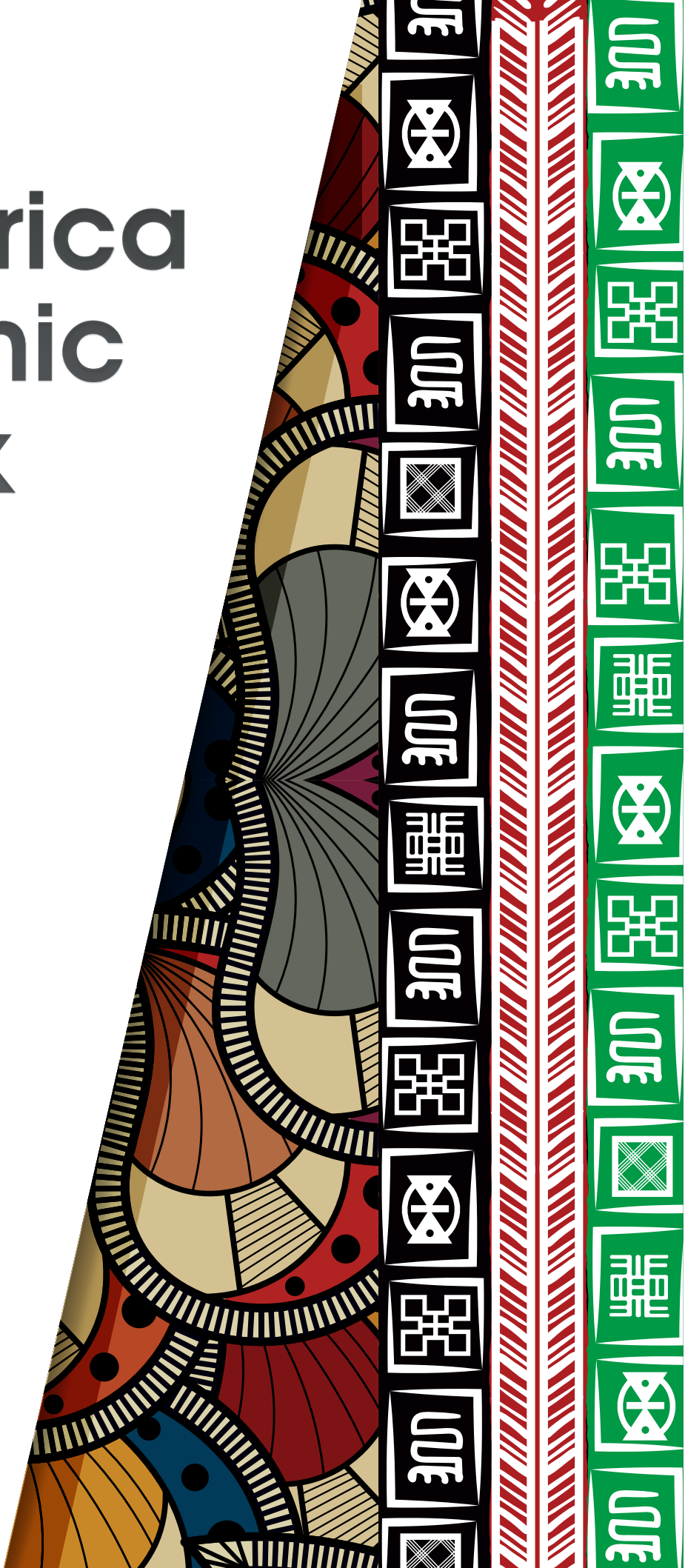


West Africa Economic Outlook 2020

Coping with
the COVID-19
Pandemic



AFRICAN DEVELOPMENT BANK GROUP



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LIST OF ACRONYMS

AfCFTA	African Continental Free Trade Area
ASME	American Society of Mechanical Engineers
BCEAO	West African regional central bank
CBR	Central Bank Rate
CFA franc	West African franc currency
CPI	Consumer Price Indices
ECOWAS	Economic Community of West African States
ETLS	ECOWAS Trade Liberalization Scheme
ECI	Economic Complexity Index
FDI	Foreign Direct Investment
FOW	Future of Work
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
HCI	Human Capital Index
HERQA	Higher Education and Relevance Quality Agency
IADC	International Association of Drilling Contractors
ICT	Information and Communications Technology
ILO	International Labour Organization
ILOSTAT	International Labour Organization Statistics Database
IMF	International Monetary Fund
MDGs	Millennium Development Goals
OECD	Organization for Economic Co-operation and Development
OSH	Occupational Safety and Health
PCI	Product Complexity Index
SADC	Southern African Development Community
SAPZ	Special Agro-Industrialization Processing Zones

SME	Small and medium sized enterprises
SDGs	Sustainable Development Goals
STEM	Science, Technology, Engineering and Mathematics
TVET	Technical and Vocational Education and Training
UIS	UNESCO Institute for Statistics
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children’s Fund
U.S	United States
USD	United States Dollar
WABICI	West African Business and Investment Climate Improvement
WAEMU	West African Economic and Monetary Union
WAMZ	West African Monetary Zone
WEF	World Economic Forum



EXECUTIVE SUMMARY

Prior to the outbreak of the COVID-19 pandemic, West Africa region was poised to expand by 4.0 percent in 2020. The magnitude of socioeconomic impact of the COVID-19 pandemic on countries in West Africa may not be known with certainty as the situation remains fluid. However, early assessment suggests that the prospect for initial growth projection is now evidently remote. Thus, under a conservative baseline scenario, the economy is now projected to contract by -2.0 percent in 2020, 6 percentage points below the projected growth rate prior to the pandemic. Real output could fall by as much as -4.3 percent in a worst-case scenario with prolonged duration and depth of the spread of the COVID-19 pandemic until the end of 2020. Growth in the region will be affected through a combination of channels, including decline in commodity prices, low financial flows, reduced tourism earnings and heightened volatility in financial markets. Deceleration in output growth will be reflected in negative growth in per capita income of 4.3 percent with the attendant social ramifications.

The sharp decline in commodity prices, especially oil and metals, will propagate fiscal and external account imbalances, stoking a build-up of public debt. Countries that depend on oil for foreign exchange and fiscal revenues such as Nigeria and Ghana, will face limited fiscal space. Net oil importing countries could benefit from lower oil prices, but with under-performance in revenues, amplified by the COVID-19 pandemic, the average fiscal balance could range from -6.3 percent of GDP in the baseline scenario, widening to as much as -7.2 percent of GDP under the worst-case scenario assuming a prolonged weakened economic setting and severe contraction in revenues.

Under such a fiscally constrained environment, countries in the region may be compelled to cut capital expenditure while relying on external sources and domestic borrowing to finance the deficits. Uncertainty in global capital markets may however raise financing costs, which could exacerbate debt vulnerabilities, especially in countries already at high risk of debt distress. The potential for those classified to be at moderate risk of debt distress to slip into high indebtedness is high.

The earlier projected low inflation prior to the outbreak of the coronavirus may be elusive as government and central banks move to cushion their economies from impact of the COVID-19 pandemic through expansionary monetary and fiscal policies. Constraints on productive capacity due to widespread lockdown and restrictions and rise in imported food inflation due to disruption in trade logistics and exchange rate depreciation in major economies will amplify inflationary effects of looser monetary and fiscal policies. Thus, under a baseline scenario, average inflation is projected to increase by about 2.2 percentage points to 10.7 percent in 2020 and could be elevated to about 11.4 percent, should the pandemic persist until the end of 2020.

The outbreak of the COVID-19 pandemic is likely to aggravate external imbalances across the region. Overall current account deficit for the West Africa region is forecast at 5.0 percent of GDP assuming impact of the pandemic tapers off by the third quarter of 2020 but could widen further to about 6.0 percent of GDP under a worst-case scenario should the pandemic persist until end of the year.

West Africa's outward trade orientation and product concentration limits opportunities for intra-regional trade, which stands at about 8.5 percent of total trade for the region. This exposes the region to external shocks, including the COVID-19 pandemic, which has dislocated global supply chains. With intra-regional trade significantly low, opportunities for market substitution to cushion the impact of the virus on West Africa are limited.

The outbreak of the COVID-19 pandemic came at a time when West African economies were consolidating gains from sustained implementation of prudent macroeconomic policies and growth was picking up in slower economies. Despite this, the unravelling effect of the coronavirus should be seen as an opportunity for the region to implement policies that will address the health dimension of the crisis as well as build resilience against future threats to growth and macroeconomic stability. Specifically, countries in the region could consider the following policy recommendations:

- Implementation of structural reforms to accelerate economic transformation and diversification, especially in the lagging economies of the region, whilst maintaining the growth momentum for fast growing ones.
- Establishing a credible debt consolidation strategy with focus on improving fiscal transparency across West Africa is essential. Importantly, fresh debt should be deployed in productive projects that can generate revenue streams for self-amortization to avoid inter-generational debt burden. Development partners should proactively engage with the authorities at national and regional level in designing appropriate financing packages that recognize the limited fiscal space obtainable in the region.
- Crucially, improving domestic revenue mobilization is essential in creating the much-needed fiscal space for infrastructure and other poverty reducing spending priorities without seeking recourse to external debt and inflationary financing by central banks. Measures to strengthen domestic revenues range from improvement of taxpayer identification and rationalization of corporate investment tax exemptions to integration of electronic systems for tax and customs administration that enhance compliance and enforcement of tax payments.
- Beyond economic policies, countries in the region should bolster their health care systems and increase funding to train and equip frontline health workers. Importantly, enhancing healthcare preparedness and building early surveillance and preventive mechanisms is crucial in saving lives. A coordinated regional approach may be more effective than fragmented country level interventions to avoid the spread of infections across borders.

Labor force participation rate for the working population has consistently declined since the beginning of the millennium from 64.2 percent in 2000 to 58.5 percent in 2019 and is expected to further decline to 58.2 percent in 2022. The decline is reflected in lower wage employment existing alongside high informal employment across the region.

Increasing demand for digital services in West Africa has the potential to transform the region's labor market and move people out of informal activities into more productive, sustainable wage employment. However, despite the increase in access to such technologies as internet services, West Africa remains digitally under connected. Only Cabo Verde, Côte d'Ivoire, Ghana, Nigeria and Senegal, have higher internet penetrations than the African average of 25.4 percent but much lower than the global average of 58 percent.

With the current low index on human capital development, ranging from 0.32 to 0.44, the region's next generation workforce could lose between 56 percent and 68 percent of its ability and quality, which could affect adaptation to technology. This has implications on the future of work, shaped by the fourth industrial revolution (4IR).

Although West African countries have made improvements in school enrolment achieved over the last two decades, retention rates remain low. The inability of pupils to stay in school and successfully complete their primary education remains a challenge for most countries in the region. The cumulative dropout rate to the last grade of primary and lower secondary education is above 25 percent in majority of countries. In some cases – Benin, Liberia and Sierra Leone– it exceeds 50 percent.

Dropping out of school limits the number of students transitioning to tertiary education with outcomes in science, technology, engineering and mathematics (STEM) especially more severe. Most countries in the region have less than 20 percent of tertiary graduates in STEM. Yet demand for these skills is increasing and will define the future of work. The skills mismatch in the region shows up in low human capital development, a constraint in adapting to new technologies and innovating to compete globally.

Policies to improve skills for the work of the future in West Africa need to, inter alia, encompass the following:

- Accelerating improvements in digital infrastructure and creating opportunities for skills development and entrepreneurship to enable creation of new jobs defined by the 4IR.
- Creating incentives for private sector investment in skills development and support education systems to adopt technology driven programs, placing emphasis on quality rather than quantity in order to prepare graduates for the job market. Learning should be a continuous process to create lifelong skills key to maintaining a productive work force that is abreast with the new and changing labor market.
- As automation and digitization shapes the structure of work with the potential to displace a section of the workforce, governments are required to formulate and implement labor market and human development policies for skills upgrading to insulate workers from disruptions resulting from constant technological change.
- Scaling up public expenditure in education, and importantly, ensuring that resources are efficiently allocated is critical to improving quality and outcomes. Partnering with global technology companies can also create avenues for research and development to boost skills development for the future. For instance, Google's Artificial Intelligence Research Lab in Accra, Ghana, provides valuable lessons for such partnerships.

PART 1

RECENT MACROECONOMIC DEVELOPMENTS AND OUTLOOK

1.1 GLOBAL MACROECONOMIC TRENDS AND DEVELOPMENTS

Average global growth declined from 3.6 percent in 2018 to 3.0 percent in 2019. In the advanced economies, growth fell from 2.3 percent in 2018 to 1.7 percent in 2019. In the wake of the coronavirus (COVID-19) pandemic, the International Monetary Fund (IMF) projects that world output will contract by -3 percent, sharply down from earlier growth forecast of 2.5 percent in January 2020 prior to the outbreak of the pandemic. The contraction in global output reflects broad-based fragility of the world economy induced by outbreak of the COVID-19 pandemic, with unimaginable cascading and disruptive effects to human life.

The initial lockdown in key production areas in China followed by widespread disruptions across the world as the epicenter shifted to Europe and the United States (U.S), has had a devastating impact on international supply chains and curtailed movement of people, goods and services. As a result, economic growth in advanced economies is projected at -6.1 percent with Italy and Spain, two countries in Europe most affected by the pandemic, contracting by the largest magnitude of -9.1 and -8.0 percent, respectively. The U.S economy, with rapidly increasing jobless claims, is projected to shrink by about -6 percent.

In emerging market and developing economies, output is projected to contract by -1.0 percent in 2020. This projection

reflects sharply deceleration from 3.7 percent growth posted in 2019. The projected smaller negative growth also remains uncertain and depends on pace of recovery in China and effectiveness of a raft of stimulus measures and policy adjustments adopted in advanced countries to shore up their economies against the adverse impact of the COVID-19 pandemic.

In Africa, GDP growth for 2019 was estimated at 3.2 percent. While some countries have posted growth of 7 percent and above (Côte d'Ivoire, Ethiopia, Rwanda), the performance of three of the continent's largest economies (Nigeria, South Africa and Angola) has been sluggish. These economies account for about 40 percent of continental output and a slowdown in either of them translates directly into lower average growth for Africa.

The sharp decline in price of oil is likely to exacerbate fiscal and external imbalances in countries that depend on it for foreign exchange and revenues. For instance, Nigeria's marginal gains in the aftermath of the 2016 recession may be reversed while continued fragility of the Angolan and South African economies will deepen further. The efficacy of fiscal and monetary policy measures instituted by Nigeria and other countries to tackle the effect of the COVID-19 pandemic will largely depend on the speed with which additional supportive structural policies are deployed to enhance private sector response to the stimuli.

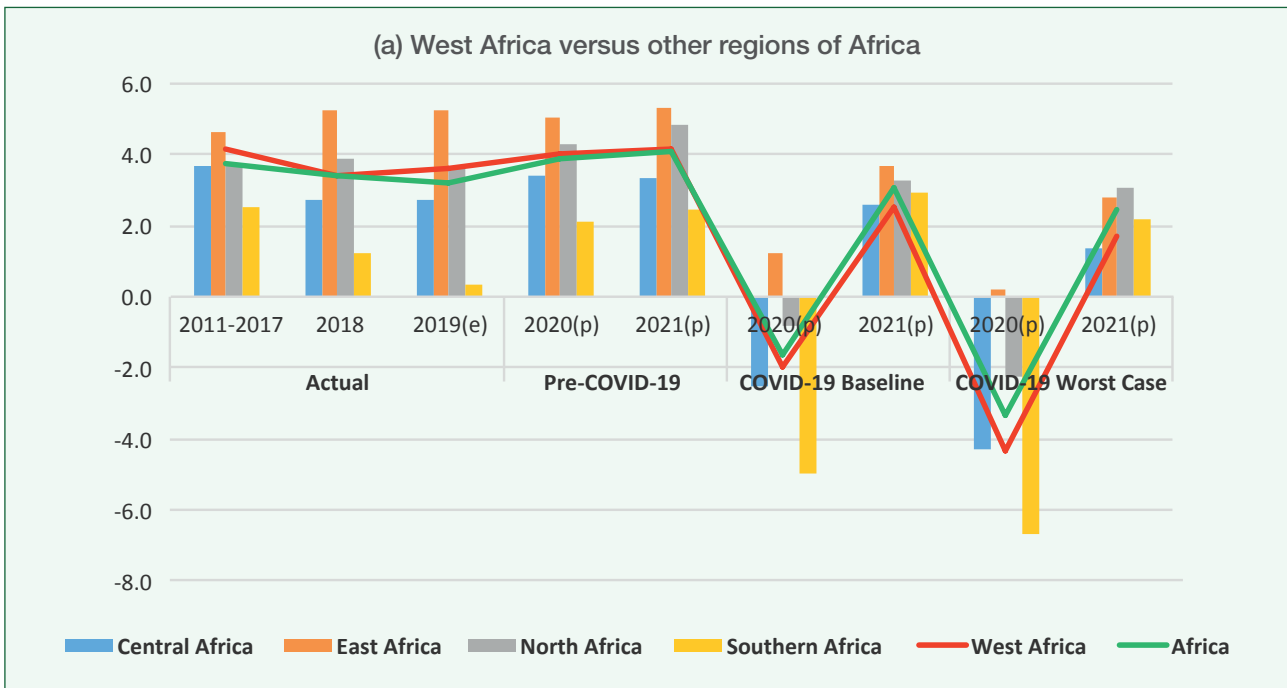
1.2 RECENT MACROECONOMIC DEVELOPMENTS IN WEST AFRICA

1.2.1 Growth performance and drivers

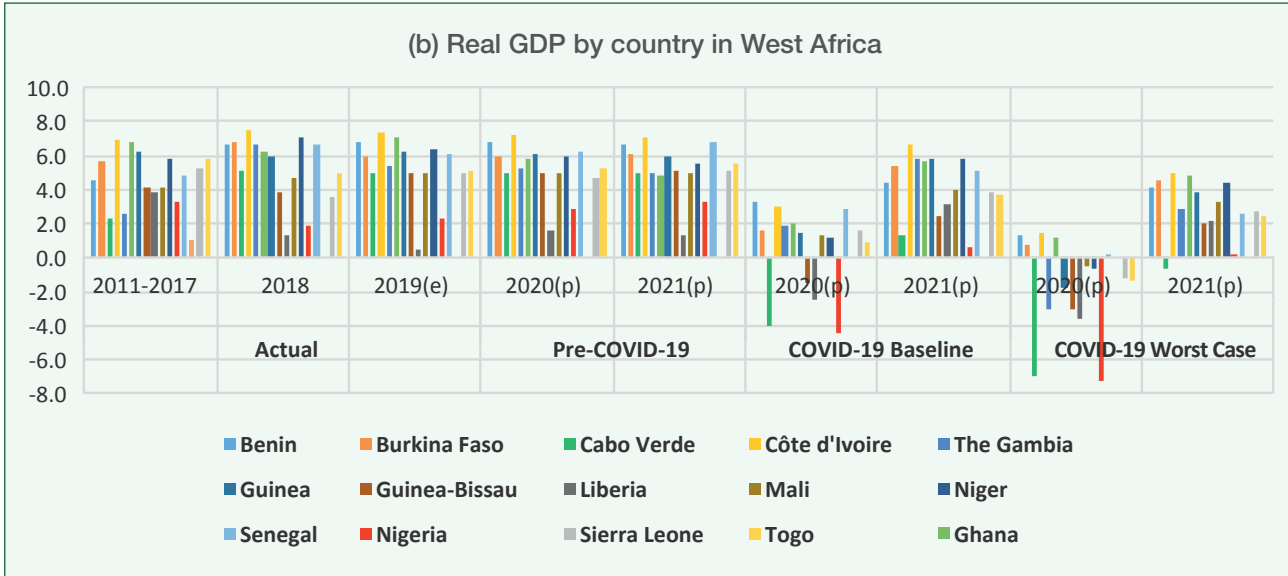
After the slowdown in 2016 on the weight of Nigeria’s economic recession, growth in West Africa picked up was far from uniform across the region. Average growth for the region was estimated at 3.6 percent in 2019, 0.2 percentage points higher than the preceding year. This growth mirrored global growth and performance in other regions of Africa (Figure 1). West Africa has consistently been the third fastest growing region in Africa, lagging behind East Africa and North Africa, although it has seen growth accelerate in more countries than in other regions, over the past two years. The lag stems largely from the slowdown in Nigeria, whose weight in regional growth overshadows the fastest growing economies. This dominance was evident during the 2016

recession in Nigeria, when average regional growth dipped to 0.8 percent from an average of 5.8 percent recorded during 2011-2015. The same pattern is likely to be replicated as the impact of the COVID-19 pandemic buffets the Nigerian economy, pushing it into a deeper recession, more than other countries in the region. Overall, the resilience of the region has been tested by the widespread impact of the COVID-19 pandemic, which has affected even the fastest growing economies through shrinkage in trade and investment flows, sharp decline in commodity prices, loss in tourism flows, and overwhelmed the health and social sectors. Thus, what seemed a purely health has morphed into a deep economic and social crisis of unimaginable proportions. Thus, in 2020, average regional growth is likely to shrink by between -2.0 percent under a conservative baseline scenario, assuming the COVID-19 pandemic dissipates within the third quarter of 2020 and -4.3 percent should the pandemic linger on for the rest of the year.

Figure 1: Real GDP growth, 2011-2021 (percent)



Source: Computed using data from AfDB Statistics Dept.

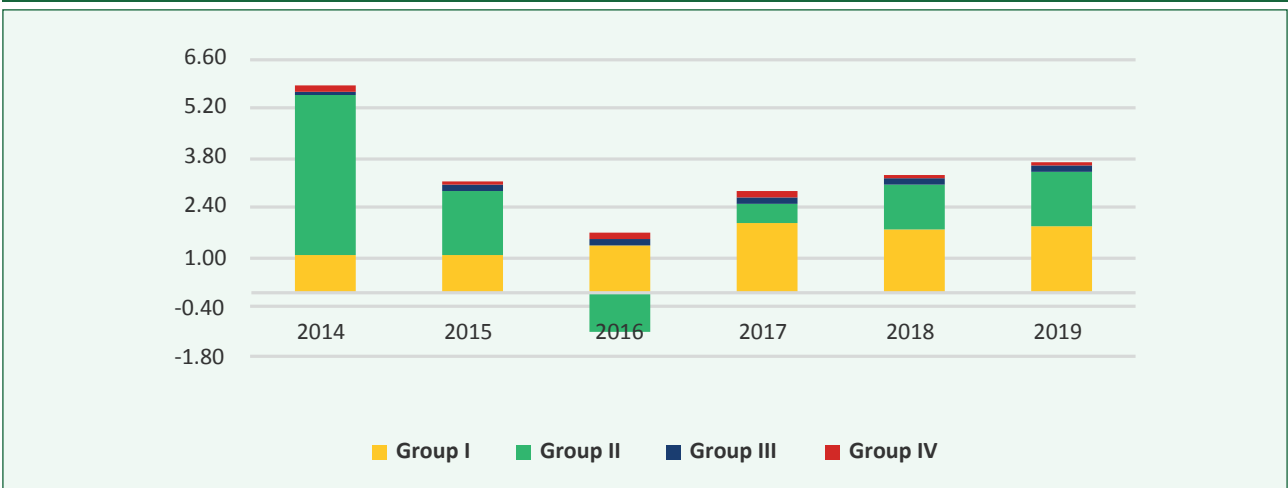


Source: Computed using data from AfDB Statistics Dept.

West African countries can generally be classified into four groups, depending on the pace of growth and how each will be affected by the COVID-19 pandemic. Group I countries comprising Benin, Burkina Faso, Côte d'Ivoire, Ghana, Guinea, Niger and Senegal consistently posted faster annual average growth rate of 5 percent or higher from 2017-2019. These countries account for about 26 percent of the region's GDP. In Group II, comprising Liberia and Nigeria, growth has been sluggish and is likely to remain

depressed, due to slower recovery from the recession that both countries suffered in 2016 and the impact of the COVID-19 pandemic which could exacerbate fragility of growth in these economies. As noted above, Nigeria's significant contribution to regional GDP particularly implies that the weakness in its economy directly translates into a decline in average growth for West Africa. This dominance can be observed in Group II economies' contribution to regional growth (Figure 2).

Figure 2: Contribution to regional output growth in West Africa (percent), 2014-2019



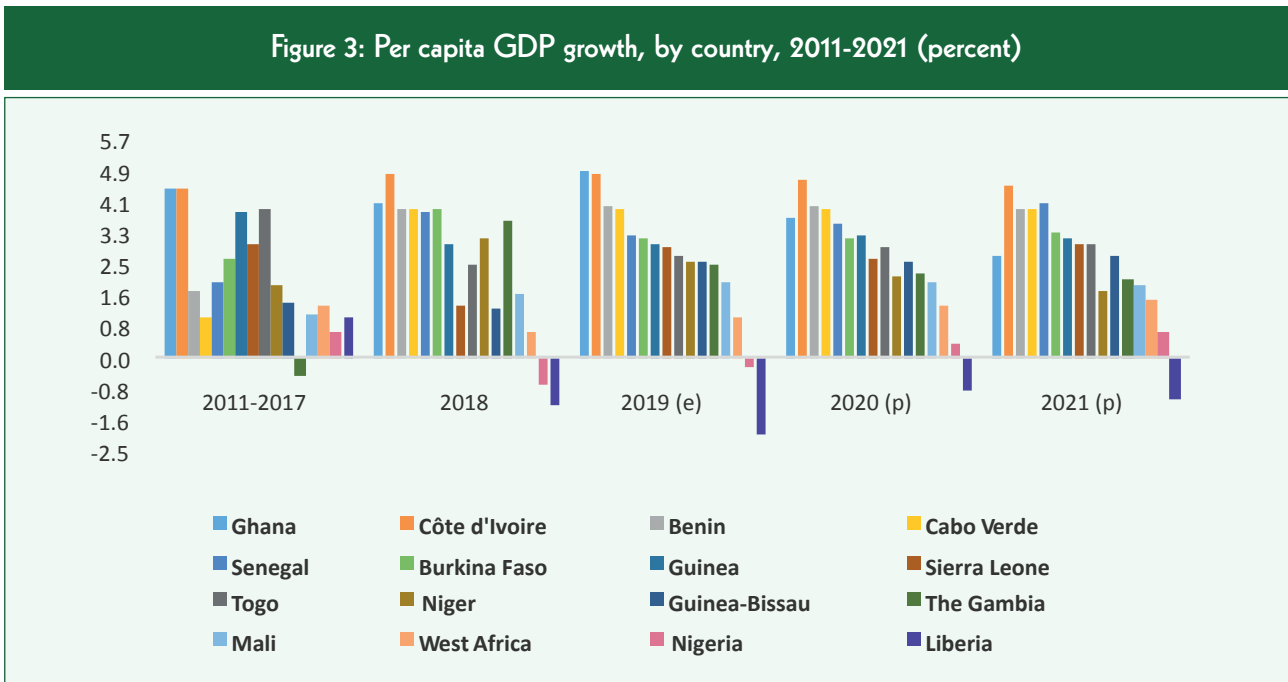
Source: Computed using data from AfDB Statistics Dept.

In between the two polar ends are groups of countries that have either improved their performance or experienced high volatility in real GDP growth and the COVID-19 pandemic is likely to aggravate this volatility. Group III, with growth improvement from less than 5 percent in 2017 to 5 percent or higher in 2019 comprises Cabo Verde, The Gambia and Togo. However, these small economies accounted for only 0.2 percentage points of the region’s overall GDP growth in 2019. The last, Group IV, comprising Guinea Bissau, Mali and Sierra Leone, is characterized by fluctuating growth rates. Countries in this group experienced a slowdown in GDP growth in 2018 before rising to 5 percent in 2019 and contributed less than 0.2 percentage points to the region’s growth. The political impasse in Guinea Bissau, the insurgency in northern Mali and political transition in Sierra Leone, with the attendant uncertainty, partly explain the observed output volatility in these countries. Growth could slowdown further with the outbreak of the coronavirus.

Growth in real GDP has not kept pace with population growth and will remain more depressed, weighed down by effects of the COVID-19 pandemic. This will lead to severe contraction in real GDP per capita, down for the earlier estimate (see Figure

3). Whereas maintaining higher output growth whilst keeping population growth under control is critical to inclusive growth, redistribution of the gains from higher growth is fundamental to achieving inclusive growth. The service sector is the main driver of growth on the supply side in West Africa, exceeding manufacturing and agriculture. The service sector continues to dominate in terms of contribution to average real GDP growth rate in West Africa. Except for a few countries, the service sector accounts for more than half of GDP.

The shares of agriculture and industry have either been declining or remained relatively stagnant. Structural transformation in West Africa, and Africa more generally, has been unconventional as evidenced by transition from agriculture to services. The missing link of improved manufacturing and industrialization more broadly, highlights unsustainability of this transformation model (Barrett, et al., 2017; Rodrik, 2016). Figure 4 (a) shows that in 2018, the service sector contributed 1.6 percentage points to growth, and in 2019, the rate expanded to 2.1 percentage points. At country level, Figure 4 (b) shows that the services sector contributed 3 percentage points or higher to real GDP growth in eleven of the 15 countries in West Africa.



Source: Statistics Department, AfDB.

Figure 4: Sectoral contribution to real GDP growth in West Africa (percent), 2015-2019



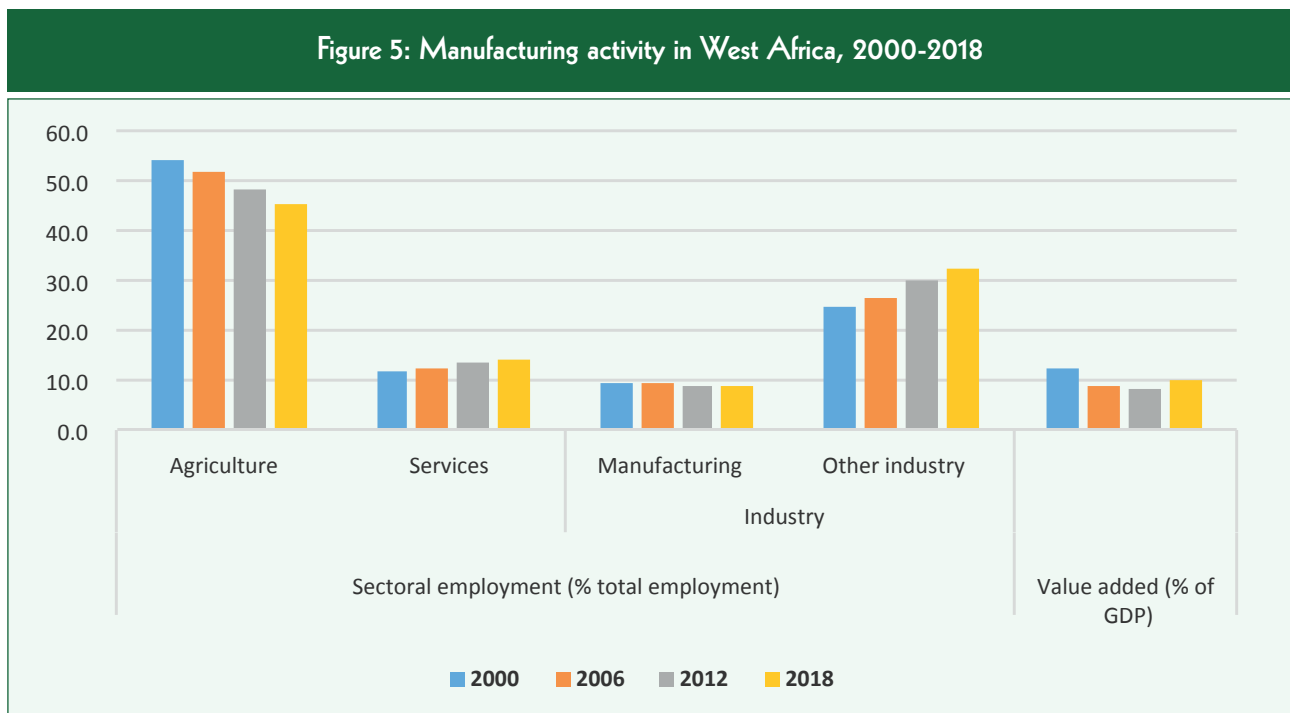
Source: Statistics Department, AfDB.

The largest contribution of the service sector was 4.5 percentage points in Ghana followed by Togo and Benin with 4.4 and 4.2 percentage points, respectively. Liberia recorded the lowest contribution of -0.5 percentage points, and in Nigeria, the region's major economy, services contribution to real GDP growth was 1.4 percentage points. The contribution of the services sector to growth exceeded that from industry and agriculture for majority of countries. The largest contribution from industry sector of 3 percentage points was recorded in Mali and in agriculture, it was 2.1 percentage points in Burkina Faso, one of the most agrarian economies in West Africa. Given dominance of the service sector, the impact of the COVID-19 pandemic – notably on tourism and retail and trade, weighed down by travel restrictions and/or lockdowns, will likely manifest itself in deep output contraction. For instance, in Cabo Verde, where tourism contributes more than 40 percent to GDP, the fall in tourist arrivals by 500,000 could affect both growth and revenues.

Industrialization, and especially manufacturing, should be the bedrock of the competitiveness of West African economies. However, the industrial sector is currently not sufficiently diversified to produce a wide variety of intermediate and

finished products or create sustainable jobs. Growth in West African countries remains mainly concentrated in retail trade and other low-productivity services. According to Haile (2018), growth in Benin, Burkina Faso and Côte d'Ivoire has not been propped up by sector productivity improvements and there is little labor movement to higher productivity manufacturing sector, while the low productivity service sector has expanded disproportionately. West Africa's structural transformation towards non-tradeable services as against tradeable manufacturing may have been fueled by the commodities boom, and may not be sustainable (Rodrick, 2016).

Figure 5 shows that the contribution of manufacturing in overall industry has been declining relative to other industries as well as in comparison to agriculture and services. Importantly, only two countries (Côte d'Ivoire and Nigeria) produce more than 80 percent of total regional manufacturing output. With the low contribution of manufacturing sector in key measures of economic diversification, achieving the regional vision of accelerated industrialization and competitiveness is likely to remain a challenge for West Africa.



Source: Statistics Department, AfDB.

Strong household consumption is a key driver of growth in West African countries. Household consumption remains the principal contributor to growth in many West African countries (Figure 6). Private consumption is buoyed by macroeconomic stability and growing size of the middle class. Household consumption was highest in smaller economies. In Guinea Bissau, household consumption contributed more than 6 percentage points to growth, the highest in the region in 2019. The Gambia, Mali and Burkina Faso followed with more than 5 percentage points. In The Gambia, continued political stability underpinned growing consumer sentiment.

Private consumption in Nigeria, the largest economy in the region, remains subdued since the recession of 2016, as unemployment soared, exceeding 23 percent overall and nearly 30 percent for the youth from the third quarter of 2018. Rising inflation also eroded purchasing power of the country's middle class. Nigeria has 18.6 million middle class population. Contrastingly, the re-emergence of the middle class in Côte d'Ivoire since the end of the war is fueling growth in consumer spending and estimates show that from 2019 and 2030, the spending power of the middle class in the country will increase by about 154 percent.

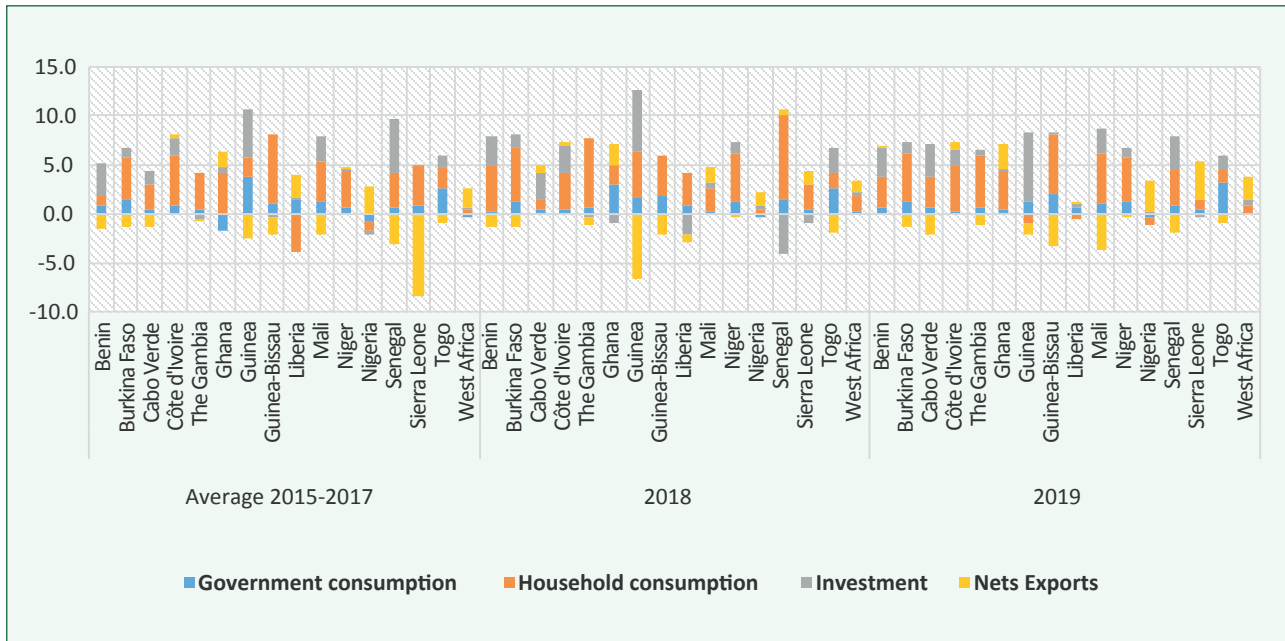
The impact of the COVID-19 pandemic on livelihoods could reduce the purchasing power of both low and middle-income households in West Africa. Countries in the region have imposed lockdowns and restrictions in varying

proportions, ranging from complete shutdown of economic hubs during the initial months of the pandemic outbreak, in case of Nigeria and Ghana, to more nominal restrictions of night movements largely affecting entertainment services, for instance in Côte d'Ivoire. This supply shock has adverse implications on productive capacity, supply chains and logistics and, hence trade and will translate into general fall in household income for both formal and informal sector workers. Women and youth, who are mostly engaged in the informal sector, and facing lockdowns, will be disproportionately impacted by the decline in income generating capacity during the COVID-19 pandemic crisis.

Only few countries in West Africa recorded positive contribution of net exports to growth. Côte d'Ivoire, Ghana, Nigeria and Sierra Leone lifted the region's growth through improvements in exports as majority of other countries in the region posted contraction in net exports. Côte d'Ivoire posted percentage point gains from net exports while the contribution of net exports to real GDP growth ranged from 2.5 percentage points in Ghana to 3.3 percentage points in Nigeria and nearly 4 percentage points in Sierra Leone. Nigeria benefited from the combination of rebound in oil exports and import contraction due to ban on certain items and strict enforcement of border closure against its neighbors, the conduit for most imported rice and other cereals. The impact of the coronavirus is likely to depress net exports contribution, especially for countries dependent on primary commodities, whose prices have fallen sharply.



Figure 6: Demand side contribution to real GDP growth in West Africa (percentage), 2015-2019



Source: Statistics Department, AfDB.

The contribution of investment demand to growth has been strongest in countries with large public infrastructure projects and foreign direct investment, especially in extractive sectors. Much of the investment occurred in the three countries of the region, Côte d'Ivoire, Ghana and Nigeria, which incidentally, also contributed the most to household consumption spending. In the wake of the coronavirus, both public and private investment are likely to decline in the short-to-medium term, with adverse impact on growth. Public infrastructure investment will be dampened by growing fiscal imbalances as countries grapple with decline in revenues.

The spread of COVID-19 pandemic is expected to affect capital expenditure from the budget and subdue foreign direct investment in the region. Nigeria has already cut its capital expenditure by 20 percent while in Senegal, the economic slowdown in China and European Union, which account for 70 percent of total FDI to the country, could affect government's efforts to fully operationalize the Special Economic Zone through the "Triangle of Prosperity" project. Other countries in the region could face similar impacts,

depending on the duration of the pandemic and the nature of policy response to mitigate the impact, especially on domestic investment demand.

1.2.2 Inflationary pressures have receded but could build as impact of COVID-19 deepens

Inflationary pressures in West Africa moderated in 2018 and 2019 but the impact of COVID-19 pandemic could reverse the gains. Average inflation in West Africa fell to 8.5 percent in 2019 from 9.4 percent the previous year, a decline for the second consecutive year (Figure 7a). Inflation is generally lower in the WAEMU region than in the non-WAEMU group of countries (Figures 7b and c). In the former group, it averaged less than 1 percent in 2019 compared with 10 percent in the non-WAEMU region.

The ease in inflationary pressures in 2018 and 2019 largely reflects downward movements in food prices and low pass through effects due to the relatively more stable exchange rates. In the WAEMU countries (Burkina Faso, Niger and

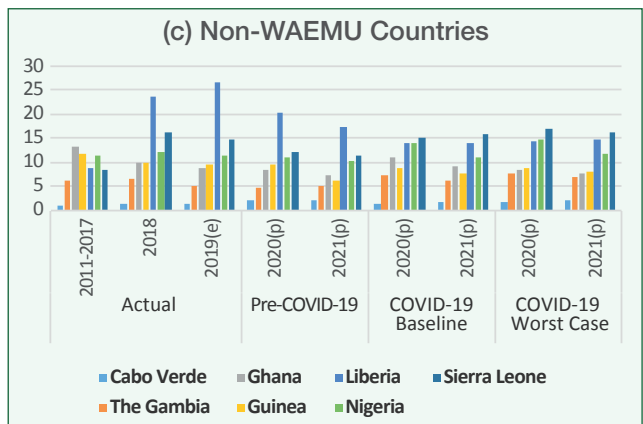
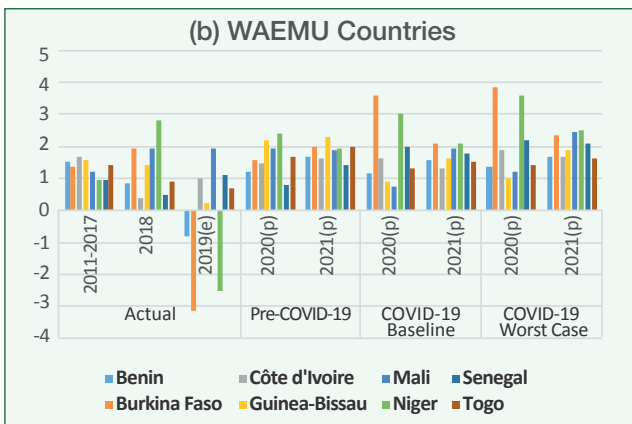
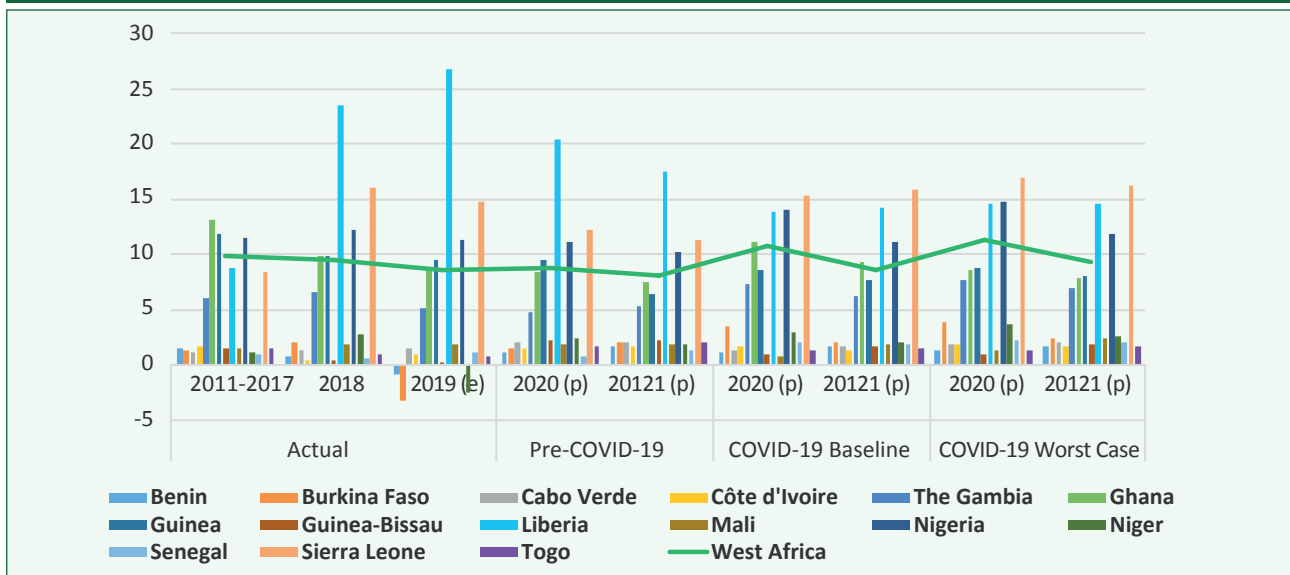
Benin) a combination of lower fiscal deficit and improved agriculture production helped keep inflation in check. Inflation in Burkina Faso fell to -3.2 percent in 2019 from 2.0 percent the previous year while Niger posted 1.5 percent inflation, down from 2.7 percent in 2018. In Benin, inflation was recorded at negative one percent, due to oversupply of agriculture products following the border closure imposed by Nigeria to curb rice smuggling from that country. Benin is a transit point for imported rice into Nigeria.

In the non-WAEMU region, the decline in inflation in countries such as The Gambia benefitted from lower prices of rice, the country’s major import commodity. Inflation in Liberia fell

marginally in 2019 to 21.7 percent from 23.5 percent, the previous year on the back of relatively lower global prices of oil and rice, two of the country’s major imports.

With the outbreak of the COVID-19 pandemic, the gains on inflation may not be sustained due to constraints on productive capacity and the rise in imported food prices as disruption in logistics is likely to hamper trade flows. Depreciations in exchange rates may also fuel inflationary pressures. Under a baseline scenario, average inflation is projected to increase to 10.7 percent from 8.5 percent in 2019 and the earlier pre-COVID-19 projected decline to 8.8 percent in 2020 and could hit double digit figure under the more pessimistic worst-case scenario.

Figure 7: Consumer price inflation in West Africa, 2011-2021 (percent)



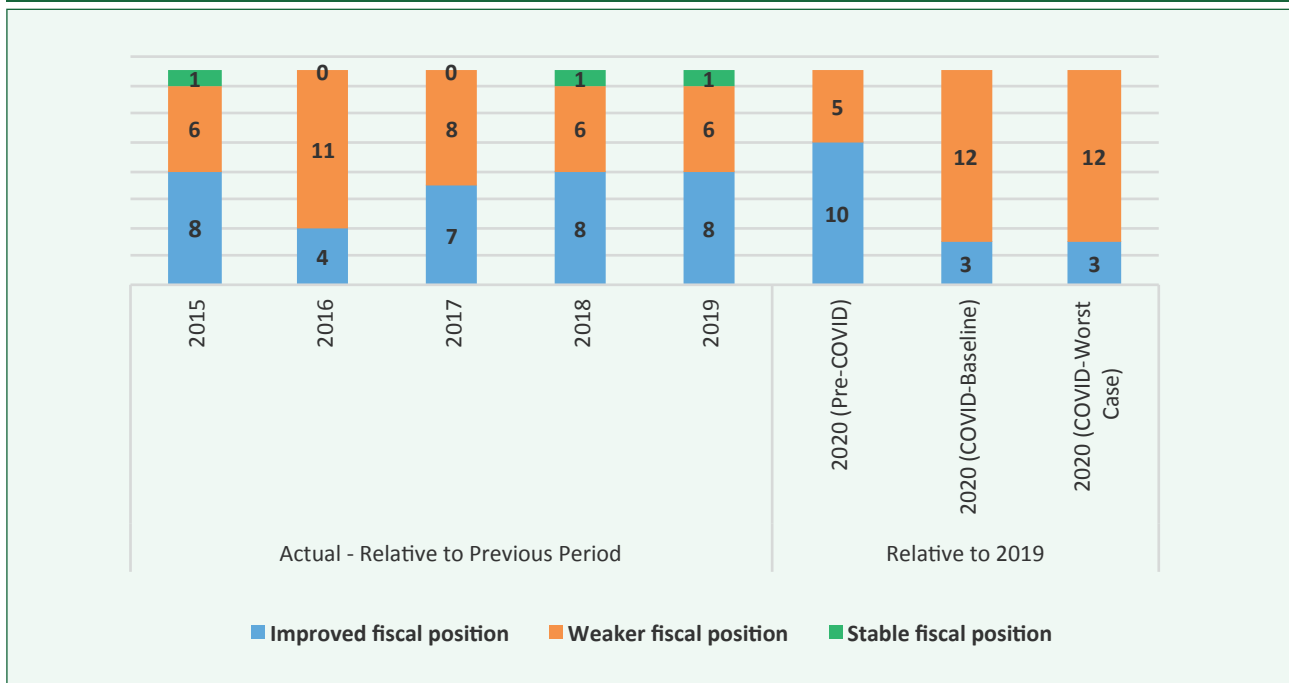
Source: Computed using data from Statistics Department, AfDB.

1.2.3 Fiscal positions have improved but lower revenues amidst coronavirus and spending pressures could reverse the gains

Fiscal consolidation remains a key challenge in many countries in West Africa. As Figure 8 shows, the number of countries with improved fiscal position and those with weaker or stable fiscal balances remained unchanged in 2019 relative to the previous year. On average however, the fiscal deficit (as a percentage of GDP) widened to 4.6 in 2019 from 4.2 percent in 2018 but there are country level differences in performance. Prior to the outbreak of the COVID-19 pandemic, the overall fiscal deficit for the region was projected to narrow to 4.1 percent of GDP in 2020. However, the impact of the pandemic on several countries has completely altered this prospect. All except three countries, are likely to experience severe deterioration in their fiscal position (see also Figure 9). Thus, the average fiscal deficit is projected to widen to 6.3 percent

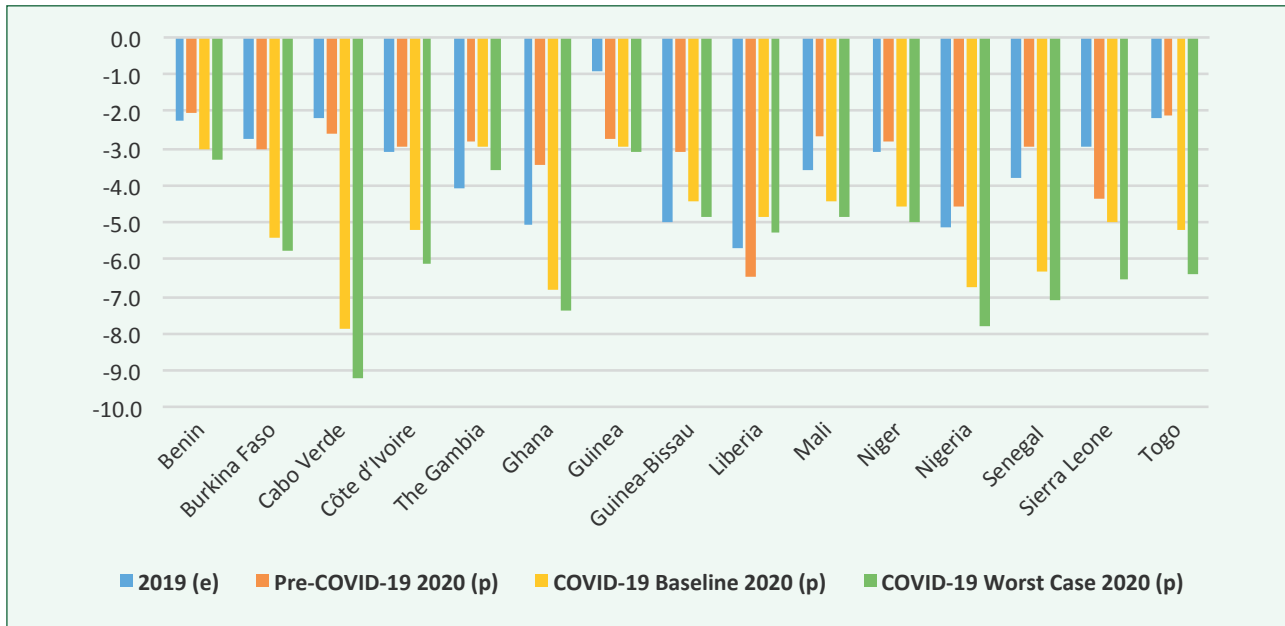
of GDP under the baseline scenario and could deteriorate to more than 7 percent assuming constrained economic growth and severe contraction in revenues as the pandemic persists to end 2020. Cabo Verde will be the most affected, largely due to contraction in tourism earnings. As a result, the number of countries with weaker fiscal positions will double from 6 in 2019 to 12 in 2020 both under a baseline or worst-case scenarios, with the latter exhibiting a larger fiscal contraction. With such constrained fiscal situation, countries' performance with respect to the ECOWAS convergence criteria of a fiscal deficit of 3 percent of GDP or lower will therefore remain elusive in majority of countries. Only Benin, The Gambia, Guinea and Togo, are likely to meet the criteria under the baseline scenario, with Togo the only country to have consistently met the target for three consecutive years since 2018 (see Figure 9). Assuming the pandemic persists for much longer period (worst-case scenario), no country in the region is likely to meet the convergence criteria.

Figure 8: Fiscal stance classification (number of countries)



Source: Computed using data from Statistics Department, AfDB.

Figure 9: Overall budget balance (percent of GDP)



Source: Statistics Department, AfDB.

Since many countries in West Africa finance their budgets through tax revenues, the deterioration in economic activity will severely affect revenue performance. Coupled with the challenges of reducing recurrent expenditure, particularly on wages and salaries in order to preserve workers' purchasing power during the period of the pandemic, the fiscal imbalance could be prolonged. In Ghana, tax revenues account for about 79 percent of the budget, but wages and other personnel compensations as well as interest cost and statutory contributions consume more than half of the budget. In Liberia, wages and salaries account for about 70 percent of the national budget.

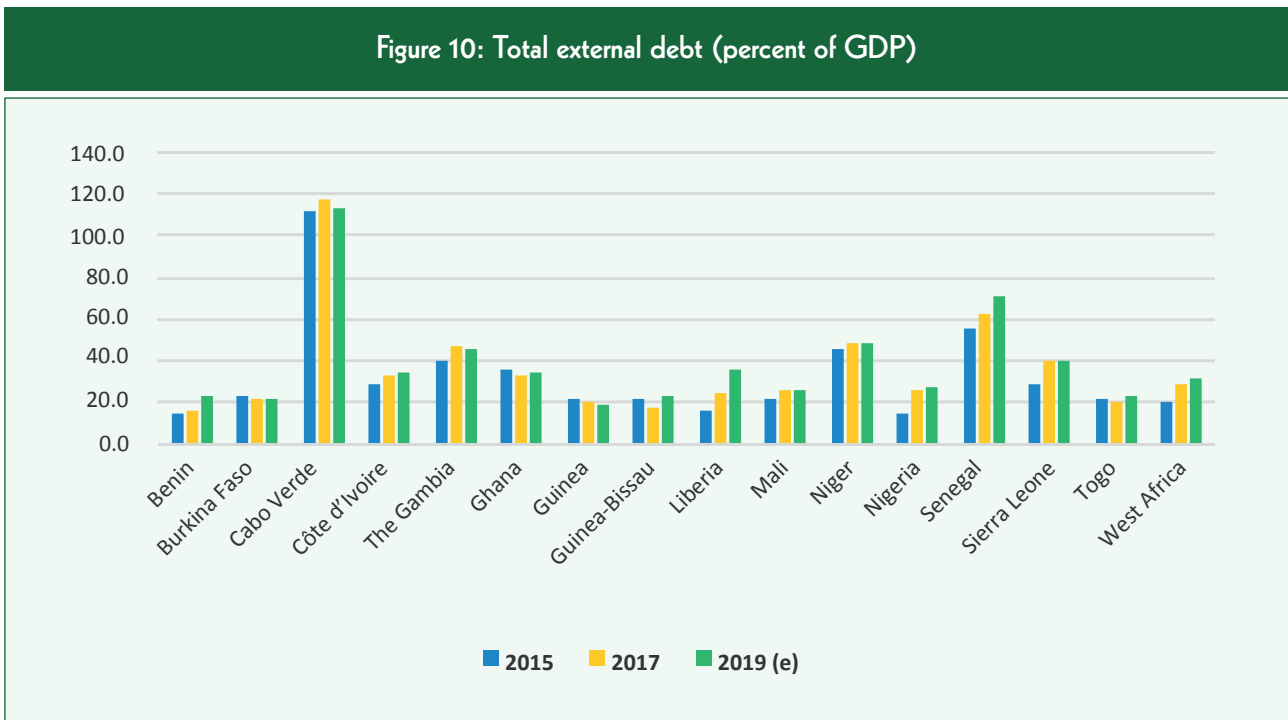
Yet domestic revenue mobilization in West Africa remains low and dominated by taxes, averaging less than 8 percent of GDP across the region. Only Cabo Verde has a revenue-to-GDP ratio above 20 percent. In Burkina Faso, Senegal and Togo, this figure is about 18 percent. Nigeria's non-oil revenues account for less than 4 percent of GDP, the lowest in West Africa. Weak compliance and enforcement are blamed for low yield of non-oil revenues in Nigeria. Under

a COVID-19 stressed economic and health environment, countries in the region may be compelled to cut capital expenditure even further while recurrent spending assumes priority. For instance, facing mounting revenue shortfalls, Nigeria announced a reduction in capital and non-essential expenditure by about 20 percent.

With revenues sharply depressed amidst rising spending pressures, all countries in West Africa will increasingly rely on external sources (and domestic borrowing for some) to finance their fiscal deficits but the uncertainty in global capital markets may raise financing costs. In Cabo Verde, government plans to cover the fiscal deficit through a combination of concessional loans which currently account for about 75 percent of the public debt. The country also plans to issue bonds to commercial banks and other private creditors. About 83 percent of Ghana's deficit was financed by proceeds from Eurobonds in 2019, while Senegal's fiscal deficit of 3.7 percent was fully financed by external loans. In contrast, Nigeria suspended the USD22 billion external borrowing plan due to deteriorated macroeconomic situation

and country's credit rating downgrade into non-investment grade, which could raise financing costs in international capital markets. Instead, the revenue shortfall will be covered through increased threshold for domestic borrowing as well as access to crisis financing facilities by multilateral development financial institutions. The IMF approved Nigeria's request for USD3.4 billion in emergency financial assistance from the Rapid Financing Instrument to help the country address the severe economic shock of the COVID-19 pandemic and its

attendant adverse impact on oil prices, and hence revenues. Nigeria also requested USD1 billion from the Crisis Response Facility of the African Development Bank. In addition, ten¹ of the 15 countries in West Africa are expected to benefit from the IMF's COVID-19 grant-based debt service relief to enable them channel their otherwise financial obligations to the IMF towards essential medical and health expenditures. This moratorium could reduce the short-term debt vulnerability of the beneficiary countries.



Source: Statistics Department, AfDB.

Key sources of domestic revenues – commodity exports and tourism will be subdued as the impact of the coronavirus takes its toll. Revenues in Nigeria could fall as much as 45 percent due to the slump in oil exports, while Ghana could lose as much as half of its USD4.4 billion projected oil export

revenues. Cabo Verde, which generates 50 percent of its revenues from tourism, is projected to record a decline in tourism arrivals as the epicenter of the COVID-19 pandemic hits Europe and United Kingdom, the key source markets for the country's tourism sector. The Gambia will equally be

¹ Benin, Burkina Faso, The Gambia, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Sierra Leone, and Togo.

affected by fall in tourism revenues, further aggravating its fiscal situation. The fall in revenues will impair fiscal space available for other expenditures, including spending on social services and fighting insurgency across the Sahel belt covering 12 of the 15 countries in West Africa.² As high as 86 percent of pensioners in Cabo Verde could be impacted by lower spending on social services but only 2.7 percent of the population will be affected in Burkina Faso, which is however affected by rising insecurity, and could see a spike in military expenditure.

1.2.4 Public debt vulnerabilities could heighten in West Africa due to effect of COVID-19 pandemic

The average external debt to GDP ratio in West Africa has increased steadily over the past decade. Total external debt rose from 20 percent of GDP in 2015 to 28.8 percent in 2017 and further to 31.1 percent in 2019 (Figure 10). However, the regional average masks significant country differences in debt profile. Total external debt was highest in Cabo Verde at 113.8 percent of GDP, but Senegal recorded the single largest increase in the proportion of Total external debt, by more than 15 percentage points from 55.8 percent in 2015 to an estimated 71.7 percent in 2019, fueled by high public financing needs, especially for infrastructure development. Senegal spends about a third of its revenues on servicing public debt. Between 2015 and 2019, the proportion of Liberia's public debt more than doubled from 16.4 percent to 32.4 percent of GDP. Overall, Cabo Verde has the highest share of debt to GDP, estimated at 104.4 percent in 2019. Although this was lower than the 116.4 percent in 2017, it highlights the country's vulnerability to economic

shocks, including the expected decline in tourism revenues triggered by the outbreak of the COVID-19 pandemic. Apart from Cabo Verde, only Ghana and Burkina Faso recorded declines in their debt to GDP ratios.

Public debt for several countries is from concessional sources (Niger, Cabo Verde, Burkina Faso). However, a few countries have also issued Eurobonds to meet their financing needs. With economic conditions markedly weakened in the wake of the COVID-19 pandemic, the cost of issuing debt for stressed economies may be significantly higher, particularly in countries already experiencing slower growth. In Nigeria, one of only two slowest growing economies and largest portfolio of Eurobonds, the yield on its 10-year note maturing in January 2021 was trading at 12.787 percent as at end-March 2020 from 7.00 percent at issue and 3.172 at end of December 2019. The downgrade of its credit rating by *Fitch and Standard and Poors*, could further push yields higher.

The rise in public debt has already pushed countries to the brink of debt distress. According to the November 2015 debt assessment published by the IMF, four countries were at low risk of debt distress. By August 2019, the number of countries at moderate and high risk of debt distress had increased. The Gambia, which in 2015 was classified as being at moderate risk, had descended into a situation of debt distress. Table 1 shows the debt status of all countries over the two periods. The debt moratorium granted to the ten countries in West Africa by the IMF is likely to ease the burden of their debt repayment during the period of the COVID-19 pandemic.

²This includes part of Benin, Burkina Faso, Côte d'Ivoire, The Gambia, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal and Togo.

Table 1: Risk of Debt Distress for West African Countries

		August 2019			
		Low risk	Moderate risk	High risk	Debt distress
	Low risk		Benin, Liberia, Nigeria, Senegal*		
November 2015	Moderate risk		Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Niger, Togo	Cabo Verde, Sierra Leone	The Gambia
	High risk			Ghana	
	Debt distress				

Source: IMF Sustainability Analysis Database.

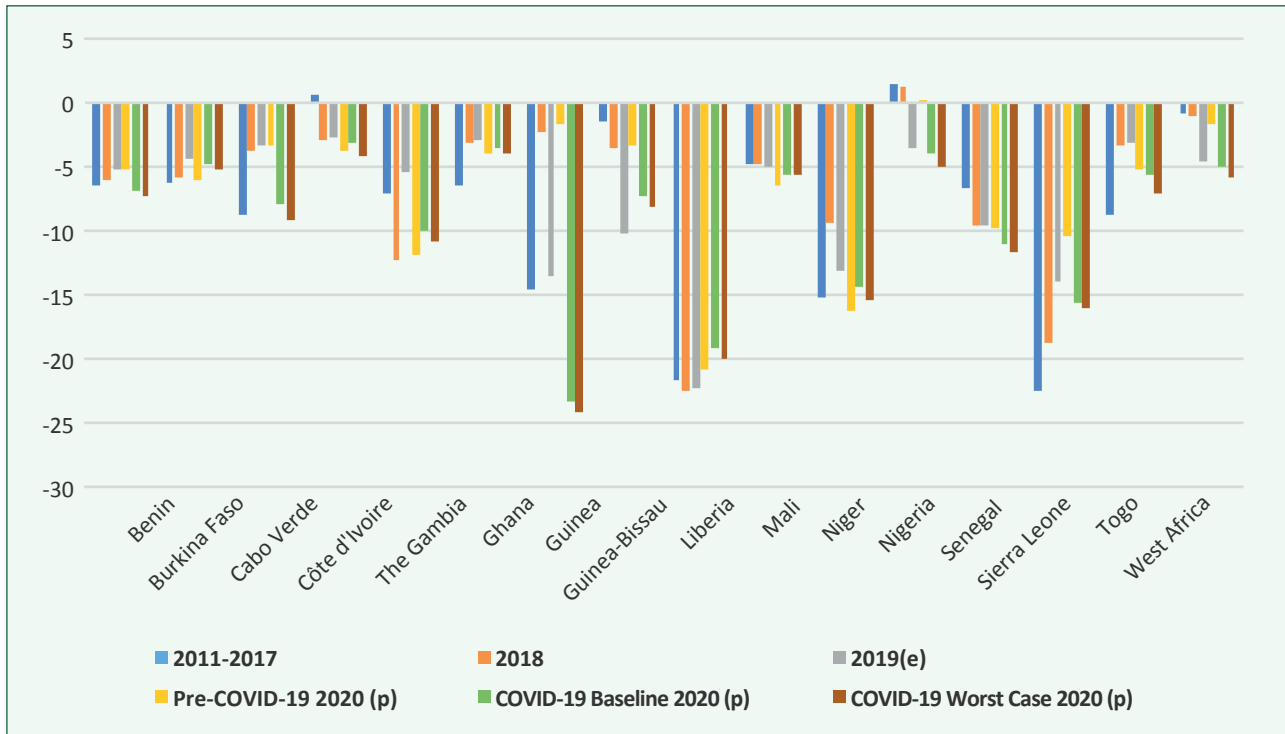
Notes: *December 2019 DSA; updated in April 2020 changed the level of debt distress from low to moderate.

1.2.5 Current account deficits to remain pressured under COVID-19 outbreak, weakening countries' resilience to external shocks

West Africa has experienced persistent current account imbalances for more than a decade. The current account deficit rose sharply from an average of -0.7 percent of GDP during 2011-2017 to about -4.4 percent in 2019. The current account has been in deficit in the region's smaller economies, especially those experiencing marked external imbalances. For instance, The Gambia, Guinea, Liberia, Niger and Sierra Leone, recorded double digit deficits since 2011, averaging -18.5 percent of GDP among them (see Figure 11). External accounts are projected to weaken across the region due to the COVID-19 pandemic associated risk aversion, which could lead to a reversal in foreign capital flows.

The deficit is projected to widen to an average of 5 percent of GDP in 2020 under a baseline scenario, with potential to overshoot to 5.9 percent, should the impact of the pandemic persist for the rest of 2020. The surplus will be eroded on shrinking oil exports and possible reversal in capital flows. Liberia and Sierra Leone have not fully recovered from the devastating effect of the Ebola crisis and the outbreak of the COVID-19 pandemic further aggravates the external imbalance. In The Gambia, growth in tourism spending was zero in 2018 and 2019 and under the baseline scenario the current account deficit will almost double to -10 percent of GDP due to contraction in tourism activity induced by the coronavirus. In Niger, the widening deficit is linked to diminished export earnings mainly from uranium.

Figure 11: Current account balance (percent of GDP)



Source: Statistics Department, AfDB.

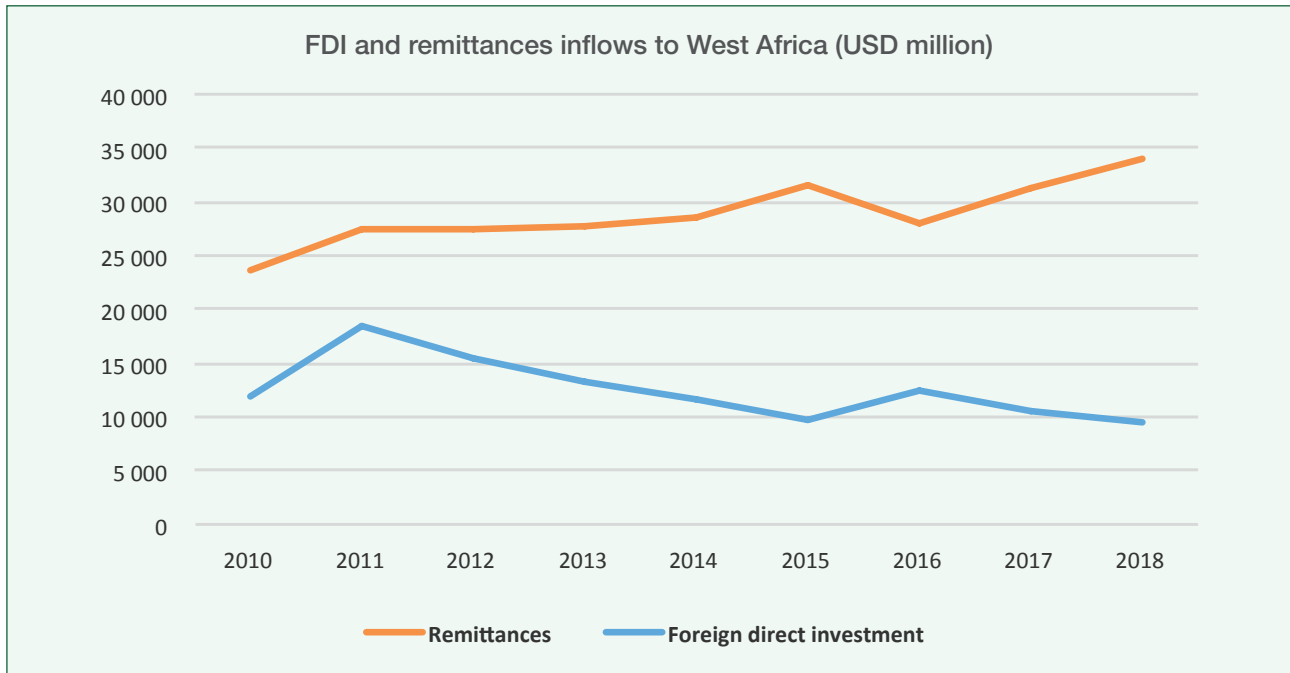
1.2.6 Private capital flows could reverse as global uncertainty heightens amidst COVID-19 impact

The pattern of private external capital flows to West Africa has been mixed, reflecting differences in local conditions. After a slump in 2016, remittances have recovered by nearly 9 percent year-on-year, reaching USD34 billion in 2018 from USD31.2 billion in 2017 (Figure 12). In absolute terms, Nigeria received USD24.3 billion in diaspora remittances in 2018, becoming the largest recipient in Africa and sixth among lower middle-income countries (Ratha 2019). Nigeria also remains the regional leader with over 70 percent of total remittance inflows to West Africa. However, as key source markets – U.S and Europe, face high prospects of economic recessions due to the COVID-19 pandemic, Nigeria could experience a decline in remittances. Ghana and Senegal follow at a distance with 10.4 percent and 7 percent share of

remittances to the region, respectively. Within West Africa, disruptions in economic activities due to the COVID-19 pandemic is likely to affect flows of remittances across the region. For instance, economic slowdown in Côte d'Ivoire, a large source market for remittances across the French speaking West Africa, could impact remittances to such countries as Burkina Faso, Mali, Senegal, and even Nigeria.

Foreign direct investment (FDI) has been on a downward trend, declining by as much as 10.4 percent between 2017 and 2018. This trend could continue and even deepen due to the impact of the pandemic. Nigeria and Ghana are the top destinations for FDI in West Africa although their share has declined in recent years and might shrink further. In 2019, both countries accounted for 52.5 percent (Ghana -31.5 percent and Nigeria-21percent) of total FDI inflows. Nigeria has surrendered its top position to Ghana.

Figure 12: Capital Flows to West Africa



Source: Statistics Department, AfDB.

The focus of FDI is increasingly changing from the hydrocarbon sector towards investment in critical infrastructure and non-oil energy projects. To this end, some flagship projects have emerged in the region. In Senegal for instance, there was commencement of a USD340 million Lekela power wind farm in 2018 (Fitch Solutions, 2019) while in Benin, Belgium's Antwerp Port Authority has invested in the upgrade of the Cotonou Port. Similarly, Aluminium Corporation of China (Chinalco) and Rio Tinto are sponsoring the construction of a new iron ore export terminal in Guinea while that country's

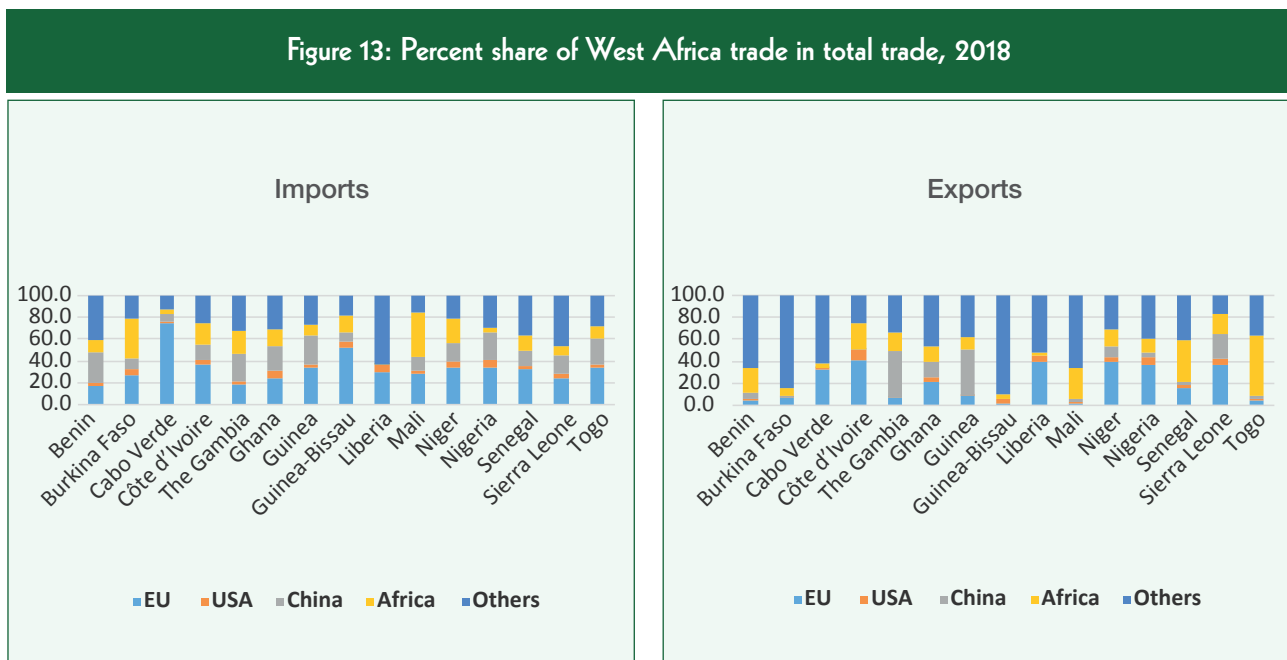
flagship USD1.4 billion bauxite project by Guinea Alumina Corporation will catapult it into the global bauxite market. China Harbour Engineering Company (CHEC) is involved in the financing and building of eight West African ports (Fitch Solutions, 2019). The lockdown in China due to outbreak of the COVID-19 pandemic, which has rapidly spread to Europe and North America, presents challenges for countries in the region to sustain capital flows from these major source markets. Foreign direct investment is therefore likely to decline while already commissioned projects might be delayed.

1.2.7 Outward looking West African countries likely to record negative trade balances as coronavirus hits key export markets

West African trade is increasingly extra-regional rather than internally within ECOWAS. China, Europe Union and the U.S account for about 43 percent of West Africa exports and 57.9 percent of the region’s imports (see Figure 13). However, as Table 2 shows, intra-regional trade in ECOWAS

averaged about 11 percent of total ECOWAS trade and it has continued to decline since 2016. Low intra-regional trade reflects production and export concentration in primary commodities whose market is mainly with third countries. Exported products from the region include woven cotton and oily seeds (Mali), calcium phosphate, crude oil (Nigeria and Ghana) and cocoa beans (Côte d’Ivoire and Ghana). Concentration of exports into few commodities exposes countries in the region to symmetric terms of trade shocks.

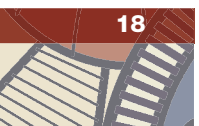
	2011	2012	2013	2014	2015	2016	2017	Average
Intra- ECOWAS Trade (USD billions)	24.4	23.0	26.1	21.7	18.1	21.7	17.6	21.8
Intra ECOWAS Trade (percent of total trade)	9.4	10.1	12.7	9.8	12.1	11.5	8.4	10.6
Intra ECOWAS exports (percent of total exports)	10.0	8.0	11.8	9.8	13.6	11.9	8.1	10.5
Intra ECOWAS imports (percent of total imports)	8.8	12.0	13.7	9.	10.7	11.1	8.8	10.6



Source: Statistics Department, AfDB.

With such outward trade orientation and product concentration, the dislocation in global supply chains created by the COVID-19 lockdown could severely impact export revenues for most West African countries. For instance, due to COVID-19 outbreak, expected total proceeds from oil exports in Ghana are estimated to decrease to USD2.2 billion from USD 4.4 billion originally projected. Nigeria's oil exports could fall by as much as 50 percent in 2020. In Côte d'Ivoire, a projected decline in cocoa production coupled with lower global demand in 2020 may lead to slowdown in West Africa's second largest economy. With intra-regional trade significantly low due to product concentration and weak regional logistical infrastructure,

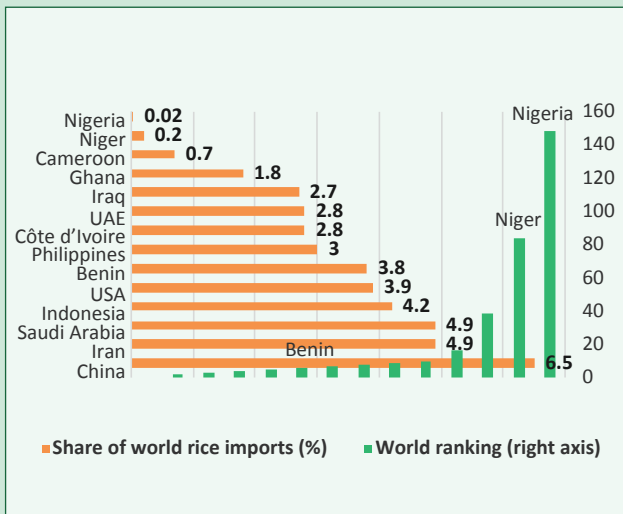
opportunities for market substitution are limited. This is further aggravated by unilateral actions to restrict imports by some countries (see Box 1 on Nigeria's border closure). This will severely weaken the region's trade balance unless there is an offsetting effect from imports. West African imports constitute mainly of machinery and transport equipment used in local manufacturing and extractive industries. Disruptions to global markets for such imports could slow down productive activity in the region. This could in turn have implications for local production and jobs and livelihoods. Although ECOWAS' trade policy was designed to promote commerce and trade within the region, trade remains limited among member states.



Box 1: Implication of Nigeria's land border closure on the economy

In August 2019, Nigeria imposed temporary border closures with its neighbors. This action was justified by the argument that it will curb smuggling and dumping of goods and insecurity along Nigeria's land borders. Large quantities of imported goods (especially rice) are re-exported from Benin into Nigeria. Figure 14 shows that Benin with a population of 11 million persons is ranked 6th while Niger is 84th in global rice imports. In contrast, Nigeria with its large population ranks in 148th position in global importation of rice. Benin's top ranking can be attributed to re-exporting of rice to Nigeria. Nearly all the country's imported rice from Thailand and Indonesia finds its way into the Nigerian market, including through informal means because of Nigeria's porous borders with its neighbors and disparities in national taxes and tariffs. For instance, import taxes against extra-ECOWAS third parties are generally lower in Benin than in Nigeria. In addition, Nigeria imposes an import tariff of 10 percent and a levy of 60 percent (effectively 70 percent) on imported rice compared to 7 percent and 5 percent for Benin and Cameroon, respectively.

Figure 14: Global rice imports (selected countries), 2018



Source: <http://www.worldstopexports.com/rice-imports-by-country/>

Data on the effects of the border closure are hard to find, not least because the policy has only been in effect for a few months. However, advocates point to several economic benefits. These include an increase in farmers' income given the surge in consumption of import substitutes and savings by government in terms of subsidy due to the reduction in exports of Nigeria's subsidized (by 20 percent) fuel to Benin. Critics argue there are explicit and implicit costs. For instance, Nigerian exporters through land borders to West African countries have been adversely affected as such products as sesame and cocoa have been trapped and experienced long clearance delays. This has resulted in major loss in their principal source of income. Many Nigerian and Beninese farmers have also suffered significant losses of their farm produce stuck at the border. Local manufacturers are adversely affected owing to their inability to import some necessary intermediate goods passing through land borders. Consumers of the major staple crop (rice) in Nigeria are also feeling the negative consequences of the closure due to the inflated prices of local rice. From August – December 2019, food inflation rose by 1.5 percentage points (ppts), more than double the increase in core inflation (0.65 ppts). Although the food basket comprises many commodities, it is expected that the increase in prices of import substitutes traded across land borders was partly responsible. Given the ripple effect of the border closure on the Nigerian economy and that of its West African neighbors, harmonization of taxes/tariffs may be necessary while curbing of smuggling activities should be pursued through established regional trade mechanisms. Importantly, there is a need to build capacity for customs officials and investment in digital technology across the land borders to enhance detection of illegal trade in prohibited products.

1.2.8 The ECOWAS regional single currency: Importance and challenges

Success of the ECOWAS single currency (ECO) will depend on sound macroeconomic fundamentals rather than political expedience. After more than three decades of discussions, major decisions were recently taken by the ECOWAS to launch a single currency in 2020. These decisions include the following: the single currency will be called the ECO and it will follow a flexible exchange rate regime, the Central Bank will be called the Central Bank of West Africa and it will follow a federal model and the monetary policy framework will be based on inflation targeting. Also, in preparation for the launch of the ECO, the countries of the WAEMU in December 2019 announced major reforms of the CFA Franc arrangement. These reforms include the change of the name of the CFA Franc to ECO, the withdrawal of the representative of France from the management and decision-making bodies of the WAEMU, the closure of the CFA Franc operations account at the French treasury.

The WAEMU reforms aim to facilitate its integration into the ECOWAS monetary union (ECOWAS 2019). The 21 December 2019 ECOWAS Summit of Heads of State and Government reviewed the progress towards the establishment of the Monetary Union and urged the various committees to ensure the take-off of 'ECO' by 2020. Under the revised roadmap, implementation of the single currency is to follow a gradual approach (variable geometry principle), thus allowing countries that meet the convergence criteria to start using the currency as others catch up on their performance compliance. There is need for improved performance by all countries on the convergence criteria (see Figure 15) and strengthened implementation of the revised roadmap for the introduction of the single currency.

The importance of a single regional currency lies in its appeal in promoting regional trade and economic growth, and in uniting people of the region around a common goal. However, this appeal will depend on sound macroeconomic performance which provide buffers to absorb external shocks (Masson and Pattillo, 2001). Internal and external imbalances – lax fiscal policy and galloping inflation and low international reserves may be at variance with single currency, especially under a pegged regime. The low inflation performance in the CFA franc is owed in part to the currency's peg to the euro, which imposes greater policy discipline.

Under a flexible exchange rate system, the proposed regional monetary authority would have to establish monetary framework to anchor inflation expectations. One candidate would be inflation targeting (IT) framework, which provides some degree of discretion and flexibility in the conduct of monetary policy. A major criticism of the IT regime under a floating exchange rate system is that it might tie the hands of a regional central bank, and therefore end up delivering cost of discretion rather than benefits of flexibility (Mussa, et al., 2000).

Thus, optimality of the exchange rate arrangement to govern the ECO will depend on sound fiscal and monetary policies and strength of supportive institutional architecture. Importantly, participating countries will have to assess the balance of costs and benefits of the single currency and type of exchange rate arrangement that suits the unique regional economic diversity. The credibility of a regional central bank, free from political influence, is important in providing an unambiguous 'anchor' for objective monetary policy.

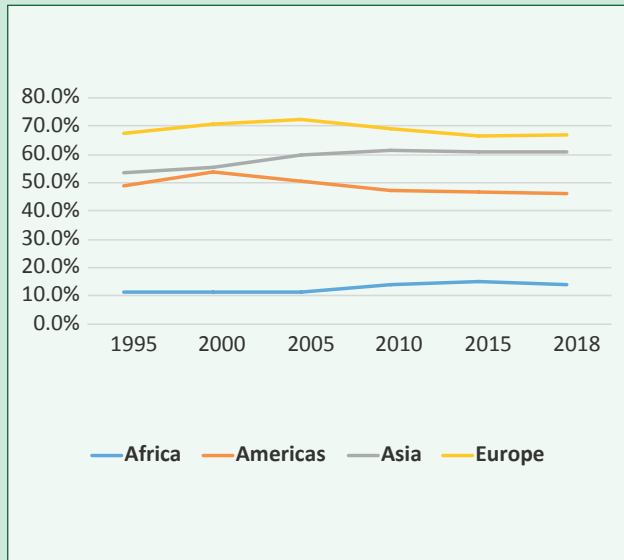
Figure 15: Primary Convergence Criteria



Source: Computed using data from ECOWAS Macroeconomic Convergence Reports.

Box 2: West Africa regional integration and the African Continental Free Trade Area

Figure 16: Intra-regional merchandise Trade, Africa and other regions (1995-2018)



Source: <http://www.worldstopexports.com/rice-imports-by-country/>

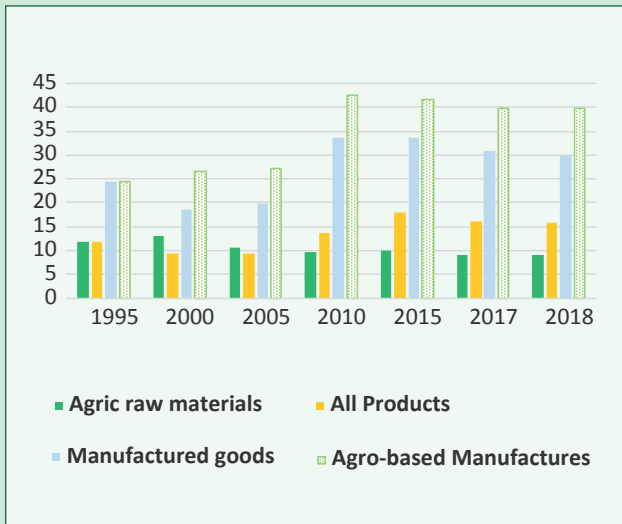
The African Continental Free Trade Area (AfCFTA) was launched in March 2018 by the African Union (AU). As at end-2019, all the 54 AU member countries had signed the consolidated text establishing the Agreement of the AfCFTA, while 29 had deposited instruments of ratification. The creation of the AfCFTA paves way for the effective removal of trade impediments within Africa and between Africa and the rest of the world. The AfCFTA establishes a single market for goods and services with unhindered flow of capital and people. Through industrial transformation and enhanced competitiveness, the agreement seeks to deepen integration among member states and overcome the challenges posed by existing overlapping economic communities and free trade agreements within the continent. According to estimates by the African Development Bank (AfDB, 2019), implementation of Phase I of the AfCFTA will yield an increase of USD2.8 billion in real income while intra-African trade could grow by 15 percent. Deeper integration (Phase II) has potential to increase real income by 13-fold. These benefits depend on elimination of import duties and reduction of non-tariff barriers.

Africa trades more with the rest of the world than with itself due to low level of integration (Figure 16). Intra-Africa trade as share of total trade is only 15.3 percent, about three times lower than intra-regional trade in the Americas (47 percent) and more than four times lower than that for Asia (61 percent) and Europe (67 percent). Large disparity between intra-Africa trade and the continent's trade with the world is more pronounced in raw agricultural commodities. More than 90 percent of Africa's traded raw agricultural products are exported outside the continent, leaving less than 10 percent for intra-Africa trade. In contrast, relative to other product categories, intra-Africa trade in manufactured products, especially agro-based manufactures, is appreciably higher (Figure 17). Since 2010, Africa-to-Africa exports of agro-based manufactured products ranged between 40 and 43 percent of total agro-based exports of the continent.

With the operationalization of the AfCFTA, trade integration is expected to leverage economies of scale, drive industrialization, diversify exports, create jobs, and spur welfare in Africa. Removal of tariffs, non-tariff barriers, regulatory differences and harmonization of divergent sanitary and phytosanitary standards could attract new investments from within and outside the continent. This will trigger increased production and productivity. Undoubtedly, realization of the objectives of the agreement would require increase in trade financing and complementary investment in infrastructure to bridge the deficit. Africa's infrastructure financing gap ranges from USD68 billion - USD108 billion per annum across all dimensions of infrastructure (AfDB, 2018).

Africa's participation in global value chains can be enhanced through increased manufacturing and processing. At least one-third of the Africa's exports in manufactured goods remain within the continent (Figure 17). However, limited manufacturing and processing capacity has suppressed the contribution of this sector. The relatively large industrial share in GDP is explained by economic activities in the extractive sectors. Manufacturing shares remain below 15 percent with significant variation across regions and countries. In West Africa, the share of manufacturing in the region's GDP is below the African average and has remained between 9 and 12 percent of GDP over the last decade. Consequently, the continent's participation in GVCs is concentrated in the low-rewarding extractive activities.

Figure 17: Intra-Africa Exports as percentage of total exports of the product (1995-2018)



Source: <http://www.worldstopexports.com/rice-imports-by-country/>

In Africa, manufacturing share of GDP and geographical proximity to relatively more endowed economies are strong determinants of the level of trade integration. This implies that the AfCFTA could bring more gains to African economies that are able to scale up manufacturing activities and harness opportunities offered by a larger continental market. The ECOWAS region ranks 7th among eight economic communities in the Trade dimension of the 2016 Regional Integration Index of the African Development Bank. The extent of gains from implementation of the AfCFTA will depend on a country or region's initial level of integration. While the benefit of the AfCFTA is expected to accrue to all regions of Africa, those with low initial levels of integration would potentially gain more as they become integrated with the rest of the continent and trade more amongst each other. Similarly, the benefits of the AfCFTA are expected to be larger for countries that are initially less integrated due to lack of access or limited capacity to participate in global value chain.

The AfCFTA could have an immediate impact on trade in agricultural goods as West Africa is both a major importer of processed agricultural goods and producer of raw agricultural commodities. In 2018, trade in food items between West Africa and the rest of the world was worth more than USD30 billion. Over 60 percent of the region's food imports originated from outside the African continent. In the same year, receipts from food export to the rest of the world were worth nearly USD10 billion. Removal of tariff and non-tariff barriers could stimulate investment in production, distribution, and processing of agricultural products to meet domestic needs of the region as well as increase exports to generate foreign exchange outside primary commodities. When realized, these advances could accelerate progress towards the attainment of several United Nations Sustainable Development Goals, including those related to eradication of poverty and hunger, and improvement in health, education and gender equality.

Concentration of trade in few extractive commodities have been a major source of macroeconomic instability in West Africa. Over 90 percent of the region's exports constitute receipts from oil, cocoa and gold. In the past decades, spells of price booms and busts have triggered adverse economic conditions with implications for prolonged macroeconomic instability. These adverse shocks have derailed efforts to translate gains from price booms into sustainable development outcomes. Similarly, production and trade concentration in few commodities that generate bulk of foreign exchange has diverted focus from development of other sectors. The AfCFTA offers a possibility to diversify production and exports and lay the foundation for growth and employment creation in the region.

The AfCFTA could contribute to improved trade statistics and encourage formalization of businesses. At most border posts, informality and smuggling are means of avoiding costly tariffs. Fortunately, most of the locally produced goods and services traded by small scale businesses would qualify for tariff reduction under the AfCFTA. The operationalization of the AfCFTA Agreement could therefore lead to a significant increase in the number of small businesses, and the volume of trade by small and medium size enterprises.

Finally, an effectively operationalized the AfCFTA will create more jobs and improve the livelihood of women and young people. Increased demand for goods arising from a larger market will attract investment and create jobs for young people outside agriculture. Given that women account for a significant share of informal traders in West Africa, the AfCFTA is expected to improve living conditions of many women traders in the region.

1.2.9 Poverty and Inequality

Inclusive growth in West Africa has been elusive due to high levels of informality, high unemployment and persistent underemployment. On average, the informal economy accounts for about 50 percent of national output, over 80 percent of employment and 90 percent of new jobs. High rate of informality results in a broad range of structural issues, including low productivity and vulnerability to shocks which collectively perpetuate income inequality and poverty. About 43 percent of West Africans live below USD 1.90 a day, and unemployment, especially among the youth, remains. High degree of informality has been exacerbated by persistent insecurity across the Sahel belt especially in Burkina Faso, Mali, Niger and Nigeria.

The ILO statistics for 2019 show that unemployment rates in selected economies (Ghana: 13.7%, Nigeria: 19.6%, Cabo Verde: 23.3% and Mali: 24.4%) were higher than the global average of 12.8%. The low unemployment reported for Niger: 0.4%, Togo: 2.5%, Côte d'Ivoire: 3.4% and Benin: 4.0% mask high informal employment and underemployment in the region. Inequality is also high, with the Gini coefficient ranging from 0.3 in Mali to 0.5 in Guinea Bissau with median of 0.4. West African countries are amongst the bottom 25% countries of the human development scale consisting of 173 countries.

Economic growth alone may be insufficient to reduce poverty and inequality in the region. However, the sources and distribution of gains from that growth matter for poverty reduction and inclusiveness. Estimates by the AfDB suggest that in West Africa, only Côte d'Ivoire and Togo experienced an increase in inclusiveness of growth between the sub-periods, that is, 2000-2005 and 2010 – 2017 (AfDB, 2020). In contrast, although growth was pro-poor and inclusive in the first subperiod for Ghana, Liberia, and Niger, it was neither pro-poor nor inclusive in the latter period. In general, West African countries are predominantly agrarian and with the high rate of informality, opportunities in the formal wage sector are

limited, which has precluded citizens' participation in the gains from higher growth recorded over the past decade. Thus, the proportion of working poor to total population tends to be high, ranging from 13 percent in Cabo Verde to as high as 81 percent in Guinea Bissau. Besides Cabo Verde, only Ghana has a share of working poor below 20 percent, which may also explain the country's inclusiveness of growth during 2000-2005, although this was not sustained.

With such poor social conditions, amplified by the outbreak of COVID-19 pandemic, achieving the SDGs across the region remains a challenge as households and workers are locked out of their daily survival means. Given the large size of the informal sector, the widespread lockdowns across West Africa could impact on the region's 43% poor people. The proportion of the population that could slip into poverty will vary by country and actual estimates may not be known with certainty due to paucity of data and fluidity of the spread of the COVID-19 pandemic. However, countries such as Nigeria with the largest population of about 200 million and poverty rate of 53.5% could experience significant number of people slipping into poverty. Closure of businesses in Guinea could also exacerbate the number of the working poor from the current 80% of the labor force. Similarly, other countries e.g., Ghana and Nigeria, that imposed full or partial lockdowns to curb spread of the COVID-19 pandemic, could experience deterioration in social conditions due to erosion in income earning opportunities.

1.3 OUTLOOK FOR GROWTH AND POTENTIAL TRANSMISSION CHANNELS OF THE COVID PANDEMIC ON WEST AFRICAN ECONOMIES

The outbreak of the COVID-19 pandemic, first officially reported on 31st December 2019 in Wuhan, China has created human and economic catastrophe. Tens of thousands of lives have been lost and hundreds of thousands of infected people globally face an uncertain future due to the absence of a

vaccine. In West Africa, statistics published by the Johns Hopkins University³ show rapidly rising cases of infected persons and deaths. As the West Africa region has memories of the Ebola virus in 2014, especially in the worst hit countries - Guinea, Liberia and Sierra Leone - tackling COVID-19 could draw from lessons gained during the Ebola crisis.

As of April 2020, Europe and the United States had emerged as the new epicenters of the COVID-19 pandemic after China seemingly managed to slow down the spread of the virus. The deepening crisis is stoking fears of a global recession. The magnitude of socio-economic impact of the pandemic on ECOWAS may not be known with certainty

in this early stage of assessment due to the fluidity of the pandemic. However, the growth outlook for the region is leaning towards the downside with marginal recovery in 2021, depending on severity of the crisis (see Table 3). The rapid spread of the coronavirus has adversely affected West Africa's main export markets and sources of imports, foreign direct investment, tourism and remittances and created uncertainty in financial markets. Furthermore, the rout in commodity markets, disruptions in travel and tourism due to cancellations of flights and accommodation, and country-level lockdowns, which have disrupted economic activity, suggest that the risk and impact of the COVID-19 pandemic on growth is likely to be significant.

Table 3: Initial assessment of macroeconomic impact of the COVID-19 pandemic in West Africa

Indicator	2018	2019 (e)	Without COVID-19 scenarios (January 2020 projections)		COVID-19 shock scenarios (April 2020 revised projections)			
					With COVID-19 (Baseline)		With COVID-19 (Worst-Case)	
			2020(p)	2021(p)	2020(p)	2021(p)	2020(p)	2021(p)
Real GDP growth	3.4	3.6	4.0	4.1	-0.2	2.5	-4.3	1.7
CPI inflation	9.4	8.5	8.8	8.1	10.4	8.4	18.0	16.0
Budget balance % GDP	-4.2	-4.6	-4.1	-4.0	-6.3	-5.2	-7.2	-6.2
Current account % GDP	-1.0	-4.4	-1.8	-1.6	-5.0	-3.8	-5.9	-4.7

Source: AfDB Statistics Department.

Common scenario assumptions:

1. Baseline scenario: Spread of COVID-19 tapers off in third quarter of 2020.
2. Worst-case scenario: Spread of COVID-19 tapers off in fourth quarter of 2020.

³<https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6>

1.3.1 Lower commodity prices will have asymmetric effects in the region

Commodity prices were already on the downward trend prior to outbreak of the COVID-19 pandemic but the decline has accelerated since the beginning of 2020. Sharper global economic downturn will drive prices further lower, posing risks to commodity dependent countries in West Africa. For instance, the sharp fall in price of oil to below USD30 per barrel by end-April 2020, has trimmed export earnings with severe implications on budget and foreign reserves for oil dependent Nigeria and Ghana. Nigeria has already revised its macroeconomic outlook to reflect constrained funding from oil exports. For oil importing countries in the region, lower oil prices could create savings on the budget and bolster the current account position. These asymmetric effects highlight diversity of countries in the region. Overall, the effect of lower revenues on Nigeria's fiscal and current account positions in 2020 will outweigh any possible gains in other countries, translating into widening of the fiscal and current account deficits under both the baseline and worst-case scenarios, as observed above.

1.3.2 Reduced trade will slow down pace of growth in West Africa

Coupled with low commodity prices, especially for oil and minerals, continued lower demand could severely impact export revenues for West African countries. For instance, due to the COVID-19 pandemic, expected total proceeds from oil exports in Ghana are estimated to decrease to USD2.2 billion from USD4.4 billion originally projected. Nigeria's oil exports could fall by as much as 90 percent in 2020. In Côte d'Ivoire, a projected decline in cocoa production coupled with lower global demand in 2020 may lead to slowdown in West Africa's second largest economy. Unless there is an offsetting effect from contraction in imports, this could severely weaken the region's external balance position. West African imports constitute mainly machinery and transport equipment used in local manufacturing and extractive industries. Disruptions to global markets for such imports could constrict productive activity in the region, which is likely to be amplified by the

lockdowns. This will in turn have implications for local production, jobs and livelihoods.

1.3.3 Small economies will suffer the most from lower tourism inflows

Tourism is an important source of foreign exchange for small countries in West Africa with Europe and the United States as the source markets. A sharp slowdown in these countries will depress tourist earnings and harm small economies dependent on tourism for foreign exchange. For instance, in Cabo Verde, tourism revenues account for about 50 percent of export earnings and nearly 70 percent of total fiscal revenues while in The Gambia, tourism revenues contribute approximately two thirds to total fiscal revenues. Tourism in Senegal represents about 7 percent of GDP but with the COVID-19 pandemic affecting several European countries (23 percent of tourists are from Europe), revenues from the sector are currently at risk. The authorities in Senegal already announced many cancellations of reservations for seminars and other international meetings, including the famed NBA African Basketball Championship.

1.3.4 Volatility of financial markets could limit absorption of shock

Continued volatility in major global capital markets has stoked risk aversion towards emerging market assets. The relatively more integrated mature African economies could experience capital reversals. In West Africa, Côte d'Ivoire, Ghana, Nigeria and Senegal, are especially at higher risk. The sharp fall in oil price, which fueled rapid decline in foreign exchange reserves by about USD3.3 billion from January – March 2020 (average of USD1.1 billion per month) and rising capital outflows, forced the central bank of Nigeria to devalue the currency from N307/USD to N360/USD, with the parallel market surging to more than N400/USD. This action highlighted the cost of uncertainty and its impact on overall macroeconomy performance. The CFA franc depreciated by 1.8 percent against the US dollar over the same period. By end-March 2020, the all share market capitalization of the Nigeria stock exchange had lost almost 20 percent while that of the West African regional bourse dipped by about 17 percent.

The favorable growth outlook in the region will be supported by the easing of inflation pressures. Annual average inflation is expected to remain in single digits, dropping to 8.8 percent in 2020 and to 8.1 percent the following year. The gains are likely to be driven by an improved performance in the six members of the West African Monetary Zone (WAMZ), namely The Gambia, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone. Although still high, inflation in Liberia, Nigeria and Sierra Leone is projected to decline in the medium term, reflecting a combination of supply and demand side factors. The projected decline in inflation in Nigeria may be offset by the recent increase in the minimum wage. The continued border closure could also accelerate the rise in food inflation. Monetary expansion and fiscal restraint will therefore be critical to offsetting supply induced inflationary pressures.

Inflation in the WAEMU countries will remain low, although it is expected to edge marginally higher in 2020. A combination of two factors may drive the rise in inflation: pass-through

effects of the depreciation of the CFA franc against the US dollar and some country specific supply side factors, including volatility in food prices as local farmers are driven away by the insurgency in Burkina Faso, Mali and Niger.

1.3.5 Central banks' actions should ensure inflation remains in check

Some central banks have complemented fiscal measures with monetary policy actions to cushion the impact of the COVID-19 pandemic on their economies. Table 4 summarizes the key policy measures. These measures try to balance between actions to stimulate the economy and the stated objectives of maintaining price and financial system stability. However, the efficacy of these actions will depend on the strength of the transmission mechanism through which central banks action affect the real economy. In most developing economies, including countries in West Africa, structural rigidities limit the effectiveness of monetary policies.

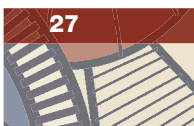


Table 4: Selected actions by central banks against the COVID-19 pandemic

Country	Action
BCEAO	<ul style="list-style-type: none"> Allocating FCFA 25 billion to the trust fund of the West African Development Bank (BOAD) to increase the amount of concessional loans to eligible countries to finance urgent investment and equipment expenses; Communicating on the special program for refinancing bank credits granted to SMEs; Initiating negotiations with firms issuing electronic money to encourage its usage; and Ensuring adequate provision of banknotes for satisfactory ATM operation.
Ghana	<ul style="list-style-type: none"> Cut the monetary policy rate by 150 basis points to 14.5 percent; Lowering primary reserve requirement from 10 to 8 percent; Lowering capital conservation buffer from 3 percent to 1.5 percent; Revised provisioning and classification rules for specific loan categories.
The Gambia	<ul style="list-style-type: none"> Reduced monetary policy rate by 50 basis points at end-February 2020 to 12 percent; Increasing standing deposit facility rate by the same margin to 3 percent to ensure banks' access to funding.
Nigeria	<ul style="list-style-type: none"> Established a 50 billion Naira (about USD 165 million) targeted credit facility for small and medium scale enterprises as well as households impacted by the virus; Injection of 3.6 trillion (2.4 percent of GDP) into the banking system; Reduction in interest rates from 9 percent to 5 percent for applicable lending intervention facilities set up by the CBN, e.g., <i>Anchor Borrowers, Micro-Small and Medium-scale Enterprise program</i>; Extension of grace period for the repayment of the loans by one year on all principal facilities, particularly intervention loans, effective March 1, 2020; Granted all deposit money banks leave to consider temporary and time-limited restructuring of their loan tenor and terms for businesses and households most affected by the outbreak of the COVID-19 pandemic.

A combination of expansionary fiscal policy and loose monetary policy amidst repressed supply conditions have potential to fuel inflationary pressures. In the short-term, as governments and central banks ramp up these pro-cyclical policies, inflation will inevitably increase as earlier observed. As the effects of the pandemic are fully assessed and the measures to cushion the economies start to show some positive results, central banks should gradually retrench monetary policy to ensure smooth course correction towards the ECOWAS macroeconomic convergence target of single digit inflation. In the long-term, tight monetary policy and fiscal restraint will be critical to offsetting supply induced inflationary pressures with causing harm to the real economy, especially in the non-WAEMU countries where

inflation remains at elevated levels and growth somewhat subdued.

1.4 CONCLUSION AND POLICY RECOMMENDATIONS

The outbreak of the COVID-19 pandemic came at time when countries in West Africa were showing signs of recovery and consolidation of macroeconomic fundamentals. Several policy implications emerge from the growth and macroeconomic performance of countries in the region. These policies aim at ensuring that countries build resilience to the COVID-19 crisis and future threats to growth and macroeconomic stability. Aside from tackling infrastructure challenges

and short-term measures adopted by central banks, other key specific, mainly structural, policy recommendations below may be pursued:

1.4.1 Policies to address persistent supply side bottlenecks

- Implementation of structural reforms is key to unleashing productivity, especially in the lagging economies of the region, whilst maintaining the growth momentum for fast growing ones. For instance, the domestication and actual implementation of the ECOWAS Trade Liberalization Scheme, especially removal of non-tariff barriers, will stimulate intra-regional trade and growth. Furthermore, easing of restrictions in national labor markets would also allow intra-regional movement of talent to ease the skills shortage in deficit countries. Additional measures could include allowing greater competition in the final goods sector by removing or rationalizing subsidies.
- West Africa should create a uniform framework for improving the business environment at national level and across borders to attract investors to the region. This can be implemented under the West African Business and Investment Climate Improvement project supported by the World Bank.
- The ECOWAS region should implement Special Agro-Industrialization Processing Zones (SAPZs) to drive agro-led industrialization and value chain development. This will raise agricultural productivity and stimulate industrial activity.

1.4.2 Policies to boost domestic revenues and tackle accumulation of public debt

- Scaling up of taxpayer identification, rationalizing tax exemptions and integrating the electronic systems for tax and customs administration could enhance compliance and enforcement and improve collection of domestic revenues. In Nigeria, implementation of taxpayer identification increased the number of identified taxpayers from 10 million

in 2015 to 19 million in 2018, thus broadening the tax base. Mainstreaming the large informal economy in the region into the development process will also help in broadening the tax net.

- For resource dependent economies, increasing the surveillance of the mining sector revenues and refine legal codes governing mineral taxation to reduce regulatory uncertainty and increases transparency in line with international best practices. Burkina Faso has proved that such measures can strengthen revenue collection from the mining sector by introducing several tax regime changes at the exploration and exploitation phases. A 20 percent capital gains tax was also imposed on the transfer of mining titles.
- Liberalization of fuel pricing to curb rent seeking. Sierra Leone and other countries who have liberalized pricing of fuel and abolishment of fuel subsidies provide valuable lessons in this regard. Broaden the coverage of the Treasury Single Accounts to all agencies of government has the added benefits of institutionalizing transparency in a country's revenue collection.
- Fiscal positions in the region are already overstretched and countries are building up the debt. This is likely to be exacerbated by spending pressures to cushion the impact of COVID-19. A credible debt consolidation strategy with focus on improving fiscal transparency across West Africa is essential. Importantly, any new debt should be deployed in productive projects with revenue streams for self-amortization to avoid inter-generational debt burden. Development partners should proactively engage with the authorities at national and regional level in designing appropriate financing packages that recognize the limited fiscal space obtaining in the region. To this end, the IMF's COVID-19 grant-based debt service relief would ease the burden of debt repayments on beneficiary countries in the region. Other multilateral development institutions, including the AfDB are providing financing to countries severely affected by the COVID-19 pandemic.



1.4.3 Deepening regional integration in West Africa

- As the region prepares to introduce a single currency, participating member countries should aim at creating institutional mechanisms to foster macroeconomic stability.

Thus, policy governing implementation should not be dictated by political expedience but by sound macroeconomic fundamentals reflecting the genuine pursuit of the regional integration agenda. Building credible institutions, including the regional central bank and fiscal agencies will be essential for the viability of the single currency.

PART 2

SKILLS DEVELOPMENT AND EDUCATION FOR THE WORKFORCE OF THE FUTURE IN WEST AFRICA

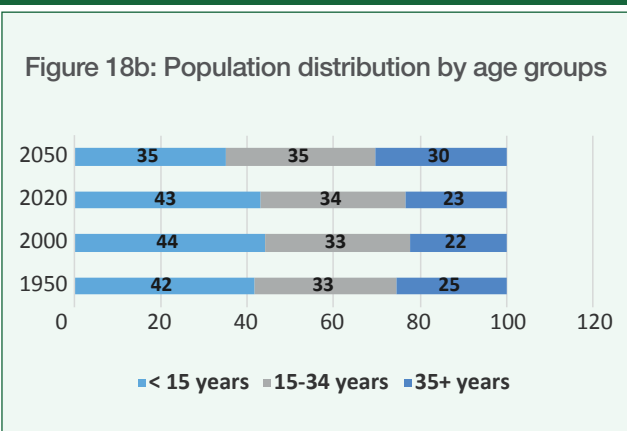
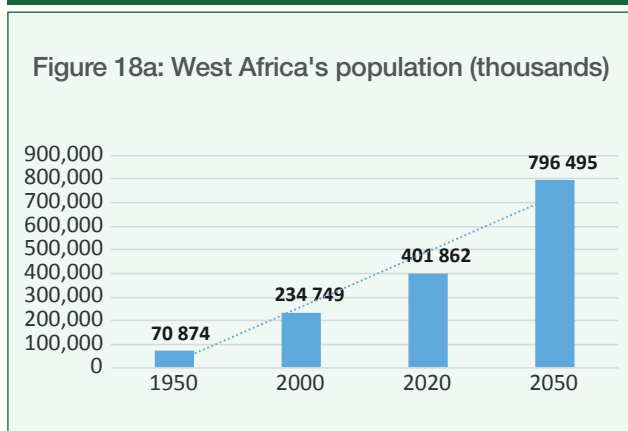
2.1 OVERVIEW OF POPULATION AND LABOR MARKET DYNAMICS

2.1.1 Population dynamics

The West Africa region is endowed with a burgeoning youth population that can strategically be harnessed for employment and economic growth. In 1950, the region’s population stood at almost 71 million and by 2000, had more than tripled to more than 230 million. It is estimated at more than 400 million in 2020 and projected to reach 800 million by 2050 (Figure 18a). The share of youth population (15 to 34 years) is projected to rise

from 33 percent of total population in 1950 to a 35 percent in 2050 (Figure 18b). Youth and working age population are increasing in all countries in West Africa region (see Annexes 1 and 2). By 2050, it is estimated that Nigeria, Niger and Ghana will have the largest proportion of working age populations. At the bottom of the list is Cabo Verde, Guinea Bissau and The Gambia where the working age population will barely exceed 3 million (Annex 3). The region will need to create decent jobs to forestall irregular migration and insecurity crisis mainly affecting the youth. The Sahel belt in West Africa region is characterized by multiplicity of fragility factors, which have adversely affected the region’s labor market dynamics and livelihoods.

Figure 18: Population dynamics in West Africa



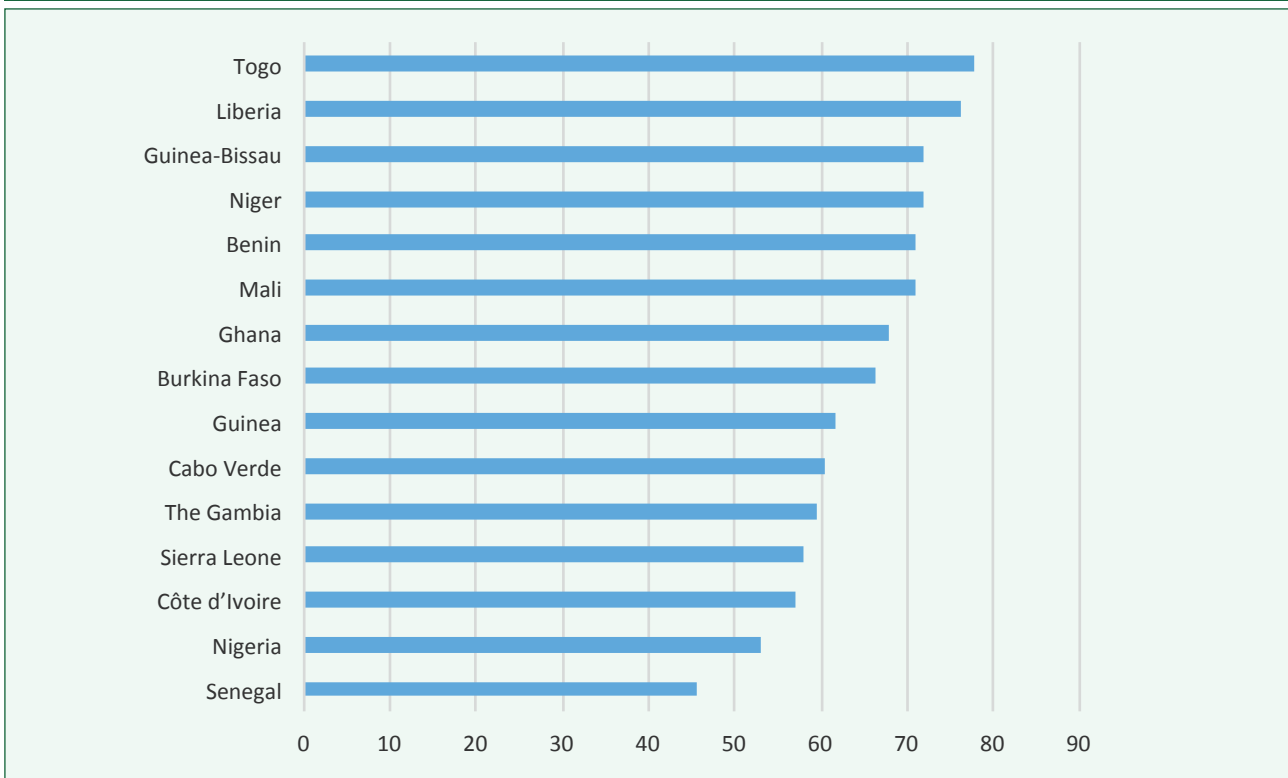
Source: United Nations World Population Prospects 2019.

2.1.2 Situation of the labor market

The labor market in West Africa is characterized by declining labor force participation yet low unemployment mainly disguised in high informal employment. The labor force participation rate for the population of 15 years and above has consistently declined since the beginning of the millennium from 64.2 percent in 2000 to 58.5 percent in 2019 and is expected to further decline to 58.2 percent

in 2022. By implication, inactivity in the region has been increasing from 36 percent to 41.5 percent and over the same period, the size of the labor force in West Africa expanded consistently from 84.5 million in 2000 to 130 million in 2019 in absolute terms. This represents a 53.6 percent increase over two decades. Togo has the highest proportion of active population at 79 percent against 46 percent in Senegal, the lowest in the region (Figure 19).

Figure 19: Labor force participation rate (percent) in 2019

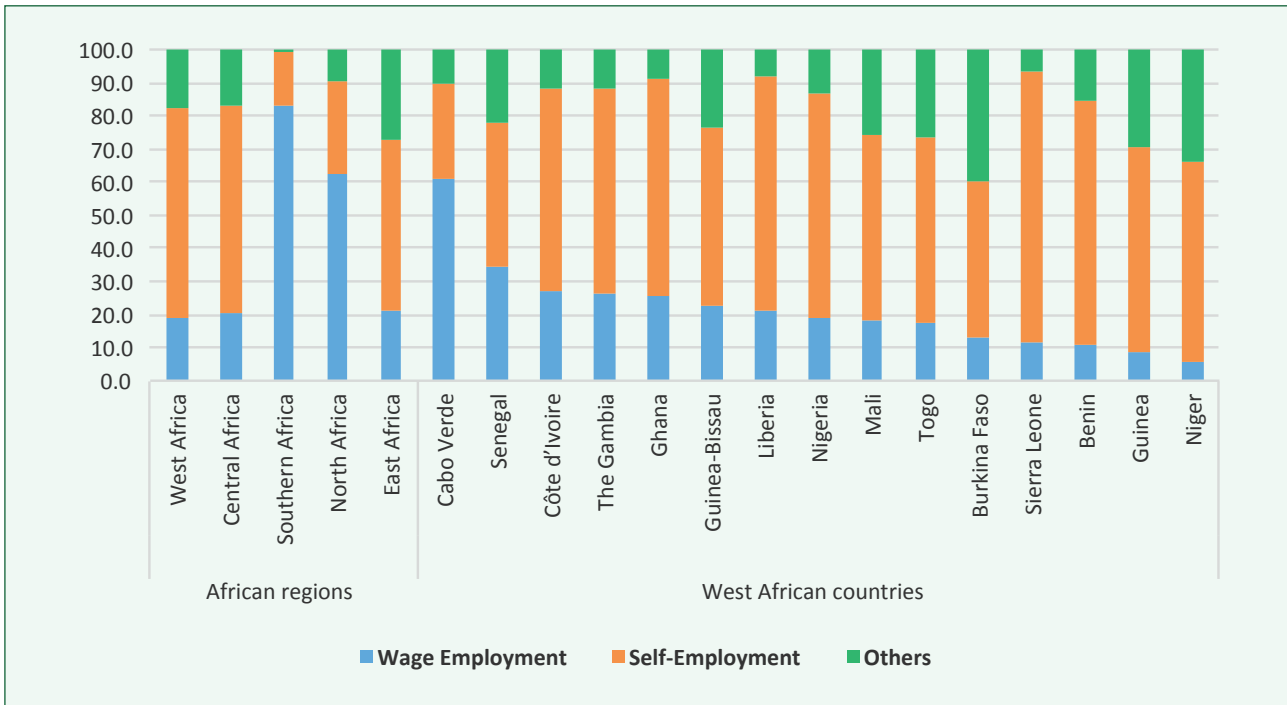


Source: ILOSTAT, ILO.

Informal employment is highly pervasive in West Africa as well as other regions of Africa, wage employment constituting less than one-fifth of total employment. North and Southern Africa had the highest rates of wage employment at 63 percent and 83 percent, respectively while in Central and East Africa it

represented 21 percent of total employment. In contrast, West Africa had the highest rate of self-employment at 64 percent against 63 percent in Central Africa, 51 percent in East Africa and less than 28 percent in North and Southern Africa.

Figure 20: Employment classification by region and countries in West Africa (% share), 2019

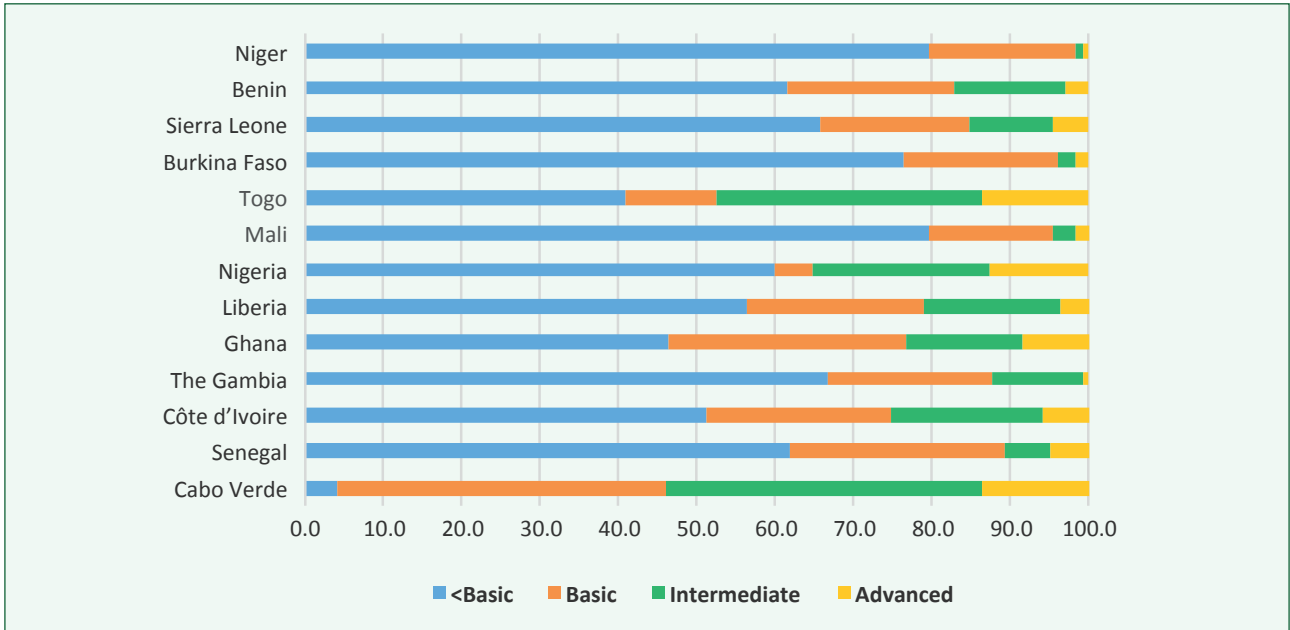


Source: Constructed from ILOSTAT data.

Figure 20 also shows that Cabo Verde has the highest proportion (61 percent) of the workforce engaged in wage employment. Senegal is a distant second with a little more than one third of the workforce employed in the wage sector. Niger and Guinea have less than 10 percent of the workforce engaged in wage employment. The type of employment is correlated with the level of education. Countries with less than basic education have the highest proportion of the population in self-employment. For instance, in Mali, Niger and Burkina Faso, the proportion of workers with low education stood at

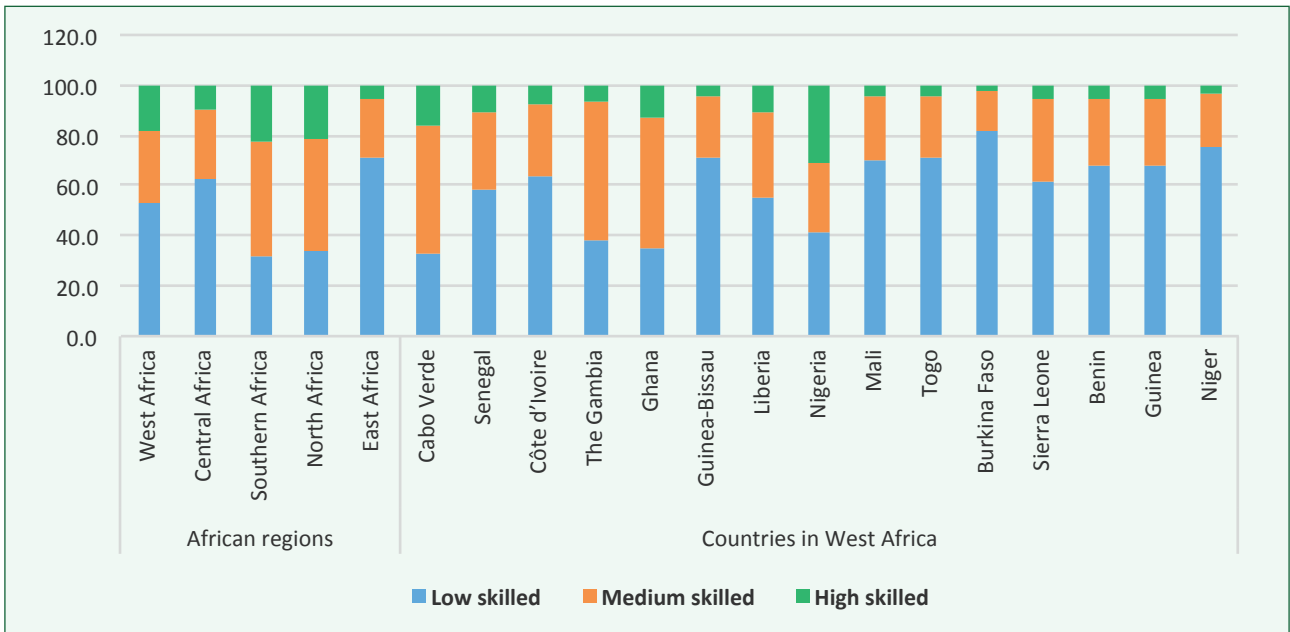
nearly 80 percent (Figure 21). Cabo Verde has the least share of the employed with less than basic education. In general, low level of education is reflected in informal and other vulnerable employment. The level of education also translates into the type of occupation of employment (skilled and unskilled). West Africa has the third highest share of low skilled jobs (52.9 percent) behind Central and East Africa and the third highest in terms of high skill jobs (18.0 percent) after Southern and North Africa (Figure 22). Across countries, more than 50 percent of the employed are engaged in low skill jobs.

Figure 21: Employment distribution by education in West Africa, 2019



Source : Constructed from ILOSTAT data.

Figure 22: Skills in regions and countries in West Africa (percent of total employment), 2019

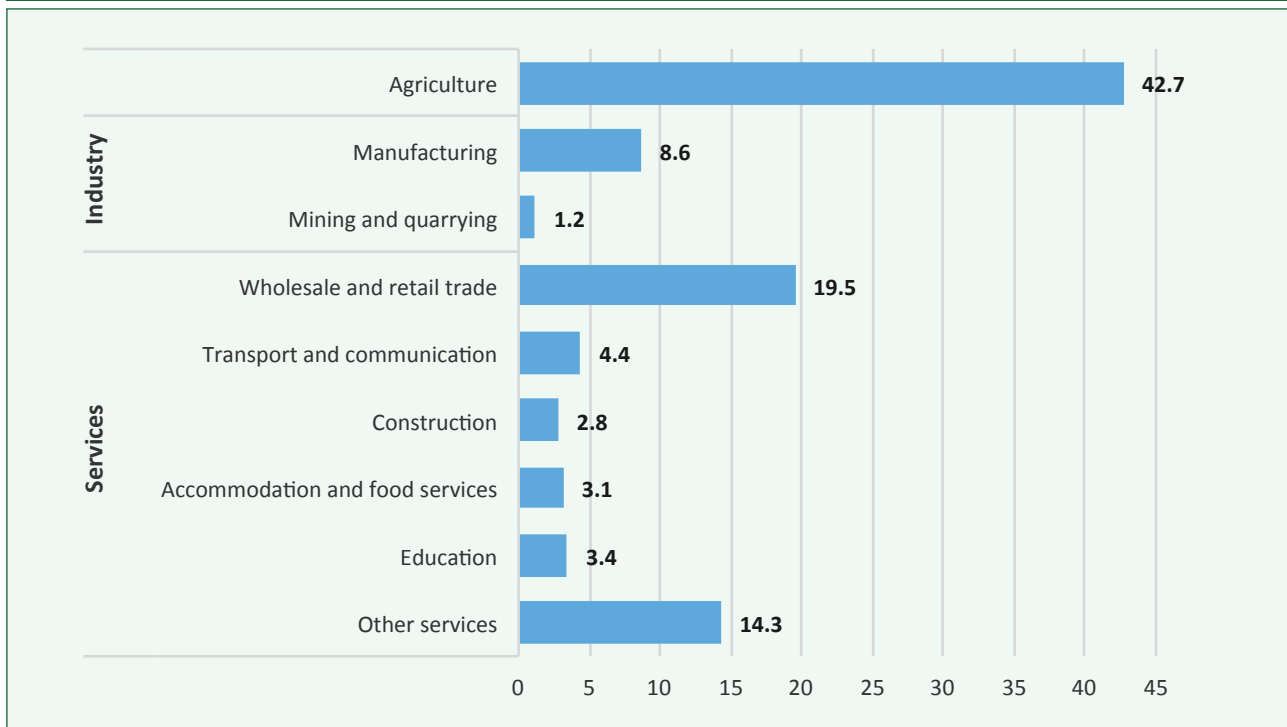


Source : Constructed from ILOSTAT data.

Given the large proportion of the labor force in informal, non-wage low skilled employment, agriculture is the main source of jobs for most countries in West Africa. However, for a significant part of the region, spanning the entire Sahel belt, effects of climate change and conflict over land and pasture have adversely affected productivity and food security.

Nonetheless, the agriculture sector accounts for 42.7 percent of total employment (largely subsistence and informal), followed by services (mainly retail and wholesale trade, motor vehicle repairs) representing 19.5 percent. Employment in manufacturing stands at 8.6 percent while other services accounted for 14.3 percent (Figure 23).

Figure 23: Employment distribution by sector in West Africa (percent), 2019

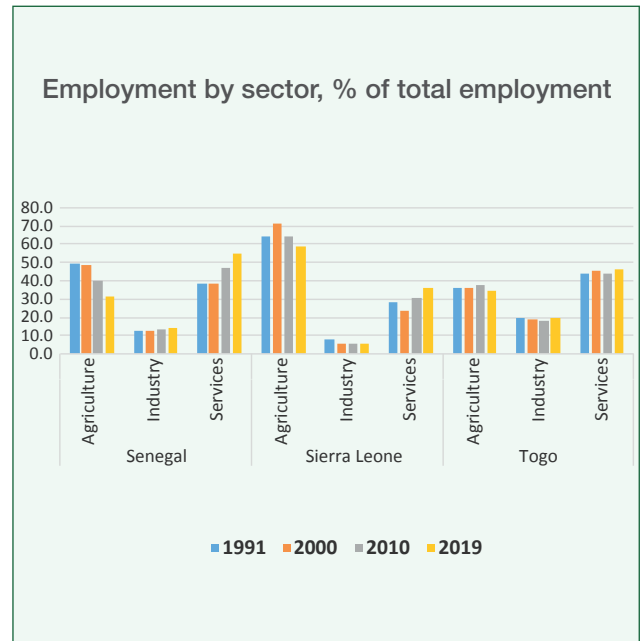
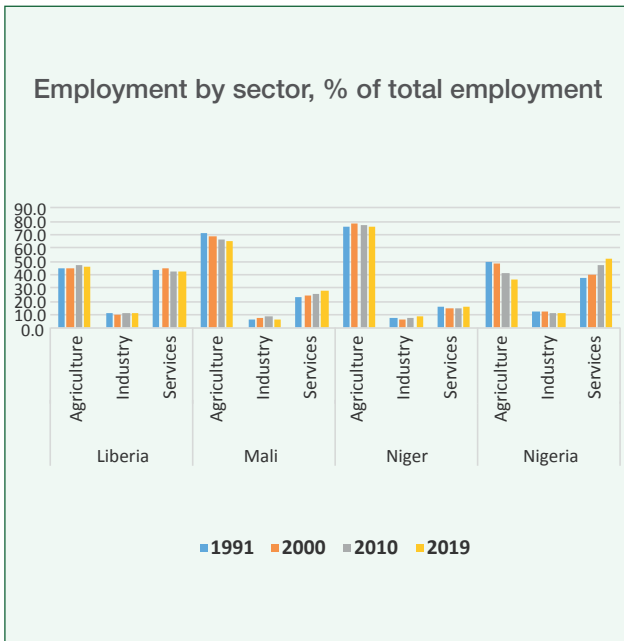
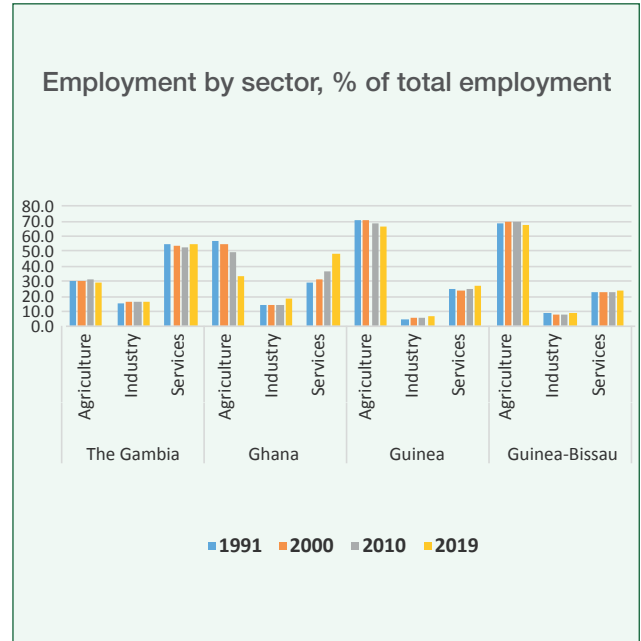
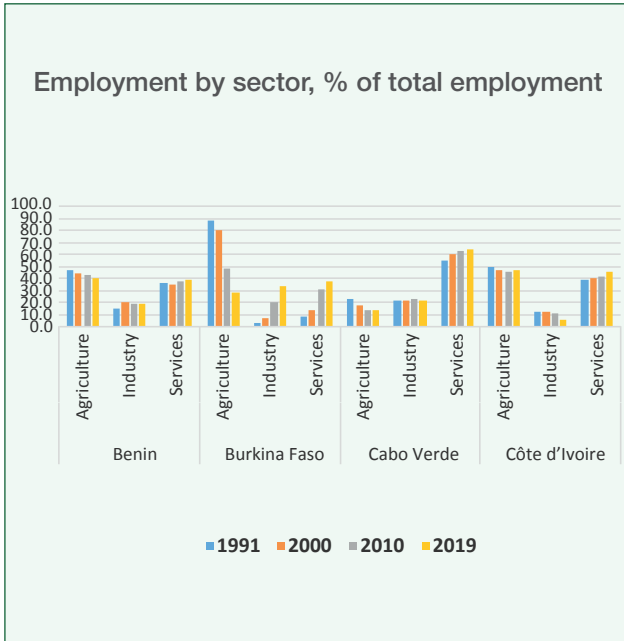


Source: ILOSTAT.

Although agriculture still accounts for a sizable proportion of employment in West Africa, over the last 30 years some countries have experienced a gradual shift in jobs from the agriculture sector to services while in other countries, the

sectoral distribution of employment has not changed. In Burkina Faso where the shift is more pronounced, the share of employment in agriculture declined from around 90 percent in 1991 to less than 30 percent in 2019 (Figure 24).

Figure 24: Employment distribution by economic sector (percent of total employment), 2019



Source: AfDB Statistics Dept.

Contrary to the general pattern across the region, Burkina Faso recorded an increase in industry employment with the bulk of the gains coming from the agriculture sector. Employment in industry more than tripled from less than 10 percent in 1991 to almost 30 percent in 2019. Meanwhile, employment in services moved from 10 percent to 40 percent over the same period. In Benin, Cabo Verde, Côte d'Ivoire, Mali, Nigeria, and Senegal, jobs have shifted from the agriculture sector to services, the industry sector remains stable, an unconventional path of structural transformation. In The Gambia, Guinea Bissau, Liberia and Niger, the employment structure has not changed over the past three decades. In Ghana, the services sector has absorbed all jobs from agriculture. Industry sector only captured some of the gains in employment in 2019.

Unemployment appears very low in West African countries, even by regional standards (Table 5). Average unemployment for the region is estimated at 5.4 percent in 2020, a marginal increase from slightly below 5 percent average recorded between 1991 and 2010. However, low unemployment is masked in high underemployment and informal employment as most workers are engaged in non-wage and informal self-employment activities (Table 6). Methodological differences could also be responsible for under-reporting of unemployment. People may be reporting self-employment in household enterprises and activities such as street-vending and other informal activities as employment. Under conditions of high informality, unemployment is expected to be low and vice versa.

Table 5: Unemployment and Labor Market Conditions

5a: Unemployment in Africa (regional averages)				
Region	1991	2000	2010	2020*
Central Africa	7.6	8.1	5.4	5.1
East Africa	5.1	5.3	4.9	3.8
North Africa	13.5	15.4	12.2	11.7
Southern Africa	27.8	29.6	24.5	26.8
West Africa	3.7	4.5	4.4	5.4
5b: Labor market indicators in Western Africa				
Labor force participation 15+	62.6	61.8	60.5	59.9
Unemployment rate, 15+	3.7	4.5	4.5	5.4
Employment growth 15+	2.8	2.7	2.6	3.0
Labor productivity growth	-2.5	1.3	4.4	2.0

Source: ILO Estimates, 2018.

*Projection.

In some countries, such as Benin, Liberia, Mali, Niger, Senegal, and Togo, the informal sector accounts for more than 90 percent of employment. This starkly contrasts with low unemployment reported in these

countries. In Cabo Verde, the least informal economy in the sub-region, almost 64 percent of employment is informal, and the unemployment rate exceeds 12 percent (Table 6).

Table 6: Unemployment, Informality, and underemployment (percentage of total employment)

	Unemployment rate, 2018	Informal employment	Time-related underemployment
Benin	2.1	96.8 (2011)	37.3 (2010)
Burkina Faso	6.1		
Cabo Verde	12.3	63.8 (2015)	7.5 (2017)
Côte d'Ivoire	2.6	86.7 (2017)	14.7 (2018)
Ghana	6.7	88.8 (2015)	13.1 (2017)
The Gambia	8.9	76.5 (2012)	8.1 (2012)
Liberia	2.0	93.4 (2014)	23.6 (2014)
Mali	9.6	94.9 (2016)	--
Niger	0.3	95.4 (2011)	--
Nigeria	6.0		
Senegal	6.5	93.4 (2015)	9.6 (2011)
Sierra Leone	4.3	--	10.4 (2014)
Togo	1.7	95.1 (2014)	3.6 (2015)

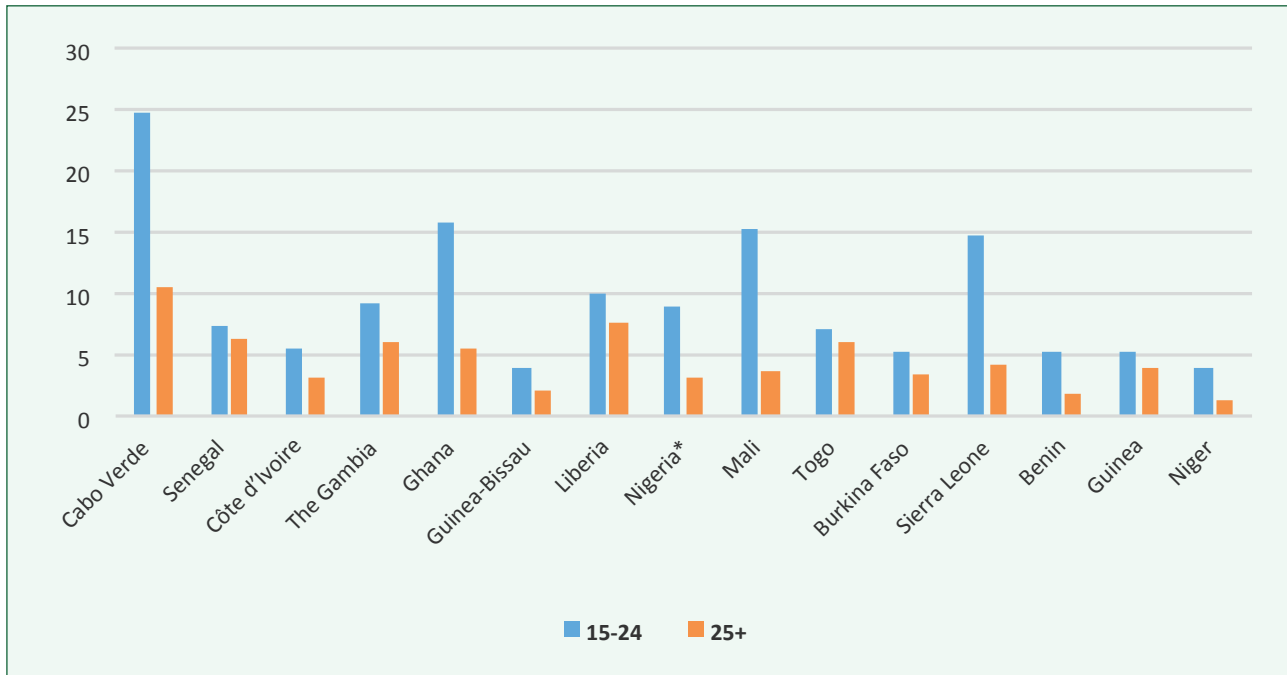
Source: ILO Estimates, 2018.

Notes: -- not available; figures in brackets are latest years for reported data.

Despite the seemingly reported low unemployment, the youth (15-24 years) are more affected than adults in the region. In Mali, Niger and Sierra Leone, youth (15-24 years) unemployment rates are more than three

times higher than those for the adults, and in Benin, Cabo Verde, Ghana and Nigeria, their unemployment rates are more than twice as high as those for adults (Figure 25).

Figure 25: Unemployment rates by age 2012-2018



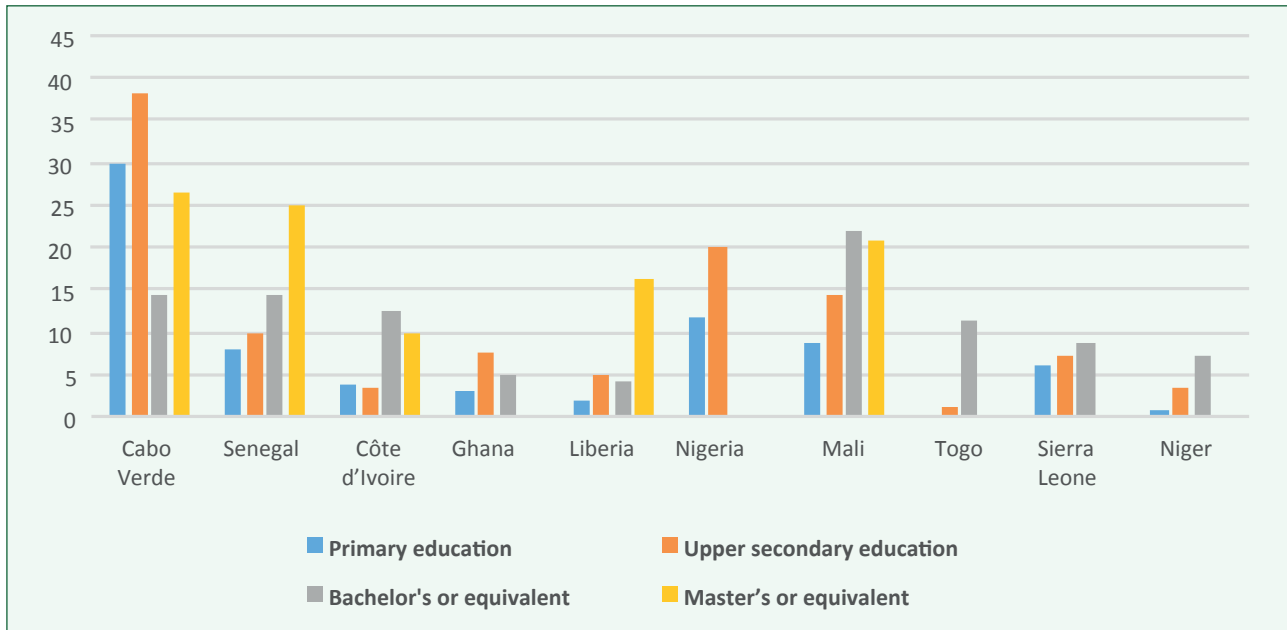
Source: Constructed from ILOSTATS.

*Unemployment much lower than estimates reported by the National Bureau of statistics of Nigeria of 29.1 percent youth unemployment in 2018 Q3.

The rise in unemployment, especially among the youth, does not necessarily reflect absence of education. Rather, it may be due to the mismatch between available opportunities and supply of requisite skills. As Figure 26 shows, unemployment in selected countries in West Africa has increased with the level of education. High unemployment among the educated labor force may emanate from the long periods educated people take in searching for jobs matching their reservation

wage. Compared to less educated individuals whose reservation wage is lower and who cannot afford prolonged unemployment, most educated people can stay unemployed for more than one month while searching for a job. This is because educated people tend to be from households with relatively high income or gain the most from continued searching for employment until they find a job that meets their expectations (AfDB, 2019).

Figure 26: Unemployment and education



Source: ILO Estimates, 2018.

In Mali, unemployment rate increases with education. Only the Master's level and above slightly reduces it. In Senegal, unemployment systematically increases with education, from primary to master's degree. With limited or no access to formal employment, the less educated labor force clearly has no option than to settle with informal agriculture and non-technical jobs which do not require any formal education and thus have a high degree of informality, particularly among less educated people in the sub-region (Baah-Boateng, 2013; 2015).

2.2 TECHNOLOGICAL DEVELOPMENT FOR THE FUTURE OF WORK

Structural transformation in West Africa is necessary to enhance the region's labor productivity. However, the expansion of the services sector over the past three decades largely reflects lack of structural transformation in the traditional sense, namely, the growing importance of manufacturing against shrinking contribution to of agriculture output and employment. Therefore, the shift to relatively non-productive

services sector is but a shelter for those unable to find employment opportunities in the formal economy.

Technology has the potential to augment the abilities and productivity of workers at all skills levels. Due to multiple applications, the demand for technology services is increasing worldwide. In West Africa, demand is also increasing for digital services.

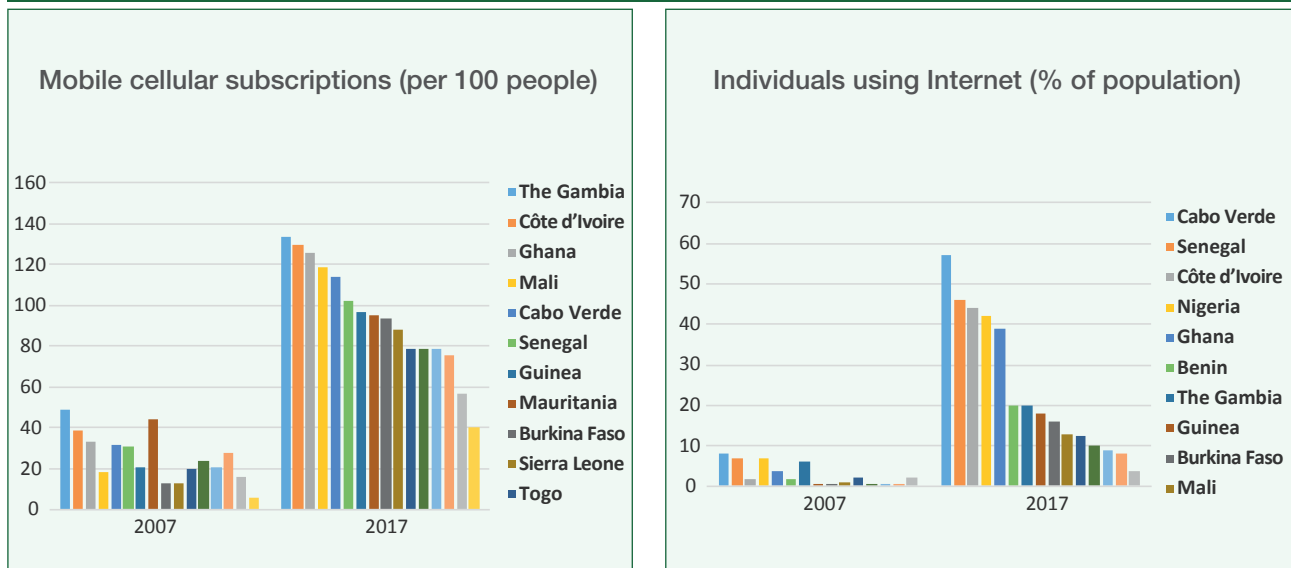
2.2.1 Demand for digital services

Demand for digital services such as mobile cellular, internet, mobile and other digital payments is increasing in west Africa. In 2007, the number of mobile cellular subscriptions per 100 people exceeded 40 only in The Gambia. Ten years later, it was 40 in Niger and had exceeded that threshold in all other countries (Figure 27). In countries like The Gambia, Côte d'Ivoire, Ghana, Mali, Cabo Verde and Senegal, the number of mobile cellular subscriptions per 100 people exceeded 100 largely because individuals often subscribe to multiple networks. While mobile penetration has increased over the last few years, roaming prices offered by the over 20 mobile operators in the ECOWAS

are highly heterogeneous across countries, unpredictable and prohibitive. In 2019, countries in ECOWAS region reinforced their commitments to remove roaming charges across the region starting in January 2020. The goal of this ECOWAS Roaming Initiative is to enhance revenue generation along corridors and remove barriers to communication for subscribers within the region. As of April 2020, implementation of this initiative had not taken off in several countries.

Yet, mobile cellular service offers the opportunity to access internet services and make mobile based financial transactions. Accordingly, access to the internet has risen sharply in each country between 2007 and 2017. In 2007, less than 10 percent of the population had access to the internet. By 2017, only three countries – Sierra Leone, Liberia, and Guinea Bissau – had less than 10 percent access to internet.

Figure 27: Mobile cellular subscriptions and internet using by country

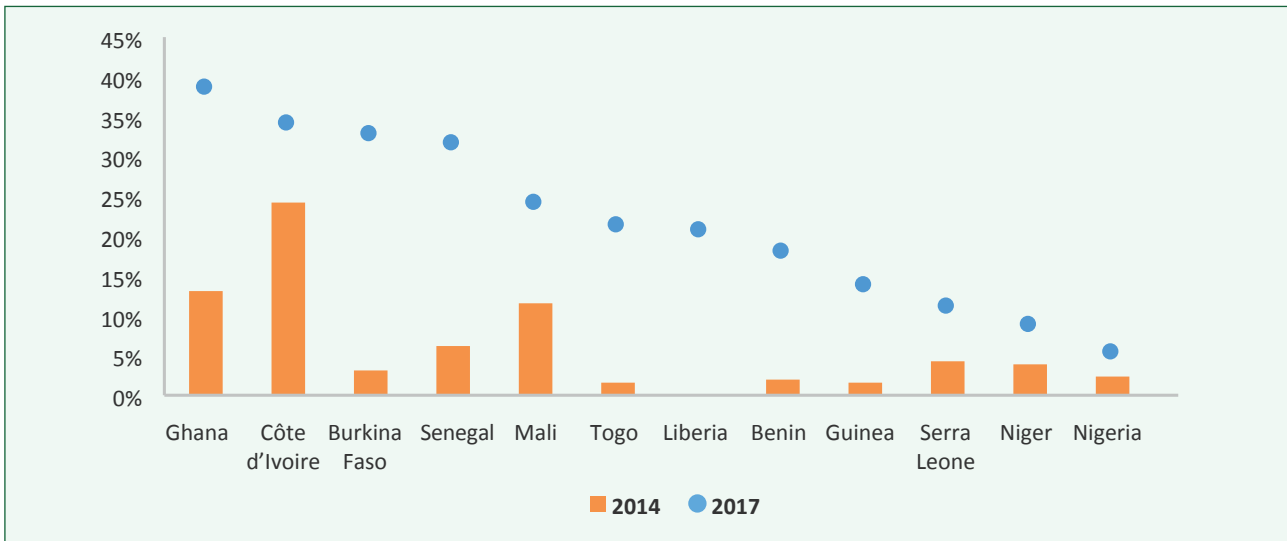


Source: World Development Indicators, 2018.

Despite the increase in access to internet services, West Africa remains digitally under connected relative to global average of 58 percent. Only Cabo Verde, Côte d'Ivoire, Ghana, Nigeria and Senegal, have higher internet penetrations than the African average of 25.4 percent. Although the advent of broadband access has stimulated demand for digital services, there are significant cross-country differences in financial inclusion. For instance, Côte d'Ivoire (24 percent),

Ghana (13 percent), and Mali (12 percent) have the highest figures for mobile money accounts (Figure 28). From 2014-2017, demand for mobile accounts has increased in all countries. In particular, the increase was higher in Burkina Faso, Togo, Benin, and Sierra Leone where the percentage of adults with mobile accounts in 2014 was less than 5 percent. In 2017, the figure had more than doubled.

Figure 28: Adults with a mobile money account (percent)

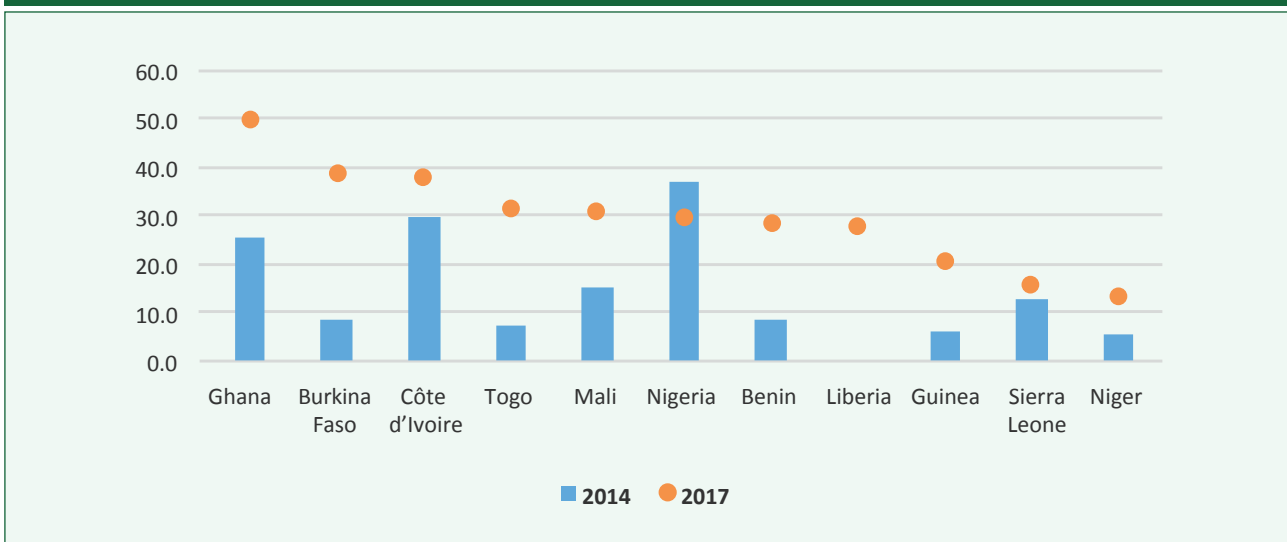


Source: Global Findex database.

The use of digital technology for payment also varies across countries and may depend on access to a mobile money account. In Nigeria, the proportion of population using digital payments declined between 2014 and 2017. This period coincided with the country's severe macro-economic imbalances, capped by the economic recession

in 2016. In contrast, the rest of the region experienced a significant increase. For instance, in Ghana, the proportion of population having made or received digital payments doubled from 25 percent to 50 percent. In Benin, Burkina Faso and Togo the increase was more than threefold (Figure 29).

Figure 29: Have made or received digital payment

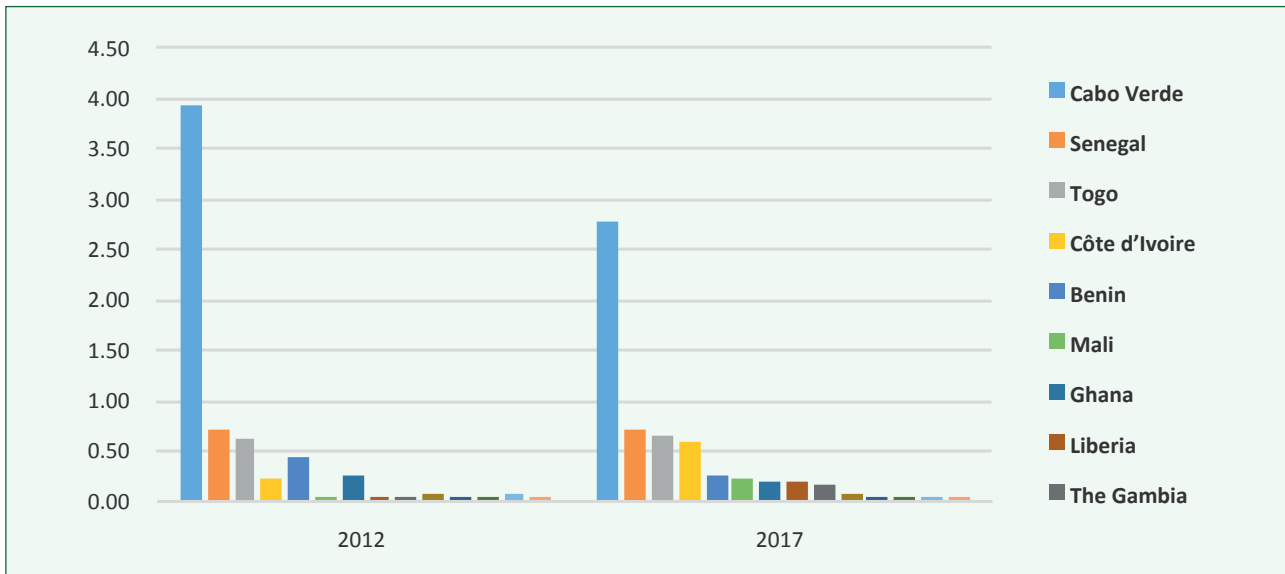


Source: World Bank Global Findex database.

Nigeria is the only country with low access to mobile money accounts, yet, it has a relatively high proportion of population using digital payments. This is because of widespread and relatively inexpensive access to online banking services in Nigeria, which makes mobile money accounts less attractive for financial transactions. In 2019, each of the 10 largest commercial banks in Nigeria offered online banking services and a smart phone application, with some of the

smaller institutions also increasing their footprint (World Bank, 2019). The applications allow users to undertake various transactions such as payment of bills, purchase of mobile phone credit and make transfers. Some micro and small companies also offer e-commerce, digital savings and lending, and create new value by innovative uses of data and integrating financial services with other digital products.

Figure 30: Fixed broadband subscriptions (per 100 people)



Source: World Development Indicators, 2018.

2.2.2 ICT and productive capacity

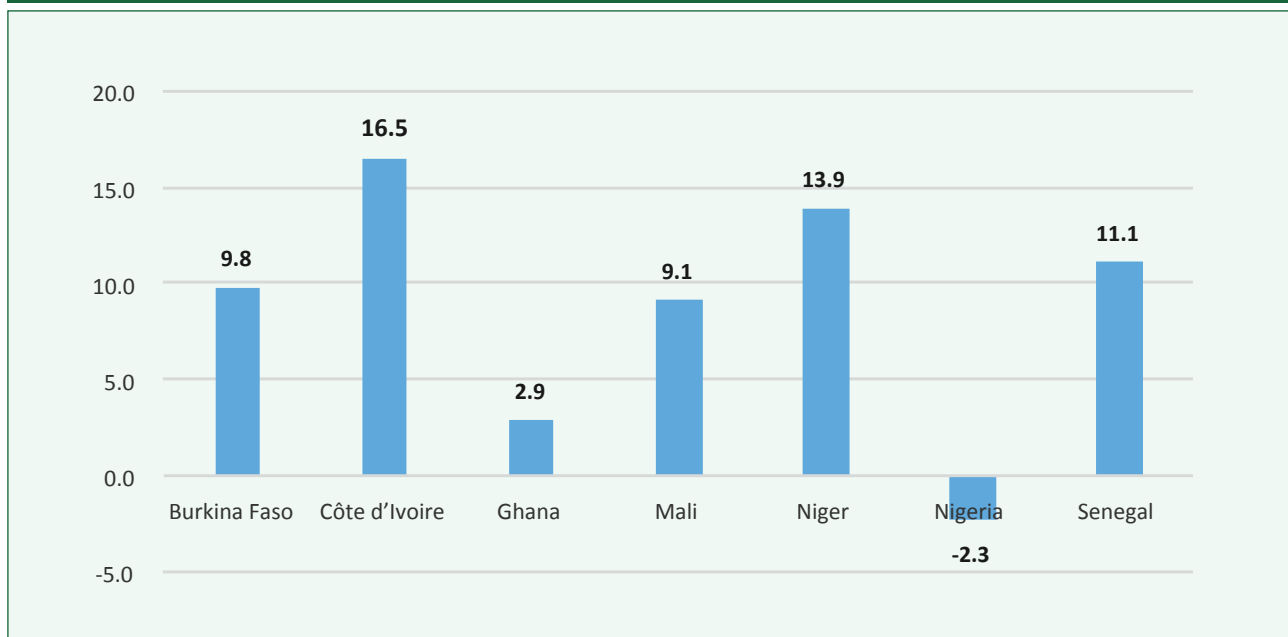
Although subscription to mobile phones has increased access to mobile enabled internet, fixed broadband subscriptions still lag behind. Between 2012 and 2017, the percentage of fixed broadband subscriptions was just 1 percent across the region. Cabo Verde, which had the highest subscription rate of nearly 4 percent recorded a decline to under 3 percent (Figure 30). Due to limited access to broadband to enhance full utilization of the internet, a great number of people and businesses are excluded from the digital world.

Globally, Europe is the highest ranked in broadband technology with more than 20 subscriptions per 100 people, followed by Latin America and the Caribbean, Asia and lastly Africa (AfDB et al., 2018). Yet, ICT can enhance productive capacity in the region. For instance, in 2018, growth of capital services provided by ICT was highest in Côte d'Ivoire followed by Niger and Senegal (Figure 31). Only in Nigeria has growth in capital services provided by ICT services recorded a decline. Fixed broadband infrastructure, a prerequisite for deployment of digital technologies remains a major constraint in the region. To ensure that the region is digitally enabled, countries should invest in infrastructure to bridge the digital

divide and create an enabling regulatory environment for technological adoption and adaptation to local conditions. Considering the importance of digitization in driving business

growth and improving public service delivery, increasing the level of digital literacy of the workforce could contribute positively to productive knowledge.

Figure 31: ICT enabled increase in capital services (growth in percent), 2018



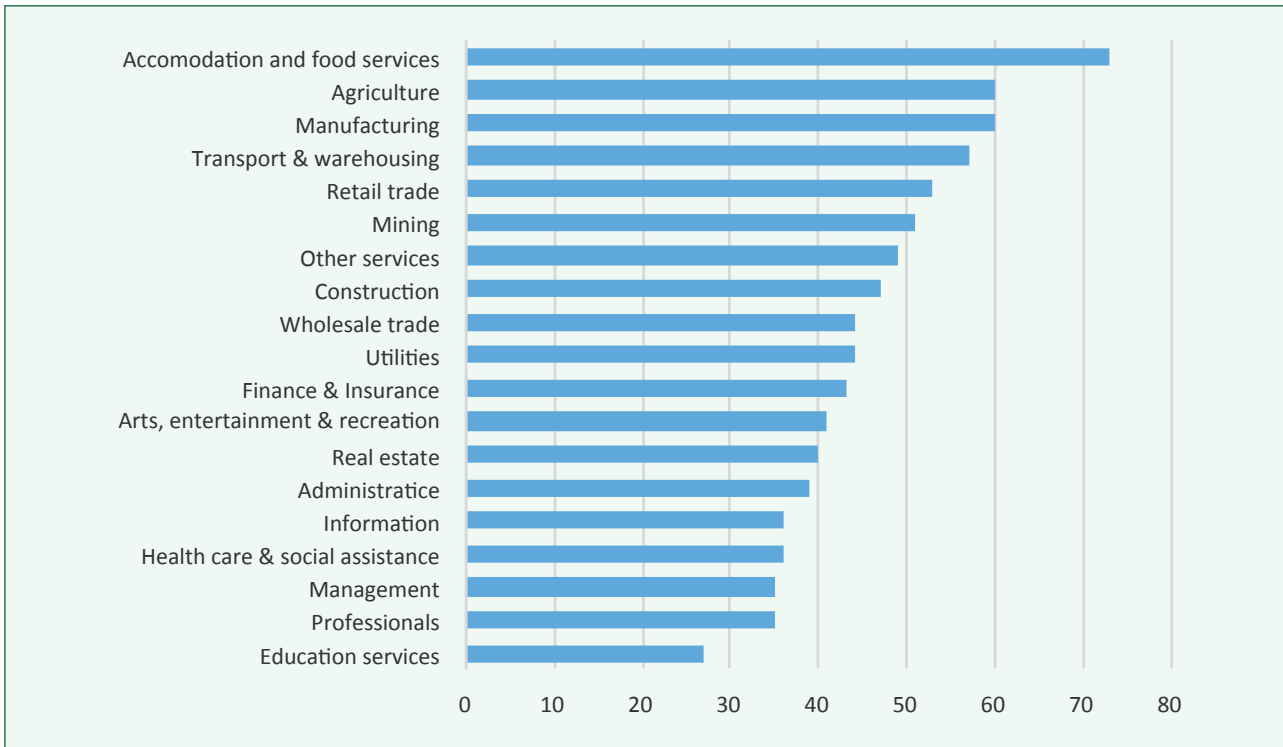
Source: The Conference Board, Total Economy Database.

2.2.3 Digitization and automation of the workforce of future

Technological innovation, and especially the 4IR has the potential to change the skills for the future to disrupt the development narrative. Estimates by the World Economic Forum (2016) suggest that 65 percent of children entering primary school today will ultimately work in new type of jobs and functions that currently do not exist. Technological trends such as the Fourth Industrial Revolution (4IR) will create new cross-functional roles for which employees will need technical, social and analytical skills.

This technological revolution, characterized by new technologies including artificial intelligence, cloud computing, robotics, 3-D printing, the internet of things, and advanced wireless technologies, are already gaining global traction and creating development impact. For West Africa and the rest of the continent, the 4IR could revitalize the development potential. Technological revolution can stimulate productivity through adoption of labor-saving technology. Whereas digitization and automation facilitate faster growth of businesses and the economy, it has implications for jobs, particularly for the low skilled workforce, which can only be addressed through education, training and skill upgrading. Figure 32 lists the percentage of time spent in tasks that could be automated.

Figure 32: Percent of time spent in task that could be automated



Source: McKinsey via Bridgewater Associates.

More than half of time spent on activities such as accommodation and food services, manufacturing, agriculture, transport and warehousing, retail trade and mining, most of which are labor intensive, can be automated. On the other hand, less than 40 percent of time in high-skilled occupations such as administration, health care and social services, information, professional, and management and education services can be automated. The overall implication is that, a greater share of high skilled tasks cannot be automated because the skills required to perform the task cannot easily be substituted. On the other hand, low skilled and mechanical tasks have close substitutes and a greater proportion of tasks could be eliminated by automation and digitization. Thus, the extent to which the future of West Africa's labor market would be shaped by the 4IR depends largely on the nature and structure of the labor market and the activities that can easily be substituted by automation and digitization.

There is a job-creating effect of the 4IR, mostly in the services sector, which would absorb middle and high skilled labor. For instance, online talent platforms across the Middle East and North Africa have the potential to create significant benefits by moving people from informal to formal jobs, increasing workforce participation and additional hours worked of those formerly under-employed or inactive, and shortening the duration of job searches (World Economic Forum, 2017). The potential new jobs that would emerge from the 4IR characterized by automation and digitization are the very high-end jobs related to the development of new products and services using ICTs and automation as well as low-middle-end jobs through digital platforms from e-commerce to micro-work. The 4IR could also create new activities or jobs through development of value chains, mainly in agriculture, facilitated by new technologies. Essentially, sustainability of work in the future labor market, ruled by

automation and digitization, depends on investment in quality education and training characterized by digital and non-routine analytical and socio-emotional skills.

West Africa has made strides in digitization relative to East and Central Africa but lags behind North and Southern Africa. Ghana ranks higher on the Digital Adoption Index (DAI) in the 8th position in Africa behind four Southern Africa and three North African countries (Annex 4). Niger, the lowest ranked nation in West Africa, is only better than the average country in Central African Republic. In West Africa, the DAI ranges from a low of 0.16 for Niger to a high of 0.45 for Ghana. In terms of automation, no country in West Africa is listed among those using robots in manufacturing. Automation is a key feature of 4IR, which underscores the future of work and Africa remains at the bottom of the automation pyramid. South Africa (ranked 33rd) is the only African country listed among the top 42 countries in the world in terms of density of robotic workers (Annex 5). West African countries are further behind, underscoring the extent of catching up required.

In 2017, South Africa had 28 installed industrial robots per 10,000 employees in manufacturing compared with 710 for the top country globally, South Korea. Almost all robot installations in Africa prior to 2017 were in South Africa. The first time more than 100 units were recorded for other African countries in 2017 and all were concentrated in North Africa, with Moroccan automotive industry accounting for about 75 percent of the installations. According to the automation

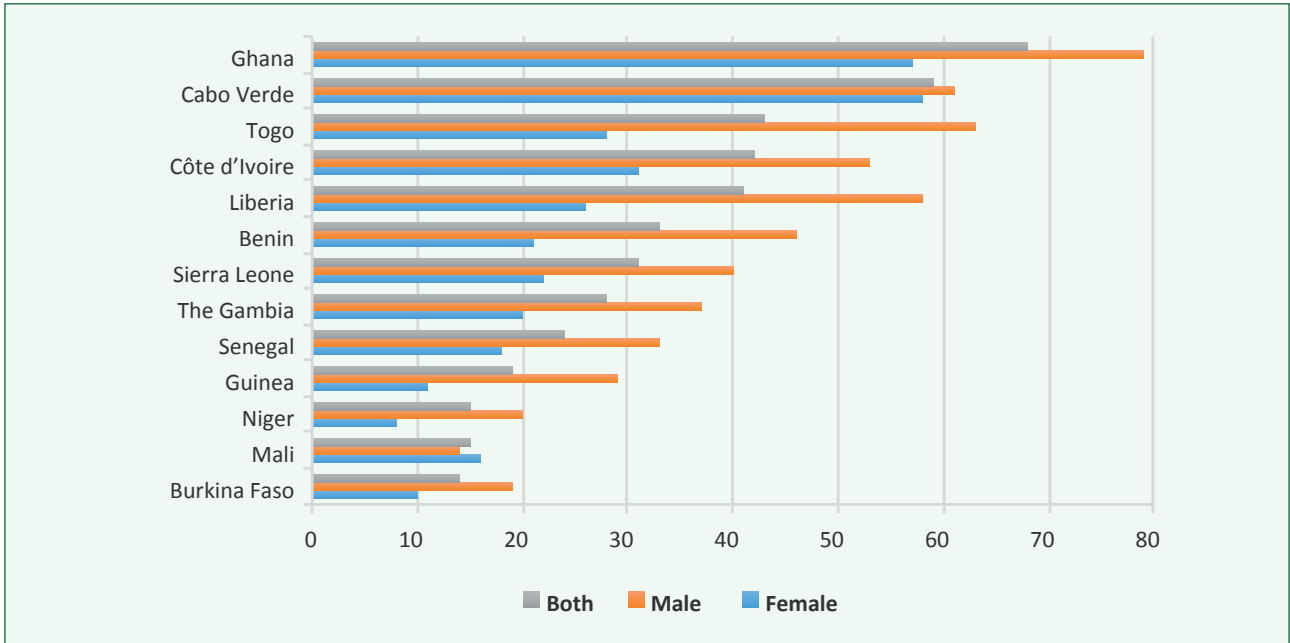
readiness index, the most advanced country in the continent in the robotization process is one of the least prepared globally for the age of intelligent automation (EIU 2017).

2.3 EDUCATION AND SKILLS DEVELOPMENT

2.3.1 Trends and patterns of education

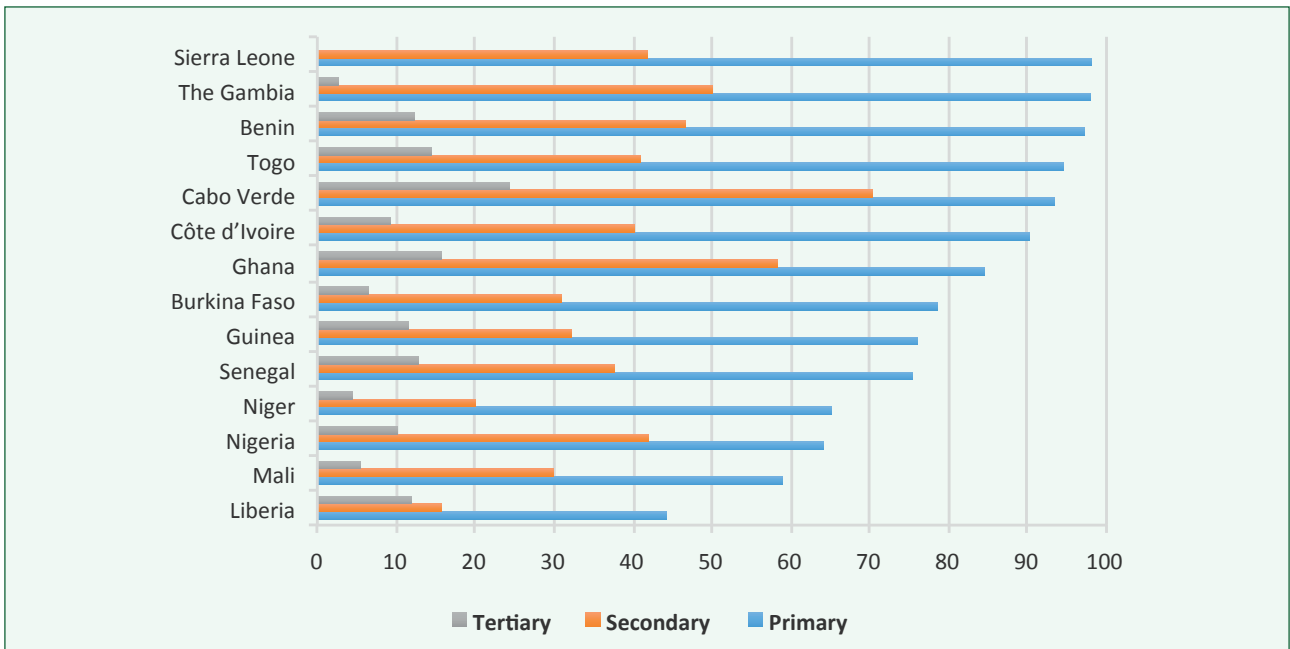
The education system in West Africa is not poised to take advantage of the technological revolution, especially with respect to 4IR. School enrolment has improved over the last two decades. However, the average number of years of schooling remains low with significant cross-country variations (Figure 33). These variations are also evidence in terms of school enrolment (Figure 34). Six out of 14 countries have primary enrolment rates of at least 90 percent. Smaller countries – Sierra Leone and The Gambia – have nearly universal coverage at primary level. This follows improved funding at this level, as well as abolition of user fees to increase access to primary education. At less than 60 percent, enrolment ratios in Mali and Liberia are the lowest. At the secondary level, six of the 15 countries – Liberia, Niger, Mali, Burkina Faso, Guinea and Senegal – have lower than the West African average of 37.9 percent secondary school enrolment ratio. At the tertiary level, only five out of 13 countries for which data are available – Benin, Cabo Verde, Ghana, Togo and Senegal – have enrolment rate higher than the regional average of 12.6 percent, which by international standards is critically low.

Figure 33: Mean years of schooling for 25+ years by gender for West Africa 2010-2017



Source: Constructed from UIS.UNESCO.

Figure 34: School enrolment rates for West African Countries 2010-2018 (percent)



Source: Constructed from World Development Indicators.

The cumulative dropout rate to the last grade of primary and lower secondary education is very high and mostly increasing (Table 7). Whilst school enrolment rates in the sub-region have improved considerably in recent years, the inability of pupils to stay in school and complete successfully remains a challenge. Except Cabo Verde and Ghana, the dropout rate for primary school is above 25 percent in majority of

countries for which data are available for 2016. In some cases – Benin, Liberia and Sierra Leone, it was above 50 percent in 2016. In lower secondary school, the pattern is almost the same. Available data for 2017 show that although rates are relatively low compared with primary schooling, only Côte d'Ivoire, Ghana and Liberia recorded dropout rates below 20 percent.

Table 7: Cumulative dropout rate to the last grade, general education

	Primary		Lower secondary	
	2013	2016	2013	2017
Benin	46.6	52.5	32.2	-
Burkina Faso	30.5	34.4	28.5	23.8
Cabo Verde	9.4	9.9	23.4	25.8
Côte d'Ivoire	26.0	26.7	-	15.6
The Gambia	22.8	24.9	4.2	-
Ghana	16.3	15.0	23.9	12.3
Guinea	34.1	-	23.8	-
Liberia	-	53.5	-	16.2
Mali	-	-	22.7	33.4
Niger	35.6	-	51.0	56.3
Senegal	34.5	37.9	22.4	32.4
Sierra Leone	-	53.0	-	21.8
Togo	47.2	-42.0	42.0	26.2

Source: Constructed from WDI, World Bank and UIS.UNESCO.

2.3.2 Quality of education

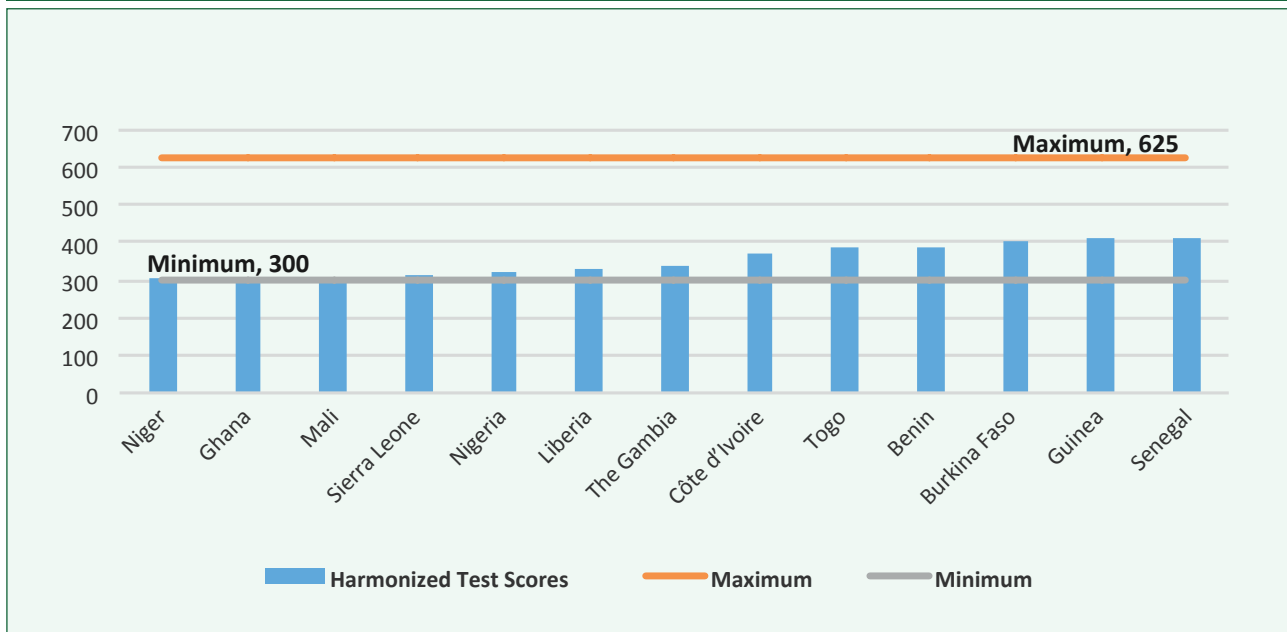
The quantity and quality of education are below expectation in the region as shown by harmonized test scores and the gap between the expected years of schooling and the

learning-adjusted years of schooling. The harmonized test scores as a measure of quality of education range from the minimum of 300 to 625, the maximum. Harmonized test score captures learning achievement in reading and language proficiency, numeracy and mathematics, as

well as scientific knowledge and understanding in computation (World Bank, 2018). Figure 35 shows that Niger, Ghana, and Mali are close to the minimum. Even countries above the minimum are still far below the

maximum. Senegal, Guinea, and Burkina Faso had the highest harmonized test score of 412, 408 and 404 respectively. Senegal and Guinea were ranked 7th and 8th in the region.

Figure 35: Harmonized test scores

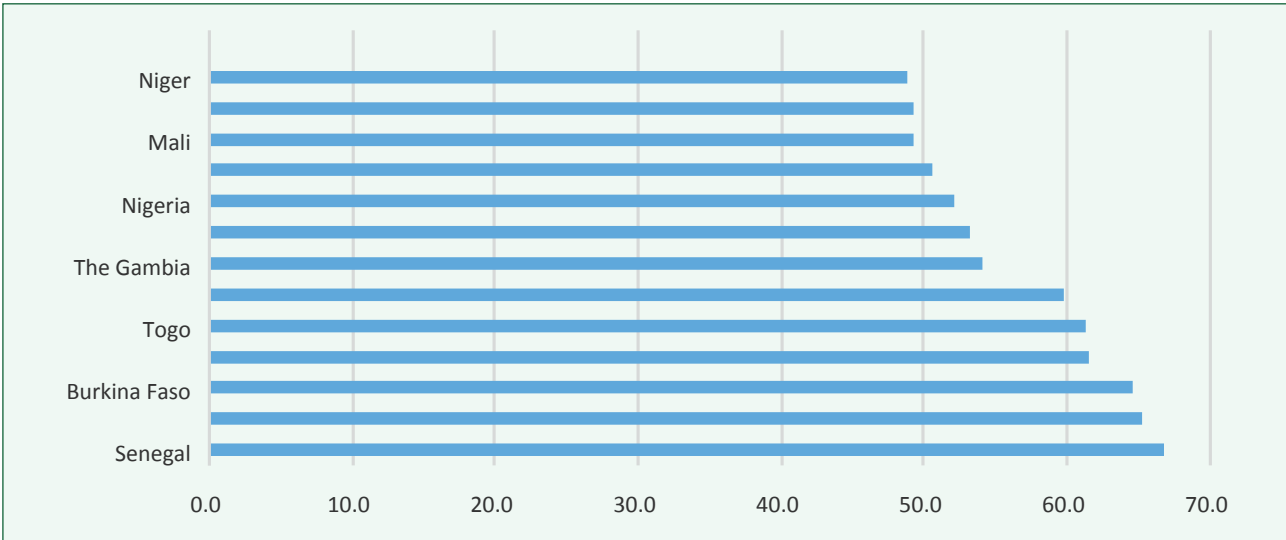


Source: Human capital database 2018.

The learning-adjusted years of school children between 4 and 17 years is equally far below the expected years of school (Figure 36). In Niger, Ghana, and Mali where the quality of education is already low, the learning adjusted years of schooling quantity is less than 50 percent of the requirement. The highest performing countries are Senegal, Burkina Faso, Guinea, and Benin, with more than 60 percent of the learning-adjusted years of schooling. These countries also scored higher on harmonized test scores. Although quantity does not guarantee quality, at the minimum, increased years of schooling, it provides an opportunity to assess

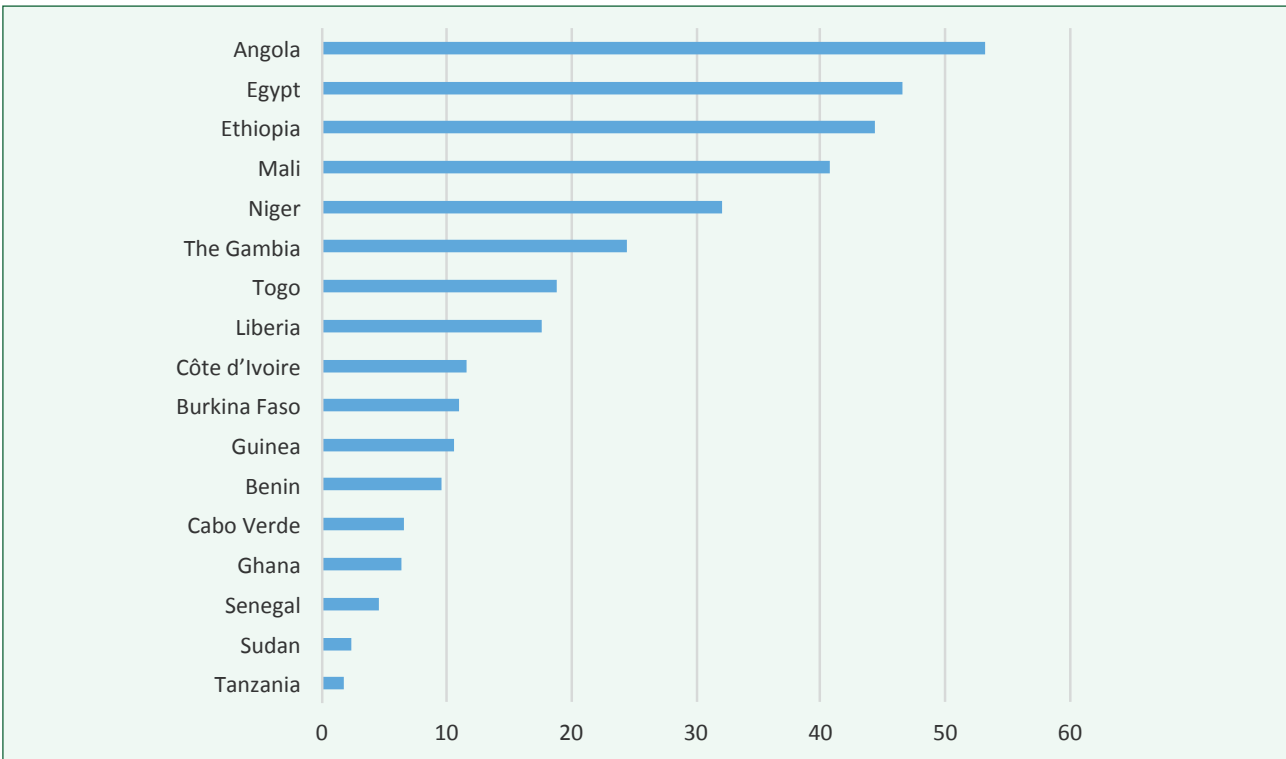
performance overtime and redress any challenges that learners may be facing during their study. To be effective, this should be supported by other interventions, including increased funding allocation to education and prudent management of resources, improved training of teachers, invest in physical infrastructure to reduce class overcrowding and improve contact between teachers and learners. A total transformation of the education system is also required, focusing on equity and fairness and ensuring the curriculum meets the needs of the emerging economies, characterized by technological revolution.

Figure 36: Learning-adjusted years of schooling as percent of expected years of school



Source: Human capital database 2018.

Figure 37: Vocational students (percent of total secondary school) 2010-2017



Source: Constructed from WDI, World Bank.

Technical and Vocational Education and Training (TVET) is low in West Africa. The low level and low quality of technical and vocational education in West Africa partly account for the weakness in human capital in the region. Mali, with the highest TVET in West Africa trails Angola, Egypt and Ethiopia while Senegal, with the lowest share of TVET is only better than Sudan and Tanzania (Figure 37). With the exception of Mali, whose share of TVET in total secondary school enrolment is 41 percent, the share in other countries in West Africa for which data are available is less than a third. Four countries (i.e. Benin, Cabo Verde, Ghana and Senegal) have less than 10 percent share of TVET education.

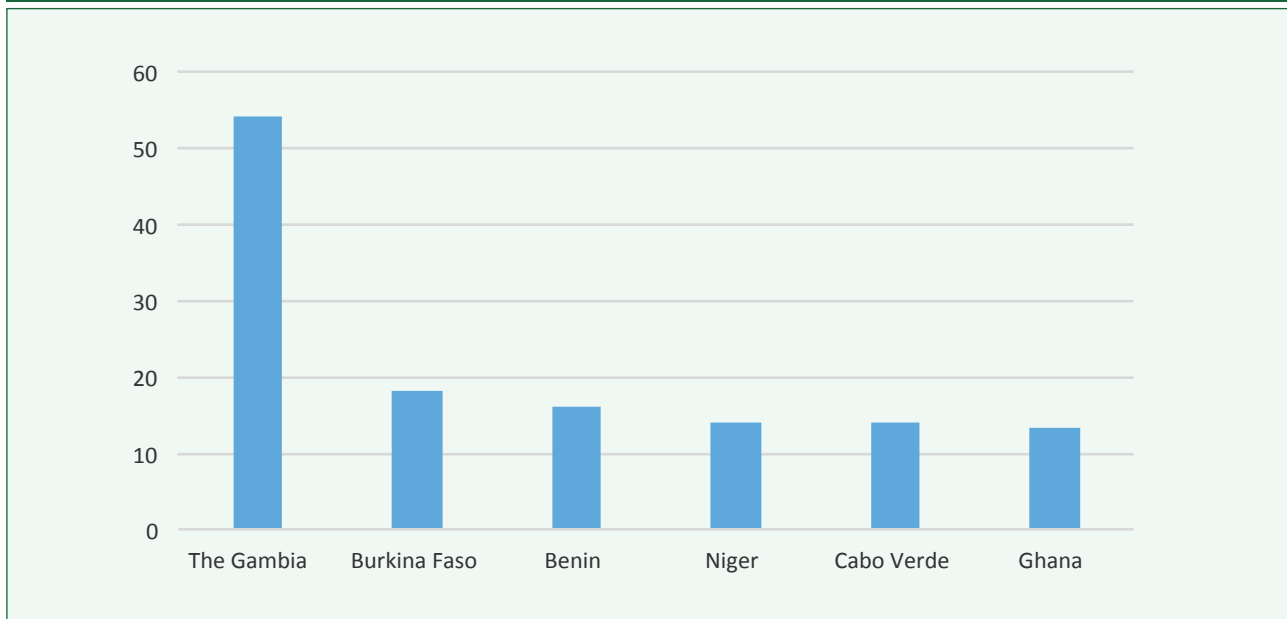
The low share in West Africa partly reflects societal stigmatization of TVET as a second-class education preparing its beneficiaries for manual labor rather than mental work. Evidence shows that in countries where share of TVET is high, there appears to have been little increase in employment

opportunities or better returns to individual incomes (Bennell, 2000). Indeed, low quality of TVET education does not appear to improve labor productivity (ACET, 2014). As a result, there is generally lack of expansion and uptake of TVET (Oketch, 2007) and hence the quality of students admitted into TVET and the quality of delivery continues to be poor.

2.3.3 Human capital dimension in the labor market

Demand for skills in the region is changing, oriented towards technology-biased skills in response to technological transformations. According to the World Economic Forum, across all regions of the world, digital, marketing and talent-related professions dominate the list of roles that have experienced upward hiring trends alongside software engineers, data analysts and human resources specialists (World Economic Forum, 2018). However, education systems in West Africa are not adapting to these trends.

Figure 38: Graduates in STEM, 2010-2018 (percent)



Source: Constructed from UIS, UNESCO.

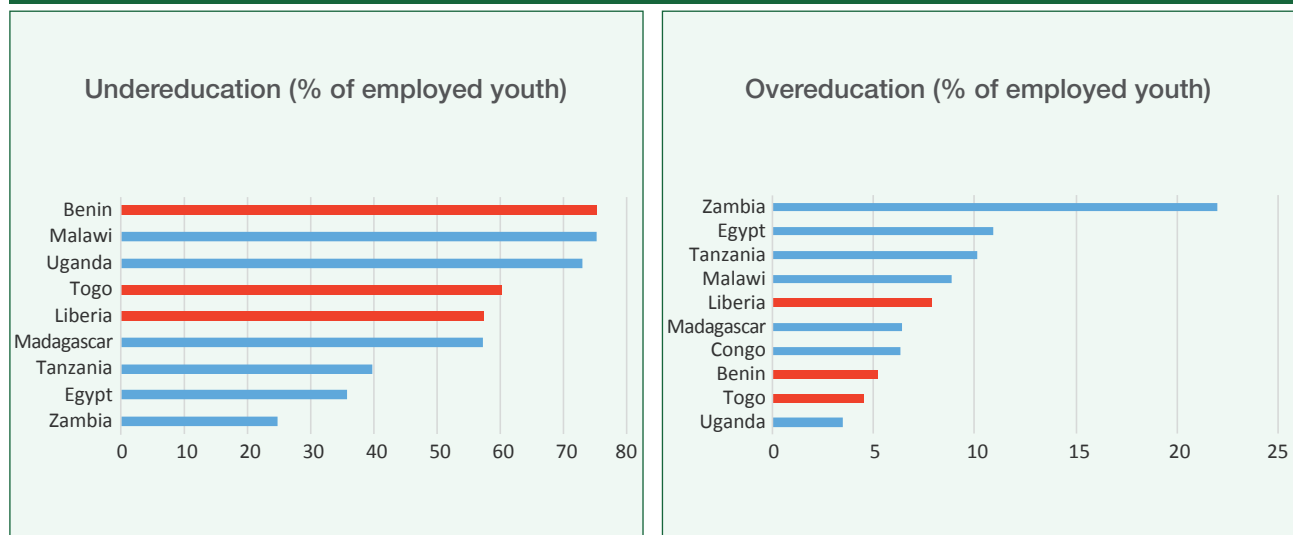
Over the period 2010-2018, the share of tertiary graduates in science, technology, engineering and mathematics (STEM) has been very low (Figure 38). Apart from The Gambia, the remaining five countries for which data are available have less than 20 percent of tertiary graduates. Yet skills demand in these areas is increasing. The quest for structural transformation in West Africa hinges largely on the ability of the region's countries to develop skilled workforce to drive the transformation agenda and take up high-skill job opportunities. In the global economy driven by technology and innovation, acquisition of highly valued skills is a prerequisite for more productive and decent employment. As ILO (2019) notes, gaining skills that are valued in the labor market increases the chances of finding a decent job in a world where skills, technology, and innovation are shaping the demand for labor.

Underdevelopment in many African countries is not only due to lack of capital but also reflects inadequate knowledge and skills to enhance productivity. The ability for West African countries to exploit abundant natural resource endowment for economic transformation hinges on the development of skills and technical knowhow.

Education and skills mismatch

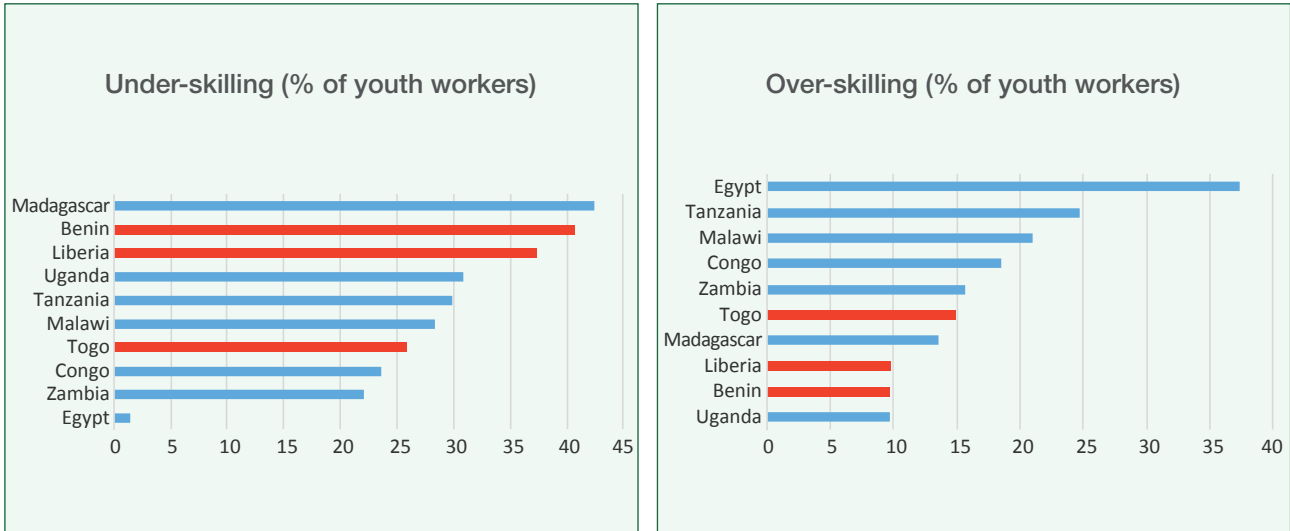
One major reason behind the weak labor market effect of formal education is the divergence between formal education or skills requirement of the job and what jobseekers possess, referred to as education and/or skill mismatch. According to (Leuven and Oosterbeek, 2011), education (or qualification) mismatch is measured by the difference between the actual level of education (or qualification) and the required education level for the job. As noted above, there is a generally higher incidence of under-education among countries in West Africa as compared to their peers in other parts of Africa (Figure 39). Benin has the highest proportion of under-educated youth workers among nine selected countries in Africa. In contrast, West African countries have lower incidence of overeducation in relative to their peers elsewhere in Africa. Although overeducation is relatively low, the educated youth in West Africa lack the requisite skills. Thus, under-skilling is more pervasive than over-skilling, reflecting the low quality of education discussed above (see also Figure 40). Two countries – Benin and Liberia – have a high incidence of under-skilling, only better than Madagascar.

Figure 39: Incidence of education mismatch in West and other African countries



Source: Computed based on ILOSTAT.

Figure 40: Incidence of skills mismatch in West and other African countries



Source: Computed based on ILOSTAT.

Skills enhancement is predicated on the potential return from additional year of investment in acquiring the skill. The private returns on education reflects earnings from an additional year of investment made in schooling. The private return to education is generally low in West Africa although the figures exhibit cross-country variations in the region (Table 8). For another year of schooling, the return to education varies from 4.1 in Sierra Leone to 14.6 in Niger. In most countries, the return to education is higher for women than for men at the primary and secondary education,

except in The Gambia and Niger with lower returns at the primary level. For tertiary education, the return to education is higher for women than for men in Côte d'Ivoire, Ghana, Nigeria, Senegal, and Sierra Leone, and the inverse in the rest of the countries. Overall, these statistics lend credence to the push for more investment that benefits women to improve gender inclusion in education. In sum, 5 out of 9 countries for which data are available for primary, secondary and tertiary level, returns to schooling are highest for tertiary level, followed by primary level and then secondary level.

Table 8: Returns to education

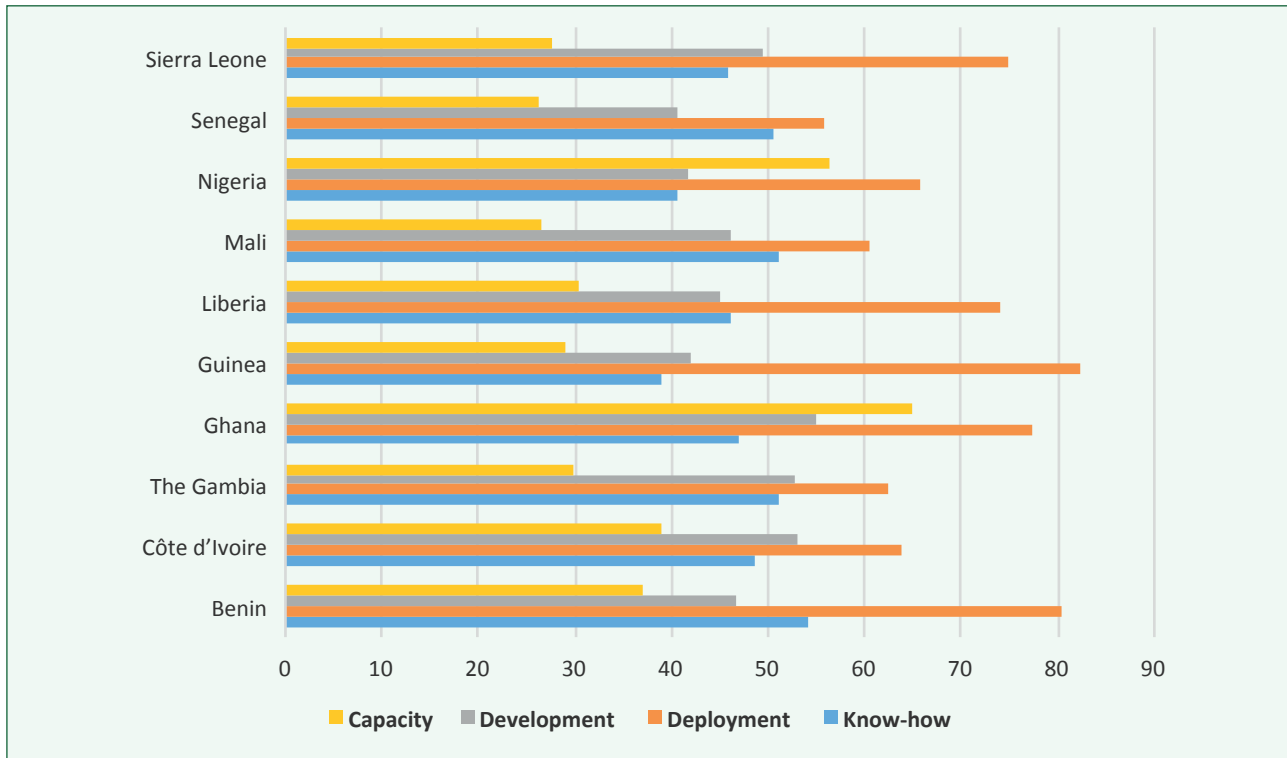
Country	Year	Another year of schooling	Primary			Secondary			Tertiary		
			Male	Female	Total	Male	Female	Total	Male	Female	Total
Burkina Faso	2003	12.2	12.2	12.8	12	10.9	17.6	12.2	27.6	12.5	19.6
Côte d'Ivoire	2008	11.3	7.7	19.4	12.6	10.9	14.1	12.1	21.9	31	24.9
The Gambia	1998	9.1	9.6	1.5	9.4	5.3	19.4	8.6	22.7	4.5	18.1
Ghana	2012	12.5	-	2.3	2.7	6.5	11	8.8	26.6	34.8	28.7
Guinea	1994	6.3	19.4	24.4	19.5	-	0.5	-	10.4	4.4	8.8
Mali	1994	13	14.3	39.5	21.2	11.1	16.1	12.4	18.8	17.9	19.3
Niger	2011	14.6	40.5	25.7	38.7	-	11.6	6.3	35.8	28.3	29.7
Nigeria	2003	10.1	12.5	30.6	16.6	6.1	8.2	6.8	12.1	13.7	13
Senegal	2011	11.8	7.6	27.3	9.8	5.6	10.1	6.5	19.3	26.3	21.8
Sierra Leone	2011	4.1	3.2	9.5	5.5	3.9	7	4.4	3.8	1.9	3.5
Togo	2011	12.2	2.8	11.6	15	5.7	12.1	8.2	-	-	-

Source: Montenegro and Patrinos (2014).

The skills mismatch in the region also shows up in the human capital development, measured by the Human Capital Index (HCI). The HCI is a composite statistic generated from four elements of human capital: capacity, development, deployment and know-how (World Economic Forum, 2016). Capacity captures the percentage of the population that has achieved at least primary education and the proportion of the population with the basic level of literacy and numeracy. Apart from Nigeria and Ghana, other countries were below

40 percent, suggesting a constraint for such countries in adapting to new technologies and to innovate and compete globally. The development element captures formal education of the next-generation workforce and continued upskilling and reskilling of the current workforce. Based on available statistics, many countries in West Africa perform better on the 'development' dimension of HCI than on the capacity element. Ten countries were above 40 percent but still below 60 percent (Figure 41).

Figure 41: Investments in the four elements of human capital by country



Source: Global Human Capital Report, 2017.

The 'deployment' dimension measures the number of people that can participate actively in the workforce as well as how successful segments of population such as women, youth and older people, are able to contribute to the economy. Sub-Saharan African countries have limited capacity but high deployment, through the quantity of labor deployed in the economy and the skills gained in informal learning. This element exceeds 60 percent in many West African countries, reflecting high labor force participation, low gender gap and low rates of unemployment. The 'know-how' element concerns the breadth and depth on the use of specialized skills at work and includes economic complexity, share of medium-skilled and high-skilled employment and availability of skilled employees. Although this element exceeds 40 percent in many countries in the region, it does not attain

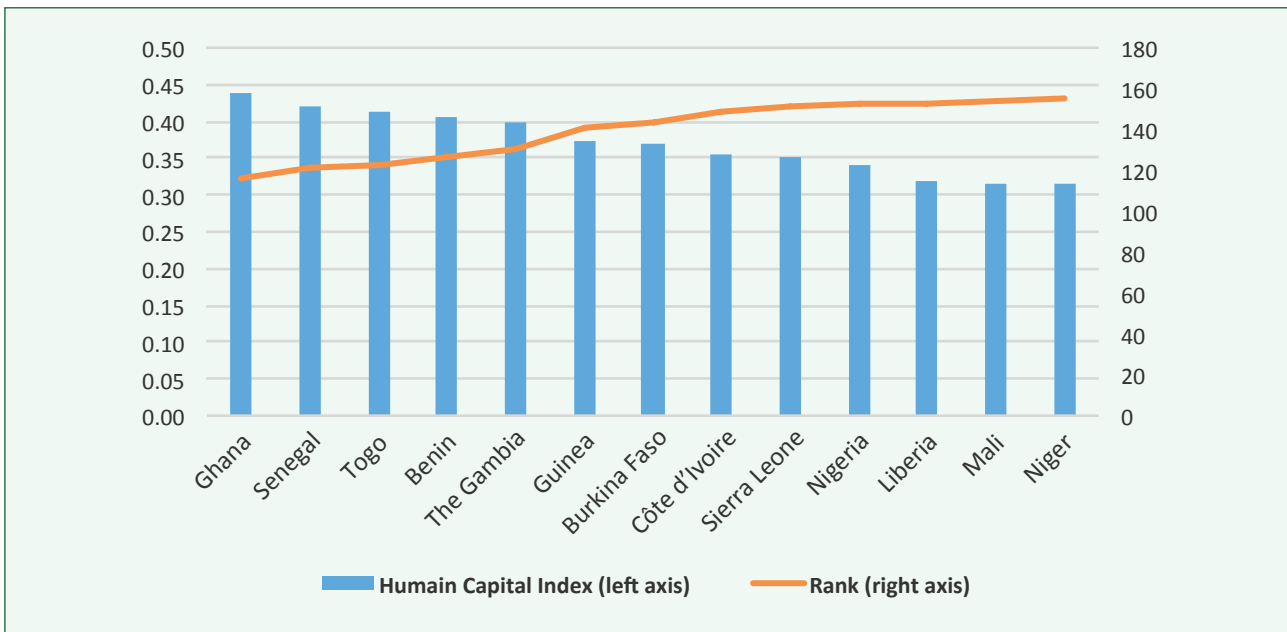
60 percent in any of them. This implies that employers' perceptions about availability of the ease of filling vacancies is not favorable.

With the poor performance on the constituent elements of the HCI in West Africa, it is not surprising that none of the countries in the region exceeded 0.45 on the composite measure. Indeed, overall human capital appears to be very weak across the region, with the index ranging from 0.32 to 0.44 (Figure 42). Ghana, the best ranked country in West Africa in 2018, was in 116th place among 157 countries in the list. This was followed respectively by Senegal (121th), Togo (122th), Benin (127th), and The Gambia (130th) while Liberia (153th), Mali (154th), and Niger (155th) were ranked in the bottom tier. The implication of the HCI range for West Africa

is that countries in the region are currently leveraging less than 55 percent of their human capital, which represents the knowledge and skills individuals possess to enable them add value in the economy. With such little knowledge

and skills, it is unlikely that individuals will be able to take advantage of the 4IR unless the education system is deeply transformed. Some countries also have a wide HCI gender gap.

Figure 42: Human capital index by country



Source: Global Human Capital Report, 2017.

Skills development for the future labor market

The low level of human capital in West Africa has implications for the region’s capability to embrace and benefit from the 4IR in terms of employment. One of the disadvantages of the education system in West Africa is that there is less focus on practical application in the curricula. Instead, the delivery

of education places too much emphasis on certificate acquisition rather than the practical content. As a result, graduates exit the education system without acquiring the requisite skills needed for the job market. Indeed, investors cite lack of skills as a binding constraint to private sector investment in Africa. Box 3 shows that a lack of skills is a hindrance to business development.

Box 3: Skills and business performance in West Africa

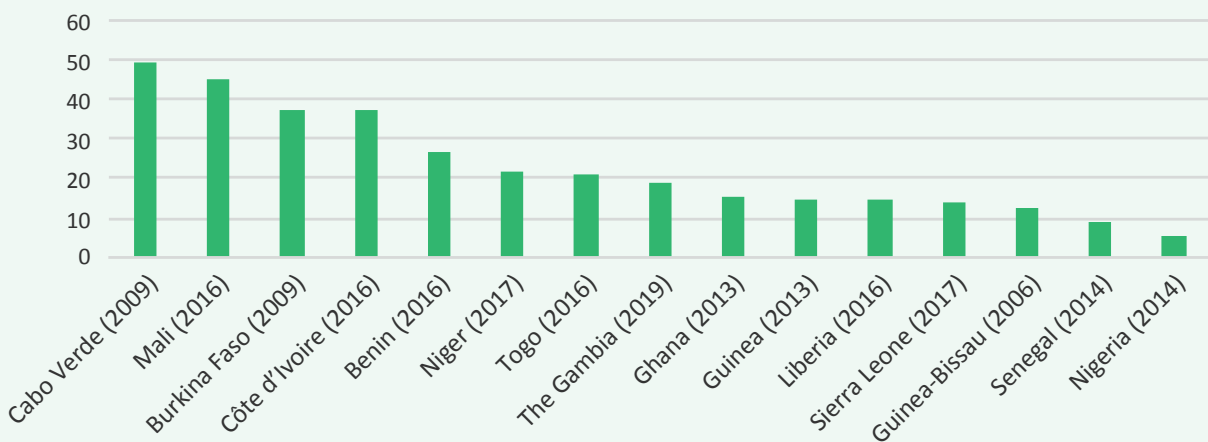
An underqualified workforce is a major constraint for businesses. This concern has been echoed by more than 79 percent of global business leaders in the PwC's 22nd Annual Global CEO Survey published in January 2019 (PwC 2019). The picture is even more distressing among African business leaders as the figure reached 87 percent, and 45 percent of respondents were "extremely concerned". Lack of skills was also perceived to have multiple consequences on businesses, notably: (i) inability to innovate effectively; (ii) increased potential to undermine quality standards and customer experience; and (iii) danger of missing growth targets. This evidence bears significant impact on economic growth, especially in West Africa region where most firms operating in countries such as Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, Mali, Niger and Togo have consistently identified an inadequately educated workforce as a major constraint to business (Figure 43).

The quality of the labor force, especially in a job applicant's core skills (e.g. science, technology, engineering and mathematics) and the mismatch between education supply and the needs of the current and prospective labor market, are among the priority constraints that need to be addressed going forward. Efforts to address this deficiency have not yielded enough results. Notably, technical and vocational education and training (TVET) systems in West Africa tend to differ significantly from country to country, both in terms of structure and functioning. Often these are not well integrated into the education system and do not meet job market demands (Akoojee, 2016). In fact, the UNESCO database on TVET reveals the great inequity in access to TVET training across countries in the region. For example, the percentage of students enrolled on TVET training as a share of total secondary enrolment levels is relatively high in Niger (32.7 percent), Togo (18.9 percent), Liberia (17.6 percent), Côte d'Ivoire (11.7 percent), The Gambia (11 percent); and Nigeria (10.1 percent). In contrast, Guinea Bissau and Sierra Leone evidence levels below 1 percent, in part due to their protracted institutional and political fragility. A better articulation between general TVET course diversity and supply is especially important in the context of the region.

Outside TVET, the region's tenuous security situation has adversely affected delivery of quality education in countries affected by internal conflict. The massive closure of schools in conflict zones in Burkina Faso, Mali, Nigeria and Niger has virtually decimated already poor education systems in these countries. The consequences of these closures will have medium and long-term implications on skills and human capital development more generally.

Figure 43: Firms identifying inadequately educated workforce as a major constraint (percent)

Percent of firms identifying an inadequately educated workforce as a major constraint (%)

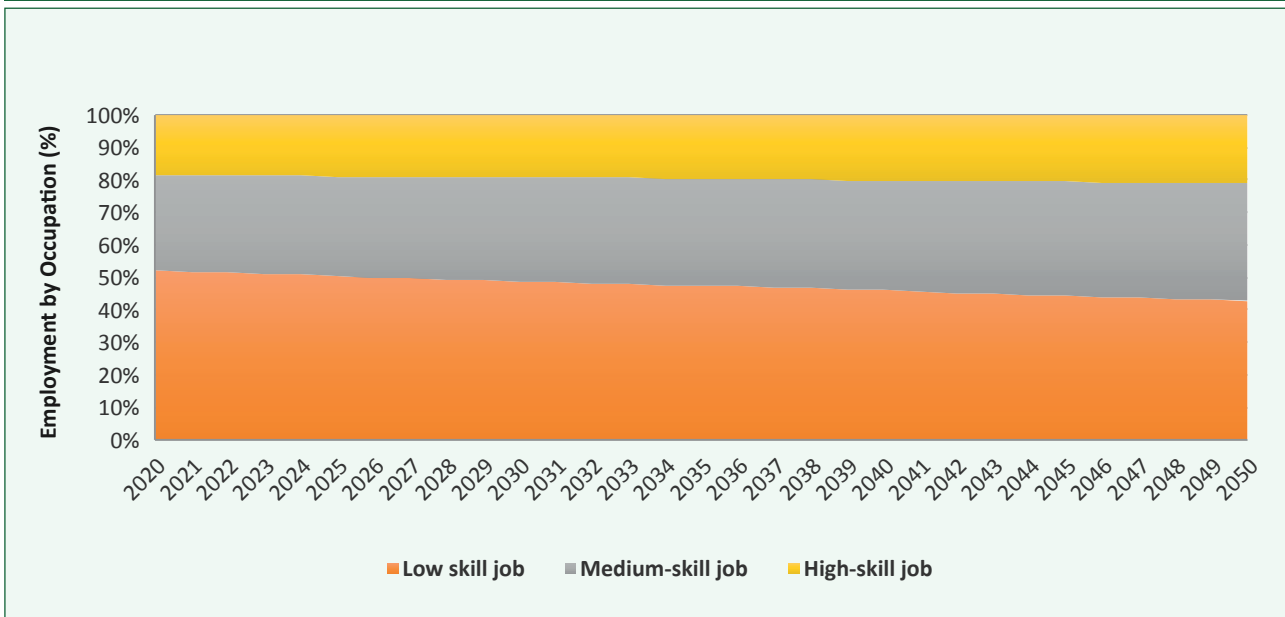


Source: World Development Indicators/World Bank 2019. Enterprise Surveys.
Figures in parenthesis correspond to the latest year in which survey data is available.

In countries of West Africa, the proportion of working age population is projected to increase in the next 30 years. For those with secondary education, it is projected to grow from 51 percent in 2020 to 70 percent by 2050 while for tertiary education it will increase from 9 percent to 16 percent.⁴ This expansion means that the labor force could shift from low skill occupations to the mostly medium skilled jobs and to a lesser extent the high skilled occupations. As Figure 44 shows, the share of medium skilled occupations is projected

to rise from 29.5 percent to 36.1 percent between 2020 and 2050 against a 2.7 percentage increase in the share of high skilled occupations from 18.3 percent to 21 percent. In contrast, low skill jobs are projected to shrink by about 10 percentage points from 52.2 percent to 42.9 percent in three decades. The increase in medium and high-skilled jobs reflects growing realization to expand skills base across countries in West Africa in order to narrow the skills mismatch.

Figure 44: Projection of employment by skilling (percent)



Source: UIS.UNESCO and WDI, World Bank.

Ghana is projected to record the largest increase in the share of high skilled occupations from 13 percent in 2020 to 20.6 percent in 2050, followed by Nigeria with a 3.2 percentage gain from 31.2 percent to 34.4 percent over the same period (Figure 45a). Four countries – Côte d'Ivoire, Mali, Benin and Guinea are projected to have high skilled

occupations in total employment rise by 2.7 to 2.1 percentage points, whilst Togo and Niger will manage to expand by 1.6 and 1.2 percentage points, with the least appreciation of 0.7 percentage points projected to happen in Burkina Faso. For medium skill jobs, the projected highest increase will be in Ghana from 53 percent to 66 percent over a 30-year period,

⁴ Source: Global Projection – IISA, <https://ourworldindata.org/projections-of-future-education>

followed by Côte d'Ivoire and Guinea (Figure 45b). Nigeria, the regional largest labor market is projected to experience a rise of 5.4 percentage points from 27.9 percent to 33.3 percent increase in medium skill occupation. In effect, investment in

the quality of education with emphasis on STEM and non-routine analytical and social skills will be critical for the labor force in the region to benefit from a shift from low skilled to medium and high skilled jobs.

Figure 45: Projection of (a) high skill and (b) medium skill jobs in West Africa (percent)



Source: Computed from ILOSTAT.

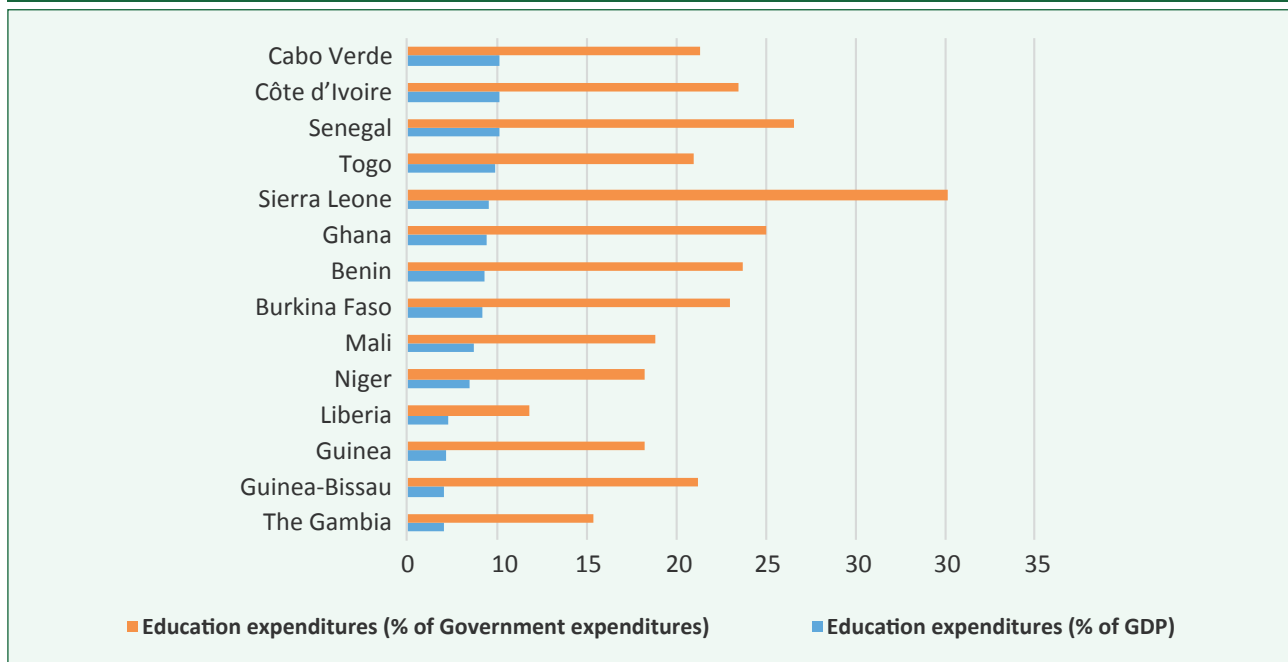
2.4 FINANCING EDUCATION AND SKILLS DEVELOPMENT IN WEST AFRICA

2.4.1 Public financing of education and skills development

As in many developing countries, public expenditure accounts for a sizable proportion of total education financing in West Africa. It ranges from a high of at least 5 percent of GDP in Cabo Verde, Côte d'Ivoire and Senegal to just 2 percent of GDP in The Gambia, Guinea, Guinea Bissau and Liberia (Figure 46). In terms of budget commitment to education, Sierra Leone has the highest share of education spending of 30 percent

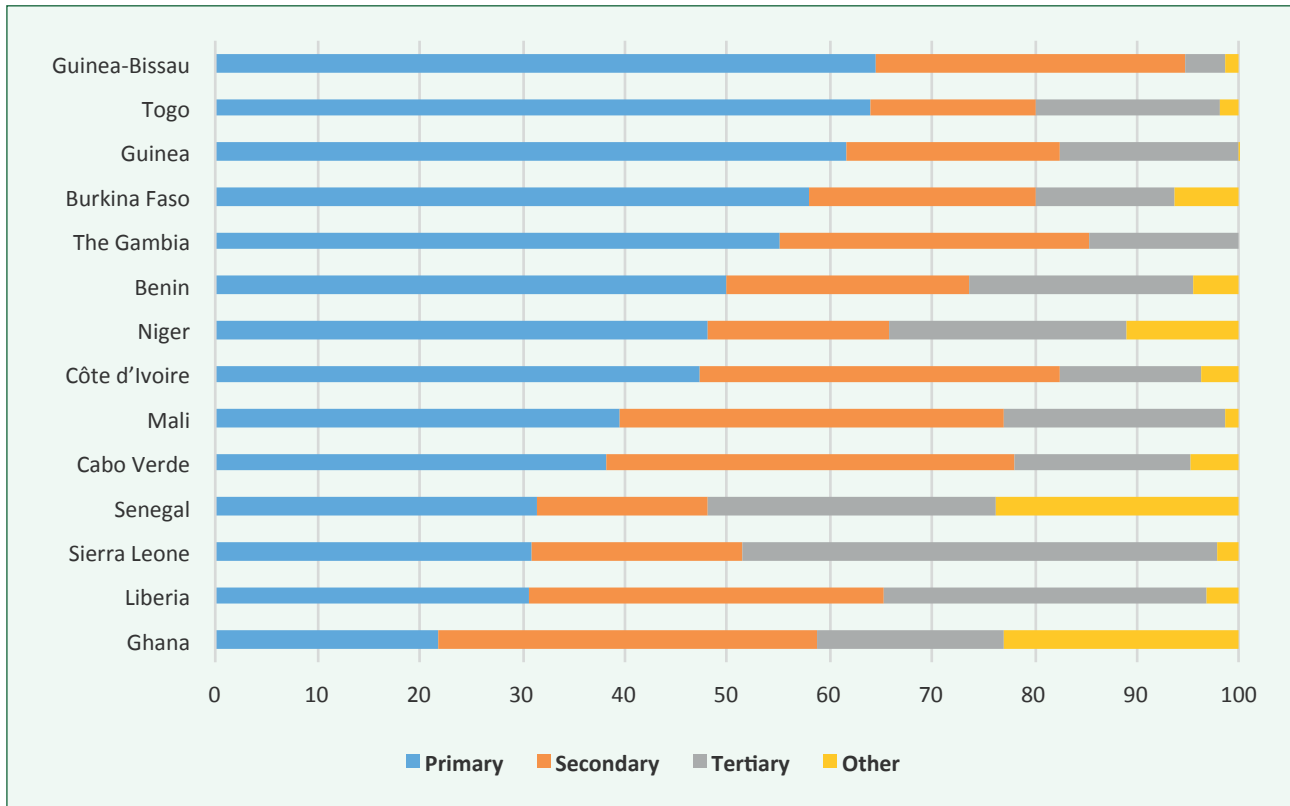
compared to 7 percent for Liberia. Sierra Leone has a free education policy for primary and secondary school aimed at increasing access. In Senegal and Ghana, public spending of education accounts for about a fifth of government expenditure compared to a maximum of 19 percent in other countries in the region. In terms of allocation, the largest share of government expenditure on education generally goes to basic education, followed by secondary education. Figure 47 shows that basic education accounts for the largest share of the education budget in 10 of the fourteen West African countries for which data are available while in Cabo Verde, Liberia and Ghana, the largest education budget is for secondary school. Like Sierra Leone, Ghana also has also put in place a free primary education policy.

Figure 46: Government expenditure on education as a percent of total public spending and GDP



Source: UIS.UNESCO and WDI, World Bank.

Figure 47: Distribution of Education budget by levels



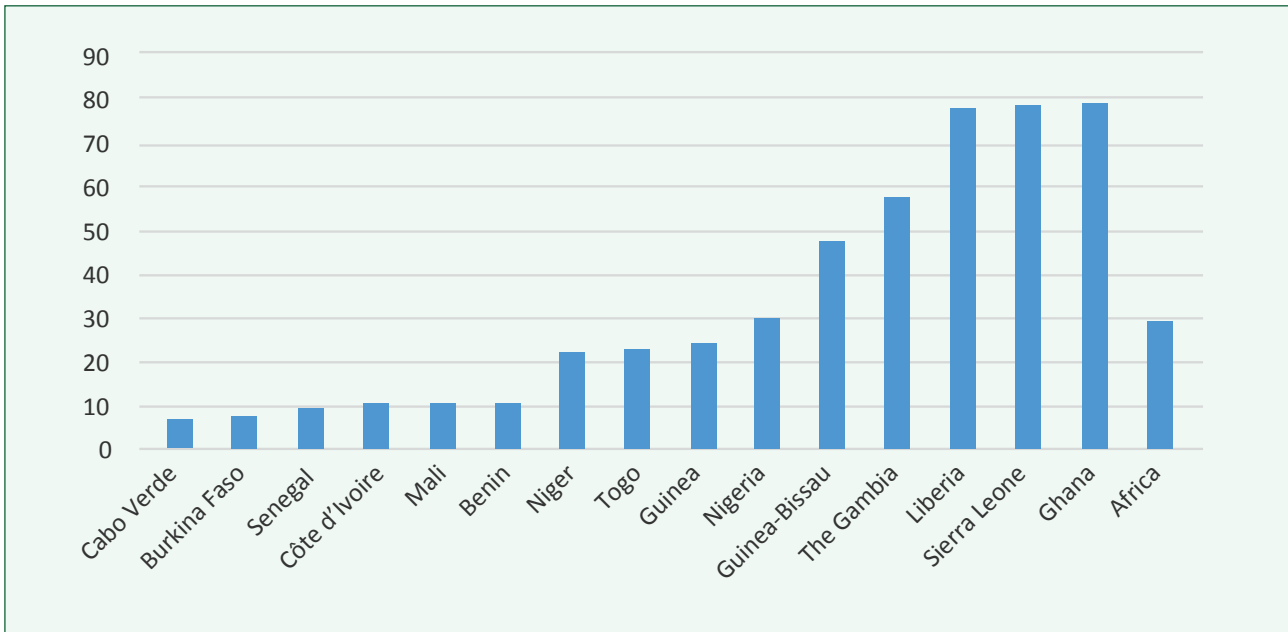
Source: UIS, UNESCO and WDI.

2.4.2 Household spending on education

On average, households account for about 30 percent of total education financing in Africa, according to ICP expenditure data. Within the West Africa region, household spending on education as a share of total education spending

varies widely across countries. The variation ranges from a high of 82 percent in Ghana to a low of about 6 percent in Cabo Verde (Figure 48). Household education financing in five countries – The Gambia, Ghana, Guinea Bissau, Liberia and Sierra Leone - is higher than the African average.

Figure 48: Household expenditure as a percent of total education expenditure



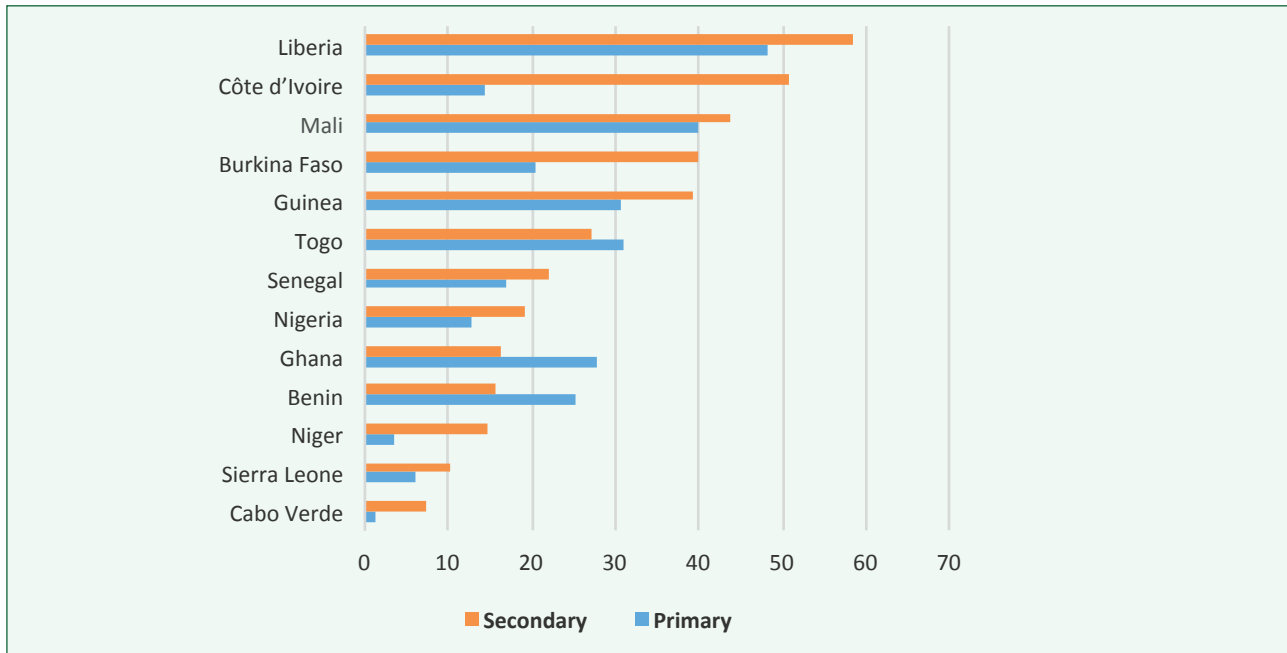
Source: Computations based on AfDB statistics and World Development Indicators.

2.4.3 Financing education and skills development by private institutions

Private sector financing of education and training takes different forms and is stronger at secondary than primary school level (Figure 49). It includes provision of scholarships and other support to students as part of the corporate social responsibilities as well as financing of on-the-job training. Private institutions are also involved directly in

the provision of education and training in the education sector. Private schools are often owned and funded by non-state actors, notably charity and faith-based organizations/institutions, communities and profit oriented institutions. Essentially, the contribution of private education and skills development providers is quite significant, reflecting growing demand for private education as quality of education in public schools has deteriorated owing to dwindling funding.

Figure 49: Share of private involvement in primary and secondary levels 2010-2018



Source: Computations based on AfDB statistics and World Development Indicators.

2.4.4 Education financing from international sources

West Africa's education and skill development is characterized by a large financing gap and often rely on external support. Out of USD14.8 billion total external education financing recorded in 2017, 36 percent was to Africa. International financing of education is quite significant in some West African countries. For instance, international partners contribute more than 25 percent of the education budget in Burkina Faso and Mali. Available statistics from the OECD (Organisation of Economic Cooperation and Development) suggest that in 2013-2014, 34 percent of aid to education was for post-secondary schooling. Allocation for basic education was 26 percent. Secondary school education and education policy, administration and management each accounted for

15 percent, whilst 10 percent was for improving education facilities, training and research. Two West African countries – Nigeria and Senegal - were listed among the main recipients of aid (in absolute terms) to education in developing countries.⁵

The International Development Association (IDA) of the World Bank is the main source of aid to education in Nigeria, accounting for about 62 percent of total aid to education whilst the bulk of aid to Senegal's education (53.7 percent) comes from multiple donors. France contributed a little over a quarter of aid to education in Senegal compared to less than 2 percent of aid to education of Nigeria in 2014. Between them, the United States and Germany accounted for less than 3 percent of aid to education in Senegal and about 5 percent for Nigeria.

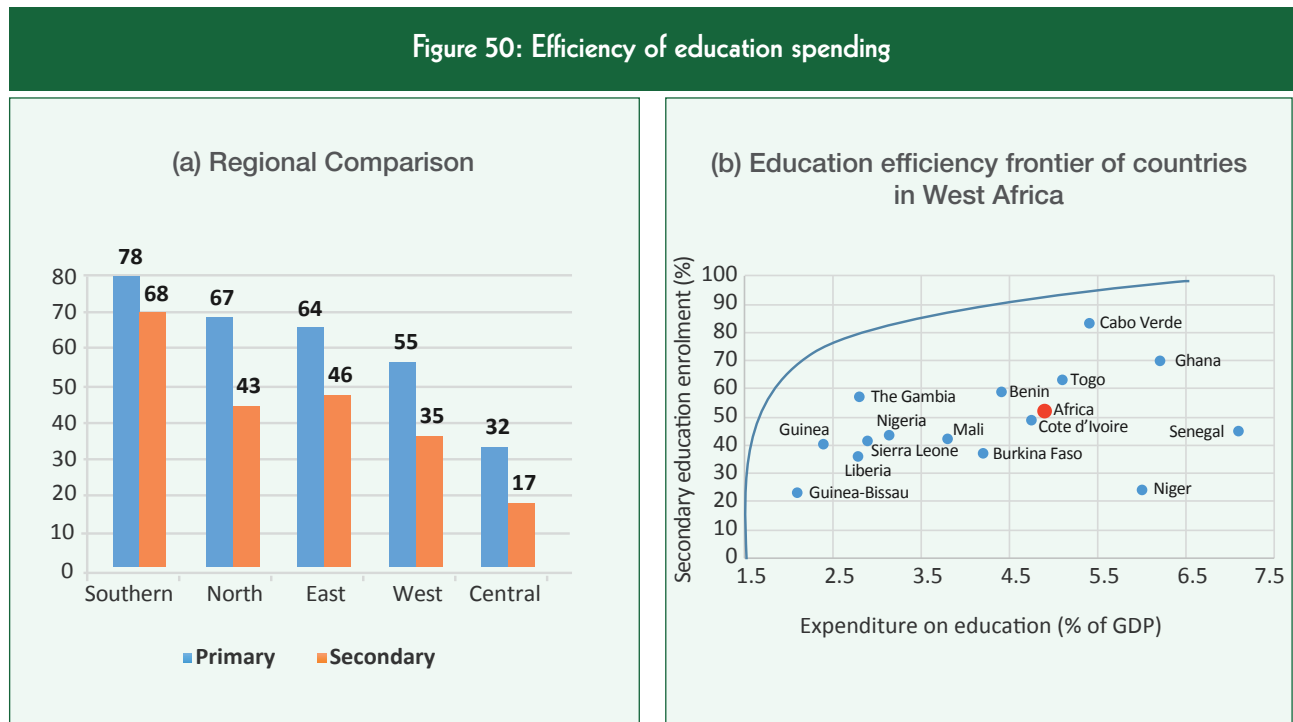
⁵ <https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/aid-to-education-data.pdf>

2.4.5 Expenditure and education outcome

The quality of education delivery varies across countries and there are large disparities in amount of resources allocated to the education sector vis-à-vis the realized outcomes. Senegal rank among the top countries in the region in terms of proportion of education expenditure to GDP. Increases in education spending could generate positive distributional outcomes (Ahmed et al. 2017).

The efficiency of government expenditure on education can be assessed based on quality and quantity of education. Figure 50 displays education-spending efficiency across the five sub-regions in Africa at the primary and secondary level as well as country level analysis for West Africa. Figure 50

(regional comparison) shows that West Africa lags North, East and Southern Africa, in the efficiency of government education spending with scores of 55 percent and 35 percent at primary and secondary level, respectively. West Africa performed only better than Central Africa, the least efficient in terms of government education spending. Figure 50 (efficiency frontier) shows education outcomes (secondary school enrolment) relative to amount spent. Apart from Benin, Cabo Verde, The Gambia, Ghana and Togo, all countries were below the continental average. In addition, where current expenditure levels may justify higher outcomes (e.g. Niger and Senegal), this is not yet the case, thus hinting at persistent inefficiency in public spending on education. This calls for investment and policies to ensure greater educational efficiency to stimulate equitable growth.



Source: Constructed from UIS.UNESCO and data from Statistics Dept., AfDB.

Teacher salaries account for a major component of the education budget in many countries. However, teacher motivation in terms of salaries is often singled out as one of

the key reasons why quality teachers are not attracted and retained, and this results in low quality of teachers in West African countries.

Inadequate teachers translate into overcrowded classrooms, one of the major causes of poor foundational development of students and a general deficit in skills needed for the changing labor market. To ensure achievement of desirable educational outcomes in terms of quality and quantity to meet the skills needs of the labor market in the future requires a policy effort in terms of addressing shortages of teachers.

Some countries in West Africa have embraced the policy of free education particularly at the primary level to boost enrolment. The justification of this move emanates from financing constraints of many poor households, which tend to deprive children in such households of the chance to benefit from education.

In most West African countries, education is subsidized up to college level. Ghana has extended free education from basic level (primary and junior high school) to senior high school since 2017, resulting in significant increase in secondary school enrolment. The government has also been implementing school-feeding programs at the basic level over the last 15 years. Like Ghana, Nigeria also runs a school feeding program, that has helped improve school attendance. These programs raise issues of sustainability, given the limited public budgetary resources. Other concerns relate to inefficient allocation of resources and poor targeting of the subsidy education. While acknowledging that quality education in right quantity is important to ensure the region plugs into the 4IR, allocation of public resources must be informed on efficiency grounds.

2.5 CONCLUSION AND POLICY RECOMMENDATIONS

The youthful population in West Africa is increasing but is affected by deficit of technological and vocational skills. Demand for digital services is also increasing yet the education system remains ill equipped to prepare workers with the skills needed for the job market. The current wave of technological change will undoubtedly have a disruptive impact on the labor market in West Africa, although the pace of change will vary within countries and across countries. To adapt to the change, countries need to make investment in improving

the education system. Importantly, investment must be targeted at upskilling and reskilling the existing workforce and for emerging cohorts of the youthful population.

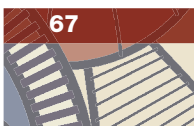
Technology can be used to enhance effectiveness and increasing productivity of services. In the agriculture sector, agro-industrialization technology can be used across the value chain for creating markets and facilitating the creation of jobs.

As automation and digitization shake the structure of work with potential to displace a section of the workforce, governments are required to formulate and implement labor market and human development policies that would protect workers and insulate them from any shakeup resulting from the constant technological change. Economic, human capital and labor market policies ought to be designed to meet the needs and requirements of the changing labor market.

The skills employers seek are changing rapidly from manual to analytical and interactive tasks shaped mainly by rapid spread of ICTs. However, supply of such skills is not increasing commensurately, especially in STEM subjects. Governments should create incentives for private sector investment in infrastructure that promotes STEM education. This will help improve the quality of education as well as ensure synergy between industry and academia and promotion of critical thinking that would make young people adaptable to the changing world of work.

Preparing young people for the future of work should not be oblivious to the importance of soft and cognitive skills. This includes skills in effective communication and innovation. Where formal training for such skills may not be cost effective, the nonformal option may be explored to enhance on the job skills development in these areas.

Beyond teaching and training, research and development are key to boosting innovation especially with the advent of 4IR. Thus, to align training with the 4IR, countries must invest in digital infrastructure and in technical education to ensure graduates are competitive in a future global labor market that



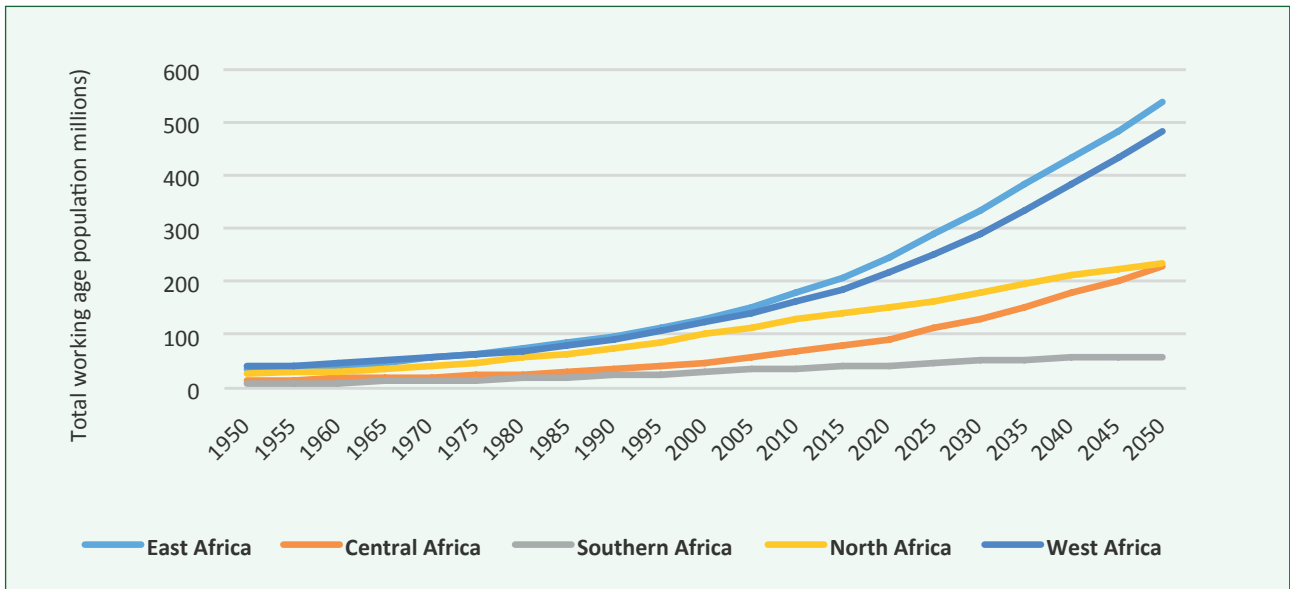
is being shaped by automation and digitization of processes and functions.

Instructors should devote some time to working in industries while practitioners need to contribute to curricula design in order to improve quality of education. A policy that mandates

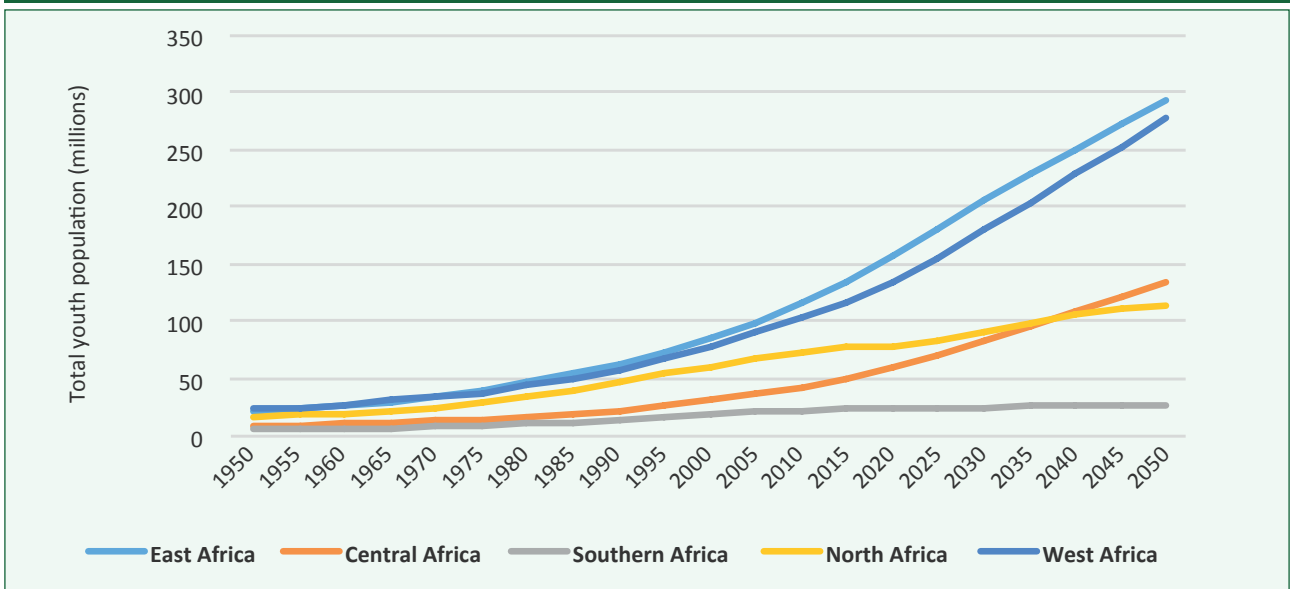
instructors to teach and assess students in terms of critical thinking and avoids a one-size-fits-all assessment system could contribute to improving the quality of education. Measures to improve incentives for teachers would improve morale, thereby address the high incidence of absenteeism to avert declining education outcomes.

ANNEXES

Annex 1: Trend and projection of the working age population by region

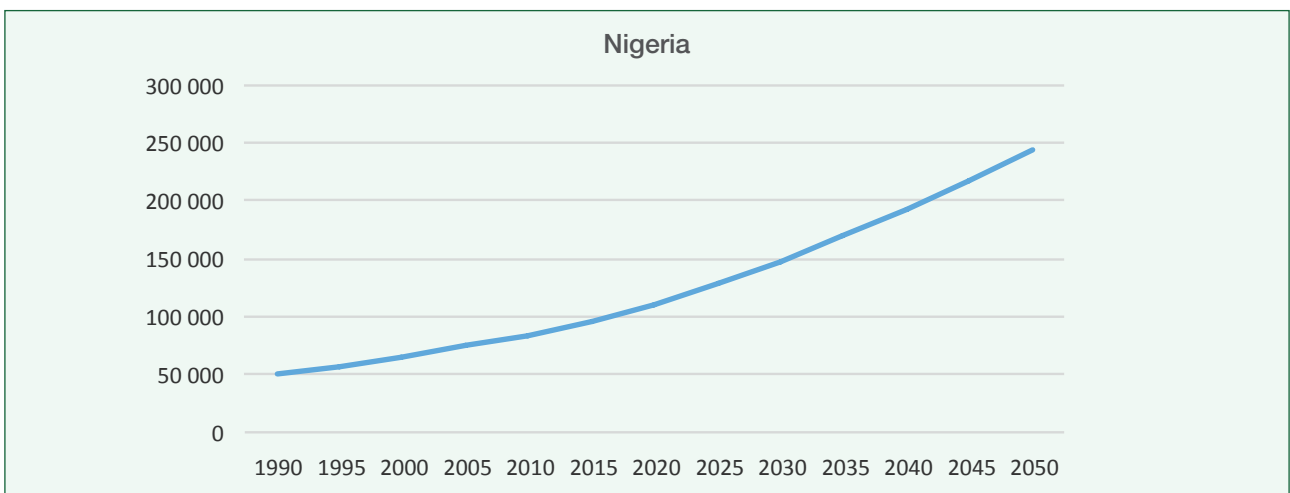
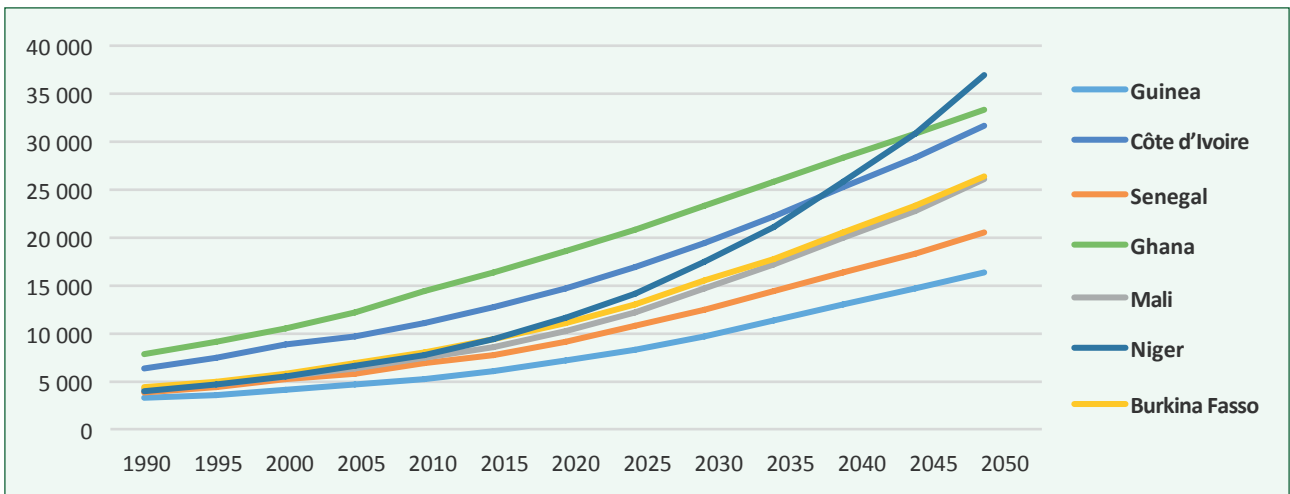
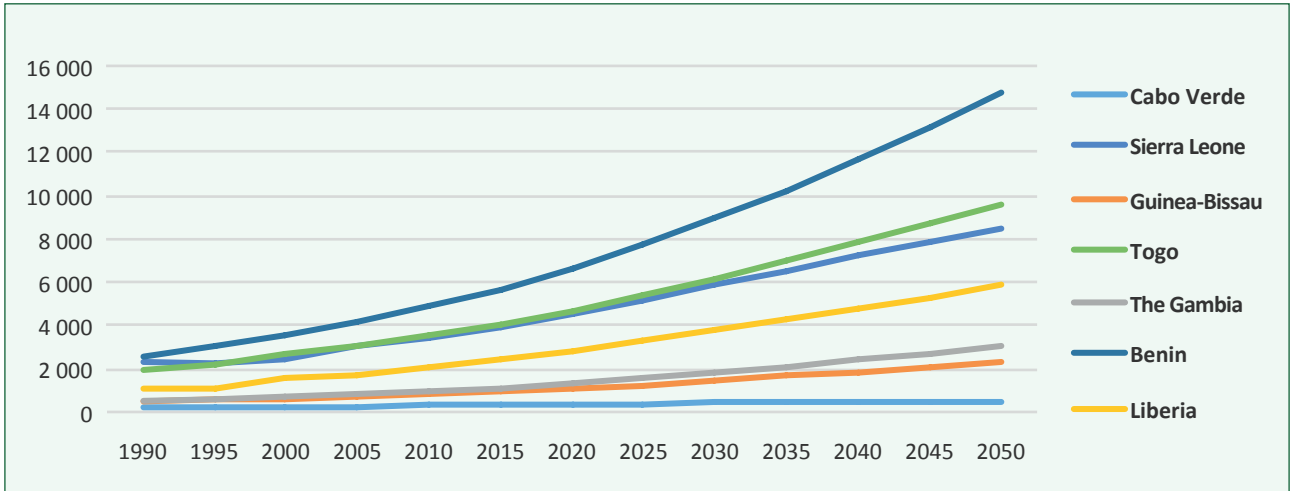


Annex 2: Trend and projection of youth population (15-34) by region



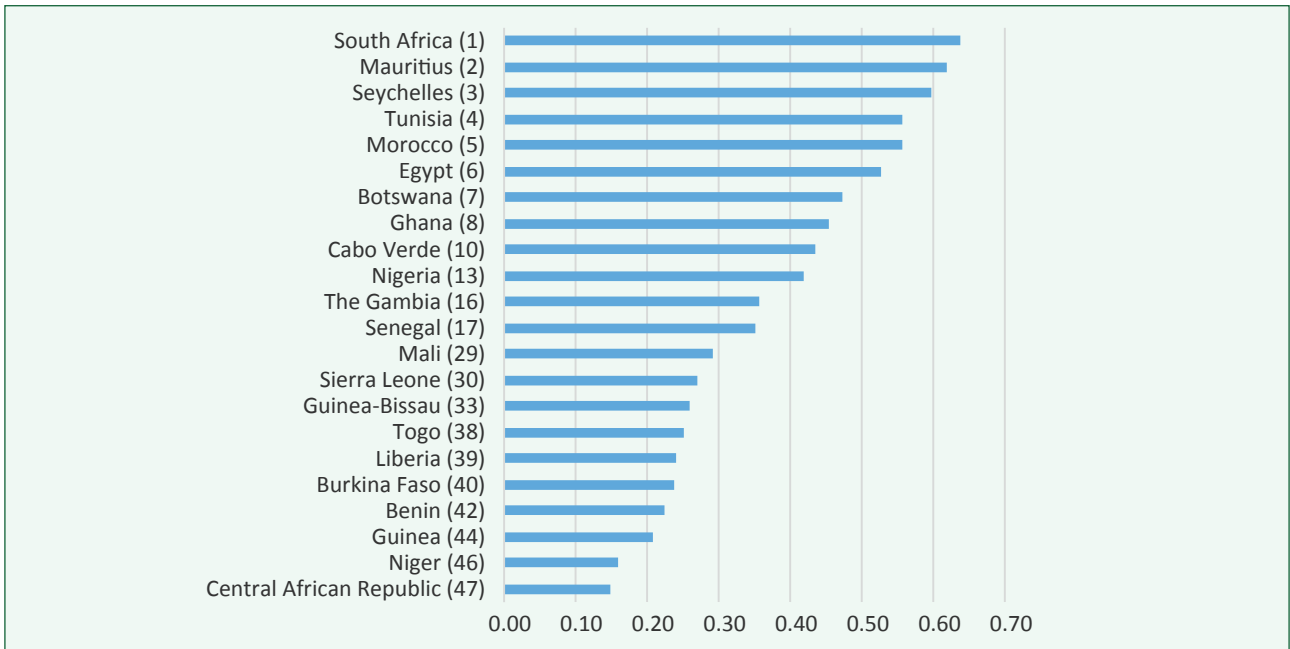
Source: United Nations, World Population Prospects.

Annex 3: Trend of working age population by country 1990-2050 (thousands)



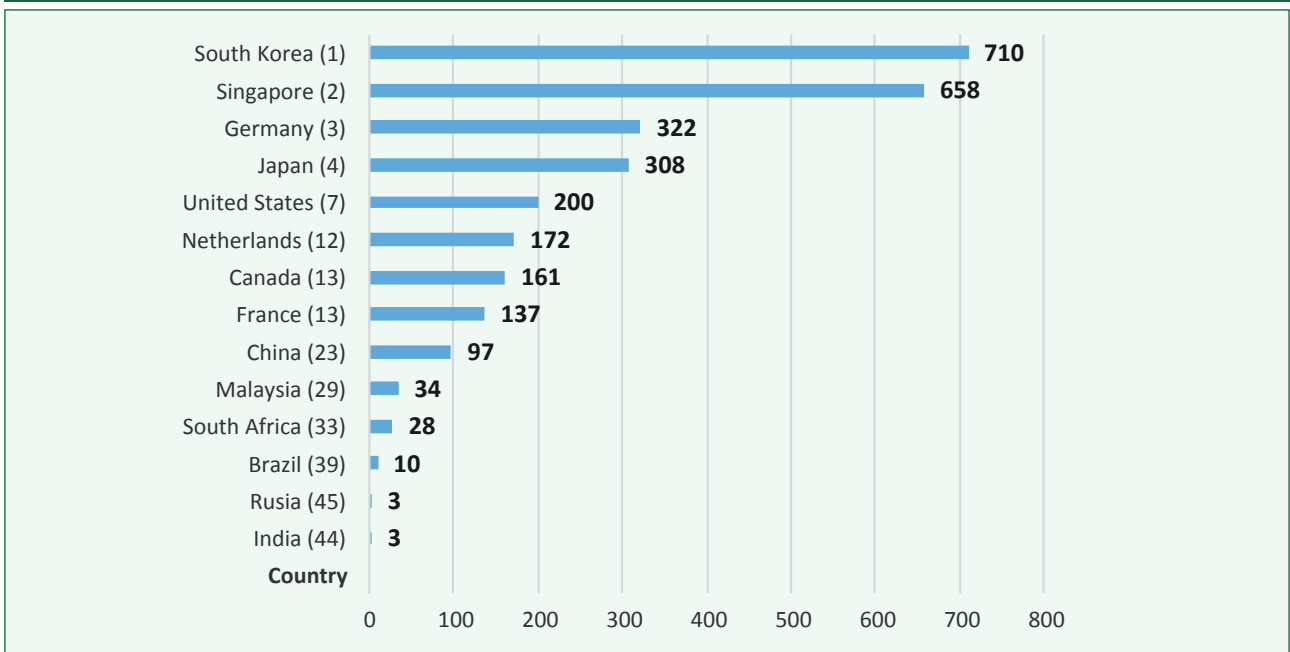
Source: ILOSTAT.

Annex 4: Digital adoption index



Source: World Bank <https://www.worldbank.org/en/publication/wdr2016/Digital-Adoption-Index>.

Annex 5: Installed industrial robots per 10,000 employees in manufacturing, 2017



Source: International Federation of Robotics.

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