

West Africa Economic Outlook 2018

Macroeconomic
developments and
poverty, inequality,
and employment

Labor markets
and jobs



AFRICAN DEVELOPMENT BANK GROUP



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ABBREVIATIONS

AfDB	African Development Bank
AFRISTAT	L'Observatoire Economique et Statistique d'Afrique Subsaharienne (Economic and Statistical Observatory of Sub-Saharan Africa)
CFA	Communauté financière d'Afrique franc
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
GDP	Gross domestic product
ICLS	International Conference of Labor Statisticians
ICT	Information and communications technology
IIAG	Ibrahim Index of African Governance
ILO	International Labour Organization
NEET	Not in education, employment, or training
OECD	Organization for Economic Co-operation and Development
PNDES	Plan National de Développement Économique et Social (Burkina Faso)
SADC	Southern African Development Community
SSA	Sub-Saharan Africa
TOT	Terms of trade
UNDP	United Nations Development Programme
VSE	Very small enterprise
WAEMU	West African Economic and Monetary Union



EXECUTIVE SUMMARY

Average GDP growth in West Africa stalled in 2016, after several strong years, to 0.5 percent. It rebounded in 2017 to 2.5 percent, and was projected to rise to 3.8 percent in 2018 and 3.9 percent in 2019. Countries' performance varied, but because Nigeria contributes about 70 percent of regional GDP, its patterns largely shape regional ones.

The service sector's share in the economy is the largest in most countries, and manufacturing's share is the smallest in all of them. Demand in the economies comes primarily—70 percent on average—from private consumption, but gross capital formation is expected to be the fastest growing area of demand in the next couple of years.

To reduce vulnerability to external shocks threatened by the dependence of several economies, especially Nigeria, on oil or other mineral extraction, West Africa must increase domestic input into its products through manufacturing, especially processing minerals and agricultural products.

Inflation has run in double digits since 2015, hindering growth. Budget deficits have been stable and lower than Africa's average, but government revenues have depended largely on the category "other taxes and nontax revenues" without much attention to direct, indirect, and trade taxes. The large informal economy has been neglected as a government revenue source. External debt grew as economic growth fell during the 2015–16 slump in global commodity prices. But for 2018, a decline in the debt-to-GDP ratio is projected due to improved commodity prices and increased global demand.

Poverty is high, with 43 percent of the population below the international \$1.90 per day poverty line in 2013 (the most recent estimate). Civil strife in Liberia and elsewhere drove this number up. Income inequality stayed high even during economic growth up to 2016. Reducing inequality will require structural economic transformation moving labor from low-skilled parts of the economy to high-skilled, higher-paying ones.

West Africa's labor force participation rate is high and its unemployment rate is low. Significant problems in the ways these numbers are collected lead to underestimates of women's economic contributions and to difficulties in understanding youth employment.

The labor market is almost entirely informal. In one estimate for Senegal, only 3.8 percent of jobs were formal. Virtually all agricultural labor is informal. Much informal work is self-employment (80 percent in Africa overall). Informal workers are poorly paid, and many receive wages below the poverty line. Formal sector wages are much higher and tend to follow public sector wages.

Informality, underemployment, job precariousness, and income inequality affect women more than men. Women's situation is

compounded by unequal access to and ownership of land.

The business environment shapes the formal sector, which creates few decent jobs. In the normal course of structural transformation, labor shifts from agriculture to manufacturing to services. That transition has stalled in West Africa due to customs problems, unavailability of finance, high taxes and heavy burdens of tax accounting, rigid regulation by a low-quality bureaucracy, and inadequate energy and transport infrastructure. The consequence is an atrophying formal sector and a booming informal sector.

The key upcoming development challenges in West Africa include: (1) improving macroeconomic stability, (2) supporting structural reforms, (3) developing industry, (4) increasing competitiveness

(5) supporting agricultural development, (6) building public sector institutions, (7) managing mineral resources better, (8) enhancing regional integration, (9) supporting fragile states, (10) empowering youth through jobs, (11) mobilizing domestic revenue, and (12) strengthening national statistical capacity.

Policy responses to unemployment and underemployment include supporting very small enterprises, for example through targeted workshops and coaching, and creating business incubators providing physical facilities, consulting, and development tools for emerging businesses. Policy should also promote industries that rely on unskilled labor, such as light manufacturing and processing agricultural, horticultural, and fishery products.

THE WEST AFRICAN ECONOMY

The *West Africa Economic Outlook* presents a comprehensive economic analysis of the 16 countries in this region, focusing on growth, macroeconomic stability and employment, structural change, and poverty reduction. It provides estimates for 2017 and projections for 2018 and 2019. A second part of the outlook examines the labor market in more detail.

GDP GROWTH AND KEY DRIVERS

Between 2012 and 2015, many West African countries experienced high growth. But in 2016, growth slowed, averaging about 0.5 percent (figure 1). The 2016 slowdown was widespread, with Nigeria and Liberia recording negative growth, though some countries had very high growth, such as Côte d'Ivoire at almost 9 percent. The slowdown in Nigeria, because of that economy's size relative to the region, meant a considerable decline in West Africa's average.

In 2017, regional growth rebounded, averaging about 2.5 percent. In 2018, it is projected to increase to 3.6 percent, and in 2019 to 3.8 percent (see figure 1). Nigeria's projected performance drives these trends, too. The other major economies in the region, Côte d'Ivoire and Ghana (in that order), together contributed about 11 percent of the total regional GDP in 2017, and their projected growth in 2018–19 will reinforce Nigeria's recovery.¹ The positive outlook for the region is premised on oil price recovery and oil production increases for Nigeria and Ghana, and on strong agricultural performance.

Decomposition of GDP growth by sector

Services are the dominant sector in West Africa, since in the key countries, services contribute most to GDP (in Liberia and Sierra Leone, however, agriculture remains dominant) (figure 2). Across all countries in the region, manufacturing's share in GDP is the lowest of any sector. Manufacturing's highest share in the region is in Côte d'Ivoire—about 18 percent of GDP in 2017. In most West African countries, manufacturing is confined to light industry processing primary products and producing consumer goods.

Forecasts of which sectors and subsectors will drive their economies vary from one country to another. In Burkina Faso, manufacturing and industry will be the growth engine, given the sustained pace of the Plan National de Développement Économique et Social (PNDES) 2016–20, while agriculture, which has received recent investment, will be in second place. But in Cape Verde, tourism, transport, manufacturing, and hotel and catering are expected to be the most important in 2018. In projections for Côte d'Ivoire over 2018–20, manufacturing and services drive economic performance.

FIGURE 1 Real GDP growth rate, 2016–19



Source: AfDB statistics.

Rising commodity prices should boost West African growth in the short to medium term

Decomposition of GDP growth by demand-side drivers

Private consumption is the dominant demand-side driver of output (GDP) in West Africa (figure 3). On average, private consumption was 75 percent of GDP in 2015, with a minimum of 50 percent in Cape Verde and maximum of 102 percent in Sierra Leone. Private consumption's dominance is beneficial since it ensures resilience: domestic demand from a large population will persist as a major catalyst for regional growth.² Because demand reflects incomes, the region should strive to improve per capita income.

Demand requires proper channeling to support entrepreneurship in the region. Currently, imports outweigh exports, worsening the current account balance (see figure 3). Economic harm is even greater if imports largely consist of consumption goods because domestic manufacturing is too limited to produce them. Another problem: capital formation's share in GDP is smaller than consumption's—given the region's underdeveloped infrastructure, this imbalance will curtail medium-term growth. However, gross capital formation is projected to grow fastest among demand-side GDP factors for 2016–18 (figure 4).

Opportunities and risks

Global opportunities and risks

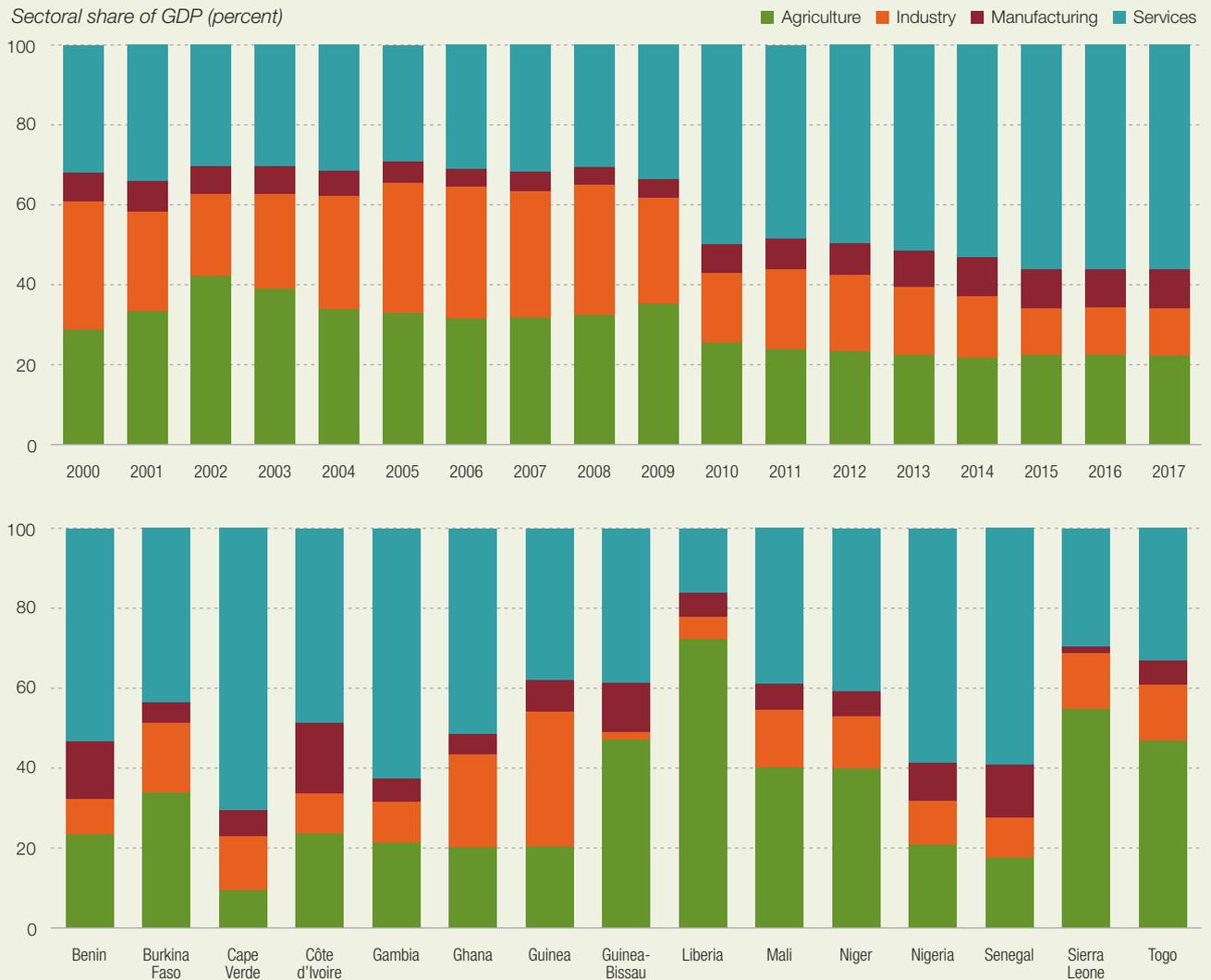
External conditions, especially rising commodity prices expected because of advanced countries' positive economic prospects, should boost West African growth in the short to medium term. Also, foreign investors see new opportunities in the region, beyond traditional destinations such as Nigeria, in rapidly expanding markets such as Côte d'Ivoire.³ And China's manufacturing costs, rising due to labor costs, present an opportunity for West Africa to compete in that sector.

Can West Africa profit from these opportunities? To do so, the region must increase the manufactured content of its exports and add value. The current dependence of some large West African economies on natural resource exports leaves them vulnerable to external shocks. Growth projections today depend on stable oil production and reasonable oil prices—an ongoing risk to West African growth.

Regional opportunities and risks: Cross-border growth spillovers

In West Africa's large market, countries leveraging their comparative advantages will improve regional

FIGURE 2 Sectoral share of GDP, 2000–17, and by country, 2017



Source: AfDB statistics.

trade integration, growth, and development. Trade has much room for improvement in West Africa. The main barrier to more intra-ECOWAS (Economic Community of West African States) trade comes from is nontrade barriers—both political and economic.

West Africa’s economy depends on just a few countries. Nigeria accounts for over 70 percent of regional GDP, and if Ghana, Côte d’Ivoire, and Senegal are included, the total adds up to 90 percent. The region’s economic prosperity depends on developing these economies, and conversely,

it would be harmed by adverse shocks to them, particularly to Nigeria.

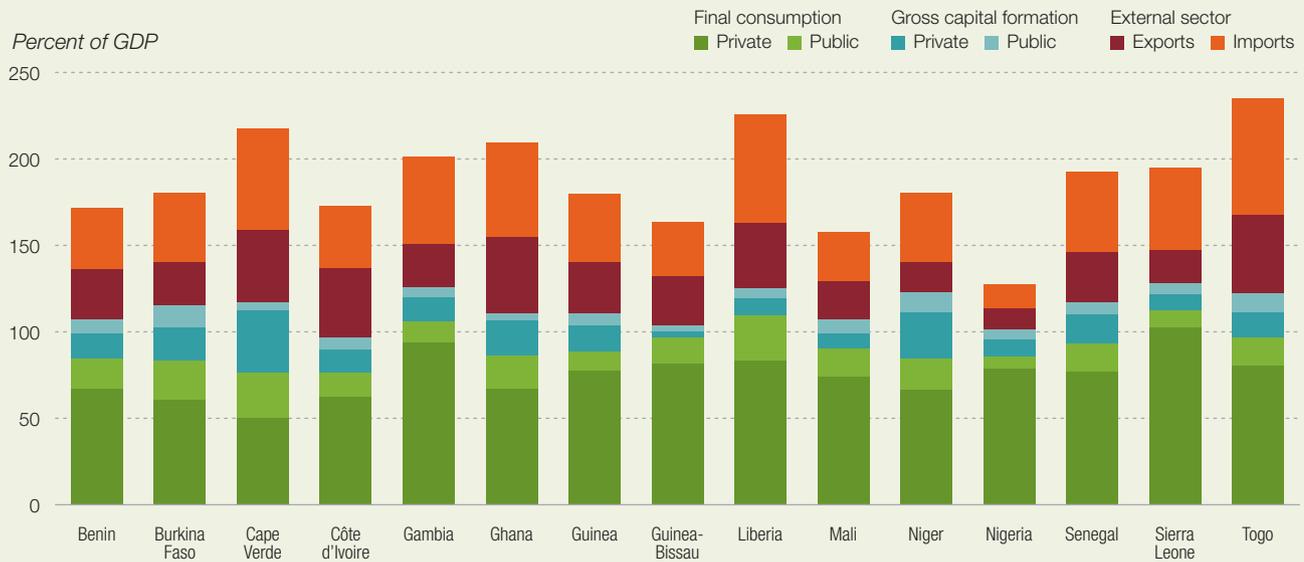
MACROECONOMIC STABILITY

Price movements

Inflation

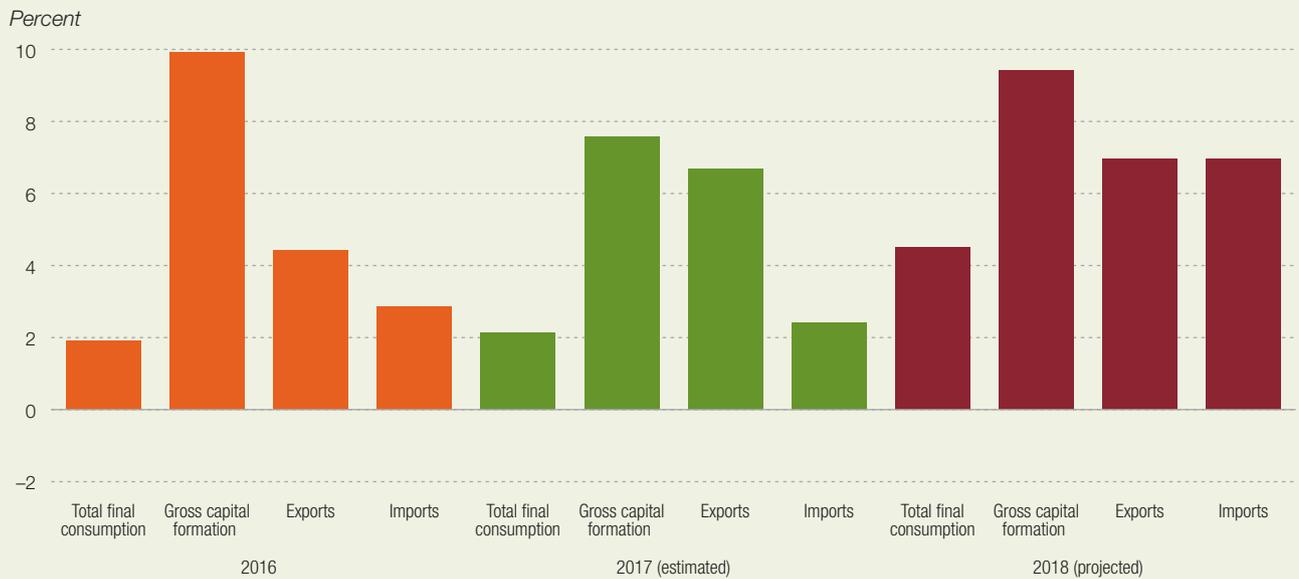
Inflation challenges many developing economies, including Africa’s. Persistent, uncontained inflation distorts economic growth. From 2014 to 2017,

FIGURE 3 Growth drivers in West Africa, 2015



Source: AfDB statistics.

FIGURE 4 Growth in key West African economic drivers, 2016–18



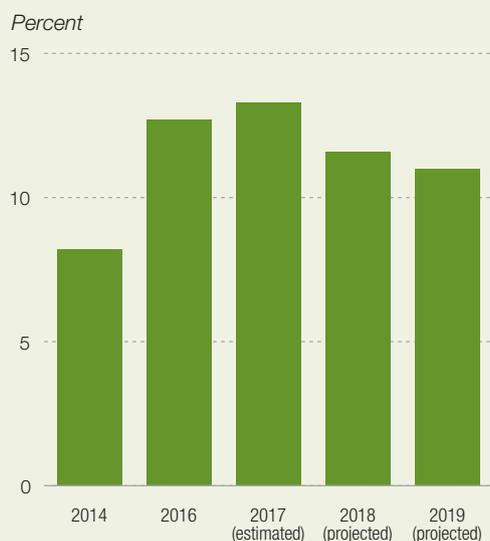
Source: AfDB statistics.

average inflation in West Africa rose from 8.2 percent to 13.3 percent (figure 5), while average inflation in Africa rose from 7.4 percent to 13 percent. West African inflation is projected to decline

moderately but stay in double digits—11.6 percent in 2018 and 11.0 percent in 2019.

The high inflation projections reflect unfavorable macroeconomic developments in key

FIGURE 5 West African inflation rate, 2014–19



Source: AfDB statistics.

economies such as Nigeria, with 2017 inflation estimated at 16.8 percent, Ghana at 17.5 percent, and Sierra Leone at 19.3 percent. Inflationary pressure came from exchange rate depreciation and domestic imbalances during declines in commodity prices and global demand. Since most West African countries depend on imports, (especially for factor inputs), higher import prices raised production costs, translating into high consumer prices. Budget deficits, which went up (except for Togo and Cape Verde) due to expansionary fiscal policy, may also have increased average inflation in the region. Francophone countries, however, reported average inflation well below the regional average, and some had disinflation.

Exchange rate

West Africa has two dominant exchange rate regimes: flexible and pegged. Anglophone countries generally have flexible regimes, while francophone countries tend to have pegged regimes. In the anglophone countries (except Sierra Leone and Guinea), exchange rate volatility has been greater. In Ghana and Nigeria, currency fell considerably between 2014 and 2016,

largely due to global declines in commodity and crude oil prices. But the flexible currencies are expected to appreciate in 2018 and 2019 because of anticipated higher global commodity and crude oil prices, combined with prudent monetary and fiscal policies. In many francophone countries, exchange rates remained fairly stable. CFA (Communauté financière d'Afrique) franc economies—Benin, Burkina Faso, Guinea-Bissau, Côte d'Ivoire, Mali, Niger, Senegal, and Togo—were cushioned by an appreciating euro, despite regional dependence on primary commodities.

Terms of trade

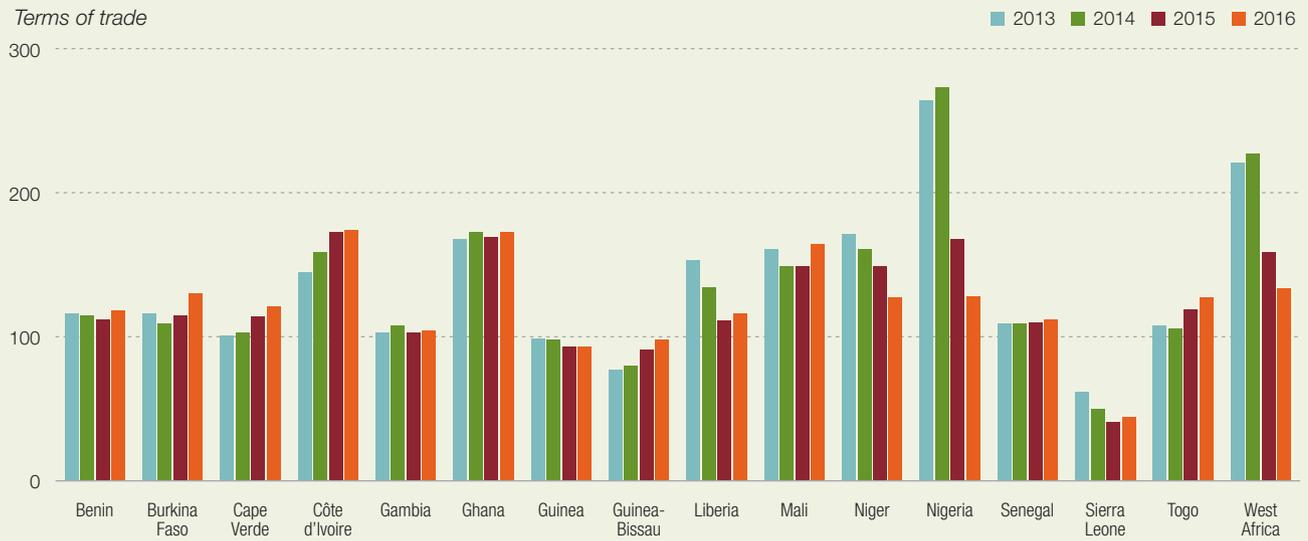
A country's "terms of trade" refers to the relative price of imports to exports. Generally, economies reliant on primary commodities have unfavorable terms of trade compared with economies that export high-value added commodities. The terms of trade in West Africa have steadily improved since 2013 (figure 6). The regional terms of trade index declined steadily from 130.2 in 2013 to 121.9 in 2016. Guinea-Bissau and Sierra Leone have consistently restrained the region's terms of trade index, while Côte d'Ivoire, Ghana, and Nigeria have pushed it up.

Macroeconomic stability and economic growth

Countries generally grow fast while they maintain stable macroeconomic conditions, especially on key indicators—inflation, interest rates, and exchange rates. The strong linkage between macroeconomic stability and economic performance shows the need in West Africa to deepen structural reforms and diversify the economic base of several countries, particularly those dependent on commodities. Inflation, interest rates, exchange rates, and budget deficits have been used as indicators of macroeconomic stability. Inflation is the most widely used since it directly affects the other indicators. In West Africa, inflation and growth tend to move in opposite directions (figure 7). In 2014–16, as inflation rose from 8.2 to 12.7 percent, growth fell from 3.2 to 0.5 percent. A similar negative relationship is projected for 2017–19. High inflation in West Africa could slow growth.

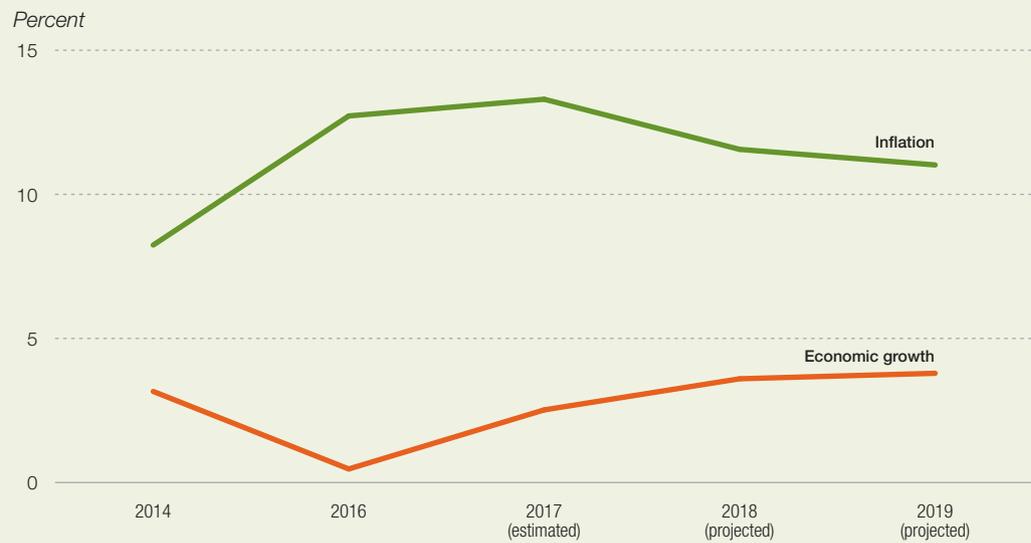
The strong linkage between macroeconomic stability and economic performance shows the need to deepen structural reforms and diversify the economic base

FIGURE 6 West African countries' terms of trade, 2013–16



Source: UNCTAD 2016.

FIGURE 7 West African macroeconomic stability and economic growth, 2013–20



Source: AfDB statistics.

Fiscal and current account deficits and government finance sources

Public expenditure

Government expenditure as a share of GDP declined moderately in West Africa in 2015–16 from 26.4 percent to 26.0 percent, as countries worked to control their budget deficits (figure 8). It is estimated to have grown again in 2017 to about 26.2 percent. The region’s average budget deficit is projected to be fairly stable from 2017 through 2019 and has consistently been below the African average (figure 9).

Domestic resource mobilization

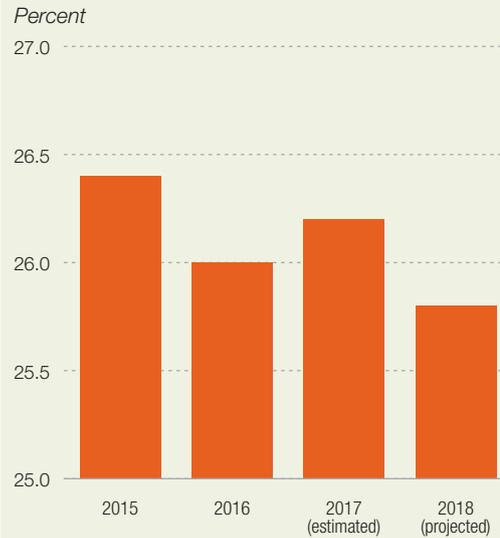
To a large extent, government revenue as a share of GDP has been fairly stable in West Africa since 2011, declining marginally in 2014–15 (figure 10). Increases in direct, indirect, and trade taxes have been negligible. The category “other taxes and nontax revenue” has been the main government revenue source. It almost doubled from \$2.7 billion to \$4.2 billion in 2010–11 but then fell back to \$2.7 billion by 2015. The generally poor revenue mobilization within the region represents underinvoicing at ports, weak tax administration, overreliance on the formal sector, and neglect of the large and growing informal sector.

Debt dynamics

The debt-to-GDP ratio measures a country or region’s capacity to repay its debt and provides an indicator of creditworthiness. West Africa’s ratio is projected to increase marginally from 39.1 percent in 2015 to about 40.1 percent in 2018 (figure 11). The estimated 2015–17 increase followed expansionary fiscal policies responding to growth deceleration when global commodity prices fell. The ratio’s projected 2018 decline hinges on growth expected from improved commodity prices and increased global demand.

The debt service ratio—the percentage of export revenue used for external debt repayment—is estimated to have grown in 2015–17, mainly due to larger debts (see figure 11). The growth will restrict the region’s fiscal space. Changes in aid architecture require high fiscal discipline to avoid larger debts. In particular, the growing finance of

FIGURE 8 Public expenditure as a share of GDP in West Africa, 2015–18



Source: AfDB statistics.

The region’s average budget deficit is projected to be fairly stable from 2017 through 2019

development through sovereign bonds requires much stricter discipline to avoid near-term debt problems.

POVERTY, INEQUALITY, AND EMPLOYMENT

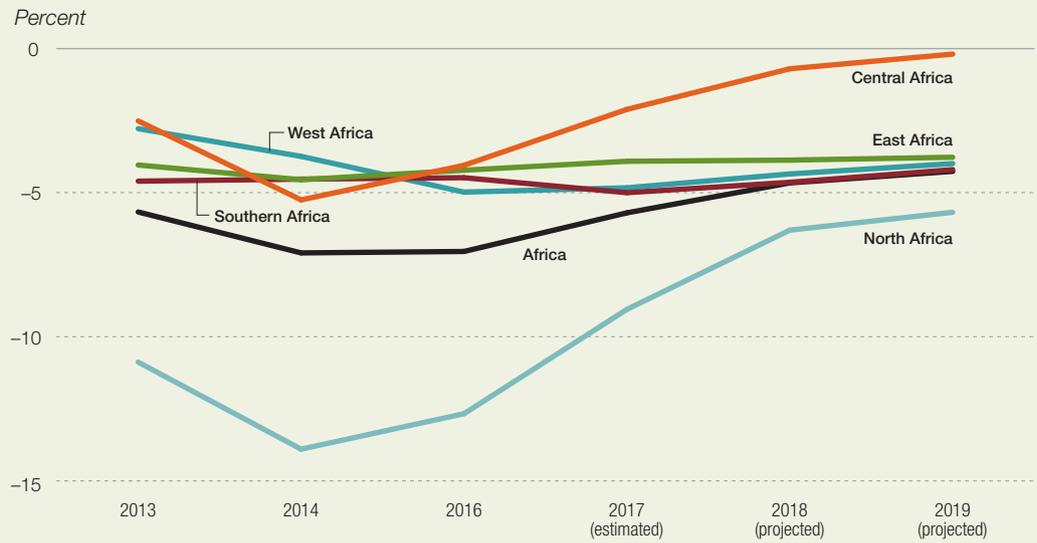
Trends in poverty and inequality

About 43 percent of West Africans live below the international poverty line, according to recent estimates, a rate pushed up by civil strife in Liberia and other countries. After rising between 1981 and 1996, poverty fell consistently between 1997 and 2013. Falling poverty rates have been accompanied by a decrease in the poverty gap—the difference between the average income of the poor and the poverty line (figure 12).

Although West Africa’s economy grew quickly in the past decade, growth has not been inclusive. Guinea-Bissau, Gambia, and Cape Verde have the highest inequality (in that order), and Mali, Sierra Leone, Niger, and Guinea have the lowest, but the differences are not great (figure 13).

Falling poverty rates have been accompanied by a decrease in the poverty gap

FIGURE 9 Budget deficit as a share of GDP in African regions, 2014–19



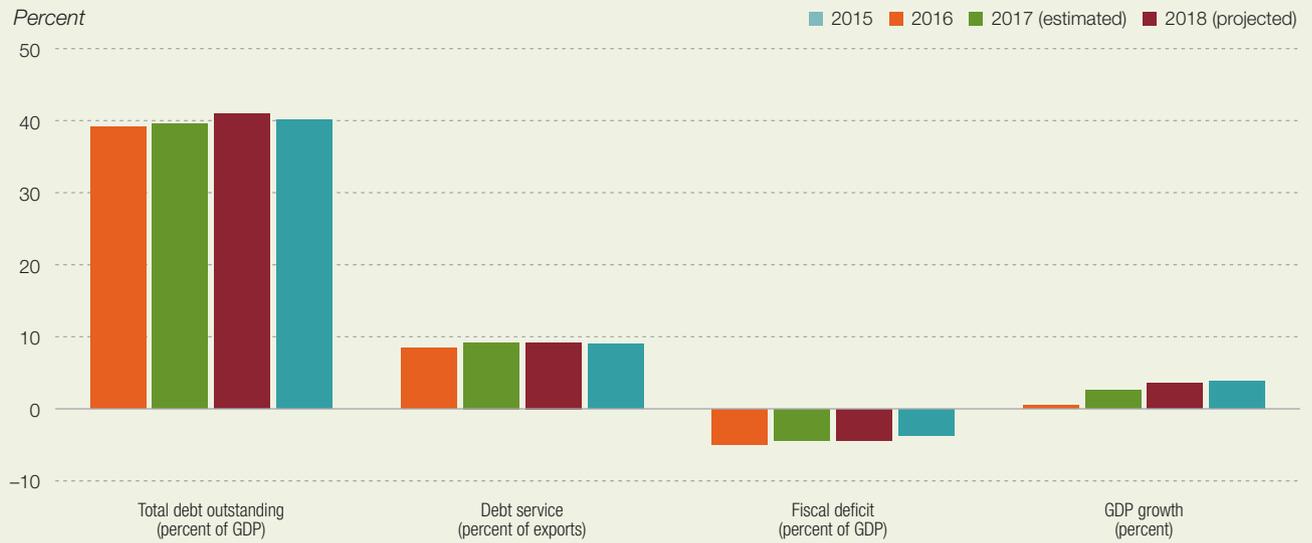
Source: AfDB statistics.

FIGURE 10 Domestic resource mobilization, 2010–15



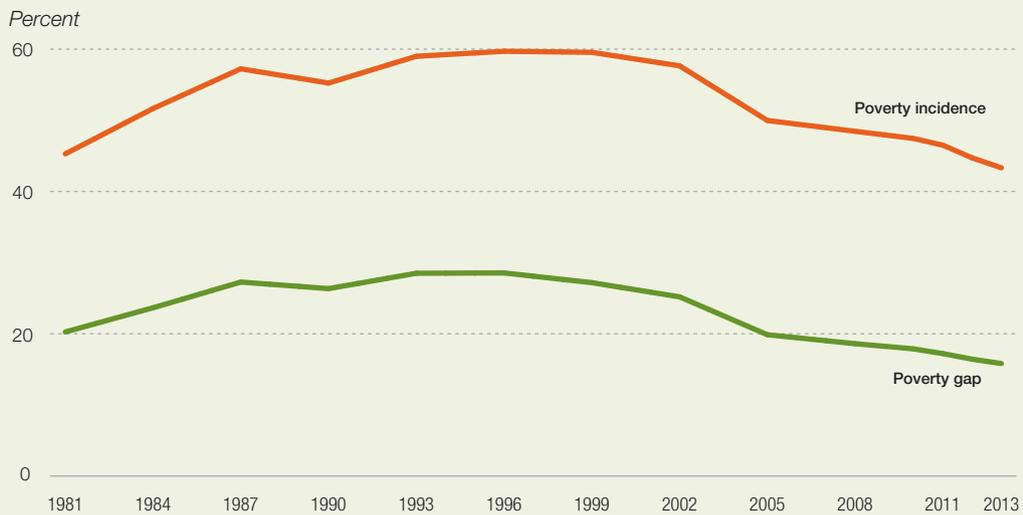
Source: AfDB statistics.

FIGURE 11 Debt dynamics in West Africa, 2015–18



Source: AfDB statistics.

FIGURE 12 Poverty incidence and the poverty gap in West Africa, 1981–2013



Source: Most recent estimates using PovcalNet online analysis tool, World Bank, Washington, DC, <http://iresearch.worldbank.org/PovcalNet/>.

Note: Poverty incidence is the percentage of people living in households with daily income or consumption per person below \$1.90. Poverty gap is the average shortfall in income from the poverty line as a percentage of the poverty line.

FIGURE 13 Income inequality in West African countries



Source: AfDB statistics.

Note: The figure uses the most recent estimates—survey years are in parentheses after country names.

Inequality did not change much in West Africa between 1985 and 2015

Inequality did not change much in West Africa between 1985 and 2015. The Gini coefficient oscillated narrowly between 40 and 46 (figure 14). The persistence of income inequality despite the region's rapid economic growth may result from civil conflict, wasteful public expenditure, natural resource dependency, and inadequate secondary education.⁴

Structural change, employment, and poverty reduction

Structural transformation means the shift of economic activity from low-productivity sectors to high-productivity ones. Structural transformation often occurs in three phases. In the first, the agricultural sector is dominant. In the second, agricultural productivity grows to meet increasing demand, and labor released by agriculture moves to the industrial sector. Agriculture's relative contribution to GDP decreases, while industry's increases. Finally, as the economy increases production, it requires effective marketing and distribution, so resources are reallocated to the service sector. The service sector's contribution to GDP grows, while industry's falls.

West Africa appears to be following a different sequence, raising concerns over the soundness of

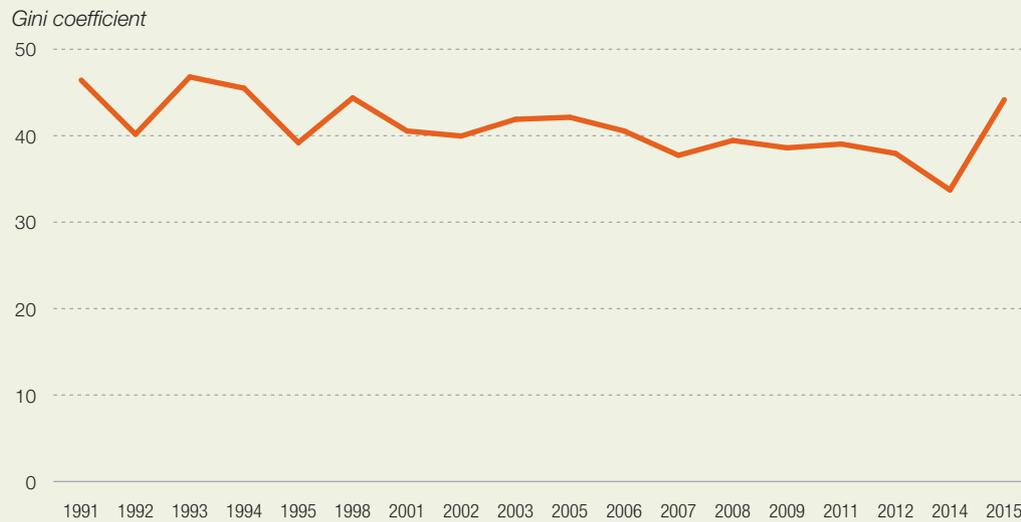
the region's structural transformation. Particularly after 2009, as the agricultural sector's contribution to GDP fell, it was the service sector's that grew, while overall the industrial sector's also fell (see figure 2). But within the industrial sector, the manufacturing subsector's contribution to GDP grew, which could indicate structural transformation because it comprises relatively high-productivity activities.

What about the sectors' contribution to employment? In structural transformation, employment should shift from agriculture (a low-productivity sector) to industry (a higher-productivity sector). In West Africa between 2008 and 2014, agriculture's share of employment declined (figure 15). However, employment appears to have moved to services more than to industry. Although the service sector is also higher-productivity, it has considerable heterogeneity, and it is unclear where in the service sector the labor from agriculture ended up.

Has growth generated employment?

Although West Africa's growth has been impressive, much of it came from increased primary commodities production, which does not create much productive employment and can lead to "jobless growth."⁵ The growth elasticity of employment is

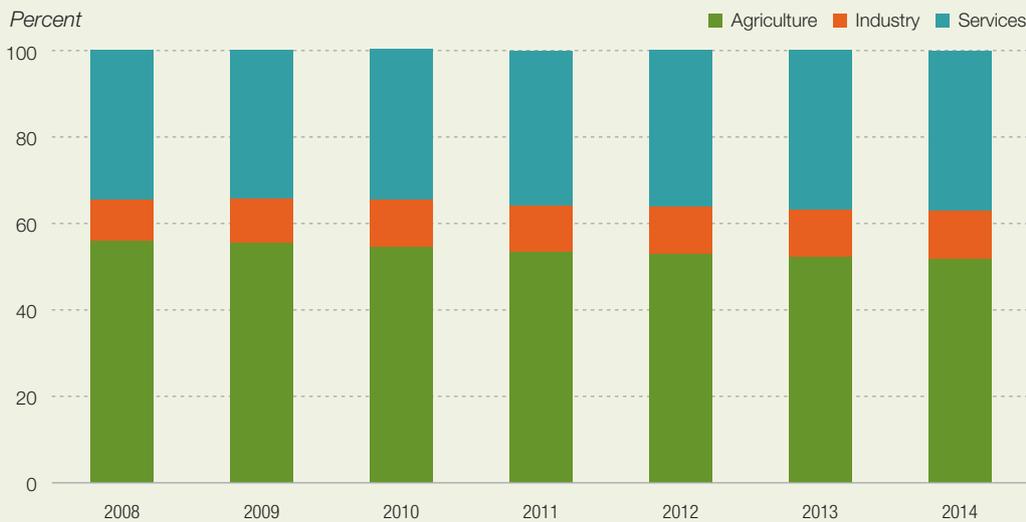
FIGURE 14 Inequality in West Africa, 1991–2015



Source: World Development Indicators, World Bank.

Increased primary commodities production does not create much productive employment

FIGURE 15 West African employment by sector, 2008–14



critical to poverty reduction regardless of economic growth, and low elasticity may account for limited poverty reduction in West Africa. The growth elasticity of employment is weak in Nigeria, for example.⁶

Growth decomposition

Do changes in labor productivity reveal transformational growth in West Africa? Labor productivity

may be decomposed into two components.⁷ The first measures within-sector productivity growth and its contribution to aggregate labor productivity growth. Within-sector productivity growth could come from such periodic shocks as weather and commodity price volatility. The second component, between-sector productivity growth, measures the contribution to labor productivity growth

of labor moving from low-productivity sectors to high-productivity sectors. When a change in a sector's share in employment is positively correlated with productivity, it represents structural change contributing positively to economywide productivity growth. Between-sector productivity growth indicates structural transformation essential to long-term economic performance, including the capacity to reduce poverty and create decent-paying jobs.

West Africa's productivity grew by an average annual rate of 3.1 percent between 2005 and 2016, with a peak of 8.7 percent in 2010 (figure 16). Growth was mainly within-sector, led by agriculture and services. The between-sector structural transformation component of growth, negative between 2005 and 2007, was positive between 2008 and 2014, then almost nonexistent in 2015–16. Overall, then, changes in shares of employment from low-productivity sectors (agriculture) to higher-productivity ones (services) have been positively correlated with productivity and therefore enhanced growth.

Industry's role in between-sector growth was marginal—a problem given industrialization's ability to contribute to development. West African countries need an industrial policy to turn

comparative advantage into a competitive advantage. Industry that adds more value to agriculture and natural resources is a must to create employment and reinforce productivity growth.

EMERGING POLICY ISSUES IN WEST AFRICA

The key upcoming development challenges in West Africa include: (1) improving macroeconomic stability, (2) supporting structural reforms, (3) developing industry, (4) increasing competitiveness (5) supporting agricultural development, (6) building public sector institutions, (7) managing mineral resources better, (8) enhancing regional integration, (9) supporting fragile states, (10) empowering youth through jobs, (11) mobilizing domestic revenue, and (12) strengthening national statistical capacity.

- **Improving macroeconomic stability.** Strengthening macroeconomic and structural reforms would improve the business climate and competitiveness. Some modest progress has been made, especially by the Economic Community of West African States (ECOWAS) and West African Economic and Monetary Union

Productivity grew by an average annual rate of 3.1 percent between 2005 and 2016

FIGURE 16 Labor productivity growth, 2005–16



Source: AfDB statistics.

(WAEMU) commission setting defined macro-economic convergence targets, but further efforts are certainly required.

- **Supporting structural reforms.** Despite some modest improvements up to 2015, almost all West African countries face governance challenges in security, public sector management, and public finance management. As of 2015, West Africa lagged behind the Southern Africa Development Community and the East African Community on several indicators, including the Ibrahim Index of African Governance.
- **Developing industry.** Structural transformation reforms in West Africa should include industrialization that improves the investment climate and promotes exports in both regional and global value chains. Reforms should also foster industrial clusters and build domestic firms' capabilities. Reforms should integrate the services sector, a major contributor to GDP in several countries, and leverage the information and communications technology sector to increase productivity and access to finance.
- **Increasing competitiveness.** To improve competitiveness, West Africa's cost of doing business, among the highest in Africa, should be brought down. For example, the region's cost of doing business is raised by poor road transport, and also by heavily regulated air transport. Improving underdeveloped economic and social infrastructure to pursue structural transformation and better manage public sector investments is key to reducing the cost of doing business.
- **Supporting agricultural development.** Agriculture is the key sector driving economic growth in West Africa and is critical to reducing poverty and improving living conditions. Transformation should follow the example of Côte d'Ivoire, where agriculture yields increased by over two tons per hectare. Countries will need to invest in rural infrastructure, increase regional and global trade, and create stronger training and extension programs for farmers to increase their productivity.
- **Building public sector institutions.** Institution building in all aspects of governance is required to implement public policy. Governments should promote transparency, strengthen regulatory frameworks, and maintain zero tolerance for abuse of public office through corruption. Efficient, well-managed public sectors would bolster private sector investment, lift living standards, and restore confidence in economic growth.
- **Managing mineral resources better.** West Africa includes countries rich with oil and with non-oil resources. Nigeria is well known for crude oil, Ghana for gold, and Sierra Leone, Liberia, and Côte d'Ivoire for diamonds. Guinea, Guinea-Bissau, and Liberia have considerable bauxite and iron ore. Senegal, Mali, Guinea-Bissau, and Togo have phosphate. Despite this abundance, corruption and mismanagement have kept earnings low. Improving mineral sector management could increase government revenues used to support economic and social infrastructure.
- **Enhancing regional integration.** The region needs to apply integration policies better. Throughout the region, openness and integration into Africa and the world have become official pursuits. After 1993, ECOWAS and WAEMU, while adhering to the long-term goal of African unity, turned toward more immediate practical objectives—growth, stability, and reducing poverty. Both organizations followed a reasonably well-structured program to deepen cooperation and integration. But countries have often lagged behind in taking concrete actions to fulfill ambitious formal commitments. This should change, especially for integrating infrastructure—transport, power, telecommunications, and banking and financial markets.
- **Supporting fragile states.** Spillover from conflicts impairs regional trade. Because fragility crosses borders, support for fragile states is best undertaken at the regional level.
- **Empowering youth through jobs.** Several West African countries have huge, largely unemployed youth populations that rely on informal trade, services, and manufacturing to earn a living. Job creation in the formal sector has been modest. As elsewhere in Africa, the potential economic contributions of youth remain largely untapped, and unaddressed problems of youth have sometimes created

Agriculture is the key sector driving economic growth and is critical to reducing poverty and improving living conditions

instability. Policy reforms should address youth unemployment across sectors, including education, to equip youth with skills for employment.

- ***Mobilizing domestic revenue.*** Financial flows to West Africa continue to increase through remittances and foreign direct investment. But many countries, heavily indebted with long-term nonconcessional loans, will face financing difficulties unless they also mobilize domestic revenue better by reforming their revenue authorities. Fair, efficient tax systems are needed to alleviate poverty and support transformational public sector investments, including those targeting such national commitments as the Sustainable Development Goals.

- ***Strengthening national statistical capacity.*** National statistics are essential for formulating policy and managing and monitoring development, so building statistical capacity is crucial to reform. Several West African countries have extremely weak statistical capacity—government data on nearly all sectors are unreliable; data on government operations are unavailable; labor and employment statistics are unavailable; and data on economic growth, monetary statistics, and balance of payments information are usually estimates. Authorities in several countries grasp this issue, but governments have allocated few resources to address it.

LABOR MARKETS AND JOBS IN WEST AFRICA

The 1980s and 1990s were characterized as lost decades for Africa. But the 2000s and 2010s saw Africa enjoying economic growth higher than many other developing parts of the world. West Africa was no exception, with some countries nearing double-digit growth—Côte d'Ivoire and Mauritania stood out—though the region's average performance was lower than the rest of Africa's. Per capita income in West Africa increased dramatically, with notable exceptions (figure 17).

However, this growth, universally recognized and abundantly documented, ran into a remarkable paradox: poverty did not fall much in Africa or in West Africa. And acute unemployment and precarity still affected the largest and most vulnerable population segments—young people, women, and rural populations.

Poverty declined everywhere, except in a few countries such as Guinea-Bissau and Côte d'Ivoire. But the decline's size, whether measured by the international \$1.90 a day standard or by national poverty lines, was much smaller than would be expected from the increase in per capita income.

Africa performed poorly in creating decent employment. Factors lie on both the supply and the demand side.⁹ On the supply side, a booming population driven by the highest fertility rates in the world led to exponential growth in the working-age population. And job seekers, especially younger ones, faced serious obstacles to their employability in most countries due to limited training. On the demand side, economic growth in Africa is driven by commodities—agriculture, oil, and mining—whose carry-over to the rest of the economy is small. The productivity

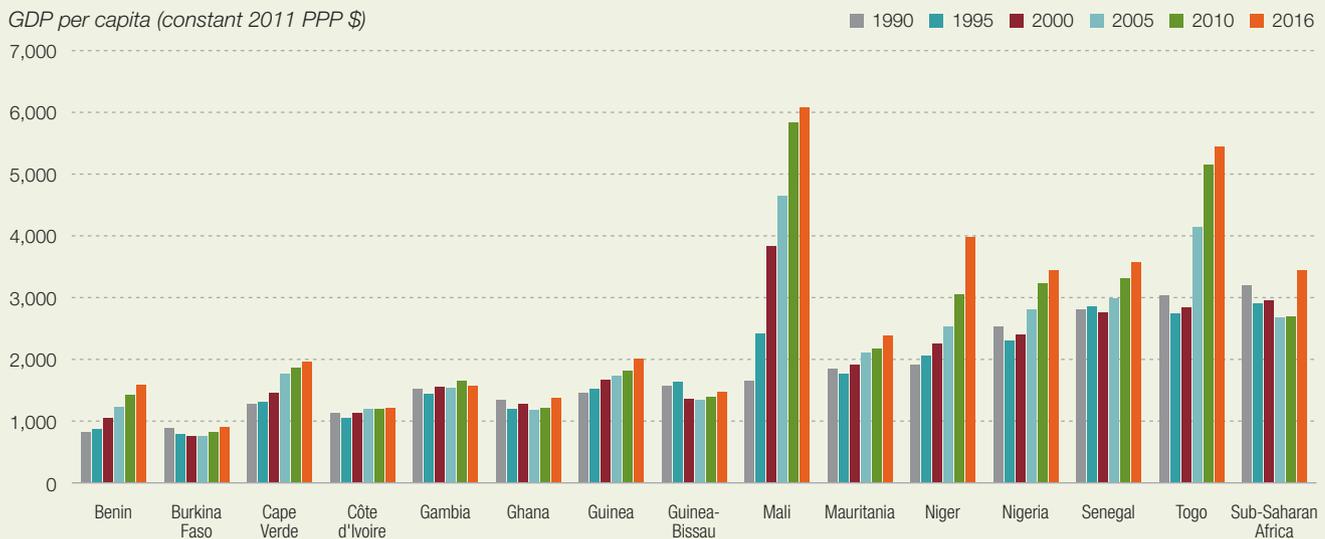
of agriculture remains low, and the mining and mineral industries are inherently capital intensive, employ little local labor, and leave behind only a marginal share of the revenues generated. The growth of other formal activities is deterred by an unfriendly business environment with high unit costs and a heavy-handed, often corrupt bureaucracy.⁹

LABOR FORCE PARTICIPATION, UNEMPLOYMENT, AND VULNERABILITY IN WEST AFRICA

Africa's share of the world's population, about 14 percent in 2007, will increase to 26 percent by 2050, according to World Population Prospects. While world population growth is slowing, currently to about 1 percent a year, Sub-Saharan Africa's is 2.5 percent.¹⁰ The continent will be the reservoir of the world's workforce by 2050, it is commonly thought.

Within Africa, West Africa has some of the highest population growth—5 of the 16 countries in West Africa had annual growth of 2–3 percent between 2000 and 2005,

FIGURE 17 GDP per capita, 1990–2016



Source: World Development Indicators 2016.

The working-age population is trending upward, but the level of labor force participation appears to be static

with average growth edging down to 2.7 percent between 2011 and 2016. Exponential growth is projected. But the region has disparities, with lower growth in countries such as Cape Verde.

Labor force participation and inactivity

In West Africa, the working-age population is trending upward, but the level of labor force participation appears to be static (figure 18). The gap between the two—the inactive population—is widening.

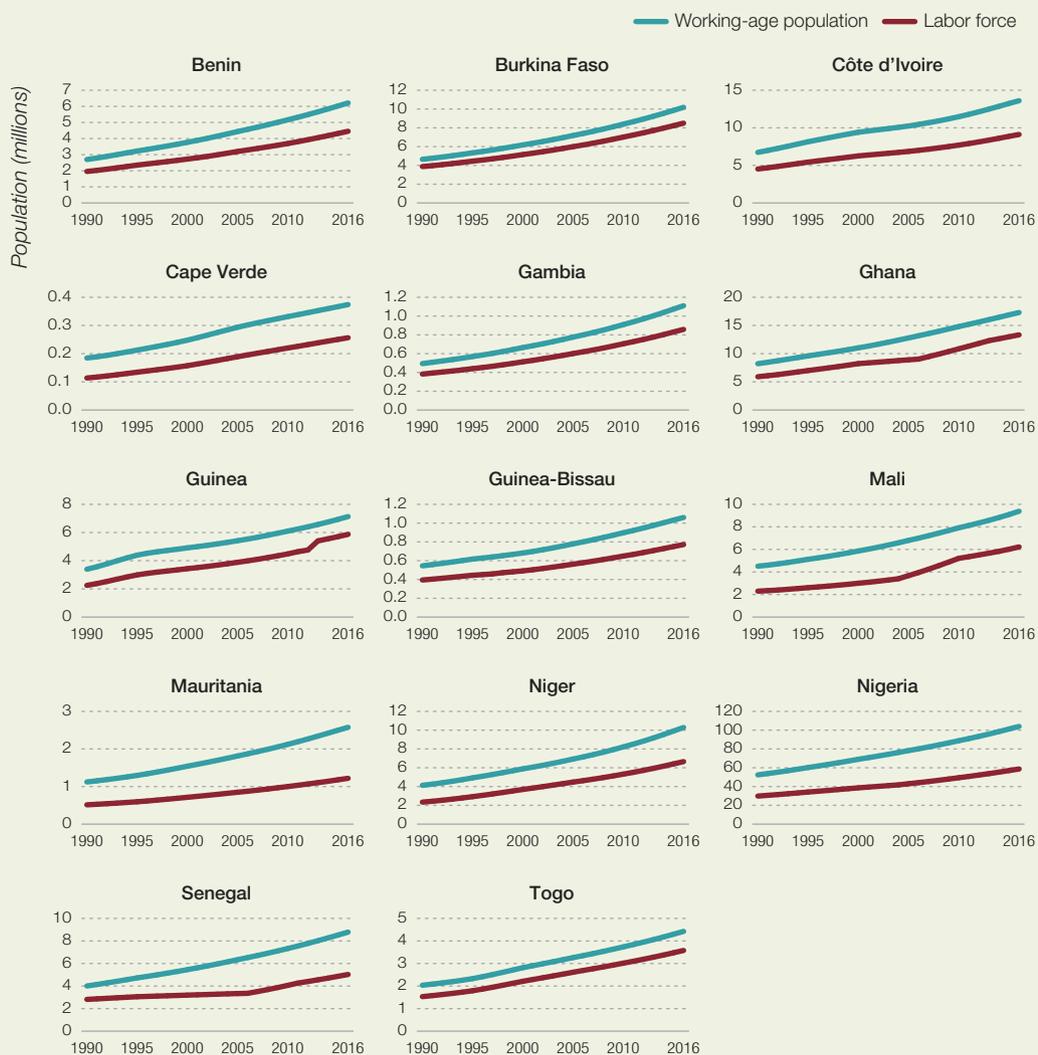
West African labor force participation rates are high compared with the Sub-Saharan African average. For example, Burkina Faso's rate was estimated at 83 percent in 2016, and the Sub-Saharan African average at only 70 percent. But West African rates have stalled (as have Sub-Saharan Africa's), even falling slightly for some countries—for example, Benin's rate went from 72.4 percent in 2000 to 71.7 percent in 2016.

The reasons for static and declining labor force participation rates are multiple. They include ambiguities in defining two key terms—participation and unemployment (box 1). Evolving sociodemographic categories also contribute. Students constitute an important part of the inactive population.

So do discouraged people no longer looking for a job. And so do people doing domestic work such as caregiving—among whom women are overrepresented. These groups' growth contributes to the inactive population and detracts from the labor force participation rate.

Women's labor force participation rate is much lower than men's. The women's rate was only 64.2 percent for Sub-Saharan Africa in 2016, while the men's rate was 76.2 percent. Women's greater participation in noneconomic activities is the most plausible explanation (see box 1). Women perform more unpaid activities than men in the most vulnerable segments of employment. They carry out domestic tasks that are not counted as productive activities in the sense of national income accounts.¹¹ For example, although collecting water and fuelwood are considered picking activities in the sense of national accounts and should be included in GDP and in employment statistics, in practice, very few surveys treat them as such, and many treat them as unproductive activities.¹² Both are time-consuming tasks mostly performed by women. In Ghana, women spent almost four times more time collecting water than men (figure 19). Collecting fuelwood is the same—in Benin, women spent more than two times more time

FIGURE 18 Working-age population and labor force participation in West African countries, 1990–2014



Source: World Development Indicators 2016 and AfDB statistics.

West African labor force participation rates are high compared with the Sub-Saharan African average

than men searching for fuelwood, and in Ethiopia, more than four times (figure 20).

Employment, unemployment, and vulnerability

Unemployment in Africa, at first glance, is no more catastrophic than elsewhere. Rates are more moderate than in many other parts of the world (figure 21). The official unemployment rate, calculated using the ILO method, is very low in Africa. For example, in Benin the unemployment rate was only 1.7 percent in 2017 and never above

2.2 percent between 2000 and 2017. In Burkina Faso, unemployment was never above 5.0 percent in that period. In other countries, it was between 10 percent and 15 percent. This is not peculiar to Africa. There are often notable differences in unemployment rates between high-income and low-income countries, and many times the poorer ones have lower rates. Youth unemployment in middle-income countries is 6.5 percentage points higher than in low-income countries. That is partly an income effect: when slightly better-off young people judge the labor market too informal, they

The differences in unemployment rates among West African countries reflect the ways statistics are collected in individual countries

BOX 1 Official employment statistics: Use them with caution

In Africa, as elsewhere, the strategies for collecting employment data are largely derived from the ILO definitions of work and participation rate. As a result, the boundaries between activity and inactivity, and between employment and unemployment are indistinct. This not only affects the geographic comparability of data, but also poses real challenges in targeting employment policies.

The ILO's definition of employment comes from the resolution of the 13th International Conference of Labor Statisticians (ICLS) in 1982, whose scope was extended by Resolution No. 1 of the 19th ICLS in 2013. This last resolution restricts work to the same limits as the production of goods and services in the sense of national accounts, that is, activities whose product can be subject to monetary valuation. In this approach, there are two types of employment: wage employment and non-wage employment. Wage employment refers to all those who, in a reference period (one hour in a given week) worked for payment in kind or in cash. It also includes those who have done paid work but were absent (due to illness or otherwise) during the reference period with the guarantee of resuming work upon return. Non-wage employment includes employers, self-employed persons, and members of producer cooperatives. It also includes family workers, persons producing goods or services for their own or their household's consumption, and apprentices who received payment in kind or in cash. By contrast, unpaid workers are domestic workers, caregivers, voluntary workers, and so on. Work, therefore, relates to a fairly broad spectrum of paid and unpaid activities that workers perform for themselves or for others.

Labor force participants include working people (people ages 15 and over) and the unemployed. Among the unemployed are people who fulfill three conditions simultaneously:

- They have neither paid nor unpaid work.
- They are available to work in the reference period.
- They are actively looking for paid employment.

A further qualification: "In situations where conventional means of job search are inappropriate, where the labor market is largely unorganized or of limited scope, where the absorption of supply is, at the moment considered, insufficient, where the proportion of unpaid labor is large, the standard definition of unemployment given in subparagraph [(c) above] can be applied by waiving the job search criterion."

So, the employed are all those engaged in economic activity in the sense of the national accounts. However, in calculating unemployment, countries apply the ILO criteria differently.

Women's work is often confused with domestic work and excluded from measurements of productive activity. Some domestic activities related to caring for children or the elderly are not counted as production activities, and the persons who exercise them should not be counted as part of the labor force. So, in rural African societies, where women mainly perform the tasks of caregivers while men are engaged in productive activities, women's participation rate is much lower than men's.

Women's exclusion from labor force participation data gets widened further. Although collecting water and fuelwood, done predominantly by women, are considered product extractions from nature and therefore productive activities, many national accounts do not count them in GDP because of measurement difficulties. Much of women's agricultural work is not counted in GDP, particularly in Africa, South Asia, and the Middle East.¹ This is one of the most important determinants of the observed differential in women's and men's labor market participation rates.

So, in developing countries, "In the case of activities carried out by women, the delineation between what is considered to be part of the sphere of economic activity and what is not part of it can sometimes prove to be tenuous,"² and their treatment by national statistical services vary from one country to another. Even in developed countries, the ILO approach is not strictly observed.

(continued)

BOX 1 Official employment statistics: Use them with caution *(continued)*

In France, for example, Gonzalez-Demichel and Nauze-Fichet found a gap of more than one million between the labor force count obtained by strictly applying the ILO approach and the count obtained from spontaneous reporting (sometimes used by national statistics institutes for people who consider themselves active but would be classified as inactive by the ILO approach, or vice versa). And the European Statistical Office opts for a restrictive notion of productive activity.

For youth employment, the category of NEET individuals—not in education, employment, or training—weakens the distinction between participation and inactivity. Most NEET individuals have stopped looking for a job because they are desperate, do not know where to go, feel too young, or have no sense of where there is work. They are automatically excluded from the labor force because they are no longer actively looking for a job. In another category are young people looking for a job but unable to find work. This makes youth a heterogeneous group that includes active and inactive people. Finally, when young people (ages 15 to 24) participating in the labor force return to school, they lower the unemployment rate without necessarily lowering the number of jobs. Conversely, many young employees who worked only a few days that fell into a survey's reference period get counted as employed.

A closer look at the boundaries of activity and employment leads to a more nuanced interpretation of employment indicators in Africa. More important, it supports employment policies targeting inactive people such as the discouraged, those not properly counted, and part of the NEET, when designing actions to create or consolidate jobs.

Notes

1. Charmes and Remaoun 2014.
2. LeGoff 2013.

Taken alone, the unemployment rate is not an appropriate indicator of labor market performance

prefer to give up employment (perhaps to go back to school), but poorer youths have no choice but to work.¹³ Also, the unemployment rate can vary by a factor of up to two depending on whether unemployment is more loosely defined (accommodating the difficulty in most developing countries of singling out individuals actively looking for a job) or strictly defined (excluding those not actively looking for a job).

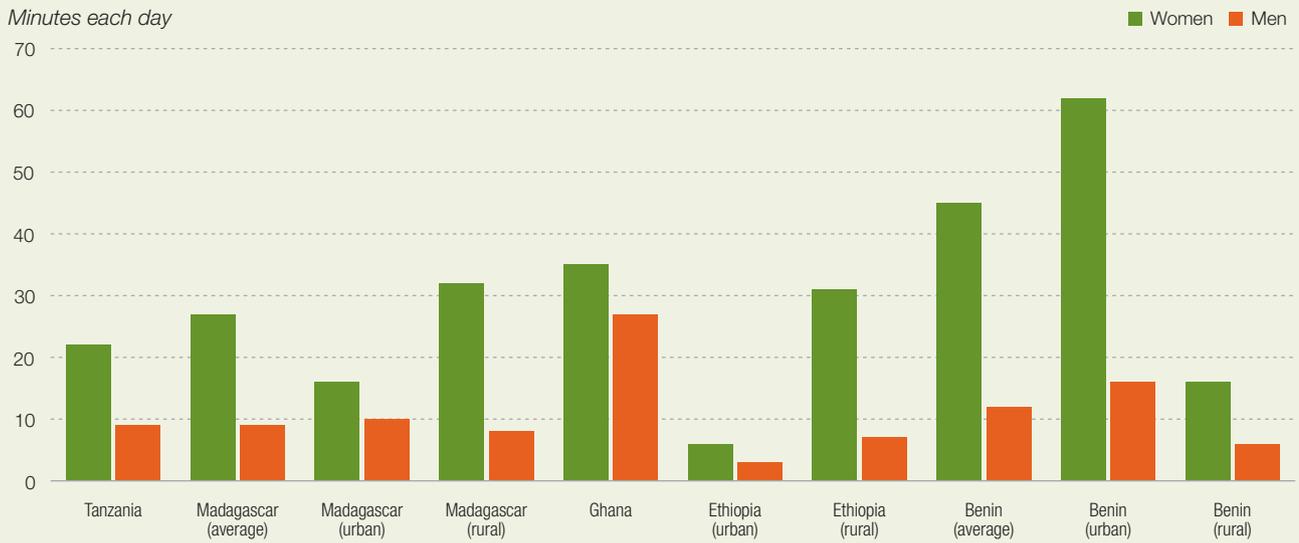
The differences in unemployment rates among West African countries reflect the ways statistics are collected in individual countries more than different economic structures or labor markets (see box 1). The low-quality jobs straddling the borderline between employment and unemployment or the borderline between labor force participation and inactivity warrant particular attention in interpreting unemployment rates. It is now accepted that, taken alone, the unemployment rate is not an appropriate indicator of labor market performance. Summing the unemployment rate and the underemployment rate may more realistically

depict African workers' status.¹⁴ The sum is well above 50 percent in most West African countries.

Similarly, the ILO proposes summing the proportion of irregular workers to the unemployment rate to find the proportion of vulnerable employment among African workers.¹⁵ Irregular workers include self-employed workers, family workers, seasonal or task workers, and temporary workers. Many young irregular workers in national surveys consider themselves unemployed, even though official statistics count them as employed. The share of vulnerable employment fell slightly in Cape Verde after the 1990s but even less in other West African countries, despite GDP growth (figure 22).

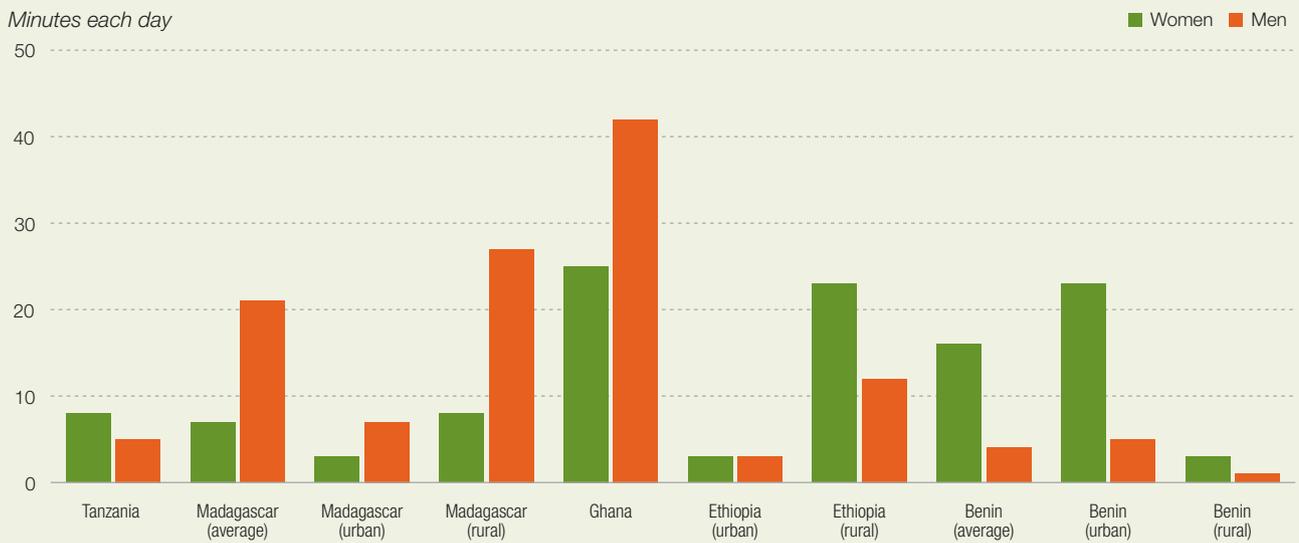
The combined share of vulnerable jobs and unemployed in the labor force peaked at around 90 percent in Benin and Niger in 2016; lay between 70 percent and 90 percent in Côte d'Ivoire, Gambia, Ghana, Mali, Senegal, and Togo; and was much smaller in other countries (table 1). In Cape Verde, it was around 45 percent. Gambia's

FIGURE 19 Time spent collecting water by women and men



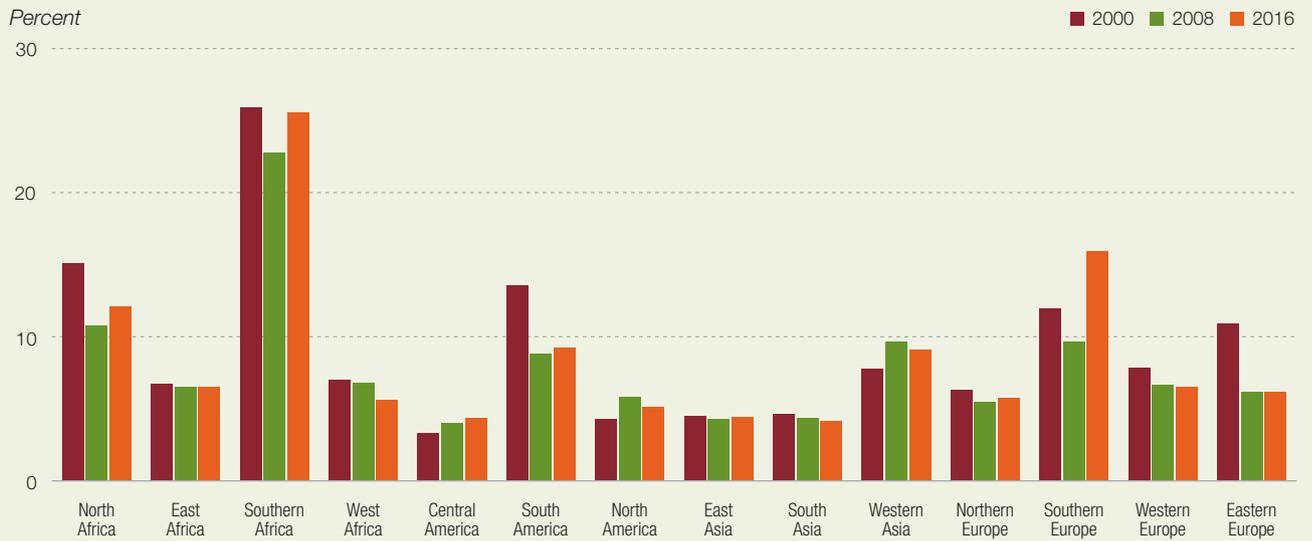
Source: Charmes 2016.

FIGURE 20 Time spent collecting fuelwood by women and men



Source: Charmes 2016.

FIGURE 21 Unemployment rates, world regions, 2000–16



Source: ILOSTAT 2016.

Note: Rates for ages 15 and up.

FIGURE 22 Vulnerable jobs in West Africa, 2000–16



Source: ILOSTAT 2016 and AfDB statistics.

Note: Vulnerable jobs are self-employed workers and contributing family workers.

TABLE 1 Sum of unemployed and vulnerable jobs in West Africa, 2000–16 (percent of the labor force)

Country	2000	2003	2006	2009	2012	2016
Benin	88.6	88.4	90.5	90.1	90.0	89.3
Burkina Faso	88.3	85.1	83.9	81.7	79.1	75.1
Cape Verde	53.8	52.7	50.2	47.6	46.3	45.4
Côte d'Ivoire	80.7	80.4	81.9	82.0	81.3	78.6
Gambia	79.4	79.5	79.5	78.9	79.2	79.1
Ghana	79.1	77.2	75.9	78.0	72.1	70.9
Guinea	67.3	66.4	66.2	65.8	66.2	66.3
Guinea-Bissau	63.3	63.9	63.2	62.6	61.9	61.3
Mali	89.4	87.5	88.2	86.9	85.8	85.3
Mauritania	56.9	53.9	53.3	52.3	50.9	48.9
Niger	93.4	93.1	92.9	93.0	92.8	92.4
Nigeria	51.4	50.3	46.1	44.6	43.4	42.0
Senegal	78.7	74.8	74.5	73.4	73.4	71.5
Togo	89.2	89.3	89.2	89.1	87.6	85.9

Source: ILOSTAT 2016 and AfDB statistics.

Note: Vulnerable jobs are self-employed workers and contributing family workers.

FIGURE 23 Share of youth in total employment, 2000–16



Source: ILOSTAT 2016.

combination was unusual—its unemployment rate was high, around 30 percent, but its share of vulnerable population in the labor force was moderate, around 50 percent.

Underemployment is another indicator of the poor quality of most jobs in Africa. It is defined by two features: work hours and labor productivity. Inadequate work hours—the hours worked are fewer than standard and fewer than the worker would like—create visible underemployment. Inadequate labor productivity—the work performed does not match the worker’s qualifications or offer the income the worker could expect—creates invisible underemployment.¹⁶ The types of underemployment are not mutually exclusive: a worker can be underemployed in terms of work hours, qualifications, and income.

In West Africa, underemployment is more invisible than visible. In fact, work hours for precarious workers—those in nonstandard employment that is poorly paid, insecure, unprotected, and cannot support a household—often far exceed labor code standards. And their pay is very low compared with pay in the formal sector.

The most vulnerable groups: Youth, women, and people living in rural areas

While the employment situation in Africa is very difficult overall, it is even more challenging for three vulnerable groups: youth, women, and people living in rural areas. In West Africa, where the youth population is increasing day by day,

youth employment (ages 15–24) is becoming a priority political issue (figure 23).¹⁷ The region has the fastest youth population growth in Africa, projected to grow even further in the next few years. Niger, with the highest population growth in the world, is experiencing even stronger youth population growth.

Youth have lower employment rates than adults by around 20 percentage points, depending on the country. And the youth unemployment rate may fall without a corresponding rise in employment because it excludes discouraged youth who have left the labor market for studies. The youth unemployment rate also misses those ages 15 to 24 who are not in education, employment, or training (NEET) (tables 2 and 3). The share of NEET in total number of youth, averaging around 15 percent in general, peaks at 30 percent in West Africa, exceeding by far that in developed and middle-income countries.¹⁸ The NEET phenomenon affects rural populations more than urban population. In Senegal, for example, the NEET proportion of youth exceeds 50 percent in rural areas compared with around 35 percent in urban areas. The phenomenon also affects women more than men—in Senegal, 60 percent of women compared with 24 percent of men.

Women represent a smaller share in the labor force than in employment in Africa (for reasons discussed earlier—see box 1). They are almost always disadvantaged in the labor market. In some countries, the share of women in any kind of employment is around 40 percent, while in

Youth have lower employment rates than adults by around 20 percentage points

TABLE 2 People ages 15–24 not in education, employment, or training (NEET) as a proportion of total youth by sex in West African countries, 2005 and 2010 (percent)

Country	2005			2010		
	Total	Male	Female	Total	Male	Female
Benin	8.8	7.1	10.3	3.9	2.9	5.1
Burkina Faso	9.7	4.5	14.3	17.2	11.0	22.3
Senegal	43.2	23.8	60.1	na	na	na
Guinea-Bissau	20.0	23.0	18.0	na	na	na
Cameroon	10.1	6.4	13.5	10.8	4.7	16.0

Source: ILO database 2012 and Key Indicators of the Labour Market 2015, eighth edition. *na* is not available.

TABLE 3 People ages 15–24 not in education, employment, or training (*NEET*) as a proportion of total youth by locale in West African countries, 2005 and 2010 (percent)

Country	2005		2010	
	Urban	Rural	Urban	Rural
Benin	11.8	6.4	4.7	3.3
Burkina Faso	25.9	5.1	18.8	16.8
Senegal	35.1	50.5	na	na
Guinea-Bissau	na	na	17.0	23.0
Cameroon	15.3	6.2	14.5	7.6

Source: ILO database 2012 and Key Indicators of the Labour Market 2015, eighth edition.
na is not available.

Gender inequality is high in income and in access to land

others such as Benin, Togo, and Guinea, it is above 50 percent (figure 24). But the proportion of women in total paid employment is very low in most countries. Conversely, the proportion of women in vulnerable employment is high (table 4). In most cases in West Africa, women constitute over 70 percent of the population in vulnerable employment. Auspiciously, however, that percentage fell in the past decade. It fell the most in Cape Verde and in Mauritania. Underemployment shows the precariousness of female jobs.

Whether visible or invisible, underemployment affects women more than men.

Gender inequality in income is high. Togo and Burkina Faso are the only West African countries to score 8 out of 10 on the African Union Commission’s earnings parity index, along with six other countries in Africa. In West Africa, as elsewhere in Africa, there is a long way to go to achieve gender equality (figure 25).

In access to land, too, gender inequality is high, as measured by an index combining land

FIGURE 24 Share of women in total employment, 2000–16



Source: ILOSTAT 2016.

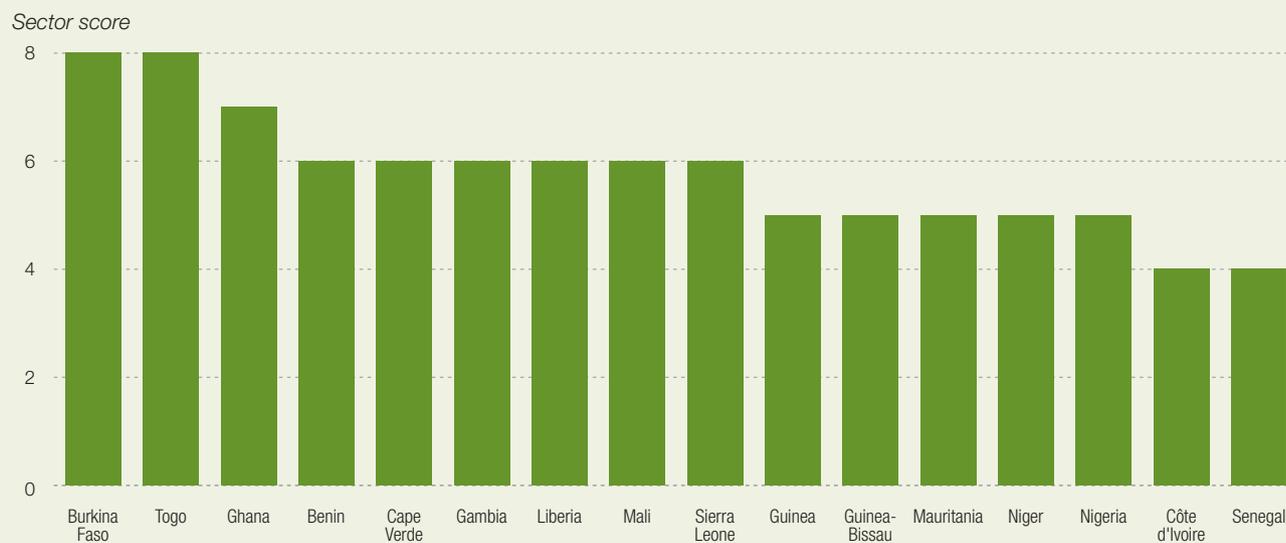
TABLE 4 Women's share of the population in vulnerable employment, 2000–16 (percent)

	2000	2008	2016
Benin	95.4	95.3	94.4
Burkina Faso	96.9	95.5	95.4
Cape Verde	56.1	45.8	42.5
Côte d'Ivoire	91.4	91.8	88.3
Gambia	81.1	82.2	80.2
Ghana	88.9	84.9	79.4
Guinea	74.1	74.4	72.5
Guinea-Bissau	72.5	73.6	71.0
Mali	94.0	92.2	91.4
Mauritania	59.2	55.0	49.1
Niger	96.6	96.2	95.9
Nigeria	60.4	50.7	48.1
Senegal	84.7	82.5	79.9
Togo	94.0	93.9	92.7

Source: ILOSTAT 2016 and AfDB statistics.

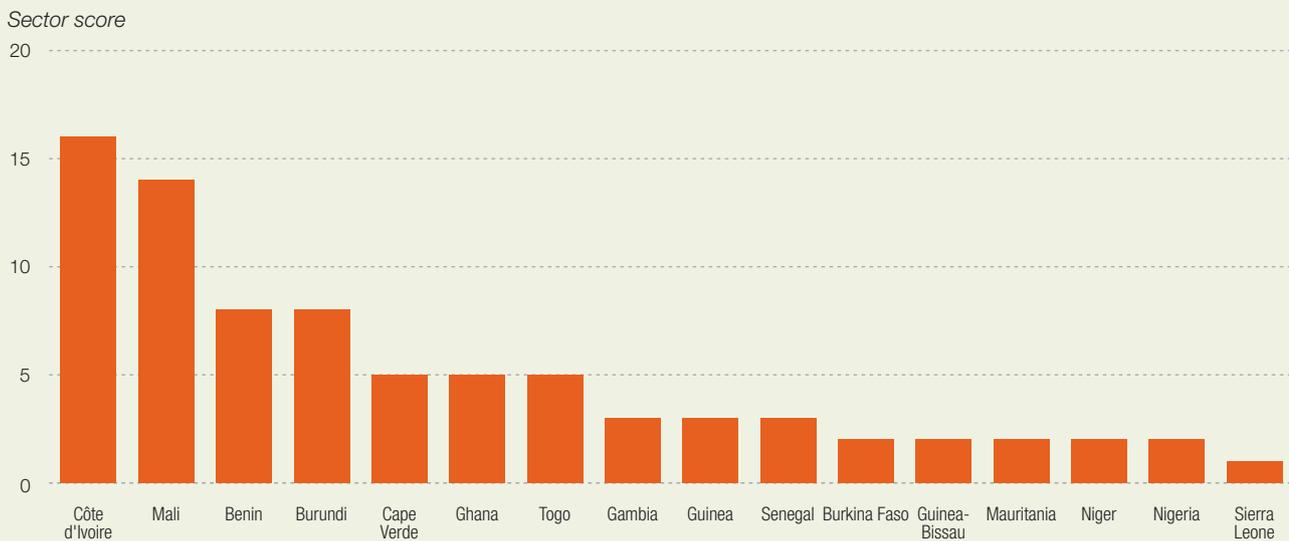
Note: Vulnerable jobs are self-employed workers and contributing family workers.

FIGURE 25 Gender equality in employment



Source: African Union Commission 2015.

FIGURE 26 Gender equality in access to and ownership of land



Source: African Union Commission 2015.

Invisible underemployment was far more prevalent than visible underemployment in all rural activities

ownership, ownership of untitled land, access to and control of urban and rural land, and existence of a framework promoting women’s access to property (figure 26).

Rural employment patterns differ from national averages. Far more rural than urban activity is informal.¹⁹ Family labor and arrangements such as sharecropping are the rule, and wage labor is an exception.²⁰ In Benin, for example, rural visible and invisible underemployment is very high, as seen in the underemployment rates for agriculture, live-stock, fisheries, and forestry in 2007–11 (table 5). Visible underemployment in agriculture increased from 25 percent to 33 percent. Moreover, invisible underemployment was far more prevalent than visible underemployment in all rural activities, both agricultural and nonagricultural.

A DUAL AND ESSENTIALLY INFORMAL LABOR MARKET

The informal sector’s share predominates in both GDP and employment in African economies.²¹ Informality’s sprawl presents a major challenge to analysts and policy makers trying to curb the trend.

According to the 17th International Conference of Labor Statisticians guidelines,²² informal jobs include:

1. Informally paid employees without social security, paid annual leave, or sick leave.
2. Paid employees in unregistered enterprises with fewer than 5 employees.
3. Self-employees in unregistered enterprises with fewer than 5 employees.
4. Employers in unregistered enterprises with fewer than 5 employees.
5. Family workers.

Employees in category 1 are informal workers in the formal sector. In some countries they may be a higher proportion of informal workers than those working in the informal sector. Those in the other categories are in the informal sector. In category 3, many who are considered informal employees are concomitantly small enterprises or microenterprises.²³ A large proportion of employers are counted as informal employees in category 4 because they are in informal production units—over 80 percent of employment is self-employment in most African countries.

Because informal employment includes precarious employment in the formal sector, policies addressing informal employment will also affect

TABLE 5 Underemployment in Benin, 2007–11, by sector and industry (percent)

Type of job	Visible underemployment			Invisible underemployment		
	2007	2010	2011	2007	2010	2011
Agricultural	24.5	25.0	33.0	44.3	50.6	54.5
Nonagricultural	29.4	35.2	29.6	46.3	61.7	46.7
<i>Types of activity</i>						
Agriculture, livestock, fishery, and forestry	29.4	35.2	33.1	46.3	61.7	54.5
Industry	22.1	24.3	29.1	41.0	53.8	55.6
Water, electricity, and gas	22.7	11.8	22.9	37.0	25.9	21.7
Building and related	19.7	17.1	25.0	25.4	33.5	23.3
Commerce and catering	28.9	27.0	33.0	55.2	61.1	56.9
Transport and communication	9.4	11.2	7.6	27.6	23.7	17.2
Bank and insurance	5.7	6.3	6.8	30.5	7.6	7.2
Other services	21.8	28.1	32.8	30.6	35.3	30.0
Nondeclared	25.5	58.1	0.0	41.3	53.2	100.0
Total	27.0	29.8	31.0	45.3	55.5	49.6

Source: Institut Nationale de la Statistique et de l'Analyse Economique, Benin.

The informal sector's share predominates in both GDP and employment

the formal sector. Because informal employment includes employers in addition to employees, the informal sector is at the center of private sector development as well as labor market dynamics.

The definition of the informal sector varies significantly from one author to another.²⁴ Most surveys on West Africa consider enterprises informal that are not registered or do not keep accurate accounts: "An informal activity is any activity that is not registered and/or lacks formal written accounting, whether as a primary or secondary job."²⁵

The 1–2–3 surveys use that definition. These surveys, conducted in most AFRISTAT member countries, have three phases. Phase 1 is a household survey covering socioeconomic and demographic characteristics and employment. Phase 2 surveys informal production units in a subsample of the phase 1 households. Phase 3 studies consumption in a subsample of the phase 1 households. The 1–2–3 surveys were conducted in seven West African Economic and Monetary Union (WAEMU) economic capitals during 2001–03: Abidjan, Côte d'Ivoire; Bamako, Mali; Cotonou, Benin; Dakar, Senegal; Lomé, Togo; Niamey, Niger; and Ouagadougou, Burkina Faso.²⁶

The surveys show that employment in these countries is essentially informal (table 6). For example, Dakar had an estimated 277,000 production units in the 1–2–3 survey, but only about 10,000 were known to the tax service and so considered formal. Senegal's 2016 general census of companies, which excluded outpatient activities, found that almost 97 percent were informal.²⁷ The trends in the other countries are just as striking. In Benin, considered West Africa's state-warehouse, informality accounted for about 70 percent of national GDP. The average in the region was 50 percent.²⁸

Jobs are similarly concentrated in the informal sector. The sector accounts for more than 70 percent of jobs in the WAEMU economic capitals in the 1–2–3 surveys, with a peak of 80 percent in Cotonou and Lomé (figure 27).

Identifying informality is by definition difficult because it concerns undeclared activities. The 1–2–3 surveys are one of the most successful efforts to determine informality in West Africa. However, the 1–2–3 survey figures should be put into context:

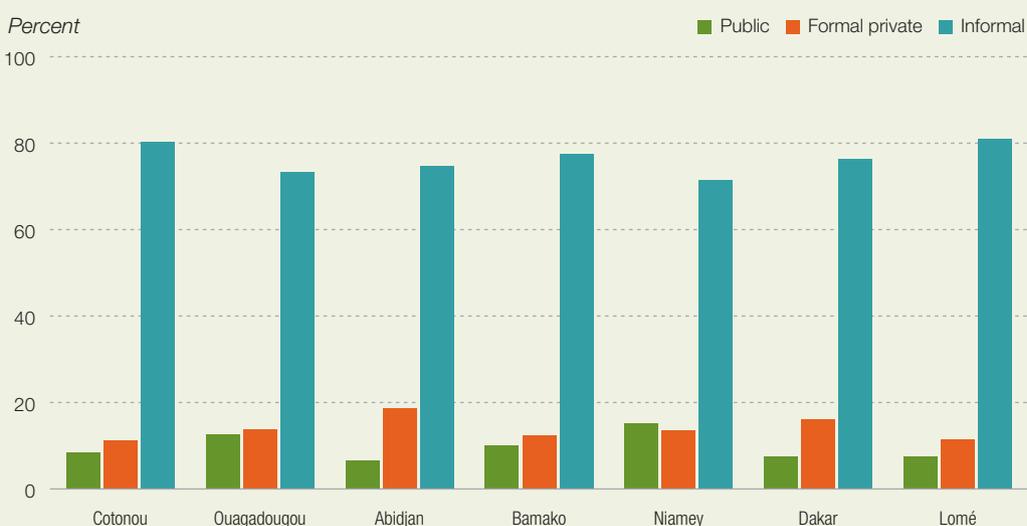
- They only concern economic capitals, though informality prevails even more in rural than in

TABLE 6 Informal enterprises and percent of employed women and migrants in seven economic capitals

	Abidjan	Bamako	Cotonou	Dakar	Lomé	Niamey	Ouagadougou
Informal enterprises	609,300	234,000	206,100	277,200	209,800	74,300	151,000
% females	46.7	44.1	53.4	40.8	52.9	36.4	41.9
% migrants	73.3	59.2	56.0	42.7	66.5	61.3	60.5

Source: 1–2–3 surveys, 2001–03.

FIGURE 27 Employment by public, formal private, and informal sectors in seven West African economic capitals



Source: 1–2–3 surveys, 2001–03.

A fairly clear distinction appears between large informal and small informal enterprise wages

urban settings. Close to 100 percent of agricultural and nonagricultural activities in rural areas are informal.²⁹ So the 1–2–3 survey figures underestimate informal firms and jobs.

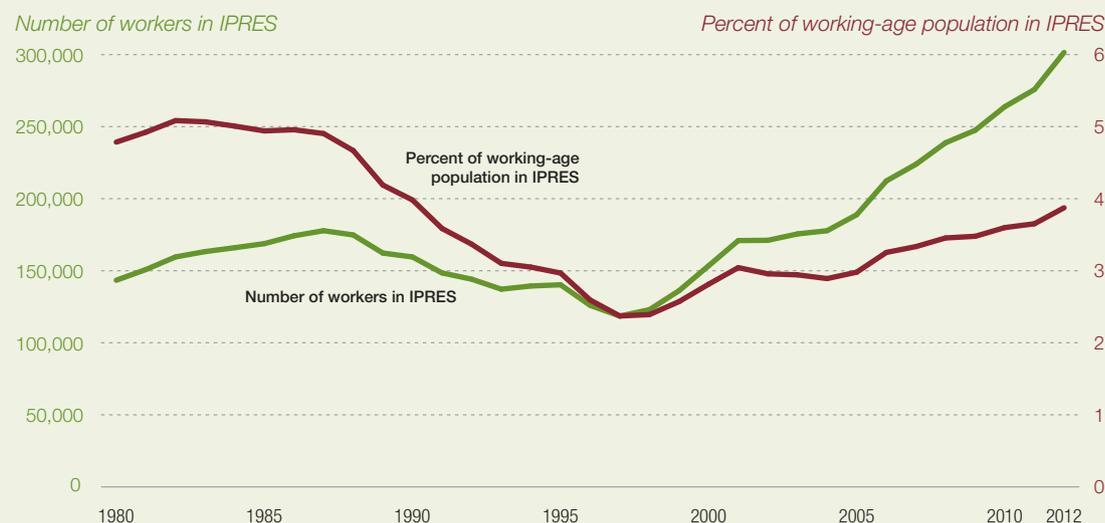
- The surveys treat as formal all production units that keep accounts or are registered. But many registered economic units are informal by other standards in West Africa and elsewhere.³⁰

To better estimate informal employment in Senegal, Golub and Mbaye took the working-age population, estimated at 9 million, and subtracted the number of people in formal employment (those covered by IPRES, Senegal’s social security system).³¹ There were only about 300,000 formal jobs, or just 3.8 percent (figure 28).

Average formal sector wages are much higher than informal wages in West Africa (table 7). Formal private sector salaries and benefits tend to follow public sector standards, while informal wages are often below subsistence. Alongside the usual distinction between formal and informal enterprise wages, a fairly clear distinction appears between large informal and small informal enterprise wages (see table 7).³² Libreville, Gabon is noteworthy: it has the highest average formal sector wage, but also the lowest average informal sector wage. It also has the highest income inequality.

The 1–2–3 survey data from seven West African economic capitals confirm these trends. In all of them, over 40 percent of informal sector

FIGURE 28 Workers in formal employment in Senegal, 1980–2012



Source: Golub and Mbaye 2015.

Note: IPRES is Institution de Prévoyance Retraite du Sénégal, Senegal's social security system.

TABLE 7 Wages of employees according to firm status

	Formal	Large informal	Small informal	Total
Cotonou, Benin	324,802	62,155	79,340	140,468
Dakar, Senegal	467,269	265,750	182,472	264,416
Douala, Cameroon	364,404	168,427	103,003	211,523
Libreville, Gabon	656,310	204,810	67,455	200,453
Ouagadougou, Burkina Faso	326,531	319,817	134,036	216,935
Yaoundé, Cameroon	272,180	541,609	85,682	182,851

Source: Mbaye et al. 2015.

The business environment explains why the formal sector is struggling to grow and failing to generate good jobs

employees earn less than the minimum wage, and in Burkina Faso, the proportion reaches 61 percent (figure 29).

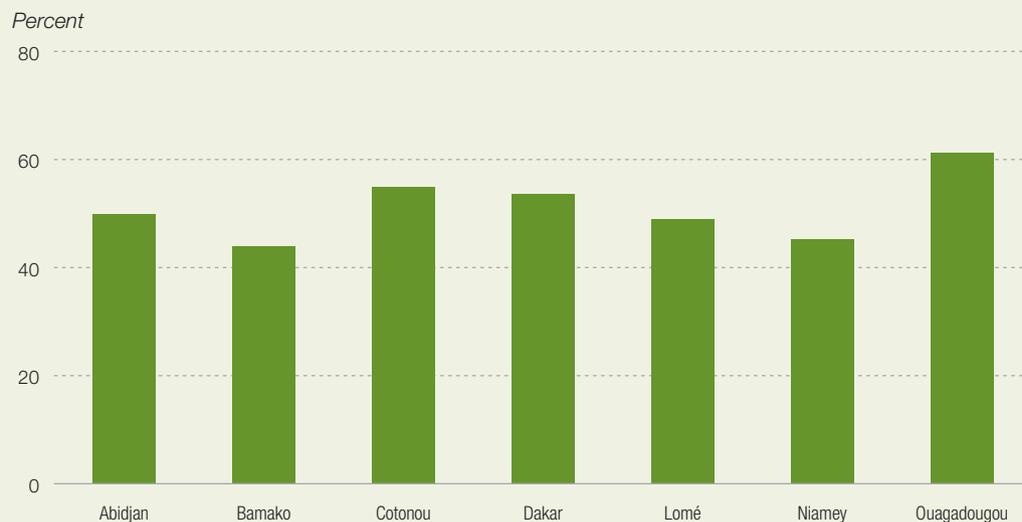
The precariousness of informal activities also appears in working conditions (figure 30). Between 80 and 100 percent of informal enterprises lack basic services—water, electricity, or telephone service. These results confirm previous findings.³³ Similarly, about 80 percent of informal enterprise employees have no social security or no medical service, and even fewer have paid leave (figure 31).

THE BUSINESS ENVIRONMENT AND DEMAND FOR LABOR

Supply and demand are imbalanced in Africa's labor market, with high levels of unemployment and underemployment, and few high-quality formal jobs. The business environment explains why the formal sector is struggling to grow and failing to generate good jobs. The business environment affects both large and small businesses, and it affects informal as well as formal employment

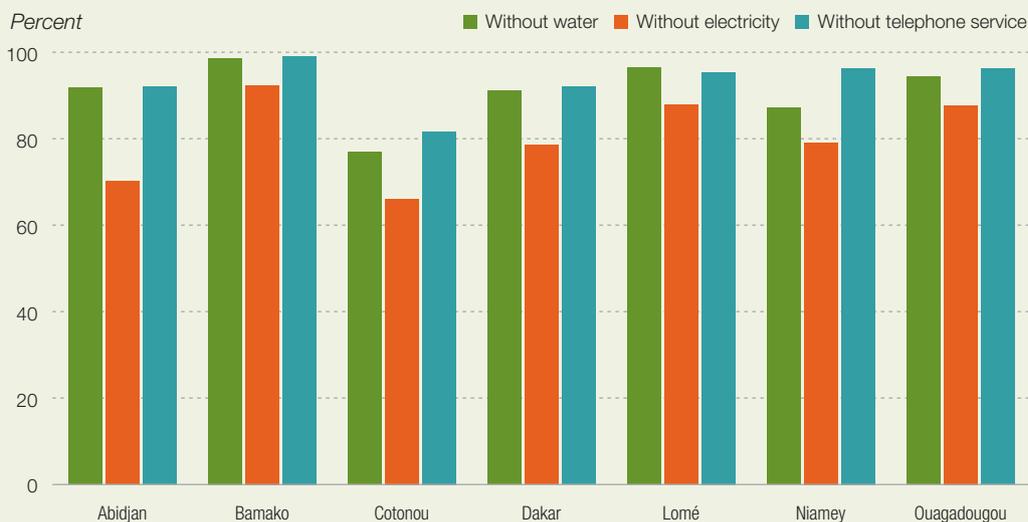
Rising labor incomes are normally the primary way economic growth translates into higher living standards and lower poverty rates

FIGURE 29 Employees in informal enterprises earning less than minimum wage in seven West African economic capitals



Source: 1-2-3 surveys, 2001-03.

FIGURE 30 Lack of basic services in informal enterprises in seven West African economic capitals



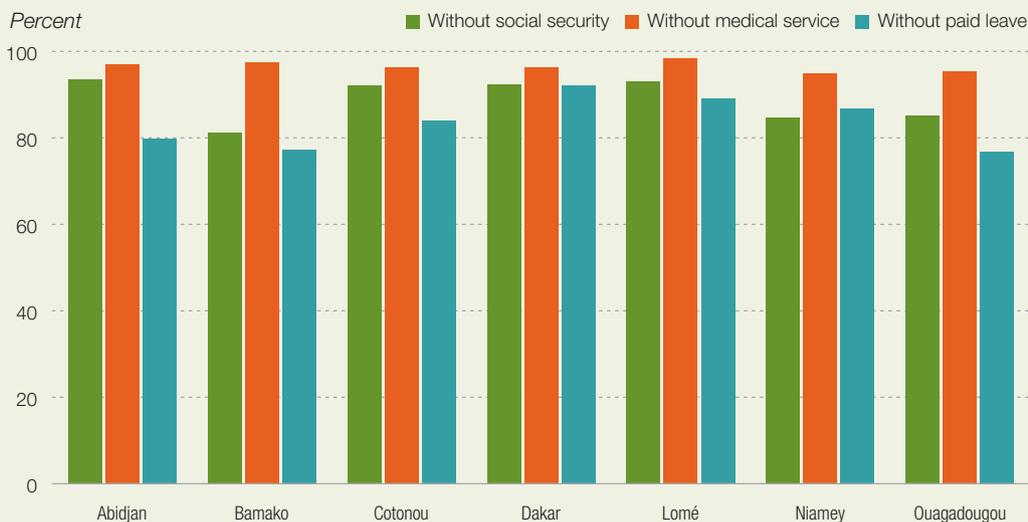
Source: 1-2-3 surveys, 2001-03.

because managers of informal sector enterprises are counted among informal employees.

Rising labor incomes are normally the primary way economic growth translates into higher living standards and lower poverty rates, in a

trickle-down effect. The size of an economy's formal private sector is correlated with an economy's ability to generate decent jobs. But Africa's informal production is symptomatic of a jammed structural transformation, in which labor should

FIGURE 31 Lack of benefits for informal enterprise employees in seven West African economic capitals



Source: 1–2–3 surveys, 2001–03.

Low-productivity informal services, rather than formal manufacturing, are absorbing almost all the labor surplus in cities

first migrate from agriculture to industry and second, as industrial growth slows and industrial employment falls, to a growing service sector.

Today, the slowdown in manufacturing in developing countries is coming at about the same level of log GDP, but at much lower per capita GDP, than it did in the developed countries in Europe and America.³⁴ And Africa’s manufacturing slowdown is coming at even lower per capita GDP than the developing country average.³⁵

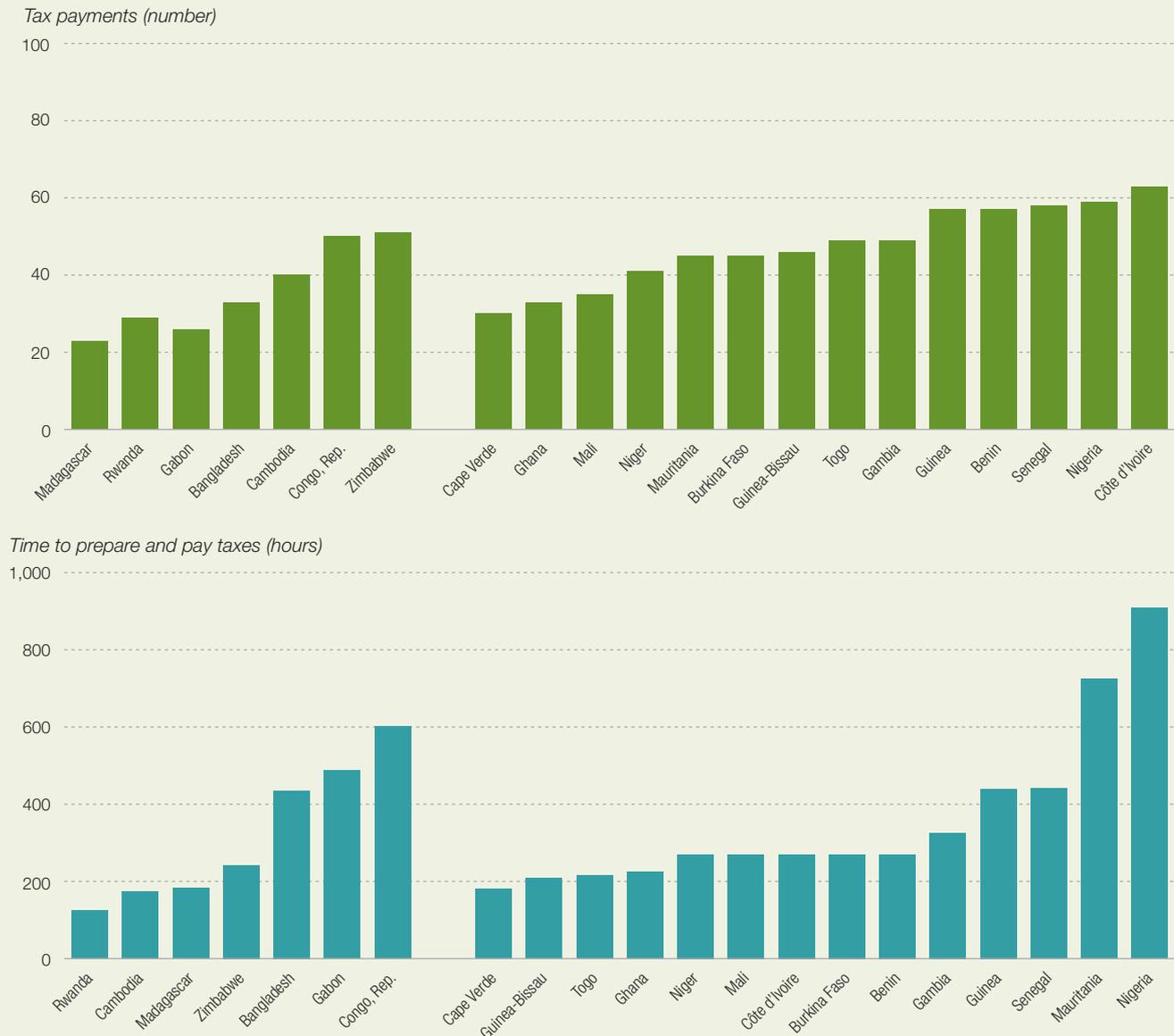
Africa’s migration of agricultural producers from rural areas to cities continues at a steady pace. But low-productivity informal services, rather than formal manufacturing, are absorbing almost all the resulting labor surplus in cities. Informal income in African cities is above subsistence agriculture income but well below formal sector income.³⁶ Any policy promoting employment in Africa should first aim to trigger sustained inclusive growth that would increase the demand for formal labor.

West Africa’s unfavorable business environment is the main cause of the formal private sector atrophying and the informal sector booming. Regulation by a low-quality bureaucracy and high taxes stifle the private formal sector. But because regulation and taxes are mostly avoided

in the informal economy, they promote its growth.³⁷ Consequent labor market distortions reduce productivity and hinder the introduction of new technologies, stalling overall growth.³⁸ Further costs due to customs, financing, lack of transparency in tax collection, and inadequate public infrastructure for transport and energy reduce private companies’ competitiveness.

How many taxes a company must pay and how much time it takes to declare and pay them, rather than the tax rates themselves, create a bottleneck for businesses (figure 32). Côte d’Ivoire has the most taxes—63 different types for a private company—followed by Nigeria with 59, Senegal with 58, and Benin with 57. In West Africa, Cape Verde is exceptional, with only 30 taxes. In some countries outside West Africa, the number is relatively moderate: 29 in Rwanda, 26 in Gabon, and 23 in Madagascar. The most time a company spends declaring and paying taxes is in Nigeria, where the average is over 800 hours, followed by Mauritania, Congo, and Senegal. Once again, Cape Verde’s average is much more moderate. Fiscal harassment also constrains formal enterprises. A company may undergo repeated audits, inspections, and tax adjustments, once it is identified as one of the few paying taxes.³⁹ In Senegal,

FIGURE 32 Number of taxes, and time spent declaring and paying taxes



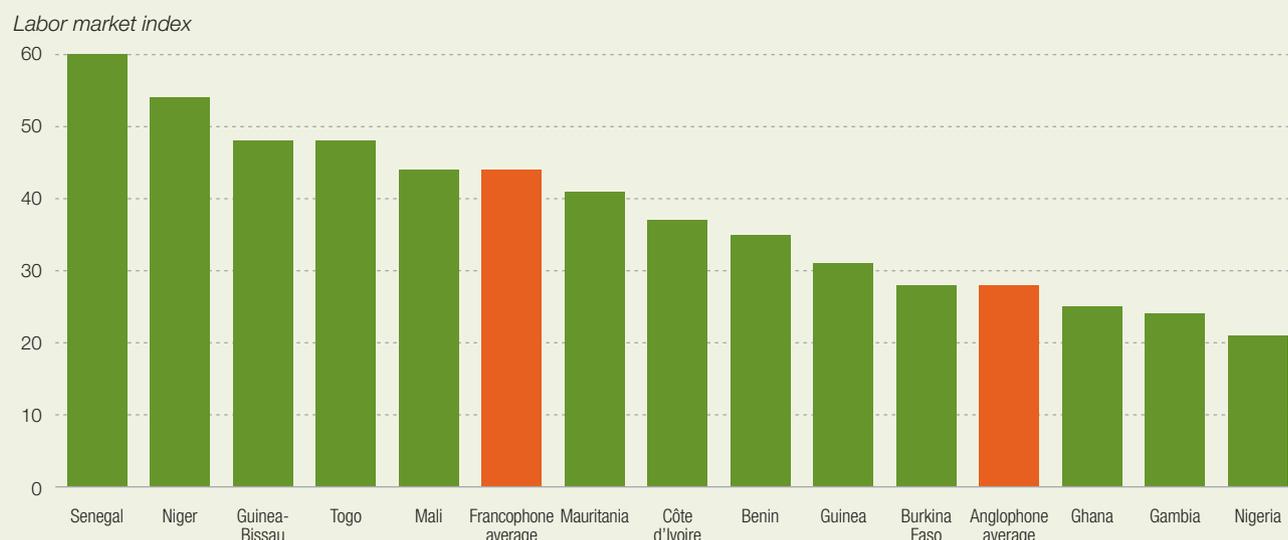
only about 15 companies pay up to 75 percent of the state's tax revenue.⁴⁰

Africa's labor market has a paradox: the workforce is abundant, but labor costs are high. Labor cost relative to labor productivity in Africa, including West Africa, is higher than anywhere else in the developing world.⁴¹ The wage in dollars relative to productivity in 2010 was 6.5 in Senegal, for example, compared with 1.1 in China, 0.7 in Malaysia, and 0.8 in Mexico and Colombia.⁴² The

unit cost of labor is higher in Africa than anywhere else with the same per capita income.⁴³

On top of labor costs, rigid complex labor regulations such as legal holidays and restrictions on hiring and firing affect the labor market in Africa. Among West African countries, Senegal, Niger, and Togo score highest on an indicator of labor market rigidity based on work restrictions and regulations, and only Nigeria scores below 0.2 (figure 33).⁴⁴

FIGURE 33 Labor market rigidity in West African countries



Source: Golub and Mbaye 2015.

Other factors obstruct formal private entrepreneurship, limit formal employment, and propel informal sector expansion. In many African countries, access to electricity is low compared with Asian countries at comparable economic stages (figure 34). The same can be said about bank financing for private investment—it is less available and more costly in Africa than in comparator countries. High transport costs and inefficient transport logistics are also significant obstacles.

The business environment affects informal small businesses differently than more visible formal enterprises. While informal businesses may escape regulations, they are often excluded from infrastructure services.⁴⁵ Women disproportionately lead informal small enterprises—in Central Africa, about 80 percent, compared with 6–17 percent of formal and large informal ones (box 2).⁴⁶ Women-led enterprises are more often excluded from training, financing, water, electricity, and information and communications technology (ICT) than male-led enterprises. The small informal businesses that women disproportionately lead are the very kind that need public infrastructure.

Increasing workers' training would make them more employable. It would also empower very

small enterprises, which are often the individual or family enterprises that constitute most informal employment and self-employment in Africa.

POLICY RESPONSES TO UNEMPLOYMENT AND UNDEREMPLOYMENT

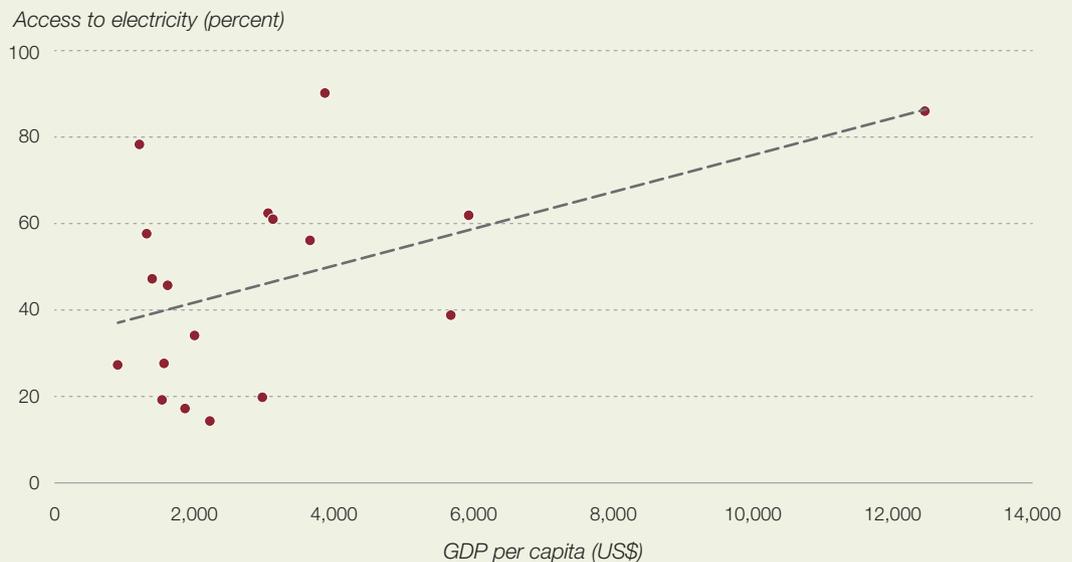
To address unemployment and underemployment, West Africa needs a holistic approach. Labor supply is largely determined by complex interactions among gender imbalances, demographic characteristics, and political failures to provide social services. Labor demand from companies depends on the business climate, including labor market regulations, and companies' productivity and competitiveness.

Two pillars should underpin employment policy interventions. One is supporting very small enterprises (VSEs), the essential part of the self-employment ecosystem. The second is promoting labor-intensive industries. Building industrial parks could provide a shortcut to overcome the constraints that Africa's business environment simultaneously imposes.⁴⁷

To address unemployment and underemployment needs a holistic approach

Training should develop advanced skills, including managerial qualities

FIGURE 34 Access to electricity and per capita GDP in West Africa and comparator countries



Source: World Development Indicators 2016 and AfDB statistics.

Supporting small and very small enterprises

The main contributors to VSE failure are well-known: inexperience, poor cash management, inadequate knowledge, insufficient funding, non-compliance with law, overindebtedness, poor customer service, inability to innovate, inadequate financial planning, and inability to assess strengths and weaknesses. In response, the support strategy should provide training, coaching, and financing.

Training should develop advanced skills, including managerial qualities. It must consist of short targeted courses. It should accommodate diverse learning methods in order to adapt to participants, combining courses, practical workshops, practical work on the business project, support and individualized advice (coaching), and individualized follow-up. Establishing business incubators should figure in the strategy. Incubators provide physical facilities, consulting resources, and appropriate development tools to new and emerging businesses, helping them survive and grow during startup, when they are more vulnerable.

Lessons from other countries' experience can be applied or adapted. Consider Morocco,

which has created a legal status, self-employer ("auto-entrepreneur"), that pays a reduced tax when annual sales are below a certain threshold. In exchange, self-employers get easier access to social protection and financing. The system makes it possible for Morocco to better follow informal sector enterprises and create a path to formality for them. And giving informal entrepreneurs status as small businesses effectively places them under the real tax regime, letting the state monitor their activity better. The self-employer scheme covers all sectors, in particular small traders. To be included, annual sales must not exceed 50,000 euros for commercial, craft, and industrial activities, taxed at 1 percent of sales, or 10,000 euros for service providers, taxed at 2 percent. The lesson for West Africa is not to replicate this experience without change. But evaluating and by comparing it with similar experiences (such as in Turkey or China) to get ideas for adapting it would certainly be useful.

Promoting labor-intensive industries

With very high youth inactivity and high active population growth, Africa may have a comparative advantage in sectors relying on unskilled labor, such as light manufacturing (including clothing

BOX 2 Informality and exclusion: Female entrepreneurship in Central Africa

Africa often excludes informal actors, particularly women, from services, according to an analysis of women's entrepreneurship in Central Africa. In Douala, Libreville, and Yaoundé, women were more confined to small informal activities and thus more excluded than others from such services as training, financing, and information and communications technology—ICT.¹

The study distinguished between large informal, small informal, and formal enterprises. Women's predominance in the informal sector was evident in all three cities. In Douala, women headed only 10 percent of formal enterprises, and only 6 percent of large informal enterprises. By contrast, women headed 83 percent of small informal enterprises. In Yaoundé, women were 17 percent of managers in the formal sector but 80 percent of managers in the informal sector. In Libreville, women were 12 percent of entrepreneurs in the formal sector (a slightly higher rate than in the other cities), compared with 78 percent of entrepreneurs in the small informal sector. Women were found in crafts, restaurants (gargotes), marketing prepaid phone cards, and other retail trades. Similarly, women played an important role in cross-border trade as commercial intermediaries, often in activities related to their spouses' activities. Women's cross-border trade sometimes employed kinship religious networks.

Only a minority of women-owned companies kept accurate accounts—45 percent in Douala, 36 percent in Libreville, and 27 percent in Yaoundé. A higher proportion were registered—between 48 and 40 percent. This is not surprising due to the weakness of registration as a criterion defining informality.² A better correlate with informality is the small size of the firm. In Douala 86 percent of women-owned companies had fewer than 5 employees, in Libreville, 72 percent, and in Yaoundé, 84 percent. Small-scale informal activities tend also to be more precarious: in Douala, 84 percent of employees in women-owned companies had no social security coverage in contrast to 51 percent of men, in Libreville 81 percent of women in contrast to 66 percent of men, and in Yaoundé, 76 percent of women in contrast to 52 percent of men.

Financial exclusion universally characterizes informal enterprise in Africa (and sometimes even formal enterprise), and women are especially subject to it. Only in Libreville did a higher share of women have access to bank credit—12 percent, compared with 9 percent of men. In Douala, 82 percent of women were excluded from bank credit, compared with 72 percent of men, and in Yaoundé, 90 percent of women were excluded, compared with 73 percent of men.

Women were also more often excluded from water, electricity, and telephone services than men, and they use ICT less. On the other hand, in all 1-2-3 Survey cities, they had fewer problems with unions or the government, and they reported as much optimism as men about their future activities.

In summary, women appear to face informality and insecurity more than men. As a result, the very small businesses that disproportionately characterize female entrepreneurship are the kind that need support from public infrastructure services.

Notes

1. Mbaye et al. 2015.
2. Benjamin and Mbaye 2012.

Source: Mbaye 2015.

The very small businesses that disproportionately characterize female entrepreneurship need support from public infrastructure services

and hides and skins^{4b}) and processing agricultural, horticultural, and fishery products. However, the business environment's sluggishness and production's poor organization undermine agriculture and industry and discourage exports and foreign investment. West African countries must reduce investment barriers, especially in agricultural and

manufacturing industries that intensively use unskilled labor. Donors, governments, private investors, and local entrepreneurs should work hand in hand to identify barriers to competitiveness. Manufacturing success stories from Ethiopia's industrial parks offer good illustrations of such cooperation.

NOTES

1. This is computed using current 2017 GDP for the West African countries.
2. African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme 2017.
3. African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme 2017.
4. Anyawu, Erhijakpor, and Obi 2016.
5. Aryeetey and Baah-Boateng 2007.
6. Ajakaiye et al. 2015.
7. McMillan and Rodrik 2011.
8. Golub and Mbaye 2015.
9. Mbaye and Gueye 2018.
10. World Population Prospects 2017.
11. SNA 2008.
12. Charnes 2016.
13. ILO 2014.
14. Golub and Hayat 2015.
15. ILO 2015.
16. ILO 1998.
17. Some studies (O'Higgins 2017) refer to ages 15–29 as better reflecting the transition from adolescence to adulthood. However, most data on youth employment retain the 15–24 interval.
18. Elder 2015.
19. Benjamin and Mbaye 2012.
20. Mbaye, Benjamin, and Gueye 2017.
21. Benjamin and Mbaye 2015.
22. ILO 2003; Shehu and Nilsson 2014.
23. Uniformed act revised. OHADA 2010.
24. Benjamin and Mbaye 2012; Fields 2011; Heintz 2012; Fu, Mohnen, and Zanello 2017.
25. INSEE, AFRISTAT, and DIAL 2005.
26. The 1-2-3 Survey databases are accessed through Kit-1-2-3, which contains extensive documentation on 1-2-3 surveys including articles, survey reports, questionnaires, manuals, and databases.
27. ANSD 2017.
28. Benjamin and Mbaye 2015.
29. See Mbaye et al. 2015.
30. Benjamin and Mbaye 2012; Mbaye et al. 2015; Fox and Sohnesen 2012.
31. Golub and Mbaye 2015.
32. Benjamin and Mbaye 2012; Fu et al. 2017; Mbaye et al. 2015.
33. Benjamin and Mbaye 2012; Perry et al. 2007.
34. See Herrendorf, Rogerson, and Valentinyi 2013; Rodrik 2015.
35. Benjamin and Mbaye 2017.
36. Benjamin and Mbaye 2017.
37. Loayza 1997.
38. Arias et al. 2005.
39. Benjamin and Mbaye 2012.
40. Government of Senegal and Millennium Challenge Corporation 2016.
41. Ceglowski et al. 2015; Gelb et al. 2017.
42. Ceglowski et al. 2015.
43. Gelb et al. 2017.
44. Golub and Mbaye 2015.
45. Perry et al. 2007; Mbaye et al. 2015.
46. Mbaye et al. 2015.
47. Lin and Monga 2017.
48. See Monga and Lin 2010.

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The West Africa Economic Outlook presents a comprehensive economic analysis of the 16 countries in this region, focusing on growth, macroeconomic stability and employment, structural change, and poverty reduction. It provides estimates for 2017 and projections for 2018 and 2019. A second part of the outlook examines the labor market in more detail.

Average GDP growth in West Africa stalled in 2016, after several strong years, to 0.5 percent. It rebounded in 2017 to 2.5 percent, and was projected to rise to 3.8 percent in 2018 and 3.9 percent in 2019. Countries' performance varied, but because Nigeria contributes about 70 percent of regional GDP, its patterns largely shape regional ones.

The service sector's share in the economy is the largest in most countries, and manufacturing's share is the smallest in all of them. Demand in the economies comes primarily—70 percent on average—from private consumption, but gross capital formation is expected to be the fastest growing area of demand in the next couple of years.

To reduce vulnerability to external shocks threatened by the dependence of several economies, especially Nigeria, on oil or other mineral extraction, West Africa must increase domestic input into its products through manufacturing, especially processing minerals and agricultural products.