

By Nehad Ismail

The most recent upheavals in West Africa including the wave of terrorist attacks in Nigeria and the military coup in Mali and the turmoil in Cote d'Ivoire in the last two years have focused attention on the fastest developing regions of Africa.

The development of West Africa is influenced by demographic and geographical factors. The difficult topography and the spread of diseases that afflicted humans and animals alike impeded development. Frequent draughts decimated animals and people. In certain parts of Africa this is still a major problem. The demographic factor still plays a significant role in slowing rural development.

Young men migrate to already crowded cities. Whole tribes migrate to areas where conditions are marginally better than the areas they left behind. This continuous movement prevented the establishment of advanced societies and civilisation. With the Atlantic to the West and the Sahara desert to the North reduced contact with the world. Building new nations after independence has been traumatic leading to civil wars in Nigeria and the Congo, Liberia, Sierra Leone and the Ivory Coast. The current turmoil in Mali is a cause for grave concern. Unscrupulous warlords and politicians took full advantage of the chaos.

Prospects for growth (emerging economic power)

With an area in excess of 5 million square kilometres and a population exceeding 300 million people with a combined GDP for the region for 2010 in excess of \$565 billion; West Africa offers tremendous investment and economic growth opportunities. There has been a steady economic expansion across the region in the last decade. Before 2000, the combined GDP for this region was probably less than \$250 billion. Ten years of steady economic and political reform has improved the livelihoods of West Africans, the opportunities for business are immense.

A question often asked could West Africa be the next emerging economic power or the next

Asian tiger. A World Bank forecast predicted that West Africa will be one of the fast growing regions of the world. Nigeria, Cape Verde, Gambia, Ghana, Mali, and Liberia have growth rates above the regional average (4.5%). According to the World Bank and International Monetary Fund, Liberia and Ghana were among the fastest growing economies in the world in 2011. There is no reason for this performance not to be repeated in 2012 and 2013. The average growth rate for the region in 2010 was 4.5 percent. While not as buoyant as the large emerging markets in Asia, the region clearly out-performs countries in the West and some markets in Latin America.

Growth in the region is powered by the agricultural sector. Countries across the region are major producers of cassava, rice, cocoa, cotton, timber, rubber, etc. Rising prices for agricultural commodities have increased investment in this sector.

Investment

Potential investors are always seeking new opportunities of growth. Europe and North America are in the doldrums where investment is struggling particularly after the financial shocks of the last four years. Certainly India and China are showing more and more interest in Africa in general and West Africa in particular. After the global recession, the banking and the debt crisis in the Euro-Zones, West Africa offers viable alternative or new frontiers for investors which offer attractive opportunities that cannot be found in the so-called BRICS countries (Brazil, Russia, India, China and South Africa).

UNCTAD(United Nations Conference on Trade & Development) which seeks to maximize trade and investment opportunities in developing countries, reported on 7th March 2012 that Africa in general is improving, whereas it attracted \$9 billion of Foreign Direct Investment in 2000 it attracted \$62 billion of FDI in 2010. Another UNCTAD report shows that West Africa attracted \$11.3 billion in 2010 whereas it received a \$12.7 billion in 2009, an approximately 10% reduction due to political instability in the region.

Political outlook

Apart from one or two countries like Mali, the other countries in the region are fairly stable. Guinea, Benin, and Niger recently underwent successful transitions, while post-conflict but fragile states like Sierra Leone and Liberia have had free and transparent elections. Economic

growth is crucial to sustaining stability in these nations.

Nigeria is generally stable despite sporadic violence by Boko Haram an Islamic fundamentalist group from the Muslim North. Nigeria has at least 60% of the region's GDP and population. So, civil unrest would destabilize the region and hold wide ranging implications for Sub-Saharan Africa. There are no countries that could absorb refugees from Nigeria. The Nigerian economy powers the region and countries like Benin, Niger, and others would not have much of an economy without Nigeria. Most of the problems that afflicted Cote d'Ivoire and Sierra Leone have been resolved but other problems remain.

Impediments to progress

Poor governance, rampant corruption, political turmoil and failure to eradicate disease are major impediments to investment and progress. Without foreign aid programs such as USAID, the situation would have been much worse in much of West Africa. The USAID programs help in providing assistance in the fields of agriculture, conflict resolution and prevention. Programs for dealing with health issues such as Hiv/Aids, Regional Trade and developing market economy are vital. We cannot underestimate the importance of investing in health, developing NGOS and public sector organizations to coordinate efforts in fighting malaria, HIV/Aids. Providing technical support and helping civil societies to alleviate the tragic consequences of conflict.

Food security and economic growth

The long-term imbalances between supply and demand and international trade changes that triggered the recent crises in global food markets are also fuelling a spike in overseas investments in agricultural land. Africa is a major destination of investment flows because it has the largest reserves of arable land. West Africa is rich in natural resources, but the problems indicated elsewhere as impediments make it doubly difficult to gain the full benefits of such resources. Poor management, corruption and political instability are rife and need to be tackled. If properly managed the natural resources can be a huge source for economic development and can make a significant contribution to global energy markets.

According to the food and agricultural organization (FAO), Nigeria has consistently produced excess food in recent years, but lack of infrastructure and storage facilities still contributes to double-digit inflation. This is also true for other countries in the region. But for inadequate infrastructure, countries in the region would not be exposed to the effects of food price inflation

on the international market.

The main economic blocks

ECOWAS and WAEMU are the two main economic and financial groupings in West Africa. The main economic block is the Economic Community of West African States (ECOWAS) which is a political and trade bloc made up of fifteen countries. All countries have undergone political and economic reforms in the last decade and are undergoing economic expansion. Efforts to implement a functioning common market are well underway, if reforms stay on track this region of Africa could rival emerging markets elsewhere. An IMF Report highlighted the economic impact of instability on the West African Economic and Monetary Union (WAEMU) which comprises Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

Economic growth showed negative movements back to 2007/2008 levels and this was exacerbated by the global fuel and food price shocks and the global financial crisis. The impact has been mitigated by the IMF support which resulted in improved economic activity in places like Togo and Guinea-Bissau.

While potential benefits can be significant for recipient and investor countries as well as the global economy - as seen in certain countries in Central and Eastern Europe—this type of success requires support. The proper legal and institutional environment will ensure that investments facilitate better access to capital, technology, and markets—and thus to higher productivity and income levels for example among poor farmers. In African countries, it will be especially critical to find contractual modalities that balance the need for investment security and the imperative to protect poor farmers' access to land

Reforms are needed

Reforms and improvements in infrastructure, financial and fiscal reforms are all badly needed. Notwithstanding progress made to date, the pace of reform needs to be accelerated. The 2009 slowdown of economic activity has weakened the quality of assets held by banks. To strengthen supervision, there is need for more timely collection of financial soundness indicators and stepped-up financial stability analysis. The sector's contribution to financing growth should be strengthened through further institutional reforms. Progress in meeting convergence criteria for closer economic union has been uneven, and reforms to foster regional integration should be accelerated.

The ongoing evaluation of the Regional Economic Program 2006–10, which included a number

of projects to foster regional integration, has provided the basis for its successor program. Regional projects should be based on sound economics. To further highlight the problems investors face and the reforms needed are summed up by the President of the Federation of West Africa Chambers of Commerce on 10th Oct 11, he said: "West Africa needs stability, reliable sources of energy, good roads, and a safe environment to attract foreign direct investment". Reforming contract and commercial laws and the liberalization of the economy have helped to attract investors. But more reforms are needed.

Foreign Debts and inflation

The average debt-to-GDP ratio for the region is 38.7%. Cote d'Ivoire, Cape Verde, Senegal, Ghana, and Guinea Bissau have higher debt ratios – above 50% of GDP. The other countries ratios are below 50%. Nigeria has the lowest debt ratio at 3% of GDP.

The debt profile for the region greatly improved in the last decade due to economic growth and debt forgiveness and other factors. Debt ratios are much better today than in the 90s when it was north of 80%. West Africa's average (38.7%) is much lower when compared to the U.S. and countries in the Euro Zone where debt is at least 70% of GDP.

Debt accumulation in recent years is due to heavy borrowing to pay for infrastructure projects, oil and food price shocks, and increased spending to keep up demand due to the crunch of 2008. It is expected that countries in the region will take on more debt in the future to pay for infrastructure projects. Currently, they have the capacity since debt is still very low. At the same time, economies in the region are undergoing rapid expansion, which means that average debt for the region could still remain low. Apart from poor infrastructure, recent oil and food price shocks, loose monetary policy, and election spending has also fuelled inflation across the region. The downside of inflation to the economy is that it discourages savings since the local currency is worth less.

Major economies across the region do not have enough credit to support growth; this is not just due to a high number of unbanked people, but also due to inadequate infrastructure causing inflation. The central banks should stand ready to tighten monetary policy, if rising food and fuel prices were to spill over into core inflation and inflation expectations. Modest progress that has been achieved in implementing a new monetary policy framework needs to be supported by additional analytical underpinnings, and a clear and transparent communication strategy.

Conclusion:

If the economies of West Africa are to grow quickly to reduce poverty levels, then they must be helped to compete and trade in the world. Helping to vitalize the private sector creating a manufacturing hub say in Ghana where companies from various West African countries can export their products through this hub. To attract Foreign Direct Investment (FDI) reforms and stability are urgently needed. Stability and economic progress are essential to reverse the fortunes of this important region.

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