The West Africa Monitor is produced by the country economists of the African Development Bank Group’s (AfDB) West Africa Regional Department (ORWB)\(^1\). Part of the Department’s Knowledge Management Strategy, it aims at monitoring key socio-economic developments in the region and provides brief analysis on latest events across the countries.

The report is deliberately crafted to be succinct and in non-technical language for wider circulation. Each issue includes (i) a Regional Overview highlighting major trends; (ii) a set of country notes each of them featuring a special theme of key relevance for the country at the time of writing; and (iii) a dedicated section on a topic of common interest for the region. The present issue features a note on financial sector in West Africa, which was produced in collaboration with Making Finance Work for Africa (MFW4A).

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1\(^{\text{a}}\) Cape Verde, Gambia, Guinea, Guinea Bissau, Liberia, Mali, Senegal and Sierra Leone

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Regional Overview

Summary

With Real GDP growth accelerating from 3 percent in 2011 to 5 percent in 2013 on average, economic activity in West Africa is experiencing an exceptional increase, driven mostly by expansion in extractive industry and the economic recovery of countries emerging from major political instability.

This strong growth is vulnerable to downside risks that could arise from internal or external sources. Potential threats include: (i) extended economic stagnation in the euro area and (ii) political or social instability, particularly in the Sahel and fragile states.

Inflation is on a downward trend in all countries, reflecting more stable global commodity prices, end of drought and improved local weather conditions, and tight monetary policy. After a period of fiscal expansion, most countries are expected to tighten fiscal policy in the medium term.

Robust growth in many countries is driven by natural resource extraction, while political crises has slowed growth in others

Table 1 – Real GDP growth rates

Output in West Africa has expanded from 3.5 percent in 2011 to over 5 percent in 2013 and could reach 6 percent in 2014, according to the African Economic Outlook’s (AEO) forecast. (Table 1)

The sub-region displays significant variations, with Sierra Leone, Liberia and Gambia having significantly higher GDP growth rates compared to all other countries. Sierra Leone is experiencing the highest growth in the region recording a double digit growth during the outlook period 2011-14, reaching a peak of 16.7 percent in 2012 and remaining above 7% in 2013. Sierra Leone’s growth is driven predominantly by new iron ore exploitation. Gambia’s growth, the second highest, is nearing 9 percent in 2013 due predominantly to the recovery of its agriculture sector after 2011’s drought. Liberia, the third fastest running economy, recorded a sustained yet decelerating growth, mostly driven by the mining sector.

While extractive industries and agriculture production are the key drivers of growth for most countries, political crises and their resolution are a major determinant in many countries’ performance.

In this regard, Guinea-Bissau and Mali display similar trends by entering a recession in 2012 and recovering in 2013 and expected to have high growth in the medium term. Prolonged political uncertainties and the impact of the Euro-crisis explain slow growth in Guinea and Cape Verde respectively.

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2 This publication uses the term “West Africa” referring to the eight countries of the ORWB department: Cape Verde, Gambia, Guinea, Guinea Bissau, Liberia, Mali, Senegal and Sierra Leone.
**A promising outlook, overshadowed by political uncertainties**

Overall the growth in the region is expected to converge around 6 percent in 2014. Growth in most Western African countries and its fluctuations will continue to be largely driven by more intense exploitation of its natural resources. Agriculture represents the second major driver of growth in the region as a whole, representing the single most important growth driver for Gambia, Guinea, Guinea-Bissau, Mali, Senegal. Tourism accounts for the largest proportion of output in Cape Verde.

Growth performance in some countries (e.g. Mali, Guinea and Guinea-Bissau) will remain highly dependent on the political developments against the backdrop of a rather fragile political environment. While the end of the conflict and the election in Mali are likely to be a stabilizing factor for the region, uncertainties remain in view of the upcoming elections in Guinea and Guinea Bissau, officially scheduled for November 2013.

Extended economic stagnation in Europe, the main trading partner of the majority of the countries in the region, is likely to represent another major risk. The Euro crisis is already recorded to have had a negative impact on Senegal and Cape Verde.

The region’s growth potential is hampered by a number of various structural problems such as low quality infrastructure, inadequate skills and lack of dynamic middle class, with high levels of inequality. Furthermore, rapid urbanization has increased numbers of urban poor, which, could constrict resources and increase food insecurity.

**Lower food prices and pegged exchange rates have contributed to low inflation**

West Africa’s average inflation rate has decreased from 7.7 percent in 2011 to 6 percent in 2012. It is expected to continue declining but remain above 4.1 percent in 2013/14. (*Table 2*)

The increase of inflationary pressures in 2011/12 was mainly due to higher food and fuel prices, which notably affected urban poor consumers. In several countries, 2012 imported inflation was exacerbated by currency depreciation and exceeded 10 percent in countries like Guinea and Sierra Leone, but inflation rates in Cape Verde, Gambia, Guinea Bissau, Senegal or Mali (with the exception of Mali’s political crisis on 2012) remained below 5 percent.

Senegal, Mali, and Guinea-Bissau, as members of the West African Economic and Monetary Union (WAEMU), have benefited from a peg to the euro, which has contributed to containing inflationary pressures. Cape Verde has also experienced relative price stability with the assistance of its peg to the euro.
Fiscal Consolidation

Overall the region is experiencing a fiscal expansion which is expected to be followed by a moderate consolidation post-2013 (with the exception of Cape Verde). With the exception of Sierra Leone, virtually all countries are boosting public spending and experiencing higher deficit reaching a regional average of 5.6 per cent in 2013. AfDB staff projections point to an overall stabilization around 5% in 2014.

Significant differences can be found among countries in the Region, ranging from a mere 1 percent deficit in Guinea Bissau to a double digit one for Cape Verde of -16.2 percent in the same year. With slow but constant growth in most countries, even where fiscal deficits have risen, fiscal plans would need to be determined by medium-term objectives.
Cape Verde
Gambia
Guinea
Guinea-Bissau
Liberia
Mali
Senegal
Sierra Leone
Cape Verde

- The country’s economic performance continues to be undermined by the economic and financial crisis around the globe, and in the euro area in particular.
- The euro crisis has a major impact on tourism, the driving force of Cape Verde’s economy.
- The Government’s expansionary fiscal policy has led to a spiraling budget deficit and debt sustainability risks.

Overview

The slowdown observed since the end of 2011 persisted in 2012, due to economic stagnation around the globe, and in the euro area in particular. Reduced foreign aid and sluggish foreign investment resulted in gross domestic product (GDP) growth dropping from 4% in 2011 to an estimated 2.5% in 2012. Remittances inflows held up, however, and tourism did well.

Tourism and ancillary activities remained the driving force of the economy in 2012, accounting for around 30% of GDP and 90% of total exports. Data through the first quarter of 2013 suggest some weakening, implying real growth could be in the 1-2 percent range in 2013.

In spite of its past success, Cape Verde is facing challenges to maintain sustainable and inclusive growth. The country’s lack of natural resources and poor conditions for agriculture make it highly vulnerable to external shocks. The government has therefore been seeking to promote a more balanced economic development. The Third Growth and Poverty Reduction Strategy Paper, adopted in April 2013, reflects the government’s attempt to address the country’s structural challenges and adapt the country’s development model to its new non-Least Developed Country status.

Debt Sustainability Risks

Government debt has increased from 69% of GDP in 2009 to an estimated 81.0% in 2012, further to an unprecedented increase in the public sector’s borrowing requirements to finance large infrastructure investments. The external debt represents 59.8% of the GDP in 2012 although it is predominantly concessional. Contracted mostly from the non-banking sector, the domestic debt represents 21.3% of the GDP. IMF Debt Sustainability Analysis (DSA) indicates a rising risk of debt distress.

Cape Verde’s public debt should remain sustainable in the long run, but significant vulnerabilities are expected to persist. Consequently, accelerating the process of budgetary consolidation would help slow the growth of the debt burden, reduce the government’s total financing needs over the medium term, and mitigate the likelihood of debt distress. Reforms in States Owned Enterprises’ oversight should also mitigate the risks coming from contingent liabilities.
The Gambia

- The Gambian economy has fully recovered from the negative effects of the drought in the Sahel in 2011, and is expected to reach a high growth in 2013.
- High public indebtedness continues to pose risks to macroeconomic stability and significant costs to the budget.
- While economic governance has been improving, political governance remains a challenge.

Overview

Economic growth was hurt in 2011 by a harvest crop failure due to the drought in the Sahel, but agricultural production started to recover in 2012. Real GDP growth is estimated to have recovered to just over 3.9% in 2012 compared to a contraction of -4.3% in 2011, led by a partial rebound in crop production late in the year and continued strength in tourism. Strong efforts, led by the Government and supported by Development Partners, helped to mitigate the crisis through the provision of seeds and fertilizers. The outlook is optimistic as real GDP is projected to reach 8% in 2013 and 2014.

Prudent monetary policy has helped the Gambia to contain inflation and reduce pressures on interest and exchange rates. Inflation remains at a single digit level, below the central Bank target of 5%. It slipped from 4.8% in 2011 to 4.2% in 2012, but is projected to climb to 5% in 2013 and 5.1% in 2014 in response to the introduction of the value added tax (VAT) in January 2013.

The debt burden and the risk of debt distress are very high in the Gambia because of the large accumulated public deficit from excessive government domestic borrowing. The public debt stock increased from 71.1% of GDP in 2011 to 78.9% in 2012. It is projected to reduce to 68.2% in 2013 and 64.3% in 2014 in response to tighter fiscal policy.

Governance is a challenge

The Gambia has made good progress in key aspects of governance and the fiduciary environment and has been pursuing reforms in public financial management since 2004. The Gambia’s AfDB CPIA indicators have risen in 2012, with the overall CPIA (excluding governance) reaching 3.47, compared to only 3.37 in 2011. The 2012 Mo Ibrahim Index of African Governance ranks the Gambia in the middle at 27 out of 52 countries.

Governance challenges in the Gambia remain high with the country facing a recent decline of country’s score for most indicators on business environment. In 2013 Doing Business Report the country ranked 147th out of 185 countries dropping in most indicators. The country also dropped its ranking in Global Competitiveness Report from 98th of 144 in 2012-13 to 116th out of 148, with investors protection being reported as of of the worst in the World (142/148)
Guinea

- The socio-economic situation is marked by persistent poverty with a huge mineral potential which, if properly exploited in a peaceful political environment and streamlined business climate, can underpin economic diversification.
- The initiation of significant reforms in 2011 and 2012, which paved the way for attainment of the HIPC completion point, and which placed the post-HIPC agenda at the core of policy dialogue, has slowed down and needs to be deepened and accelerated, in an environment of budgetary constraint and low capacity.
- The post-HIPC agenda is constrained by three major shocks which are political, institutional and economic.

Overview

The socio-economic situation is marked by persistent poverty (55.2%), despite achieving the Completion Point of the HIPC Initiative at the end of September 2012.

Guinea has benefited from a reduction in its external debt stock to the tune of USD 2.1 billion. After more than 50 years of independence and poor governance, the country is ranked 178th out of 187 countries in the HDI; infrastructure and services are deficient; the administration is weak and the private sector is still nascent.

The projected economic growth for 2013, driven mainly by agriculture, construction, and mining projects, was revised down to 3% (against the 4.8% initially projected, and 3.9% achieved in 2012). Political (riots related to the organization of elections between March and May 2013) and economic (reduction of imports related to delays in major mining projects) shocks are essentially to blame for the situation.

A Country Faced with Major Challenges

A post-HIPC agenda constrained by three major challenges which are especially political, institutional and economic. At the political level, divisions between the opposition and the government on the organization of elections deepened during the 1st half of 2013. Elections finally took place September 28th, following the inter-Guinea dialogue facilitated by the United Nations.

At the institutional level, after the huge and constant coordination effort that allowed the country to initiate significant reforms, the pace of implementation slowed down. This is more of a slow-down than a fizzling out of will, and is primarily ascribed to the structural lack of capacity in all areas of economic development coupled with an organizational/structural weakness of the administration.

In economic terms, the wait-and-see attitude of investors in the face of political uncertainty, including mining operators who initiated policy changes and savings and debt reduction plans, has greatly impacted growth. The subsequent decline in imports has resulted in a shortfall of more than 2% of GDP in tax revenue. This further complicates reform implementation (resource allocation), although the country remains on the right track, within the framework of restructuring of spending.

Whereas reforms ought to be deepened and accelerated, growing political and social demands are major challenges. The authorities should increasingly mobilize and coordinate to: run successful parliamentary elections and calm down the political climate; ensure social cohesion in the face of growing impoverishment, and the impatience of the population who do not see the social dividends of democratic change in their living conditions; continue reforms initiated with growth and employment as the core point of the political agenda.
Guinea-Bissau

- The economy shrank by an estimated 1.5% in 2012 due to lower production and prices of cashew nuts as well as economic disruptions following the April 2012 coup d’état. Growth is expected to be 4.2% in 2013 and 3.5% in 2014.
- Economic recovery will depend on a return to political stability following the planned November 2013 elections, resumption of official aid, and a recovery of cashew nut production and prices.
- Tight budget constraints have resulted from lingering political uncertainty. In 2012, total revenues fell short of budgetary targets, fuelling a budget deficit equal to 2.3% of GDP. Deficits are expected to further contract by 0.8% in 2013 and 1.0% in 2014.

Overview

The country’s economic situation was negatively affected by the April 2012 coup d’état. In particular, disruptions in cashew nut production (the country’s largest export), coupled with lower world market prices contributed to an economic contraction of an estimated negative 1.5% of gross domestic product (GDP) in 2012. The AEO projects growth at 4.2% in 2013 and 3.5% in 2014, which assumes the resumption of peaceful politics and a recovery of cashew production and its price.

In 2012, total government revenues fell short of budgetary targets by an estimated 3% of GDP forcing the government to further curtail capital spending. In spite of spending cuts, the budget showed a deficit of 2.3% of GDP in 2012 after a 0.7% surplus in 2011. Assuming enhanced budgetary discipline, better revenue collection, and resumption of official aid, it is expected to shrink to a deficit of 0.8% in 2013 and of 1.0% in 2014.

Inflationary pressures are expected to remain moderate ranging between 2.1% in 2012 to a projected 3.3% in 2013 on account of low domestic demand pressure which comes as a result of lingering political uncertainty.

Fiscal challenges under political uncertainty

Tight budget constraints have resulted from political uncertainty. Following the April 2012 coup d’état, a drop in donor grants and dwindling non-tax revenues have reduced government revenues and grants from 19.1% of GDP in 2011 to 16.9% in 2013 (IMF estimate).

On the one hand, fiscal revenues (excluding grants) have changed only to a limited extent as positive effects of a small recovery of cashew prices in 2013 have been offset by revenue loss due to the suspension of the EU agreement on fishing compensations. However, on the other hand grant revenues have dropped from 7.5% of GDP in 2011 to 6% in 2012 and a projected 5.1% in 2013 (IMF estimate) as main traditional donors including the Bank have suspended their transfers since the 2012 coup.

The government has reacted by committing to spending cuts of up to 2.1% of GDP. It also consented to the need to strengthen fiscal control in order to avoid spending slippages and increases in arrears. To that end, some measures have been implemented including the collection of taxes and payments for civil servants through banks or efforts to curtail the fiscal cost of fuel tax exemptions. Concurrently however, the budget approved in July 2013 shows a deficit of FCFA 50 billion (or 47% of revenues) presenting serious challenges with regards to sources of funding.

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<td>-6.3</td>
<td>-4.7</td>
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Liberia

- Liberia’s post-war economic growth was sustained in 2012, led by the first full year of iron ore exports, construction, and strong performance in the service sector. Export composition is adjusting in 2013 due to governance issues in the forestry sector and decreased rubber production.
- The Government presented their Draft FY2013/14 Budget to the Legislature. Revenue shortfalls in the FY2012/13 budget significantly reduced spending, and the new budget makes more conservative revenue projections.
- Extremely low energy access has been cited as one of the leading barriers to economic expansion, and connections have increased from 2170 in mid-2010 to more than 13,500 in March 2013. Connections are projected to increase to around 90,000 by 2016, and tariffs may halve once Mt. Coffee comes online.

Overview

Liberia’s GDP is projected to grow by 7.7% in 2013, driven by strong commodity exports, after 8.9% growth in 2012. Exports performed well in the first quarter of 2013, despite governance issues in some sectors. Iron ore exports have regained their pre-war dominance with exports from the Arcelor Mittal mine increasing. Rubber exports, which had previously provided the bulk of post-war export revenue, continued to stagnate, due to lower production and rubber prices. Following the ban on Private Use Permits (PUPs), the increasing trend in round logs exports seen in 2012 nearly halted. Iron ore exports can be expected to continue growing in the medium term, as additional mines come online over the next two years, although lower international prices may also contain receipts. Timber exports will continue to stagnate pending the lifting of the PUP moratorium.

The Government submitted its draft FY20 13/14 Budget to the Legislature at the end of April 2013 and hearings are ongoing. The US$ 553 million budget is a decrease from last year’s US$ 672 million budget after various contingent revenue and borrowing sources did not materialize. Expenditure is projected at US$ 531 for FY2012/13. The FY2013/14 budget makes more conservative assumptions about contingent revenue and borrowing. While capital investment is budgeted at levels comparable to FY2012/13 projected outturns, overall employee compensation is budgeted to increase by more than 15% and it remains the largest component of expenditure.

Improving energy access

Improving energy access and lowering electricity tariffs are amongst the Government’s top priorities in its Agenda for Transformation for 2012-2017. Publicly supplied energy access has increased from only 2,170 connections in July 2010 to 13,500 as of February 2013. The Liberia Electricity Corporation projects connections to continue increasing, to around 90,000 by 2016, although this will still represent access for less than half of Monrovia. Electricity expansion and tariff reduction has been hampered by high losses – 29.8% cumulative YTD as of March 2013. High rates of electricity theft are the largest contributor to losses, and the incentive to steal electricity will only increase with lower tariffs, and can only be offset by area-based saturation of connections. Tariffs are expected to roughly halve once Mt. Coffee comes online in early 2016.
Mali

- The Malian economy experienced a recession in 2012 with real GDP growth of 1.2 percent against an initial forecast of 5.6 percent. Growth will return in 2013 with a rate of 4.8 percent under the assumption of continued strong agricultural and gold sectors, as well as the resumption of foreign aid.
- The poverty rate increased in 2012 (42.7 percent) with an increase of 1.2 percent for the south and 6.4 percent in the north because of the food, security and political-institutional triple crisis.
- Unemployment, especially among young people is a crucial problem in Mali. The overall unemployment rate is estimated at 9.6 percent, and youth unemployment reaches 15.4 percent.

Overview

The year 2012 has been marked by a political and security crisis with a coup d’état perpetrated by a military junta on 22 March and the occupation of the northern part of the country for nine months by Islamist groups and Tuareg rebels from the National Movement for the Liberation of Azawad (MNLA). The security situation is currently stable in the southern part of the country while securing the northern areas remains a challenge for integrated multidimensional United Nations Mission for Stabilization in Mali (MINUSMA), which began operations on July 1 and has 12 600 men with a "French force of 1000 men' responsible for combating terrorist groups.

The country emerged out of the political crisis, a presidential election was held on July 28 and August 11 with the victory of Mr. Ibrahim Boubacar Keita.

The economy experienced a recession of 1.2 percent of real GDP in 2012 against an initial forecast of 5.6 percent and 2.7 percent in 2011. This recession is due to the underperformance of the secondary (-5.4 percent) and tertiary sector (-8.7 percent), while the primary sector grew by 8.6 percent thanks to the performance of agricultural production (13.9 percent). Growth will return in 2013 and 2014 with growth rates of real GDP by 4.8 percent and 6.3 percent due to the increase in production of rice and cotton, the increased production of gold, telecommunications with the sale of a third telephony license, and the resumption of international aid. To help the country going out of the economic crisis, an international donor conference was held in Brussels on 15 May 2013, with the announcements of 3.285 billion euros for the period 2013-2014. Youth employment is placed as one of the challenges for the recovery of the economy in the 2013-2014 period.

The issue of youth employment in Mali

Unemployment disproportionately affects young people with a rate reaching 15.4 percent for the age group from 15 to 39 years. In addition, 81.5 percent of the unemployed are young people seeking their first job, and the average duration of unemployment is five years. Each year, nearly 300,000 young people enter the labor market. This phenomenon affects more women (58.8 percent) than men, it occurs more in Bamako (27.3 percent) than in secondary cities (14 percent) and in rural areas (6.6 percent). Several factors explain the extent of the phenomenon, including: i) the mismatch between training and employment, ii) high population growth (3.6 percent per year) with a very young population (age groups from 0 to 15 years and from 15 to 35 years represent 49 percent and 30 percent respectively of the population), iii) the rural exodus, and iv) the low absorption capacity of the formal sector.
Senegal

- Senegal’s 2012 growth recovered to an estimated 3.7 percent, after a slowdown in 2011, when agriculture suffered. This should continue in 2013 and 2014, thanks to new infrastructure programs.
- The new president and government elected in 2012 have taken steps to improve good governance, which should boost the management of public resources.
- Energy problems caused Senegal to lose one annual GDP point over the past two years.

Overview

Senegal’s economy recovered to an estimated GDP 3.7 in 2012, comparing to a 2.1 percent in 2011. The projected growth for 2013 and 2014 are respectively 4.3 and 5.1 percent.

The opening of the Senegalese economy makes it vulnerable to global commodity prices fluctuations as well as the economic crisis in Europe and the political crisis in neighboring Mali.

Moreover, there are also internal risks related to floods and other natural disasters, so as to the slowness of the road infrastructure program and structural reforms in particular in the energy sector.

Energy and its macroeconomic impact in Senegal

In Senegal, only half of the population has access to electricity. Access rate is about 80 % in urban areas, but only 24 % in rural areas. The average annual electricity consumption is below 200 kWh per person. The production of electricity is 90 % thermal, predominantly through the use of liquid petroleum products. This is why the increase in oil prices leads to a substantial increase in operating expenses.

Furthermore, often outdated and poorly maintained generation facilities make the system unreliable leading to numerous power outages and poor quality of service. The number of outages in Senegal was about 12 per month in 2007 (and it has increased in 2010 and 2011) against one day every 10 years in the United States. In addition, the average tariff in Senegal remains quite high (see chart).

Energy problems caused Senegal to lose on point of GDP per year over the last two years (2010 and 2011). In the search for solutions, an emergency plan “Plan Takkal”, was established in 2011, aimed at reducing load shedding, but at a very high cost. The Government of Senegal is also launching a policy of diversification of its electricity production involving coal, natural gas, hydro and renewable energy. The new law on renewable energy and its implementing decree show the Government’s commitment to sustainable solutions for the energy sector.
Sierra Leone

- The mining sector made real GDP growth leap from 6% in 2011 to 16.7% in 2012, with support from agriculture, services and construction; it is projected to stabilize in 2013 and 2014.
- Two new iron ore operations are largely responsible for this one-time boom of real GDP growth in 2012.
- Sierra Leone ranks as one of the top reformers since 2005 in the latest World Bank report Doing Business

Overview
Driven by mining sector production (particularly iron ore), real GDP growth accelerated from 6% in 2011 to 16.7% in 2012 and is projected to stabilize around 7.2% in 2013 before reaching 12.1% in 2014 according to AEO projections.

This robust economic growth has been accompanied by a tight monetary policy. As a result, the inflation rate has fallen from 18.5% in 2011 to 11.6% in 2012 and is projected to return to single digits - 7.1% in 2013 and to 6.9% in 2014 - as agricultural production recovers and international food prices fall. Indeed, the government implemented several reforms to contain inflation and has taken corrective monetary policy measures.

Policies to strengthen fiscal discipline in 2012 have also helped reduce the fiscal deficit from 4.5% of GDP in 2011 to 1.8% in 2012, which is projected around 2.3% in 2013, and 2% in 2014. Restrictive fiscal policy also contributed to a reduction in the domestic debt burden.

Sierra Leone has implemented a number of reforms in the business environment, rising eight places in the latest World Bank report Doing Business (140th out of 185 countries) and ranks as one of the top reformers in improving business regulation and property registration.

Iron-ore Exports and GDP
New iron ore production is the key driver of growth, leading to a one-time hike of real GDP growth in 2012 and a sustained growth in 2013.

Two new mining operations make the bulk of the new iron ore boom in the country. Figure 2 shows the increase in GDP starting 2011 on account of the jump in iron ore exports by such operations (African Minerals Limited, AML, and London Mining, LM).

The AML mine has 128Bn tonnes of reserves, arguably one of the largest iron-ore deposits in Africa, with an estimated mine life of 80 years. However the mine’s iron ore is low grade, with only 58% content, and sells for a lower price.

The LM mine’s operation has an estimated total reserve of 1.5 Bn tons of high quality iron ore with 64% content. The mine operated in the 1950s and 1960s, but closed since the 1970s due to lower international prices, and went back to full operation in 2012. The expected narrowing of the price differential between two qualities of Iron ore represents a major risk for LM (see Figure 30). Both iron ore licenses have a life span of 25 years.
1. Introduction

Despite the growth in the financial sector during the last decade, a large majority of individuals, firms and households in the African continent do not have access to the basic financial services that could transform their economic lives. According to the G-20 Global Partnership for Financial Inclusion (GPFI) dataset, in a continent of more than one billion people\(^3\), less than one quarter of adults have an account in a formal financial institution, and many adults use informal methods to save and borrow money (GPFI, 2013).

New players and products, advances in technology and decreasing costs offer the opportunity to extend financial services to more people, especially the poor and those living in remote areas, which are usually the unbanked. However, still today, many low-income people tend to depend on informal financial services, which, as they are not subject to supervision by regulators (central banks or other supervisory authorities) can put people in a vulnerable position if their money is lost or stolen or if money lenders apply usurious practices.

This note takes a look at the state of financial inclusion in the West Africa sub-region\(^4\), and it draws predominantly from 2011 data available at the Global Findex Database of the G20 Basic Set of Financial Inclusion Indicators\(^5\). Data are drawn from a survey collected in 2011, covering more than 150,000 adults in 148 economies and representing about 97 per cent of the world’s population\(^6\). This dataset features data for five West African countries in the sub region, namely Guinea, Liberia, Mali, Senegal and Sierra Leone for indicators on households and for all countries on indicators for SMEs. The database currently provides the more recent cross-country comparable data on financial inclusion available for the continent.

The purpose of this note is not to provide a comprehensive analysis of financial inclusion causes and solutions in the region, but rather to provide a snapshot of where we are in terms of financial inclusion in the region as compared with the rest of Sub-Saharan Africa. Following this introduction, section two provides a brief overview of financial inclusion in the sub-region and discusses stylized facts on access to formal and informal services by individuals and SMEs in the region. Section three cites briefly some general causes of financial exclusion in the region. Section four provides some examples of innovations that are fostering financial inclusion in the region. Finally, section five concludes by providing some recommendations how to deepen access to financial services in the West Africa region.

2. Financial Inclusion in West Africa

This section will look at individuals and SMEs who hold an account at a formal financial institution, as well as individuals who borrowed and saved at a formal financial institution during

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\(^3\) AfDB Socio-economic database, May 2012
\(^4\) The paper looks at the countries located at a set of countries in located on the further Western part of the Gulf of Guinea, classified under ORWB countries: Cape Verde, Gambia, Guinea, Guinea-Bissau, Liberia, Mali, Senegal and Sierra Leone.
\(^5\) This dataset was developed by the Global Partnership for Financial Inclusion (GPFI) and endorsed by G20 leaders at their summit in June 2012.
the previous year in a subset of West African countries\textsuperscript{7}. It will also include specific data for women and low-income individuals as they are usually more excluded than men and higher income people, respectively.

2.1 Access and use of formal finance: individuals

The most notable finding is that all West African countries in the sample display a significantly lower level of access to formal financial services than the Sub-Saharan Africa average across all groups and for all countries.

The region features important disparities, with Guinea, Mali and Senegal, having even lower level of access than the other countries. A recent CGAP survey (2013) on the use of financial services in Senegal points to religious reasons as being the main concern for not opening a formal account at a financial institution, over other reasons such as lack of trust on financial institutions or the difficulties of opening an account\textsuperscript{8}.

Women have less access to formal bank accounts than men for all countries, and beyond the SSA average. Moreover, the gender gap is considerably higher in those countries where more individuals have accounts at financial institutions, such as Liberia and Sierra Leone, with the percentage of women holding banks accounts being considerably below the general average.

Access to formal finance services is significantly lower among the poorer households in all West African countries, when considering low income people (people at the bottom 40\% of income)\textsuperscript{9}. Access by the poor is also lower than the SSA average for lower income people.

2.2 Borrowers at formal financial institutions, individuals

West African countries feature a relatively higher level of loan usage, as the percentages of individuals who had taken a loan from a formal financial institution\textsuperscript{10} in the previous year is relatively higher or closer to the Sub-Saharan African average. Liberia and Sierra Leone present more individuals (including women) borrowing than the average for SSA.

\textsuperscript{7} Data on individuals is only available Guinea, Liberia, Mali, Senegal and Sierra Leone, whereas data on SME is also available also for all other remaining countries in the sample, namely Cape Verde, Gambia and Guinea-Bissau

\textsuperscript{8} In a country with 94\% of people practising Islam, the study suggests that current financial products and services might not be sharia compliant, which could prevent some people to open accounts in the country. Religion may also explain lower access in other countries having Islam as main religion.

\textsuperscript{9} The Bottom 40\% poverty indicator defines a cut-off at 40 percent considered the bottom segment of the poorest population in every country.

\textsuperscript{10} Denotes the percentage of respondents who reported borrowing any money from a bank, credit union, microfinance institution, or another financial institution such as a cooperative in the past 12 months.
Within the region, Liberia displays the highest percentage of borrowers in the region, while Sierra Leone has the higher percentage of women taking loans at financial institutions for the region, and ahead of men in the same area. However, the figures are not very optimistic, as only 6.5% of Liberians took a loan from a financial institution in the year previous to the survey, which is well below other African countries such as Uganda (8.9%) or Kenya (9.5%).

Looking at remaining countries, Mali presents a relatively higher percentage of borrowers, when compared to Senegal and Guinea, but is still below the SSA Average. In all the three countries, there are more men than women borrowing at financial institutions.

**Percentage of borrowers from the Formal and Informal sector.**

In terms of income disparity, the case of Liberia is rather remarkable, as the country has a both the highest percentage in the region in terms of adults borrowing, but also the largest gap between high and lower income people. Just 1.2% of lower income individuals borrowed at a formal financial institution, which is well below the SSA average for the lower income people and below most of the countries of the region, just above the Guinean percentage, which suggests that financial institutions cater mainly high income individuals.

### 2.3 Savings at formal financial institutions

West African countries feature a relatively stronger predisposition to make use of financial institution to keep their savings, as compared to taking loans, in a similar pattern than other African countries, and as can be observed for the SSA average. The difference among countries in the regions is more acute, however, when compared with usage of loans, with Liberia and Sierra Leone showing similar levels to the SSA average; while Guinea, Mali and Senegal present very low use of formal savings.

In terms of gender disparity, the case of Guinea stands out; with the percentage of women saving at financial institutions being actually higher than the general percentage for individuals for the same country. For all the other countries,
there are fewer women using formal savings services when compared to men, with the bigger gaps being registered in Sierra Leone and Liberia.

Regarding lower income people, the gap between the bottom 40% and the rest of the population is very wide across all countries. Moreover, the percentage of lower income people using formal savings is below the African average for all countries in the region, which suggests that either formal saving schemes do not meet poor people’s needs in the sub-region or there is not awareness on the existence of those services.

2.4 Use of informal financial services
Use of informal financial services is widespread in the region. Far more individuals borrow from friends or family than from financial institutions throughout Sub-Saharan and West Africa. In all but two West African countries, the use of informal loans is below the SSA average. Liberia and Sierra Leone access to loan’s levels similar to the SSA average.

Regarding savings, all West African countries present a higher number of people saving at informal clubs than at formal financial institutions, except for Sierra Leone. This is the pattern for the continent, as informal financial services tend to be more flexible and accessible than formal ones, especially for low income people, are those living in more isolated areas, where financial institutions may not operate.

Different types of informal finance clubs can be found in the region, such as Tontines, Pari, Ausu or Nath. One of the more common Savings and Credit Association (ROSCA) is the Susu, which can be found for example in Gambia, Liberia and Sierra Leone in the sub-region, and in other West African countries such as Nigeria, Ghana or Niger.

However, the use of informal savings clubs is still well below the SSA average for all countries. This could be explained by cultural reasons. Savings clubs are more spread in other Africa regions, such as South Africa, people use informal and semi-formal savings club (South Africa 17.1%, Lesotho 17.6%, and Mozambique 27.6%) to find resources to cater for high funeral costs.

2.5 Access to formal finance by SMEs

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11 Susu collectors are one of the oldest financial groups in Africa. This type of ROSCA or informal club provides access to credit as well as the possibility to save and withdraw money for a small fee. In the Susu arrangement, a saver agrees to deposit a specific amount determined in consultation with the collector for an agreed period of time (usually a month). At the end of the period, the Susu collector renders the accumulated savings to the client, keeping one day’s savings as commission. These clubs help people managing irregular cash flows. For example they can facilitate managing seasonal cash flow cycles in rural communities.
When looking at the percentage of SMEs holding an account in a formal financial institution\textsuperscript{12}, financial inclusion data has a different patterns compared with the other financial inclusion indicators presented earlier in this section; with Mali, Cape Verde and Senegal positioning close to or even above the African average.

The case of Cape Verde stands out, with more than 96\% of SMEs having an account at a formal institution. In Senegal the percentage is just slightly below the SSA average of 87\% of SMEs having an account. The lowest percentage is registered in Guinea. One of the impediments of having access to financial institutions and their services, such as credit, is that the SME documentation to prove solvency to be able to access credit is often misaligned with the financial institution’s requirements. Having access to capacity building for entrepreneurs on financial accounting and reporting, non-financial services (such as advisory services), guarantee schemes or credit bureaus and an enabling environment might be very relevant to increase access to formal financial services for SMEs (see Box 1).

3. Some common Causes of Financial Exclusion

There is no single explanation behind the financial exclusion in the region. A study by the European Commission (2008) highlights a number of factors considered as major causes of financial exclusion. These include (i) popularity and flexibility of informal financial services; (ii) the physical access and travel distance; (iii) the cultural barriers and financial know-how; (iv) the gender factor; (v) the insufficient income; and (vi) the lack of regulatory and informational framework. The global findex data tend to confirm the persistence of the above mentioned findings, as people in the region tend to rely more on informal than formal sources of financing.

\textbf{Box 1. SME’s support agencies regional network in West Africa}

In 2012, the Making Finance Work for Africa Partnership, hosted by the AfDB, created a SME’s agencies support network, with the support of the Adepme (Senegal) and the Commission de l’UEMOA to stimulate the exchange of information on innovative approaches and successful practices; and promote the dialogue with national and regional authorities, financial institutions and development partners on non-financial services as catalyst for the development of SMEs in the region. Currently, the membership of this network counts nine public and private structures from six West African countries, including two ORWB countries, Mali and Senegal.

Oftentimes, formal products may not be adapted to the unbanked in terms of scale and flexibility (European Commission 2008), so that inadequate products and services being offered by formal financial institutions might be a cause of financial exclusion.

\textsuperscript{12} Data regarding access to formal finance for SMEs (between 5 and 99 employees) is available for all the eight countries of the West Africa sub-region: Cape Verde, Gambia, Guinea, Guinea Bissau, Liberia, Mali, Senegal and Sierra Leone.
Poor physical infrastructure in the region might be contributing to financial exclusion. The countries in the sample have the lowest quality of transport services, as measured by the Logistics Performance Index, compared to both other regions in Africa and the rest of the world (AFDB 2011). The lack of communication facilities, poor quality of roads and transport, leading to isolation of large segments of the populations especially in the rural areas of most West African countries make more people financially excluded in those areas, when compared to those living in urban areas and explain why in many West African countries the providers of rural finance are smaller and locally based institutions.

New technologies, such as mobile money services may help overcome some of these challenges. Although the region is behind other more active parts of the continent, such as East Africa, a global pioneer in this technology, some successful examples of the use of these services can be found in the region, such as the Wari platform in Senegal13. As these initiatives are very recent, we do not have comparable cross-country data at this stage on its impact on financial inclusion, but mobile technology has a huge potential to overcome some of the underlying financial exclusion causes in West Africa and elsewhere.

Poor people present systematically lower use of financial services for all countries in the region. As the poor have to deal with unpredictable and low income flows on a daily basis, their need for financial services is even greater. To serve those at the bottom of the pyramid, financial products and services need to address their specific needs. To identify the client’s priorities and concerns, as well as their cultural context is crucial to understand how individuals manage their money and how they understand the financial sector. As this might vary across countries, and even across communities and ethnicities within some countries, a deeper study on financial behavior is needed if financial institutions aim at targeting them. Financial education programs might be very useful to overcome some of these challenges.

Women are also relatively more financially excluded than men in the region. Indeed, a multivariate regression analysis drawing from the Global Findex Database, confirms that women in developing countries14 are less likely to have an account than men, even after controlling for a host of individual characteristics. Gender affects account ownership also indirectly through gender differences in income, education, and employment status. The study’s results also suggest that economy-wide legal discrimination against women and gender norms can help explain this gender gap. Some identified constraints and barriers to access formal financial services for African women are numerous. The lack of financial capability, time availability and her traditional role as family care, together with income generation activities, reduces women’s mobility to interact with financial institutions. In rural areas, challenges are even harder, with women having low income and education levels, high illiteracy rates, and limited access to land, which constraints their ability to invest in agricultural production and provide collateral for loans (MFW4A, 2012 a).

Finally, the regulatory context and the government’s policies in the social and economic fields are also very important factors. Banks across the world offer different terms and conditions to open accounts, and require diverse identification and documents. Policymakers in developing countries have an important role to play in creating the conditions for improved access; homogenize regulation and thereby promoting the economic potential of their populations. Removing physical, bureaucratic, and financial barriers to promote access to finance for all is challenging since it also requires addressing the structural causes of financial exclusion. Even so, measures to stimulate the

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13 For more information, please visit the CGAP Blog: Wari: A Local Platform Heads to the Global Market available at the CGAP website at <http://www.cgap.org/blog>.
14 A selection of 98 developing countries, including Senegal, Sierra Leone, Ghana, Mali from the West Africa sub-region.
information and regulatory environment and the adoption of new products, processes, and technology, may help overcome these barriers in the sub-region.

4. Some emerging innovations for financial inclusion

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<th>Box 2. Senegal, the future of Microinsurance</th>
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<td>The case of Senegal is of particular interest. With 6% of the population covered by microinsurance in 2011, it ranked the 8th position in the continent and the first in the region (MFW4A, 2012 b). In Senegal, regulation does not yet allow Micro-Finance Institutions (MFIs) to develop microinsurance products. MFIs have rather developed self-insurance in form of solidarity fund (usually formed through obligatory reductions on the percentage of credit), which has been tolerated in practice, partly due to certain ambiguity of its regulation. Since 2008, regulation has somewhat clarified that MFIs are allowed to provide credit and savings but for other financial services they need to obtain the necessary permits (Microinsurance Network, 2012). Also Insurance companies are promoting microinsurance products in the region. In May 2013, six Senegalese insurance companies have created the Micro Health Insurance Pool, which aims at promoting medical care, prevention, education and public awareness of the insurance industry. This initiative, the first in Senegal and the CIMA region, may expand the opportunities for low-income people to access microinsurance products in the region.</td>
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West Africa is experiencing a number of innovations which have the potential to increase financial inclusion. This section gives a non-exhaustive snapshot of several interventions to promote financial inclusion, specially designated to serve the needs of those more financially excluded in the West Africa region.

4.1 Micro-insurance

Microinsurance is increasingly recognised as being able to promote financial inclusion, help poor people managing better the different risks they may face (such as illness, death or crop damage) and therefore reducing its vulnerability.

West Africa is the region with highest number of people covered by health microinsurance in the continent. This is mainly due to the large presence community based health mutuals, through which donors promote group ownership of insurance in Francophone Africa (McCord, et al., 2013). Microinsurance in the region and in the African continent is often developing outside of formal legal frameworks (see Box 2). An Africa-wide Microinsurance study shows that over 80% or properties identified as being covered by microinsurance were registered in countries that were still developing a microinsurance legal framework (McCord, et al., 2013, p.27).

4.2 Remittances

In 2012, Remittances in Africa represented 11% of global remittances, and for the first time they were the largest source of external financial source, largest than foreign direct investment or Official Development Aid. However, since 2008, Africa was the region were remittances cost were also higher (AfDB et al., 2013). Remittances play an important role in the region contributing to around 10% of GDP in Cape Verde (see box 3) and Senegal. On-going efforts to reducing remittance costs and easing the transfer of money is an important ways to increase access to finance in the region.
4.3 Alternative collateral for loan

Often poor people, especially women, may have problems to access credit (including micro credit) at formal financial institutions because of their inability to use land or other assets as collateral. Finding alternative sources of collateral will enable banks to promote financial inclusion. An interesting experiment in this regard can be found in Mali with the culture bank (box 3).

Box 3. The Culture Bank: A Community-based Museum that provides Micro-Credit to Malian villagers.

The Culture Bank is an institution that integrates a community museum with a village bank. Created in 1995 in Fombori, Mali, its mission is to preserve cultural heritage in African villages while providing microcredit to locals who place their cultural objects as collateral. The bank has turned Fombori's cultural heritage into a vital economic resource and permitted to prosper this relatively isolated area. Individuals get access to a loan of $5 to $40, depending on the object’s historical information and after its reimbursement (4-6 months) the owner can chose between reclaiming the object and leaving it in the museum’s collection for another loan of increased value. The accumulated interest from these loans is used to finance the bank/museum operations and activities that include artisan workshops, concerts, and traditional festivals. Visitors admission fees support local artisans by purchasing artisan goods (no the antiquities). The initiative has preserved cultural heritage and increased the clients’ incomes, which includes an important percentage of women.

5 Conclusion and recommendations

The note shows that the West Africa region suffers from a generally low access and use of formal financial services, with a notable difference among the sample countries.

The region also records a very high gender gap in the access and use of formal financial services, with financial inclusion indicators being generally much lower for women than for men. These are worrying statistics, as women are the main financial managers in most households in Africa, but they have less access to financial services compared to men, and compared with women globally.

Reducing the gender gap and promoting financial inclusion for women is key for region, given its potential development impact, including more inclusive growth through higher levels of productive investment and asset accumulation (MFW4A, 2012 a). The data calls for further action to advance women’s financial inclusion.

Looking the poor, the figures are still more alarming with the poorer being more excluded from formal financial services and when compared with the SSA average for lower income people. It is critical to address such discrimination as poor people need to manage low and unpredictable cash flows, and are more vulnerable to income losses, so that for them having access to flexible, affordable, reliable, convenient and accessible financial services is even more important.

The note also underscores the importance of infrastructure in addressing gaps, as limited access to finance in rural underserved areas, is intrinsically linked to poor physical infrastructure. The Bank’s continuous support to infrastructure development in the region has also a great potential to contribute to the financial inclusion agenda.
SME access to formal institution is more encouraging, with certain countries such as Cape Verde and Senegal leading the way, yet others significantly lower than the African average. It is extremely important to promote access and use of formal finance by SMEs as they are one the main vectors of economic growth and job creation and they can contribute significantly to economic activity and social stability in the region.

The region is also experiencing a number of innovations, which have the potential to deepen the financial inclusion agenda.

Further research on the deep roots of financial exclusion for each country is necessary to underpin a close dialogue with governments to promote the development of financial sectors in an inclusive manner, and looking at those financially excluded: the poor, those living in rural areas, and women.

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CAPE VERDE
GAMBIA
GUINEA
GUINEA – BISSAU
LIBERIA
MALI
SENEGAL
SIERRA LEONE

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