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Inclusive green growth to accelerate socio-economic development in West Africa

ECONOMIC AND SOCIAL SITUATION IN WEST AFRICA IN 2011- 2012 AND OUTLOOK FOR 2013

MARCH 2013
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Acronyms and Abbreviations

BCEAO	Central Bank of West African States
BPW	Building and Public Works
CIS	Commonwealth of Independent States
CILSS	Permanent Inter-State Committee on Drought Control in the Sahel
ECA/SRO-WA	United Nations Economic Commission for Africa, Sub-regional Office for West Africa
ECB	European Central Bank
ECOWAS	Economic Community of West African States
EU	European Union
FAO	Food and Agriculture Organization
FCFA	Franc of the African Financial Community
GDP	Gross Domestic Product
GUEEPA	United Generations for the Development of Enterprises and Productive Employment in Africa
HDI	Human Development Index
HIL	High-Intensity Labor
HILF	High-Intensity Labor Force
HIPC	Heavily Indebted Poor Countries
ICO	International Coffee Organization
IGO	Inter-Governmental Organization
ILO	International Labor Organization
IMF	International Monetary Fund
LIFDC	Low-Income Food Deficit Countries
MDG	Millennium Development Goals
MDRI	Multi-lateral Debt Relief Initiative
PAE	Programme of Support for Recruitment
PANEJ	National Action Plan for Youth Employment
PIJR	Programme of Insertion for People from Rural Areas
PNE	National Employment Policy/Plan
PNPE	National Plan for Promotion of Employment
PRSP	Poverty Reduction Strategy Papers
RDC	Democratic Republic of the Congo
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNO	United Nations Organization
UNODC	United Nations Office on Drugs and Crime
USA	United States of America
WAEMU	West African Economic and Monetary Union
WAMA	West African Monetary Agency
WAMZ	West African Monetary Zone

Introduction

1. The present report on the economic and social conditions in West Africa in 2011 and 2012 and the outlook for 2013 is a regular activity of the West African Sub-regional Office of the United Nations Economic Commission for Africa (ECA/SRO-WA) in cooperation with ECOWAS in order to provide: (i) to member States, an overview of the economic and social conditions in West Africa and the outlook for 2013; (ii) consensual recommendations on development strategies suitable for accelerating the economic growth of member countries and contributing to a more inclusive structural transformation; and (iii) proposals for measures to strengthen economic integration in the sub-region.

2. The economies of West Africa during these last few years have been involved in a healthy growth dynamic since 2005 with an average economic growth rate of more than 5% per year. This high performance makes the sub-region one of the areas that is making the fastest progress in the world. Nevertheless it masks many structural weaknesses notably over-dependence on raw materials for exports and on climate conditions. In addition, security threats, resulting from important deficits in governance, today constitute a major challenge for the sub-region. It heavily conditions its economic and social outlook.

3. For 2012, the international environment has remained largely unfavorable. The advanced countries are still in the turmoil of the weight of the debt that weighs heavily on the balance of their public finance and on their growth. These countries, which had put the State in the middle of the struggle against the global financial, then economic crises, are toiling, after running out of breath, to get households and the private sector to drive growth. The emerging and developing countries have not confirmed their capacity to act as substitutes for advanced countries in their role of steering the global economy. Moreover, some, as a result of the dependence of advanced countries on their exports, are starting to undergo negative consequences.

4. On the African continent, apart from countries heavily dependent on advanced countries such as South Africa and Nigeria, the two giants of the region, all the other countries were able to achieve in 2012 better performance than in 2011. Sub-Saharan Africa benefited from the healthy dynamic of emerging and developing countries, but above all experienced good climatic conditions which made it possible to overcome the effects of the droughts of the Sahel and East Africa. The major challenge for the economic outlook of the continent remains the establishment of peace and security everywhere.

5. West Africa pursues its healthy growth dynamic but unfortunately the security situation reinforces the uncertainty in the outlook. The evolvement of the macro-economic indicators is encouraging as a whole, but the social situation, devoted here to the issue of employment, remain a major challenge for the improvement in the living conditions of the people. Unemployment, especially of young people and women, remains high owing to the low structural transformation of economies but also as a result of the persistent inadequacy of training and employment.

6. This report was prepared by the team of the ECA/SRO-WA through a broad document research within the Office. Most of the documentation originates from our partners in the sub-region such as the ECOWAS, the WAEMU, the WAMA and lastly the IMF. It is organized into four parts

before the conclusions and recommendations. It covers developments in the international environment and in sub-Saharan Africa before coming to the socio-economic review of West Africa.

I. The International Economic Environment

7. In general, according to the IMF, the recovery should be rough in the main advanced countries, whereas growth will remain relatively vigorous in many emerging and developing countries. A notable acceleration of activity has not been observed, but the financial situation has recently improved owing to measures taken by the leaders of the euro zone and to the flexibility of the American Federal Reserve.

1.1 Global economic trends for the period 2011/2012

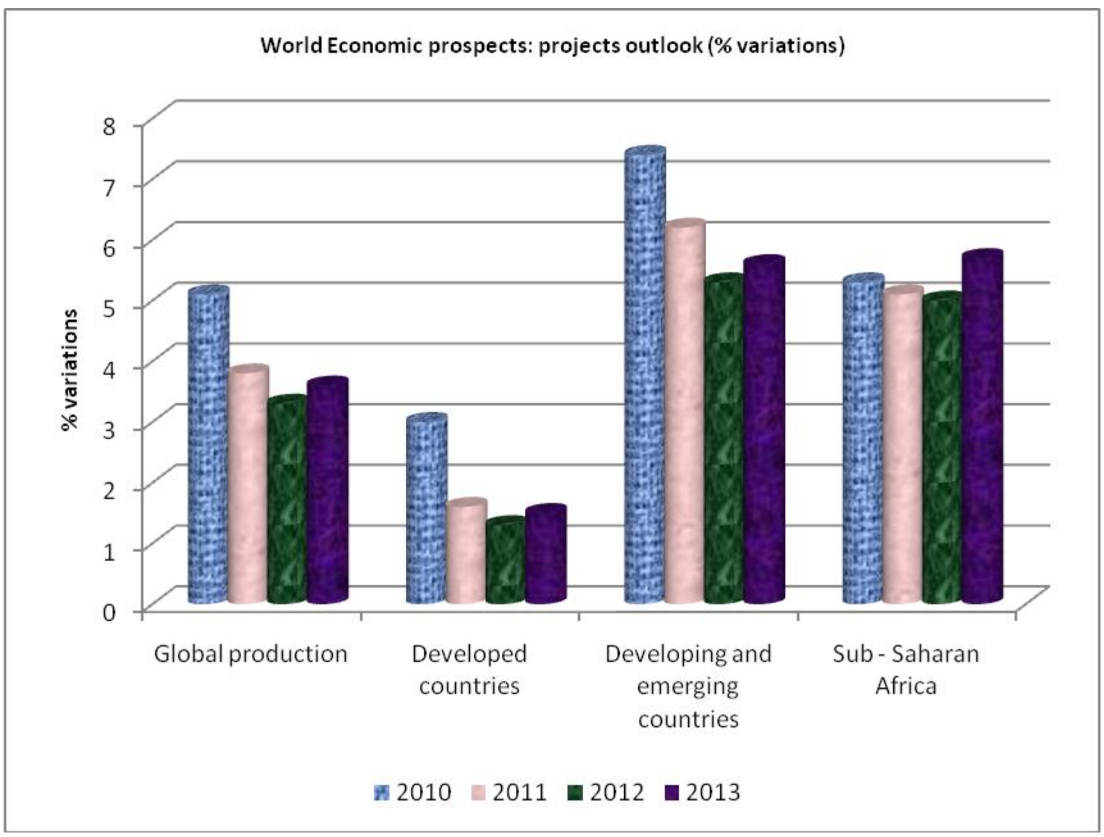
8. In their most recent report, *World Economic Outlook*, in October 2012, the IMF estimated the rate for global growth in 2012 at 3.3%. It is unevenly distributed among the geographic zones.

9. In the advanced countries, growth should reach 1.3%, according to the IMF, compared with 1.6% in 2011 and 3.0% in 2010. This situation results from the vigorous management of demand following measures to compress public expenditures and from the persistently weak financial system. In the **United States**, growth will reach an average of 2.2% in 2012 compared with in 2011. The poor balance sheets of banks and the low confidence of households, combined with a financial situation that is relatively tense and the continued re-balancing of the budget are holding back growth. In the **euro zone**, the recession is setting in progressively with the reduction in budget compressions, even if economic policies favorable to a new improvement in the financial situation in 2013 are underway. The driving economies of the zone should record low growth until the end of the period 2012-13. It is probable that most of the countries in the periphery will experience strong contraction in 2012, due to budget austerity and a tense financial situation and will not begin to straighten out until 2013. In **Japan**, a growth rate of 2.2% is expected in 2012, after a decline of 0.8% in 2011. Its rhythm will slow down considerably with the end of reconstruction after the earthquake.

10. In the countries of **central and eastern Europe**, a certain capacity to deal with the crisis explains the improvement of the financial situation in some countries, in addition to a slight recovery in demand from the euro zone. The growth rate expected in 2012 will be 2.0% compared with 5.3% in 2011. In the **Community of Independent States**, the growth rate will reach 4.0% in 2012 whereas it was 4.9% in 2011, with nearly 3.7% in Russia, compared with 4.3% in 2011.

11. In the emerging and developing countries, growth is estimated by the IMF at 5.3%, as against 6.2% in 2011. The fundamentals remain solid in many countries that have not suffered from a financial crisis, especially in many **emerging and developing countries**, according to the IMF. In these countries, the high increase in employment and the vigor of consumption should continue to stimulate demand and, combined with flexibility in macro-economic policy, should favor higher investment and growth. However, the growth rate will not reach the levels before the crisis. In the **Asian developing countries**, the real growth rate of GDP will reach an average of 6.7% in 2012, somewhat lower than 7.8% in 2011. Even **China**, the main motor of growth, where activity should benefit from the

acceleration of the approval of public sector infrastructure projects, a downturn was observed with 7.8% as against 9.2% in 2011. In India, great uncertainty hovered in 2012 with weak growth and the persistent slowdown in investment. The growth in the real GDP should be close to 5% in 2012. In the **Middle East** and in **North Africa**, activity was affected and continues to undergo the effects of the uncertainty surrounding the political and economic transition following the Arab spring. Importing countries also experienced poor terms of trade. The growth of the real GNP has however progressed considerably in 2012 with 5.3% compared with 3.3% in 2011. In the case of oil exporting countries, owing mainly to the recovery of Libya, the rhythm of global growth will rise considerably in 2012, to exceed 6.0%. Again according to the IMF, the growth in the real GDP in Latin America should be around 3.2% in 2012. Brazil is going through a situation of low growth which ended at 1.5% in 2012, but has undergone profound budget reforms that aim at stimulating short-term demand, as well as flexibility in monetary policy. The region should not experience a notable increase in its growth rate.



Source: IMF data, October 2012.

12. The relaxation of monetary policies and the recovery of prices of raw materials led to a rise in world price levels in 2011. However, in 2012, **global inflation** declined everywhere, as a result of the lower prices of basic commodities. The year 2011 was marked by a recovery in the prices of food commodities almost to the 2008 levels and the weighted average of the prices of world exports of raw materials other than combustibles, according to the IMF estimates, progressed by 17.8% compared with 26.3% in 2010. This indicator was less than 9.5% in 2012. Oil prices, based on the simple average, rose by 31.6% in 2011 compared with 27.9% in 2010, rose slightly in 2012 by 2.1%. Consequently, for 2012, in the advanced countries, the downturn in the prices of basic commodities brought global inflation to pays around 1.5% in July 2012, compared with more than 3% at the end of 2011. In the

emerging and developing countries, global inflation declined by almost 2 percentage points to end up at under 5.5% in the second quarter of 2012.

13. The Report on **financial stability** in the world (IMF Sept. 2011) had stressed the aggravation of risks in 2011 particularly with new turbulence in the euro zone, the decline in the popular demand for loans in the United States and the economic slowdown. Lastly, the **euro zone** is struggling to find a consensual solution for a convincing processing of sovereign debt and the decline in the bank balance sheets related to this public debt with their associated effect on the rest of the economy increases the rarity of loans. With the measures taken in 2012 by the European Central Bank to stimulate asset markets, the recovery was short owing to doubts about the situation in Greece. The uncertain future of Greece in the zone and concerns about the health of the Spanish banking system have strengthened risk-aversion in the world, according to the IMF (July 2012). In addition, private capital spending did not cease to erode the foundations of foreign investors in Italy and Spain. The decline of markets in id-2012 had led to instability in the main stock markets and lowered profits. The yields on sovereign bonds in the countries of southern Europe strongly increased owing to problems related to economic growth and the solidity of banks. These measures, such as the European Stability Mechanism, have not made it possible to clarify the development in the zone of pressures which have accumulated in spite of abundant liquidity resulting from the refinancing of the ECB. The modalities of financing in this space declined steeply especially in the peripheral countries. Stabilization measures for the Spanish banking system have not yet re-established the confidence of the market. In addition, the development of a complete series of measures offering a pan-European solution is still to be worked out. The situation is hardly better in the **United States** since 2011. It remains uncertain with the difficult negotiations on the adjustment of the budget. The recent agreement concluded at the end of 2012 remains a fragile palliative. In effect, in planning to raise the tax rate for annual incomes of over $450 000, the issue of budget expenditures remains. Risks threatening global financial stability are therefore still present owing to the difficult convergence in the management of public finances, between lowered taxes and automatic reductions in expenditures. Moreover, it is the debates on the ceiling of the debt which are at the origin of the lowering of the popularity of the United States. The legal ceiling has still not been set.

14. The situation of the advanced countries in 2012 is of as much concern as monetary policy with low interest key rates no longer a solution. In effect, we have the banks on one hand, with their deteriorated balance sheets, facing on the other hand sectors that are tempted to go into debt in a context of acute austerity. In contrast, among the emerging economies good economic prospects in 2011 and low interest rates in the advanced countries favored the attraction of capital. Rigor will therefore be necessary to avoid the deterioration of fundamental balances.

15. The stimulation of the global economy resides therefore in the capacity of the advanced countries to proceed to a readjustment of their public finances while stimulating their economies. Several countries are involved in this process with satisfactory results especially the United States which ended by increasing their budget deficit to about 0.5% of the GDP in 2011.

16. For the 2012 report on financial stability, a flight towards safe assets made yields on sovereign bonds plunge in the United States, in Germany and in Switzerland, carrying the dollar to a record level for 20 months in comparison with the main currencies. The capital inflows seeking refuge pushed the yields of Japanese government bonds to historically low levels and the appreciation of the yen thus reducing economic recovery. In the EU, Sweden and Denmark also served as refuges. Doubts as to the

capacity of emerging markets to deal with the decline in global prospects has accumulated risk aversion in these countries.

17. Emerging countries have undergone contagion but with the decline in stock markets following a steep rise, a depreciation of currencies was noted in 2012, such as the Brazilian real or the Indian rupee which lost 15%-25% of their values within one quarter.

18. **Regarding public finances,** owing to low growth in many countries, budget rebalancing remains difficult to do, but notable progress was recorded in this direction, bringing the deficits to levels lower than or equal to those before the crisis according to the IMF Fiscal Monitor. The improvement in fiscal balances is higher in advanced countries, where the shock was greater, followed by emerging countries and to a lesser extent, low-income countries.

19. Budget readjustment is also closely related to the capacity of advanced countries to increase growth, not only through private demand but also and especially to find credible solutions to the problems of the euro zone and to the agreement of American decision-makers on the volume of debt and the necessary fiscal measures. The concern to stimulate growth explains the importance that all the countries grant to measures that would have the least negative effect on recovery, notably the reforms on rights to social services and tax increases causing fewer distortions (for example, property taxes) (IMF Fiscal Monitor, Oct. 2012)

20. A larger number of countries is in effect conscious of the importance of better policies for taxes and social services, together with progressive programmes for the labor market. Combined with structural reforms that favor the creation of employment, such an approach is likely to stimulate supply and demand in employment.

21. It is this to be noted that balanced government budgets remain very precarious in spite of the efforts provided in this direction as the needs for refinancing public debt are still enormous. Of course, the massive intervention of central banks to support economic activity has made it possible up to now to contain the difficult resolution of the increase in public debt. It remains urgent however to find a sustainable solution to the problem of the solvency of many countries in the euro zone. In several countries, notably in the advanced countries, difficult measures are necessary in order to pursue the stabilization of public finances.

22. In effect, the **weight of the debt** remains heavy in spite of the efforts undertaken for sustainability. The debt ratios have peaked early in the economies of emerging markets and should not stabilize before 2014-2015 in many advanced economies. The low levels of growth and even recession in advanced economies explains, in certain cases, the high levels of interest rates, following uncertainty over the margin for public authorities and the fragility of the banks.

23. It emerged from the IMF World Economic Outlook that **monetary policy** in advanced countries remains favorable. The main central banks recently launched new bond sales and maintained low interest rates. Nevertheless, the global financial system remains fragile and controlling expenditures in advanced countries slows down recovery.

24. Monetary policies were softened and will become more flexible. Recently, the ECB launched a programme to re-purchase public sector bonds and softened its guarantee requirements. The American

Federal Reserve will also re-purchase secured mortgages, purchase supplementary assets and use its other instruments until the economic situation improves. It will also maintain a low interest rate from the end of 2014 to mid-2015. To sum up, almost all the advanced countries have recently lowered their key interest rates.

25. The emerging and developing countries have adopted various measures of flexibility in the face of the downturn in activity and inflation. Many of them have postponed the expected hardening and some have lowered their key interest rates. However, only Brazil lowered its rates significantly and also softened the macro-prudential measures in order to encourage loans. As a whole, the real interest rates in many emerging and developing countries remain relatively low and the growth of credit is high. This is why a number of central banks have decided to maintain their policies without change.

26. The growth in the volume of **global trade** should fall to 3.2% in 2012, compared with 5.8% in 2011 and 12.6% in 2010. This evolution is explained by the low levels of growth and the uncertainty in advanced countries. For 2011, trade in advanced countries slowed down considerably with growth in imports of 4.4% compared with more than 11% in 2010 and that of exports going from more than 12% in 2010 to 5.3% in 2011. In the emerging and developing countries, the slowdown of trade was moderated by imports decreasing from 14.9% in 2010 to 8.8% in 2011 and exports sinking from 13.7% in 2010 to 6.5% in 2011. The steady prices for raw materials in 2011, combined with the lower fluctuations in the exports from advanced countries explain the high accumulation of reserves in emerging and developing countries. The slowdown of trade in 2012 is explained by the weaker internal demand from countries affected by the crisis which show an external deficit rather than by a reinforcement of demand from countries that recorded an external surplus. In the euro zone, the lower imbalances result principally from a downturn in demand in peripheral countries in deficit with a reduction in the cost of labor. Thus, the imports of advanced countries were recorded at only 1.7% compared with 2.2% for exports, while in the emerging and developing countries, imports progressed to 7.0% compared with 4.0% for exports. The evolution of the prices of raw materials confirms the situation of world trade.

I.2 Prices of the main raw materials

27. Here will be reviewed the main raw materials that have a significant impact on trade in one or several countries in the Community.

28. For **cereals**, it emerged from the report of the FAO Products Committee that prices have again started to climb in 2010 and 2011. In 2010, the world production of wheat recorded a net increase, largely neutralizing the increase in the production of secondary cereals and rice. Restrictions on cereal imports imposed by the Russian Federation from 2010 to June 2011 also contributed to raise prices. However, with a relatively comfortable global supply, wheat Prices began to fall at the end of September 2011 to rise again in January 2012 following a sudden jump in international prices of maize and the deterioration in the prospects for yields in the United States. During the same period, the prices of rice, following higher price quotations for cereals and the fear of large harvest losses as a result of floods in Pakistan, also recorded moderate rises. Nevertheless at the end of 2010 and at the beginning of 2011, the disturbance of the stability of the cereals market was followed by a steady improvement in the prospects for world production of cereals as well as forecasts of lower demand, resulting from a loss of vigor in growth created by the slowdown in a number of developed economies. Consequently, during

the course of the second half of 2011 prices fell. However, the prices of cereals rose again at the beginning of 2012, while those of rice continued to fall. Events external to the market such as the falling American dollar and the reduction in freight rates constituted a support, intensifying the effects on prices of the cold wave that gripped Europe and countries of the CIS. The most recent projections of FAO confirm for 2012 a fall in world **cereal production** that should reach 2 286 million metric tons, which is 2.6% lower in comparison with the record harvest the previous year. The overall decrease concerns wheat at 5.2% and secondary cereals at 2.3%. A significant reduction in world cereal stocks at the close of the season in 2013 is expected with a decrease of 28 million metric tons as even following falling world demand, prices remain high.

29. **For oilseeds, oils and oilcakes, the Products Committee shows that** in the middle of 2010, the prices of the oil complex followed a new rising trend and at the beginning of 2011, the price quotations had reached their highest level for two years. His evolution resulted from a progressive contraction in world demand for oilseeds during the 2010-2011 growing season, combined with a steady increase in the demand for oils and meat.

30. Towards the end of the 2010-2011 growing season, a continual tightening of supply and demand up to the 2011-2012 growing season was observed. In spite of the comfortable carryover stocks, this season would experience a negligible increase in the total oilseed production (soy and colza), declining from year to year. The growing competition for arable land between oilseeds and cereals damaged plantations in addition to poor meteorological conditions. Consequently, in 2011-2012, supply will probably be insufficient to meet demand, which according to forecasts should be sustained. A progressive decline in world reserve stocks and a fall in the ratio of stock/use seem therefore to be inevitable. This permanent pressure on the market fundamentals did not have any consequences on prices before 2012. During most of 2011, international price quotations for oilseeds and oil products declined – while remaining at historically high levels. A less mediocre production of soy beans than predicted and a slowdown in world demand in imports has made it possible to temporarily increase stocks, leading to a decrease in prices. The fall in prices stabilized at the end of January 2012. As poor meteorological conditions had damaged harvests of soybeans and corn in South America, prices were reinforced. However, the market remains uncertain with a 2011-2012 soybean production in free-fall in the United States and South America, prospects of new situations of competition for land in 2012-2013 and the fear that colza production of colza will also remain mediocre, for the third consecutive season. The average price for peanut oil will continue its rise begun in 2010 ($2 082 per metric ton in 2011, compared with $2 500 per metric ton in 2012, or 23.3%) while that of palm oil has fallen owing to lower consumption in China and India and economic difficulties in Europe (WAEMU Convergence Reports).

31. **Coffee** prices recorded a strong rise during these last four years; the composite ICO indicator recorded an annual average for 2011 of 201.39cents/pound, or an increase of 42.9 per cent by comparison with 2010, a record level since 1977. These extremely lucrative prices have boosted the performances of exports, which reached the record level of 103.7 million sacks in 2011 and drastically reduced the stocks of exporting countries. This situation results from a favorable evolution of the fundamentals of the market. Four consecutive years of poor meteorological conditions in Columbia have resulted in reducing the supply of high quality arabicas. World production of coffee in 2011-2012 is estimated at about 129 million sacks, after a record figure of 134 million sacks in 2010-2011 for a vigorous consumption, in spite of the world economic crisis, estimated at 135 million sacks in 2010.

Nevertheless, this fragile balance of supply and demand, to which is added the relatively low level of world stocks, leaves little margin for eventual new market disturbances. The prices of robusta, after rising by 38% in 2011, have declined by 4.4% during the first months of 2012, those of arabica will be even greater.

32. Since October 2007, prices on the **cocoa market** have been rising steadily due notably to several production deficits during recent seasons and the increasing fear that the cocoa market may be in a period of shortage. In 2010-2011, in spite of the production surplus resulting from the exceptional meteorological conditions in West Africa, cocoa prices remained high, supported by the political crisis in Côte d'Ivoire: on March 3 , 2011, during the impasse, prices reached their highest level for 32 years, or US$3 730/metric ton. With the end of this crisis and the abundance of supply, prices began to fall to their lowest level, at US$2 064/metric ton on January 5, 2012. This season, world production and demand for cocoa should again be not so good, with the consequences being a slight deficit in supplies of 71 000 metric tons. The production of cocoa should decline following more typical meteorological conditions, while the production of ground beans should increase, although slowly.

33. After rising from US$1.65/kg to a historically record price of US$5.06/kg in March 2011, the **world price of cotton** began a progressive decline to stabilize around US$2.20/kg in February 2012. According to estimations, world production should increase by around 7% to reach 26.8 million metric tons in 2011-2012. Forecasts were that, given that world economic growth, which is the main factor influencing the manufacture of cotton, should slow down in 2012, it can be estimated that the manufacture of cotton should contract by 3 per cent, to reach 23.7 million metric tons, which should increase the capacity of world stocks to 12.3 million tons.

34. For the **leather and skins market**, the slowdown in world economic growth observed in 2008 and 2009 led to a contraction of demand for consumer products, including shoes and other leather products. The rise in prices that began towards the middle of 2009 was vigorous at the beginning and in March 2011, the prices of leather in Chicago exceeded their levels in the period of 2004-2008. Nevertheless, a fall in leather prices at the end of 2011 and the constant concerns about the world economic recovery represent so many dangers for the market in 2012.

35. **World exports of bananas** fell in 2011 for the second consecutive year, to reach 12.5 million metric tons, demand from the large import markets remaining timid. The increase in petroleum prices made the costs of inputs and transportation climb, but there were few possibilities for distributing these costs over the entire value chain owing to the ferocious competition from other fruits on the market.

36. The prices of **cashew nuts** have remained relatively stable, the cashew almond being traded at between US$3.25/lb. and US$3.35/lb. at the beginning of 2012 and will continue to remain at this level for the whole year. The volumes of stock remain large at the beginning of this season at the world level where nearly 80% of production is still available. These stocks will slow down the haste of Asiatic processors to provide raw nuts from West Africa. The market has however experienced a slight flurry at the beginning of August 2012, causing a small rise in the value of the nuts (WAEMU Convergence Reports).

37. **Gold prices** progressed on average 28% in 2011 and should continue this trend in 2012 with a gain of 7.9% during the first nine months of the year. In effect, 2011 was marked by a record price of the ounce at US$1 920 in September. After undergoing a large decrease at the end of 2011, prices have risen sharply and increased by more than 15% during the first two months of 2012. In contract, at the end of March, prices slowed down, losing 7% of their value and finishing at US$1 662 per ounce. The high volatility in prices is caused by stark contrasts in the world economic context and by fears on the part of the market of a decline in growth in China. Nevertheless the current progress confirms its role as a refuge value with the current world economic conditions. (WAEMU Convergence Reports)

38. On the **physical petroleum market**, pressures have lowered since the end of 2011. Demand has slowed while the world supply of petroleum rose strongly at the end of 2011, owing notably to the rapid recovery of Libyan production. However, the price of oil that had progressed by almost 40% in 2011 from US$79.4 the barrel in 2010 to US$111.2 the barrel in 2011, slowing down in 2012. This situation can be explained by the poor performance of the world, marked by the deterioration in the situation of the euro zone, the economic recovery of the United States slower than expected and the slowdown in the economic growth of China, main motor of the market these last few years. During the first nine months of 2012, the average price progressed by 0.3% to end up at US$112.2 the barrel, compared with the average prices of the same period in 2011. (WAEMU Convergence Reports).

39. **Prices for phosphates** progressed on average by 50% in 2011. This progression continued moderately in 2012 on the order of 3.8% by comparison with the average in 2011. (WAEMU Convergence Reports).

40. The spot price for the **pound of uranium** was around US$50 during the first quarter of 2012. Since November 2011, this price has fluctuated little, varying between US$51 and US$53. Before the Fukushima catastrophe, the price of uranium had climbed to its highest level in the previous twelve months, at US$67.75. The Japanese nuclear industry is currently determinant for the evolution of uranium prices. Uranium prices remain quite low at the end of 2012 with US$45 per pound in the third quarter. In the medium and long term, the market fundamentals seem to be still very solid with more than 80 new reactors which should enter into operation between now and 2017 (WAEMU Convergence Reports).

1.3 World outlook for 2013

41. **For 2013,** the forecasts of the IMF based on a growth rate of 3.6% if the European leaders succeed in getting control of the crisis in the euro zone and the American political elite manage to agree on a good strategy to control their debt in avoiding raising taxes and compressing automatic expenses. The real GDP in the euro zone should stagnate during the first quarter of 2013 and progress by about 1% by the second quarter. For Japan, after a slight decline during the post-reconstruction period, the real GDP should rise by about 1% in the first quarter of 2013, before the re-establishment of high growth afterwards and the economy recovers its full dynamism. The buoyancy of the economies of central and eastern Europe and the end of the over-heated cycle in Turkey should take growth back up to 4% in 2013. For this year in India, an improvement in the external situation and of confidence, owing to various reforms which have been announced recently, should carry the growth of GDP to around 6%.

For countries of the Middle East and North Africa, the GDP could go up again moderately in 2013, even if globally petroleum exporting countries will experience a fall in their real GDP to around 3¾% in 2013. The dynamic underway In Latin America with Brazil should lead to a new acceleration in growth to 4¾ % during the second quarter of 2013.

42. In a context marked by the weakness of world demand and monetary policies oriented largely towards the recovery of growth, **inflation** will decline in advanced countries with 1.6% in 2013 and remain stable with 5.8% in emerging and developing countries.

43. For advanced countries in **budget** terms for 2013, the tightening of balances will continue to around 1% of GDP. This process will vary from one country to another. In the euro zone, after an already vigorous adjustment, the contraction in expenses will weaken. In the United States, according to the IMF, the budget outlook for 2013 is very uncertain, given the number of fiscal measures which will expire and the threat of automatic compressions of expenses, and this in a very polarized political context. A tight, more vigorous adjustment is necessary. In Japan, the end of the elections will facilitate the approval of the financing of the budget for the rest of the exercise which ends in March 2013, lifting the uncertainties on the prospects for the budget. The end of the elections could mean the adoption of vigorous recovery measures. In emerging and developing countries, no notable budget rebalancing is forecast in 2013 after an improvement of 1% of GDP in the budget balances since 2011.

44. The softening of **monetary policies** should continue or even be reinforced to better accompany economic recovery. The key interest rates will not be able to increase in 2013 and several favorable accompanying mechanisms will continue to be put in place (credit guarantees, re-purchase of assets and titling, etc.).

45. **World trade** in 2013 could progress better with 4.5% against 3.2%. The process of economic recovery in countries will necessitate the recovery of trade without aggravating the current deficits. Also, the exports and imports of these countries will be respectively 3.6% against 3.3% in 2013. For emerging and developing countries the volume of trade will progress by 6.6% for imports and 5.7% for exports according to IMF data.

II. Socio-economic evolution of sub-Saharan Africa in 2011/2012 and outlook for 2013

II.1 Sub-Saharan Africa in 2011/2012

46. **Sub-Saharan Africa** should continue to record vigorous growth, higher than 5% on average. Most of the countries in the region are experiencing high expansion, in spite of their close links with Europe. However, certain countries which import food commodities have suffering for some time from the high rise in world prices of some important agricultural commodities.

47. In effect, the resilience of the economies of sub-Saharan Africa in 2010 continued in 2011 with 5.1% against 5.3%, spreading this time to several countries, according to the IMF's Regional Economic Outlook (April 2012). This growth remains higher than that of world production but lower than average

growth for the period 2004-2008 when regional growth had reached 6.5%. Most countries contributed, even if the performance of many countries in West Africa contributed to it. The recovery in prices for raw materials and the strengthening of internal demand of countries are at the origin of these performances which remain fragile. In effect, productive structures remain heavily dependent on external demand for which the rising trend continues to fluctuate. Turbulence in the financial markets and the weakness of the economies of advanced countries will continue to hover over the prospects for growth in sub-Saharan Africa. Added to this are the negative effects of drought in East Africa, with its share of population movements that lead to a high mobilization of the international community in a volatile security context. The implementation of quality macro-economic policies has supported growth in many countries of the region.

48. This growth dynamic is above all carried by petroleum exporting countries of which the surpluses have made it possible to support internal demand, especially public demand, thus generating recovery in their non-petroleum sector. Growth in these countries is estimated at 6% in 2011. For countries with intermediate revenue, growth is estimated at 4.3% owing to their greater exposure to the effect of the international environment, especially South Africa. Apart from South Africa, the growth of this group of countries is 7.7%. Concerning low-income countries and fragile States, growth has slowed down to 5.1% in 2011 in spite of mining exploitation in many countries such as Niger and Sierra Leone. The Sahelian countries experienced heavy pressure on food during 2011 and 2012.

49. For 2012, in spite of a difficult external situation, with modest growth in the world economy, production in sub-Saharan Africa increased by 5.4% in 2012. The exploitation of new natural resources in several countries (Angola, Niger and Sierra Leone) as well as the recovery of West Africa are the main factors. For this latter it is a question of recovery of activity in the Sahel after the drought and in certain areas of East Africa including Kenya, and the recovery of the Ivoirian economy. It should be noted that, as in 2011, most countries contributed to this strong expansion, except for South Africa, and countries that are heavily food-dependent. The problems of South Africa result from a lack of dynamism of its main European partners and more recently, from social problems in its main mining operations. The two largest economies, South Africa and Nigeria will achieve a level of growth of less than 3% for the first and slightly lower for the second. Performances achieved remain attributable to the favorable level of prices for basic commodities, to a more marked reorientation of exports towards Asiatic countries and to financial systems that are sheltered from world financial turbulence in most countries. The major part of natural resources exported have benefited from a vigorous external demand, especially petroleum.

50. For Africa, the struggle against inflation through the tightening of monetary policy in a number of countries will limit growth. In the group of petroleum products, growth on the order of 7% is expected with new exploitations in Angola and rising production in Chad. The non-petroleum sector is also progressing well, especially in Angola and Nigeria, progression in contrast to Cameroon and Equatorial Guinea where the activity is down. For middle-income countries with, those of South Africa will suffer from their high integration in world trade and financial markets. West Africa, which suffered from the effects of drought in the Sahel and the Ivoirian conflict, should record good performances in 2012. A country like Ghana will see its growth progress at almost 8% less than in 2011, the year when petroleum operations achieved its highest level of production. Growth can also re-start in Senegal after suffering from the drought. In low-income countries, except for Niger and Sierra Leone, the growth rate should lower. In Mali, the recovery of activity in 2011, following the drought, was seriously disrupted by political problems and armed conflict. The expected growth rate owing to mining and petroleum

operations in Niger and Sierra Leone will reach two figures. For countries emerging from conflicts or natural disasters, the situation will improve considerably such as in Côte d'Ivoire (8% in 2012), in Liberia with the turnaround up to 9% owing to iron ore and in Guinea with the return of mining investments which will assist in recovering growth.

51. In December 2011, inflation was 9.7% against 7% in 2010. If the inflation rates within the WAEMU have hardly risen over 5%, in the other parts of the region inflation remained of great concern, notably in East Africa. The reasons reside in the availability of food. The conditions of internal provision are still inefficient and the effects of the drought on commodities have exacerbated pressures. The repercussions of prices for petroleum products notably in South and East Africa, on prices at the pump have also contributed to the rise in prices. In contrast, other countries such as petroleum-producing countries and the AEMU countries preferred to increase the volume of their subsidies or reduce taxes. Monetary policy also influenced the level of prices for countries with a floating exchange rate. In contrast, it remained neutral in countries with a fixed exchange rate. In fact, the rise in world prices for food commodities and petroleum products was at the origin of inflationist tensions observed in 2011, in addition to the inefficiency of internal distribution circuits within countries, especially for food commodities. The inflation of consumer prices was accentuated, especially in East Africa, partly under the effect of the soaring world prices for food and energy. On the whole, macro-economic policies have followed a balanced course.

52. Inflation in 2012 was well contained at a low level. This development resulted from the tightening of monetary policies in several countries and the world recession which tended to stabilize world prices. However, the risks are still there with the fluctuations of the petroleum market owing to the still uncertain situation in many producing countries.

53. For public finances, the trend that emerged in 2011 was the re-absorption of budget deficits in many African countries, notably oil-producing and middle-income countries which succeeded in using their budget margins to absorb deficits born of the world crisis. This expansion in critical phases of the world crisis made it possible to maintain the speed of growth. In petroleum-producing countries, an effort at mobilizing resources even in the non-petroleum sector favored declining deficits. Also, in spite of the increase in expenditures, budget deficits apart from petroleum has decreased except in Cameroon and Gabon which held elections, and overall surpluses have become the rule. The trend is relatively the same for middle-income countries, which, even though they suffered the effects of the world crisis, have proceeded with the rebalancing of their public finances. In contrast, low-income countries have experienced a worsening of their deficits, which in most countries, has remained less than 5%.

54. With the erosion of budget margins, the situation declined somewhat for public finances in 2012. A process of budget rebalancing in both middle-income and low-income countries will be necessary to avoid the widening negative balances. The deficits in certain low-income countries are explained by large public works investments, a situation which will not fail to have an influence on the level of growth in 2012. For petroleum-producing countries, the situation would be stable by comparison with 2011.

55. The size of budget deficits explains the rise in ratios of **public debt/GDP** in several countries. This development is dominant in middle-income countries, such as South Africa and Namibia but also in petroleum-producing countries such as Cameroon, Nigeria and low-income countries. However, the overall debt of the region has not varied much owing to the fact that the debt ratios have decreased in a

large number of countries. This new process of indebtedness is based on the lack of dynamism in external demand for exports, increasing current deficits in a large part of the region.

56. **Monetary policy** in 2011 was marked by the rise in key interest rates in certain countries with flexible exchange rates to deal with increasing inflation, essentially due to the drought which limited the supply of food commodities. However in most countries, interest rates remained almost stable by comparison with their lowest level during the crisis. Monetary policy in 2012 was marked by a strong increase in credit in the private sector which finally declined in low-income countries. This decline in these countries is explained by both the lowering of inflation and the hardening of monetary policies. In contrast, in middle-income countries including South Africa, the expansion of credit aims at supporting the crisis. In the case of Nigeria, the growth of credit results from the normalization of banking conditions after the crisis of 2009. A hardening of monetary policy is also to be noted in most countries of East Africa.

57. Regarding **external trade**, exports of sub-Saharan countries have largely benefited from the rise in the world prices of raw materials up to the beginning of 2011. However, with the slowing of world trade in the second quarter of 2011, overall performance will be mitigated. A new factor is the strong rise in exports of goods and services in a much larger number of countries. These are notably Eritrea, Guinea, Niger and Central African Republic with the exploitation of new natural resources. Several other countries such as Ethiopia, Kenya and Rwanda have succeeded in diversifying their production or have been able to insert themselves in new markets. The good performance of exports has especially benefited petroleum producers and exporters who have recorded satisfactory profits in the terms of trade. These countries could therefore better reconstitute their reserves of foreign exchange and enlarge their budget margins. In contrast, for non-petroleum producing countries, the terms of trade deteriorated in 2011.

58. For 2012, the relative deterioration of the world situation in 2011 would negatively impact the external trade of sub-Saharan countries. Middle-income countries will be the main victims with the collapse of external markets for exports from South Africa and Botswana. In contrast, low-income countries could better profit from demand from emerging countries with a moderate demand by comparison with 2011. Petroleum-exporting countries, for example, saw their revenues decrease during a large part of 2012 under the effects of the fall in petroleum prices. For certain producers of non-renewable natural resources (Madagascar, Niger, Sierra Leone), the exploitations of new deposits will stimulate exports in 2012 and beyond. For most non-petroleum producing countries, the faster growth of imports by comparison with exports, and the relative stability of remittances will mean that the overall external trade balance should deteriorate. A small compensation will come from some petroleum-producing countries where a surplus is expected.

59. The evolution of the **balance of payments** is strongly influenced by import needs and the influx of capital to finance large investment projects, the results of exports improving considerably as soon as new projects for the exploitation of natural resources start their production such as in Liberia, Niger and Sierra Leone. In the area of investment, South Africa, Mauritius, Nigeria and some producers of natural resources have benefited from flows originating from emerging countries. For other countries the flows of FDI are below the levels of before the crisis perhaps because of high interest rates and the instability of exchange rates. The flows of aid have lowered somewhat whereas remittances have resisted well. In effect, exports of services and remittances by expatriate workers have resisted well throughout the region. For the entire year, the services of the IMF anticipate a moderate deterioration in

the balances of the current account, financed in most cases by a rise in the flows of capital under one form or another, rather than by an erosion of reserves.

II.2 African prospects South of the Sahara

60. For 2013, in spite of the situation that is still difficult and uncertain, the IMF has projected a **stable growth** rate of 5.3% for sub-Saharan Africa. Several uncertainties surround these projections. These are notably the evolution of the euro crisis and the evolution of the security and food situations. This last point concerns especially the growing internal pressures in the Sahel and particularly in Mali, already having led to a war for the re-conquest of the North involving the ECOWAS, political tensions related to the electoral processes or to the transfer of power and to possible climate shocks. The emergence of several political problems in the countries of the region and also climate shocks will compromise agricultural production.

61. Falling **inflation** should continue in 2013, but for that, the country must implement macro-economic policies that are sufficiently restrictive.

62. Concerning the world situation, the socio-economic evolution of the euro zone constitutes a real risk for **international trade**. The defavorable context of public finance in these countries and the contraction of loans continue to pose a risk for the economy of Africa. Lower world production could also lead to a fall in the prices of basic commodities in general and of petroleum in particular. The consequence for Africa is a lowering in exports, tourist activities, remittances, flows of official development assistance and private investment. South Africa will be one of the first countries to suffer from this and by ricochet, the member states of the Southern Africa Customs Union (SADC). All countries too dependent on Europe will feel the impact, such as Kenya through its exports and tourism, Ghana through its investment flows and the RDC, through the decline in the prices of basic commodities. In spite of lower petroleum prices, petroleum-producing countries which have succeeded in consolidating their non-petroleum sectors will undergo fewer external shocks.

63. For healthy macro-economic management, with the reconstruction of public finances owing to vigorous growth over a long period, countries must provide support for the progression of production by loosening up public expenditures especially for the benefit of investment.

64. It is also important in order to avoid the durable installation of an inflationary process in countries where this rate is higher than 10%, to adopt good control over public finances and budget policy and to foresee actions to protect against new external shocks (slowing of global growth, food shortages and rises in the prices of food commodities) through a moderately expansive demand, brought about by budgetary margins and through adjustments in monetary policy and exchange rates that are compatible with the objectives of controlling inflation. A strong upward thrust on the price of the barrel, in order not to compromise growth, must lead to internal adjustments in the price of fuel, even if this necessitates targeted measures of support for vulnerable groups. In effect, soaring prices of petroleum products owing to hovering uncertainty in the current geopolitical context is not to be disregarded.

65. To consolidate gains for growth, monetary policy in Africa will take the shape of a strategy of support for growth while controlling inflation. It is above all a question of maintaining low key interest

rates, revising exchange rates and especially of strengthening the banking system for better financial intermediation.

66. Current external deficits in the region should worsen somewhat in 2013 as already the trade balances are showing less favorable results owing to a slight deterioration in the terms of trade and persistently low demand for imports by traditional partners.

67. In conclusion, confidence in the future of sub-Saharan Africa is growing. Two major facts justify this, according to the IMF, which are the entry on the market of the international sovereign bonds of Angola in August 2012 for 7 years at the rate of 7% to finance the deficit in the balance of payments and the issue by Zambia in September 2012 of a 10-year bond at 5.35%. Also to be noted is the lowering of the yield on bonds issued by African countries to levels comparable with the bonds of several emerging European countries. The continuation of the implementation of quality policies, the strengthening of institutional frameworks in the management of the economy and the strengthening of the democratic process are some of the measures that can consolidate economic and social development. The perpetuation of these efforts is necessary to improve the containment of the security problems observed here and there.

II.3 Impact on the economies of West Africa

68. The economic performances of the sub-region are largely dependent on the economic conditions of advanced countries in spite of a certain modification in the trade flows in favor of emerging countries. In spite of the progression in trade with these countries, the ECOWAS zone depends for 50.7% on its exports to the United States and the euro zone and for 31.6% on imports according to the data of the UNCTAD in 2010. This dependency is also high for capital flows, remittances of migrants and official development assistance. The decline of these variables will be felt directly on economic performances. The continued recession in advanced countries is beginning to be felt in emerging and developing countries some of which, such as Brazil, are beginning to experience the consequences. This situation could jeopardize the alternative that these countries have been providing to West Africa.

69. Socially, the strong economic growth since 2005 at higher levels than demographic growth has the advantage of contributing to raise sustainably the income per capita. This evolution will make it possible to expand solvent demand and therefore to make African markets promising. However, without a more inclusive approach towards improving the distribution of wealth, the living conditions of the people can only improve very slowly. Another aspect is the heavy dependence of growth on the export of raw materials for which the markets may collapse at any time according to economic conditions. Also, the poor economic transformation of West African countries increases the exposure of the population.

70. In view of international economic developments, the maintenance of balanced public finances constitutes a sizable challenge. With the compression of the volume of exports and even in value, external deficits could deepen and re-launch the process of indebtedness. Public revenues could also be affected in a context marked by large public investments to better establish the foundations for growth in the long term.

71. Concerning cereal production, initial indications for the new growing season 2012-2013 still point to a situation of supply that is relatively comfortable on a world scale. If the meteorological conditions remain normal during the whole season and in the absence of major natural catastrophes, the total supply for cereals for 2012-2013 should be more than sufficient to respond to demand. Consequently, the international prices of cereals should decline somewhat during the course of the 2012-2013 season, even if they remain at historical levels and will continue to be vulnerable to modifications on other markets. (FAO, Products Committee)

72. In spite of everything, FAO's quarterly GIEWS report, Crop Prospects and Food Situation, draws attention to the food situation in developing countries and, in particular, low-income countries with food shortages (LIFDCs). For these countries, overall cereal production in 2012 will reach a record level of 534 million metric tons, or an increase of 1.7 per cent by comparison with the good harvest of 2011. Nevertheless, the current high prices should project the invoice for the 2012/13 cereal imports of LIFDCs to a record high of 36.5 billion USD as against 35.2 billion USD in 2011/12.

73. In West Africa, in spite of prospects for favorable harvests in the region, the food security situation in the Sahel remains of concern, nearly 19 million people requiring permanent assistance mainly as a result of the persistent effects of poor harvests the year before. However, trade balances could be eased in several West African countries.

74. The economic prospects for the sub-region depend on security conditions of great concern. A major risk for West Africa is related to the repercussions of transnational criminality with growing international threats for the stability of the sub-region and in the region of the Sahel. These are smuggling of arms and drugs, pirating and armed theft at sea. These threats contribute to weaken governance, social and economic development and stability and complicate the supply of humanitarian assistance, while threatening to reduce to nothing the advances achieved in the region in the consolidation of peace (UN). The smuggling of cocaine across West and Central Africa generates about 900 million USD per year, according to the United Nations Office for Drugs and Crime (UNODC).

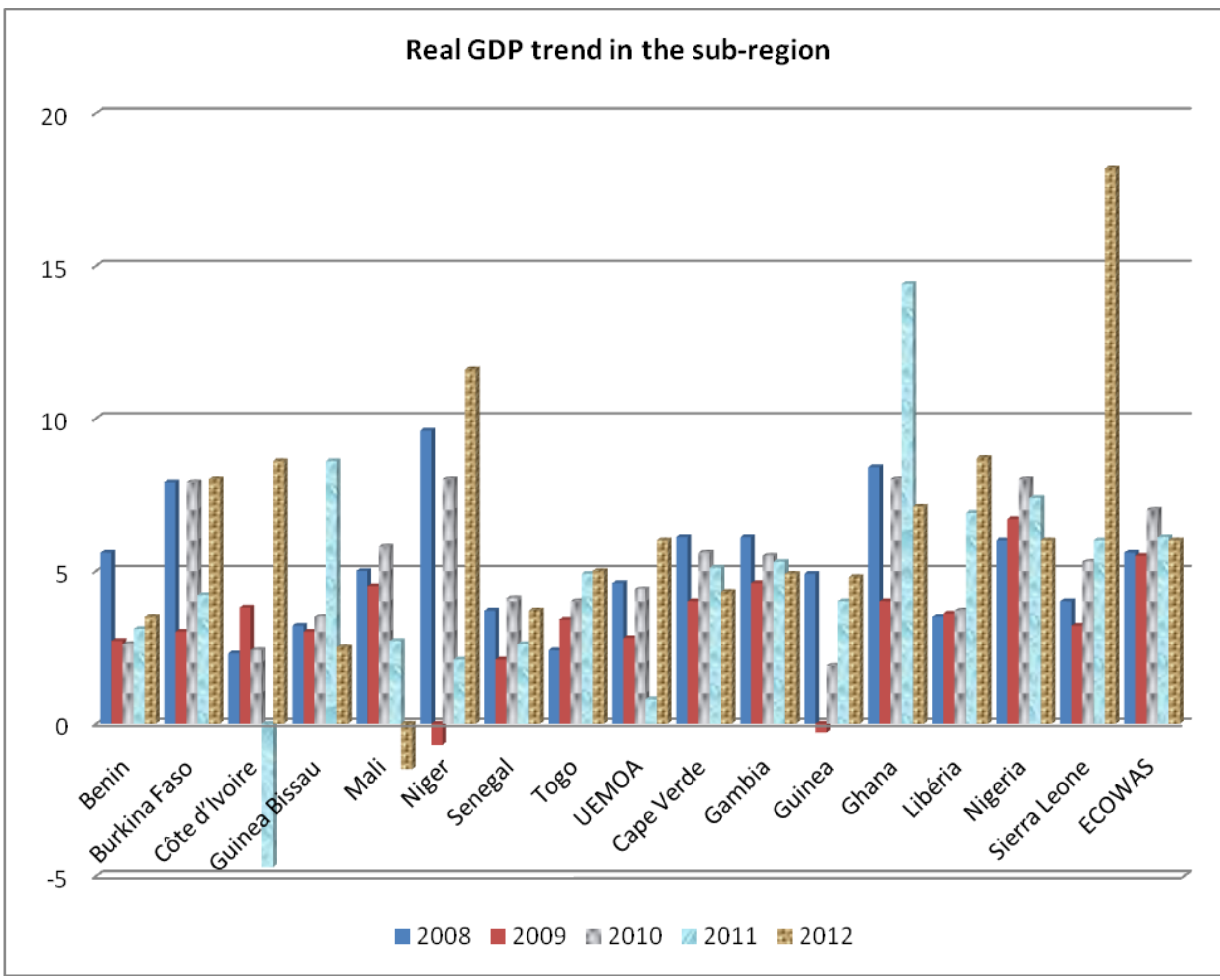
III. Economic and social situation in West Africa during 2011/2012 and Outlook for 2013

75. In this part will be reviewed the evolutions of macro-economic variables for the West African sub-region. In general, the dynamic of growth continues and all the fundamentals remain solid in spite of the difficult international context. The restoration of favorable climate conditions contributed to stimulating production in our countries. In addition, demand from emerging and developing countries continues to pull the volume of exports.

III.1 Gross Domestic Product (GDP)

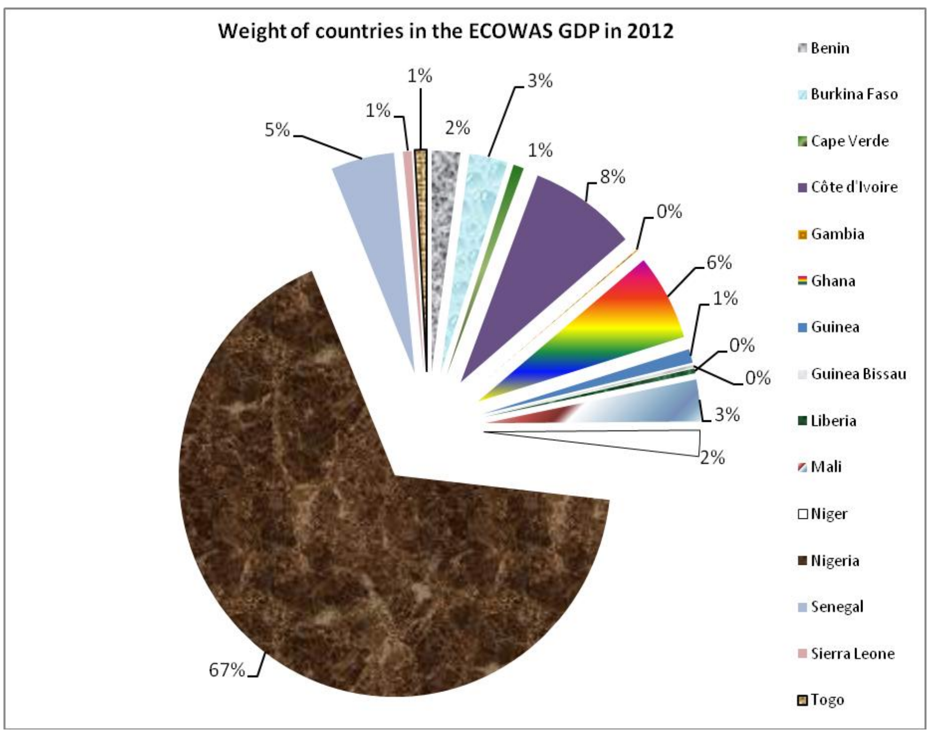
76. According to the most recent report of the ECA/SRO-WA (2012 edition), economic growth in the ECOWAS countries has declined slightly, going from 7.0% in 2010 to 6.1% in 2011. The major petroleum-producing countries are the main motors with 7.4% in 2011 for Nigeria and 14.4% for Ghana (IMF). If for this country growth was driven by the petroleum sector, it is rather the non-petroleum sectors that drive growth in Nigeria. Countries emerging from conflicts have also contributed to this good performance which could have been better if Guinea and Togo had not experienced social unrest

on one hand and especially if on the other hand, results within the WAEMU zone had not been disappointing with 0.8% growth in 2011. This year for the WAEMU, two major exogenous factors were at the origin of this slowdown, which were the political crisis in Côte d'Ivoire and the drought in the Sahel. The authorities of the UEMOA succeeded in containing the risk of contagion of the Ivoirian crisis, which had serious repercussions from the financial point of view and greatly retarded regional integration. The recent drought in the Sahel harshly tested the CILSS countries, notably Burkina Faso, Mali, Niger and Senegal, resulting in a decline of 7% to 27%, depending on estimations, in cereal production. The consequence is a high prevalence of food insecurity. It has already been estimated that between 8 and 10 million people are suffering and need assistance (IMF). In 2011 the effects of the drought were felt on GDP in the CILSS countries.



Sources : BCEAO countries, UEMOA and WAMAother countries, 2012

77. In 2012, in spite of the continued slowdown of the world economy, the ECOWAS sub-region advanced by 6.0% as against 6.1% in 2011. Several countries achieved a growth rate of more than 6% in 2012 notably Nigeria with 6.0% and representing nearly 67% of the GDP of the sub-region, Ghana with 7.1%, Burkina Faso with 8.0%, Niger with 11.6%, Sierra Leone with 18.2%, Cote d'Ivoire with 8.6% and Liberia with 8.7%. This growth is explained by the increased external demand for natural resources, notably in mining, thus resulting in an increase in world prices and the recovery of the agricultural sector following the high rainfall of the growing season of 2012/2013. Investments planned in the sectors of electrical energy and the measures of support in favor of agriculture to ease the difficulties in supplying electricity and to re-launch agricultural activities were positive. The development of the telecommunications sectors in almost all countries and the large investments made in projects of reconstruction or development have contributed to re-launching growth in the sub-region.



Sources: ECOWAS countries Data, 2012.

78. In terms of structural transformation, positive trends should be noted in certain petroleum-producing countries of which the GDP other than for petroleum fared better than the global GDP. Since 2010, the growth rate of the GDP of Nigeria was higher than that of the entire economy, settling in 2012 at 7.9% as against 8.8% in 2011. In the case of Ghana, this situation appeared only in 2012 with 8.8% whereas in Niger, new petroleum-producing country, these sectors are still lagging. The recovery in Côte d'Ivoire, where the economy was already well-structured before the crisis of 2002, also was translated by a higher GDP growth rate excluding petroleum of 8.4% than that of the entire economy.

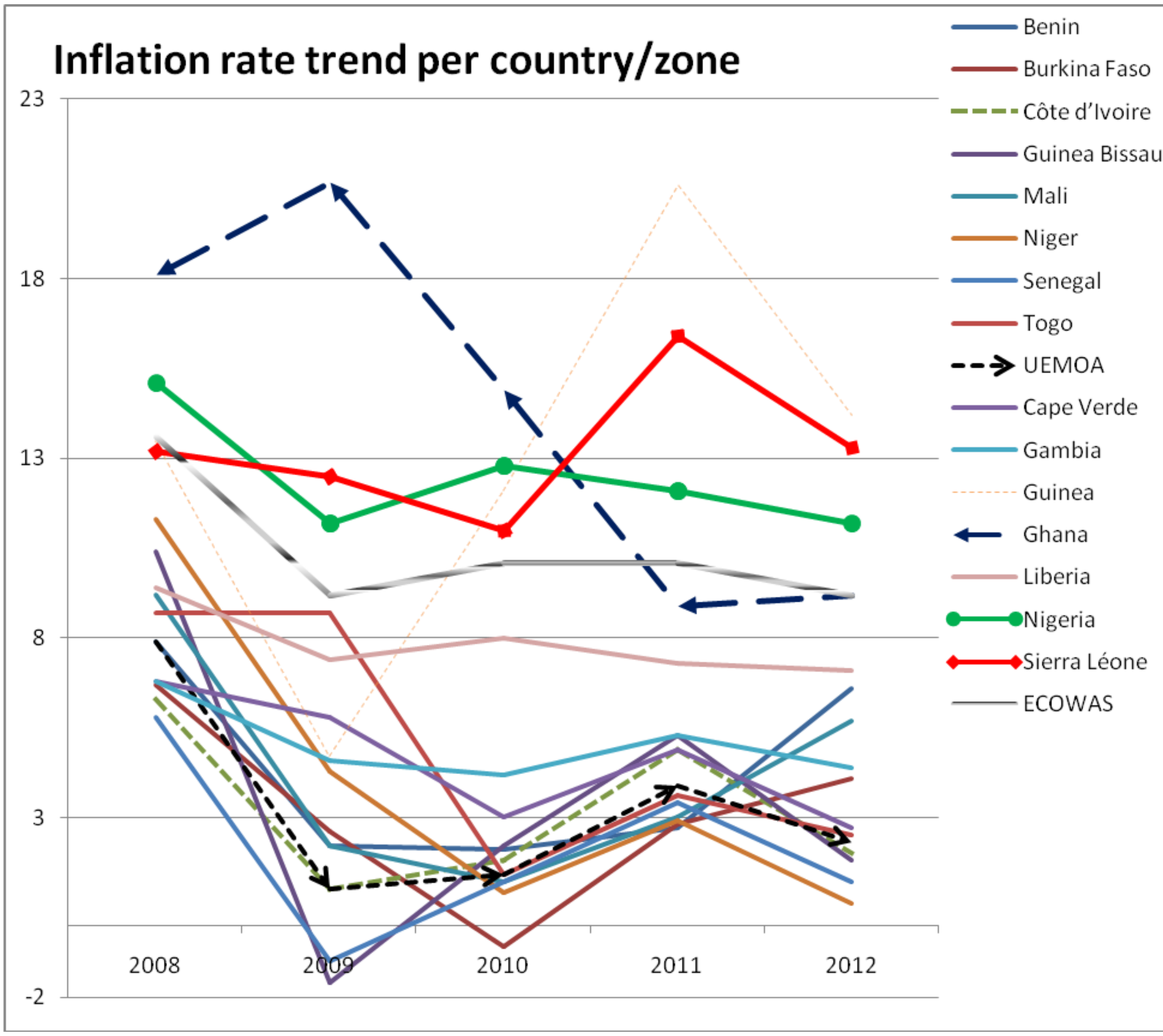
79. Regarding the WAEMU countries, the zone suffered from the effects of the poor agricultural season in 2011/2012 in Sahelian countries and from the socio-political crises in Mali and Guinea-Bissau. The end of the drought in 2012 should mean an accentuation of growth in this zone which should accelerate to reach about 6.0% in spite of the weakening external situation. The WAEMU zone,

very dependent on Côte d'Ivoire which contributes about 30% of GDP, has been subject to the fluctuations of this economy. The recovery of the Ivoirian economy in 2012, with growth estimated at 8.6%, will have a positive impact on the other countries of the region, notably the landlocked countries, owing to the recovery of commercial trade, remittances and investments. Within the WAEMU, the impact of the global crisis should affect only Côte d'Ivoire and Senegal, the economies which are the most exposed. However, these countries will benefit from endogenous sources of growth with the post-crisis recovery in Côte d'Ivoire, increased investments in infrastructures and the end of power cuts, especially in Senegal. Other endogenous factors such as new petroleum operations in Niger should stimulate regional growth before declining in the medium term.

80. The rate of investment in the ECOWAS countries exceeds 20%, a satisfactory level to follow on the road to quality growth, which is at the origin of economic performances in the sub-region. Nevertheless, the region could do better as several countries had an investment rate lower than this average among which Côte d'Ivoire of which the rate of investment remained particularly low to reach only 12% in 2012. Five countries, including Cape Verde, Niger, Gambia, Nigeria and Senegal have maintained high investment rates since 2008 owing especially to infrastructures and mining or petroleum operations. Guinea and Sierra Leone especially have carried out efforts during these last few years since 2010, with the arrival of large foreign investment flows for mining explorations. Throughout the WAEMU, the efforts of Senegal and Niger were not able to compensate for the low Investment rates in the other countries which usually remained lower than 20%. The Union performed less well in this area, in spite of 20.5% recorded in 2012. The size of the investment rate in the Community is explained above all by the level of public investment in almost all of the countries. The mobilization of public investments depends more on the need for natural resource exploitation of which the external demand remains strong than from the improvement in the business climate.

III.2 Inflation

81. The evolution of consumer prices in West African has been rising since 2009 to settle at 10.1% in 2011, after 9.2% in 2009 and 10.1% in 2010. The main factors are notably the increase in prices for food commodities, transportation and energy in line with the increase in crude petroleum prices on the world market. Countries such as Guinea, Nigeria and the Sierra Leone experienced two-figure inflation. In the WAEMU zone the prices of petroleum products and food commodities largely explains the level of regional inflation. In effect, their surge during the second quarter of 2011 increased inflationary pressures and their downward slide afterwards made it possible for the sub-region to observe a rapid decline in inflation. Year-on-year inflation went below 3% at the end of the year. On average, the annual inflation in consumer prices is estimated at 3.9% in 2011. A minority of countries complied with the inflation criteria in 2011 owing to the world surge in prices of food commodities and fuels.



Source: UEMOA countries, and other WAMA countries convergences reports 2012

82. The economic activity of the Community took place in a context of declining inflation, due to the release of pressures on the world markets for raw materials in the first quarter of 2012, combined with the effects of monetary tightening in several countries and to the improvement in climatic conditions in the Sahel. The annual average inflation rate of the Community emerged at 9.1% in the first quarter of 2012 as against 9.9% in the same period of 2011. Inflationary tensions were stronger especially in countries outside the WAEMU zone. Three countries were at two figures, which were Nigeria the biggest economy with 11.2%, Guinea at 14.2% and Sierra Leone with 13.3%. The other member countries of the WAEMU experienced rates that were much higher than normal as agreed on the convergence criteria with 9.2% for Ghana, 7.1% for Liberia and 4.4% for Gambia. Cape Verde remained in the strong dynamic of the WAEMU countries with 2%. In effect, in the case of the WAEMU, it was especially in 2012 that the population had suffered the worst effects of the drought in the form of aggravated hunger and malnutrition. Food prices could also rise before the new harvest which would not fail to affect the people in particular the most vulnerable groups. Finally it was observed that a slowing in inflationary tensions owing to efforts deployed by member States to combat the high cost of living and the decrease in fuel prices in certain countries. The inflation rate emerged at

1.5% year-on-year at the end of June as against 2.5% at the end of March 2012. Finally it was projected at 2.3% on average per year for 2012, in spite of an exceptional situation in Mali where the rate expected will be 5.7%. The emergence of inflationary tensions was observed in almost all the countries outside the FCFA zone, notably those having recorded good performances in terms of growth and in particular the pilot countries which are Nigeria and Ghana. Cape Verde and Gambia have succeeded the most in this category to better control inflation. Finally the rate of inflation of all the countries of the ECOWAS could settle at 9.2% in 2012, or slightly better than in 2011.

III.3 Public finances and public debt

83. The countries of the ECOWAS recorded a global budget deficit of 3.2 % of GDP in 2011, on average, which represents all the same an improvement in the deficit of 4.7% of GDP in 2010. Deficits for 2011 are explained by the maintenance in countries of public investments and large salaries and wage bills in a context of declining fiscal revenues attributable to the global crisis. For the WAEMU, the global budget deficit (excluding grants) widened in 2011, depending on estimations going from 5.5% of GDP in 2010 in 7.9% owing to the Ivoirian crisis, the deficit, including grants, went from 3.2% in 2010 to 3.8% in 2011. The other factors are notably the increase in subsidies for electricity in Senegal, the financing of investment projects in Mali and the decrease in fiscal revenues in Benin. It is estimated that the average public debt stabilized at 4.2% of GDP in 2011. Most countries did not comply with the primordial criteria of the budget deficit in 2011. In contrast, progress was achieved on the debt owing to the relief granted to Togo and Guinea-Bissau under the HIPC Initiative and the MDRI. In general, the level of the debt is insignificant for the whole of the Community with 12.2% of GDP, due to the weight of Nigeria. The volume of the external debt of this country is insignificant with 2.4% of GDP in 2011. For all the other countries, the weight of the external debt exceeds 20%, Liberia having the minimum weight with 22.0%. For 2011, the most indebted countries are Cape Verde (74.6% of GDP), Guinea (64.1% of GDP) and Côte d'Ivoire (64.0% of GDP).

84. In 2012, for all the countries of the ECOWAS, the budget balances, including grants, were negative, which indicates the impact of the global crisis on the economies of West Africa. Cape Verde has suffered the most since 2009; its public finances have not stopped deteriorating, going from a budget deficit including grants of 6.8% to 7% in 2012. This situation is above all attributable to the lowering of transfers without compensation to the large-scale public works undertaken in countries and especially to the weight of the external debt. The countries which are the most exposed to the international environment suffered the most from deterioration in public finances. These were Nigeria with a slight deficit of 0 .4% following a surplus in 2011, Ghana (5.6%), and Senegal (6.6%); only Côte d'Ivoire was able to improve its deficit which went from 5.7% to 3.7%. Within the ECOWAS, the reduction in the deficit thus remained weak in 2012 in comparison with 2011 and with the situation of the WAEMU zone. The global deficit in the ECOWAS zone (including grants) experienced a decline going from 2.0% of GDP in the first quarter of 2011 to 1.1% in the same period of 2012, reflecting a reduction in the deficits of member countries except for in Ghana, Guinea-Bissau, Mali, Senegal and Cape Verde. It is expected in the long term to reach 2.5% at the end of 2012 as against 3.2% in 2011. The deficit within the WAEMU will probably be aggravated in 2012 owing to the important progression of expenditures notably with the catch-up effect in Côte d'Ivoire and the ambition of

member States to maintain the rising trend in public expenditures on infrastructures according to the most recent WAEMU report on convergence. The overall deficit apart from grants widened less than expected at 5.8% of GDP and the overall deficit came out at 3.8% as against 7.9% and 3.6% of GDP respectively in 2011. Budget revenues will be 18.7% of GDP as against 16.7% in 2011, or a rate of fiscal pressure of 16.6% as against 15.2% in 2011. Total expenditure and net loans will represent 26.0% of GDP essentially under the effect of the increase expected in capital expenditures of 42.3%.

85. Concerning external debts within the ECOWAS, the most important point is the benefitting of Guinea and Côte d'Ivoire from debt relief under the HIPC Initiative and the MDRI. The complete grant for debt relief (HIPC Initiative, MDRI and additional bilateral assistance to the completion point) in Guinea resulted in a fall of 70% in the annual servicing of the external debt for the period of 2012-2021. For Côte d'Ivoire, the ratio of the present-day value of the debt/revenues sank from 336.8% in 2011 to 99.6% in 2012. Except Cape Verde and Gambia for which the ratios of public debt to GDP represented 86.7% and 73.4% respectively (IMF), all the other countries of the sub-region are below the standard of 70% as set in the convergence criteria. The stock of public debt improved during these last few years owing to the cancellations obtained by many countries under the HIPC Initiative. In 2012, the stock of external debt in the Community was 9.3% of GDP in 2012 as against 12.2% in 2011. For all of WAEMU in 2011, the stock of public debt represented 40.2% of GDP as against 42.9% at the end of December 2010. In 2012, this ratio was 33.1% of GDP, benefiting from the impact of the HIPC Initiative and of the IADM of Côte d'Ivoire. External public debt servicing of the Union represented 13.3% of budget revenues in 2011 as against 14.6% in 2010. This ratio will be 12.3% in 2012.

III.4 Monetary policy

86. In the ECOWAS countries, the money supply in the broad sense was nearly 35% of GDP in 2011 as against nearly 33% in 2010, according to the statistics supplied by the IMF. Cape Verde (75.3%) and Gambia 51.5%) are the only countries where it represents more than half of GDP. Several countries are making the effort to control its expansion in order to better contain inflationary pressures. Exceptions can be found among the countries that are rich in mining and petroleum resources such as Nigeria (15.4% in 2011 as against 6.9% in 2010), Ghana, which experienced the largest expansion in the sub-region (32.5% in 2011 as against 37.5% in 2012), Sierra Leone (22.6% in 2011 as against 28 .5% in 2010) and Liberia (32.7% as against 33.5% in 2010) where monetary expansion was especially strong. Since 2010, the effort at restricting the progression of the money supply continues. Niger, within the WAEMU, and Guinea-Bissau to a lesser extent, went through a period of strong expansion before experiencing a certain slowdown. The money supply of the Union went from 16.2% of GDP in 2010 to 10.3% in 2011. Monetary policy in the zone faced a difficult environment in 2011. The BCEAO had to manage the impact of the Ivoirian crisis on the banking system, the Ivoirian banks having been closed for several weeks. With the rise of inflation in this context, the BCEAO maintained its key rate at 4.25% while proceeding to make massive injections of liquidity. In addition, it coordinated with the Ivoirian authorities the postponement (and ultimately the restructuring) of the country's debt. These measures prevented the crisis from spilling over into other countries. The money supply has not stopped growing, at the rhythm of 13% year-on-year in September 2011 due to the

marked increase in credit for the economy and the State. In general, within the ECOWAS, credit in the private sector remained solid except for in Nigeria (3%), in Côte d'Ivoire (0.1%) and in Benin (-3.0%).

87. For 2012, a slowdown, or moderate growth, characterized the evolution of monetary policies within the ECOWAS. Countries where the expansion remained high in 2012 were limited to Ghana (34.5%) in Niger (19.6%), in Sierra Leone (20.4%) and in Côte d'Ivoire (15.4%). These are countries which have especially benefited from mining revenues and the recovery of the Ivoirian economy. However in an effort to control the money supply if Sierra Leone lowered its key rate, in contrast Nigeria, Gambia, Liberia and Guinea have constantly maintained theirs. In contrast, Ghana and Cape Verde, in order to contain inflation and stabilize or defend their exchange rates, adopted a more restrictive policy in raising their key rates. In the WAEMU, the increase in the money supply remained stable with 10.2% as against 10.3% in 2011. On the money market in the WAEMU zone, the lowering by 25 points the key rates of the BCEAO, in June 2012, was passed on the rates of the money markets. Thus the interest rates followed. Also observed was a relaxation in the interest rates of Treasury bonds issues. This evolution led the BCEAO to maintain its key rates at their current levels. The minimum bid rate for injections of liquidity and the marginal interest rate of the loan window marginal remain set at 3.00% and 4.00%. The coefficient of obligatory reserves applicable to banks remains at 5% in effect since March 2012. Consequently, the monetary situation was characterized in 2012 by an increase in the money supply, following the progressive increase in internal credit. The net external assets of monetary institutions recorded a decline, for their part. The overall interventions of the Central Bank followed a rising trend during the period. In relation to the evolution of its counterparties, the money supply recorded a progressive increase of 8.3% to settle at 14 810.6 billion at the end of December 2012. This increase in overall liquidity was carried by the increase in deposits and of currency in circulation of 949.1 billion and 303.4 billion, respectively, according to the most recent report on the supervision of the WAEMU. Within the Community, the money supply increased by 11.7% during the first six months of 2012 as against 14.7% during the same period of 2011 and 15.4% in the second six months of 2011.

WAEMU financial market

According to the indicators of financial solidity available, the banking system is globally healthy. In their evaluation, the authorities indicated that at the end of 2010, the WAEMU was on average well capitalized, with a ratio of internal capital weighted according to risks of 13%. Unproductive loans were high (17%) and to a certain extent reflect chronic problems and the reticence of banks to reduce the value of assets for fear that it would prevent the possibilities of recovery. Nevertheless, the provisioning rate was quite high (65%).

The mission carried out resistance tests to obtain a more nuanced image of vulnerabilities. These tests made use of the most recent available data for each bank in each country of the WAEMU, as communicated by the authorities.

The degree of detail and the quality of data varied considerably from one country to another, which limited the capacity of the IMF services to carry out certain tests and to analyze certain results. For example, to examine the role of the State in the banking sector or evaluate the influence of foreign banks, it would have been useful to have data on the shareholders of banks in all countries. Similarly, it would have been useful to assess the macro-economic risk resulting from the high exposure of banks to public administrations. The gaps in banking statistics should also have been taken into account in interpreting the results. Nevertheless, the exercise produced useful results and the services acknowledge the willingness of the BCEAO to share information and develop expertise in this field.

Tests of resistance show that the banking system is especially vulnerable to the credit risk. This is due to the fact that banks mainly deal with credit (at fixed rates) for the State and for the private sector. Six shocks were tested from three broad categories of credit risks. In the most unfavorable scenario, the cost of recapitalization necessary to comply with the minimum level of internal capital would be limited (at more than 1.5% of GDP in Senegal) It reflects, to a large extent, the small size of the banking sector (and more generally, of financial intermediation) in the WAEMU.

Source: IMF Country Report N°12/59 on the WAEMU, March 2012

III.5 External

88. Exports of goods and services from the ECOWAS zone represented on average 34% of the overall GDP of the sub-region in 2011 or almost the same proportion as in 2010. Most of the products exported involved non-processed raw materials with petroleum at the top of the list and various other mining products. According to the statistics of the UNCTAD in 2010, the volume of trade within the ECOWAS remains low: on average 10% of total trade. The main clients remain the traditional partners which are the United States (27.6%) and the countries of the euro zone (23.1%). Emerging countries such as India (9.5%), Brazil (5.3%) and South Africa (3.0%) are beginning to play an important role in trade with the ECOWAS countries. Imports of goods and services were on average around 37% of GDP in 2011 as against nearly 33% in 2010. The dominant products are equipment, intermediate consumer products and food commodities. Sources of supply are the euro zone (28.1%), China (12.1%), the United States (6.3%), South Africa (4.0%) and India (3.4%). The trade balance was almost in balance owing to Nigeria, while Ghana recorded a high deficit, nearly 8.5% on average in the period, the same as all the countries of the WAEMU.

89. In effect, the current deficit within the WAEMU has climbed to 5.7% of GDP in 2011 (as against around 5% in 2010), owing to the lower remittances from migrants, to increased imports in the mining sector of Burkina Faso and to the higher prices of food commodities and petroleum products. The excess of the capital account and of financial operations was lower in 2011, going from 2 336.5 billion in 2010 to 1 048.5 billion. This situation is explained essentially by a large net outflow of other private capital in the form of commercial loans granted to non-resident entities and of the constitution of deposits in foreign countries by exporting enterprises. Taking into account the evolution of the undistributed assets related notably to movements on the operations account and certain adjustments, the overall balance of payments of the Union came out with a surplus of 195.4 billion against 139.5 billion in 2010. A surplus balance of payments was predicted in all the countries of the Union in 2011, except Benin, Mali and Niger.

90. For 2012, the profile of exchanges varied little compared with 2011. Within the Community, the balance of the current account is expected to be 0.8% in 2012, owing to the implementation of the economic recovery programme in Côte d'Ivoire, to the lower surplus of Nigeria and to the deterioration of the trade balance related to the rise in imports of petroleum products and equipment induced by the implementation of several programmes of public investments and the increase in food needs. Exports of goods and services represented nearly 36% on average, slightly better, whereas the imports of goods and services increased progressively along the same order owing to the needs of the Ghanaian and Ivoirian economies.

91. For the countries of the WAEMU, the profile of external trade has hardly improved and the trade balance will have a deficit of 630.7 billion after a surplus of 395.1 billion in 2011. For this reason the deficit in the balance of the current account, apart from grants, will be worsened to come out at 3 038.4 billion. However, the surplus of the capital and financial account should increase to around 2 450.3 billion, in relation with the improvement in the balance of the capital account, the effects of which will be mitigated by the deterioration in the financial account. The rise in flows of external financing will nevertheless be mitigated by the reduction in direct foreign investments, in relation notably with the end of the investments for setting up a refinery and a pipeline that is more than 400 km long in Niger during 2011. Other net capital also deteriorated, mainly in relation to the normalization of the situation in Côte d'Ivoire. Also, for 2012, the overall balance of payments of member States of the WAEMU should show a deficit of 168.3 billion as against a surplus of 397.3 billion in 2011. Within the Union, the overall balance will show a surplus of 1.1% of GDP during 2012 as against 0.6% in 2011, which indicates a positive variation in the reserves of the Community following an improvement in the capital account and financial operations, benefiting from a sharp increase in direct foreign investments, owing notably to inflows of foreign capital in the mining and petroleum sectors, as well as in that of telecommunications and the size of public drawings in line with the normalization of relations between certain States and the international financial community.

Trade balance of the WAEMU in the third quarter of 2012

Exports of the WAEMU countries which showed an increase of 6.1% in the second quarter were recorded at only 1.8% in the third quarter. For the second, the evolution resulted from the increase in the volumes of sales of gold (+39.7%), cashew nuts (+34.3%), coffee (+10.8%), cotton (+0.5%), petroleum products (+4.3%) and uranium (+3.0%), mitigated by the declined of the prices of the main products exported, except for coffee (+7.0%). The most pronounced lower prices were observed for cotton (12.9%), petroleum (-7.2%), rubber (-5.2%) and gold (-2.6%). The low progression of exports in the third quarter results from the simultaneous rise in the price (5.2%) and volume (9.3%) of gold, exports of petroleum (10.5%) and cocoa prices (11.9%). In contrast, the decline in prices for cashew nuts (14.5%), rubber (11.4%) and cotton (5.3%) has eroded export revenues. Imports also increased in the second quarter by 6.6% under the effect of the increase in volume (+9.6%), moderated by the lower prices of the main imported products. In the third quarter, they increased by 7.5% under the combined effect of the volume and the value of the main imported products. For this period, food commodities experienced an increase of 7.1% whereas a downward trend in the prices of the main imported food commodities was observed, except for coffee and rice, the prices of which showed increases in FCFA of 7.0% and 5.9%, respectively, in the second quarter.

Compared with the same quarter the previous year, the WAEMU trade balance showed a deterioration of 104.1 billion FCFA. The high increase in imports (7.5%) indicates, on one hand, the recovery of activity in Côte d'Ivoire, which stimulated the demand for petroleum products and equipment and, on the other hand, the food crisis in the Sahel, which induced an increase in foreign procurement needs for consumer goods. The good performance of the Ivoirian economy also explains the progress in exports (5.0%) that reflects the recovery of the coffee industry, along with the production of cotton and cashew nuts in Mali and Benin. The price of petroleum also contributed to increases in export revenues.

The coverage rate of imports by exports deteriorated, going from 92.1% at the end of June to 87.1% at the end of September, in the WAEMU, as against 89.5% at the end of September 2011. In relation to GDP, the deficit of the current account should come out at 4.1% in 2012 as against 3.1% in 2011.

Source: Rapport sur la Politique Monétaire dans l'UEMOA. BCEAO, Décembre 2012

92. Except for Nigeria with a positive external balance of almost 3%, according to the IMF, all the other countries are dragging along a negative balance. This negative balance is very marked for countries such as Liberia (-55.8%), Sierra Leone (-13.1%), Niger (-26.3%), Gambia (-15.9%) and Cape Verde (-11.9%).

III.6 Outlook for ECOWAS countries in 2013

93. It remains to underline the important gains to be gained by countries of the sub-region in complying with convergence criteria in order to better stabilize their exchange rates and achieve a monetary union. The adoption of a common WAEMU/ECOWAS document, the Regional Strategy for Poverty Reduction in West Africa reinforces the coordination of their policy. This document constitutes a regional strategic framework of reference, with a view to an improved structuring and a better integration of regional development programmes with national programmes. According to the officials of both RECs, this will make it possible for member States to gain global visibility for regional programmes, in order to insert them into their national strategies.

94. This favorable context explains the evolution in all countries of national development programmes in the medium-term constructed around the objectives of the sub-region. All these programmes place an emphasis on the strengthening of gains for macro-economic gains, notably for accelerated inclusive growth that generates decent employment but compatible with price stability. For the ECOWAS region, the expected growth rate is 7%, driven especially by the petroleum and mining sectors following the massive investments which have been dedicated to them and to the post-conflict recovery of countries such as Côte d'Ivoire. The secondary sector will continue its high growth owing to large investments in physical and social infrastructures, the pursuit of rehabilitation efforts in the energy sector but also with the continued expansion of agro-food industries that benefit from a larger solvent demand. In effect, the primary sector as a whole will record strong growth owing to pro-active policies adopted in all States to ensure food security in the sub-region and the sub-regional interventions of the WAEMU and the ECOWAS. The tertiary sector should benefit from the expansion of the other sectors and also from the potential for growth in telecommunications. Better coordination of monetary and financial policies could also boost the financial sector and insurance. Projections for 2013 as established by the BCEAO, anticipate for the WAEMU a rate of increase in GDP on the order of 6.5% owing to the net increase in overall demand benefiting from the regain of dynamism in investments and household consumption. The commitment of the States of the Union to reinforce reforms underway in order to benefit from the potential is the main factor for this. The increase in investments in infrastructures and in the energy sector will make the investment rate go from 22.7% in 2012 to 24.9% in 2014 according to the BCEAO.

95. All the countries will attempt to strengthen controls over inflation in order to comply with the convergence criteria in this area. The rate of inflation in the WAEMU should be below the standard of 3%.

96. For quality growth, rigorous management of public finances must guide all budget policies that place the emphasis on internal mobilization of domestic resources and the rationalization of public expenditures. Regarding budget resources, while raising fiscal pressure to more than 20% of GDP, countries that are still heavily indebted must make a commitment to reducing the weight of their external debt. All countries should limit their internal debts in order to reduce the effect of crowding out the private sector from access to credit. In the WAEMU, it is expected that deficits will be mitigated with a volume of budget revenues representing 18.8% of GDP, which result from the continuation of recovery efforts, increased grants representing 3.2% of GDP and more selective total expenditures and net loans assessed at 24.6% of GDP. Also, much of the rise in expenditures will be carried by capital expenditures increasing to 10.2%. The overall deficit of the zone apart from grants and the overall deficit will decrease to represent 5.8% and 2.6%, respectively.

97. In the ECOWAS zone, monetary policies will clearly be restrictive in order to better contain inflationary pressures especially in countries outside the WAEMU. The key rates will remain unchanged in most countries, as will the rates for obligatory reserves. For the countries of the WAEMU, the BCEAO shows for 2013, under the assumption of an unchanged monetary policy, an increase in the money supply of 10.3%. This increase in the money supply is attributable mainly to the increase of 12.9% in outstanding domestic loans. The evolution of domestic loans results from the continuation of strong growth in credit flows to the economy (13.3%) and from the deterioration in the net liability position of governments (308.1 billion). Nevertheless, the net external assets of the Union should rise by 187.1 billion. (WAEMU Convergence Reports. December, 2012).

98. Lastly all the countries will aim at consolidating their external reserves by the reinforcement of current account balances and of capital and finance accounts. In the WAEMU countries, prospects for the evolution of external trade in 2013 aim at containing the deterioration of the current account and at making an effort at mobilizing external financial flows. It is expected that the external balance, including grants, will be in a balanced position.

99. The economic prospects of ECOWAS countries are positive in spite of two important risk factors. These are the effects of the global crisis with the foreseeable slowdown in the economies of advanced countries which are struggling to find sustainable solutions for the weight of the debt. On one hand, the United States with uncertainties still high as to the capacity of the American authorities to agree on a viable strategy for coping with the debt and on the other, the slow deterioration of the economies of the euro zone, of which the motor country, Germany, is beginning to see its growth lose steam whereas the prospects of countries in the periphery remain of concern. Regarding trade, the region is still very vulnerable in the face of Europe, even if this vulnerability has lowered. Trade, migrants' remittances, direct foreign investment and the terms of trade are the main channels of transmission towards ECOWAS countries. A sharp decrease in assistance from traditional donors is possible. The financial sector is based essentially on domestic resources and its direct exposure to Europe is limited except for certain countries such as Nigeria, Ghana and Côte d'Ivoire.

100. Internally within the Community, the occupation of Northern Mali and its constitutional crisis and in Guinea-Bissau but also security issues in other countries of the Sahel, Nigeria and Côte d'Ivoire constitute a real source of concern owing to impacts on the inhabitants and on public deficits. Certainly the end of the presidential elections in several countries without too many abuses constitutes a real reason for relief. In effect, a major risk for the ECOWAS space is the security situation of which the deterioration could compromise the recovery of private investments, in the wake of the recovery of public investments. In general, the potential risks that would affect prospects for growth are linked with both internal and external factors. They relate to:

- a possible decrease in external public and private capital flows;
- an exacerbation of insecurity within certain economic poles of the Union;
- a persistence of the socio-political crisis in Mali and Guinea-Bissau, which would significantly affect the economies of these countries and would have important collateral effects in other member-States of the Union;
- a poor growing season in 2012/2013 which will have a negative impact on agricultural production and aggravate food insecurity;
- a new deterioration in the international economic situation.

101. As throughout the ECOWAS, the prospects for economic recovery for the WAEMU zone are distinct but their achievement supposes the imperious necessity of consolidating the current climate of peace in the Union and accelerating the rhythm of implementation of agricultural policies in order to guarantee food security sustainably. Available information on the progress of the 2012/2013 growing season were favorable overall throughout the Union, precipitation was abundant and evenly distributed in most regions. An increase in the surface areas sown was also observed. Sowing was effective and the evolution of crops seemed to be normal, even if the phenological stages varied greatly from one region to another. Regarding the phyto-sanitary situation, the risk of locust invasions along the southern borders of Algeria and Libya was brought well under control with the pesticide applications carried out. However, concerns persist in view of the appearance of crop pests in certain places in the Sahel. In

effect, in Niger local attacks on cereals by grasshoppers, caterpillars and flower insects were observed in several departments as well as aphids on the bean and peanut plants, with some impact on crops.

102. Other sources of insecurity for the macro-economic environment are the insecurity and socio-political risks in the region, as well as the impact of the drought in the Sahel. To mitigate the security risks, it is necessary to integrate the threats they may carry into conflict-prevention strategies, conflict analysis, evaluation and integrated planning of missions and support for the consolidation of peace. Coordinated support for governments in the West African and Sahelian regions from regional organizations and more broadly, from the international community will be necessary in order to consolidate and support the capacities required in information-sharing, prevention, surveys, application of the law and surveillance of borders. Considering the economic situations of these countries, parallel strategies to deal with the challenges of poverty, human insecurity and under-development, are urgently required.

IV. Social sector: employment

103. In spite of a long growth period, bringing about an improvement in per capita incomes, the social situation remains precarious in West Africa. Improvements have appeared in only a few countries and inequalities remain large. Commitments made for the creation of decent employment, at the regional, sub-regional and national level, remain without effect. Pro-active programmes have been set up without sufficient means to ensure their perpetuation in addition to efforts at mobilizing investment for strong growth that can generate employment. This part of the report attempts to present an overview of the labor market in West Africa.

IV.1 The situation in the labor market

104. The UNDP/ILO study on employment and development policies in Africa provides valuable insights on employment in Africa. The chapter on employment trends in Africa: challenges and issues notes that young people aged 15 to 24 represent more than 20% of the population. In spite of the demographic transition underway, fertility levels remain high. Consequently, demographic increase remains high as well as that of the rate of increase in the active population. While African countries in general and West African countries in particular have revived high growth levels, sometimes double the rate of demographic increase, the levels of unemployment and poverty continue to be of concern. The unemployment rate is estimated on average at between 10% and 20%. Even among the employed, the levels of insecurity remain high. For the ILO, the proportion of people who have a vulnerable occupation which was already 73% in 2009 (UNDP), may not come down between now and 2015. Having a job constitutes a major challenge and decent employment is even more hypothetical. The creation of employment evolves at a lower rhythm than that of the active population, which reinforces the volume of labor without employment.

105. The main victims are young people and women. Difficult access to employment is at the origin of criminal practices and of the increasingly greater flows of migrants towards developed countries, by young people. Regarding women the challenges remain significant, owing particularly to the difficulty in implementing the principle of equality and security between men and women on the continent. Sub-Saharan Africa, according to the UNDP Report on employment, has the highest net rate of activity

among women at 67.1%, after East Asia. This situation can be explained above all by the high prevalence of poverty among women. This rate of activity is nevertheless coming down, from 64.1% in 1997 to 62.6% in 2007 owing to the rise in the rate of schooling. As indicated in several of our report on the MDGs, they are especially active in agriculture with nearly 80% in subsistence agriculture. Increasingly more women are beginning to be active in the non-agricultural sector but without a major modification in their living conditions. In Burkina Faso, the report states that 67.5% of women working in the non-agricultural sector earn less than the minimum wage as against 28.3% among men.

106. In almost all countries, legislation has been greatly softened. Flexibility is generalized, but unemployment remains. Employability is also a problem in view of the poor quality of technical and professional training in the educational system of countries. The issue of adequate coordination between training and employment remains in all West African countries in spite of the good intentions shown by the authorities.

107. While the priority has been placed on the volume of employment, the productivity of work is also a major challenge. The increase in productivity cannot go together with illiteracy which is still high in Africa in general and in West Africa in particular. The overall rate of schooling as it emerges from the calculation of the HDI is very low. Only Cape Verde (84.8%), Ghana (66.6%) and Nigeria (60.8%) according to the data of the HDI report for 2011 are higher than 60%. In addition, technical and professional training is the poor relative of the public education system. It is in the private sector that this type of training is starting to take off. African labor is thus poorly qualified.

108. The labor market benefits from a good stabilizer which is the informal market. It covers the economy known as popular, but also powerful operators in terms of turnover with a high aversion to the formal sector resulting from the administrative hindrances or because of them have never wanted to formalize. This market is characterized by a total freedom in the regulations that govern it, these being simply what is agreed between the two parties. As a result of the failure of public powers to structure this sector, attempts at fiscalization have been carried out in the framework of efforts to mobilize public revenues. The agricultural sector is the primary employer and the rural world, through migration, provides the workforce in the urban areas.

109. The nagging issue of social protection is as crucial as unemployment. During these last few years attempts to expand social coverage have been carried out in certain countries but the situation still has a long way to go.

IV.1.1 The quality of public policies

110. As indicated in our different reports, during the decade of 2000, West Africa has become a region with a high rate of growth without generating employment. The situation leads to questioning on the quality of growth but above all on the impact of poverty reduction strategies that have become fashionable with the process of debt reduction of the sub-region. It should be noted that the process of cancelling the external debt coincided with a period where economic geography underwent changes notably to the benefit of Asia bringing about a high demand for raw materials. The strengthening of internal demand due to the development of social investments, notably in favor of reaching the MDGs, and the strong dynamic of world trade driven by emerging and developing countries has made it possible for Africa in general and West Africa in particular to achieve good economic performances.

111. In spite of a global consensus on poverty reduction, the execution of Poverty Reduction Strategies comes up against a macro-economic framework of stability recommending balanced public finances and external payments and generally moderate inflation. Reaching the MDGs in 2015 would require, according to all the hypotheses and evaluation methodologies, notably those of the Millennium Project with Professor Jeffrey Sachs, large amounts of resources. Macro-economic rigor led to limiting the mobilization of resources even if the capacity for absorption existed. The PRSPs did not have precise objectives in terms of job creation. This limitation in financial margins affected above all the sector of employment, by considerably reducing the active employment policy. It had become difficult to increase, nor to renew resources. The central services of the State in charge of employment, starting with the Ministry and the divisions, were the most affected. The content for employment in public investment programs was rarely explicit. The ministries in charge of employment did not therefore have the means to implement their strategy and did not even have a reliable information system to either gain a good understanding of their labor markets or for efficient monitoring and evaluation of their policy.

112. To these budgetary constraints can be added monetary policies that are even less sensitive to job creation. For example, since the liberalization of the financial sector in 1989, the BCEAO has opted for an indirect monetary policy based on the interest rate, the obligatory reserves and the Open Market next to a prudential system applicable to financial establishments. According to Adama Zerbo (UNDP/ILO), if it has succeeded in guaranteeing monetary stability regarding the evolution of the inflation rate, it has not made possible sufficient financing that is likely to densify the economy. Its policy has favored the compartmentalization of the credit market, thus considerably limiting the positive effects of an expansionist monetary policy with regards to financing. Added to this, the absence of a flexible exchange rate that deprives the WAEMU zone of a mechanism for discreet competitive devaluations that would make it possible to maintain its presence on the world market. The situation is the same in the other countries of the ECOWAS. The Bank of Ghana, for example, by concentrating on controlling inflation to ensure a viable macro-economic framework of the economy has also contributed to drying up the availability of resources for financing the economy. In effect, its contribution to compliance with the agreements concluded with the IMF has led to limiting financing granted to the State, to increasing its external reserves and bringing inflation down to lower than 5%, without significant support for the economy (UNDP/ILO).

113. In addition the reforms necessary to attract private foreign investment still do not come up to the expectations of the private sector. In effect, even though all countries have an explicit policy on the improvement of the Business Climate, they are all far from the Doing Business classification of the World Bank. Investments mobilized go in large part to mining or petroleum operations.

114. Another important aspect is the distribution of the fruits of growth. The increase in income per capita should expand the solvency of demand and thus make the local market more propitious for productive employment that generates employment. It has been observed that the growth in GDP has not been accompanied by a serious reduction in poverty. According to the estimations established by ILO ((Joël Luc Grégoire and Dramane, UNDP/ILO) on the basis of surveys made in thirty African countries, the percentage of poor workers at 1 USD per day for Africa was 46.2% in 2007, the highest rate in the world, followed by South Asia with 33%. Niger with 63% is the West African country that is the most affected at a time when the average in sub-Saharan Africa was 53% in 2007.

115. Several countries have founded their strategy on the PRSPs not only in the hope of lightening the weight of its debt but also and above all to reduce poverty. A participative process seems to have

guided the process of their development for national appropriation and tools were developed with a view to promoting results-oriented management and budget programming to align public finances with their objectives. However, building an economy that generates employment remains a major challenge. In parallel, and to complete the failure of growth that generates employment, several examples of active policies in favor of employment with more or less sustainable programmes have been experimented with here and there.

Case of Senegal

The Senegalese population is characterized by its youth. In 2012, young people aged 0 to 14 years represent the majority of the Senegalese population while old people are less than 10%. The active population aged 15 and above has gone from 55 678 497 to 7 299 215 between 2002 and 2010, or an annual average of 202 000 new job-seekers for potential employment. Added to this is in the framework of the WAEMU common market, Senegal must allow freedom of movement of goods and people, which will require reforms of the national employment market. A strategy for the period of 2010-2015 has been validated. It will be supported by the Guarantee Fund for Priority Projects (FONGIP) to accompany young people in setting up and implementing their projects. In spite of these initiatives and measures to improve the situation of employment, the labor market remains, among others, faced with various constraints: (i) the weak correlation between policies of growth and employment; (ii) the high level of unemployment, under-employment and poverty; (iii) the multitude of structures in favor of employment without any real coordination; (iv) the lack of correlation between employment, professional training and the policy of accompaniment for self-employment; (v) the weak information system for monitoring the employment market.

Although employment constitutes a challenge, the extent of unemployment and the needs of the market cannot be measured with precision, owing to a lack of recent statistics and relevant information likely to guide political orientations.

As for the unemployment rate, it varies between 10% and 14% according to sources; it remains very high among young people aged 15-34 years and declines as the level of instruction rises. The unemployed represent 40% for those who have a primary school education against 7% for those who have a secondary education and 2.5% for higher education. Nearly 23% of workers are in a situation of invisible under-employment; their income from activities is insufficient, leading them to actively seek to increase it to meet their needs. The rate of under-employment is estimated at 15.2% by the National Agency for Statistics and Demography in 2010.

According to the ESPS-II, the rate of activity went from 50.7% in 2005 to 59.4% in 2011 at the national level against 50.9% to 66.4% in the rural areas. The rate of participation of the active population[1] is high with 74.2% in 2008 and 76% in 2009. The levels of unemployment and under-employment limit the contribution of human resources to growth. Emigration has a negative impact on the rate of participation, which has declined since 2000 owing to a large number of competent adults trained in the educational system who leave the country in search of a job.

Regarding the productivity of employment, it grows slowly; it went from 2.5 in 2005 to 0.60 and 0.2, respectively, in 2006 and 2008[2]. This weakness is due notably to the following factors: (i) the structure of the economy and the size of the informal economy; (ii) the state of the health of the active population; (iii) the level of instruction, the qualifications and skills of human resources; and (iv) the functioning of the labor market. The productivity of the work of the informal sector imprints its dynamic by occupying around 94% of the active population. Nevertheless, it has increased 1/3 of the speed of the informal sector.

[1] The proportion of the population aged 15 years and older which is economically active.
[2] RNCS-2011

IV. 1.2 Programmes and projects

116. The countries of the ECOWAS at the end of the Conference of Ouagadougou in 2002 on the creation of productive employment and the reduction of poverty, sought to strengthen their systems of job creation especially in favor of young people. This evolution also formed a part of the framework of the Copenhagen social development summit in 1995. In addition, several initiatives took place in West Africa and were reported in the book published by the UNDP/ILO in the chapter on the constraints and limitations of employment policies in sub-Saharan Africa. These are, for example, the national policy of employment in Burkina Faso, the national employment plan (PNE) of Côte d'Ivoire, the national policy for the promotion of employment (PNPE) in Guinea, the national employment policy (PNE) of Mali, the national action plan for the employment of young people (PANE) in Senegal, etc. The strategies for the pro-active job creation adopted were based essentially on high labor-intensive projects, the promotion of micro-finance, the strengthening of the professional training system, trades qualification and the setting up of an information system.

117. The implementation of these strategies was based on several tools. Firstly there were the employment agencies that developed following labor market reforms which strengthened their flexibility in the dynamic of structural adjustment programmes. It was in this dynamic that the public works execution agencies in Benin, Burkina Faso, Guinea, Mali, Niger, Senegal and Togo. These agencies, which benefited from the support of development largely developed the high labor-intensity technique and encouraged the emergence of enterprises in various sectors, notably Building and Public Works (BPW). They also made it possible to better classify enterprises according to their degree of qualification. The funds for the promotion of employment and professional training aimed at young people and women also developed. They were created notably in Benin, Mali, Côte d'Ivoire, Senegal and Burkina Faso. There were also programmes and projects for the promotion of employment for young people developed by the employment agencies that benefited from funds for accompaniment. The ANEJ in Senegal built 34 tool companies in order to support the efforts for the training and Insertion of young unemployed tradesmen and the programme "Young girls in Business". In Côte d'Ivoire also a programme for the insertion of young people from rural areas (PIJR) and the programme for recruitment assistance (PAE) were set up with AGEPE. In spite of all these efforts, the level of unemployment, mainly among young people remains of concern.

IV.1.3 At the sub-regional level

118. The ECOWAS protocol relating to the freedom of movement of people and the right of residence and establishment guarantees for nationals of member States, among other things, the right to enter, to reside and to exercise economic activities in the territories of Member States. In the WAEMU, the treaty in articles 91 and 92 provides: (i) the right to move around and to reside in the territory of all the member States; (ii) the abolition of all discrimination founded on nationality, regarding research and the exercise of an activity except for public sector jobs; (iii) access to non-salary activities and their exercise as well as the constitution and management of enterprises in the conditions defined by the legislation of the country of establishment for its own nationals, subject to limitations justified for reasons of public security and public health.

119. In the case of the WAEMU, in addition to the gains of the ECOWAS, doctors and architects benefit from freedom of movement and establishment as well as chartered accountants and lawyers.

This right has just been extended recently to veterinarians who are nationals of WAEMU member States

120. In spite of all these gains, there remains an effort at harmonizing national legislation concerning migration in the ECOWAS countries, notably concerning the nationals of the sub-region. There remain numerous political, socio-economic and legal obstacles that prevent the implementation of the ECOWAS protocol. Movement is still difficult owing to the exorbitant number of barriers and road blocks as well as extortions of money to which travelers are victims. These constraints have as consequences a reduction in intra-regional trade, which is an endogenous factor of growth and this of creation of employment.

121. In spite of this context, sub-regional economic communities seek to contribute to the promotion of employment in member states owing to the financing of integration programmes but also actively. Alain Nickels, in the UNDP/ILO book, cites the experiment with the concept of United Generations for the Development of Enterprises and Productive Employment in Africa (GUEEPA) with the WAEMU and the ECOWAS. For the WAEMU, it is a sub-regional project for upgrading that concerns the eight countries of the Union with financing from the European Union. Two other sub-regional projects for the promotion of quality infrastructures including the reinforcement of laboratories, organizations for normalization, for the promotion of quality systems in enterprises for the benefit of the enterprises of the WAEMU and ECOWAS countries always with EU financing. The GUEEPA concept they say is an integrated approach to the creation of sustainable employment which in this case forms a part of the process of upgrading to increase their productivity while encouraging the recruitment of young unemployed graduates. In the case of the WAEMU, it should be noted the creation within the zone of the Regional Solidarity Bank (RBS) of which the purpose is to facilitate access to credit with branches specialized in micro-credit, thus opening a promising outlook for SMEs and micro-enterprises. The performances of this network remain to be measured with regards to their objectives.

V. General conclusion and recommendations

122. The economies of West Africa, in spite of the deleterious international situation, have continued their high performance. This performance results from the improvement in macro-economic management and still favorable world demand for natural resources. This evolution still remains fragile because the bases of strong and sustainable growth remain to be consolidated. Similarly, in the area of enlarging the domestic market constraints persist as is attested by the report of the first quarter of 2012 of the WAMA on convergence.

123. In the area of compliance for the convergence criteria things are hardly moving. For the first quarter of 2012, in comparison with the same period in 2011, the observations of the WAMA are:

124. first-level criteria, eight (8) countries complied with the standard relating to the budget deficit, or one less than during 2011 ; nine (9) countries complied with the standard relating to the level of foreign exchange reserves: a stability of performance with regards to inflation, due to the results of actions carried out by the monetary authorities and sometimes by the budgetary authorities and to the

financing of the budget deficit by the Central Bank with seven (7) and fourteen (14) countries respectively having complied with this standard.

125. second-level criteria, compliance with criteria relating to the mobilization of fiscal revenues and the structure of public expenditures continue to pose problems with two (2) countries having complied with the standard relating to the rate of tax pressure or exactly the same number as during the 1st quarter of 2011 and five (5) countries having complied with the standard relating to investments of their own resources as was the case at the same period during the preceding year, even if an improvement has been noted with regards to compliance with criteria relating to the salaries and wage bills and the real interest rate with two additional countries but two other countries missed the target concerning the criteria linked the stability of the exchange rate.

126. With regards to the harmonization of policies, the WAMA noted important advances in the areas of monetary policy, legislation and supervision of banks and other financial institutions, accounting and reporting frameworks of banks and financial institutions, statistics for the balance of payments and of the development of systems of payments. Efforts remain to be made in the framework of the preparation of conditions of inter-connection of systems of payment and the liberalization of the capital account and the harmonization of statistics.

127. From the point of view of the market for employment, the major constraint is above all related to the poor structural transformation of economies. The development strategies set up to date accord little importance to the transformation of natural resources and the technologies used are most often capital-intensive. The labor which comes as support is generally highly qualified and not available in these countries. Also, a large part of the revenues from exports are found in transfers in the balance of services. The primary sector, which could have played an essential role in restructuring our economies, served more to finance the cities than to build a more dynamic rural economy capable of continuous improvement of living conditions in the rural areas. Another major constraint that has been recognized is the low employability of available labor owing to the high rate of illiteracy. Moreover, training is not coherent with the needs of the private sector whether it is local or foreign. There is also a poor knowledge of the current status of unemployment because the employment services and those in charge of collecting statistics still have difficulties in gathering better information on the situation of employment in several countries.

128. In the job-creation effort in countries, pro-active strategies for poverty reduction and decent work have certainly been developed, but the sustainability of the mechanisms set up still constitutes a challenge. Except for Ghana, the countries of West Africa still have difficulty in progressing rapidly in the promotion of human capital. Once again, the nagging issue is raised of strategies of development that are oriented towards the sector of intervention of the majority of populations, such as agriculture and the informal sector.

129. Thus as a whole, in spite of uncertainty at the global level, the economies of West African countries are doing well. Efforts should continue to be made especially in the area of good economic governance by the strengthening of inclusive growth capable of profoundly changing production structures. A break is necessary with an outlook of more equitable sharing of the fruits of growth and poverty reduction, which can favor the expansion of internal demand in a process that aims at making growth less fluctuating. It has become important to question the quality of growth in view of the low response to a social demand that is too high. Responding to this challenge is an important means of

dealing with the multiple social movements that even transform into rebellion, setting up a climate of insecurity. In spite of the events in Mali and Guinea-Bissau, a good trend is appearing in this direction.

130. This favorable economic development has definitely made it possible to improve public finances in all the countries. Efforts are also to be pursued in the internal mobilization of resources while avoiding de renewing costly debts. The priorities granted by almost all countries to investment expenditures notably in infrastructures, energy and basic social services are to be welcomed. While adopting an external debt strategy founded on concessional loans, the same strategy is necessary internally to avoid competition with the private sector in the allocation of loans and thus disturb growth.

131. One of the weaknesses of the economies of Africa remains the low interdependence. The volumes of trade remain low for several reasons including the timid harmonization of macro-economic policies in the sub-region. Even in the WAEMU zone where the financial system is well integrated, the customs union under application in a unique currency zone, the volume of exchanges is lower than expected. The compliance with convergence criteria, which should be the basis, does not really constitute a priority for States. There is no steering system at this level that would make it possible at any moment to re-orient public policy choices in this direction. If the physical connection among States continues, the barriers to freedom of movement remain of concern.

132. For better progress in the diversification and transformation of production structures, four main recommendations are proposed:

- The mobilization of **internal** resources constitutes the best approach to consolidate the macro-economic framework and avoid falling into the annoying consequence of poorly controlled debt. This internal generation of resources should be accompanied by an improvement in the quality of expenditures. Ensuring the quality of public expenditure requires an optimal allocation of resources based on the yield of financing.

- The **promotion of regional integration** is also an important factor making it possible for sub-regional enterprises not only to gain in returns to scale but also to be able to better support adjustments to external shocks in order to better overcome them. Participating in this process requires granting priority to infrastructures facilitating the liaison among countries while eliminating non-tariff barriers and accelerating the setting up of the ECOWAS Customs Union in order to be better prepared for the upcoming start-date for the continental free-trade zone, strengthening the inter-connection of financial markets by eliminating the control of foreign exchange within the Community.

- **Human development** is essential for a structural transformation of economies. Continuing social investments, notably in education, health and access to drinking water are to be greatly encouraged. Benefiting from demographic dividends requires assets to be employable and the strengthening of freedom of movement and above all of freedom of establishment of nationals of the Community. The recognition of diplomas, already in effect in the WAEMU zone should be extended to other countries.

- The **structural transformation of economies** requires a strong commitment to transform natural resources locally by limiting exports in their raw state. Accordingly it is important in order to undertake a diversification of economies to improve the inventory of available resources in order to provide themselves with a medium-term transformation. Countries must also ensure that contracts signed with mining or oil companies are win-win.

- The development of **support infrastructures** for production notably in transportation and energy is the key to competitivity, from which the importance, for countries and sub-regional economic Communities to accelerate selected investments within the framework of the Programme for Infrastructure Development in Africa (PIDA).

The accompaniment of the informal sector has become a priority through the setting up of the mechanism of appropriate financing such as a decentralized financial system and also the accompaniment of actors towards the formal sector through capacity strengthening.

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