WEST AFRICA
Regional Debt Profile

2018

INTRODUCTION

This debt profile analyses West Africa's external debt stock from 2009 to 2017. According to the World Bank, the external debt stock of a country is the total debt owed to nonresidents, repayable in currency or in goods or services. It is the sum of public, publicly guaranteed, private nonguaranteed long-term debt, short-term debt, and use of IMF credit. Data are in current U.S. Dollars ($). The external debt stock is an important debt indicator because it reflects the full weight of the external debt burden on a country. This focus contrasts AFRODAD's 2017 West Africa debt profile which examined public and publicly guaranteed debts. The West Africa region is predominantly French and English-speaking with the exception of Portuguese-speaking Cape Verde. The French-speaking countries in the West Africa region include Senegal, Guinea, Guinea Bissau, Mali, Cote d'Ivoire, Benin, Togo, Burkina Faso, and Niger. With the exception of Guinea, they are members of the West Africa Economic and Monetary Union with the West African Franc their common currency. They equally double as member states of the Economic Community of West African States (ECOWAS). The main English-speaking countries in the region are Nigeria, Ghana, Liberia, Sierra Leone and, the Gambia. They are ECOWAS member countries with own independent currencies. The West Africa region lie along the Gulf of Guinea area of Africa.

1. REGIONAL ECONOMIC OUTLOOK

Economic growth in the West Africa region rebounded to 2.5 percent in 2017, after slowing down to about 0.5 percent in 2016 due the poor performance of commodity prices. Growth is projected to stabilize moderately at around 3.3 to 3.6 between 2018 and 2019 according to estimates from African Development Bank 2019 economic outlook for Africa. This will depend on a global recovery in oil prices. Agriculture and services remains the dominant sectors. Manufacturing is low and limited to processing commodities and consumer goods. An unfavorable current account balance and negative terms of trade characterized by the importation of consumer goods are major impediments to growth. But all is not gloomy. The improved performance of commodities presents the region with short to medium term growth opportunities. West Africa has a huge and expanding market of 387 million inhabitants. This is appealing to foreign investments. However, its benefits are not expected to be widespread throughout the region unless with firm measures to promote regionally inclusive growth opportunities. Growth will be driven mainly by regional economic giants - notably Nigeria, Cote d'Ivoire, Ghana, and Senegal. It will concentrate in the commodity sector which often generates limited employment opportunities. This form

of growth in the past has not benefitted the core poor. About 43 percent of the population still living below the global poverty line. The economy of the West Africa region is driven mainly by Nigeria. It accounts for about 70 percent of regional GDP. This exposes the region to shocks if Nigeria is adversely affected. Domestic resource mobilization is still very low and increases reliance on foreign sources to finance development projects.

EXTRENAL DEBT STOCK ACCUMULATION

As indicated on table 1 below, the external debt stock in West Africa almost doubled between 2009 and 2017 – rising from US$58898 Million to US$107439 Million. This represented an average annual increase of US$ 74319.7 Million - an 82.4 percent growth rate during the reporting period. The most increase occurred after the completion points of the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI).

Table 1: West Africa External Debt Stock, 2009 to 2017 (In Million $US)

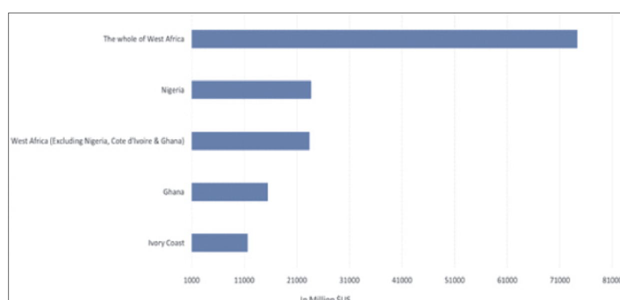
		2009	2010	2011	2012	2013	2014	2015	2016	2017
Benin		1309.3	1582	1651.3	2042	2003.8	2037	2183	2316	2997.1
Burkina		1916.7	2148.4	2290.3	2519.2	2564.6	2542.9	2622	2916.1	3119.3
Cape Verde		726.7	882.4	1028.6	1244.9	1488	1543.5	1542.5	1542.6	1761.7
Ghana		7385	9110.1	11220.5	12883.2	16637.9	18368.5	20633.3	21371.5	22022.4
Guinea-Bissau		1150	1209	283.7	279.5	277.4	271.4	314.9	296	328.4
Guinea-Conakry		3414.6	3381.3	3329.5	1380.8	1404.5	1419.8	1389.4	1380.8	1489.2
Ivory Coast		14896.2	11703.8	12791.4	9543.6	9852	9790.2	11373.8	11534.5	13432.9
Liberia		1850.3	418.9	448.4	487.2	530.5	690.5	836.8	951.6	1137.3
Mali		2210.3	2455.8	2921.9	3059.2	3445.7	3458.3	3690.4	3790.4	4357.8
Niger		1261.1	1563.2	2239.6	2355.4	2664.4	2671.9	2922	3236.5	3745.7
Nigeria		15942.1	15494.2	17663.3	18127.3	21149.7	24756	28943	32151.5	40238.5
Senegal		3720.9	3909.5	4325.5	4905.7	5225.6	5619.7	5693.2	6678.1	8986
Sierra Leone		856.9	931.1	1050.4	1334.2	1395.5	1426.9	1551.2	1597.7	1731.3
The Gambia		528.5	550.5	513.2	548.8	558.3	530.6	535	516	650.1
Togo		1730.1	1278.3	622.1	746.8	896	986.3	1054.4	1176	1631.4
TOTAL		58898.7	56508.5	62589.7	61407.8	70087.9	76104.5	85484.9	90356.3	107439.1

Compilation based on World Bank International Debt Statistics, 2019

Under these initiatives, the external debt stock in the region fell to slightly above US$61000 Million in 2012 but has since experienced a steady rise after reaching the US$70000 Million mark in 2013. These figures are being driven by the motivation to invest in major infrastructure as well as to support the social expenditure required to spread the benefits of growth to the populations of the region but which exceed the domestic resource mobilization capabilities of the greater majority of countries in the West Africa region. The benefits of rising debts however, are not quite obvious on the region's population with about 43 percent of the population still living below the international poverty line currently measured at $1.90.

The bulk of external debt owed by the West Africa region is borne by Nigeria, Ghana and Cote d'Ivoire. Their average annual debt figures put together, constitute over 69 percent of the regional debt figures for the entire West Africa (Figure 1). Nigeria's average annual debt (US$23716 Million) for the period 2009 to 2017 are slightly over the total amount of debt owed by the rest of the region (US$23436 Million) excluding Ghana and Ivory Coast. This reflect Nigeria's status as West Africa's main regional economy, generating about 70 percent of the regional GDP.

Figure 1: Nigeria and West Africa external debt stock (In Million $US)



Compilation based on World Bank International Debt Statistics, 2019

Of the three most indebted countries in the region, Cote d'Ivoire has the lowest debt growth rate for the reporting period. Though its debt figures significantly contribute to regional indebtedness, trends show that its external debt stock is declining. It fell from US$14896 Million in 2009 to US$13432 Million in 2017, representing a decline of -9.82 percent. This decline reflects a commitment towards policies to maintain a sustainable fiscal position and to increase reliance on domestic source of financing. This accounts for the increase in Cote d'Ivoire's domestic debt from which stood at 20 percent of its GDP in 2016 – up from 18 percent in 2015.

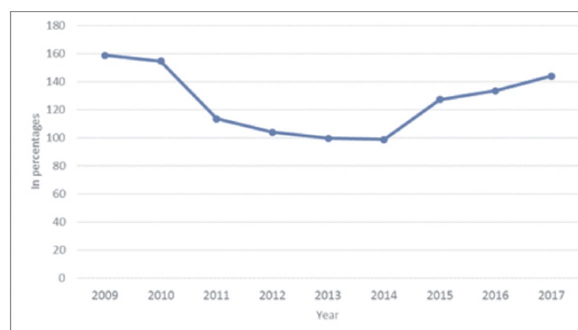
Other countries whose stock of external debt significantly dropped during the reporting period are Liberia and Guinea. In 2010 and 2012, they each respectively benefitted from US$4.6 billion and US$639 million worth of debt upon attaining the completion point of HIPC initiative. This however, must not conceal the fact that their debt figures are starting to rise gradually. The gradual increase, however, sharply contrasts steep increase in external debt stock in Ghana, Nigeria, and Senegal.

Ghana's external debt stock almost tripled – rising from US$7385 Million in 2009 to US$22022 Million in 2017. This represented a 198.2 percent increase. Nigeria's debt figures rose from $US15942 Million in 2009 to US$ 40238 Million in 2017- a 152 percentage increase. Senegal's case depicts an upward trend that needs to be checked. The country doubled its external debt stock from US$ 3720 Million to US$ 8886 Million in between 2009 and 2017.

2. DEBT BURDEN AND SUSTAINBILITY

Debt burden and sustainability here is analyzed using a combination of indicators: the extent to which they breach or conform to generally acceptable thresholds. These include the external debt to export ratio and the debt service to export ratio. These indicators depict the payment capacity of the country and the debt to resource base. Debt burden and sustainability is also considered in terms of reserves to external debt, debt to GNI ratio (important as it is related to the underlying source of payment) and the degree of concessionality.

Figure 2: Average regional debt to export ratio, West Africa (In percentages)



Source: Computed from World Bank International Debt Statistics, 2019

The average regional debt to export ratio in West Africa stood at 126 percent with close to half of the countries having debt to export rations above this regional average.

It dropped from 159.83 percent in 2009 to 98.27 percent in 2014 and has been rising - reaching 143.96 percent in 2017 **(Figure 2)**. The average indicator for the period under study does not breach the 140 percent rate recommended by the IMF but however implies that the total stock of external debt in West Africa is growing faster than the regional economy's basic source of external income for the period 2009 to 2017. The average debt service to export ratio for the region during the reporting period stood at 5.34 percent of the regional GDP. This is still below thresholds set for various countries in the region - for example 15 percent for The Gambia and Cote d'Ivoire and 20 percent for Ghana and Senegal. This however, should not hide the fact that threshold levels are rising and are closer to being breached in some countries. For example, the Gambia has an average debt service to export ratio of 12 percent compared to its 15 percent threshold. Countries like Ivory Coast and Senegal with 15 and 20 percent respectively, are closing in on their threshold levels - with more than 8 percent each. Ghana has a debt service to exports threshold of 20 percent but has had its threshold more than tripled – rising from 3.2 percent in 2012 and to over 10 percent in 2017.

The GNI ratio expresses the total debt owed to nonresidents to the total value of all the final products and services produced by the residents of a country for a given period. This is measured as a percentage of the gross national income of a country. The average regional GNI to debt ratio from 2009 to 2017 stood at 38.7 percent **(Table 2)**. Close to half of the countries have debt to GNI ratio above the regional average with Cape Verde and the Gambia having the highest ratios - 78 percent and the 61 percent respectively. This signifies a high debt burden for these countries. Their debt figures are relative low – US$1309 Million and US$1124 Million respectively –

Table 2: Average regional GNI to debt ratio, West Africa, 2009 to 2017 (In percentages)

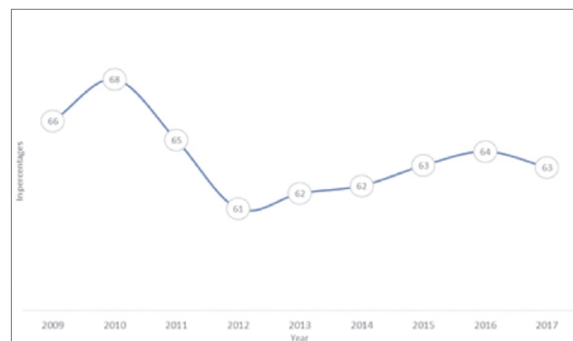
	2009	2010	2011	2012	2013	2014	2015	2016	2017	Average
Benin	18.5	22.9	23.7	25.3	22	21.1	26.4	27	31.3	24.2
Burkina	23	24.6	22.2	23	21.9	21.4	26.3	25.3	25	23.6
Cape Verde	43.6	56.1	58	74.2	83.3	87.4	100.4	97.9	104.4	78.4
Ghana	28.5	28.8	29.3	32.2	35.8	49.2	56.2	51.2	48.1	39.9
Guinea-Bissau	140.8	130.9	25.7	29.1	27	24.9	29.3	24.4	24.3	50.6
Guinea-Conakry	56.8	51.6	54.7	19.5	18	17.2	16.6	15.9	14.3	29.4
Ivory Coast	63.8	48.8	52.4	36.5	33	28.4	35.4	32.6	34.4	40.6
Liberia	183.1	37.6	31.6	33.1	32.2	40.5	47.7	52.3	61.3	57.7
Mali	22.2	23.9	23.3	25.6	26.9	24.7	28.8	27.7	29.3	25.8
Niger	23.5	27.4	25.2	34.6	35.6	33.1	41.2	43.5	47.2	35.7
Nigeria	10.3	4.4	4.5	4.1	4.3	4.5	6.2	7.9	11	6.4
Senegal	29.4	30.5	30.7	35.2	36	37.6	44.5	47.1	56.2	38.6
Sierra Leone	32.2	35.7	36.2	34	23.5	29.1	37.3	50.4	47.3	36.7
The Gambia	60.6	59.7	58.2	62.3	63.7	65.5	60.9	55.2	65.9	61.4
Togo	61.7	46.3	18.5	22.8	26.1	24.5	24.9	26	32.8	31.6
Average	53.2	41.9	33.7	32.7	33.0	33.9	38.8	39.0	42.2	38.7

Source: World Bank International Debt Statistics, 2019

compared to other countries in the region but they are faced with challenging macroeconomic economic aggregates such as low GNI, a negative current account balance, low international reserves as well as low domestic resource mobilization capabilities. This debt burden is quite unevenly distributed throughout the region. Despite its very high debts, Nigeria tends to have one of the lowest debt to GNI ratio in the world – as low as 6.4 percent for the reporting period.

Concessionality on its part refers to the extent to which external debt are deemed to be calculated as concessional. Concessional debt according to World Bank sources are "loans with an original grant element of 25 percent or more. The grant element of a loan is the grant equivalent expressed as a percentage of the amount committed. It is used as a measure of the overall cost of borrowing". The larger country share of loans in West African countries are concessional. The average concessional loan contraction rate in the region rose from 66 percent to 68 percent in 2010 but dropped to 61 percent in 2012 and has since stabilized in the lower 60s **(Figure 3)**. The average concessional loan contraction rate per annum, for the entire region stood at 63.7 percent. Burkina Faso, Mali, Niger have the highest concessional debts rates in the region – above 80 percent for the reporting period. The other countries with concessional rates above the regional average are Cape Verde, Guinea-Bissau, and Guinea Conakry. This is in sharp contrast with Nigeria, Ghana, Ivory Coast, Liberia and Sierra Leone where external debts for the reporting period were contracted on a largely non-concessional basis. The concessional rates for these countries are as low as 29 percent for Nigeria reaching up to 43 percent for Ghana.

Figure 3: Concessional loans contraction trends, 2009 - 2017, West Africa (In percentages)



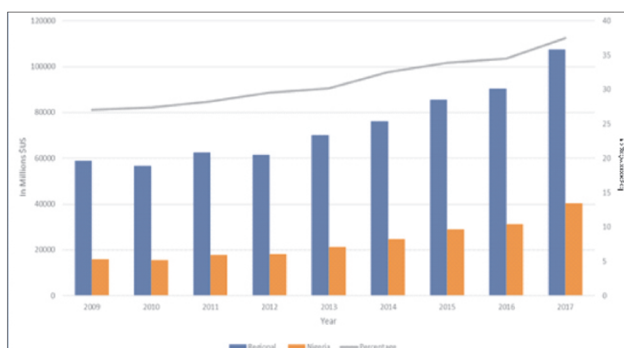
Source: World Bank International Debt Statistics, 2019

The high level of concessional loan contraction for the region however should not be viewed as a consolation. This is especially because of the very weak macroeconomic aggregates that challenge the debt servicing potential of most countries in the region. They are faced with increasing debt above GNI threshold and a negative current account balance, lower gross national earnings, weak domestic resource mobilization potentials and weak economic performance on non-debt resource inflows like FDI.

3. EXTERNAL DEBT MANAGEMENT: NIGERIAN CASE

Nigeria public debt structure is dominated by domestic debt. Domestic debt rose from 4551 Billion Naira in 2010 to 2,286 Billion Naira as of September 2018. The main instrument through which these debts were incurred are Federal Government of Nigeria Bonds and Nigerian Treasury Bills which respectively representing 74.89 percent and 22.90 percent of total debts instruments.

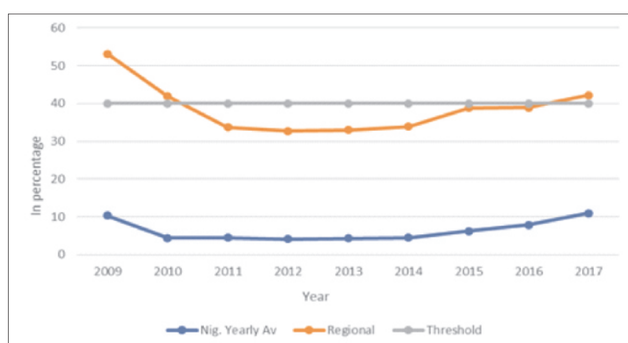
Figure 4: Nigeria's share of external debt burden in West Africa (In Million $US)



Source: World Bank International Debt Statistics, 2019

Nigeria's contribution to external regional debt accumulation in the West Africa region stood at 27 percent in 2009. This percentage has been growing steadily – reaching over 30 percent in 2014 **(Figure 4).** This contribution to regional debt accumulation notwithstanding, the Nigerian government has managed to keep its external debt stock at manageable levels. Its external debt constituted only 11 percent of its GNI in 2017. This average was significantly lower between 2010 and 2014 **(Figure 5)** and is better compared to other regional peers like Cote d'Ivoire (34.4 percent of GDP); Ghana (48.1 percent of GDP) and Senegal (56.2 percent of GDP). These later rates either already breach or are closer to breaching policy thresholds of 40 percent for Nigeria and for the West African region **(Figure 5).**

Figure 5: Nigeria's external debt stock to GNI, 2009 to 2017 (In percentages)

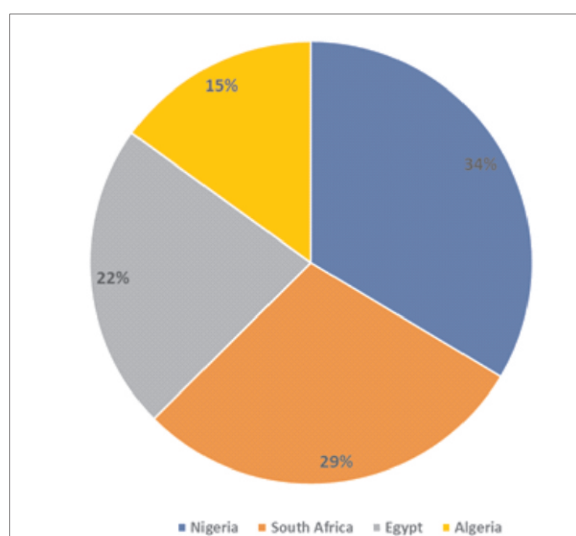


Source: World Bank International Debt Statistics, 2019

These favorable indicators also apply to Nigeria's interest payment on its external debt stock to GNI ratio. While the rest of the West Africa region on the average uses 0.48 percent of their GNI for interest payments, Nigeria has been using 0.08 percent on the average. Its reserves to GNI ratio has fallen more than twice the rate in 2012 – from 256 percent to 98.4 percent in 2017. This is still better than the regional average of 52.96 percent for West Africa.

By and large, Nigeria has a lower risk of external debt distress under both the baseline macroeconomic assumptions and debt stress scenarios. This raises questions as to how other countries can learn from the Nigerian example to maintain a manageable debt burden. The country's external debt stock experience is a product of the sheer size and strength of its economy, its macroeconomic policies and an efficient debt management strategy. Nigeria's GNI tripled more than 3.5 times between 2009 and 2014; surpassing South Africa in 2012 to become Africa's biggest economy. Its average GNI between 2009 and 2017 stood at US$400000 Million compared to South Africa and Algeria whose average GNI respectively stood at US$ 342753 Million and US$ 263595 Million.

Figure 7: Africa's top four economies, 2018 (In percentages)



Source: IMF Data Mapper

This gives Nigeria a 4 percent lead ahead of South Africa as Africa's biggest economy during the period under observation. At the end of 2018, Nigeria remained ahead of South Africa, Egypt, and Algeria as Africa's biggest economy **(Figure 7)**. All this remained despite the global fall in crude oil prices which makes up 95 per cent of Nigeria's exports and foreign exchange earnings.

Growth slowed down from 6.2 percent in 2014 to 2.7 percent in 2016 and was said to have rebounded by 0.8 percent in 2017. It is expected to get better with an expansion in oil production and prospects for improved oil prices. This has been the fruits of tighter macroeconomic and monetary policies as well as policies initiated under Nigeria government's Economic Recovery and Growth Plan – including the need to boost non-oil sectors. This has helped contain negative economic consequences of the oil shocks and attracted foreign investments. This should favour Nigeria's external debts management strategy. Hence, besides its economic strength and continued efforts to maintain favorable macroeconomic balances, the external loan contraction process in Nigeria is anchored on a collection of enforceable laws and guidelines which defines shared roles and responsibilities and the due processes for contracting external loans.

The main instruments used in the management of Nigeria's external debts include the Federal Constitution of 1999, Fiscal Responsibility Act of 2007, The Investment Security Act of 2007, Debt Management Act of 2003 and External Borrowing Guidelines. The key stakeholders in the process are the National Assembly, Federal Ministry of Finance, Federal Ministry of Justice, the Nigeria Debt Management Office, the federated states were required and the National Planning Office.

After the loan application documents have been prepared, they are submitted to the Federal Ministry of Finance and then to the Debt Management Office for scrutiny and submission to the National Assembly.

The Assembly is charged with approving the external loan contraction process. The Federal Government on its part guarantees loans on behalf of the states and other state institutions eligible for external borrowing.

The approval of the loan contraction process requires the government of Nigeria to prepare an annual borrowing plan which specifies the terms and conditions of the loans and their overall limits. Borrowing must be geared towards capital expenditure and human development and on concessional terms.

Upon the approval of external borrowing by the National Assembly, the final loan negotiation and the financing terms are handled on behalf of the Federal Government by the Federal Ministry of Finance, The Debt Management Office, Federal Ministry of Justice and the beneficiary state if this applies.

The approval of the negotiated terms of the loans and financing agreement then permits the Honorable Minister of Finance of Nigeria to sign all loan agreements on behalf of the government.

This system of shared power and checks and balances precludes the abuse of power and authority and irresponsible loan contraction. This has enabled Nigeria to maintain a relatively low external debt stock; though its domestic are the fastest growing.

CONCLUSIONS AND RECOMMENDATIONS

This debt profile has focused on the analysis of external debt stock for the West Africa region. The stock of external debt is total debt owed to nonresidents repayable in currency, goods, or

services. It sums public, publicly guaranteed, and private nonguaranteed long-term debt, short-term debt, and use of IMF credit. It is an important debt indicator because it reflects the full weight of the external debt burden on a country. This debt component almost doubled between 2009 and 2017 - that 82.4 percent debt growth rate. About 69 percent of West Africa's external debt is owed by Nigeria, Ghana and Cote d'Ivoire. The burden is unevenly distributed among the countries. Nigeria owes the most debt but has the least burden owing to its economic strength and debt management strategy.

Against the forgoing backdrop the following policy recommendations are being made:

Nigeria's debt management strategy: It is recommended other countries in West Africa and the rest of the continent should copy and learn from Nigeria's external debt management strategy. This is a multi-stakeholder debt contraction process regulated by frameworks which carry the weight of law. It provides a system of checks and balances and reduces the risk of irresponsible external debt contraction and abuse of power by all stakeholders involved in public borrowing. Learning from the Nigerian example will require copying and adapting its debt management strategy to national and regional realities.

Fiscal discipline and regional economic diversification: All West African countries irrespective of their extent of vulnerability to unsustainable debt are being recommended to maintain macroeconomic policies and sound fiscal discipline. This, together with sound and effective debt management strategies will continue to be essential in maintaining a sustainable external debt position for West African countries. The Nigerian experience has yielded a low external debt outcome which however is also be a function of how countries perform on other key macroeconomic aggregates.

Domestic resource mobilization and concessional borrowing: It is recommended that countries should work towards improving and strengthening their domestic resource mobilization potential. This includes increasing their tax capacity, streamlining and strengthening their revenues streams, seeking alternative and innovative funding for development projects without having to incur heavy loans. They should embark on economic diversification and increase their share of non-commodity revenue to insulate them against external shocks caused by a fall in commodity prices. When loans must be contracted, this should be held on concessional basis.

Looking forward: The above recommendations are traditional which poses the question of how differently these policies should be pursued in more vigorous, meticulous and progressive ways. This concern is the major policy question to preoccupy AFRODAD in 2019.One important question to consider in advance, regards debt restructuring reforms in the light of HIPC and MDRI if this were to become eminent.

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