that end, whatever a fund's goal (stabilization or not), it should invest abroad a part of oil revenue when oil prices are high and reduce foreign assets when prices decline. This strategy helps contain the "commodity currency" phenomena (Chen and Rogoff 2003; Cashin, Céspedes, and Sahay 2004)—that is, the close link between exchange rates and commodity prices—and mitigates the "Dutch disease" effect (Raymond, Coulibaly, and Omgba 2017). In this way, while serving as fiscal buffers to achieve stabilization in the short run, sovereign wealth funds can facilitate economic diversification, regardless of their aim (see chapter 2).

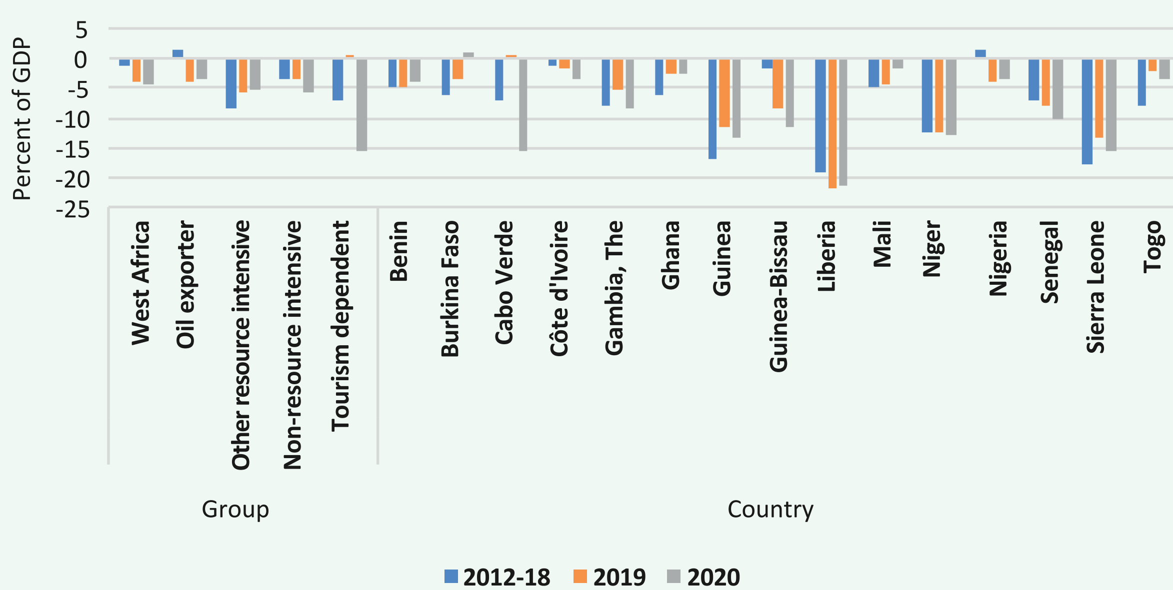
1.3.2 COVID complicated the resolution of external imbalances

West Africa has had a weaker external position for several years, underpinned by a combination of factors. The average current account deficit in West African countries is fueled by trade deficits and earnings paid to foreign investors but narrowed by current transfers such as remittances and foreign aid. Through trade balances, fluctuations in commodity prices are important for the dynamics of the current account balance, especially for an oil exporter like Nigeria.

With lower savings generated, growth performance over the past two decades has not been sufficient to cover the structural funding needed for the region's development. The average savings rate in West Africa was about 15 percent in 2019, while the world average saving rate was 27 percent of GDP (World Bank 2021). Low national saving limits investment for sustained growth while fueling the current account deficit. The average current account deficit in West African countries represented around 1.0 percent of GDP in 2012–18 and rose to 4.1 percent in 2019 (figure 1.10).

The magnitude of the current account balance differs across West African countries. Nigeria's current account averaged a surplus over 2012–18 due to oil revenue and because of a large trade imbalance; it turned into a deficit in 2019. Between 2012 and 2020 Liberia had the largest current account deficit in West Africa. The country ran a massive current account deficit of 19.2 percent of GDP on average between 2012 and 2018, mostly owing to imports of investment goods financed by foreign direct investment related to mining projects. Guinea had the region's second-highest current account deficit. Due to imports for mining (like Liberia) and for public infrastructure projects, particularly the construction of the Souapiti hydroelectric dam, Guinea experienced an average current account deficit of 16.8 percent of GDP over 2012–18, and 11.7 percent in 2019. Niger also recorded a larger current account deficit, at 12.2 percent of GDP over 2012–18 and 12.5 percent of GDP in 2019. This stemmed from large development needs financed by donor loans and foreign direct investment, and a decline in the price of uranium exports resulting from the Fukushima nuclear accident in 2011.

Figure 1.10: Current account balances in West Africa by group and country, 2012–20 (Percentage of GDP)



Source: Staff calculations based on African Development Bank statistics.
Note: Data for 2020 are estimates.

The pandemic induced a slight increase in the current account deficit of West Africa, from 4.1 percent of GDP in 2019 to 4.3 percent in 2020. In response to the crisis, the current account deficit decreased in resource-intensive countries and increased in non-resource intensive ones. For instance, Nigeria had a stable current account deficit in 2019 (3.8 percent of GDP) and 2020 (3.7 percent) due to import compression, compensating for the fall in oil revenues. Similarly, Liberia, a nonoil-resource intensive economy, the current account deficit declined slightly from 21.7 percent of GDP in 2019 to 21.3 percent in 2020 (the highest deficit in the region). Because of a strong drop in tourism revenues, Cabo Verde saw a higher deterioration in its current account balance, from a surplus of 0.3 percent in 2019 to a deficit of

15.6 percent of GDP in 2020. Because of lower exports of agricultural products in response to weaker global demand, Côte d'Ivoire's current account deficit rose from 1.9 percent of GDP in 2019 to 3.5 percent in 2020.

1.3.3 Changes in terms of trade were a key driver of current account balances

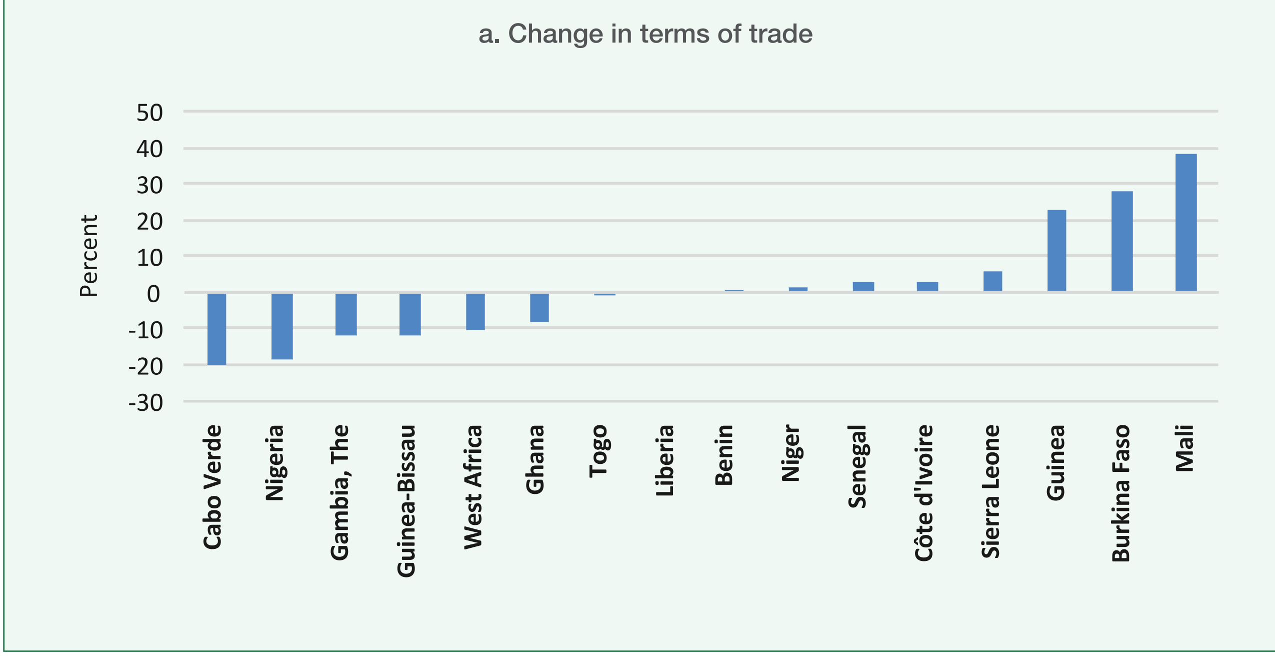
Terms of trade are a major factor behind the dynamics of trade balances and current account balances in West African countries. The terms of trade in the region are mainly driven by commodity terms of trade—that is, the price of exported commodities relative to imports of manufactures.

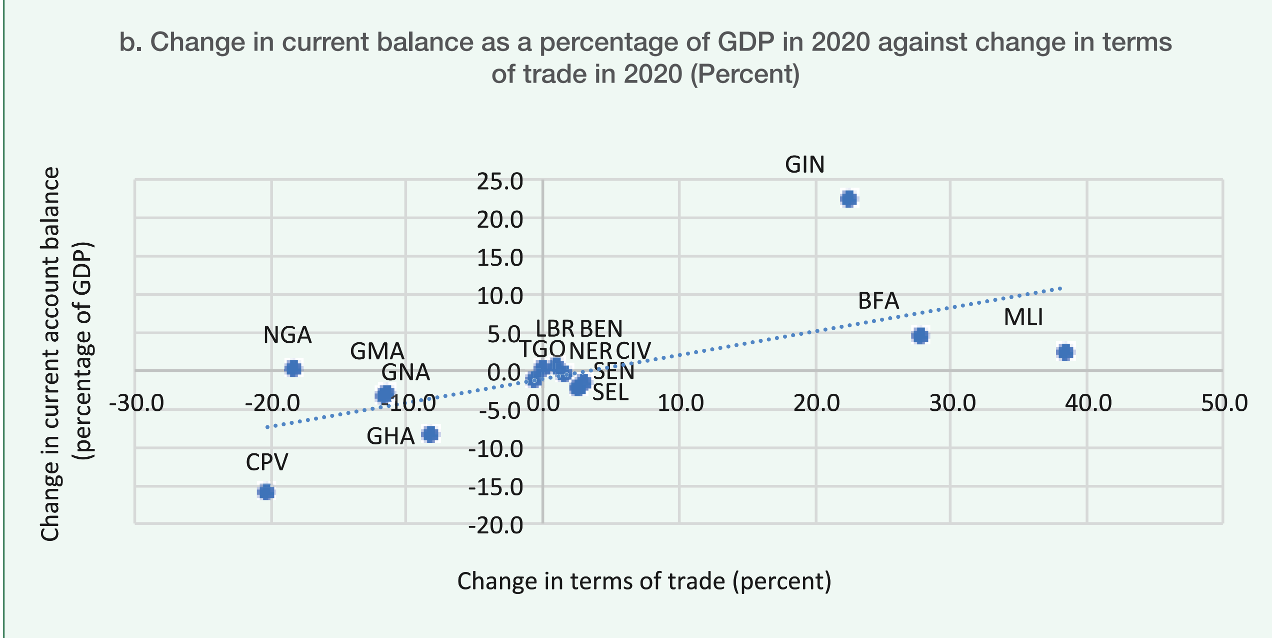
The pandemic triggered a sharp drop in prices of the region's exported commodities, including agricultural raw materials, foods, metals and fuels. Although prices of most exported commodities pared some of the losses (World Bank 2020), the recovery remains below pre-pandemic levels. West Africa's terms of trade dropped 10.7 percent in 2020 (figure 1.11a). But this regional average masks significant differences across economies. Cabo Verde had the strongest decline in the terms of trade in 2020, at 20.2 percent, due to higher prices for food imports. Worsening in the terms of trade was also important in Nigeria, at 18.2 percent, mainly resulting from the decline in oil prices. However, some West African countries experienced improvements in their terms of trade. That was the case for Mali (38.5 percent), Burkina Faso (27.8 percent), and Guinea (22.4 percent, due to a 26 percent rise in gold prices between December 2019 and December 2020).

In 2020, across West African countries, improvements in terms of trade were accompanied by improvements in current account balances, while worsening terms of trade were associated with widening current account deficits (figure 1.11b). The average worsening terms of trade was associated with a 0.2 percentage point of GDP rise in West Africa's average current account deficit. The rise in the current account deficit resulted from the fact that worsening terms of trade reflected a 3.5 percent drop in export volumes and 2.1 percent increase in import volumes.

For Burkina Faso and Mali (gold exporters), reductions in their large current account deficits during the pandemic—leading to a surplus for Burkina Faso and Mali—were driven by improvements in their terms of trade due to higher gold prices. By contrast, the large deterioration in Cabo Verde's terms of trade was in line with the widening deficit of its current account in 2020.

Figure 1.11: Changes in terms of trade and current account balances in West Africa by country, 2020





Source: Staff calculations based on African Development Bank statistics and IMF 2021b.

1.3.4 The COVID-induced drop in remittances exacerbated current account deficits

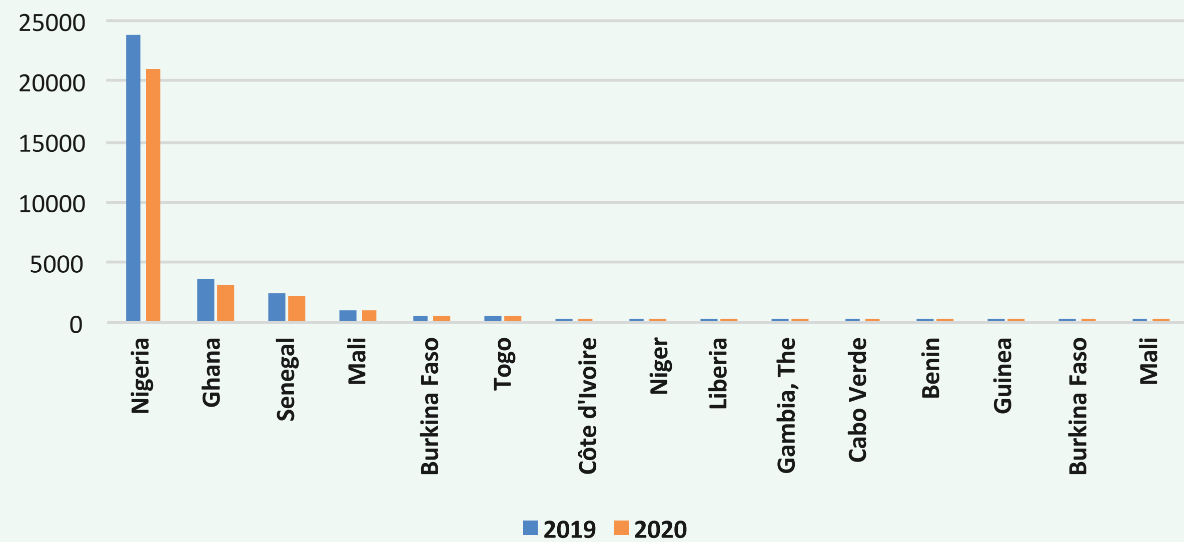
Since the 1990s remittances to West African countries have increased dramatically, especially with the development of new technologies and reductions in transfer costs. Remittances are an important source of financing for some countries in West Africa. They also serve as an alternative way of financing investment in the face of credit constraints (Giuliano and Ruiz-Arranz 2009). In addition, by changing countries' demographic structures, international migration was found to improve current accounts through remittances, particularly in developing countries such as those in West Africa (Coulibaly, Gnimassoun, and Mignon 2020).

Alongside exports of raw materials and flows of foreign direct investment, migrants' transfers have become a key factor connecting the economies of West Africa to those of developed countries (host countries of African emigrants or remittance-sending countries). Remittances have also enhanced economic synchronization between some West African countries. For example, Côte d'Ivoire is a major remittance-sending country to some countries in the region—even more so than OECD countries for Burkina Faso and Mali.

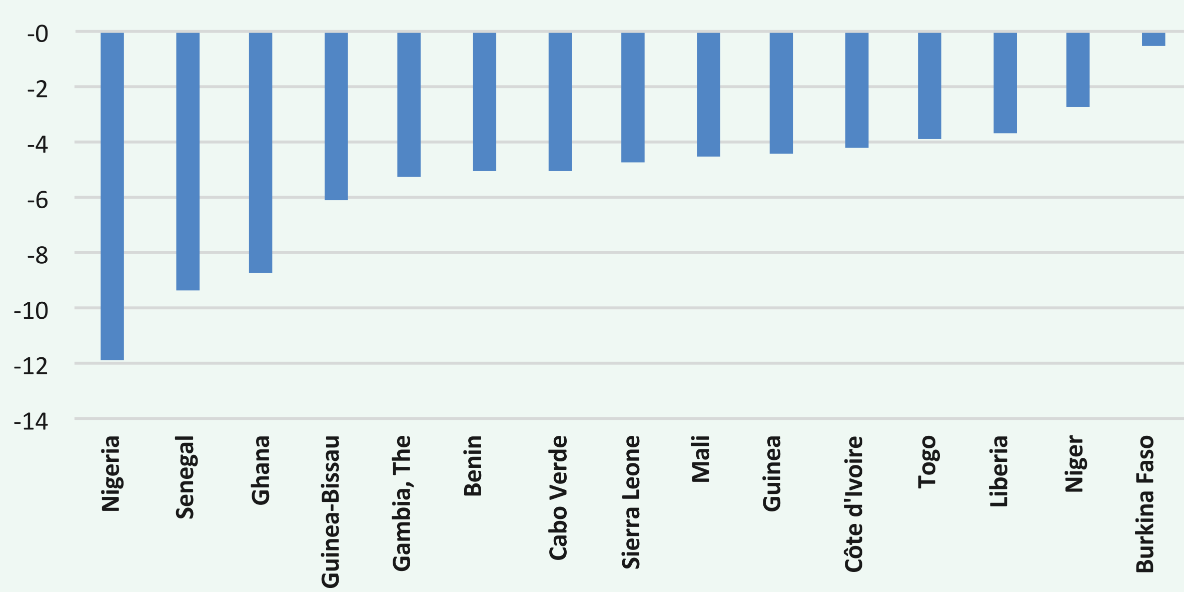
In 2019–20 Nigeria was West Africa's top recipient of remittances (in U.S. dollars), accounting for more than 70 percent of the total (figure 1.12a). But remittances in Nigeria represented about 5 percent of GDP, less than half the level in countries like Cabo Verde, The Gambia, Liberia, and Senegal (see chapter 2).

Figure 1.12 Migrant remittances to West Africa by country, 2019–20

a. Millions of U.S. dollars



b. change (percent)



Source: African Development Bank statistics; KNOMAD 2020.
Note: Data for 2020 are estimates.

By causing economic deterioration in host countries, COVID-19 led to a drop in remittances to West African countries in 2020, significantly deteriorating the current accounts of some. In 2020 remittances are estimated to have fallen by more than 8 percent among the top three recipients (Nigeria, Ghana, and Senegal) and by more than 5 percent in Benin, The Gambia, and Guinea-Bissau (figure 1.11b). In addition to a drop in ourism revenue, a decline in remittances has contributed to the large deterioration of the current account balance of Cabo Verde (see figure 1.10).

As the pandemic continues to spread, remittances will continue to fall. Thus the aggravating effect on the external imbalances of West African countries through remittances could be long-lasting.

1.3.5 External reserves were put under pressure

To facilitate structural transformation, West African countries import capital goods, leading to the accumulation of current account deficits that are financed by foreign capital inflows, particularly foreign direct investment (see chapter 2). Previously, most foreign direct investment went to the oil and mining sectors. But there have been more investments in other sectors—such as the nonoil energy sector, where needs are enormous. For instance, in 2018 Senegal's Taiba N'Diaye Wind Farm received $340 million in financing from Lekela Power. Still, foreign direct investment in West Africa was on a downward slide before COVID-19.

Higher global uncertainty arising from the pandemic has increased risk aversion toward assets issued by developing economies like those in West Africa. This has resulted in reversals or decreases in capital inflows, leading to foreign exchange shortages and putting depreciation pressures on currencies. Between 2019 and 2020 external reserves (measured as a percentage of GDP) dropped in 31 African countries, including some in West Africa (AfDB 2021).

During the first half of 2020 Nigeria received $7.1 billion in foreign investment—less than half the amount received in the same period of 2019 (AfDB 2021). With oil revenues already lower, this decline accentuated pressures on reserves. As discussed, the Central Bank of Nigeria was forced to devalue its official exchange rate. International reserves in Nigeria were expected to fall from $38.1 billion (6.0 months of imports) in 2019 to $29.5 billion (4.4 months of imports) in 2020 (IMF 2021a). To finance their current account deficits, many other West African countries have registered a decrease in their foreign reserves. An exception was Ghana (whose currency also depreciated), where external reserves were estimated to increase from 3.6 months of imports in 2019 to 4.2 months in 2020 (AfDB 2021).

1.4 CONFLICT AND VIOLENCE, FRAGILITY, AND RESILIENCE: DYNAMICS, TRENDS, AND IMPLICATIONS

To understand West Africa's economic outlook, it is crucial to assess the socio-institutional dynamics, societal relationships, and demographic vulnerabilities that drive fragility and foster community resilience in the region. COVID-19 has caused countries experiencing fragility, protracted conflict, recurrent natural disasters, or forced displacement to face a multiplied burden. Communities less equipped to respond to the socioeconomic dimensions of COVID-19 due to limited access to basic services—especially health and sanitation, decent work, social protection, and safety—have had to reckon with the enforcement of public health recommendations. Many actions taken as public safety measures have exacerbated grievances, mistrust, or sense of injustice over access to health services and decent jobs. Consequently, COVD-19 has worsened the vulnerabilities that could undermine development, peace, and social cohesion in West Africa.

1.4.1 Conflict and violence affect many parts of the region

Despite considerable economic advances in West Africa and the progress made on consolidating democratic norms and regional cooperation, significant parts of the region continue to suffer the devastating effects of conflict and violence. Many violent conflicts are related to group-based grievances arising from perceptions of marginalization, exclusion, and feelings of injustice (World Bank and UN 2018).

Over the past decade, violent conflict in the region has shifted away from the large-scale conflicts and intrastate wars that characterized the postcolonial and post–Cold War periods. Recent conflicts are characterized by complex relationships between state and nonstate actors with divergent agendas. These conflicts often involve a growing number of rebel groups in search of greater autonomy and violent extremist organizations that have shifting alliances and rivalries with government forces and with each other. In many cases, state forces constitute just 25 percent of the conflict networks and operate alongside diverse ethnic or pro-government militias and against rebel groups, jihadist groups, militias funded by strongmen, or criminal enterprises competing over access to resources or local power (OECD SWAC 2021).

Multiple forms of violence have overlapped to form a mutating landscape of conflict across West Africa. Lines of potential fracture—such as ethnic, religious, or linguistic differences, which reflect these countries' heterogeneity—have aggravated perceptions of injustice, marginalization, and exclusion. In addition, growing threats from activities such as narco-trafficking (Ghana, Guinea-Bissau), maritime piracy (Gulf of Guinea), religious extremism (Mali, northern Nigeria), conflicts between pastoralists and farmers (Burkina Faso, Niger, Nigeria), and transnational organized crime test the institutions and capacities of affected countries (Alexandre, Verjee, and Mogaka 2015).

In hotbeds like the Sahel (parts of Burkina Faso, Mali, and Niger) and the Lake Chad region (which straddles Niger, Nigeria, and others), conflicts have become more violent and widespread, increasingly targeting civilians, particularly in rural areas and borderlands where state power and infrastructure are absent. Socioecological dimensions of these conflicts have materialized in regions where populations are caught in a fragility trap between worsening climate change impacts and conflict dynamics, further undermining the ability of communities to cope. Conflicts also have significant spillover effects, with violence in some countries propagating beyond porous borders.

Spillover effects of violence in West African hotspots are apparent in the activities of the Boko Haram insurgent groups, which began in northern Nigeria and have extended into neighboring Cameroon, Chad, and Niger to destabilize the Lake Chad Basin and the Sahel. Similarly, extremist groups threaten peace in countries such as Burkina Faso, Mali, and Niger, including Ansar Dine, al-Qaeda in the Islamic Maghreb (AQIM), Movement for Unity and Jihad in West Africa (MUJAO), National Movement for the Liberation of Azawad (MNLA), and Katibat Mancina. This far-reaching penetration suggests the need for interconnected fragility and resilience analysis, with an emphasis on the region at large and not just individual states and communities. Furthermore, for places both outside and within these hotspots, conflicts emerge from struggles for power during political transitions or electoral processes.

Violent conflicts in West Africa have contributed to a situation where almost 5 million people suffer from food insecurity—with an estimated threefold increase in 2020—and more than 2.3 million displaced persons. Persistent violent incidents interrupt development priorities such as effective provision of basic services, job creation for youth, education, healthcare, and poverty reduction programs. For example, in Mali public debt reached 40.5 percent of GDP at the end of 2019, reflecting the relationship between conflicts and economic outlooks. The same is true in Burkina Faso, Mauritania, and Niger, among others, where government debt hovered around 26.4 percent.

The human toll of these violent crises cannot be understated. In the first half of 2020 the number of reported fatalities due to violent attacks increased dramatically in West Africa, particularly in Burkina Faso and Mali, with the number surpassing that in all of 2019). These attacks and the human lives affected are undoubtedly correlated with underlying vulnerabilities including low state capacity to cover porous borders, socioeconomic marginalization, land conflicts, climate crises, and exclusionary governance.

1.4.2 Fragility has many elements and implications

The complex nature of fragility in West Africa is further elucidated through analysis of its dimensions and implications. This section highlights five; each is interconnected, representing and reflecting the need to collectively address the governance, demographic, socioeconomic, gender, and climate aspects of development.

Governance and inclusive politics. To understand fragility in West Africa, it is crucial to study how various constituencies and citizens participate in decisionmaking, how power is accessed and distributed, and how accountability mechanisms are structured. Though the root causes of state fragility in the region are structural and deeply rooted, at times violence has been sparked by political transitions or election-related processes even in more resilient states. From Benin to Senegal, the search for political leverage, representation, and effectiveness, through unconstitutional means, dominates patterns of conflict. At the same time, over the past decade the region has shown progress in the consolidation of democracy through successful elections and leadership transitions in Ghana, Liberia, Niger, and Sierra Leone, as well as political dialogue initiated in Burkina Faso on the rules of the electoral game. Still, insecurity is prevalent in areas of the region where political stability cannot be substituted for inclusive politics.

Demographic, technological, economic, and geostrategic developments have created new pressures, tools, and conflicts between citizens and states, resulting in more contentious and unpredictable political environments. Some leaders have used technology to spy on opponents and routinely shut down the internet. Others have been accused of leveraging COVID protocols to muzzle civil society and break promises on term limits. In 2020 Guinea, Mali, and Togo restricted access to the internet and to some social media.

At the same time, empowered citizens have taken to the streets to demand social and economic reforms and representation. Protests in Nigeria, Senegal, and Togo have reflected the growing public demand for inclusivity. Many of these movements have been driven by young people demanding economic transformation through social change. Movements such as #EndSARS and #FreeSenegal have gained momentum, with the middle class (including businesses) and women-led coalitions emerging as flagbearers for disadvantaged populations. Momentum on social mobilization reflects the expanding role of civil society in West Africa. Empowered civil society organizations have provided the bedrock for action toward inclusivity in the political realms of many countries in the region.

Most West Africans support ongoing trends toward the better, more accountable governance resulting from democratic elections, term limits, and civic participation. Over the last five years, surveys have found that 68 percent of West Africans prefer democracy, 75 percent support two term limits for leaders, and 62 percent think that citizens must hold governments accountable—even if it slows decisionmaking. Recent changes in political leadership and overall governance improvements reflect the vertical accountability that citizens exercise through elections. West African countries have also made progress on horizontal accountability, involving government checks and balances, as well as what might be called diagonal accountability, or the effect of personal responsibility on institutions.

In recent years West Africa has also seen progress on access to information. In 2010 Liberia became the first country in the region to adopt an access to information law. Since then, 10 others have followed: Benin, Burkina Faso, Ghana, Guinea, Côte d'Ivoire, Mali, Niger, Nigeria, Sierra Leone, and Togo. Still, despite the existence of such laws, their implementation continues to pose challenges because many governments are reluctant to put them in practice.

The African Development Bank's 2020 Country Fragility and Resilience Assessment (CFRA) for West Africa highlighted the need for greater transparency and more anticorruption mechanisms to increase public trust in their governments. Corruption fuels conflicts and generates grievances stemming from diminished effectiveness and legitimacy of national institutions. By eroding public trust and undermining defense and security institutions, corruption has undermined the rule of law and contributed to instability. In practice this has resulted in weaker access to basic services for many citizens and contributed to environments conducive to human rights violations (Transparency International 2021).

Demographics and youth inclusion. Africa's population is young and growing at twice the pace of other continents. Half of Sub-Saharan Africa's population is under 25, and each year between 2015 and 2035, there will be 500,000 more 15-year-olds than the year before. West Africa's demographics reflect this continental trend, and presents development policy opportunities and challenges. For example, a youth bulge could result in a demographic dividend of mproved productivity and economic growth made possible by a large, young, healthy workforce and a relatively small dependent population, assuming that the costs of basic public services can be met (Fortune, Ismail, and Stephen 2015).

But lack of substantial investment in certain areas, particularly stable job creation for young people, will likely aggravate the effects of demographic shifts for these countries, resulting in increasing numbers of unemployed or idle young people, growth of the informal low-productivity sector, and a smaller proportion of wage earners. It is in such contexts that migration has become a viable alternative to unemployment for young people—a situation which could intensify in the decades ahead and exacerbate regional tensions, humanitarian disasters, or radicalization by extremist groups. At the same time, the displacement of millions of people within and across national borders has shifted regional demographic pressures, increasing food insecurity and intensifying the precarious situations in many parts of West Africa. Therefore, investing in youth and addressing food insecurity and other consequences of demographic pressures should be a priority for development actors.

Social marginalization. Festering inequalities between populations provide fertile ground for radicalization and violence. Inadequate access to economic opportunities, uneven distribution of land and other natural resources, gender inequity, pervasive corruption in the justice system, and lack of access to basic public services leave many people with an unrelenting feeling of abandonment and marginalization, depriving the region of its human and economic potential. Focusing solely on macroeconomic growth is not inclusive enough to improve the living and material conditions of poor people and promote access to basic social services.

For example, 60 million people in the G5 Sahel countries (Burkina Faso, Chad, Mauritania, Mali, Niger) are not connected to electricity grids (AfDB 2020). And those who are connected lack access to consistent electricity, with access correlated with locations and income levels. Other perennial issues requiring sustained societal investments include infant and maternal mortality, education, safe drinking water and sanitation, and land ownership for women. Persistently low investments in local economies of care and belonging—especially through robust public services—drive communities deeper into the fragility trap. For many communities whose economic base comprises agricultural activities, extraction of raw materials, and tourism, persistent security crises destabilize already tenuous contexts and accelerate socio-economic inequalities and marginalization.

Within the Sahel region of West Africa, some communities have been far more marginalized than others, though this is not always consistent across countries. Nomadic groups such as the Fulani have been marginalized across many countries in the region, while the Tuareg have been particularly marginalized in Mali but not in Niger. (Devermont 2019 notes Niger's innovative, inclusive approach toward its ethnic Tuareg population.) Restrictions on movement for some indigenous communities that typically move across and within borders—undertaken in the interest of curtailing flows of arms, fighters, and financial support for armed groups—have worsened local economic conditions and made trade more difficult (and expensive) or completely impossible, furthering marginalization. This brings to note the importance of combined recognition of the risks of socioeconomic marginalization and adoption of policies that do not worsen exclusion or further alienate at-risk communities.

Gender equity. Some West African countries have made progress on gender equality through new laws. In 2010 Senegal adopted a law on gender parity in government that has significantly increased the share of women in parliament, to 43 percent, now only second to Rwanda in Africa. Cabo Verde adopted a law that sanctions perpetrators of gender-based violence. But overall regional progress has been piecemeal, and far more attention needs to be paid to women's economic opportunities and agency.

West Africa ranks lower on the Gini index for gender equality than both the global average and that of Sub-Saharan Africa, with a score of 68.3 (out of 100) relative to 75.2 globally and 69.9 for Sub-Saharan Africa. This regional score masks enormous variations across countries, ranging from 42.5 (Guinea-Bissau) to 86.3 (Cabo Verde). Côte d'Ivoire, Liberia, and Togo perform relatively well, with scores of 80–90. Niger trails Guinea-Bissau for last (Buvinic, O'Donnell, and Bourgault 2021).

Even before the current crises across the region, women and girls faced unique burdens—including sexual abuse, early marriage, and pregnancy—as well as gender inequalities sometimes coded as cultural norms. Nearly 60 percent of girls are married before the age of 18, with the world's highest prevalence being in Niger (76 percent). Compared with other parts of Africa, the G5 Sahel countries have the lowest score (32.4 percent) for gender equality and are well below the African average of 48.6 percent (AfDB and UNECA 2020). Laws interact with social barriers to hinder women's economic empowerment. For example, women do not have equal inheritance rights under family codes in Chad, The Gambia, Niger, and Nigeria, and only Liberia and Mali guarantee women's equal rights to access formal financial services. Laws and norms must change to create an enabling environment that fully allows for women's economic empowerment (OECD 2019).

Increasing violence and conflicts have caused the population of displaced people in the Sahel to grow quickly. In mid-2020 Burkina Faso contained more than 1 million internally displaced persons, a number nearly twice that in 2019 that has since continued to increase (Devermont and Harris 2020). Other countries in the region are also facing large numbers of internally displaced persons and refugees (Thurston 2020). Nearly two-thirds of adult IDPs in Burkina Faso are women (IDMC 2020), while women and children constitute 80 percent of the country's internally displaced persons (Amodu, Richter, and Salami 2020). Forced displacement often exacerbates existing marginalization, with displaced girls and women facing greater challenges than men accessing healthcare and education: refugee girls at the secondary level are only half as likely to enroll as their male peers (Giannini and Albrectsen 2020). Displaced women experience similar barriers to employment opportunities (Cove 2020). Consequently, growing insecurity in the Sahel countries has serious, multiple consequences on women, men, boys, and girls of all social categories. These include food shortages, malnutrition, school dropouts, and sexual violence, among other humanitarian issues.

Yet displaced women and girls are challenged with both the vulnerabilities of displacement and the added threat of sexual and gender-based violence, which in May 2020 the United Nations High Commissioner for Refugees (UNHCR) described as "endemic." As women across the region have continuously and routinely suffered from marginalization and violence, they have also organized themselves to be their own agents and fight for their rights and access to government institutions and services. Thus it is crucial that West African women not be seen simply as victims.

Climate risks and insecurity. The mounting impacts of climate change are hitting West African countries hard, with the harshest effects on the poorest and most vulnerable populations. In recent decades the region has experienced a rise in mean temperatures, a decrease in precipitation, and an increase in drought and flooding. Some of the most vulnerable populations, including women, youth, and people with disabilities, regularly experience hazardous events including extreme temperatures, excess rainfall, flooding, drought, and increasing sea levels. Along with land degradation and land destruction from natural resource extraction, violent crises force many subsistence groups and communities to migrate within the region (Bendandi and Venier 2017).

In the Lake Chad region, changes in the lake's surface geography contribute to migration across porous borders. These environmental stresses compound challenges for governments in the area to respond to complicated, interrelated drivers of fragility and conflict. Vulnerable groups across the Lake Chad region are exposed to high inequality, perceived social injustices, lack of social services, and inadequate economic opportunities. All of these are drivers of fragility, with climate risks adding a socioecological element to worsening conflicts over disappearing natural resources. The result is a fragility trap—where the impacts and stresses of a changing climate aggravate political and economic conditions, giving rise to fragility and conflict while creating risks that increasingly fragile systems struggle to manage.

1.4.3 Resilience remains throughout the region

Despite these obstacles, West Africa has a high capacity to adapt to and recover from shocks and to cope with and manage stresses. Resilience is a way of life. During the Middle Ages the region was home to three of the world's most influential empires: ancient Ghana, Mali, and Songhai. At that time these kingdoms controlled more gold and conducted more global trade than did any European power. It was an African golden age where the continent's royals, thinkers, and artists played celebrated roles in the globalized world of the era (Fauvelle 2018).

These civilizations left lasting legacies, and their art and architecture have been widely copied and antiquities carried to far corners of the world. Even during the region's most turbulent times, West Africa's rich culture has provided respite and transcendence for its people through its rituals, music, dance, and art. Contemporary West African artists—from Mali's Malik Sidibe to Ghana's Derrick Ofosu Boateng—have redefined perceptions of the continent and the region (Jovic 2020).

Socioeconomic traditions of sharing among relatives and families are an important reservoir of resilience. Extended families are a crucial safety net that also connects urban and rural areas. In addition, religious belief systems (such as Islam and Christianity) offer spiritual, normative, and cultural frameworks to which most West Africans relate.

West African women play an important role in the resilience of their communities. Though women and girls face daunting challenges at all levels in the region's countries, women have led countries and communities toward building resilience. For example, during the 2014–16 Ebola outbreak in Guinea and Sierra Leone, women served as community health mobilizers and "contact tracers." They also took the lead in promoting better hygiene practices, raising awareness on prevention, and fighting misinformation on the spread of Ebola, encouraging families to forgo traditional burial practices of performing customary body wash rituals (Hartog 2017).

1.5 MACROECONOMIC OUTLOOK AND RISKS

1.5.1 Growth prospects depend on the course of COVID-19

After the COVID-induced –1.5 contraction in real GDP growth in 2020, West Africa's growth is projected to recover to 2.8 percent in 2021 and 3.9 percent in 2022 (table 1.4). Projections indicate a modest decrease in the region's average fiscal deficit, from 5.7 percent of GDP in 2020 to 4.8 percent in 2021 and 4.2 percent in 2022. The region's current account imbalance is also expected to decrease, from 4.3 percent of GDP to 3.5 percent in 2021 and 2.8 percent in 2022.

The upside factors of these projections include the faster deployment of effective COVID vaccines, sustained government stimulus policies, potential acceleration in digital transformation (facilitating remote work), and implementation of the African Continental Free Trade Area (AfCFTA) agreement, with its potential to accelerate recovery. The downside risks comprise lower commodity prices, slower tourism recovery, weaker remittances, and financial market volatility unfavorable to capital flows and debt overhang.

Outlook prospects vary by country group (see table 1.4). Growth is expected to be higher in nonoil-resource intensive economies and non-resource intensive economies than in oil- and tourism-dependent economies (Nigeria and Cabo Verde), which were more adversely affected in 2020. For Nigeria the projected reduction in current account and fiscal balance deficits reflects the prospect of higher oil revenue with global economic recovery. The country will continue to see double-digit inflation in 2021–22 due to pressures from the removal of fuel subsidies and an increase in electricity rates. In the same vein, the expected resumption of international tourism explains the projected reduction in the fiscal and external imbalances of Cabo Verde.

Table 1.4: Macroeconomic outlook for West Africa by group, 2020–22

		2020	2021	2022
Real GDP growth Percent	**West Africa**	**-1.5**	**2.8**	**3.9**
	Oil exporter	-3.0	1.5	2.9
	Other resource intensive	1.0	4.5	4.9
	Non-resource intensive	0.9	5.5	6.3
	Tourism dependent	-8.9	4.4	4.8
Consumer price index inflation (percent)	**West Africa**	**9.8**	**8.6**	**8.3**
	Oil exporter	12.8	11.4	11.0
	Other resource intensive	9.2	7.2	6.5
	Non-resource intensive	1.9	1.7	1.8
	Tourism dependent	1.0	1.3	1.4
Fiscal balance (percentage of GDP)	**West Africa**	**-5.7**	**-4.8**	**-4.2**
	Oil exporter	-5.2	-4.6	-4.3
	Other resource intensive	-7.6	-5.7	-4.6
	Non-resource intensive	-5.4	-4.4	-3.5
	Tourism dependent	-10.4	-9.1	-6.2
Current account balance (percentage of GDP)	**West Africa**	**-4.3**	**-3.5**	**-2.8**
	Oil exporter	-3.7	-2.3	-1.6
	Other resource intensive	-5.2	-5.8	-5.4
	Non-resource intensive	-5.5	-4.8	-4.3
	Tourism dependent	-15.6	-10.1	-7.1

Source: Staff calculations based on African Development Bank statistics.
Note: Data are estimates for 2020 and projections for 2021–22.

1.5.2 Transmission channels have become more visible

COVID-19 has laid bare the extreme vulnerability of some West African countries' fiscal and monetary policies, with the main transmission channels including weak health services, lower commodity export revenues, reduced tourism receipts and remittances, higher country risks impeding capital flows, and weakened banking systems. These channels were identified early, such as by the European Investment Bank's COVID-19 Economic Vulnerability Index (Davradakis and others 2020). This index estimated countries' vulnerability to COVID-19 shocks using three factors:

- Quality of healthcare and age of the population (countries with aging populations and bad healthcare being more vulnerable to the pandemic).
- Structure of the economy (measured by global value chains and dependence on commodity exports, tourism revenues, and remittances).
- Exposure and ability to respond to shocks (measured by fiscal space, external buffers, and strength of banking systems).

Though the index does not take into account policy responses and the evolution of the virus in each country, its prospective conforms to what has been observed in West Africa. Seven countries in the region—Cabo Verde, The Gambia, Ghana, Guinea, Liberia, Sierra Leone, Togo—are classified as being highly vulnerable to the COVID-19 pandemic, while the other eight face an intermediate risk (table 1.5). Notably, all West African countries rank as highly vulnerable in terms of the capacity of their healthcare systems. In addition, most belong to the highest vulnerability group based on their exposure to capital outflows and strength of banking systems.

Nigeria, with an intermediate overall economic vulnerability to COVID-19, is highly vulnerable in terms of dependence on commodity (oil) exports. As noted, lower revenues from falling oil prices led the country to devalue its official exchange rate. Cabo Verde and The Gambia are the two West African countries classified among the most vulnerable group for declines in both tourism receipts and remittances. Two other countries, Liberia and Senegal, are among the those with the highest exposure to a drop in remittances. In terms of fiscal space, 10 West African countries are estimated to be of intermediate vulnerability, and 4 (Benin, Burkina Faso, Guinea, Nigeria) to have lowest vulnerability. Cabo Verde has highest vulnerability index for fiscal space, in line with the country's large fiscal deficit in 2020.

Table 1.5: The European Investment Bank's COVID-19 Economic Vulnerability Index and subindexes for West Africa by country, 2020

Country	COVID-19 Economic Vulnerability Index	Health system and demography	Economic vulnerability to drop in				Vulnerability to capital outflows	Fiscal space	Banking sector strength
			Global value chains	Tourism	Remit-tances	Commo-dity exports			
Benin	Intermediate	Highest	n.a.	Lowest	Lowest	Lowest	Highest	Lowest	Highest
Burkina Faso	Intermediate	Highest	n.a.	Lowest	Lowest	Lowest	Highest	Lowest	Highest
Cabo Verde	Highest	Highest	Inter-mediate	Highest	Highest	Inter-mediate	Highest	Highest	Highest
Côte d'Ivoire	Intermediate	Highest	Lowest	Lowest	Lowest	Lowest	Highest	Inter-mediate	Inter-mediate
Gambia, The	Highest	Highest	Lowest	Highest	Highest	Lowest	Highest	Inter-mediate	Highest
Ghana	Highest	Highest	Lowest	Lowest	Inter-mediate	Highest	Inter-mediate	Inter-mediate	Highest
Guinea	Highest	Highest	n.a.	Lowest	Lowest	Highest	Inter-mediate	Lowest	Highest
Guinea-Bissau	Intermediate	Highest	n.a.	Lowest	Inter-mediate	n.a.	Highest	Inter-mediate	Highest
Liberia	Highest	Highest	Lowest	n.a.	Highest	Inter-mediate	Highest	Inter-mediate	Highest
Mali	Intermediate	Highest	Lowest	Lowest	Inter-mediate	Inter-mediate	Highest	Inter-mediate	Highest
Niger	Intermediate	Highest	Lowest	Lowest	Lowest	Inter-mediate	Highest	Inter-mediate	Highest
Nigeria	Intermediate	Highest	Lowest	Lowest	Inter-mediate	Highest	Inter-mediate	Lowest	Inter-mediate
Sierra Leone	Highest	Highest	Lowest	Lowest	Lowest	Lowest	Highest	Inter-mediate	Highest
Senegal	Intermediate	Highest	Lowest	Lowest	Highest	Lowest	Highest	Inter-mediate	Highest
Togo	Highest	Highest	Lowest	Lowest	Lowest	Lowest	Highest	Inter-mediate	Highest

Source: Davradakis and others 2020.
Note: n.a. indicates that data are not available.

1.5.3 Regional integration and prospects for a single currency offer hope for economic prosperity

Since their independence, West African countries have recognized regional integration as a key factor of their development strategies. Indeed, regional integration has been perceived as a way to tackle issues related to the small size of national markets and the large number of landlocked countries.

Despite efforts to promote regional integration, it remains relatively low in West Africa. This finding is corroborated by the Africa Regional Integration Index, jointly developed by the African Development Bank, African Union Commission, and United Nations Economic Commission for Africa (AfDB, AUC, and UNECA 2019). The index assesses integration along five dimensions: trade integration, productive integration, macro-economic integration, infrastructural integration, and free movement of people. A higher index value indicates greater integration. In 2019 West Africa had a moderate score of 0.333, behind North Africa at 0.356 and Southern Africa at 0.348, but ahead of East Africa at 0.303 and Central Africa at 0.292 (table 1.6).

Table 1.6: Africa Regional Integration Index by region, 2019

	Overall score		Scores and ranks by dimensions									
Country	Regional integration	Rank	Trade integration	Rank	Productive integration	Rank	Macro-economic integration	Rank	Infrastructural integration	Rank	Free movement of people	Rank
North Africa	0.356	1	0.306	5	0.219	2	0.535	1	0.432	1	0.208	5
Southern Africa	0.348	2	0.479	1	0.259	1	0.326	5	0.272	2	0.405	3
West Africa	0.333	3	0.391	2	0.183	3	0.439	2	0.167	3	0.497	2
East Africa	0.303	4	0.316	4	0.173	4	0.350	4	0.160	4	0.576	1
Central Africa	0.292	5	0.354	3	0.153	5	0.429	3	0.147	5	0.364	4

Source: African Development Bank statistics.

West Africa's relatively good performance on trade integration and free movement of people reflects efforts by the Economic Community of West African States (ECOWAS) to create a large market for goods and services and to increase the mobility of people. There are no constraints for travelers to move within the ECOWAS region. But trade in West Africa remains dominated by exports of commodities to developed and emerging countries outside the continent, and by imports of industrial goods, machinery, and transport equipment, particularly for natural resource production (box 1.1). Moreover, the region's relatively good performance on macroeconomic integration may result from the macroeconomic convergence criteria created to move to a regional single currency (box 1.2)—though some countries, especially those outside the WAEMU bloc, are in breach of the criteria. In comparison with North Africa and Southern Africa, there is potential for West Africa to improve its performance on productive and infrastructural integration.

In 2019 West Africa's best-performing country on regional integration was Côte d'Ivoire, with an overall score of 0.667, followed by Burkina Faso at 0.561 and Senegal at 0.516 (table 1.7). Liberia had the lowest score, at 0.298. Côte d'Ivoire also had the region's highest scores on trade, productive, and infrastructural integration. Guinea had the highest score for macroeconomic integration. Burkina Faso, Mali, and Togo first place for the free movement of people. By dimension, the worst-performing countries were Liberia for trade integration, Niger for productive integration and infrastructural integration, and Nigeria for macroeconomic integration.

Regional integration in Africa, especially within regional economic communities, is expected to be boosted in the coming years by the African Continental Free Trade Area (AfCFTA) agreement, which became a reality on January 1, 2021. The agreement aims to accelerate regional integration by facilitating the free movement of people, capital, goods, and services on the continent. Working with the other regional economic communities, ECOWAS should play a key role in supporting the AfCFTA agreement by serving as the basis for greater African integration. Indeed, ECOWAS should contribute to the finalization and implementation of the AfCFTA agreement in West Africa and continue to apply its regional trade regimes in accordance with the agreement.

Table 1.7: Africa Regional Integration Index in West Africa by country, 2019

	Overall score		Scores and ranks by dimensions									
Country	Regional integration	Rank	Trade integration	Rank	Productive integration	Rank	Macroeconomic integration	Rank	Infrastructural integration	Rank	Free movement of people	Rank
Côte d'Ivoire	0.667	1	0.772	1	0.718	1	0.449	5	0.656	1	0.667	4
Burkina Faso	0.561	2	0.530	4	0.271	5	0.832	2	0.278	8	1.000	1
Senegal	0.516	3	0.567	3	0.388	3	0.449	5	0.503	2	0.667	4
Togo	0.504	4	0.580	2	0.226	7	0.449	5	0.276	9	1.000	1
Nigeria	0.464	5	0.456	9	0.540	2	0.252	15	0.349	5	0.667	4
Mali	0.454	6	0.517	5	0.101	9	0.379	12	0.287	7	1.000	4
Ghana	0.434	7	0.475	6	0.273	4	0.253	14	0.474	4	0.667	4
Benin	0.391	8	0.474	7	0.174	8	0.417	10	0.242	10	0.667	4
Guinea	0.389	9	0.304	12	0.061	12	0.862	1	0.214	11	0.667	4
Gambia, The	0.386	10	0.442	10	0.057	14	0.541	4	0.290	6	0.667	4
Cabo Verde	0.363	11	0.210	14	0.087	11	0.417	11	0.500	3	0.667	4
Niger	0.321	12	0.467	8	0.000	15	0.449	5	0.071	15	0.667	4
Sierra Leone	0.316	13	0.275	13	0.060	13	0.550	3	0.122	12	0.667	4
Guinea-Bissau	0.314	14	0.307	11	0.095	10	0.449	5	0.113	13	0.667	4
Liberia	0.298	15	0.198	15	0.251	6	0.288	13	0.103	14	0.667	4

Source: African Development Bank statistics.

Operationalization of the AfCFTA agreement offers hope for increased prosperity in ECOWAS countries. But for ECOWAS to benefit as a region, it must play its part in acting with a unified approach and removing internal nontariff barriers. By removing trade impediments, the AfCFTA should provide a wider market and thus create economies of scale, which should accelerate the industrialization of ECOWAS countries by developing existing industries and facilitating the creation of new ones. This process will boost the transformation of primary commodities (such as raw agricultural products) in ECOWAS countries, for which the region is an exporter. Implementation of the AfCFTA agreement should allow ECOWAS countries to enhance regional integration, especially in the trade and productive dimensions through intermediate exports and imports. This will be achieved by creating more jobs, shrinking informal sectors, and improving welfare.

Box 1.1: Intraregional trade in Economic Community of West African (ECOWAS) countries

Despite efforts to increase intraregional trade in West Africa, extra-regional trade remains predominant. In 2019 only 6.4 percent of West Africa's trade was intra-ECOWAS and only 12.7 percent was intra-African (box table 1.1). West Africa's main trade partners—China, European Union members, and the United States—represented the bulk of the 87.3 percent of the region's trade that is not intracontinental, with China's share increasing.

West Africa's exports outside Africa are mainly primary commodities, while its imports from outside Africa mostly comprise industrial goods, machinery, and transport equipment, particularly for natural resource production. Exports of commodities from West Africa to outside the continent include crude oil from Côte d'Ivoire, Ghana, and Nigeria; cotton from Burkina Faso and Mali; and cocoa beans from Côte d'Ivoire and Ghana. Intraregional trade consists of fuels, food, and some manufactured goods. The dominance of commodities in exports to the rest of world makes West African countries more vulnerable to global shocks.

Box table 1.1: Exports from West Africa by destination and country, 2019 (Percent)

Region/country	ECOWAS members	Africa (incl. ECOWAS)	Outside Africa
West Africa	**6.4**	**12.7**	**87.3**
Benin	10.1	14.2	85.8
Burkina Faso	21.4	24.6	75.4
Cabo Verde	1.9	3.9	96.1
Côte d'Ivoire	10.5	23.7	76.3
Gambia, The	18.2	20.7	79.3
Ghana	5.0	11.6	88.4
Guinea	5.0	7.1	92.9
Guinea-Bissau	12.3	13.2	86.8
Liberia	1.2	1.6	98.4
Mali	23.1	33.8	66.2
Niger	19.1	21.4	78.6
Nigeria	2.4	7.1	92.9
Senegal	17.2	22.7	77.3
Sierra Leone	7.8	15.5	84.5
Togo	3.2	30.7	69.3

Source: UNCTAD STAT 2020.

In 2019 the intensity of intraregional trade varied across West African countries, even for countries where most trade is not intracontinental (box table 1.2). For all countries except Niger, at least one of their top five African partners was outside West Africa. Mali had the highest share of intra-ECOWAS trade in 2019, at 23.1 percent, against 33.8 percent for intra-African trade (see box table 1.1). Among its five largest trading partners in the continent, four are in West Africa (see box table 1.2). Countries with relatively significant shares of intra-ECOWAS trade include Burkina Faso (21.4 percent), Niger (19.1 percent), and The Gambia (18.2 percent).

For the three largest West African economies, shares of intraregional trade in 2019 were 2.4 percent for Nigeria, 5.0 percent for Ghana, and 10.5 percent for Côte d'Ivoire. Their shares of total intra-African trade were 7.1 percent, 11.6 percent, and 23.7 percent. For all three countries, South Africa is among the top five African partners. It ranks first for Ghana and Nigeria and fourth for Côte d'Ivoire.

Box table 1.2: Top five African trade partners of West African countries, 2019

	1st	2nd	3rd	4th	5th
West Africa	**South Africa**	**Côte d'Ivoire**	**Nigeria**	**Mali**	**Senegal**
Benin	Togo	Nigeria	Mali	Egypt	Niger
Burkina Faso	Côte d'Ivoire	Ghana	Togo	Mali	South Africa
Cabo Verde	Senegal	South Africa	Togo	Morocco	Côte d'Ivoire
Côte d'Ivoire	Nigeria	Burkina Faso	Mali	South Africa	Senegal
Gambia, The	Côte d'Ivoire	Senegal	Morocco	Guinea	Gabon
Ghana	South Africa	Burkina Faso	Côte d'Ivoire	Togo	Nigeria
Guinea	Ghana	Morocco	Senegal	Côte d'Ivoire	Mali
Guinea-Bissau	Senegal	Ghana	Gambia	Morocco	Mali
Liberia	Côte d'Ivoire	Ghana	South Africa	Senegal	Morocco
Mali	Senegal	South Africa	Côte d'Ivoire	Burkina Faso	Niger
Niger	Nigeria	Ghana	Togo	Côte d'Ivoire	Burkina Faso
Nigeria	South Africa	Côte d'Ivoire	Senegal	Togo	Cameroon
Senegal	Mali	Nigeria	Côte d'Ivoire	Morocco	South Africa
Sierra Leone	Liberia	Algeria	South Africa	Côte d'Ivoire	Congo, Dem. Rep.
Togo	Angola	Nigeria	Benin	Côte d'Ivoire	Burkina Faso

Source: UNCTAD STAT 2020.

Source: African Development Bank staff.

Box 1.2: Recent developments on the single currency in West Africa

ECOWAS took steps toward a common monetary union by merging the West African Monetary and Economic Union (WAMEU) countries with the CFA franc as a single currency and non-WAMEU countries with individual currencies. The CFA franc, created in 1945, is pegged to the euro (and originally to the French franc) at a rate unchanged since 1994.

The WAEMU comprises 7 countries—Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo—of the 15 in West Africa. In 2000 five non-WAEMU countries (The Gambia, Ghana, Guinea, Nigeria, Sierra Leone) established the West African Monetary Zone (WAMZ) with the goal of launching a new common currency. They were joined by Liberia in 2010.

Macroeconomic convergence for the new common currency is monitored by the West African Monetary Institute, created in 2001 to facilitate trade and financial sector integration, payment systems development, and statistical harmonization. It was envisaged that the WAMZ and the WAMEU would merge to form a single monetary zone for ECOWAS countries using a common currency called the eco and establish a new central bank called the Central Bank of West Africa. Unlike the CFA franc, the eco is expected to be under a flexible exchange rate regime, with inflation targeting as the monetary framework of the Central Bank of West Africa. By increasing the credibility and transparency of the monetary policy strategy, an inflation-targeting framework should better manage commodity terms of trade shocks—from which West African countries suffer enormously.

With a view to adopting the eco as the common currency for ECOWAS, in December 2019 the WAEMU countries decided to:

- Change the name of the CFA franc to eco by 2020.
- End the depositing of half of exchange reserves in the French treasury. The operations account was closed and its resources transferred to the Central Bank of West African States.
- Remove all French representatives from WAEMU decisionmaking bodies.

COVID-19 has delayed implementation of the eco. Because of fiscal packages to address the pandemic's adverse socioeconomic consequences, in January 2021 ECOWAS countries suspended convergence criteria for 2021, and agreed to draft of a new convergence and macroeconomic stability pact that should start in 2022. But in June 2021, ECOWAS heads of state adopted a new roadmap to launch the eco in 2027.

Source: African Development Bank staff.

CHAPTER 2

DEBT DYNAMICS AND FINANCING ISSUES

This chapter analyzes the dynamics of public debt in West African countries and explores financing options. The assessment is based on a view of debt accrued over the past decade, highlighting its composition by lender and maturity profile, its key drivers and uses, concerns about debt sustainability, and debt's impact on overall economic growth and macroeconomic performance. Special emphasis is given to the shift from traditional Paris Club creditors to non–Paris Club creditors (especially China), the rising issuance of Eurobonds in international capital markets, and the growing share of commercial creditors in external debts. Finally, the chapter explores vulnerabilities that may result from changes in West Africa's debt landscape.

2.1 PUBLIC DEBT DYNAMICS

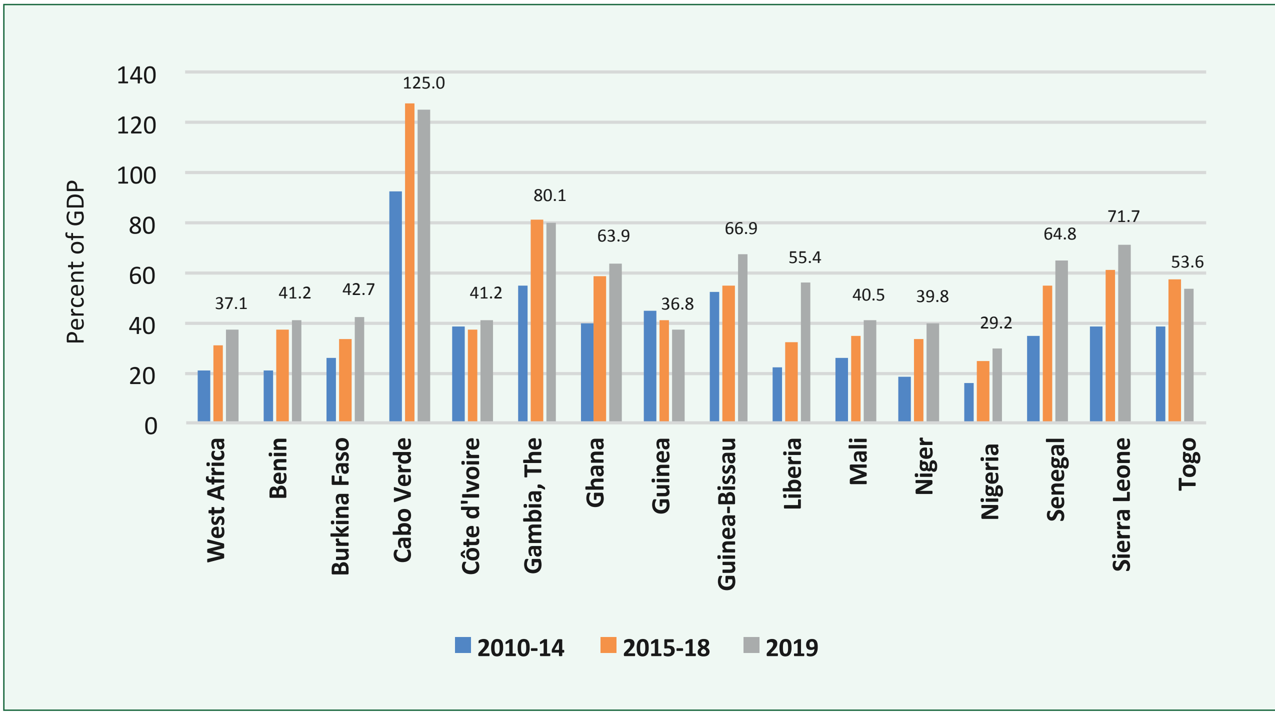
2.1.1 Public debt has risen over the past decade

In response to growing public financing needs coupled with low levels of domestic revenue, public debt in West Africa has been rising since 2010. The region's average ratio of general government gross debt to GDP rose from 21.4 percent in 2010–14 to 31.5 percent in 2015–18 and 37.1 percent in 2019 (figure 2.1).

The level and evolution of public debt varied by country. Cabo Verde has registered the highest debt-to-GDP ratio in West Africa due to an increase in budget financing needs. Public debt averaged of 92.1 percent of GDP over 2010–14, 127.0 percent in 2015–18 and 125.0 percent in 2019. The Gambia also experienced a substantial increase in public debt, from 54.2 percent of GDP in 2010–14 to 80.1 percent in 2019, reflecting pressures put on government finances following a decline in tourism during the political turmoil that preceded the democratic transition. Ghana also recorded a significant rise in its public debt, from 39.2 percent of GDP over 2010–14 to 63.9 percent in 2019, due to investment in infrastructure.

Nigeria has the region's lowest public debt as a share of GDP, though it increased from 16.0 percent in 2010–14 to 24.2 percent in 2015–18 and 29.2 percent in 2019. This low public debt reflects oil revenue, which is extremely sensitive to international oil price shocks. Rising debt also concerns subnational governments in Nigeria (box 2.1). In Côte d'Ivoire, because of financing needs for the public investment program of the Plan National de Développement 2016–20, the ratio of public debt to GDP rose moderately to 41.2 percent in 2019.

Figure 2.1: General government gross debt in West Africa by country, 2010–19 (Percentage of GDP)



Source: IMF 2021b.

Box 2.1: Fiscal federalism and subnational debt in Nigeria

Since 1999 Nigeria has been a federation comprising 36 states and a Federal Capital Territory where Abuja is located. Each state is split into local governments, with a total of 774 local governments. Though most legislative powers are held at the federal level, states play an important role in delivering economic and social services and developing infrastructure.

On the fiscal front, the federal government controls the main sources of revenue including oil, value-added taxes, corporate income taxes, and customs fees. The federal government transfers revenue to states using revenue-sharing formulas. State and local governments can also collect taxes on personal income, property, and roads.

States have autonomy in their spending policies, but they need federal government approval to borrow from both domestic and foreign markets. The federal government guarantees states' external borrowing.

In many states, despite a growing budget burden, revenue is weak and has declined over the past decade in line with global oil prices. The mismatch between revenue sources and the functions of subnational governments has led to higher debt in many states. In addition, due to a lack of qualified and experienced personnel to contract debt, interest rates charged on state debts are often excessive. At the end of 2020, states and the Federal Capital Territory held 18.24 percent of total public debt, with 12.72 percent for domestic borrowing and 5.53 percent for external borrowing (box table 2.1).

It is imperative that Nigeria align revenue sources with the functions of subnational governments and improve policy coordination between the federal and subnational governments.

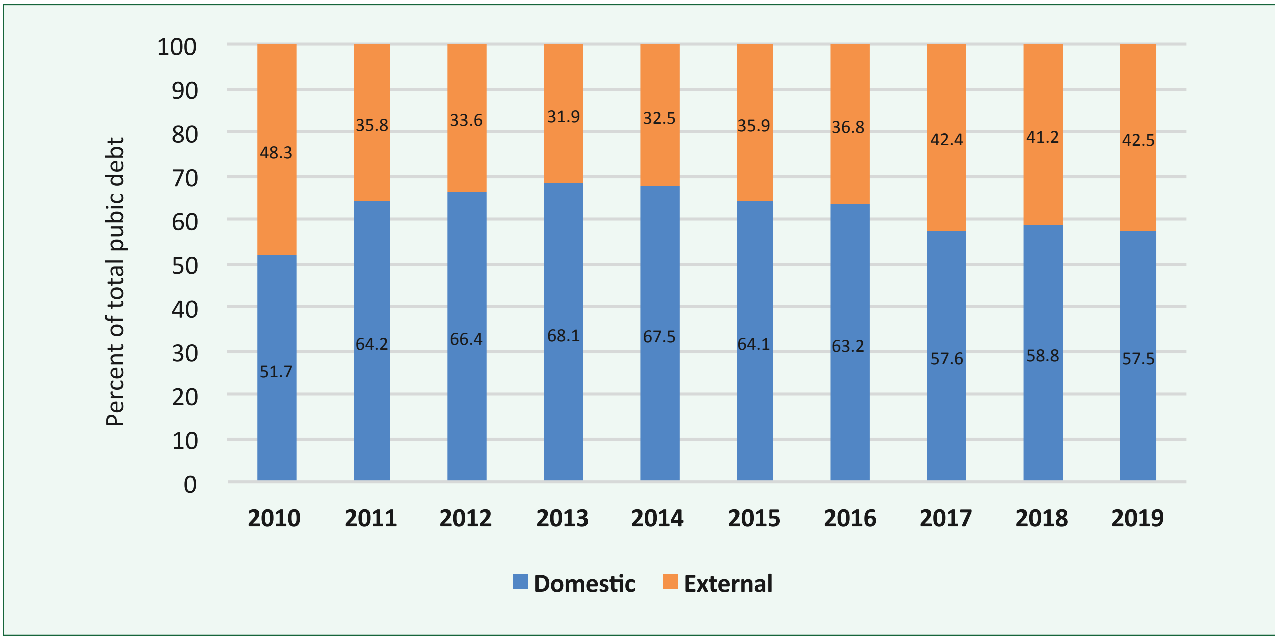
Box table 2.1: Public debt in Nigeria by type, 2020

Type of debt	Amount (billions of U.S. dollars)	Amount (trillions of naira)	Percentage of total
Domestic	**53.04**	**20.21**	**61.40**
Federal government	42.06	16.02	48.68
States and Federal Capital Territory	10.99	4.19	12.72
External	**33.35**	**12.71**	**38.60**
Federal government	28.57	10.89	33.08
States and Federal Capital Territory	4.77	1.82	5.53
Total	**86.39**	**32.92**	**100.0**
Federal government	70.63	26.91	81.76
States and Federal Capital Territory	15.76	60.05	18.24

Source: Debt Management Office Nigeria 2021.

Since 2013 the upward trend in public debt in West Africa has reflected a decrease in the share of domestic debt and an increase in external financing (figure 2.2). These dynamics have resulted from the limited depth of domestic financial markets and favorable conditions for external borrowing, including access to Eurobonds (see below). In the 2000s, by contrast, external debt declined due to debt relief under the Heavily Indebted Poor Countries (HIPC) initiative—for which all West African countries except Cabo Verde and Nigeria were eligible.

Figure 2.2: Domestic and external public debt in West Africa, 2010–19 (Percentage of total public debt)

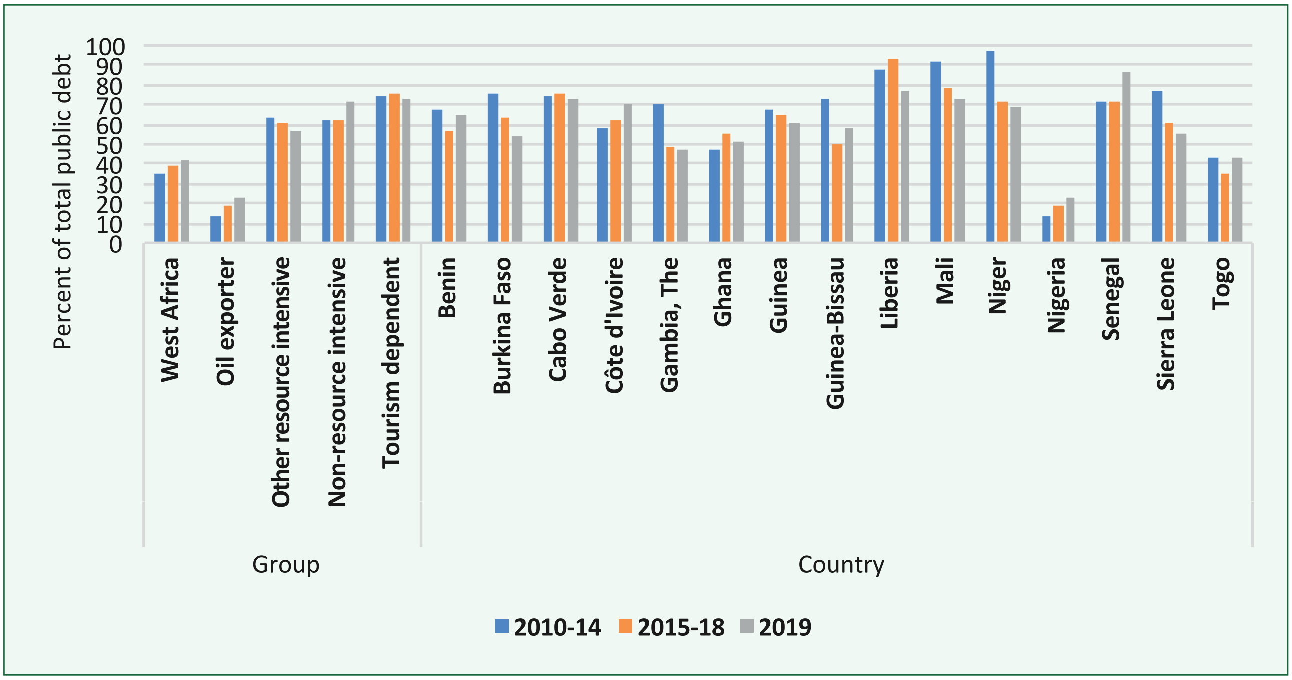


Source: Staff calculations based on African Development Bank statistics and IMF 2021b.

Among West African country groups, shares of external debt in total public debt are similar in nonoil resource-intensive economies and non-resource intensive economies (figure 2.3). Nigeria, the oil-intensive economy in the region, had the lowest share of external debt over the past decade. This was due to the relative development of its domestic financial market, reducing the need for external borrowing. External debt accounted for 13.6 percent of public debt over 2010–14 and 22.8 percent in 2019.

Because of government borrowing from China through resource-backed loans, the share of external debt in public debt was highest in Niger over 2010–14 at 97.1 percent; it declined to 68.4 percent in 2019. As a result of large financing needs for infrastructure development, the rise in external financing was relatively more marked in Côte d'Ivoire, from 57.6 percent in 2010–14 to 70.1 percent in 2019. By contrast, the share of external debt declined in some West African countries. High risk of external debt distress led to a larger increase in domestic borrowing in countries like The Gambia and Sierra Leone.

Figure 2.3: Public external debt relative to total external debt in West Africa by group and country, 2010–19 (Percent)

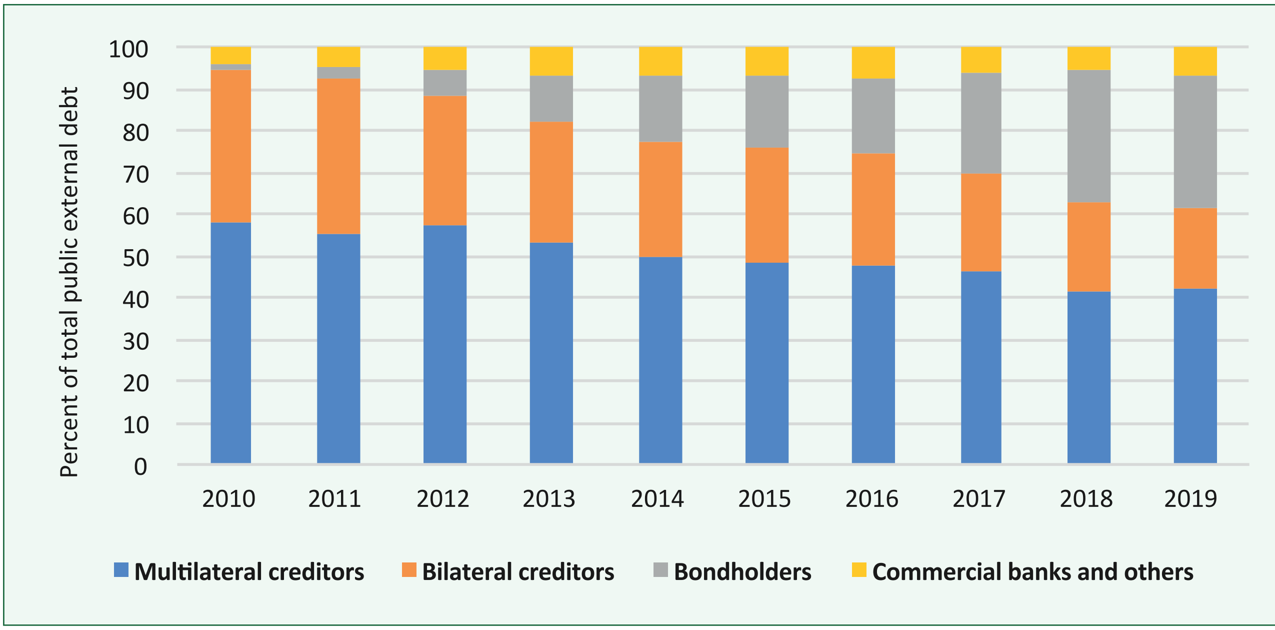


Source: Staff calculations based on African Development Bank statistics; World Bank 2021a; IMF 2021b.

Given the desire of foreign private investors to seek highreturns in a global economy with low interest rates, West Africa's external public debt is increasingly held by foreign private creditors. The share of external public debt held by official (multilateral and bilateral) creditors dropped from 95 percent in 2010 (58 percent for multilateral creditors and 37 percent for bilateral creditors) to 61 percent in 2019 (42 percent for multilateral creditors and 19 percent for bilateral creditors; figure 2.4). In 2019 private lenders (bondholders and commercial banks) held 39 percent of West Africa's external public debt, up from 5 percent in 2010.

Among official lenders, the share of West Africa's external debt owed to China is growing while that owed to Paris Club lenders is falling. A key source of the rise in African debt to China is the country's Belt and Road Initiative, which is driving infrastructure expansion. In addition, Chinese loans are attractive because they are free from the conditions and constraints of traditional lenders. Nigeria, West Africa's largest debtor to China, owed it $3.12 billion as of March 31, 2020 (Debt Management Office Nigeria 2020). This amount accounts for 3.9 percent of Nigeria's public debt and 11.3 percent of its external debt. But it is less than the African average of 13 percent of public external debt held by China (AfDB 2021).

Figure 2.4: Public external debt in West Africa by creditor type, 2010–19 (Percentage of total external debt)

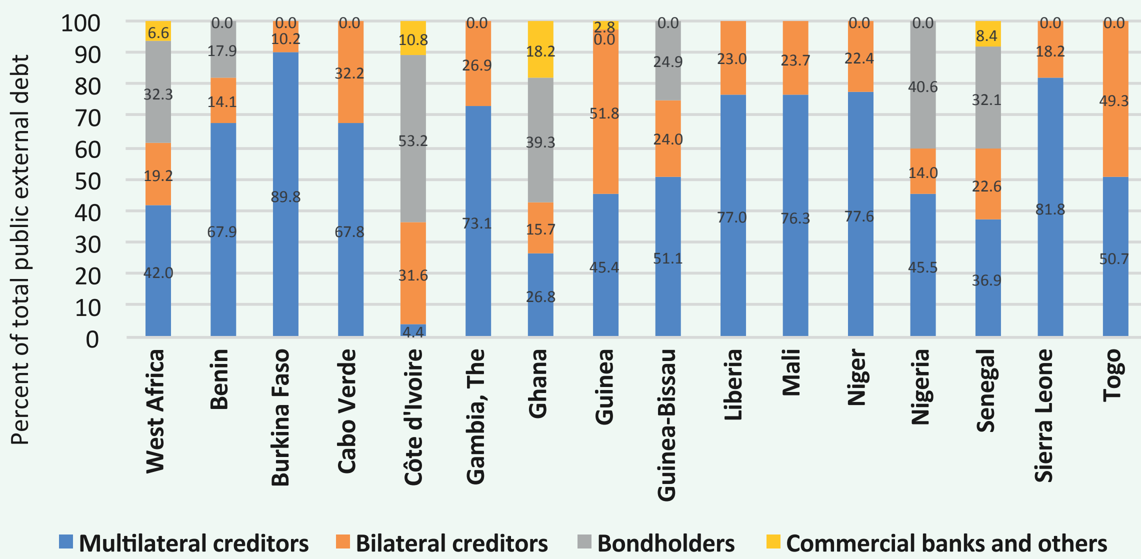


Source: African Development Bank statistics.

Some loans provided by China to West African countries are backed by commodities. For instance, in 2018 Ghana and Guinea signed bauxite-backed loans with China (Wingo 2020). These types of loans are helpful for developing countries facing difficulties in accessing international capital markets to finance infrastructure projects. However, there is less transparency in the terms of such loans (AfDB 2021).

The share of private creditors in external public debt is consequential in the largest West African economies thanks to their relatively easy access to global capital makets, especially Eurobonds. In 2019 private creditors accounted for 64.0 percent of public external debt in Côte d'Ivoire, 57.5 percent in Ghana, 40.6 percent in Nigeria, and 40.5 percent in Senegal (figure 2.5). In low-income West African economies such as Guinea and Togo, which have difficulty accessing international financial markets, external financing remains mostly based on official credit.

Figure 2.5: Public external debt in West African by creditor type and country, 2019 (Percentage of total external debt)



Source: African Development Bank statistics; World Bank 2021a.

Other drivers of debt dynamics in West Africa include increasing interest expenses and currency depreciation for non-WAMEU countries with managed or flexible exchange rates (AfDB 2021). Despite West Africa's strong growth momentum over the past decade, GDP growth was not much higher than interest rates on public debt. This challenge has been accentuated by the shift toward private creditors in international capital markets, which demand higher interest rates to compensate for potential defaults. In addition, rising external debt denominated in foreign currencies has made interest payments more sensitive to currency fluctuations.

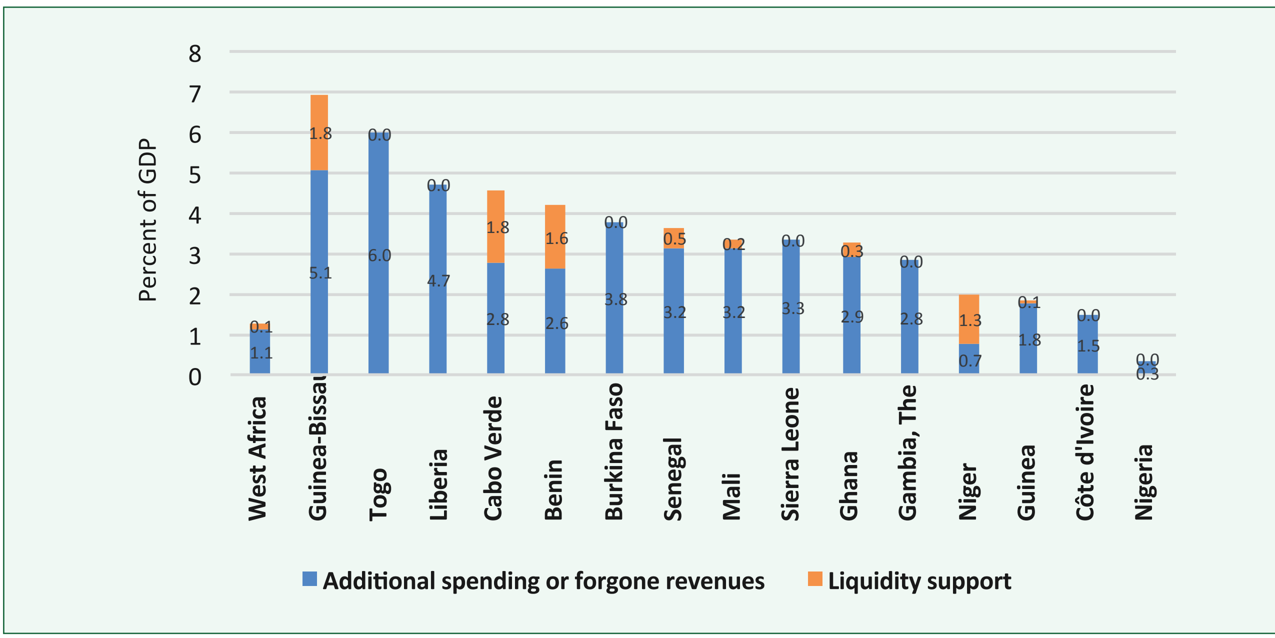
2.1.2 COVID has changed debt dynamic and drivers

West African countries have implemented significant fiscal measures in response to the pandemic. These have included above-the-line measures such as additional spending or forgone revenues for both health and nonhealth sectors. Some countries have also introduced below-the-line measures such as liquidity support for affected businesses. With a regional average of 1.2 percent of GDP, pandemic-related fiscal stimulus ranged from 0.3 percent of GDP in Nigeria to 6.9 percent in Guinea-Bissau (figure 2.6). In most West African countries, liquidity support was insignificant and, in some countries with limited fiscal space, nonexistent.

As a result of increased government spending and lower revenue, the debt-to-GDP ratio in West Africa is estimated to have climbed 6.4 percentage points between 2019 and 2020, from 37.1 to 43.5 percent (figure 2.7). It is expected to stabilize in the short to medium term. The rise in the debt-to-GDP ratio is estimated to be more pronounced for tourism- and nonoil resource-dependent economies, which depend on these sectors for government revenue and foreign exchange earnings.

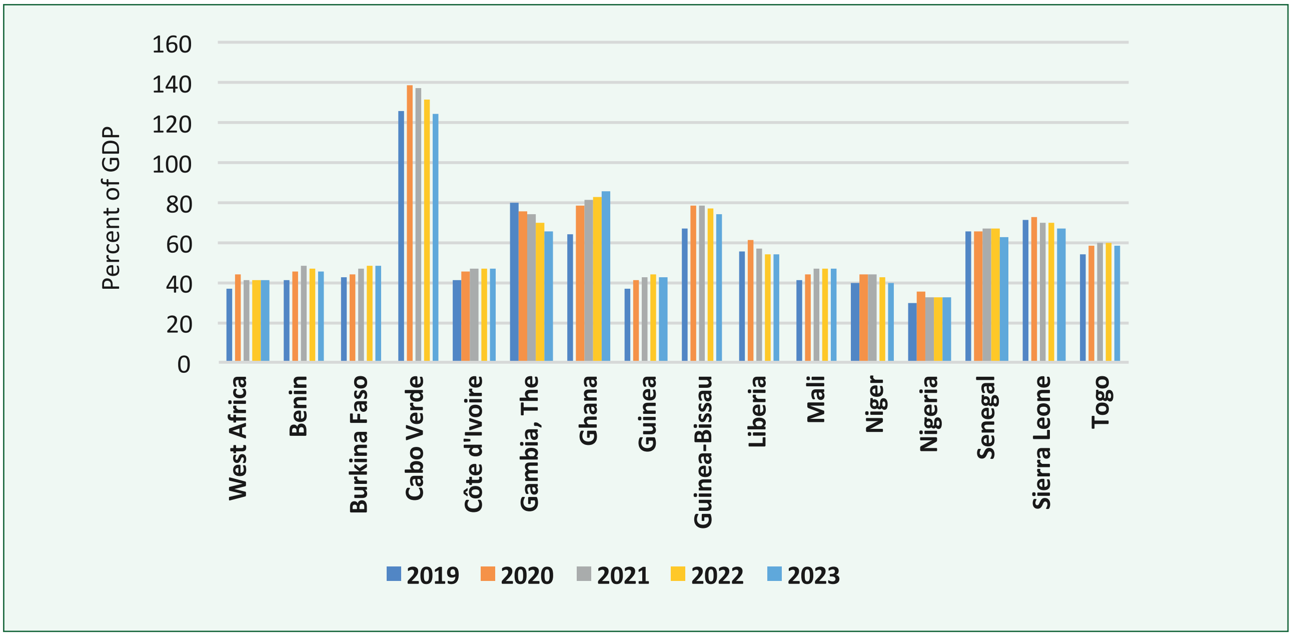
Due to lower tourism revenue and fiscal stimulus, in Cabo Verde debt is expected to have increased by 14.0 percentage points of GDP, from 125.0 percent in 2019 to 139.0 percent in 2020 (see figure 2.7). During the recovery the country's debt is expected to decline to 137.6 percent of GDP in 2021 and 123.8 percent in 2023. Because of lower commodity export revenues, Ghana is also expected to have recorded a significant rise in its debt-to-GDP ratio, from 63.9 percent in 2019 to 78.0 percent in 2020, with continued increases expected in the short to the medium term. In Nigeria the dual shock of increased spending and lower oil revenue caused an estimated a rise in debt from 29.2 percent of GDP in 2019 to 35.1 percent in 2020, with a decline expected in 2021 thanks to the recovery in oil prices. In Côte d'Ivoire, a non-resource intensive country, the debt-to-GDP ratio is expected to have risen slightly, from 41.2 percent in 2019 to 45.7 percent in 2020, but remain stable thanks to a compensatory effect of increased GDP.

Figure 2.6: Fiscal measures in response to COVID-19 in West Africa by country, 2020 (Percentage of GDP)



Source: Staff calculations based on IMF data.

Figure 2.7: Debt accumulation in West Africa by country, 2019–23 (Percentage of GDP)

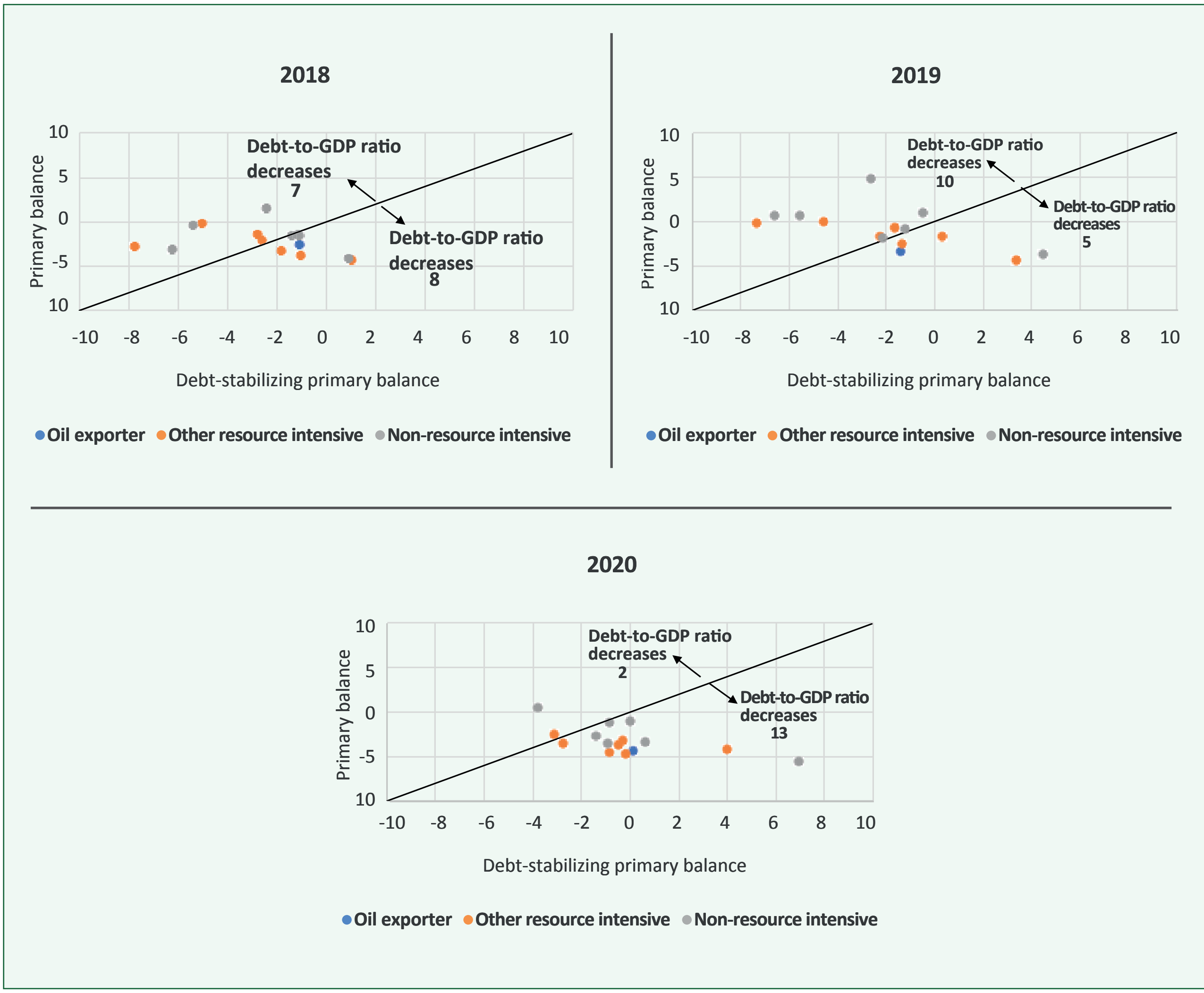


Source: Staff calculations based on IMF 2021b.
Note: Data are estimates for 2020 and projections for 2021–23.

2.2.2 Debt sustainability analyses and emerging debt vulnerabilities highlight concerns

Despite the low global interest rates of recent years, negative growth in real interest rates has not been sufficient to contain the rising debt-to-GDP ratios in West Africa. This reflects the fact that many West African countries have run primary fiscal deficits larger than the levels needed to stabilize these ratios (figure 2.8). The number of West African countries where primary balances were lower than the level that stabilizes the debt-to-GDP ratio was 8 in 2018 and 5 in 2019 but rose to 13 in 2020 due to the pandemic. In 2020 only The Gambia and Sierra Leone recorded primary balances higher than the debt-stabilizing level, thanks to efforts to reduce their high debt burdens.

Figure 2.8: Primary balances and debt-stabilizing primary balances in West Africa, 2018–20 (Percentage of GDP)



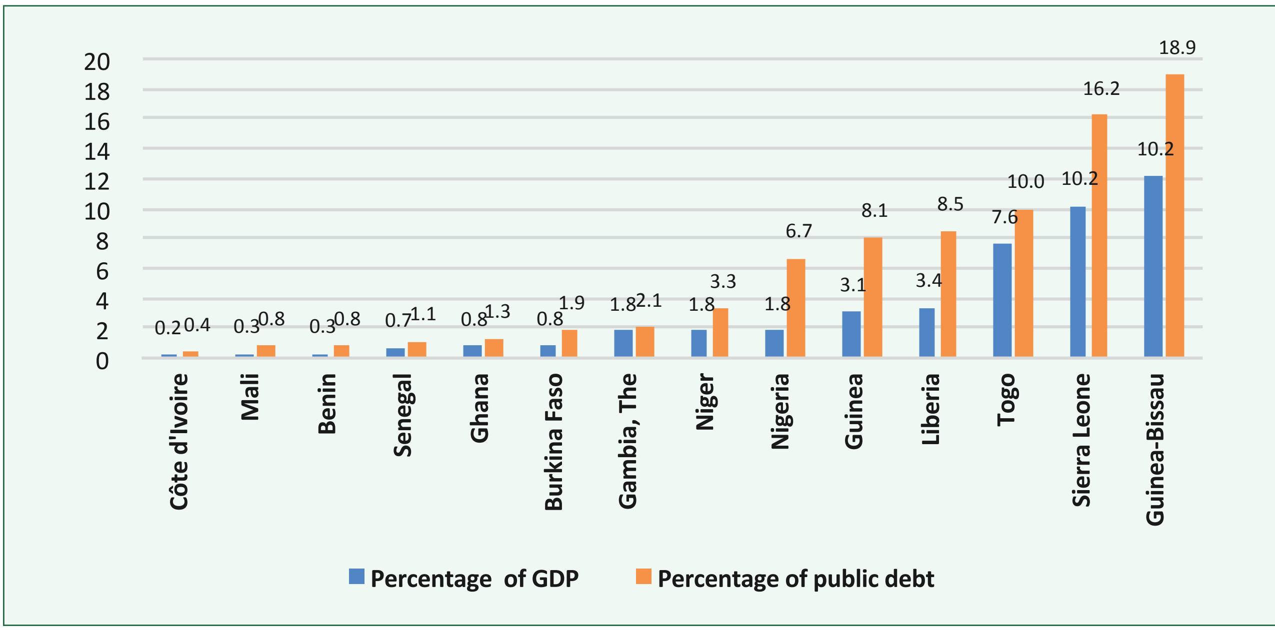
Source: Staff calculations using African Development Bank statistics.
Note: Debt-stabilizing primary balance is the primary balance required to keep the debt-to-GDP-ratio stable.

The negative interest rate growth differential in West Africa has mainly been driven by the real growth rate (AfDB 2021). For some countries, such as Liberia and Sierra Leone, the contribution of interest rates to the increase in public debt has been moderate, reflecting the high shares of concessional loans in these economies (see below). But the pandemic has aggravated debt sustainability in West Africa, implying that larger surpluses will be needed to stabilize debt-to-GDP ratios.

For some West African countries—including Côte d'Ivoire, Ghana, Nigeria, and Senegal— increased borrowing from non–Paris Club and private lenders will create concerns for debt sustainability in the short term because such loans have shorter maturities. Debt vulnerability risk also arises from state-owned enterprises and public-private partnerships. Indeed, governments may increase their debt to support these in cases of difficulties, or even repay publicly guaranteed loans if they default. For instance, in Cabo Verde over 2016–18, publicly guaranteed state enterprise debt averaged 7 percent of GDP (World Bank and IMF 2019).

Emerging debt vulnerabilities could accentuate domestic arrears, which are widely used by some West African countries as a source of financing. For instance, in 2018 Guinea-Bissau and Sierra Leone had domestic arrears exceeding 10 percent of GDP and 16 percent of total public debt (figure 2.9). Those arrears are forced financing that makes business suppliers more vulnerable to governments.

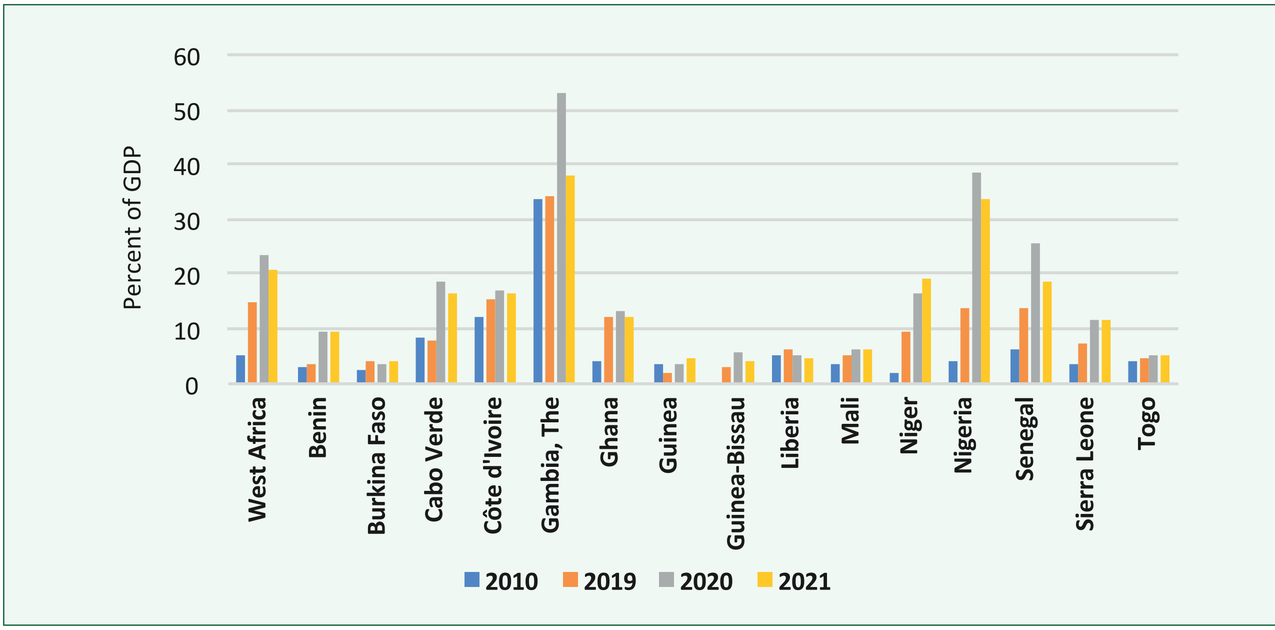
Figure 2.9: Domestic fiscal arrears in West Africa by country, 2018



Source: Beers, Jones, and Walsh 2020.
Note: Data for Cabo Verde are not available.

Over the past decade external public debt service payments as a share of exports rose across West Africa (figure 2.10). Because of COVID-19, the average ratio of external public debt service to exports is estimated to have risen 8.6 percentage points between 2019 and 2020, from 14.7 to 23.3 percent. This mainly resulted from the dramatic increase in Nigeria, from 13.9 percent in 2019 to 38.8 percent in 2020. Ratios of public external debt service to exports are projected to fall slightly in 2021, depending on commodity prices.

Figure 2.10: External public debt service relative to exports in West Africa by country, 2010–21 (Percentage of GDP)



Source: African Development Bank statistics.
Note: Data are estimates for 2020 and projections for 2021.

Increasing public debt has already risen the risk of debt distress in West Africa. In November 2015 four West African countries were at low risk of debt distress, according to an IMF–World Bank debt sustainability analysis (World Bank and IMF 2021). In August 2019, 10 West African countries were at moderate risk of debt distress and none were at low risk (table 2.1). In August 2019 The Gambia was in debt distress due to large external debt service payments. By April 2021, because of the pandemic, Guinea-Bissau had moved from moderate to high risk of debt distress. And thanks to debt restructuring and fiscal consolidation, The Gambia had ascended to high risk.

Table 2.1: Risks of debt distress in West Africa by country, August 2019 and April 2021

		April 2021	
		Moderate	High
August 2019	Moderate	Benin, Burkina Faso, Côte d'Ivoire, Guinea, Liberia, Mali, Niger, Nigeria, Senegal, Togo	Guinea-Bissau
	High		Cabo Verde, Ghana, Sierra Leone
	Debt distress		Gambia, The

Source: World Bank and IMF 2021.

West African countries perform poorly on sovereign credit ratings according to the three main rating agencies: Standard & Poor's, Moody's, and Fitch (table 2.2). For all West African countries with data, bond is not considered investment grade, with a grade below the lower medium grade (BBB- for Standard & Poor's and Fitch and Baa3 for Moody's). This is in line with the high interest rate spreads charged by commercial creditors to West African countries. Since the beginning of the pandemic, spreads charged to West African countries have widened, especially for its oil exporter. In Nigeria sovereign bond spreads peaked at about 12 percent in March 2020, up from about 6 percent the month before. Spreads have narrowed since that peak but remain above pre-COVID levels.

Table 2.2: Sovereign credit ratings in West African by country, May 2021

Country	Standard & Poor's	Moody's	Fitch
Benin	B+	B1	B
Burkina Faso	B		
Cabo Verde	B-		B-
Côte d'Ivoire		Ba3	B+
Gambia, The			
Ghana	B-	B3	B
Guinea			
Guinea-Bissau			
Liberia			
Mali		Caa1	
Niger		B3	
Nigeria	B-	B2	B
Senegal	B+	Ba3	
Sierra Leone			
Togo	B	B3	

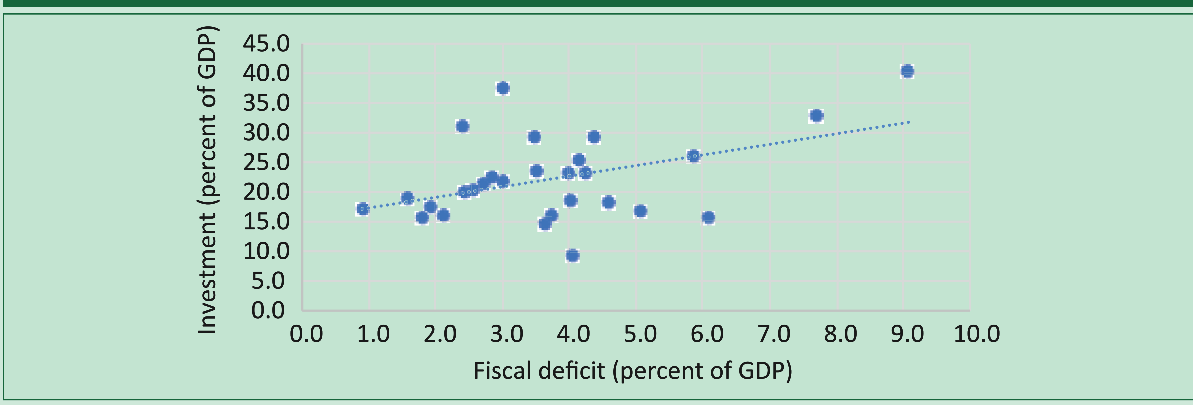
Source: Standard & Poor's, Moody's, and Fitch.

Box 2.2: Debt, investment, and growth in West Africa

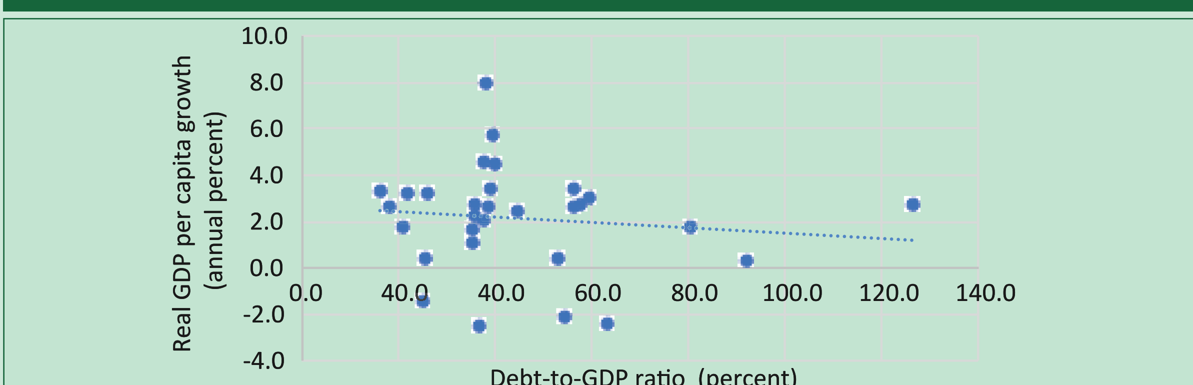
Continued investment in infrastructure has been a major source of fiscal imbalance and debt accumulation in West African countries over the past decade. On average, over 2010–19 the total investment-to-GDP ratio has been positively associated with the fiscal deficit-to-GDP ratio (box figure 2.1), corroborating that rising public debt has been used to finance infrastructure programs. This did not seem to be sufficient to create a positive association between the debt-to-GDP ratio and the growth rate of real GDP per capita (box figure 2.2).

Still, it is difficult to conjecture the potential impact of debt on growth. Though government debt might support growth in the short run through fiscal stimulus, it can compromise long-run growth through lower saving rates resulting from tax burdens to finance public debt, higher sovereign risk, and higher real interest rates—penalizing private investment (Panizza and Presbitero 2012). But debt might promote long-run growth if it is used to finance productive public investment, though evidence on the debt-growth nexus is not conclusive (Reinhart and Rogoff 2010; Reinhart, Reinhart and Rogoff 2012). The relationship between public debt and GDP growth differs across countries and over time. Specifically, the debt-growth nexus depends more on the debt trajectory, in the sense that countries reducing debt from a high level tend to experience good growth prospects in the future (Pescatori, Sandri, and Simon 2014). In countries with poor institutions, higher government debt tends to result in lower growth due to misallocation of resources toward non productive investment projects and embezzlements of funds (Kourtellos, Stengos, and Tan 2013).

Box figure 2.1: Investment and fiscal deficits in West Africa, 2010–19 (Percentage of GDP)



Box figure 2.2: Real per capita GDP growth and debt-to-GDP ratios in West Africa, 2010–19



Source: Staff calculations based on data from IMF 2021b and World Bank 2021a.

Note: Data are averages for 2010–14 and 2015–19.

For West African countries, because of high external debt and weak institutions, debt is likely to have an adverse impact on growth even at a lower threshold. By reducing a country's repayment ability, high government debt discourages external creditors—causing capital flight or pushing them to increase risk premiums on interest rates for government debt. Moreover, poor governance in some countries results in inefficient use of debt by wasting spending and undertaking investment projects with low returns. Some West African countries—The Gambia, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Sierra Leone, Togo—have an African Development Bank governance index lower than 4 out of 5. Africa in general has a public investment efficiency gap of 39 percent, compared with 29 percent for Asia and 17 percent for Europe (AfBD 2021).

2.2 FINANCING OPTIONS: OPPORTUNITIES AND RISKS

To finance its development needs, West Africa could rely on domestic revenues as well as different types of external flows including concessional loans and grants, foreign direct investment, portfolio investment, and diaspora remittances. This section explores opportunities and risks linked to these options.

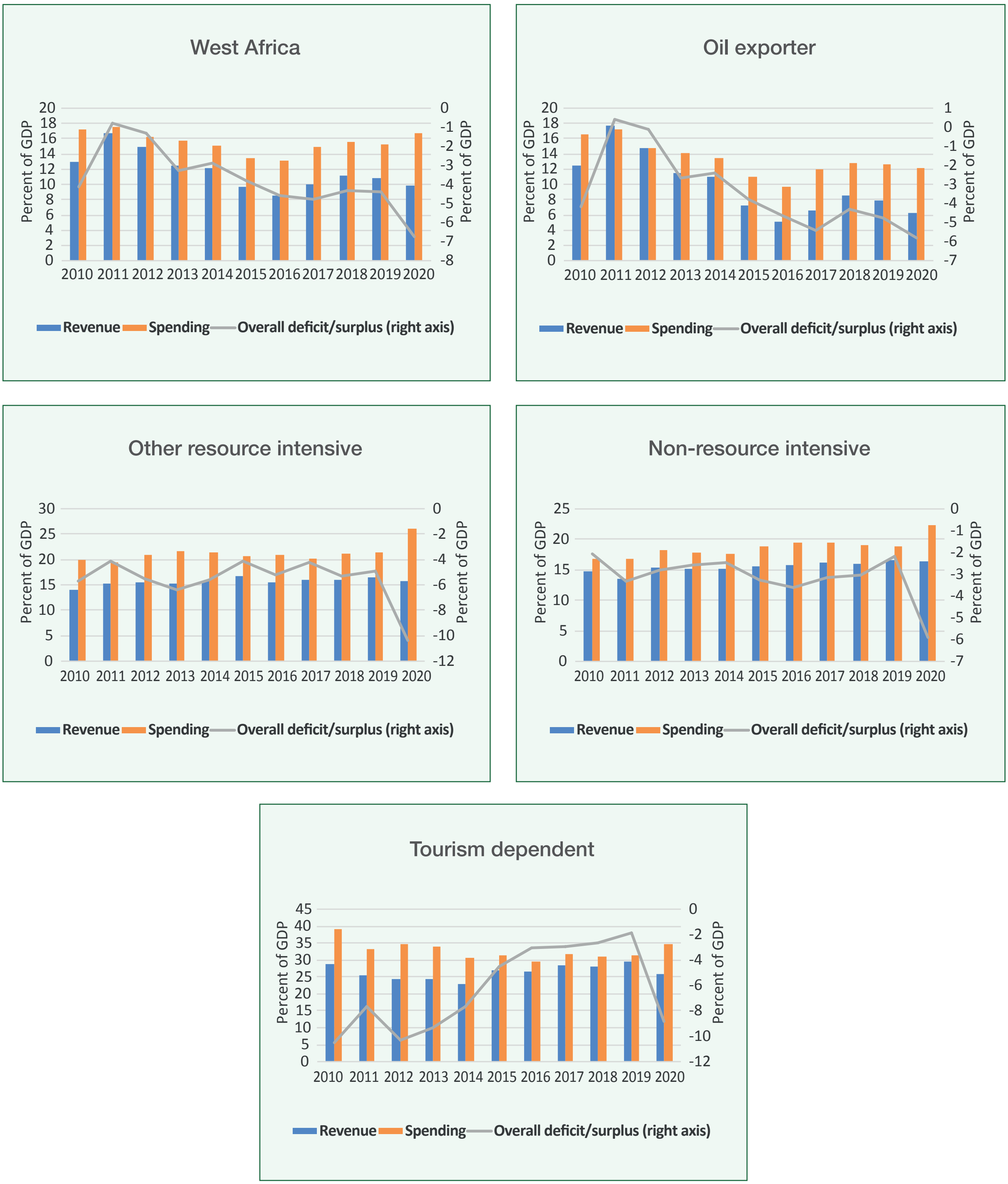
2.2.1 Low domestic revenues drive fiscal deficits and debt

Sustained public spending—particularly on infrastructure—and low resource mobilization have driven the persistent fiscal deficits in Western Africa and resulted in soaring public debt. Since 2010 public spending has consistently been higher than public revenue in the region, explaining the deficits (figure 2.11). Over 2010–20 the ratio of public revenue to GDP ranged from 8.6 to16.8 percent, with an average of 11.8 percent. Over the same period the ratio of public spending to GDP ranged from 13.2 to 17.6 percent, with a mean of 15.5 percent.

The evolution of fiscal outcomes has varied by country group in West Africa. In Nigeria, while public debt was soaring, public revenue was falling (figure 2.12), reflecting declining oil prices. The country registered a positive fiscal balance only in 2011 (due to higher oil prices that year), with a revenue at 17.7 percent of GDP and spending at 17.3 percent. Revenue as a share of GDP declined until 2016.

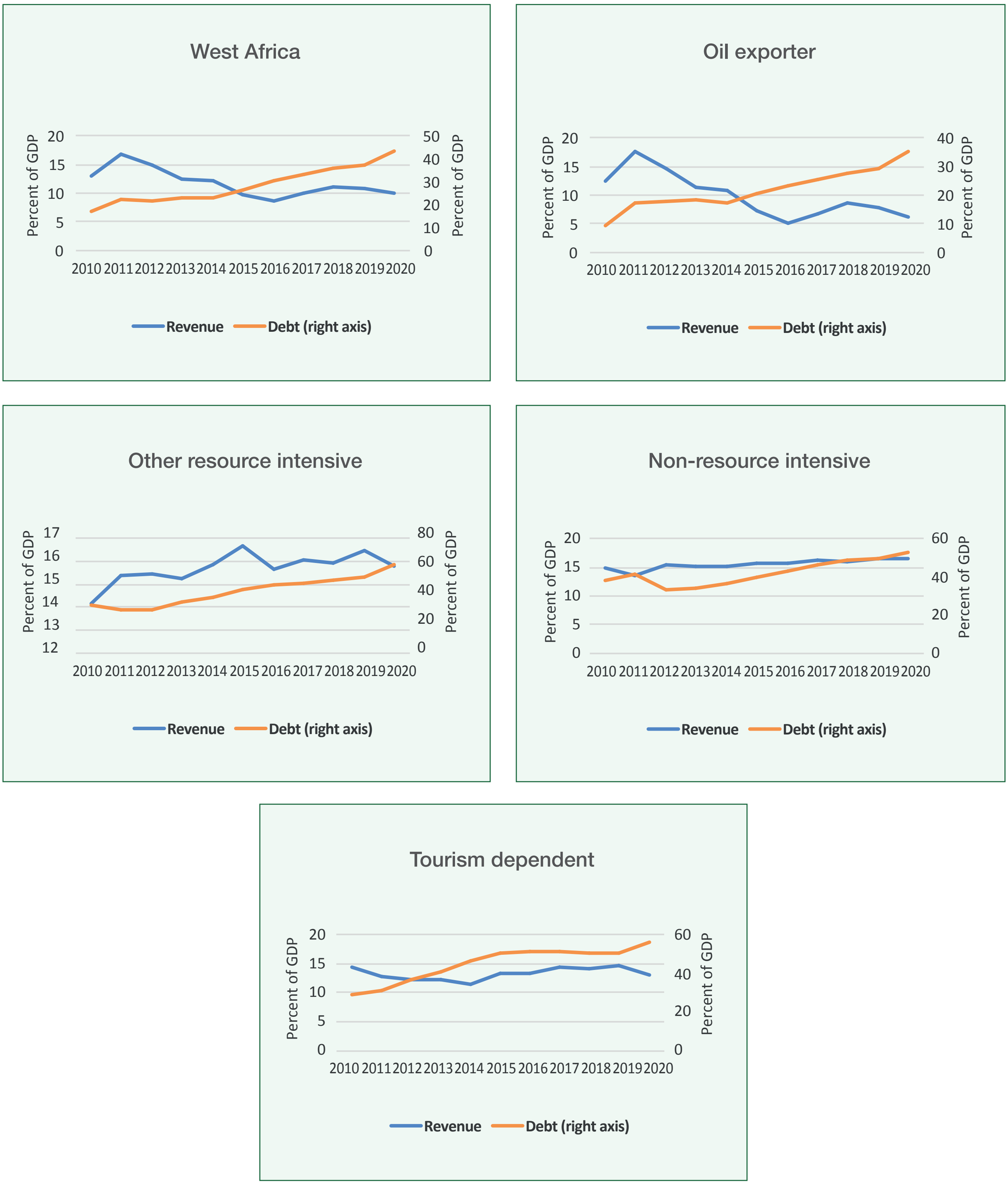
For nonoil-resource intensive countries, over 2010–20 the ratio of public revenue to GDP ranged from 14.1 to 16.7 percent, while the ratio of public spending to GDP began exceeding 20 percent starting in 2012. In non-resource intensive countries like Côte d'Ivoire, debt accumulation was contained by the rising revenue-to-GDP ratios that resulted from new tax policies introduced since 2012. In tourism-dependent Cabo Verde the average spending-to-GDP ratio has been declining since 2010 due to spending cuts in favor of debt servicing.

Figure 2.11: Public revenue and spending in West Africa by country group, 2010–20 (Percentage of GDP)



Source: Staff calculations based on IMF 2021b.

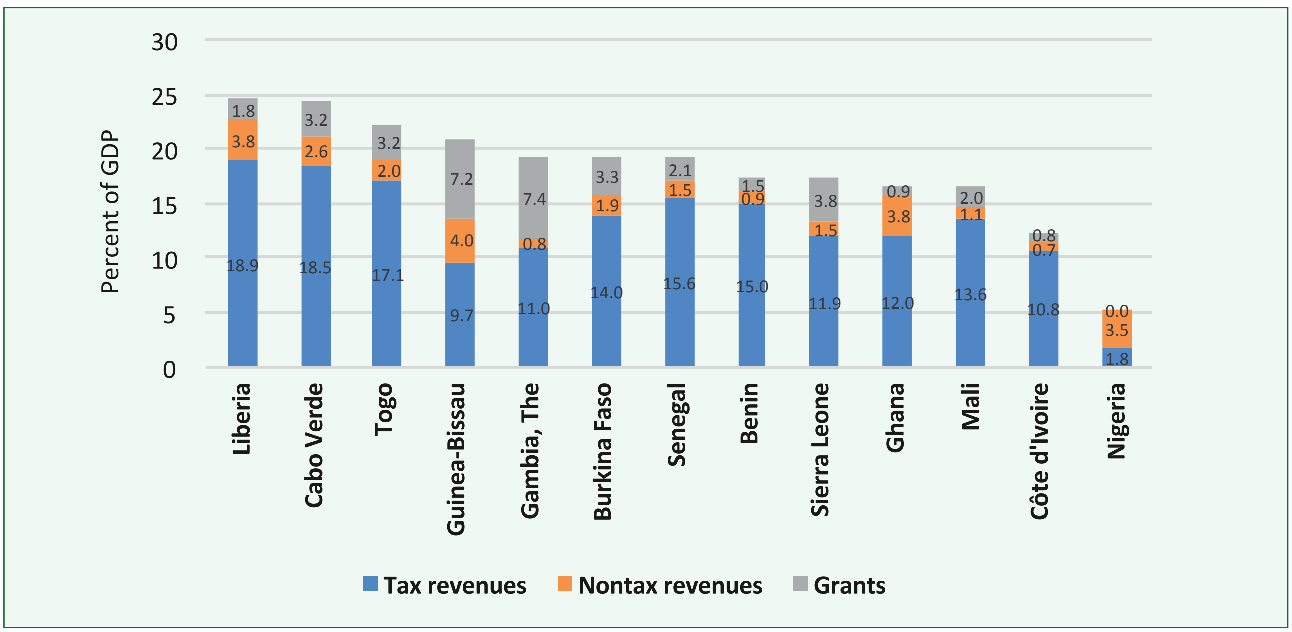
Figure 2.12: Public revenue and public debt in West Africa by country group, 2010–20 (Percentage of GDP)



Source: Staff calculations based on IMF 2021b.

Despite weak tax revenue mobilization, all West African countries except Nigeria finance their budgets primarily through tax revenues. Cabo Verde and Liberia have the region's highest ratios of public revenue to GDP, averaging more than 24 percent over 2010–19 (figure 2.13). In Nigeria public revenue accounts for less than 6 percent of GDP, the lowest share in the region. This is the result of weaker tax collections and larger reliance on oil revenues, making fiscal outcomes more vulnerable to fluctuations in global oil prices. Nontax revenue (which mainly consists of oil revenue) represents about 3.5 percent of GDP, while tax revenue is less than 2.0 percent. Over the past decade, because of a drop in oil prices, Nigeria's revenue-to-GDP ratio has fallen. Some West African countries including The Gambia and Guinea-Bissau have received budget support from grants (see below).

Figure 2.13: Components of public revenue in West Africa by country, 2010–19 (Percentage of GDP)

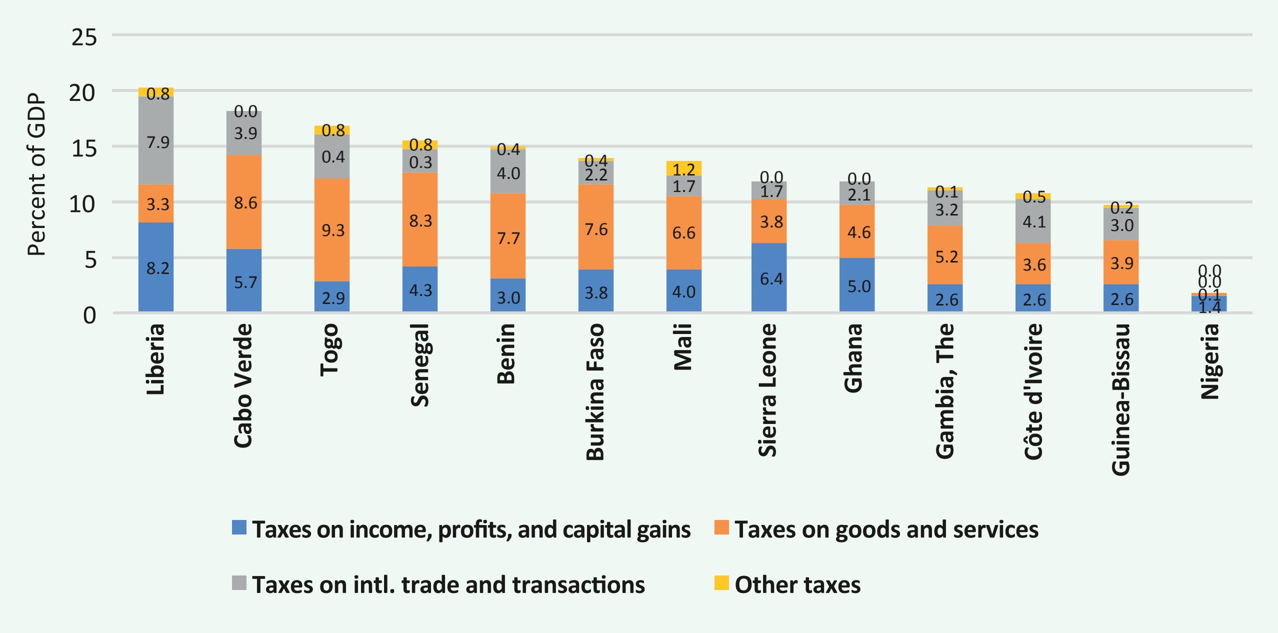


Source: IMF 2020.
Note: Data for Guinea and Niger are not available.

For most West African countries the largest share of tax revenue comes from taxes on goods and services, particularly value-added taxes (figure 2.14). Resource-intensive economies collect significant revenue from taxes on income, profits, and capital gains derived from commodity production. Liberia has the largest shares of taxes on income, profits, and capital gains (8.2 percent of GDP) and on international trade and transactions (7.9 percent of GDP). In Nigeria revenue collected from taxes on goods and services is insignificant because of low compliance and weak enforcement.

Given the limited fiscal space as a result of growing debt service repayments, there is an urgent need for West African countries to enhance domestic revenue mobilization capacity while improving spending efficiency. They should promote tax collection through strong compliance and enforcement, broaden the tax base including through incorporating the informal sector and growing digital platforms into the tax net, fight against tax evasion and illicit financial flows. The formalization of informal sector can be facilitated through incitation mechanisms such as access to financial services with the help of digitalization and ease of doing business. West African countries could seize the opportunity of electronic payment systems to get better tax collection. Fiscal consolidation being difficult in the short to medium term because of pandemic crisis, countries will need enhancing fiscal efficiency by spending on productive investments in order to revive the economy.

Figure 2.14: Components of tax revenues in West Africa by country, 2010–19 (Percentage of GDP)



Source: IMF 2020.
Note: Data for Guinea and Niger are not available.

2.2.2 External financial flows take many forms

To finance their development needs, West African countries also rely on different types of external financial flows including concessional loans and grants, foreign direct investment, portfolio investment, and diaspora remittances.

Official development assistance. Official development assistance—that is, concessional loans and grants from official agencies—remains an important type of public financing in many West African countries. Countries including Cabo Verde, The Gambia, Liberia and Sierra Leone are highly dependent on aid (figure 2.15). Over the past decade official development assistance relative to GDP were highest in Liberia, at 33.0 percent over 2010–14, 24.1 percent over 2015–18, and 19.5 percent in 2019.

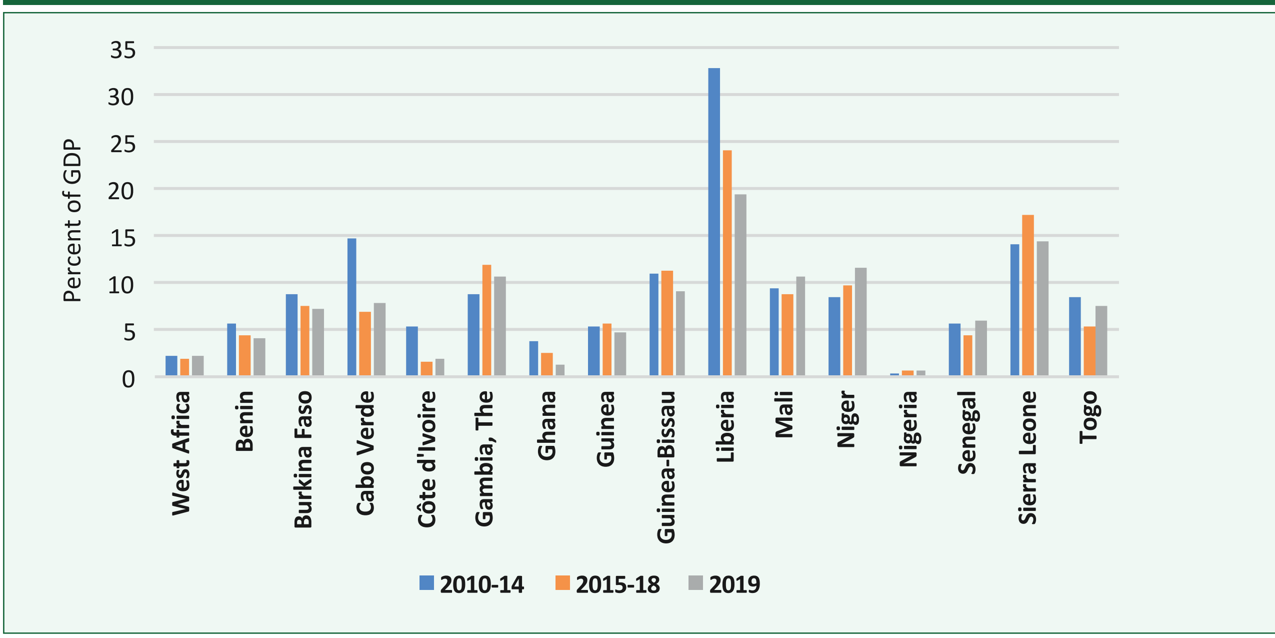
The main multilateral donors of official development assistance in West Africa are the African Development Fund of the African Development Bank, International Development

Association of the World Bank, the IMF's concessional trust funds, and EU institutions; the main bilateral donors are Canada, Germany, Japan, Sweden, Switzerland, the United Kingdom, and the United States (OECD 2021). Alongside its growing holdings of nonconcessional loans, China is also becoming an important provider of foreign assistance.

Where institutions are weak, aid disbursements may fuel corruption and rent-seeking, raising aid dependency. Foreign aid and public debt more generally must be better allocated to productive investments with clear goals. In countries with poor institutions, civil society should pay more attention to the allocation of aid flows, and donors should work closely with civil society.

In the long run, countries should build strong domestic resource bases to limit their reliance on foreign aid. But in the short run, they should secure international support in the form of debt relief and restructuring to avoid debt distress and create fiscal space to finance developments. To facilitate the recovery, budget support from international financial institutions could be particularly helpful for fragile states in West Africa.

Figure 2.15: Net official development assistance in West Africa by country, 2010–19 (Percentage of GDP)



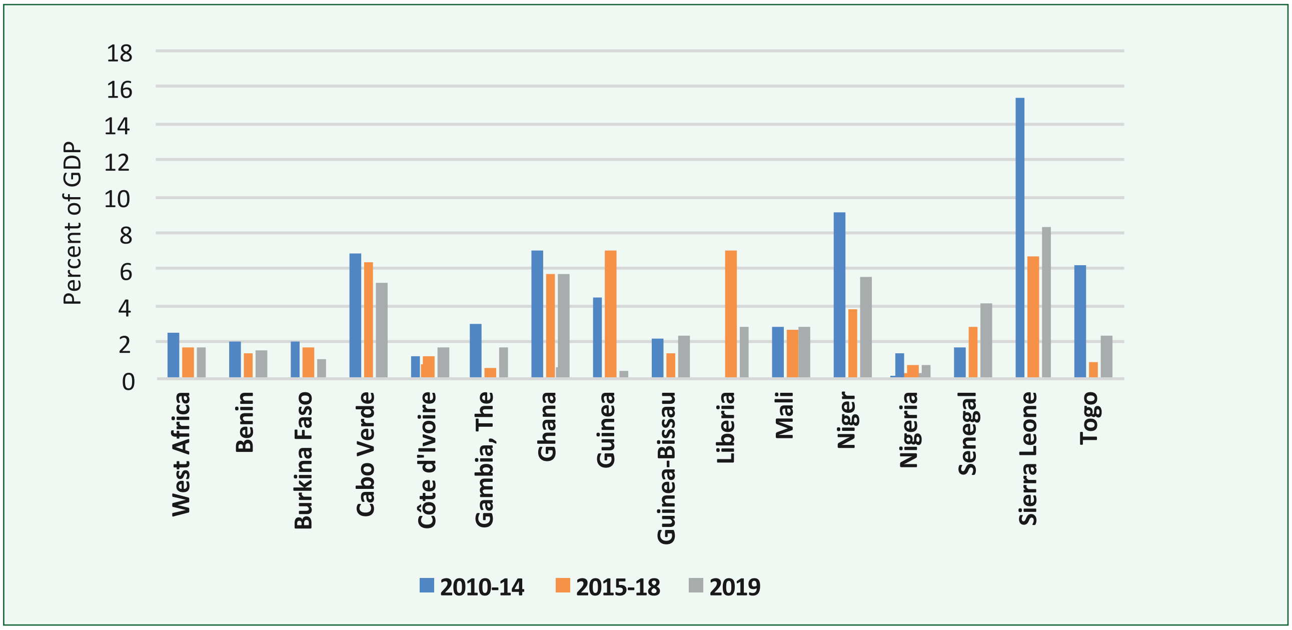
Source: World Bank 2021a.

Foreign direct investment. Foreign direct investment (FDI) could increase the tax revenues of West African countries through higher taxes on corporate income from the creation of FDI-related firms or capital accumulation. But many countries offer tax incentives to attract FDI, mitigating its potential for raising tax revenues. Most FDI in West Africa comes from advanced economies and China. It used to be concentrated in commodities but is increasingly going to the nonoil energy sector—where needs are enormous—helping to facilitate structural transformation and economic diversification. That was the case in Senegal for a wind farm in 2018 (see chapter 1).

Despite efforts by West African countries to attract more FDI, such as through tax incentives, these inflows fell over 2010–19 (figure 2.16). This decline is expected to have magnified in 2020 amid the pandemic and lower prices for commodities, especially oil. FDI as a share of GDP is higher in nonoil-resource intensive West African countries. In Côte d'Ivoire and Nigeria FDI represented less than 2 percent of GDP on average over 2010–19. Thanks to its relatively stable political environment and business-friendly measures including tax incentives, reduced tariffs on imports, and preferential loans, Ghana recorded a significant FDI-to-GDP ratio in 2010–19, averaging more than 5 percent of GDP. Over 2010–14, Sierra Leone received a higher level of FDI (15.4 percent of GDP), particularly in mining.

While improving regulations and business environments, West African countries should expand the use of public-private partnerships, which can serve as a principal vehicle for FDI in infrastructure. Given most countries' limited access to financing, such partnerships are a relevant nondebt source of development finance, mobilizing funds and expertise from private foreign investors.

Figure 2.16: Net inflows of foreign direct investment in West Africa by country, 2010–19 (Percentage of GDP)



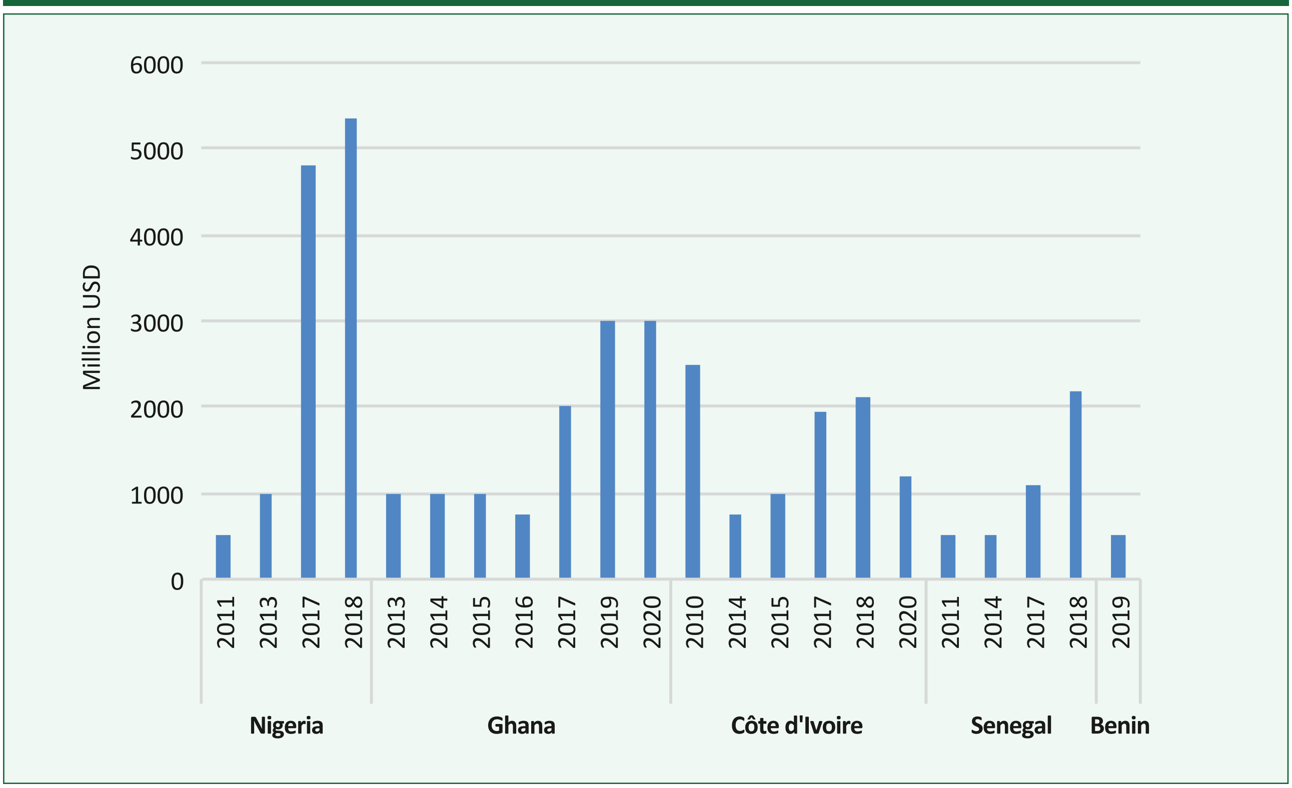
Source: World Bank 2021a.

Eurobond issuances. Some West African countries have domestic financial markets (national or regional) on which relatively significant sovereign bonds are issued in local currencies. Ghana and Nigeria issue them on their national bond markets and WAEMU countries on their regional financial market Bourse Régionale des Valeurs Mobilières (BRVM). Over 2010–19 several West African countries started issuing Eurobonds denominated in foreign currency on international capital markets. Reasons for the rise in Eurobond issuances include the solvency regained thanks to the Heavily Indebted Poor Countries (HIPC) initiative and, most important, the desire of foreign private investors for high returns in an environment of low interest rates caused by the 2008–09 global financial crisis (Raffinot, Ferry, and Donnat 2020).

In the wake of the global financial crisis, monetary policy easing by central banks in developed countries led to a historical reduction in interest rates. With lower bond yields in developed economies and needs to develop public infrastructure, many West African countries issued at relatively lower costs, though still higher than in developed countries. Some West African countries—Côte d'Ivoire, Ghana, Nigeria, Senegal—have issued Eurobonds several times since 2011 (figure 2.17). Benin also issued Eurobonds in 2019.

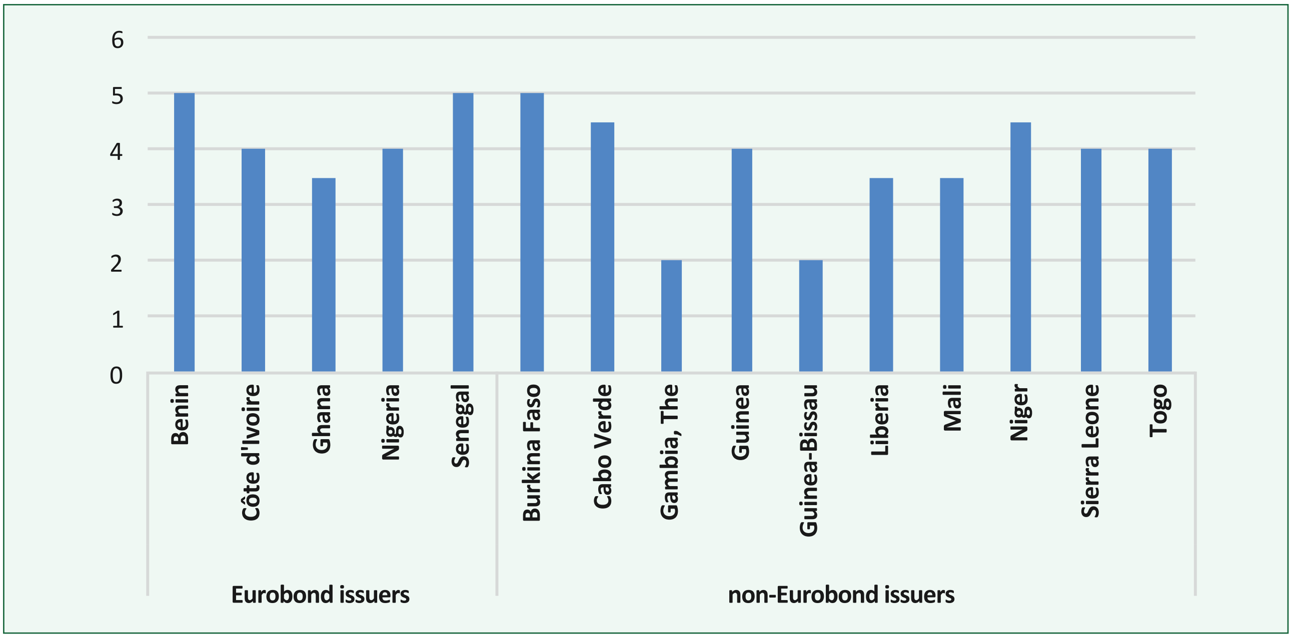
West African countries that issue Eurobonds have relatively good debt policies. Benin, Côte d'Ivoire, Nigeria, and Senegal are among the region's countries with high debt policy ratings from the African Development Bank's Country Policy and Institutional Assessment (CPIA) (figure 2.18). A country that has benefited from debt relief is more likely to issue Eurobonds if its CPIA debt rating is high. Thus, before loaning to a debt-relief country, investors examine its debt management.

Figure 2.17: Eurobond issuances by West African countries, 2010–19 (Millions of U.S. dollars)



Source: World Bank 2021a; Raffinot, Ferry, and Donnat 2020; Cytonn 2020.

Figure 2.18: Country Policy and Institutional Assessment debt policy ratings in West Africa by country, 2020



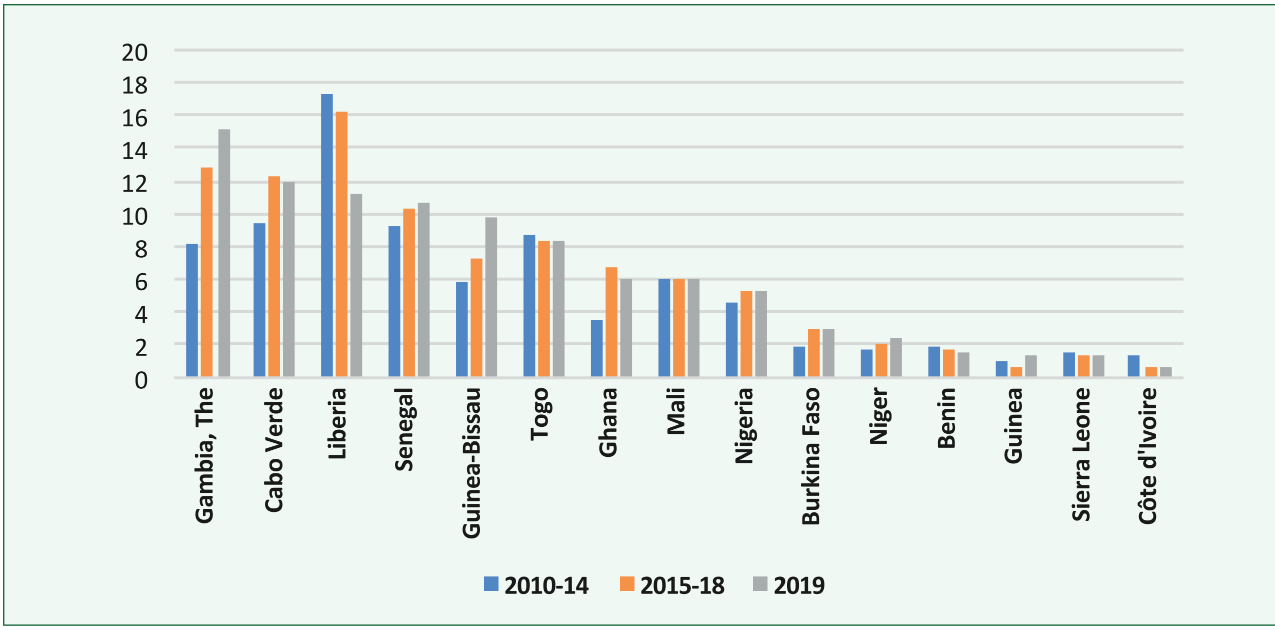
Source: Staff calculations based on African Development Bank statistics.

Borrowing from commercial creditors is attractive because the loans can be contracted without conditionalities—unlike official loans—though some countries (especially in the immediate aftermath of the global financial crisis) took advantage of improved credit policies of international financial institutions. For most countries the debuts in international capital markets have been associated with downgrading in sovereign credit ratings. Another concern is that issuances in international markets have shorter maturities than do multilateral concessional long-term loans. Most important, West African countries suffer from the "original sin," which refers to the difficulty developing countries face in borrowing in their own currencies, forcing them to borrow in major international currencies, typically the U.S. dollar and the euro (Eichengreen, Hausmann, and Panizza 2005). This exposure to currency mismatches (an economy's assets are denominated in domestic currency while its liabilities are in foreign currency) makes indebted West African countries more vulnerable to exchange rate depreciation by increasing the value of debt service in domestic currency.

Diaspora bonds. West African countries could take advantage of remittances from emigrants living abroad as an alternative to borrowing from official creditors and international markets. Diaspora bonds are sovereign bonds proposed by the origin country to its diaspora and can use diaspora savings to finance economic development. Because interest rates are currently very low in advanced countries that send major remittances, diaspora savings could provide a stable, abundant source of external financing relative to the alternatives.

Remittances are already an important source of external financing for many West African countries (figure 2.19). In 2019 The Gambia, Cabo Verde, Liberia, and Senegal were the region's top recipients of remittances as a share of GDP, at more than 10 percent. Though the largest share of remittances to West Africa comes from developed countries, a major portion is intraregional in some countries. For Burkina Faso and Mali, Côte d'Ivoire is a major remittance-sending country.

Figure 2.19: Remittances in West Africa by country, 2010–19 (Percentage of GDP)



Source: Staff calculations based on World Bank 2021a.

China and Japan were the first issuers of diaspora bonds in the 1930s, followed by India and Israel in the 1950s. In 2008 Ethiopia became the first African country to issue such bonds, to finance the Grand Ethiopian Renaissance Dam.

In West Africa, Nigeria and Senegal have issued diaspora bonds. Nigeria issued $300 million of them in 2017 for infrastructure investment. To finance its emerging plan (Plan Sénégal Emergent), in 2019 Senegal issued about $37 million of bonds, with 60 percent intended to come from its diaspora. Ghana plans to issue its first diaspora bonds in the near future.

The success of diaspora bonds could depend on the quality of the business environment. Even though diasporas might have a bias toward home bonds, they also have access to financial services in their host countries—so, like foreign investors, they could be sensitive to the quality of the business environment in their home countries.

2.2.3 Debt service repayments remain a constraint

Extensive debt is accompanied by a rising risk of debt unsustainability and payment default. In the past many developing countries, including those in West Africa, have faced debt unsustainability—leading to implementation of the Heavily Indebted Poor Countries (HIPC) initiative by the IMF and World Bank in 1996. The initiative aimed at providing debt relief while requiring debtor countries to address poverty reduction and social development. As noted, all West African countries except Cabo Verde and Nigeria benefited from the initiative.

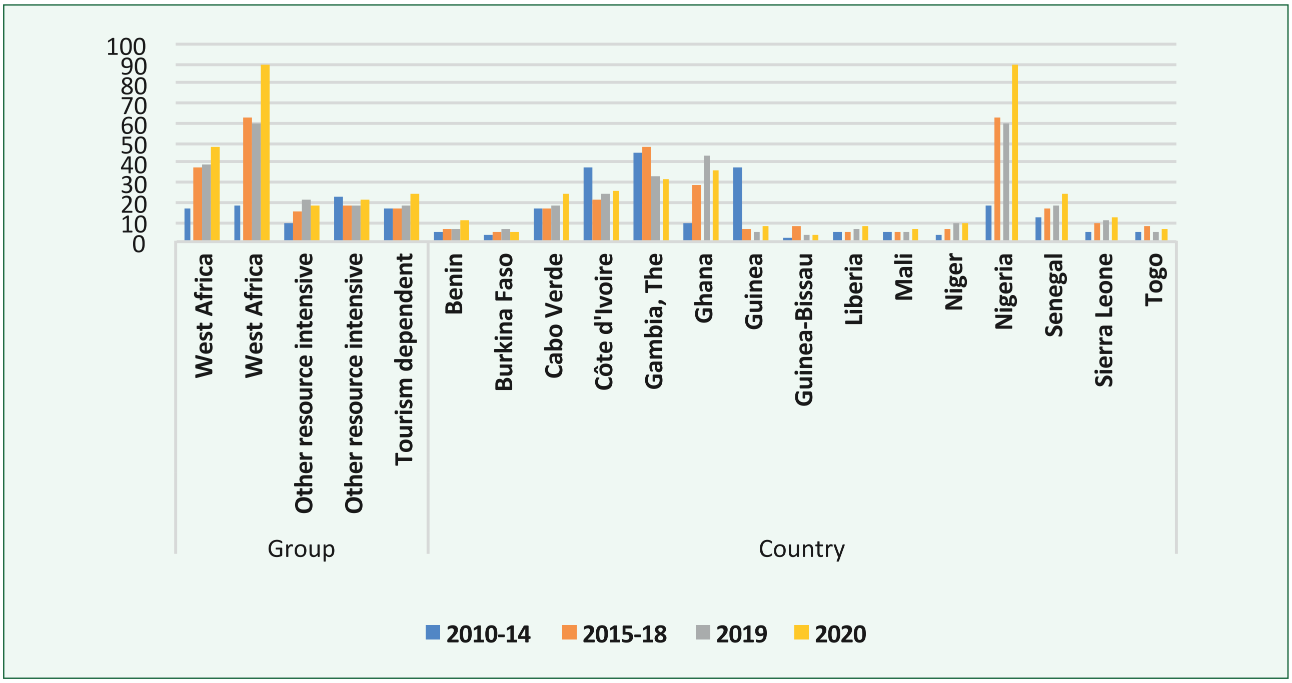
The rise in debt after the initiative was predicted due to potential moral hazard concerns for both debtors and creditors (Easterly 2002). Countries that benefited from debt relief anticipated further relief and so were encouraged to borrow again. At the same time, private creditors anticipated further rescues from official creditors in cases of default, and so were not discouraged from making more loans to debt relief countries. These trends are in line with the rise in private holdings of Eurobonds issued by West African countries in international capital markets.

Over 2010–20 public debt service as a share of revenue was very high in West Africa, mainly because Nigeria suffered from falling oil revenues and rising debt service (figure 2.20). The country's ratio of public debt service to revenue averaged 17.6 percent in 2010–14, 62.5 percent in 2014–18, 60.2 percent in 2019, and a whopping 89.1 percent in 2020. In 2020 public debt service as a share of revenue fell in nonoil-resource intensive countries due to a decline in Ghana, but rose in non-resource intensive economies mainly because of dynamics in Côte d'Ivoire and Senegal.

Eurobond issuances raised difficulties in some countries long before the pandemic. Ghana, for example, faced debt repayment problems and requested an IMF rescue in 2015. The country was then classified as high risk, and still is. But investors continued to rush to its recent sovereign bond issuances.

COVID-19 has significantly worsened fiscal balances and raised concerns about debt sustainability in many countries. This led the IMF and World Bank to urge G20 countries to establish the Debt Service Suspension Initiative (DSSI). The initiative grants some developing countries a temporary suspension of debt service payments owed to official bilateral creditors. The moratorium was initially set to end in December 2020, but it has been extended through December 2021. Globally, 73 countries are eligible for the initiative, including 38 African countries—11 of them in West Africa (table 2.3). Benin, Ghana, and Nigeria are not eligible.

Figure 2.20: Debt service relative to revenue in West Africa by group and country, 2010–20 (Percent)



Source: Staff calculations based on African Development Bank statistics and World Bank 2021a.

Table 2.3: Potential savings from the Debt Service Suspension Initiative in West Africa by country, May 2020– December 2021

Country	Eligible?	Percentage of GDP	Millions of U.S. dollars
Benin	No	0.3	45.1
Burkina Faso	Yes	0.3	49.7
Cabo Verde	Yes	2.5	49.7
Côte d'Ivoire	Yes	0.6	361.3
Gambia, The	Yes	1.3	23.0
Ghana	No	1.1	735.0
Guinea	Yes	1.0	128.6
Guinea-Bissau	Yes	0.4	5.6
Liberia	Yes	0.2	6.2
Mali	Yes	1.0	168.1
Niger	Yes	0.6	75.2
Nigeria	No	0.1	432.6
Senegal	Yes	1.5	349.8
Sierra Leone	Yes	0.5	21.2

Source: World Bank 2021b.
Note: Estimates are as of August 31, 2021. They are updated weekly.

The DSSI was very welcome for West Africa, which was already facing a looming debt crisis before COVID-19. For eligible countries the initiative has increased fiscal space for spending on pandemic relief. Over May 2020–December 2021 the potential savings for eligible countries ranged from 0.2 percent of GDP ($6.1 million) in Liberia to 2.5 percent ($49.7 million) in Cabo Verde. Potential savings from the initiative are expected to be lower in January–June 2021.

The recent decision by the IMF to issue more Special Drawing Rights (SDRs) will provide additional resources for West Africa to fight the pandemic. Africa as a whole will receive $32.2 billion, representing 6.4 percent of the proposed allocation. After South Africa, Nigeria is top recipient in Africa, with each accounting for more than 2 percentage point of the continental allocation.

2.2.4 Fiscal consolidation efforts might require new approaches

For regional members of the West African Economic and Monetary Union (WAEMU), fiscal consolidation efforts are guided by currency union convergence criteria. These include fiscal rules of a zero or positive fiscal balance as a percentage of GDP, total public debt less than 70 percent of GDP, and a prohibition for governments to accumulate arrears into the following year. The West African Monetary Zone (WAMZ) also defines fiscal rules in its convergence framework that all West

African countries should meet. These include a fiscal deficit of less than 3 percent of GDP, public debt below 70 percent of GDP, and central bank financing of the budget deficit at less than 10 percent of the previous year's public revenue.

Fiscal rules in West African countries do not benefit from automatic fiscal stabilizers, which are elements integrated with government revenues and expenditures that mitigate the effects of economic shocks without the need for discretionary government intervention. Thus automatic fiscal stabilizers help smooth economic fluctuations. For a currency union, automatic fiscal stabilizers are particularly helpful in addressing asymmetric shocks affecting a member country.

More than two decades ago, West African countries undertook budget reforms using medium-term expenditure frameworks (MTEFs).[2] An MTEF is an institutional arrangement for multiyear budget programming, typically over three to five years. In addition to increasing transparency and accountability in public finances, MTEFs aim at enhancing fiscal discipline so that spending is sustainable and limited by available resources. The success of an MTEF rests on budget credibility and the quality of macro-fiscal forecasts and analysis. The WAMZ adopted MTEFs in 2003 as a guideline for achieving fiscal convergence criteria. In 2009 WAEMU member states also adopted MTEFs as legal frameworks for harmonizing public management in the union.

MTEFs have had limited impacts West African countries. For instance, in Senegal the adoption of MTEFs neither improved fiscal discipline and predictability nor promoted budget prioritization, though after their establishment there was a moderate increase in spending in some priority sectors including education, the environment, and transport (Séne and Fall 2015). The lack of or limited benefits of MTEFs in West Africa reflect some gaps that need to be filled, including weak capacity for macro-fiscal forecasting and analysis, as well as poor-quality data.

For commodity-exporting countries in West Africa, stabilization funds—sovereign wealth funds with a stabilization goal—could facilitate fiscal consolidation and compensate for the lack of automatic fiscal stabilizers. Commodity-based stabilization funds aim to insulate the public budget and the economy from fluctuations in commodity prices. The main strategy used to achieve that goal is to mitigate the "Dutch disease" by buying foreign assets if prices rise and selling assets if prices fall. By following this strategy, any type of commodity-based sovereign wealth fund may achieve macroeconomic stabilization no matter its stated goal.

[2] MTEFs are also called medium-term budget frameworks (MTBFs).

CHAPTER 3

POLICY PRIORITIES TO RECOVER FROM COVID-19

The COVID-19 pandemic has revealed West Africa's extreme vulnerability and highlighted the need to accelerate the region's structural transformation to transition to middle- and high-income status. To ease the adverse economic effects of COVID-19, in 2020 West African governments implemented fiscal stimulus packages that worsened fiscal deficits and complicated the resolution of debts and external imbalances.

The region is expected to recover in 2021, aided by vaccinations, sustained stimulus policies, and faster digital transformation to facilitate remote work. But looming risks include lower commodity prices, slower tourism recovery, weaker remittances, financial market volatility unfavorable to capital flows, and debt overhang.

To get back on the path of inclusive growth, West African countries need to implement:

- Short-term policies aimed at mitigating the immediate impacts of the pandemic.
- Medium-term policies to stimulate the post-pandemic economic recovery and create conditions for more durable growth.
- Long-term policies to enhance resilience and build capacity to tackle poverty and fragility, thereby creating opportunities to escape the fragility trap (for fragile and postconflict countries) and move to middle- and high-income status.

Because West African economies have different endowments and have been affected differently by the pandemic, the proposed measures and their pace of implementation should be tailored to country circumstances. Thus the proposed actions that follow are somewhat generic but in line with the basics of most West African economies: large traditional agriculture sectors, expanding (informal) services, fiscal dominance (government borrowing from central banks), and narrow tax bases. While implementing these measures, the region's countries could seize on the opportunities offered by the African Continental Free Trade Area (AfCFTA) agreement.

3.1 SHORT-TERM MEASURES

West African governments' responses to COVID-19 mirrored global interventions. In addition to containment measures to stem the spread of the virus, governments deployed fiscal and monetary measures to support affected households and businesses (see chapter 2). Central banks complemented fiscal measures with monetary policies such as cutting policy rates, injecting liquidity into banking systems, easing collateral requirements, temporarily suspending loan repayments for businesses and nonfinancial corporations, and relaxing prudential constraints.

The second wave of the pandemic, with its aggressive variants of the virus, has slowed recovery by reversing gains from policies undertaken during the first wave. To protect the gains and mitigate potential adverse consequence of the second wave while accelerating the post-pandemic recovery, West African countries should continue with the measures implemented in the first wave—paying particular attention to protecting lives and livelihoods, avoiding debt traps, and developing better instruments for fiscal consolidation and macroeconomic stability.

3.1.1 Protecting lives and livelihoods

The COVID-19 pandemic first exposed the fragility of West Africa's healthcare systems. Then it made evident that the region's countries should spare no effort to enhance those systems, particularly with well-developed preventive care. Achieving this goal in the short term will be difficult due to limited fiscal space. Still, there would be obvious benefits from providing support to vulnerable groups to mitigate the immediate impacts of this pandemic and protect vulnerable groups from future ones.

In that regard, West African countries should develop systems to identify vulnerable groups and strengthen social cash transfers while exploring universal health insurance. Social protection programs must be dynamic and flexible—adaptable to changes over time. West African countries could take inspiration from Rwanda's universal health insurance, which is an example of how to design robust systems that allow for fiscal sustainability through cost-sharing.

Some initiatives in West Africa amid the pandemic have been encouraging. These include the Nigerian Private Sector Coalition Against COVID-19, which provided ₦120 billion ($333 million) to complement government resources for the fight against COVID. Similarly, Senegal's Response and Solidarity Fund is endowed with CFAF 1.0 trillion ($1.9 million), with additional financing expected from the private sector and donors. To succeed, such initiatives require strong oversight to avoid resource leakages.

Containment measures and disrupted supply chains resulted in higher prices for essential foodstuffs, worsening food insecurity, particularly for vulnerable groups. Thus efforts are needed to protect vulnerable groups from malnutrition.

3.1.2 Avoiding debt traps

COVID-19 has exacerbated public debt risks for countries already at high risk of debt distress. The G20's Debt Service Suspension Initiative (DSSI) could mitigate the pandemic's effects on debt service burdens in West Africa. But beneficiary countries should see the initiative as temporary relief rather than a permanent resolution to growing debt burdens—while improving debt management to isolate transitory pandemic-induced debt from infrastructure-based borrowing.

3.1.3 Developing better instruments for fiscal consolidation and macroeconomic stability

To enable automatically attenuated economic responses to shocks without the need for discretionary government intervention, automatic fiscal stabilizers should be larger and more widely used across West Africa. More than two decades ago, West African countries adopted Medium-Term Expenditure Frameworks (MTEFs)—multiyear budget programming to improve fiscal consolidation. The lack of or limited benefits from MTEFs in the region reflect some gaps that need to be filled, such as weak data and limited capability for macro-fiscal forecasting and analysis.

Among commodity-intensive exporters the lack of automatic fiscal stabilizers can be filled, at least partly, by stabilization-focused sovereign wealth funds aimed at insulating economies and public budgets from fluctuations in commodity prices. Commodity-based sovereign wealth funds can focus on mitigating the "Dutch disease" by buying foreign assets if commodity prices rise and selling them if prices fall (Raymond, Coulibaly, and Omgba 2017). By using this strategy, whatever a fund's assigned objective, any commodity-based sovereign wealth fund can achieve macroeconomic stabilization in the short run and facilitate economic diversification in the long run by disconnecting the real exchange rate from commodity price fluctuations.

3.2 MEDIUM-TERM MEASURES

3.2.1 Facilitating growth recovery by making spending more efficient

Given their likely economic prospects and narrow fiscal space during the post-COVID era, a priority for West African countries should be to enhance fiscal efficiency—in line with continued spending on productive investments to accelerate growth recovery. Measures to enhance spending efficiency should focus on allocating public resources to projects that are most favorable to the post-COVID recovery.

The pandemic also presents an opportunity to establish credible, institutionalized fiscal rules to entrench fiscal accountability and transparency in West Africa. Efficient, productive public investment could magnify the impacts of highly skilled workers, inducing a virtuous cycle of private investment and growth. Unproductive infrastructure projects must be self-liquidated by strong institutions, allowing resources to be channeled into sectors with greater potential for generating revenues and creating jobs. So, policies aimed at making public spending more efficient should be conducted in accordance with existing legislation to promote better oversight and accountability.

In countries with weak institutions, civil society should pay more attention to government spending to ensure that funds raised are used for their intended purposes. In addition, donors should work closely with civil society to improve the use of such funds.

West African countries should also improve governance in state-owned enterprises and restructure them to isolate contingent liabilities. Many infrastructure-focused state enterprises received orders to provide public goods and services, widely and equitably, to mitigate the economic consequences of the pandemic. At the same time, governments have publicly guaranteed their debts—raising potential fiscal concerns.

3.2.2 Enhancing domestic resource mobilization

Domestic resource mobilization is very low in many West African countries (see chapter 2). The pandemic has made clear the need for these countries to enhance domestic revenue mobilization capacity. To that end, they should take steps such as promoting tax collection through tax administration reforms that strengthen compliance and enforcement, rationalizing tax exemptions, broadening tax bases (including by covering the informal sector and digital platforms), and fighting tax evasion and illicit financial flows. Formalization of the informal sector could be facilitated through incentives such as access to digital financial services. Electronic payments could help the region improve tax collection.

3.2.3 Strengthening public-private partnerships for infrastructure development

Despite limited fiscal space, most infrastructure development in West Africa has been financed by public debt. By contrast, public-private partnerships are a nondebt source of development finance that could help direct money toward productive infrastructure projects that, in turn, raise returns on private investments. The region has vast potential for such projects, including roads, railways, power plants, irrigation systems, and internet infrastructure. While improving their regulations and business environments, West African countries should expand their use of public-private partnerships as a principal vehicle for foreign direct investment in infrastructure development. At the same time, West African economies should rigorously scrutinize, quantify, and mitigate fiscal risks from such partnerships.

3.2.4 Supporting small and medium-size enterprises

Small and medium-size enterprises in West Africa have limited access to financial services that could foster their development. Access to finance could be enhanced by programs that help owners strengthen leadership and management and build capacity to run their businesses. Fiscal incentives could encourage training for small and medium-size enterprises. Terms for small business loan could be improved through new laws on alternative collateral requirements, allowing lenders to obtain collateral on movable and immovable assets.

Formalization of small and medium-size enterprises should be promoted by offering incentives for access to digital financial services. COVID-19 could offer an opportunity to deepen the engagement of the ecosystem comprising small and medium-size enterprises, regulators, and financial institutions. For instance, Nigeria's pandemic-related support package included a component to develop policies for sustainable support of small and medium-size enterprises without resorting to the central bank. The Nigerian Private Sector Coalition Against COVID-19 revealed the importance of corporate social responsibility in mitigating the impacts of such a large shock on small and medium-size enterprises. In the same vein, Ghana's COVID-19 National Trust Fund raised resources from nongovernmental sources to complement the Coronavirus Alleviation Programme. In addition, Ghana's government efforts to support affected businesses and households have been supported by the COVID-19 Private Sector Fund, which is aimed at mobilizing funding from the private sector.

3.3 LONG-TERM MEASURES

COVID-19 has derailed progress on the Sustainable Development Goals. It has also disrupted labor markets, worsened poverty, and widened inequalities, especially in the informal sector . For the past two decades growth in West Africa has been led by services, which are not as productive, create fewer jobs, and reduce poverty by less than does industry. Addressing poverty and inequality in West Africa will require deep long-term structural reforms.

3.3.1 Accelerating structuration transformation by enhancing production and trade

Ensuring long-run fiscal consolidation and debt sustainability in West Africa requires accelerating structural transformation to move from services-led to industry-led growth that is sustainable and inclusive. For successful structural transformation, West African economies need to evolve in their production spaces, assessing products' input requirements and exploiting the revealed comparative advantages (Hidalgo and others 2007). To that end, they should redeploy their capacities—such as skills and infrastructure—into domestic manufacturing of mining and agricultural primary commodities.

This process could be supported by accelerating electrification and promoting education in science, engineering, and technology in line with needs for manufacturing local primary products. Through the Economic Community of West African States (ECOWAS), West African economies should accelerate implementation of the African Continental Free Trade Area (AfCFTA) agreement, which could facilitate industrialization by opening markets and creating economies of scale through the development of existing industries and the creation of new ones.

3.3.2 Promoting human capital and skills development

To facilitate structuration transformation and economic diversification, West African economies need to develop human capital and skills in line with market needs. Despite efforts over the past two decades, West Africa lags behind other regions of the world on the quantity and quality of its human capital. In 2020 all West African countries with available data scored below 0.5 on the World Bank's Human Capital Index, with 1.0 being the maximum potential for human capital.[3] Ghana had the region's highest index, yet ranked 129th among the 174 countries covered.

[3] The index measures "the amount of human capital that a child born today can expect to attain by age 18, given the risks of poor health and poor education that prevail in the country where she lives" (World Bank 2020b).

West Africa countries must allocate more resources to strengthen their fragile healthcare systems—a source of lower human capital development. In 2015–18 Cabo Verde had the region's highest health spending per capita, averaging $171 a year, or less than 4 percent of the average in OECD countries. Niger had the lowest health spending per capita, averaging $25. Cabo Verde also had the region's highest number of physicians per 1,000 people, with 0.62 compared to 2.8 for OECD countries. Sierra Leone had the region's fewest physicians per 1,000 people, at 0.02.

West Africa's human capital underdevelopment is also evident from the average number of years of schooling for people older than 25, which is among the lowest in the world. Moreover, education in West Africa is of poor quality according to harmonized scores from international student achievement tests. In 2020 the scores for West African countries were below 420, where 300 represents minimum attainment and 625 maximum attainment (World Bank 2020b).

To develop human capital and improve skills, West African countries should expand and upgrade education and training programs. To do so, they could rely on the learning possibilities offered by information and communications technology. For instance, the region should make it easier for young people to obtain computers and access the internet, and promote the development of training applications.

It is also imperative that West African countries make programs in science, engineering, and technology more attractive to young people (Morsy and Mukasa 2021). Despite the strong need for training that supports structural transformation, education systems in West Africa have an abundance of students enrolled in language, human, and social science programs—to the detriment of science, engineering, and technology programs, which enroll less than 20 percent of students. The smaller numbers of students in the latter fields result in less research, undermining innovation and better training.

Spending on research and development is less than 0.6 percent of GDP for West African countries with available data, compared with the 1.7 percent global average and 2.4 percent in high-income countries. Moreover, many West African countries with available data have fewer than 100 scientific researchers for every 1 million inhabitants, also among the lowest levels in the world. (Numbers range from 20 in Guinea to 983 in Senegal.) Efforts to promote scientific research could be facilitated by strengthening regional cooperation on academics. In this regard, ECOWAS should enhance its Academic Mobility Programme by improving cooperation among universities in West Africa.

3.3.3 Developing domestic capital markets and limiting external borrowing in foreign currencies

West Africa's underdeveloped financial systems and markets (national and regional) have major implications for the tradeoff between domestic and external borrowing. To keep domestic public borrowing from crowding out private sector access to credit, governments have a strong incentive to borrow in international capital markets—if they can access them. West African countries must expedite the development of their capital markets to help mobilize domestic savings for growing financing needs and to limit external borrowing in foreign currencies, which is vulnerable to exchange rate depreciation.

Put another way, the desire to reduce external financing in foreign currencies should be part of a broader strategy to deepen domestic capital markets using innovative financing instruments. Given the relatively small size of West African economies, this goal can easily be achieved through a regionally integrated capital market. Thus the West Africa Capital Integration Council should accelerate its integration of West African capital markets. These markets should take advantage of the African Development Bank's African Financial Market Initiative and African Domestic Bond Fund, designed to support local currency debt markets. To deepen their financial markets, West African countries should promote electronic trading and enhance infrastructure for trading and settlement.

3.3.4 Taking advantage of diaspora bonds

Remittances are an important source of external financing for many West African countries (see chapter 2). By developing diaspora bonds, the region could use remittances as an alternative to borrowing from official creditors and international capital markets. These sovereign bonds are issued by origin countries to their diasporas, enabling the use of diaspora savings to finance economic development.

With the current low interest rates in advanced countries that are also major sources of remittances, remittance-dependent countries could issue diaspora bond to generate stable, abundant sources of external financing. Encouraging developments in this area are the recent diaspora bond issuances by Nigeria (2017) and Senegal (2019), and the envisaged issuance by Ghana in the near future. Depending on the quality of their business environments, diaspora bonds could be an attractive financing vehicle for West African countries.

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