



# WEST AFRICAN ECONOMIC AND MONETARY UNION

## SELECTED ISSUES

March 2019

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# WEST AFRICAN ECONOMIC AND MONETARY UNION

## SELECTED ISSUES

March 1, 2019

Approved By  
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# THE WAEMU SURVEILLANCE FRAMEWORK: REFORMS TO FOSTER PUBLIC DEBT SUSTAINABILITY<sup>1</sup>

*The WAEMU's regional macroeconomic surveillance framework includes convergence criteria mainly related to fiscal variables and centered around a 3 percent of GDP maximum overall central government deficit to be achieved by 2019. Seven of WAEMU's eight-member countries aim to bring their overall fiscal deficits to or below that ceiling in 2019 under their Fund-supported programs. However, despite strong GDP growth, fiscal consolidation delays and other debt creating flows not recorded in countries' central government fiscal accounts have significantly eroded leeway within applicable public debt sustainability thresholds in recent years. Therefore, beyond necessary compliance with the fiscal deficit convergence criterion, reforms of the WAEMU's surveillance framework may be required to more effectively control all sources of debt accumulation and ensure debt sustainability.*

## A. The WAEMU Regional Surveillance Framework

**1. WAEMU's regional surveillance framework aims at ensuring the sustainability of national fiscal policies and their consistency with the common monetary policy.** The need for such a framework became clear after unsustainable national fiscal policies led to the 1994 devaluation of the CFA Franc. A "Growth, Stability, Convergence and Solidarity Pact"<sup>2</sup> was then adopted in 1996, aimed at ensuring "consistency between national fiscal policies and the common monetary policy" and a "sustainable balance of payment position" through the gradual convergence by member countries to maximum fiscal deficit and debt to GDP ratios. Repeated slippages in fiscal consolidation by WAEMU member countries, including because of socio-political instability, prompted successive postponements of the Pact's convergence deadlines until the adoption, in 2015, of the current revised surveillance framework.<sup>3</sup>

**2. This framework is centered around a 3 percent of GDP central government overall fiscal deficit ceiling.** The convergence criterion on the overall fiscal balance of the central government (including grants and on a commitment basis) was introduced in 2015, in lieu of a former criterion on the basic fiscal balance (excluding grants and externally-financed capital expenditure). The latter was rescinded because of its insufficient link to public debt dynamics. The criterion on the overall fiscal balance is expressly deemed "key" and is the only convergence

<sup>1</sup>Prepared by Alain Féler and Dominique Simard. The paper has benefited from comments by colleagues from the WAEMU team and from WAEMU country teams.

<sup>2</sup>See "Directive n°01/96/CM on the Multilateral Surveillance of Macroeconomic Policies among WAEMU Member-States" of 01/15/1996, completed by "Additional Act n° 04/99 Instituting a Stability, Growth, Solidarity and Convergence Pact among WAEMU Member-States", of 12/8/1999.

<sup>3</sup>See WAEMU Modified Treaty of 01/29/2003 (Article 63 to 75), completed by the "Additional Act N°01/2015/CCEG/UEMOA Instituting a Stability, Growth, Solidarity and Convergence Pact among WAEMU Member-States" of 01/19/2015.

criterion for which non-observance may result in sanctions imposed by regional authorities on a non-compliant member government.

**3. Two other “first order” convergence criteria complement this framework, aimed respectively at limiting public indebtedness and inflation.** These two other “first order” criteria were not affected by the 2015 reform; they continue to be set at 70 percent of GDP for the criterion on a member government’s nominal debt stock and at 3 percent for a member country’s annual average inflation. Violation of “first-order” convergence criteria by member countries may lead the WAEMU’s Council of Ministers to expressly call for corrective measures through issuance of Directives.<sup>4</sup>

**4. The framework also relies on several indicative targets, including two “second order” convergence criteria.** These respectively relate to the ratio of the government’s wage bill to tax revenue, which cannot exceed 35 percent and to the ratio of government tax revenue to GDP which should be at least 20 percent.<sup>5</sup> While non-observance of “second order” convergence criteria cannot by itself lead regional authorities to formally call on a non-compliant government to take corrective measures, the WAEMU Council of Ministers may recommend such measures to ensure compliance with “first order” criteria.

**5. The convergence phase is intended to end in 2019 followed by a stability phase.** During the convergence phase, member countries have been expected to continuously improve their performance towards observing the convergence criteria. This phase could be extended by one year if, by end-2019, at least half of WAEMU’s member countries accounting for at least 65 percent of the regional GDP have not yet sustainably met all “first order” criteria.<sup>6</sup> The WAEMU framework that emerged from the 2015 reform also provides for a shift to a structural deficit concept as the key fiscal deficit criterion during the stability phase.<sup>7</sup>

**6. From an institutional standpoint, the framework’s enforcement is primarily entrusted to the WAEMU’s Council of Ministers based on recommendations from the WAEMU**

<sup>4</sup>The 2015 reform abolished a fourth “first order” convergence criterion on the non-accumulation of arrears. Article 9 of the “Additional Act” of 2015 however calls for the gradual reduction of arrears towards their complete elimination by end-2019.

<sup>5</sup>The 2015 reform increased the tax revenue to GDP threshold from 17 percent to 20 percent of GDP, in line with a recommendation of the UN’s Economic Commission for Africa to encourage greater domestic resource mobilization by WAEMU member governments. Prior to 2015, the WAEMU’s surveillance framework included two additional “second order” convergence criteria, respectively on domestically financed public spending as a share of tax revenue and the external current account balance as a share of GDP.

<sup>6</sup>Article 25 of “Additional Act No 01/2015/CCEG/UEMOA” by the WAEMU’s Conference of Heads of States, 01/19/2015. Per Article 16, sustainability of performance is assessed based on estimates for the two previous years and projections for the current and the two forthcoming years.

<sup>7</sup>Article 17 of “Additional Act No 01/2015/CCEG/UEMOA” by the WAEMU’s Conference of Heads of States, 01/19/2015. However, a specific methodology has not yet been specified to make this concept operational.

**Commission.** The former takes all executive decisions based on proposals made by the latter which prepares semi-annual public reports on the implementation of the regional surveillance framework. National Economic Policy Committees are set up for member countries to report on a quarterly basis to the WAEMU Commission macroeconomic information needed for its surveillance functions. A joint secretariat with representatives from the WAEMU Commission, the BCEAO and the regional development bank (BOAD) assists the Commission for the preparation of regional surveillance-related documents to be submitted for the consideration of the Council of Ministers.<sup>8</sup>

**7. The preventive leg of the framework’s enforcement strategy relies on regular assessments by the WAEMU Commission of the macroeconomic performance and outlook of member countries and the Union.** The Commission publishes two reports which are examined in June and December of each year by the Council of Ministers. The June reports assess members’ macroeconomic performance, including with respect to “first-order” and “second-order” convergence criteria for the previous year, and on this basis, reviews macroeconomic objectives for the current year. The Commission’s December reports are based on forward looking five-year convergence plans that member countries must submit by end-October at the latest.<sup>9</sup> These December reports include a broad review of national convergence plans, an assessment of the realism of their underlying assumptions and their consistency with other national planning documents (e.g. budget law or multi-year development plans), as well as with Fund-supported programs if applicable. When the Commission considers a national convergence plan to be inadequate, it recommends the Council of Ministers to request the member government to resubmit an appropriately revised plan within 30 days. A member’s compliance with this requirement is assessed in the June surveillance report of the following year. The Commission’s semi-annual reports also include assessments of the regional economic and financial outlook and some policy recommendations for the following year.

**8. The surveillance framework also includes provisions of a corrective nature, but those provisions have never been triggered so far.** During the framework’s convergence phase, national fiscal deficits are deemed excessive when they fail to converge continuously down towards the 3 percent of GDP ceiling. Article 74 of WAEMU’s Modified Treaty provides that member countries which fail to propose and execute appropriate corrective measures for excessive fiscal deficits may be liable to sanctions of declarative or financial in nature. They include the publication of a statement on their economic situation, recommendation to the BOAD to review its financing policy for projects in such countries, and finally suspension of financial support from the WAEMU. However, such corrective provisions have never been triggered so far.

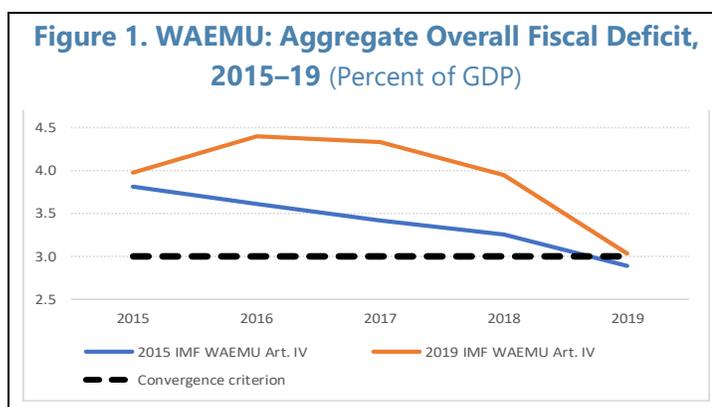
<sup>8</sup>See WAEMU’s Council of Ministers’ Directive N° 01/96/CM of 01/15/1996.

<sup>9</sup>Art. 8 of Regulation N° 11/99/CM/UEMOA of 12/21/1999 mandates that national convergence plans approved by the Council of Ministers should be published within a month in the WAEMU’s official gazette as well as at the national level. It is unclear whether and how this requirement has been observed. The only plans that we could find in the public domain were published by the National Economic Policy Committees of Togo for the years 2013-17, 2015-19 and 2016-20.

**9. The 2015 reform of the surveillance framework has not obviated the need for WAEMU member countries to have Fund arrangements.** The abovementioned sanctions have yet to be clearly defined and none has been imposed on members that have found it difficult to reduce their fiscal deficits along the convergence path envisaged in 2015. These countries have thus continued to resort to Fund arrangements as an additional disciplining and signaling device for their macroeconomic policies. In turn, the regional convergence framework has provided a useful policy anchor for these countries' Fund-supported programs which still include commitments to abide by the 3 percent of GDP fiscal deficit target by 2019.<sup>10</sup>

## B. Recent Fiscal Performance and Government Debt Dynamics

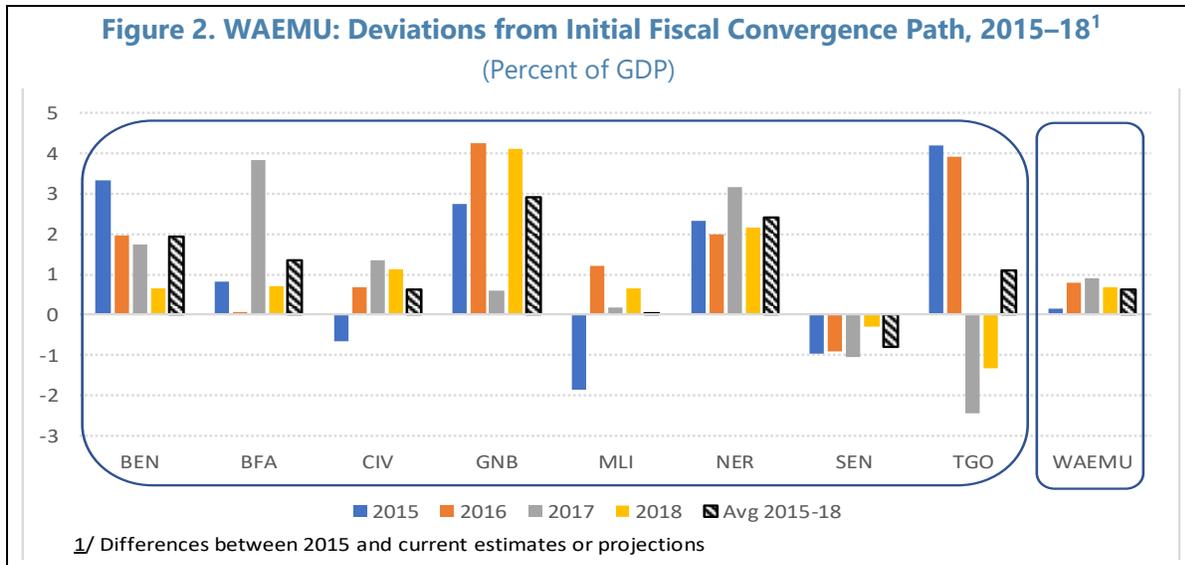
**10. Fiscal consolidation by WAEMU governments has been backloaded relative to what was envisaged at the time of the 2015 reform of the regional surveillance framework.** When the overall fiscal deficit was adopted as the WAEMU's key convergence criterion, its aggregate value was projected to decline steadily from 3.8 percent of GDP in 2015 to 2.9 percent of GDP by 2019. In the event, the aggregate fiscal deficit increased to 4.4 percent of GDP in 2016. It remained close to this elevated level in 2017 and it is now projected to decline in 2018 back to its 2015 level.



As a result, the extent of adjustment that will be required in 2019 to bring the aggregate fiscal deficit down to the 3 percent of GDP convergence criterion is much greater than was initially envisaged.

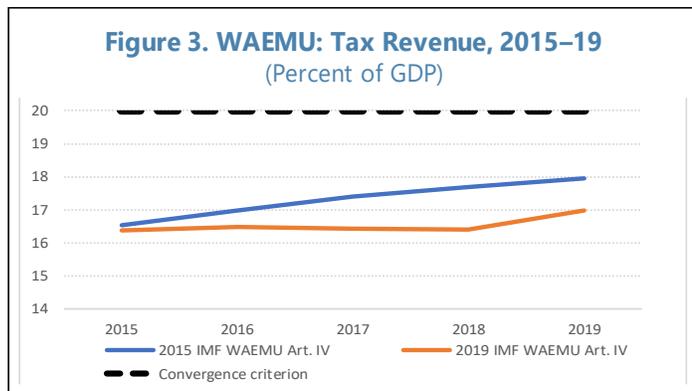
**11. Deviations relative to the initially envisaged fiscal convergence path averaged more than half a percentage point of GDP a year over 2015-2018.** Such slippages were particularly significant for Guinea Bissau, Niger and Benin, with annual averages of 2.9, 2.4 and 1.9 percentage points of GDP respectively. At the other end of the performance spectrum, Senegal converged faster than initially envisaged to the fiscal deficit criterion. In the case of Togo, large undershooting of the initial fiscal convergence path in 2015 and 2016 was followed by significant consolidation in 2017 and 2018.

<sup>10</sup>Except for Niger which aims at reducing its fiscal deficit to 3 percent of GDP under its Fund-supported program by 2020.



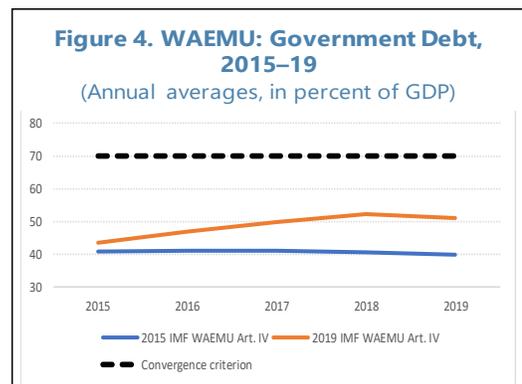
**12. Delays in fiscal consolidation have largely reflected insufficient progress in domestic revenue mobilization.**

As mentioned above, the 2015 reform of WAEMU’s surveillance framework involved an upward revision of the second-order convergence criterion on tax revenue, from 17 percent to 20 percent of GDP. While this new objective was not expected to be achieved by 2019, tax revenue was initially projected to increase gradually from 16.5 percent of GDP in 2015 to 17.7 percent of GDP in 2018 and 18 percent of GDP by 2019. Instead, the average tax to GDP ratio in the WAEMU will have remained virtually flat from 2015 to 2018 and is now projected to increase to only 17 percent of GDP by 2019. The level of aggregate tax revenue estimated for 2018 is 1.3 percentage points of GDP less than what was anticipated for the same year in early 2015. Thus, all else equal, if progress in tax revenue mobilization had been more in line with initial expectations, the aggregate deficit estimated for 2018 WAEMU would have been significantly below the 3 percent of GDP convergence criterion. Or, alternatively, this would have allowed to meet the 3 percent convergence criteria faster while providing more space for development spending.



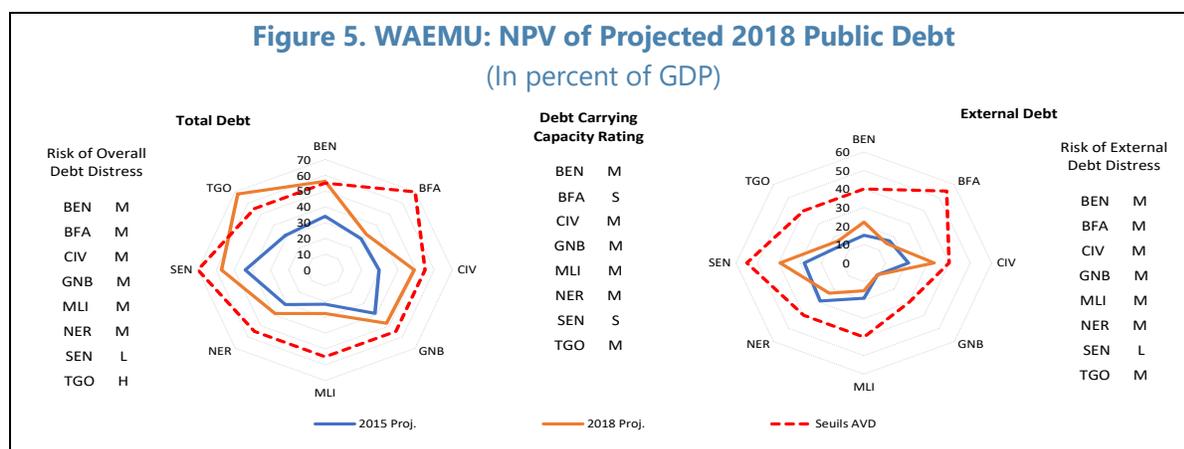
**13. Furthermore, higher-than-anticipated fiscal deficits were accompanied by a significant increase in public debt burdens.**

Although the 2015 reform of the WAEMU’s surveillance framework kept the “first order” debt convergence criterion at 70 percent of GDP, expectations at the time were that the public debt

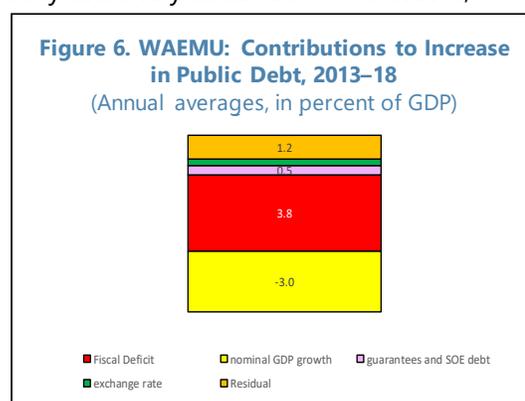


burden in the WAEMU would stabilize at about 40 percent of GDP. However, notwithstanding the strong GDP growth of recent years, WAEMU’s aggregate public debt increased by more than 10 percentage points of GDP between 2015 and 2018.

**14. Most member countries reduced their room for maneuver within unchanged public debt sustainability thresholds, while one shifted to a high risk of debt distress.** In net present value (NPV) terms, the debt burden estimated for 2018 is heavier than what was anticipated in 2015 for all WAEMU member countries. This holds true both for external and total debt.<sup>11</sup> Against this background, room for maneuver within public debt sustainability thresholds has been significantly reduced. Togo has even shifted to a high overall risk of debt distress since 2015. However, the fiscal consolidation initiated in 2017 under its Fund-supported program has put Togo’s debt to GDP ratio on a downward trajectory. In addition, for WAEMU as a whole, the share of interest payments on public debt in government revenue which was 6.7 in 2015 is estimated at 9.1 percent in 2018.



**15. In recent years, budget deficits have not been the only fiscal driver of rising public debt in the WAEMU.** The rise in public debt has been mostly driven by fiscal factors. However, these have included not only budget deficits, which contributed an annual average of 3.8 percent of GDP to public debt over 2013-18, but also by the extension of government guarantees on the debt of state-owned enterprises (SOE)—whose contribution averaged 0.5 percent of GDP per year. Finally, residual factors accounted for as much as 1.2 percent of GDP annually to the increase in the public debt ratio to GDP. Government guarantees on SOE debt increase public debt but do not generate a financing need per se for



<sup>11</sup>The overall quality of member countries’ debt carrying capacity has remained unchanged since the 2015 reform of WAEMU’s regional surveillance framework except for Guinea-Bissau where it was recently upgraded from weak to medium. Debt carrying capacity is currently rated medium for all WAEMU member countries, except for Senegal—where it was upgraded to strong in the context of the 2014 Article IV consultation—and for Burkina Faso, where it was upgraded to strong in 2018.

the central government. Residual factors, however, impact the government's financing needs. They represent materialized risks or costs that become the government's responsibility, but were not provisioned by a corresponding budgetary allocation, including because they were not recorded above-the-line in the budget and associated documentation. Therefore, the surveillance framework may not be sufficient to achieve debt stability if the residual driver of public debt is not addressed.

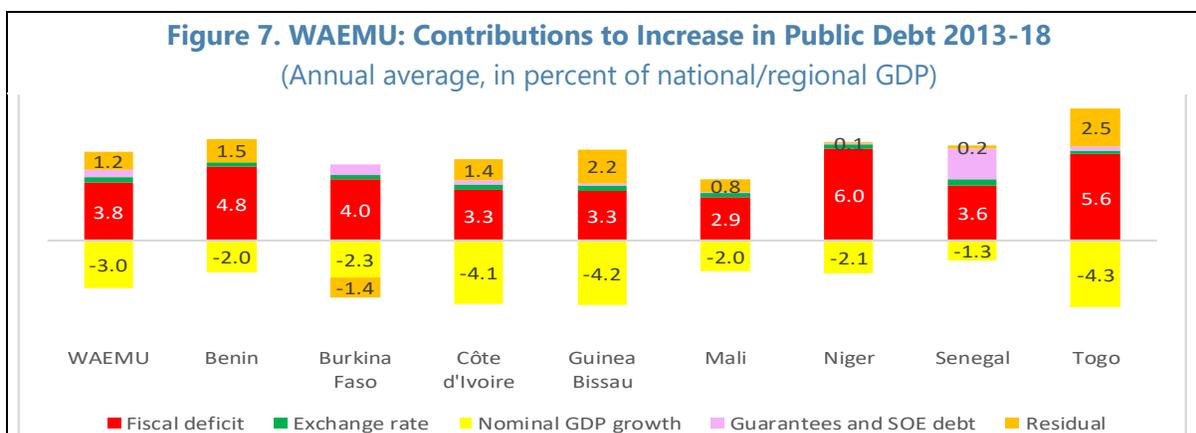
**16. Residual factors of public debt accumulation often stem from activities beyond the central government's fiscal perimeter that eventually migrate to central government debt.**

Entities that are outside of the central government budget coverage may include state-owned enterprises, and off-budget and extrabudgetary funds. While these types of entities do not benefit from the same extent of monitoring and supervision than do budgetary entities, their activities may result in deficits that would eventually be covered by the central government. If the resources to cover these deficits are not anticipated by the central government at the time of the preparation of the budget, the government may resort to assigning these resources outside of the normal budgetary process through below-the-line operations. These operations are residual drivers of public debt. Instances where the government is compelled to cover the deficits of entities outside of the budget perimeter include when state-owned enterprises engage in quasi-fiscal operations and do not charge for their services prices that are consistent with cost recovery. This would result in an accumulation of deficits for these state-owned enterprises, which may eventually need to be covered via issuance of central government debt.

**17. While fiscal deficits have been the main driver of public debt across WAEMU member countries, the size of residual factors has varied greatly among these countries.** Average annual residuals between 2013 and 2018 have ranged from -1.4 percent of GDP to 2.5 percent of GDP. They have been noticeably larger (and at or above 1½ percent of GDP) in Benin, Côte d'Ivoire, Guinea-Bissau and Togo. This reflects the different extent of budgetary arrears accumulation or repayment across countries, recourse to pre-financing arrangement practices<sup>12</sup> (Benin, Togo), recapitalization of SOEs to cover historic operational losses (Burkina Faso) and issuance of government guarantees (Guinea Bissau). However, the accumulation of public debt has been mitigated by privatizations (Burkina Faso, Côte d'Ivoire, Mali and Senegal), the restructuring of public debt (Guinea Bissau, Mali, and Senegal) and the reimbursement of budgetary arrears (Côte d'Ivoire, Burkina Faso, Mali).

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<sup>12</sup>This practice includes situations where a private company is granted a public works contract by the government and obtains a loan from the banking sector. The government guarantees the loan and services the debt without a corresponding budgetary appropriation (Versailles, Bruno (2018) "Sources of Fiscal Risks in WAEMU Countries", West African Economic and Monetary Union Selected Issues, country report n° 18/107). This practice has been used in Benin and had been used in Togo until 2016.



### C. Debt Stabilizing Fiscal Balances

**18. Going forward, under current fiscal reporting and budgetary practices in the WAEMU, an aggregate fiscal deficit of 3 percent of GDP would only stabilize the public debt burden if there are no concomitant below-the-line operations.** The previous section documented how “residual” operations contributed to a significant amount to debt accumulation over the recent years. A forward-looking computation shows that at this point, and based on WAEMU data for 2013-2018, the primary fiscal balance that would stabilize the public debt burden at its end-2018 level can be estimated at -0.9 percent of GDP, assuming that real GDP growth continues at 6.4 percent and if “residual,” below-the-line operations not captured in this balance continue to add 1.2 percentage point of GDP a year to public debt dynamics.<sup>13</sup> Under the same assumptions, the debt stabilizing aggregate overall fiscal deficit of central governments would be 2.1 percent of GDP, taking also into account an average interest bill of 1.3 percent of GDP. Conversely, if real GDP continues to grow at 6.4 percent a year, an aggregate fiscal deficit of 3.4 percent of GDP, but covering all debt creating operations of central government, would stabilize the debt burden at its end-2018 level.

**19. Alternatively, to accommodate significant below-the-line operations, public debt stabilization would require much stronger GDP growth than currently envisaged.** All else equal, if “residual” below-the-line operations were to continue to average 1.2 percent of GDP a year (excluding guarantees) over the medium-term, an aggregate overall fiscal deficit of 3 percent of GDP (i.e. WAEMU’s current “key” convergence criterion, and not including the “residual” operations) would only stabilize public debt if average annual real GDP growth were to rise to 8.3 percent. This is well above the WAEMU’s past growth record as well as its medium-term growth prospects. Under Fund staff’s latest baseline scenario for 2019-23, average annual real GDP growth is projected at 6.6 percent, assuming, from 2019 onward, effective fiscal consolidation to meet WAEMU’s key convergence criterion as well as effective implementation of pro-growth structural reforms.

<sup>13</sup>The debt stabilizing primary fiscal balance in percent of GDP  $pb^*$  is equal to:  $d \cdot (r - g) / (1 + g) + Res$ , where  $d$  is debt/GDP,  $r$  is the real interest rate,  $g$  is real GDP growth, and  $Res$  is a residual term in percent of GDP that adds to the debt dynamics but is not captured by the central government’s budget balance on a commitment basis.

**20. Yet, risks to the WAEMU’s medium-term growth outlook are mainly to the downside, and even a moderate growth slowdown relative to recent years would lower the debt-stabilizing aggregate overall fiscal deficit below 3 percent of GDP.** For instance, such a deficit would go down to 1.7 percent of GDP assuming an average GDP growth rate of 5.5 percent and additional “residual or below-the-line operations” of 1.2 percent of GDP a year, or alternatively to 2.9 percent of GDP with no below-the-line operations.

**Table 1. WAEMU: Debt Stabilizing Fiscal Balance Estimates<sup>1</sup>**

			Balance in percent of GDP		
			Cent. Gvt.	Below-the-line	Total
Real GDP Growth in percent	Higher	8.3	-4.1	0.0	-4.1
			-3.0	-1.2 <sup>3/</sup>	
	Baseline	6.4 <sup>3/</sup>	-3.3	0.0	-3.3
			-2.1	-1.2 <sup>3/</sup>	
	Lower	5.5	-2.9	0.0	-2.9
			-1.7	-1.2 <sup>3/</sup>	

<sup>1/</sup> Assuming a ratio of debt (excluding guarantees) to GDP of 49.3 percent.

<sup>2/</sup> Operations not currently captured by the overall fiscal balance.

<sup>3/</sup> Average for 2013-18.

## D. Policy Options to Better Ensure Public Debt Sustainability: What Role for the Regional Surveillance Framework?

### Observing the Fiscal Deficit Criterion

**21. A prerequisite to public debt sustainability is for member countries to effectively implement their fiscal consolidation plans towards the WAEMU’s key convergence criterion from 2019 onwards.**

More decisive progress to improve domestic revenue mobilization would be essential to make room for developmental spending even in the context of the needed fiscal consolidation. Analysis for the sub-Saharan African region suggests a potential for an additional tax revenues of 3½-5 percent of GDP,<sup>14</sup> which would be consistent with the 20 percent of GDP convergence criterion for WAEMU countries.

- While fiscal policy rests squarely at the national level, there is still a critical **coordination role at the regional level**. In particular, revisions of regional tax directives should give priority to curbing countries’ use of tax incentives through investment and sectoral codes and reducing tax expenditures. Better implementation by national authorities of regional

<sup>14</sup>IMF, 2018, “Domestic Revenue Mobilization in Sub-Saharan Africa: What Are the Possibilities?” Chapter 2, *Regional Economic Outlook: Sub-Saharan Africa*, Spring 2018.

directives is also critical, and harmonization of national tax data is needed to improve the effectiveness of the WAEMU Commission's surveillance functions.

- **Spending measures** could include bringing wage bills within 35 percent of domestic revenue consistent with WAEMU's set second-order convergence criterion, but also better targeting subsidies and social assistance to protect the most vulnerable and improving the efficiency of public investment.

To increase its ownership by member countries, the regional fiscal deficit ceiling could be transposed into national legal and budgetary frameworks.

**22. While desirable in principle to reduce procyclicality, a shift to a structural fiscal deficit rule would be difficult to implement in the foreseeable future.** Under WAEMU's current macroeconomic surveillance framework, the maintenance of fiscal deficits by a critical mass of member countries at or below 3 percent of GDP from 2019 onward would open the possibility for a shift from the convergence phase to a stability phase when the fiscal deficit rule would start to be defined on a structural basis. Such a shift could in principle reduce the procyclical bias of the current overall fiscal deficit rule, as a structural deficit rule would encourage building buffers during upturns and allow for adequate fiscal support during downturns. However, calibrating a structural fiscal rule would prove very challenging for the WAEMU as output gaps and tax elasticities to income are difficult to estimate with sufficient reliability, particularly in developing countries due to less stable economic structures, as well as relatively low data quality and availability. The difficulty would be compounded in the WAEMU by the diversity among its member countries. Against this background, it might be preferable even in the framework's stability phase to retain the current nominal fiscal deficit rule to be considered as a maximum deficit.

### Containing Below-the-Line Operations

**23. Given how below-the-line operations have factored into the recent public debt increase, effective fiscal consolidation must be accompanied by accelerated implementation of public financial management (PFM) reforms.** Particularly relevant are measures aimed at reducing the risk of accumulation of budgetary arrears, eliminating the recourse to pre-financing arrangements, and improving monitoring, management and accountability of banks and SOEs. Cost recovery prices for services provided by SOEs (including fuel and electricity) would be critical to avoid the accumulation of losses and arrears that eventually need to be covered through public debt issuances. Significant attention must also be paid to contingent liabilities, including through increased recourse by WAEMU countries to PPPs. Addressing these matters is key, including since there may be less scope over the medium-term for factors mitigating the growth of public debt, such as privatizations and public debt restructurings.

**24. The WAEMU Surveillance Framework provides some guidance to member countries on PFM reforms.** A set of directives issued in 2009 (Box 1) aimed to harmonize the presentation of fiscal statistics across member countries according to the GFSM 2001, strengthen accountability of

public expenditure by fostering the transition to results-based budgeting, and buttress internal financial controls over budgetary execution. It makes the Minister of Finance responsible for subjecting budgetary credit to the availability of budgetary resources. It recommends that the budget document include the consolidated financial position of local governments, social protection entities, and SOEs. Finally, it enhances the role of the Court of Accounts, responsible for assessing the internal control system and the PFM framework. The Court has the power to set penalties for mismanagement.

### Box 1. WAEMU Surveillance Framework and Reforms in Public Financial Management

In 2009, the WAEMU issued a set of Directives to promote PFM reforms in its member countries. These directives should have been transposed into national legislation by mid-2012.

- Directive no. 01/2009/CM/UEMOA on the **Transparency Code**, is the overarching framework for the other directives.
- Directive no. 06/2009/CM/UEMOA LOLF on the **framework for budget laws**, including their content, presentation, elaboration, execution and control. It introduces a program-based approach to budgets, budget buffers for unforeseen expenses and accountability against performance indicators.
- Directive no. 07/2009/CM/UEMOA RGCP on the **General Regulations of public accounting** within WAEMU. It includes fundamental regulations governing the budget execution, accounting framework, control of financial operations, management of funds, and values and goods. This is the directive that governs the Treasury Single Account (TSA). Once fully developed and integrated, the TSA indicates in real time the remaining resources available to support an expenditure commitment and blocks the expenditure authorization when resources are inadequate.
- Directive no. 08/2009/CM/UEMOA NBE on stipulating a **common budget nomenclature** for all WAEMU member states. It sets fundamental principles of presentation of the general budget, budgets annexes, and the Treasury special accounts.
- Directive no. 09/2009/CM/UEMOA PCE on the **accountancy plan** stipulates on how to report and produce accounts and financial statements for all member states.
- Directive no. 10/2009/CM/UEMOA TOFE on the presentation of **fiscal statistics** according to the GFSM 2001. It recommends extending the coverage of fiscal accounts to public entities and extrabudgetary funds.

Sources: Côte d'Ivoire, *Direction Générale du Trésor et de la Comptabilité Publique*, « Les nouvelles directives de l'UEMOA : Innovations, état des lieux de la transposition et de la mise en œuvre », *Présentation*. UNDP, *Proposition de Dispositif institutionnel de transposition des directives 2009 de l'UEMOA*, Pôle « Stratégie de développement et finances publiques », Centre régional de Dakar du PNUD.

**25. However, implementation of the WAEMU directives on PFM reforms has been mixed, both across member countries and areas of reforms (Annex 1).** Member countries were expected to transpose the directives into national legislation according to a set timetable. As of May 2016, transposition delays by member countries ranged from 1 year to 5 years.<sup>15</sup> Furthermore, there is a wide heterogeneity on the state of reforms across WAEMU member countries in different PFM areas. Improving the presentation of fiscal accounts is relatively advanced—although three smaller countries need much improvement—but adoption of laws to improve internal expenditure controls and transparency of accounts has been sluggish across countries. For instance, three countries are still missing a Court of Accounts. Moreover, the transposition of the directives enhancing accountability in budgetary execution has been weak.

**26. The Surveillance Framework could be better leveraged to accelerate the momentum for PFM reforms in WAEMU countries.**

There are no penalties for member countries who do not implement the regional PFM directives by the set timetable. However, incentives to accelerate reforms could include:

- **More widespread public dissemination of the recurrent progress monitoring report** instituted by the WAEMU's Fiscal Commission in 2015, particularly if **combined with peer-to-peer training among member countries** by matching relatively more advanced with relatively delayed countries.
- **Explicit references to fiscal risks and their monitoring in the Directive on transparency**, such as being done in the CEMAC. This would enable the WAEMU Commission to conduct its own analysis of fiscal risks at the regional level and inform accordingly the WAEMU Council of Ministers with a view to prompting national authorities to follow suit more diligently.

Along with intensified and public reporting on the implementation of the PFM directives and strengthening the framework for peer-to-peer support, the WAEMU Council of Ministers could articulate more forcefully the importance for member countries to implement the following building blocks in containing residual drivers of public debt:

- **Fully adopting the directives on accounting** would foster the implementation of proper Information Technology systems to support a fully functioning and integrated Treasury Single Account (TSA).
- **Including SOEs and extra-budgetary funds in fiscal accounts** through the full implementation of GFSM 2001 as outlined in the directive on fiscal statistics.
- **Adopting the directive on accountability** would strengthen the implementation, signature and monitoring of performance contracts for PPPs and SOEs.

<sup>15</sup>UNDP (2017), "Bilan de la réforme du cadre harmonisé des finances publiques en zone UEMOA », *Le Pôle Stratégies de développement et finances publiques*.

## Lowering the Debt Convergence Criterion

### 27. Consideration should be given to lowering the public debt criterion below 70 percent of GDP.

The debt ceiling was set at its current level when most WAEMU member countries were in debt distress that called for debt relief under the HIPC and IADM initiatives.

- All WAEMU member countries had benefitted from substantial debt relief by 2012, and a nominal debt ceiling of 70 percent of GDP is currently too high to prevent member countries from falling back into a high risk of debt distress.
- As shown below, based on current levels of concessional borrowing by WAEMU sovereigns in the latest Debt Sustainability Assessments (DSAs) prepared by staffs from the World Bank and the IMF, nominal equivalents of DSA thresholds for the NPV of public debt is significantly lower than 70 percent for most WAEMU countries. The exercise also shows that lowering the debt convergence from 70 percent to 60 percent of GDP would be more consistent with preventing most WAEMU member countries from falling into higher risk of public debt distress.
- As WAEMU member countries continue their development paths, including through a deepening of regional financial markets, the share of non-concessional borrowing is likely to grow, which would imply, *ceteris paribus*, a lower threshold for risk of debt distress.

All those elements would justify a reflection on lowering the convergence criterion on debt from its current level of 70 percent of GDP, which would be best done before national debt ratios reach such a level. A lowering of the regional debt ceiling below its current level should also be accompanied by the setting of a specific time horizon for countries whose debt burden exceeds the revised ceiling to become compliant with this ceiling. This could be done by requiring countries to design Medium Term Debt Strategies (MTDS) that are consistent with such a commitment, while limiting their fiscal deficit sufficiently below the 3 percent of GDP regional ceiling—as is currently done in Togo for example).

**28. There would be merit in complementing the current ceiling on the debt to GDP ratio with an explicit reference to DSAs to be produced yearly by the WAEMU Commission.** In addition to being set at a relatively high level, the current debt convergence criterion provides too narrow a perspective on a country's debt burden, as it does not take into account the degree of debt concessionality, the currency of denomination, as well as liquidity considerations which may also contribute to debt distress. To mitigate these shortfalls, the WAEMU Commission could complete its assessments of the evolution and prospects of member countries' public debt burden by conducting its own DSAs. Stock-flow analysis that are part of DSAs would also allow residual, below-the-line, operations to be more systematically integrated in regular surveillance of regional macroeconomic convergence.

### WAEMU: Member Country Estimates of DSA Thresholds Relative to Regional Debt Convergence Criterion

(In percent of GDP unless otherwise indicated)

	Grant Element on Total PPGD <u>1/</u>	Debt Carrying Capacity	DSF Benchmark of Total PPGD/GDP		WAEMU Debt/GDP Convergence Criterion
			Present Value	Face Value <u>2/</u>	
BEN	16.3	Medium	55	64 <	70
BFA	20.2	Strong	70	84 >	70
CIV	12.4	Medium	55	62 <	70
GNB	14.1	Medium	55	63 <	70
MLI	30.5	Medium	55	72 ≈	70
NER	26.4	Medium	55	70 ≈	70
SEN	10.4	Strong	70	77 >	70
TGO	6.9	Medium	55	59 <	70

Source: Fund staff estimates.

1/ Based on projected grant element for external debt in latest DSA for 2018-23, and share of external debt in total public debt at end-2018.

2/ Nominal debt equivalent of the NPV debt benchmark, taking into account the average level of concessionality of the total debt stock.

**29. More potency could be given to the current convergence criterion on tax revenue.** A greater focus on this criterion is warranted as better domestic resource mobilization is essential for WAEMU countries to attend to their important development needs while keeping their fiscal deficits consistent with debt sustainability and external viability. This would require harmonizing data reporting standards among member countries and specifying a reasonable time horizon for compliance. An argument could also be made in favor of shifting this revenue criterion from “second” to “first” order. The reverse could be contemplated for the inflation convergence criterion, which could henceforth be considered as “second order,” given its relatively little relevance at the national level, in a currency union with a fixed peg to the Euro.

### Strengthening Member Countries’ Convergence Plans

**30. Member countries’ medium-term convergence plans should also be strengthened.** To this end, the WAEMU Commission could complement its broad assessment of the realism of plans’ underlying assumptions, with systematic quantitative sensitivity analysis. Member governments should also be required to explain both why fiscal and debt outcomes differ from their previously declared objectives, and how their new plans address risks of policy slippages and adverse exogenous shocks.

## E. Conclusion

**31. The WAEMU Macroeconomic Surveillance Framework would benefit from adjustments to more effectively set the region's public debt on a sustainable path.** While the WAEMU convergence criterion of 3 percent of GDP for the overall budget deficit in 2019 addresses an important driver of public debt, it does not control for residual factors that have proven to significantly contribute to the rise in public debt throughout the region. If residual factors continue to be significant over the medium term, the fiscal deficit convergence criterion is not expected to adequately deliver public debt sustainability in the region. Accordingly, more efforts need to be made collectively at the WAEMU level to rein in the sources of these "residual" operations. Moreover, the public debt convergence criterion could be lowered below 70 percent to more effectively prevent member countries from reaching a higher risk of debt distress, as they increasingly access non-concessional financing sources. The 20 percent of GDP threshold on tax revenue could be elevated from a second to a first order criterion, with a defined timetable for its observance, to stress the critical importance of stronger revenue mobilization for both fiscal consolidation and the meeting of WAEMU's significant development needs. Finally, the Surveillance Framework could be enhanced by explicitly mandating the WAEMU Commission to conduct annually its own Debt Sustainability Analyses for member countries and complementing its broad assessment of the realism of countries' medium-term convergence plans with systematic quantitative sensitivity analyses.

**32. In addition, beyond adhering to the WAEMU fiscal deficit rule, member countries must curb below-the-budget-line operations.** This would require improved monitoring of fiscal risks and the building of adequate budget provisions to address such risks before they materialize. To minimize the occurrence of fiscal risks, implementation by member countries of regional PFM directives must be accelerated, and management accountability needs to be strengthened across SOEs and line ministries. Improved Treasury practices would also help eliminate the recourse to pre-financing arrangements and tighten control over expenditure. Public dissemination of the WAEMU progress report and strengthened peer-to-peer learning among member countries could improve the momentum for reforms.

## Annex I. Recent and Ongoing Reforms in Public Financial Management by Member Countries

*WAEMU countries are implementing their individual programs for Public Financial Management reforms, at various stages of completion in each country, but continued efforts are needed on reforms that are expected to be most effective in eliminating the residual driver of public debt.*

- **Concerning the Single Treasury Account (TSA)**, Senegal and Côte d'Ivoire are relatively more advanced while Burkina Faso, Niger and Togo are at earlier stages of implementation. Overall, however, implementation is lagging in all WAEMU countries. This is reflected by a remaining multiplicity of government accounts and incomplete interface between IT systems, resulting in at least some partial manual reconciliation of accounts and hence not a properly functioning automatic ceiling on credits contingent on the state of available budgetary resources in real time. In that context, expenditure arrears would be likely to continue to accumulate.
- **Monitoring SOEs** is key to have an accurate reading of fiscal risks that they represent so that adequate provisions can be included in the budget in case these risks materialize. Benin presents the financial position of SOE's in their 2019 budget, while Senegal includes it in its Debt Sustainability Analysis and Côte d'Ivoire initiated a presentation of fiscal risks in its 2019 budget.
- **Improving accountability of SOEs** to limit their fiscal risks requires that their managers sign performance contracts according to explicit objectives. To date, Benin and Côte d'Ivoire have performance contracts for at least some SOEs.

**Benin** has created a Single Treasury Account (TSA), improved reporting on budget execution, centralized the coordination of the government's internal audit units and the monitoring of ministries, established performance contracts with the main SOEs, and presents in its 2019 budget the economic and financial position of SOEs. Next steps are to launch the audit on the stock of arrears to domestic suppliers, fully implement the Court of Accounts, adopt the draft law on improving governance of SOEs and requiring them to transmit their financial statements and audit reports to the Ministry of Economy and Finance, improve the risk assessment and monitoring of contingent liabilities of SOEs, and strengthen internal audit and control methods.

**Burkina Faso** implemented an automatic adjustment mechanism for fuel prices at the pump in November 2018. It plans to strengthen control of contingent liabilities in the energy sector, conduct an independent audit of the state-owned fuel company, include subsidies for electricity generation in the budget and it intends to stop pre-financing arrangements and record supplier credit-financed projects in the budget. The government has created a database of all sovereign guarantees, supplier credit arrangements, and existing and potential PPPs. The latter will be restricted to an annual quantitative ceiling. The government plans to adopt a TSA and improve compatibility of its IT system with that of the BCEAO.

**Côte d'Ivoire** is restructuring its state-owned energy sector and public banks, while strengthening oversight of SOEs. Its 2019 budget includes an analysis of fiscal risks. Next steps are to implement monitoring committees and financial performance dashboards for SOEs under performance contracts and extend performance contracts to other SOEs, revise the institutional framework for PPPs, update their database, and integrate active PPP projects in the public investment program. Treasury processes will be improved through the full interface between the Integrated PFM system, the general government accounting software, and the monitoring of auxiliary accounting. The cash advance management module, now completed, will be fully tested and implemented.

**Guinea Bissau** eliminated non-regularized expenditure and set up a Treasury Committee that has helped the Ministry of Finance align budgetary credits to available budgetary resources. To improve Treasury operations, the authorities prepare monthly cash-flow projections consistent with the annual budget. Whereas the number of accounts has been reduced and the oversight of the Treasury over line ministries expenditures has been improved, there is yet no TSA. The coverage of the financial management system (SIGFIP) has been enlarged. A draft of the chart of accounts has been prepared and the authorities are progressing towards the compilation of a GFS, including the presentation of fiscal accounts consistent with WAEMU directives. Also, according to those directives, a decree clarifying the debt issuance authority and procedures was issued in 2017, but further reforms are needed to fully implement it. The main SOEs were audited the first time in 2017, revealing substantial weaknesses in financial management, internal controls and procurement functions. The authorities plan to launch an audit of outstanding domestic arrears and develop a settlement plan in 2019.

**Mali** is implementing an action plan to raise public investment managers' accountability and in the process of strengthening local governments' technical capacities along with mechanisms for monitoring and controlling their spending. Next steps are to develop a centralized database on SOEs to better assess their fiscal risks, strengthen the regulatory framework for PFM, including budget preparation, execution, monitoring, and audit. Cash management practices also need to be improved.

**Niger** is implementing the TSA, including by improving the interface between the IT system of the BCEAO and the Treasury department and transferring several public entity accounts. Next steps are to implement the new TSA account structure, effect all government payments through the banking system, release quarterly spending allocations within the first month, and improve budget and cash flow management by preparing quarterly commitment plans with corresponding cash plans. Moreover, the authorities expect to adopt a PPP law giving the Ministry of Finance authority over all PPP contracts, which will be included in the budget.

**Senegal** has signed a decree that will remove the ability to carryover current spending balances in the *comptes de dépôts* from one year to the next and limit the amount of capital spending carryover to 5 percent of the remaining balance. In October 2018, a new convention between the Post Office and the Treasury was signed to limit the Treasury guarantee for clearing the Post Office checks. The STA is in place since April 2018, with more centralized accounts showing potential cash available in real time. To eliminate the primary source of extra budgetary financing needs, comprehensive

reforms of the Post Office and Civil Service Pension are needed. Progress is underway with respect to institutional reforms to restore the financial viability of the civil pension system. Further modernization of the Treasury is needed, including moving to new applications facilitating accounting reporting and more effective cash flow mobilization. Concerning fiscal risks, the debt sustainability analysis is based on a broader coverage of the public sector, both for the debt stock and government guarantees, and the fiscal deficit. The public sector includes the (i) central government; (ii) para-public entities that are part of the general government; and (iii) SOEs.

Efforts to improve the administrative and financial management of the National Retirement Fund (FNR) have started. The FNR posted a surplus at end-September 2018, despite the Tabaski Festival advances to pensioners, which amount to 100 percent of their pensions. This surplus is caused in particular by the entry into effect on July 1, 2018 of Law No. 2018-12 of March 30, 2018 creating a supplementary pension scheme for military and civilian civil servants. Progress was also made with the design of the parametric reforms (change in the pension award base, renewal of the contributing population, etc.), systemic reforms (a supplementary pension scheme and a voluntary retirement savings scheme), and institutional reforms (creation of an independent retirement fund for FNR civil servants) to restore the financial viability of the civil service pension system, improve pension levels, and make the governance of the FNR more effective.

**Togo** is monitoring the stock of payment arrears by vintage and reporting on it monthly and introduced a program-based presentation of the 2019 budget for all ministries. It has strengthened implementation of the cash plan and commitments control and provides monthly updates. Moving towards full implementation of the TSA, it has closed accounts of public entities in commercial banks and transferred the balances to the TSA. The cost-effectiveness analysis of public investment projects also needs to be completed. Actions should be taken to restore the financial viability of the two remaining public banks, including following through with the privatization strategy initiated in 2018.

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# BOOSTING COMPETITIVENESS TO FOSTER TRADE PERFORMANCE, WEATHER TERMS-OF-TRADE SHOCKS AND SUPPORT EXTERNAL BUFFER<sup>1</sup>

*This paper examines the state of trade performance and global competitiveness in the WAEMU. It stresses that while boosting intraregional and extra-regional trade, and particularly export, it is crucial to self-insure against external volatility and to build external buffers, the WAEMU's competitiveness is subject to structural constraints. Estimates of gravity models indicate that easing the constraints to competitiveness could significantly boost the WAEMU bilateral trade flows and help the WAEMU catch up with comparator countries in Africa and Asia that have made some of the largest strides in international trade and have experienced long-lasting growth acceleration. In particular, we find that making progress in the areas of infrastructure, education and access to credit would likely boost the WAEMU's trade flows substantially. These are areas where common regional initiatives could be particularly useful.*

## A. Introduction

**1. The WAEMU has experienced rapid economic growth over the past decade, yet it is not immune to external vulnerabilities.** The region's average growth has been above 6 percent since 2012, well above the growth performance in other Sub-Saharan African countries. However, sustained public spending, higher demand for imported goods and services (including sustained public spending), combined with unfavorable terms-of-trade shocks have contributed to the widening of the current account balance in recent years (IMF, 2017, 2018). More recently, the stabilization of external buffers has been heavily dependent on sizeable Eurobond issuances by Côte d'Ivoire and Senegal, its two biggest member States, which also increase debt burden and external vulnerabilities.

**2. Existing studies suggest that competitiveness is a potent antidote to help mitigate vulnerability to global shocks and to support external buffers (IMF, 2015a and 2015b).** The reason is mainly twofold. First, strong, long-term competitiveness determines a country's ability to integrate into regional and global export trade markets, underpinning its capacity to sustain strong growth and productivity gains. Second, better trade integration, export performance and diversification would then help mitigate vulnerability to global shocks through risk diversification and support sustainable foreign exchange generation via export proceeds. This may be particularly relevant for price taker countries—such as the WAEMU countries—given their exposure to external shocks.

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<sup>1</sup>Prepared by Hippolyte Balima. This paper has benefited from comments from Bruno Versailles and the Benin team.

**3. Competitiveness is usually defined as the set of institutions, policies, and factors that affect a country's level of productivity (Schwab and Sala-i-Martin, 2018).** It includes price and nonprice factors. Price factors usually refer in the literature to the real effective exchange rate—a proxy for a country's competitiveness relative to its trading partners—or the relative aggregate price level adjusted for changes in productivity across countries. Nonprice factors include various aspects that capture structural constraints, such as (i) institutions; (ii) infrastructure, (iii) education; (iv) goods market efficiency; (v) labor market efficiency; and (vi) financial market development.

- **Institutions.** Institutions—in particular the legal framework that governs individuals, firms, and governments' interactions—have a strong bearing on productivity. The quality of institutions affects investment decisions and sets up the way in which societies internalize the benefits and the costs of development strategies and policies.
- **Infrastructure.** Infrastructure determines the effective functioning of an economy. Indeed, decent quality of roads, railroads, ports, and air transport facilitates the transactions of factors of production and final goods and services in a cost-effective and timely manner. In addition, reliable electricity supplies—without interruptions and shortages—also facilitate the work of businesses and factories.
- **Education.** A higher quality of education is essential for an economy to integrate into the global value chain. In today's globalized economy, well-educated workers are crucial to unlocking a country's capacity for innovation and imitation, beyond being a simple raw material supplier.
- **Goods market efficiency.** The efficiency of goods market determines whether goods can be effectively traded in an economy. Therefore, it sets up supply-and-demand conditions for determining a country's production possibility frontier.
- **Labor market efficiency.** The efficiency of the labor market is critical to ensure the effective use of workers in an economy. It may have a positive effect both on the productivity of workers and on the attractiveness of an economy.
- **Financial market development.** Critical to enhance productivity are sound and well-developed financial markets that effectively allocate resources to the entrepreneurial and investment projects with the highest expected return on investment.

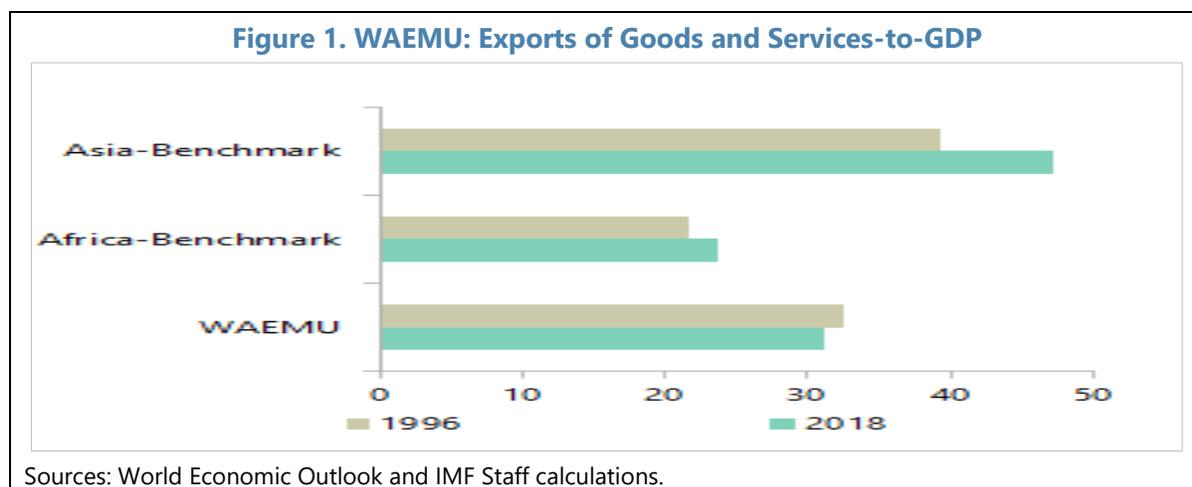
**4. This paper analyzes the state of trade performance and competitiveness in the WAEMU and quantifies the effect of competitiveness indicators on trade performance.** First, it assesses the state of trade performance and integration in WAEMU countries. Second, it compares key indicators of price and nonprice competitiveness in the WAEMU against two groups of African and Asian countries that have made some of the largest strides in international trade and have

experienced long-lasting growth acceleration.<sup>2</sup> Finally, using a gravity model of trade, the paper quantifies the contribution of the above aspects of competitiveness to the trade gap between WAEMU countries and the comparators and suggests some policy levers to strengthen regional and global trade integration performance.<sup>3</sup>

## B. Trade Evolution in the WAEMU

**5. WAEMU’s trade experienced a rapid expansion over the last two decades, with significant differences between export and import performance.** Exports of goods and services increased by 340 percent over 1996-2018, corresponding to the increase in cumulative nominal GDP. However, the equivalent increase in imports of goods and services over the same period was even higher at 437 percent—reflecting in part countries’ efforts to upgrade much-needed infrastructure. The region’s export-to-GDP decreased by 1.5 percentage points (ppt hereafter) over 1996-2018 (Figure 1), while import-to-GDP increased by 6.7 ppt, highlighting the negative direct contribution of net trade to the region’s economic growth over 1996-2018.

**6. However, comparator countries’ exports grew faster than their imports.** Exports-to-GDP increased by 2.1 ppt and 7.8 ppt respectively in African and Asian comparators over 1996-2018, while imports-to-GDP decreased by 1.2 ppt in the former group and remained almost constant in the latter. This suggests that WAEMU countries did not fully exploit their export potential over that period.



**7. The evolution of total exports in the WAEMU shows limited differences between intra-regional and extra-regional trade.** Intraregional export-to-GDP increased slightly by about 0.1 ppt

<sup>2</sup>Remaining consistent with previous Article IV consultations, the group of African comparator countries includes Ghana, Kenya, Lesotho, Rwanda, Tanzania, Uganda, and Zambia. The group of Asian comparator countries includes Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

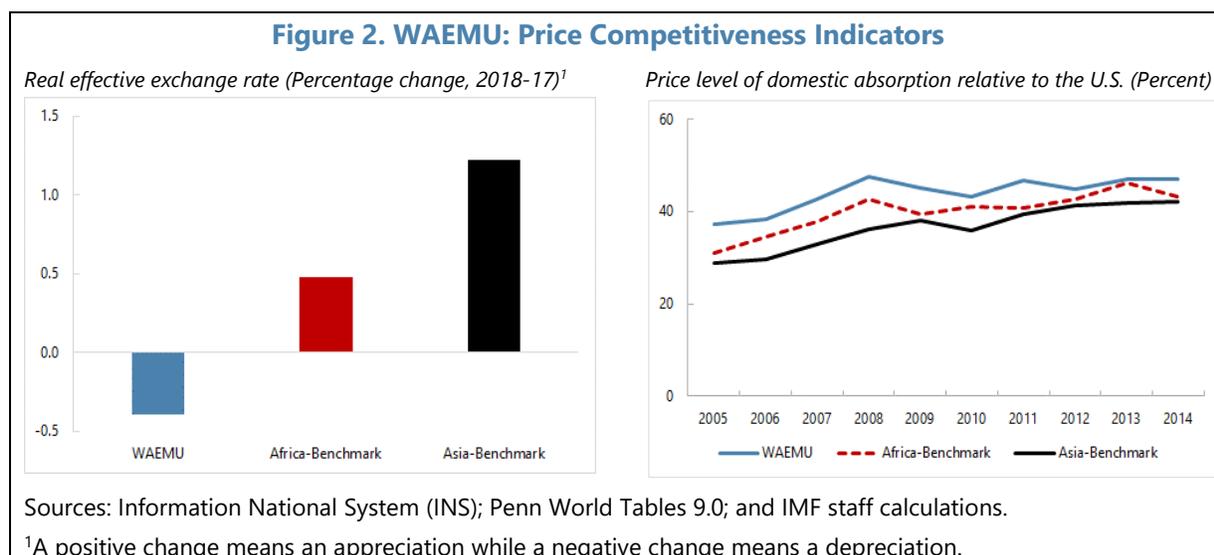
<sup>3</sup> Gravity models have been widely used in previous studies—including Frankel and Rose (2002), Rose (2004), or Boffa and others (2018)—to study the intensity of bilateral trade flows.

over 1996-2018, while extra-regional export-to-GDP decreased by about 1.5 ppt. Hence, the share of intra-regional trade increased by half, although from a low base.

### C. Competitiveness Indicators

**8. This section compares the WAEMU competitiveness indicators to those of the group of African and Asian comparator countries.** Countries are compared based on price and nonprice competitiveness indicators. As previously mentioned, price-based indicators include the real effective exchange rate (REER) and the relative aggregate price level adjusted for changes in productivity across countries, as in IMF (2015b).<sup>4</sup> Nonprice-based indicators include some survey-based perception indicators from the Global Competitiveness Report. These perception indicators encompass different pillars that are institutions, infrastructure, education, goods market efficiency, labor market efficiency, and financial market development.

**9. Indicators of WAEMU price-based competitiveness show a mixed evolution over the past decade.** The evolution of the REER does not indicate a significant difference between the WAEMU and its comparators during the period 2008-17. Indeed, it suggests, on average, a slight depreciation of the REER of about 0.4 percent in the WAEMU, while African and Asian comparators experienced an average appreciation of about 0.5 percent and 1.2 percent respectively (Figure 2, panel 1). However, the evolution of the region's aggregate price level relative to the United States shows that relative prices are higher in the WAEMU than in comparators, even though the WAEMU income level falls below its comparators (Figure 2, panel 2). This suggests that the WAEMU could be uncompetitive relative to the comparators, although the difference does not appear to be substantial.



<sup>4</sup> The aggregate price level adjusted for changes in productivity across countries is defined as the price level in the country concerned relative to the United States (U.S).

**10. Perceptions from survey-based indicators also suggest that the WAEMU's nonprice competitiveness remains subject to structural constraints.** Simple benchmark exercises indicate that WAEMU countries are perceived to still lag far behind in various areas of competitiveness.

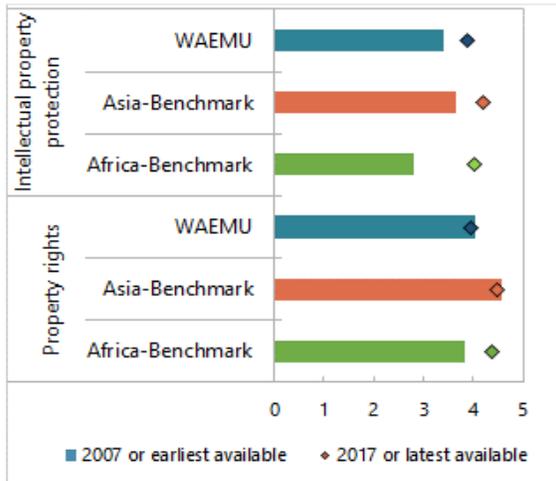
- Perceptions of the quality of institutions and infrastructure remain lower in the WAEMU compared to African and Asian comparator countries (Figure 3, panels 1 and 2).<sup>5</sup> For instance, intellectual property protection shows somewhat less progress in the WAEMU than in comparator countries between 2007 and 2017, while no progress has been achieved in improving property rights in the WAEMU. Survey-based indicators of the quality of infrastructure also suggests that the WAEMU is lagging behind comparators with limited progress over time, especially when it comes to electricity supply—suggesting the challenges still faced in countries with rapid increases in electricity demand, despite substantial government investment in this sector.
- Education and goods market efficiency are perceived to be of lesser quality in the WAEMU than in comparators, with the exception of the ease of starting a business, where the WAEMU region has made substantial progress between 2007 and 2017 (Figure 3, panels 3 and 4). The later data shows that the perceived quality of the education system is on average  $\frac{1}{4}$  higher in comparator countries than in the WAEMU. In general, internet access in schools seems to be the main driver of the WAEMU quality of education disadvantage, despite some progress in recent years. As for goods market efficiency, one bright spot is the number of procedures to start a business in the WAEMU, which is much lower than in comparator countries. However, the latter have competitive advantages both on trade tariffs and on the burden of customs procedures. For instance, trade tariffs are twice as high as in the WAEMU than in comparator Asian countries.
- Finally, indicators of labor market efficiency and financial market development also suggest some gaps between the WAEMU and its comparators (Figure 3, panels 5 and 6). Regarding labor market efficiency, comparator countries are perceived to have higher capacities to retain and attract talent—a driving force of innovation and imitation. Regarding the financial market development, survey-based indicators suggest that companies in the WAEMU also seem to have considerably fewer options in raising money by issuing shares and/or bonds on the capital market and in obtaining bank loans compared to Asian comparators, which

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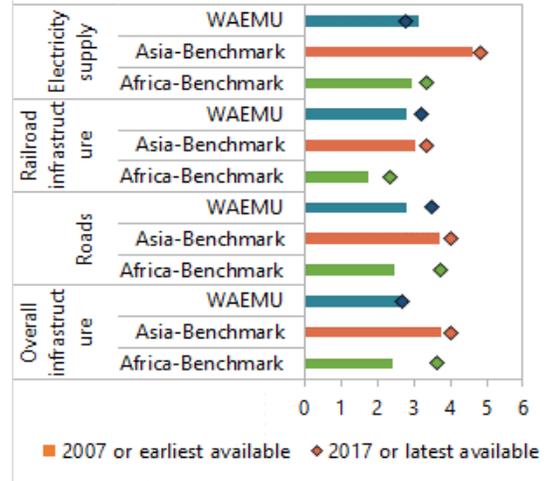
<sup>5</sup> Note: In Figure 3, except for the number of procedures to start a business, trade tariffs, NPLs to total loans, CAR, and private credit-to-GDP, all indicators of nonprice competitiveness are measures of perceptions derived from the World Economic Forum's Executive Opinion Survey. The Executive Opinion Survey is an extensive survey capturing the opinions of business leaders around the world on a broad range of topics for which statistics are unreliable, outdated, or nonexistent for many countries. Thus, the Survey aims to measure critical concepts to complement the traditional sources of statistics and provide a more accurate assessment of the business environment and, more broadly, of the many drivers of economic development. Indicators derived from the Survey are expressed as scores on a 1-7 scale, with 7 being the most desirable outcome. Similar perceptions are obtained using data from Doing Business of the World Bank. As Global Competitiveness Index does not cover all countries, the WAEMU averages of perception indicators include 5 countries out of its 8 members: Benin, Burkina Faso, Côte d'Ivoire, Mali, and Senegal. Asian comparators include Indonesia, Malaysia, Philippines, Thailand, and Vietnam. African comparators includes Ghana, Kenya, Lesotho, Rwanda, Tanzania, Uganda, and Zambia.

**Figure 3. WAEMU: Nonprice Competitiveness Indicators**

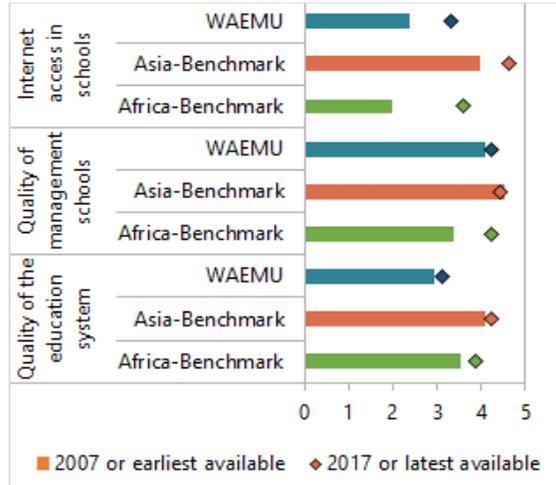
*Quality of institutions (1-7, best)*



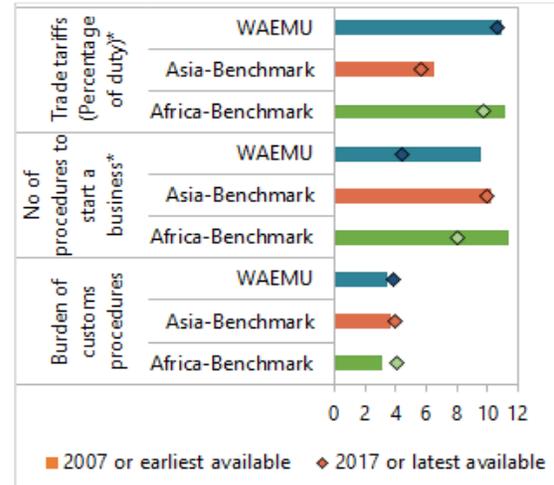
*Quality of infrastructure (1-7, best)*



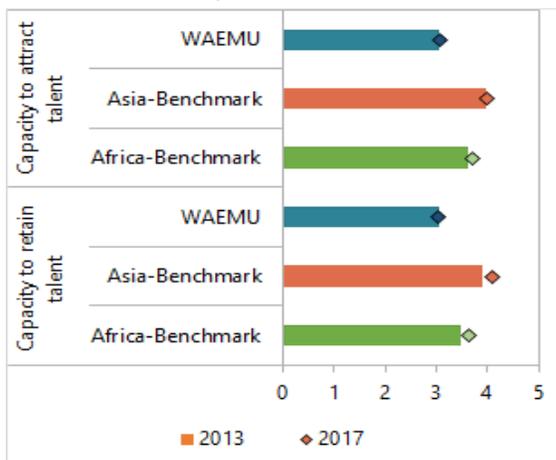
*Quality of education (1-7, best)*



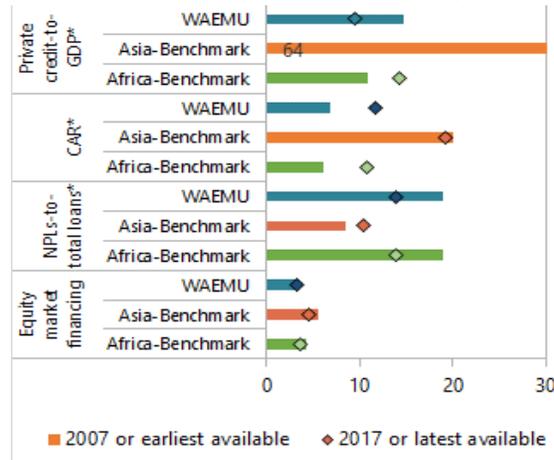
*Goods market efficiency (1-7, best; except for \*)*



*Labor market efficiency (1-7, best)*



*Financial market development (1-7, best; except for \*)*



Sources: World Economic Forum’s Global Competitiveness Index Dataset; and IMF’s International Financial Statistics; and IMF Staff calculations.

may reflect the relative shallowness of the regional financial market. The amount of private credit as a share of the economy paints a similar picture, with substantially less financial deepening than in comparator countries, and even a narrowing in the WAEMU from 2007 to 2017. In addition, based on the analysis of financial soundness indicators, the banking sector is not as strong in the WAEMU as those in comparator Asian countries, as measured by the ratios of capital to risk weighted assets (CAR) and nonperforming loans (NPLs) to total gross loans.

## D. Potential for Stronger Export Performance and Trade Integration

**11. This section examines to what extent progress on price and nonprice competitiveness could unleash export performance and trade integration in the region.** As the previous sections have shown, trade performance in the WAEMU has remained broadly unchanged over the last decades, at a time when other countries were better able to take advantage of the global trend towards stronger trade interlinkages. Meanwhile, various competitiveness indicators tend to suggest potential for improvement. This begs the question as to how much could be achieved to support trade performance—particularly export—thanks to structural reforms in the region, for which this section attempts to provide elements of answer.

### Methodology

**12. To address this question, the empirical methodology follows the standard practice in trade literature using a gravity model.** In general, trade between two countries tends to be more intense the closer the two countries are, both geographically and culturally, such as sharing a similar language or past colonial ties. In addition, the size and the level of development of the trading economies are important parameters influencing trade flows. A common way in the literature to assess the relative size of such flows is to estimate gravity models, linking the magnitude of bilateral trade flows to these very characteristics of the trading countries (IMF, 2015a). The model includes 169 countries and is estimated with panel data over the period 1980-2017. Specifically, the baseline gravity model takes the following form:

$$\ln x_{ijt} = \alpha^{Ex} M_{it-1}^{Ex} + \alpha^{Im} M_{jt-1}^{Im} + \theta D_{ijt-1} + \alpha_t + u_{ijt} \quad (1)$$

Where  $x_{ijt}$  represents the value of exports from exporting country  $i$  to importing country  $j$  in year  $t$ .<sup>6</sup>  $M_{it-1}^{Ex}$  and  $M_{jt-1}^{Im}$  represent the attributes of the exporter and the importer respectively in year  $t - 1$ .  $D_{ijt-1}$  represents trade costs between countries  $i$  and  $j$  in period  $t - 1$ .  $\alpha_t$  and  $u_{ijt}$  represent year fixed effects and the error term, respectively. The attributes of the importer and the exporter include population (as a proxy for the market size) and GDP per capita (as a proxy for the capital-endowment ratio or the level of development). The vector of trade costs includes bilateral distances, common language dummies, common colonizer dummies, and dummies representing landlocked

<sup>6</sup> Although the composition of exports may matter, this paper focuses on total exports. A related discussion on export composition is covered in IMF (2015a).

countries. All variables are lagged by a year to reduce the potential issue of endogeneity. Data on trade is extracted from the Direction of Trade Statistics (DOTS) database of the IMF.

### WAEMU Trade Integration Compared to Other Regions

**13. To allow for intraregional bilateral trade comparisons, we first augment equation (1) by including regional dummies.** We follow the approach used in IMF (2015a) and assess the intensity of regional bilateral trade flows between Sub-Saharan African countries that have formed monetary and trading unions—namely the CEMAC, the EAC, the SACU, and the WAEMU—using the other SSA countries as a comparator group. By doing so, we can identify the differences in intraregional trade intensities between the WAEMU and other regions, after controlling for size, GDP per capita, and other idiosyncratic factors.

**14. Intraregional comparisons within Sub-Saharan Africa suggest that the WAEMU is doing better compared to the CEMAC, but still need to catch up with the EAC and the SACU.** Column 2 of Table 1 shows that, once taking into account geographical and idiosyncratic factors and everything else equal, the WAEMU relative trade performance is found to be 2 times higher than the CEMAC. However, it remains almost 2 and 16 times lower than that of the EAC and the SACU regions, respectively.

### Role of Competitiveness to Boost Trade Performance

**15. To analyze the importance of policy-related variables in explaining bilateral trade performance, equation (1) is augmented to include different dimensions of price and nonprice competitiveness.** As discussed in section C, the indicators of price competitiveness used in this paper are the REER and the aggregate price level. Those of nonprice competitiveness include institutions, infrastructure, education, goods market efficiency, labor market efficiency, and financial market development. Based on the estimated coefficients for the competitiveness indicators, we then compute the trade gaps between the WAEMU and the African and Asian comparator countries explained by differences in those indicators between the WAEMU and those comparators.

**16. Price-based competitiveness indicators are positively correlated with trade flows but, given the limited differences across groups, do not appear to explain much the trade gaps between the WAEMU and its comparators.** Column 3 of Table 1 suggests a strong correlation between the REER, the aggregate price level, and trade flows.<sup>7</sup> Computations indicate that the WAEMU has benefited from a slightly competitive advantage of its REER. Likewise, based on the estimated coefficients, bringing the aggregate price levels to those of comparator countries would only have the potential to increase trade flows by only 1-2 percent (Figure 4).

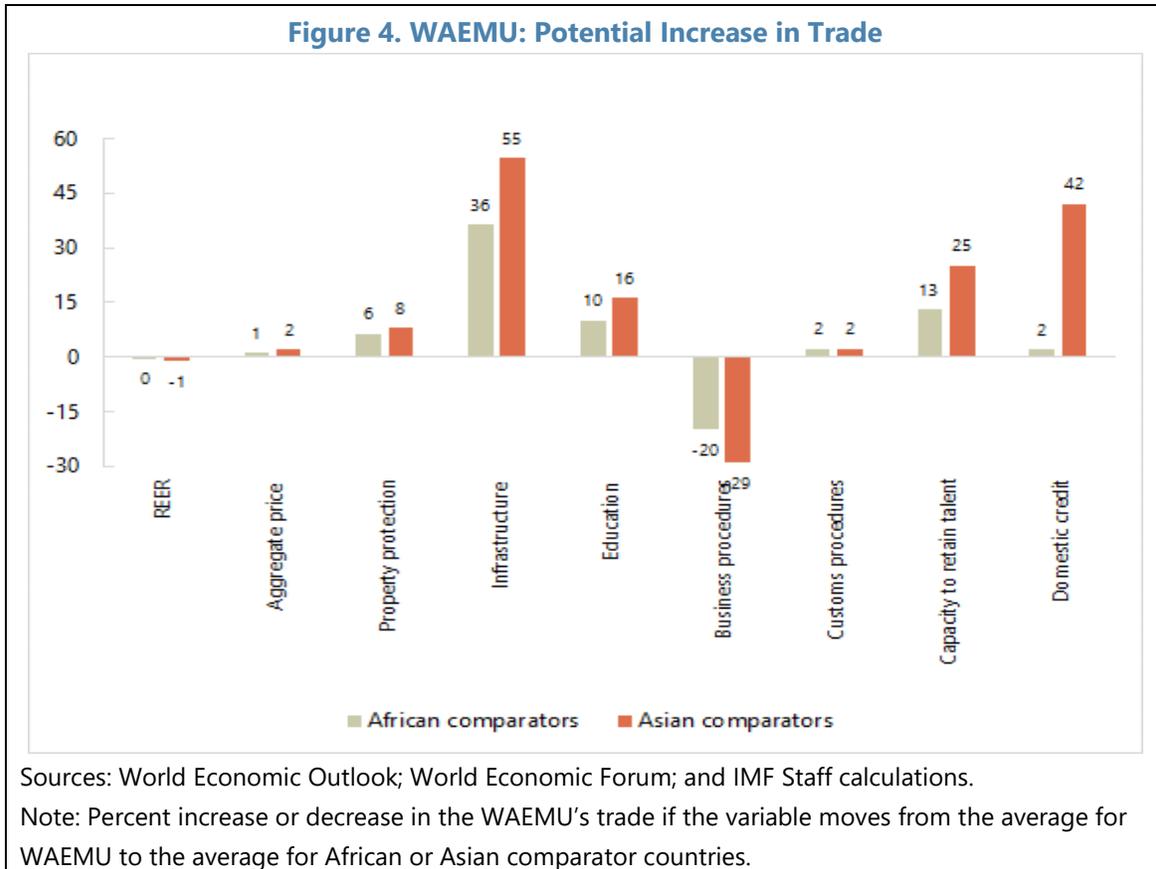
<sup>7</sup> Regressions which introduce the REER and the aggregate price level separately lead to similar findings.

**17. However, making progress on nonprice competitiveness towards the level in comparator groups would likely boost WAEMU trade flows substantially, particularly in the areas of infrastructure, education and access to credit.**

- **Institutions.** Institutions, and particularly those protecting investors rights, are positively correlated with bilateral trade flows (column 4 of Table 1). Bringing the level of investor property protections in the WAEMU to levels observed in African and Asian comparator countries has the potential of increasing the WAEMU trade flows by 6 percent and 8 percent respectively, all other things being equal (Figure 4).
- **Infrastructure.** As in IMF (2015a), infrastructure appears to be the significant impediment to trade flows (column 4 of Table 1). Closing the quality of infrastructure gap between the WAEMU and African (Asian) peers could enhance the WAEMU trade flows by 36 percent (55 percent), all other things being equal (Figure 4). Improving the quality of infrastructure in the WAEMU may require collective actions at the regional level to promote cross-border infrastructure (related for instance to roads or electricity such as the recent project of electricity interconnection between Benin, Burkina Faso, Niger and Nigeria) and enforce regional guidelines on infrastructure quality.<sup>8</sup> However, to be sustainable, such actions call for greater progress on domestic revenue mobilization.
- **Education.** Efforts to improve the quality of education in the WAEMU—in particular its alignment with labor market needs—could positively affect trade flows (column 4 of Table 1). For instance, improving the quality of education in the WAEMU to levels observed in African and Asian peers could boost trade flows by 10 percent and 16 percent, respectively (Figure 4). In this respect, it would be important to initiate a regional reflection on better alignment between national education programs and labor market needs in the WAEMU.
- **Goods market efficiency.** The efficiency of goods market also plays an important role (column 4 of Table 1). Gravity regressions suggest that the WAEMU is already benefiting a competitive advantage in terms of number of procedures to start a business, compared to comparators. However, reducing customs procedures in the WAEMU to the level observed in African or Asian comparator countries would support an expansion of the region’s trade by about 2 percent (Figure 4).
- **Labor market efficiency.** The efficiency of the labor market also plays a significant role, as the ability to retain talent is significantly correlated with trade flows (column 4 of Table 1). Bringing the index of capacity to retain talent to the level of the African (Asian) comparators could yield about 13 percent (25 percent) additional trade.
- **Financial market development.** Continuing to work toward greater financial development in the region would significantly support trade flows (column 4 of Table 1). Results indicate that easing the access to credit for the private sector to the level observed in Asian

<sup>8</sup> Examples of those regional directives include the one on road maintenance available here <http://www.droit-afrique.com/upload/doc/uemoa/UEMOA-Directive-2009-11-harmonisation-strategie-entretien-routier.pdf>.

comparators could contribute to an expansion of the WAEMU's trade by 42 percent. However, this needs to go hand-in-hand with insuring the soundness of the banking system as the latter may also be strongly correlated with trade flows.



**Table 1. Gravity Model Estimates: Baseline Result and Intra-regional Comparisons**

	(1)	(2)	(3)	(4)
Exporter log (population) (lag1)	0.854*** (0.00195)	0.848*** (0.00204)	0.855*** (0.00268)	0.948*** (0.00754)
Importer log (population) (lag1)	1.262*** (0.00305)	1.258*** (0.00319)	1.250*** (0.00426)	1.436*** (0.00969)
Exporter log (GDP per capita) (lag1)	0.909*** (0.00245)	0.920*** (0.00254)	1.016*** (0.00656)	0.715*** (0.0137)
Importer log (GDP per capita) (lag1)	1.284*** (0.00242)	1.279*** (0.00252)	1.369*** (0.00332)	1.546*** (0.00781)
Log of distance (lag1)	-0.281*** (0.00484)	-0.290*** (0.00506)	-0.209*** (0.00674)	-0.330*** (0.0153)
Common official language (lag1)	0.655*** (0.0184)	0.533*** (0.0191)	0.581*** (0.0286)	0.939*** (0.0596)
Common language (lag1)	0.489*** (0.0179)	0.557*** (0.0185)	0.493*** (0.0277)	0.320*** (0.0577)
Common colonizer (lag1)	1.182*** (0.0159)	1.071*** (0.0168)	1.195*** (0.0255)	0.805*** (0.0500)
Exporter landlocked (lag1)	-0.496*** (0.0106)	-0.511*** (0.0110)	-0.505*** (0.0159)	-0.687*** (0.0333)
Importer landlocked (lag1)	0.0364*** (0.0109)	0.0425*** (0.0114)	0.114*** (0.0150)	-0.126*** (0.0323)
Both CEMAC (lag1)		2.882*** (0.0939)		
Both EAC (lag1)		4.252*** (0.0966)		
Both SACU (lag1)		6.451*** (0.117)		
Both WAEMU (lag1)		3.647*** (0.0569)		
Log of real effective exchange rate* (lag1)			-0.376*** (0.0203)	
Aggregate price level (Percent)* (lag1)			-0.00296*** (0.000338)	
Intellectual property protection (lag1)				0.154*** (0.0268)
Quality of overall infrastructure (lag1)				0.311*** (0.0224)
Quality of the education system (lag1)				0.136*** (0.0195)
Burden of customs procedures (lag1)				0.114*** (0.0286)
Number of procedures to start a business* (lag1)				-0.0614*** (0.00405)
Capacity to retain talent (lag1)				0.204*** (0.0205)
Domestic credit to private sector (Percent of GDP)* (lag1)				0.00445*** (0.000310)
Constant	-19.19*** (0.0491)	-19.18*** (0.0503)	-19.03*** (0.137)	-23.78*** (0.162)
Observations	543,320	482,947	269,005	62,905
Year fixed effects	Yes	Yes	Yes	Yes
R-squared	0.546	0.553	0.582	0.577

Note: The dependent variable is  $\ln(\text{exports})$ . Except for \*, all the competitiveness indicators vary between 1 (the worst) and 7 (the best). Robust standard errors are in parentheses. \*\*\*  $p < 0.01$ .

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## SHARING THE DIVIDENDS OF GROWTH<sup>1</sup>

**1. The WAEMU has been one of the fastest growing regions in sub-Saharan Africa for the past decade.** Average growth in the region is projected to exceed 6 percent for a seventh consecutive year in 2018, despite security concerns and terms-of-trade shocks. This growth spell begs the question as to what extent have the benefits been shared across the population and translated into better development outcomes, such as better health, education, lower poverty and inequality, and other indicators targeted at achieving the sustainable development goals (SDGs).

**2. The literature provides ample support that a more equal income distribution and more equal opportunities across the population support key macroeconomic outcomes.**

- In countries where *income inequality* is high, growth spells and growth rates have been lower (Ostry, Berg and Tsangarides 2014; IMF 2015), driven by a number of channels (Gonzales and others 2015; Dabla-Norris and others, 2015): income and wealth inequality can cause underinvestment in physical and human capital (Galor and Zeira 1993; Galor and Moav 2004; Aghion and others 1999), decrease the degree of mobility across generations (Corak 2013), dampen aggregate demand (Carvalho and Rezai 2014), trigger social unrest, and impede export diversification (IMF 2017). These effects empirically dominate the potentially positive impacts of growth that a less equal income distribution creates by providing incentives for innovation and entrepreneurship.
- Addressing *gender inequality* in outcomes (labor force participation, income) and opportunities (education, financial access, health) in itself is an important development objective, including towards achieving the SDGs. In addition, these inequities distort an efficient allocation of human capital in the labor market, with negative implications for productivity (Cuberes and Teignier 2016; Loko and Diouf 2009), growth (IMF 2015; Gonzales and others 2015); firm profits (Christiansen and others 2016), and economic diversification (Kazandjian and others 2016). Conversely, higher gender equality has been linked to less volatility in growth in developing countries (IMF 2014).
- In sub-Saharan Africa, decreasing the level of income and gender equality jointly to levels observed in fast-growing Asian countries, could increase real GDP per capita growth by some 1 percentage points annually (and higher levels for more ambitious targets) (IMF 2015).

**3. In the WAEMU, addressing the above inequities could thus be an avenue to boost diversification, growth and stability, while moving towards achieving the SDGs.** As argued in Hooley and Newiak (2015), population growth in the WAEMU provides the opportunity to boost future growth. Countries that have seen an increased number of entries into the labor market amidst

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<sup>1</sup> Prepared by Hippolyte Wenyam Balima and Monique Newiak. The paper has benefited from comments from Bruno Versailles, Johnson Nkem Ndi and Yaindy Nuesi Bautista (UN Women), and colleagues from Benin and Guinea-Bissau teams.

declining fertility rates have experienced declining dependency ratios—a prerequisite for the demographic dividend. However, while declining dependency ratios are a necessary condition, they are not sufficient: Human capital accumulation, through better education and health services, is critical to allow workers to take on higher-productivity tasks.

**4. Scope of this paper.** This paper provides an overview of the state of poverty and inequality of income and opportunity, including between men and women, in the WAEMU, quantifies the impact of these inequities on growth and economic diversification, and suggests some policy measures at the national and regional level.

## A. Stylized Facts

### Poverty

**5. Average poverty has decreased in the WAEMU but has remained high compared to benchmark Asian and African countries (Figure 1).** The latest poverty statistics indicated that the average poverty headcount ratio at US\$ 1.90 per day—the international extreme poverty line—has decreased by 19.2 percentage points compared to the early 1990s. Although extreme poverty has significantly declined in the WAEMU, about 42 percent of the population still lives on less than US\$ 1.90 per day and about 75 percent (90 percent) lives on less than US\$ 3.20 (US\$ 5.20) per day. Average poverty rates in the WAEMU remain higher than those of benchmark Asian and African countries with long episodes of growth acceleration.<sup>2</sup> However, the latest data suggest that the average extreme poverty rate in the WAEMU remains about 13 percentage points below that of benchmark Asian countries when the latter were at the same level of GDP per capita.

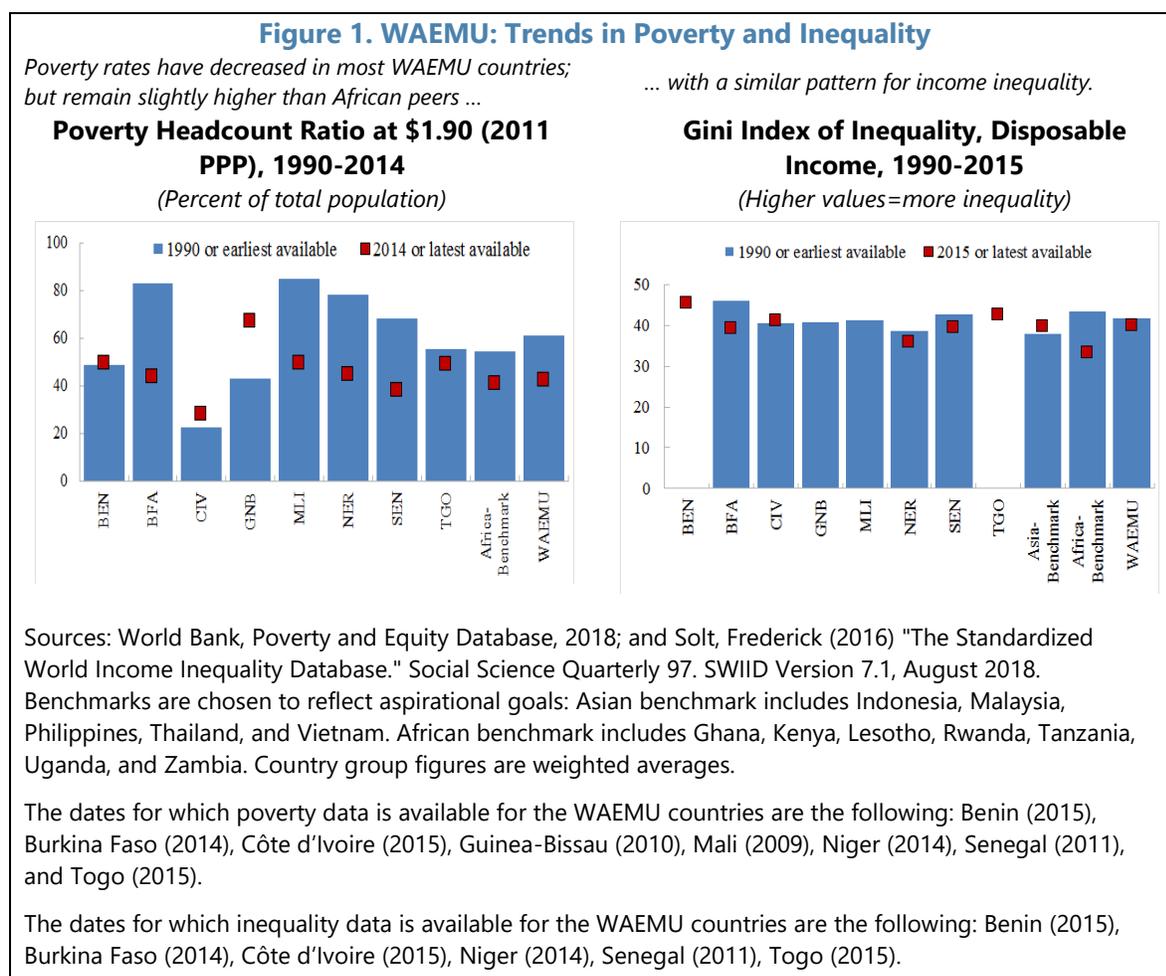
**6. In contrast to the decrease in average poverty in the WAEMU, the absolute number of people living in poverty has increased because of population growth.** The number of people living in extreme poverty has increased by 16.5 percent (corresponding to 6.4 million of people) compared to the early 1990s, according to latest data available. About 45 million of people out of 102 million still live in extreme poverty in the WAEMU. This reflects high population growth in absolute terms but also differences in population growth dynamics among income groups.

**7. Poverty in the WAEMU is higher in rural area than in urban area.** The average poverty rate in rural areas is almost double that of urban areas, reflecting inequality of opportunities within those areas.<sup>3</sup> Figures on the intensity of poverty—poverty gaps at national poverty lines—suggest a similar picture.

<sup>2</sup> Benchmark Asian and African countries refer to countries which had similar GDP per capita levels two-to-four decades ago but have experienced long-lasting growth acceleration since then. Remaining consistent with previous WAEMU's Article IV consultations, the group of African benchmark countries includes Ghana, Kenya, Lesotho, Rwanda, Tanzania, Uganda, and Zambia. The group of Asian benchmark countries includes Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

<sup>3</sup> While the poverty rate is 27.5 percent in urban areas, it is 54.0 percent in rural areas. Poverty rates in urban and rural areas are defined here using national poverty lines since data based on international poverty lines is not available.

**8. The decrease in average extreme poverty rates masks some heterogeneities among WAEMU countries.** Extreme poverty rates have decreased in most countries, except in Benin, Côte d'Ivoire and Guinea-Bissau—reflecting the 2002-11 civil strife in Côte d'Ivoire and episodes of political instability in Guinea-Bissau. In countries where extreme poverty rates have decreased, the performances have been heterogeneous. In Burkina Faso, Mali, Niger, and Senegal, the latest extreme poverty data suggested that poverty has decreased by about 1/3 compared to the early 1990s, while the decrease has been modest in Togo.



**9. The number of people living in extreme poverty also shows some important heterogeneities.** While the number of people living in extreme poverty has more than doubled in Côte d'Ivoire and Guinea-Bissau, it has increased by about 2/5 in Benin and relatively less in Niger and Togo. Only Burkina Faso, Mali, and Senegal show some slight decreases in the number of people living below the extreme poverty line.

### Income Inequality

**10. The average decrease in extreme poverty has not been accompanied by an improvement in income and gender inequality of similar magnitude.** Average income inequality

in the WAEMU, as measured by the net Gini coefficient, has decreased by only 1.8 percentage points between 1990 and 2015, a lower performance compared to the average decrease in extreme poverty. In addition, the level of income inequality in the WAEMU remains higher than those of benchmark countries, including when those countries were at the same level of GDP per capita. Income inequality has decreased in four countries (Burkina Faso, Mali, Niger, and Senegal). However, it has also increased in four others (Benin, Cote d'Ivoire, Guinea-Bissau, and Togo), reflecting the above trend in extreme poverty.

**11. Despite the overall declining trend in income inequality in the WAEMU, significant heterogeneities persist among income groups.** While the top 10 percent of the income distribution accounts for 30 percent of the total income across WAEMU countries, the bottom 10 percent earns only 3 percent of the region's total income.

## B. The Constraints: Human Capital and Inequality of Opportunity

**12. Indicators of human capital suggest large gaps in health and education.** According to the latest findings of the World Bank's Human Capital Project, WAEMU countries' level of human capital index, capturing a number of health and education dimensions, ranks at the bottom of countries worldwide, with particular challenges in Mali and Niger—which rank among the bottom three countries, just after South Sudan (Figure 2, panel 1). These outcomes have been driven by challenges in both education and health.

**13. Education outcomes vary widely across WAEMU countries, suffer from quality issues, and access to them within the population is very unequal.**

- Average years of education vary from less than 6 years in Mali and Niger to over 9 years in Benin and Togo (Figure 2, panel 2). Quality-adjusted education levels are even lower, implying for example half of the education levels in Mali and Niger vs. two thirds in Burkina Faso and Senegal—suggesting there are issues with the efficiency of education (Figure 2, panel 3).
- Education outcomes vary strongly across countries, income, and gender (Figure 2, panel 4). For instance, the average time in school for a girl who belongs to a family in the bottom wealth quintile in Niger is just about *4 months*, whereas a boy who belongs to a family in the richest quintile in Togo enjoys almost 11 years of education on average.
- Government expenditures on education have increased over time. They reached more than 7 percent of GDP in Senegal in 2015 (up from just above 3 percent of GDP two decades earlier) and are generally above or close to 4 percent of GDP elsewhere, except for Guinea-Bissau (2.51 percent of GDP according to latest available statistics).

**14. Health outcomes have improved significantly but major challenges remain, in particular, for children.** Under-five mortality rates have declined significantly, and are now on average about half the level of above 200 deaths per 1,000 live births observed in 1990. However, current ratios still imply that *more than one in ten children die* before reaching their fifth birthday in

Mali, and *seven to ten children in hundred children* die in the remaining WAEMU countries, with the exception of Senegal (less than 5 deaths per 100 children) (Figure 3, panel 1). 17 (Senegal) to 42 (Niger) percent of children suffer from stunting (Figure 3, panel 2). Maternal death ratios have declined, from an average of above 7 percent to below 5 percent, but still imply that a mother dies in every 20<sup>th</sup> live birth (Figure 3, panel 3). Adolescent fertility rates are among the highest worldwide (Figure 3, panel 4). At the same time, health expenditures have been among the lowest worldwide (Figure 3, panels 5 and 6), both as a ratio to GDP and per capita.

**15. In most countries, several inequities in the legal system constrain women from being economically active (Table 1).**<sup>4</sup> For instance, in Mali, the law requires women to obey their husbands. Some countries differentiate between men and women in the ownership of property (Côte d'Ivoire and Guinea-Bissau) or inheritance rights (Senegal), constraining women's ability to access finance (Deléchat and others 2018), including as collateral requirements remain high, and impeding women's economic activity (Gonzales and others 2015a; Figure 4).<sup>5</sup> In half of WAEMU countries, the law does not mandate equal pay for equal work. In countries where women are at the center of the economy with a high participation rate in the labor market—as in Burkina Faso, they still have unequal access to decent and quality formal jobs. In addition, some laws support early marriage and child bearing by allowing girls to get married legally as early as 14 with parental consent. In a few countries, authorizing child marriage is not punishable by law.

**16. Access to financial services also varies across countries, income and gender, exacerbating the effect of scarce health services and limiting economic opportunities (Figure 5).**

- In 2017, ownership of an account at a financial institution in the WAEMU varied from 9.5 percent (Niger) to 34.1 percent (Togo), compared to almost 37 percent and above 40 percent in African and Asian benchmark countries, respectively. Gender gaps are wide in several countries, with men almost three times as likely to own an account than women in Mali, and almost twice as likely in Côte d'Ivoire and Benin (Figure 5, panel 1), while mobile money account ownership appears somewhat more equally distributed (Figure 5, panel 2). Only a fraction of people who own accounts use it to save (Figure 5, panel 3).
- In all WAEMU countries, less than 10 percent of the population borrows from a financial institution, with the richest 60 percent of the population three times more likely to borrow than the poorest 40 percent in Côte d'Ivoire, and more than twice as likely in Burkina Faso and Senegal (Figure 5, panel 4)—this result is all the more striking as every tenth (Senegal) to every fourth (Niger) person borrows from some source for health and medication purposes (Figure 5, panel 5). Borrowing for business purposes remains below African and Asian benchmarks in all WAEMU countries.

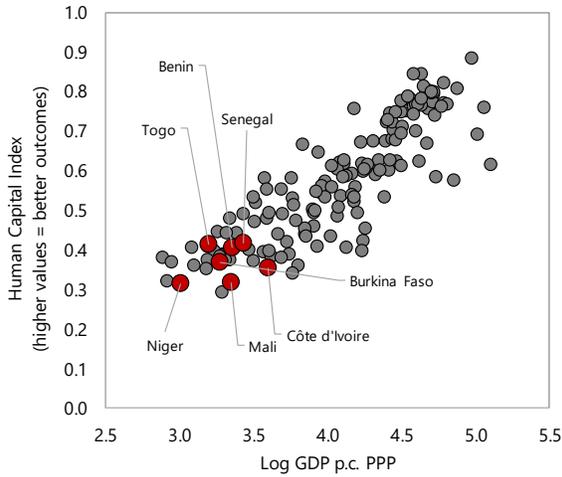
<sup>4</sup> A recent paper of Malta and Tavares (2019) provide a interesting analysis of gender gaps in education and labor market in Senegal.

<sup>5</sup> For instance, Niger still relies on a colonial version of the civil law that does not allow married women to open a bank account without the permission of their husbands (World Bank, 2018).

**Figure 2. WAEMU: Human Capital and Education**

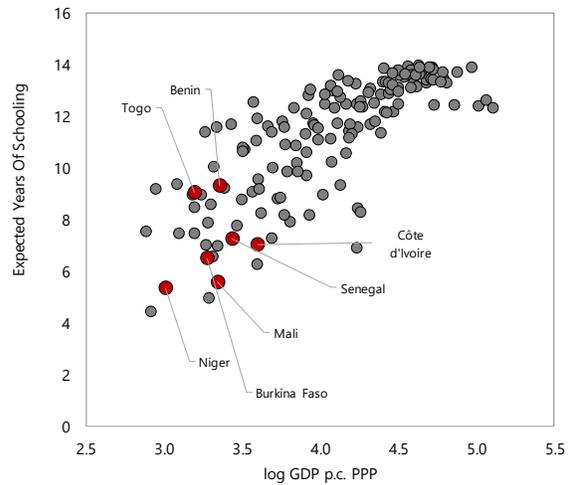
Human capital levels in the WAEMU are among the lowest worldwide.

**GDP p.c. and Human Capital Index**  
(log PPP and index)



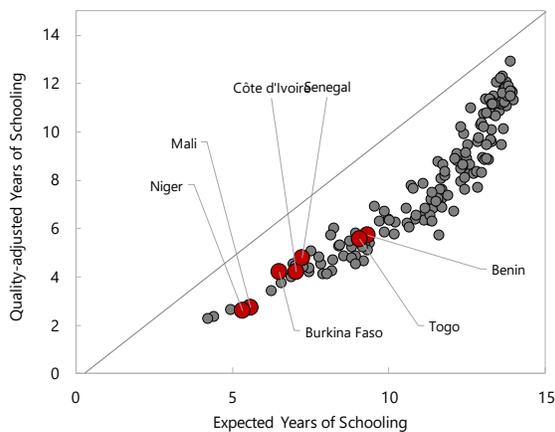
Expected years of schooling vary widely across the region...

**GDP p.c. and Expected Schooling**  
(log PPP and years)



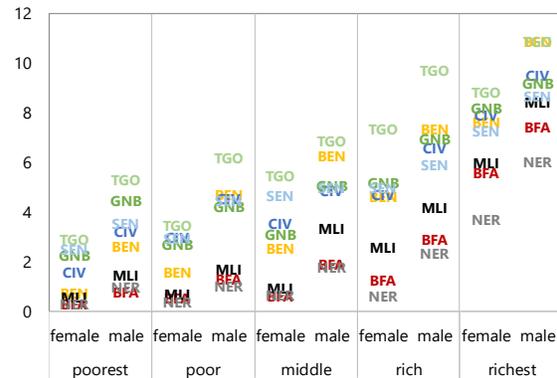
... and, adjusted for quality of education, years of schooling are much lower.

**Years of Schooling vs. Quality-adjusted Schooling (Years)**



Educational outcomes are strongly associated with gender and wealth ...

**Years of Education by Gender and Wealth (Years of Education)**



Sources: World Bank Human Capital Project; and World Development Indicators, UNESCO.

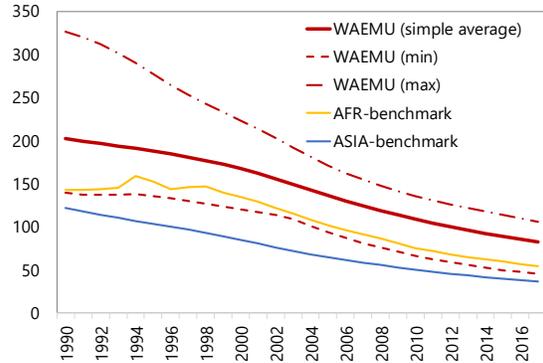
Note: Scatter plots include a global sample of countries.

**Figure 3. WAEMU: Health Outcomes**

*Under-5 mortality rates have decreased significantly but remain high compared to peer countries...*

**Under-5 Mortality Rate**

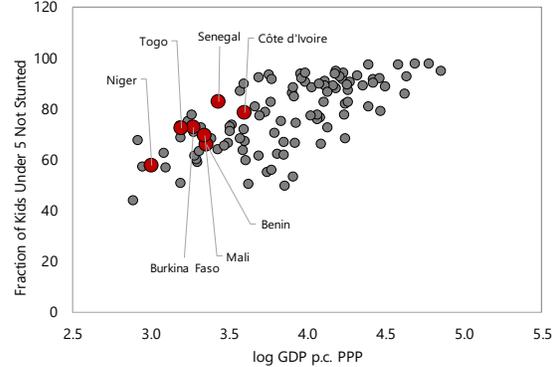
*(per 1,000 live births)*



*... and the incidence of stunting remains substantial.*

**GDP p.c. and Fraction of Kids not Stunted**

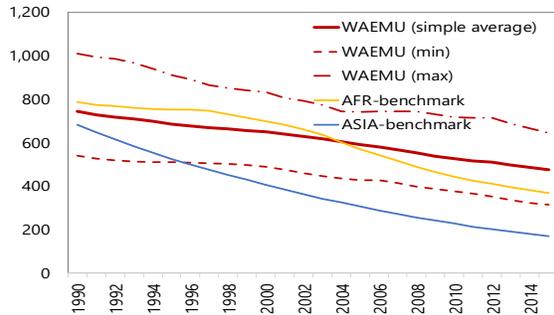
*(log PPP and Percent)*



*...and maternal death rates have declined more slowly.*

**Maternal Mortality Ratio**

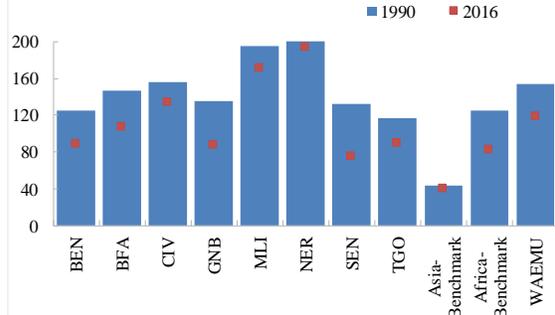
*(per 100,000 live births)*



*Adolescent fertility rates remain among the highest in the world.*

**Adolescent Fertility Rate**

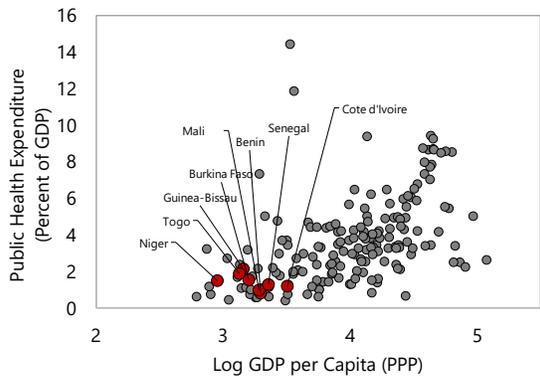
*(Number of Birth per 1,000 Women Aged 15-19)*



*Public expenditure on health relative to GDP is among the lowest worldwide ...*

**GDP p.c. and Health Expenditures**

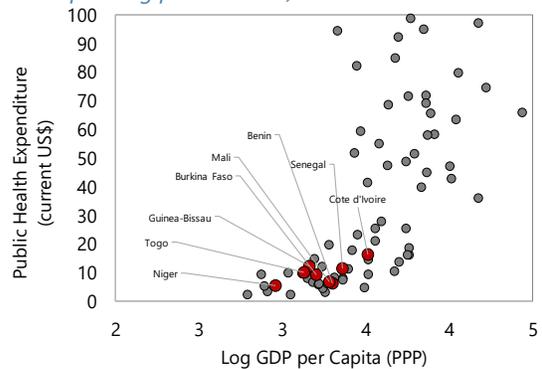
*(log PPP and percent of GDP)*



*...and at the bottom of the 77 countries worldwide that spent less than US\$ 100 per year on health per capita.*

**GDP p.c. and Health Expenditures**

*(log PPP and current US\$; among 77 countries in which spending p.c. is lowest)*



Sources: World Bank Human Capital Project; and World Development Indicators.

**Table 1. WAEMU: Gender Inequality in Legal Rights**

	BEN	BFA	CIV	GNB	MLI	NER	SEN	TGO
Is customary law recognized as a valid source of law under the constitution?	Yes	Yes	Yes	No	No	Yes	No	Yes
Can a married woman apply for a passport in the same way as a married man?	No	Yes	Yes	Yes	No	Yes	Yes	Yes
Can a married woman get a job or pursue a trade or profession in the same way as a married man?	Yes	Yes	Yes	No	Yes	No	Yes	Yes
Can a married woman register a business in the same way as a married man?	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
Can a married woman open a bank account in the same way as a married man?	Yes	Yes	Yes	No	Yes	No	Yes	Yes
Can a married woman choose where to live in the same way as a married man?	No	No	Yes	No	No	No	No	Yes
Can a married woman be "head of household" or "head of family" in the same way as a married man?				No	No	No	No	
Can a married woman confer citizenship to a non-national spouse in the same way as a man?	No	Yes	Yes	Yes	Yes	Yes	Yes	No
Are married women required by law to obey their husbands?	No	No	No	No	Yes	No	No	No
Do married men and married women have equal ownership rights to property?	Yes	Yes	No	No	Yes		Yes	Yes
Do sons and daughters have equal rights to inherit assets from their parents?	Yes	Yes	Yes	Yes	Yes		No	Yes
Do female and male surviving spouses have equal rights to inherit assets?	Yes	Yes	Yes	Yes	Yes		No	Yes
Is primary education free and compulsory?	Yes	Yes	Yes	No	Yes	No	Yes	Yes
Does the law prohibit discrimination by creditors on the basis of sex or gender in access to credit?	No	No	No	No	No	No	No	No
Does the law prohibit discrimination by creditors on the basis of marital status in access to credit?	No	No	No	No	No	No	No	No
Does the law mandate equal remuneration for work of equal value?	Yes	No	Yes	No	No	Yes	No	Yes
Does the law mandate nondiscrimination based on gender in employment?	Yes	Yes	Yes	Yes	No	Yes	No	Yes
Does the law mandate nondiscrimination based on gender in hiring?	Yes	No	Yes	No	No	Yes	No	Yes
Is dismissal of pregnant workers prohibited?	Yes	Yes	Yes	No	No	Yes	No	Yes
Can nonpregnant and nonnursing women do the same jobs as men?	No	No	No	No	No	No	No	Yes
Is there domestic violence legislation?	Yes	No	No	Yes	No	No	Yes	No
Is there legislation that specifically addresses sexual harassment?	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
What is the legal age of marriage for boys?	18	20	21	18	18	21	18	18
Legal age of marriage for girls lower than for boys	No	No	No	No	Yes (16)	No	No	No
Are there any exceptions to the legal age of marriage?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
What is the minimum age of marriage with parental consent for boys?			20	16		18		
Minimum age of marriage with parental consent lower for girls than for boys?			yes (18)	yes (14)		yes (15)		
Is marriage under the legal age void or voidable?	Yes	No	Yes	Yes	Yes	Yes	Yes	No
Are there penalties in the law for authorizing or knowingly entering into child or early marriage?	No	No	No	Yes	Yes	Yes	Yes	Yes

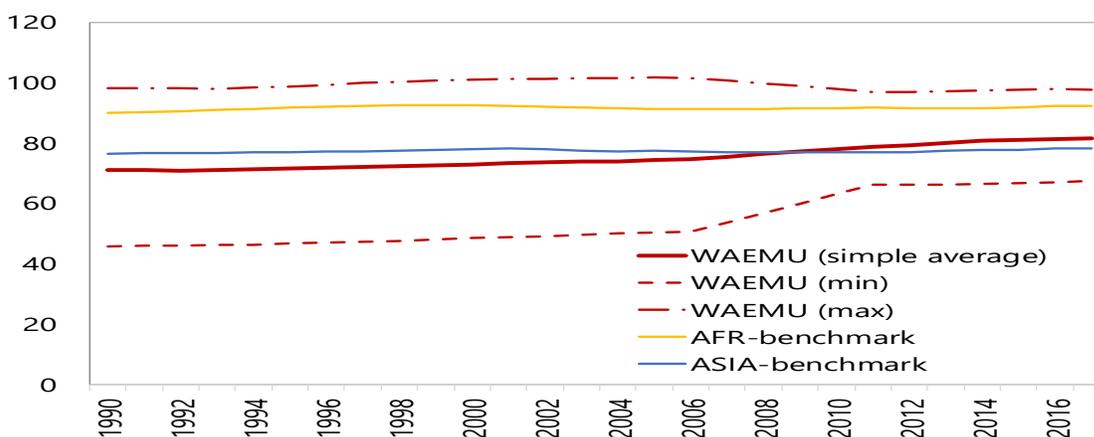
Source: Women, Business and the Law 2018.

**Figure 4. WAEMU: Gender Gaps in Economic Activity and Access to Finance**

Gender gaps in the labor market vary strongly across countries and are higher than in the rest of the region

**Female-to-Male Labor Force Participation**

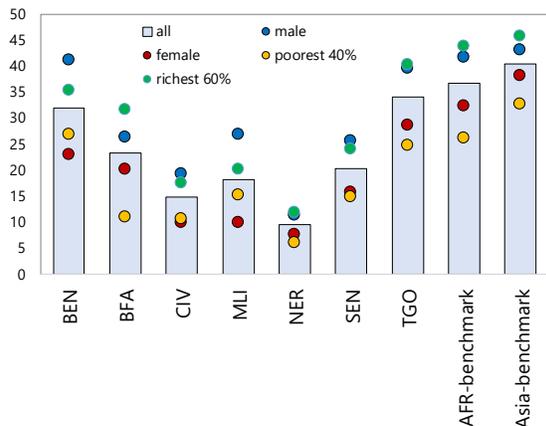
(Percent)



**Figure 5. WAEMU: Inequality in Access to Financial Services**

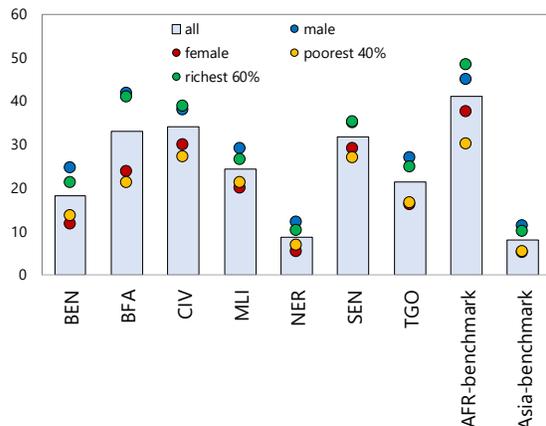
**Account at a Financial Institution**

(Percent of demographic group)



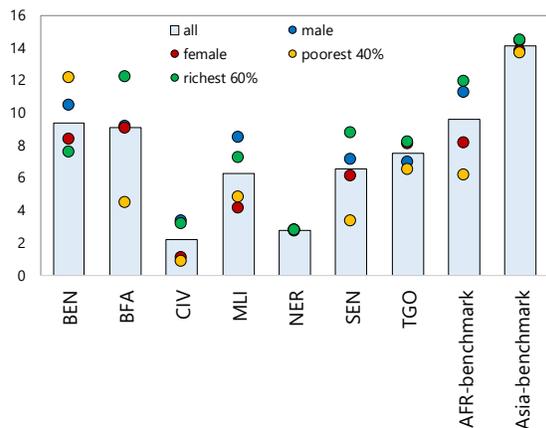
**Mobile Money Account**

(Percent of demographic group)



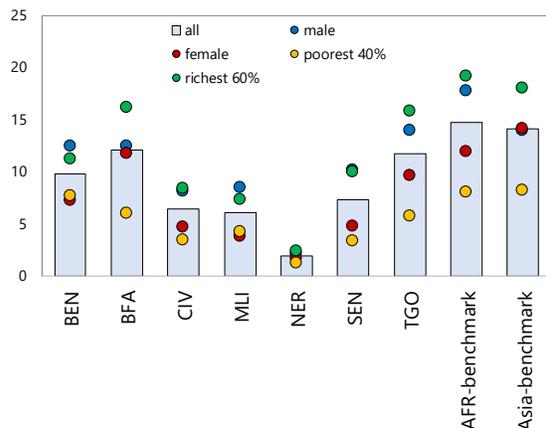
**Borrowed from a Financial Institution**

(Percent of demographic group)



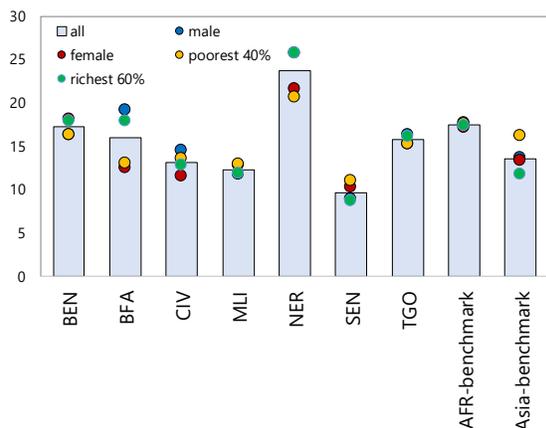
**Account at a Financial Institution**

(Percent of demographic group)



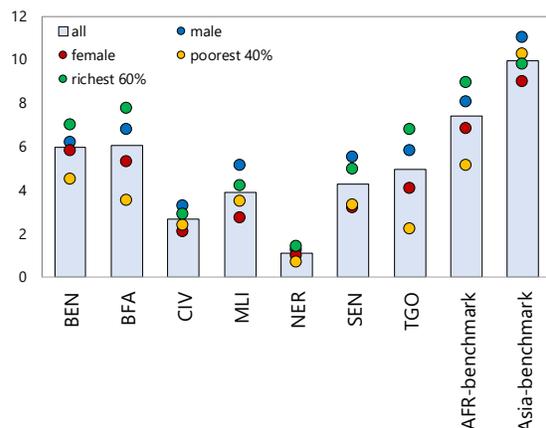
**Borrowed for Health and Medical Purposes**

(Percent of demographic group)



**Borrowed to Start, Operate or Expand a Farm or Business**

(Percent of demographic group)



Source: Findex 2017.

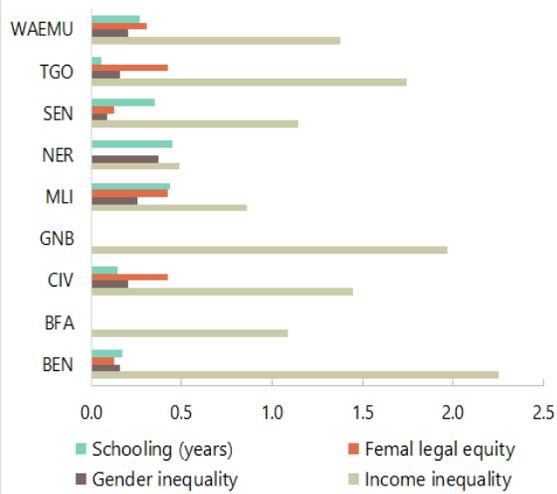
## C. The Impact: Quantifying the Impact of Inequality and Education on Growth and Diversification

**17. This section quantifies the effect of income and gender inequality and education on growth of GDP per capita and diversification in the WAEMU, relying on econometric analyses from the literature.** More specifically, it uses the estimated coefficients of income and gender inequality and years of schooling in econometric analyses done in IMF (2015) and Kazandjian and others (2016) to quantify the average annual GDP per capita growth and export diversification that could materialize if WAEMU income and gender inequality and education levels were to reach those observed in benchmark African and Asian countries. The estimated coefficients from IMF (2015) are drawn from growth regressions that rely on a broad sample of 115 countries over the period 1995-2014. Those growth regressions control for the commonly used growth determinants including initial income, infrastructure, investment, inflation, institutional quality, and terms-of-trade. The coefficients from Kazandjian and others (2016) are drawn from estimates of the effect of gender inequality on diversification using a large panel of 107 countries for the period 1990-2010 and controlling for other determinants of diversification. In both IMF (2015) and Kazandjian and others (2016), the well-known endogeneity concern is addressed using the generalized method of moments (GMM).

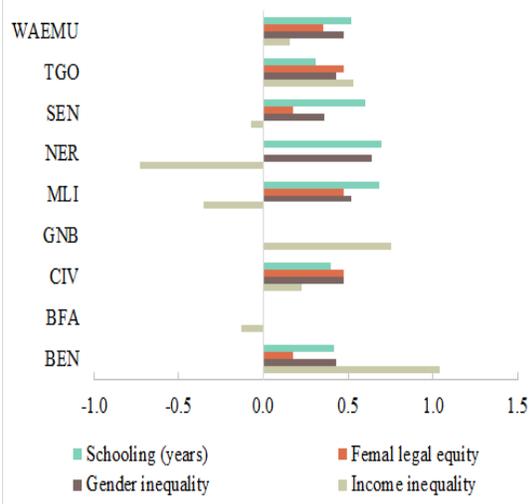
**18. The results indicate that the WAEMU's real GDP per capita growth rate and diversification could significantly benefit from decreases in income and gender inequality and improvements in education opportunities (Figure 6).** Bringing the average level of income inequality in the WAEMU to the level observed in benchmark countries could potentially increase annual real GDP per capita growth by about 0.2-1.4 percentage points. In the same vein, closing gender inequality and female legal equity gaps has the potential to boost annual per capita income growth by about 0.2-0.5 percentage points. The results also suggest that differences in years of schooling could explain about 0.3-0.5 percentage points of the WAEMU's income per capita growth rate shortfall compared to benchmark countries. A similar picture emerges for diversification, as reducing gender inequality gap relatively to African and Asian benchmark countries are also found to increase export diversification index by about 0.2 and 0.4 units, respectively (Figure 7). The magnitude of this effect is relatively large, as it is equivalent to up to about 1/4 standard deviations of the index across low-income and developing countries.

**Figure 6. WAEMU: Average Annual Additional Growth Rate from Closing the Gap in Income and Gender Inequality and Education**

Average growth differential compared to African benchmark countries.



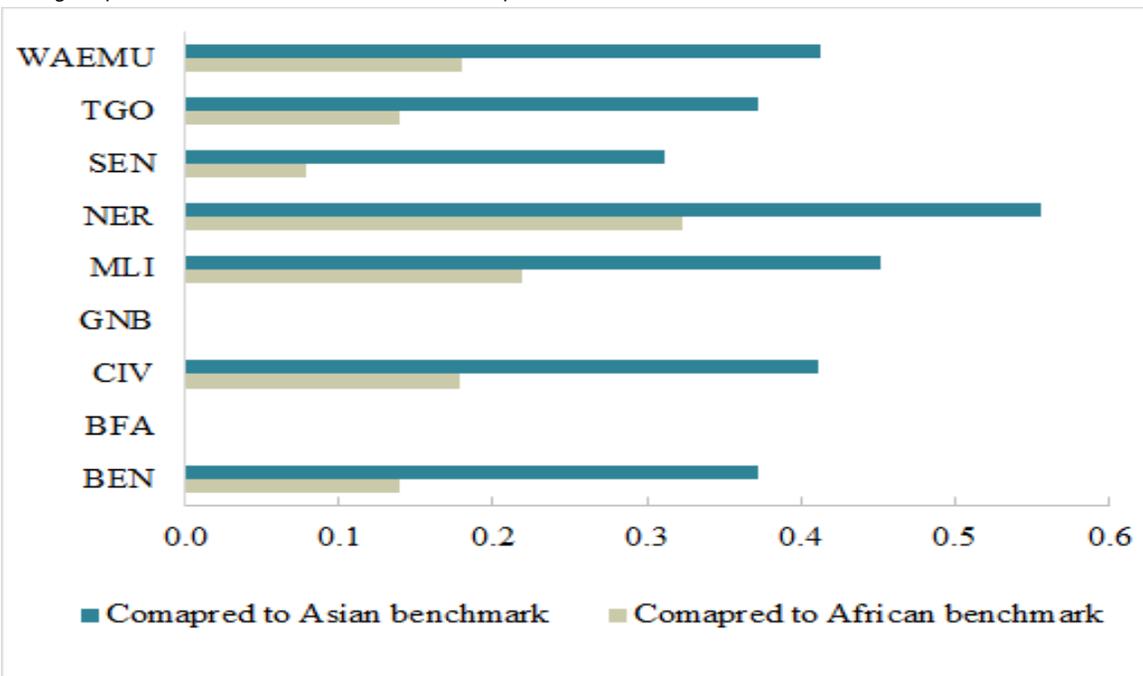
Average growth differential compared to Asian benchmark countries.



Source: Authors' calculations.

**Figure 7. WAEMU: Average Annual Additional Export Diversification from Closing the Gap in Gender Inequality**

Average export diversification index differential compared to African and Asian benchmark countries.



Source: Authors' calculations.

## D. Policy Recommendations

### 19. A number of national policies are appropriate to increase economic opportunity for a wide range of the population:

- *Providing men and women, and boys and girls, with the same legal rights, and enforcing these rights is an essential step.* Countries should eliminate any legal provisions that undermine equality of opportunity through differentiating in property and inheritance rights across genders and introduce anti-discrimination laws, such as in access to credit. The authorities should also raise awareness of existing rights and strengthen enforcement. For instance, in Senegal, a National Strategy for Women’s Economic Empowerment was launched in 2018, this can serve as an inspiration to other WAEMU countries.
- *Investing in education and health is critical to improve the accessibility and quality of education tailored to labor market needs and strengthen health outcomes.* In particular, continued efforts to enhance the availability, accessibility and affordability of quality services—including sexual and reproductive health and rights for women and girls—are central to achieving progress. It will require additional fiscal space.<sup>6</sup> To increase fiscal space for these expenditures, there is scope to replace across-the-board subsidies that benefit all segments of the population, including the wealthiest (while introducing well-targeted social transfer schemes to mitigate any adverse impact from such reforms). In addition, significant efforts are still required to increase overall domestic revenue mobilization.
- *Boosting infrastructure—particularly on social protection and public services—will help close gender gaps in education, access to electricity, water and sanitation facilities, as girls tend to spend a disproportional amount of time on household activity and are disproportionately affected by safety issues at school. Improved infrastructure would also more generally increase productivity and improve the ease of doing business in the WAEMU (see previous chapter in this paper on Boosting Competitiveness to Foster Trade Integration, Weather Terms-of-Trade Shocks and Support External Buffers).*
- Member countries should also continue to develop social spending indicators as part of the implementation of the regional directive bearing the Finance Act.

### 20. Regional policies, guidelines and monitoring could help with the implementation of these policies. These include:

- *Implementing the regional gender strategy, supported by consistent monitoring through the WAEMU commission, will be critical.*
- *Leveraging structural funds dedicated to regional integration and agriculture development could also help;*

<sup>6</sup> For a reference on building fiscal space in the WAEMU, see Barhoumi and others (2016).

- *Monitoring the efficiency of education and social spending by the WAEMU Commission and ensuring data provision along guidelines, so as to keep policymakers aware of both improvements and remaining challenges.*

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