DEVELOPMENT REIMAGINED

Deep Dive of Financing Needs & Debt Vulnerabilities

Nigeria, Ghana, Senegal & Côte d'Ivoire

2021

CONTENT

ABSTRACT

COVID-19 has created new financing pressures amongst African countries and has resulted in reduced economic activity and continued financial expenditures. These four West African deep dives provide analysis of these financial pressures, alongside the existing financing gaps that many African countries already experience. These financing needs must be met. Our analysis demonstrates the central areas of need for each of the four West African countries discussed – Nigeria, Ghana, Côte d'Ivoire, and Senegal.

Each of these countries were chosen because of their unique relationship to financing and debt. In each case, the analysis demonstrates that current narratives of an 'African debt crisis' fail to contextualise debt levels. In particular, that debt volumes have grown alongside economic growth, shown through debt-to-GNI and that overall, there is room for *high-quality* debt to finance economic recovery and transformation. When analysing the financial needs of a country and the quality of debt, it is essential to consider the context of debt; primarily, how it contributes to meeting SDG commitments and addresses financial gaps in essential infrastructure etc.

These deep dives demonstrate that open and accessible data is essential to assessing the quality of loans and that national governments need to invest more in the collation and distribution of this data. This is an opportunity for civil society organisations to play a pivotal role in advocating on behalf of citizens for more financial transparency. By reading these deep dives, civil society organisations and governments alike can understand what institutional infrastructure and processes are necessary to accurately assess debt quality, negotiate quality loans and develop projects that contribute to truly sustainable development.

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INTRODUCTION

Amidst the COVID-19 pandemic, African governments continue to invest in much-needed infrastructural development in the context of increasingly constrained fiscal space. Government spending has increased to protect people and livelihoods from the impacts of necessary curfews and lockdowns and to provide essential healthcare, vaccines and PPE.

Meanwhile, narratives of African debt abound, focusing on phrases such as “debt crisis”, “debt diplomacy”, “debt forgiveness” and “debt relief”. These narratives have a substantial impact on African access to financing as countries with alleged debt problems are downgraded by credit ratings agencies. This is all happening amidst pre-existing development challenges and financing gaps for infrastructure and investment in the Sustainable Development Goals (SDGs). This deep-dive analysis of West African countries development financing strategies contextualizes each country’s debt position and shifts the focus to assessing debt *quality*, rather than debt *quantity*.

A key feature of this is COVID-19 economic impacts and the increasing urgency of vaccine procurement. There are fewer than 10 African manufacturers with vaccine production facilities and they are based in 5 countries - Egypt, Morocco, Senegal, South Africa, and Tunisia. Importantly, there are roughly 80 sterile injectable facilities across Africa, which have the potential for vaccine production seeing that the primary mode of dosage administration is through vials[1].

The World Health Organization (WHO) stated that through the COVAX mechanism, roughly 90 million doses of the COVID-19 vaccine will be shipped to Africa starting February 2021. Additionally, the African Union secured 670 million vaccine doses to complement the COVAX plan and they will be distributed through 2021 and 2022[2], which includes 400 million doses from Johnson & Johnson. For example, in Nigeria, the head of the National Primary Healthcare Development Agency expressed hopes to secure 70 million of these doses from the African Union[3]. However, as identified throughout our analysis, vaccine procurement across African countries has been slow, thereby endangering economic recovery.

This analysis is part of the Africa Unconstrained flagship project, showing perspectives on the Continent’s New Era to challenge current narratives on the economic future of African countries. We use in-depth analysis, webinars, interviews with global experts and original research to bring out the key economic challenges – and their solutions – for African countries and their partners. It is intended to be read and understood by civil society as well as those with a non-technical background. Continuing from our 20-country Debt Guide[4], it provides an in-depth analysis of four debt and financing positions of four West African countries – Senegal, Cote d’Ivoire, Nigeria and Ghana.

The overall aim and objective are to provide the reader with an understanding of the financial and socioeconomic context, with a focus on the current financial trends and activities related to the SDGs and the respective countries National Development Plans. Specific recommendations towards future monetary architecture and independence are provided concerning the further development and prosperity of the West African region in particular, and Africa in general.

[1] Bakano, O. 2021. What is Africa’s Vaccine Capacity? https://www.afro.who.int/news/what-africas-vaccine-production-capacity

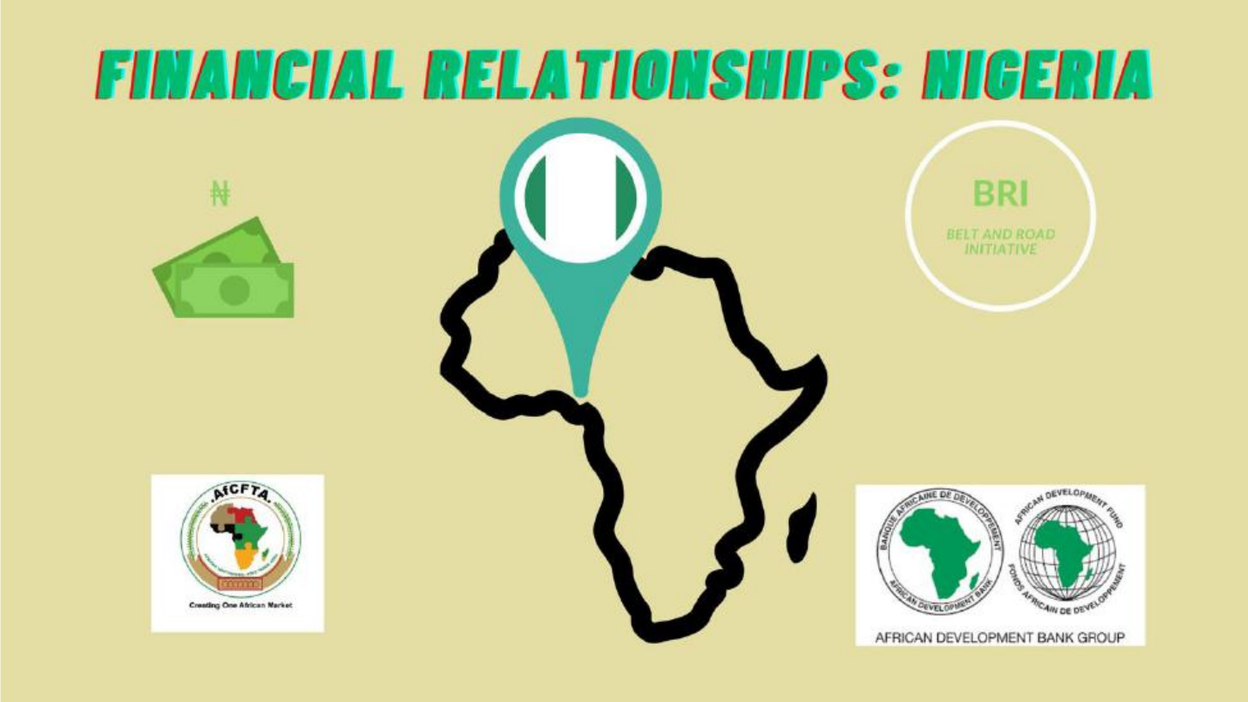
[2] https://www.ghanaiantimes.com.gh/covid-19-vaccine-distribution-africa-deserves-equitable-access-to-vaccine-doses/

[3] https://www.globalcitizen.org/en/content/things-to-know-nigeria-covid-vaccine-distribution/?template=next

NIGERIA

The overall aim of this 'deep dive' is to help the reader understand the financial and socioeconomic status quo of Nigeria, with a focus on the current financial trends and activities related to the attainment of the UN's SDGs and the African Union's (AU) *Agenda 2063*. Specific recommendations regarding Nigeria's future monetary architecture and independence are provided concerning the further development and prosperity of the West African region, and Africa in general.

Nigeria is an economic powerhouse within West Africa and a vital player in the global economy. The country has great financial commitments with international financial entities as well as multilateral and bilateral deals that bolster its economic development. In 2013, the Nigerian economy represented roughly 55% of West Africa's GDP based on the purchasing power of the fifteen member countries of the Economic Community of West African States[5] (ECOWAS). In 2019, Nigeria's economic growth was forecast at 2.2% (USD 4.5 billion). However, due to COVID-19, growth declined to -1.7% in 2020. By 2021, GDP growth is expected to recover to 2.5%[6].



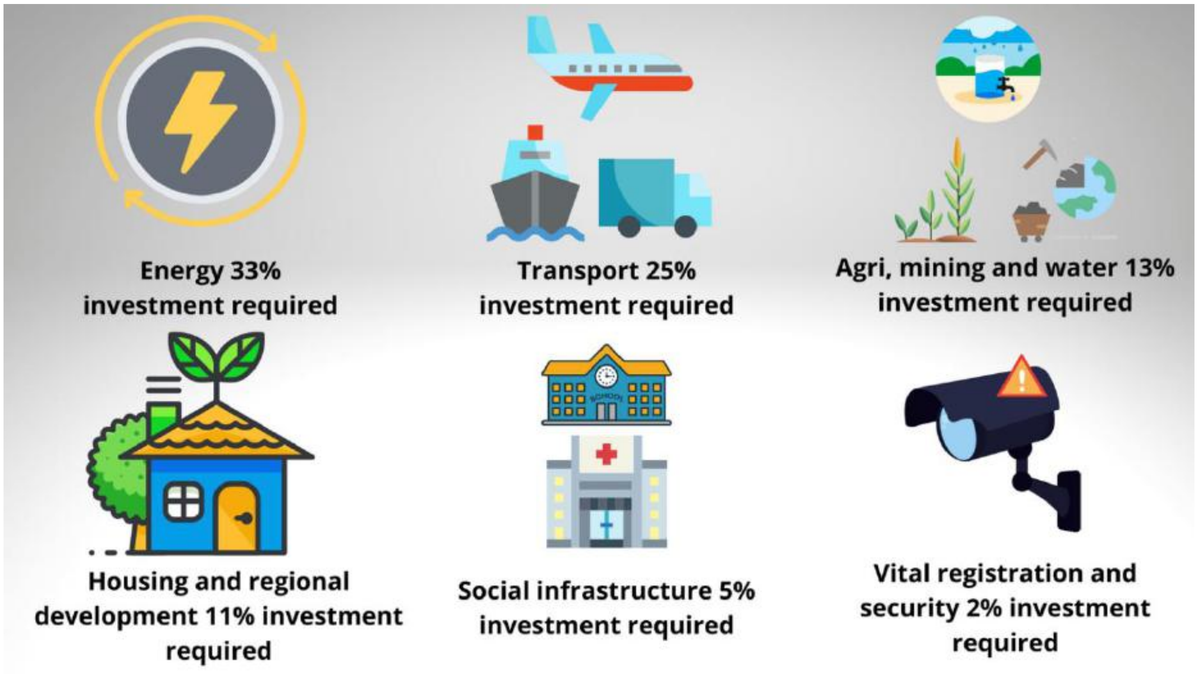
As Nigeria's economy is well-developed, it has the potential to spur regional economic development targets vis-à-vis the UN's SDGs and the AU's *Agenda 2063*. The Nigerian government collaborated with numerous stakeholders to put in place key policies, institutional and regulatory measures to enable SDG coordination[7]. For example, the UN Development Programme (UNDP) provides technical support to the Nigerian government in the development of Voluntary National Reviews (VNRs) which facilitate the strengthening of policies and institutions and also mobilize partnerships. Other examples include collaboration between the

[5] African Development Bank (AfDB), 2013. *Country Strategy Paper* 2013-2017. [based on purchasing power of the fifteen member countries of the Economic Community of West African States]
[6] https://www.worldbank.org/en/country/nigeria/overview
[7] Adefulire, Adejoke 2017. *Implementation of the SDGs – A National Voluntary Review.* "Eradication of Poverty and Promoting Prosperity in a Changing World". Federal Government of Nigeria, UNDP.

UNDP and the Office of the Senior Special Adviser to the President on SDGs. This ensures that planning and budgeting for development activities are within the SDGs framework[8]. Furthermore, the African Development Bank (AfDB) Country Strategy Paper for Nigeria (2020-2024) contains priority areas that are aligned with the SDGs. It should be noted that, as part of a national social safety net program, the Nigerian government has moved forward with the establishment of a 'National Social Register' where poor and vulnerable households are identified for support[1]. This supports Nigeria in meeting SDG 1 (No Poverty) and SDG 2 (Zero Hunger). Additionally, in collaboration with the AfDB, the plan to support infrastructure development is aligned with SDGs 3 (good health and well-being), 6 (clean water and sanitation), 7 (affordable and clean energy), and 9 (industry, innovation and infrastructure)[9].

Nevertheless, Nigeria faces numerous challenges to SDG attainment, with significant financing gaps to meet the basic needs of the population, as 44% of the population lacks access to electricity, 49% of the population lacks access to drinking water, and 39% of the population lack internet access. Estimates for Nigeria's financing gap vary widely. According to the Global Infrastructure Hub, Nigeria has a USD 408 billion investment gap[10]. Breaking this down by sector, road infrastructure requirements have the largest investment gap at USD 84 billion, followed by energy USD 61 billion, telecommunications at USD 47 billion and rail infrastructure at 21 billion.

However, the Nigerian government's National Integrated Infrastructure Master Plan, published in 2015, states that for Nigeria to meet its infrastructure needs, it requires approximately USD 3 trillion over the next 30 years (2014-2043). The plan breaks this down per sector stating that energy would require USD 1 trillion (33% of the total investment required) followed by transport (USD 775 billion / 25%), agriculture, mining and water (USD 400 billion / 13%), housing and regional development (USD 325 billion / 11%), ICT (USD 325 billion, 11%), social infrastructure (USD 150 billion / 5%), Vital Registration and Security (USD 50 billion, 2%)[11].



[8] https://www.ng.undp.org/content/nigeria/en/home/sustainable-development-goals.html
[9] https://www.afdb.org/en/documents/nigeria-country-strategy-paper-2020-2024
[10] https://outlook.gihub.org/countries/Nigeria
[11] https://www.nipc.gov.ng/wp-content/uploads/2019/03/National-Intergrated-Infractructure-Master-Plan.pdf#viewer.action=download

Beyond the Master Plan, the Nigerian government also launched the *Nigeria Economic Recovery and Growth Plan (2017-2020)* (NERGP) which provides the foundation for short- and medium-term budgeting frameworks. The plan focuses on macroeconomic stability and diversification with priority towards agriculture, manufacturing, energy, MSME industries, and key services leveraging science and technology. Addressing these challenges requires extensive financing, which domestic financial mobilization can only partially meet, and to sufficiently address these gaps requires extensive external loans from a variety of creditors, including from commercial, bilateral, and multilateral lenders. As the President, Muhammadu Buhari, said in September 2020 "we have so many challenges with infrastructure. We just have to take loans to do roads, rail and power, so that investors will find us attractive and come here to put their money''[12].

[12] https://www.channelstv.com/2020/09/15/we-just-have-to-take-loans-buhari-justifies-borrowing-to-fund-infrastructure/

Section I: Financial History & Status Quo

KEY TAKE AWAYS

- IN 1970, DEBT LEVELS WERE LOW, EQUATING TO JUST USD 837 MN.
- FOLLOWING THE 1973 OIL CRISIS AND RISING INTEREST RATES, DEBT ROSE RAPIDLY TO USD 33 BN IN 1990.
- FOLLOWING DEBT RESTRUCTURING AND CANCELLATION FROM 1986 ONWARDS DEBT FELL FROM UNDER USD 40 BN (2004) TO USD 9.6 BN (2006).
- IN 2018, NIGERIA'S TOTAL EXTERNAL DEBT STOOD AT A RECORD HIGH – USD 47 BN.
- HOWEVER, EXTERNAL DEBT AS A PERCENTAGE OF GNI STOOD AT 12.4% - SIGNIFICANTLY LOWER THAN THE PEAK IN 1993 OF 120.8%

The 1970s: Oil Shocks and Rising Interest Rates

In 1970, Nigeria's external debt levels were low, equating to just USD 837 million. However, external debt rose rapidly from the mid-1970s onwards due to global oil shocks, which generated rising interest rates on loans, and by 1991, external debt reached USD 33.5 billion. The Nigerian government approached the International Capital Market following the 1977/78 recession for its first loan over USD 1 billion - known colloquially as the 'jumbo loan' - primarily to finance infrastructure projects[13]. Within this period, the nominal public debt to GDP ratio rose from 2.1% in 1977 to 23.8% in 1984, and the country's debt profile deteriorated because of the persistent inability to meet debt servicing obligations. Furthermore, the debt-to-GDP ratio reached a maximum of 79.4% between 1980 and 2000[14]. Overall, the slump in oil prices made it necessary to borrow more to support debt repayments[15].

Rising debt levels generated by the oil crisis resulted in Nigeria adopting the IMF's Structural Adjustment Policies (SAPs) in 1986. The SAPs had loan conditions attached, including the devaluation of the Nigerian currency, the Naira, from USD 1 – N1.86 in 1986 to USD 1 – N22 in 1993[16]. The intention was to competitively enhance Nigerian exports by making them cheaper, however, the purchasing power of the population was simultaneously degraded. Subsidy removals were also included in the conditionalities, which increased the cost of imports and worsened the state of manufacturing industries that depended on importing machinery and technology from abroad. Additionally, the 1989 fuel subsidy removal had dire effects on transportation, resulting in price hikes. For example, in Jos, a city in Nigeria's Plateau State, a students' demonstration escalated into widespread unrest and a nationwide strike. Research shows that

[13] Nwannebuike, S. A., et al., 2016. External Debt and Economic Growth: The Nigerian Experience. *European Journal of Accounting, Auditing, and Finance Research.* Vol.4, No.2, pp.33-48. Ref pp.36.
[14] Debt Management Office, 2008. *National Debt Management Framework (NDMF) 2008-2012.* Retrieved from https://www.dmo.gov.ng/publications/other-publications/national-debt-management-framework?sort=title&direction=asc
[15] Oti, Peter. A. et al. "Nigeria's Debt Burden and Development Tangle: The Socio-Economic and Political Implications." Journal of Economic and Sustainable Development. Vol.7, No.20, 2016. https://core.ac.uk/download/pdf/234647679.pdf
[16] https://web.mit.edu/africantech/www/articles/PlanningAdjust.htm

under SAP privatization policies, large numbers of workers were made unemployed as more than 55 public enterprises were privatized between 1988 and 1999[17].

Figure 1: Nigeria's External Debt Levels 1970-2019
Source: World Bank

The 2000s: Debt Management.

Following the implementation of the SAPs, Nigeria's debt remained relatively stable throughout the 1990s, although levels began to increase towards the early 2000s. To address this, Nigeria established a Debt Management Office (DMO) in 2000 to centrally coordinate the management of the country's debt. Since then, with a new debt management strategy, Nigeria's public debt to GDP ratio has been relatively low compared to other African countries, at an average of 11.8% per year between 2005 and 2018.

The decline in debt is largely attributable to the Obasanjo Administration who campaigned heavily for debt relief from Paris Club countries in 2005. The campaign was considered a success, and from 2005 to 2006, out of the outstanding USD 30 billion debt to the Paris Club, Nigeria had repaid USD 12 billion and attained USD 18 billion in debt relief from the Paris Club[18]. Notably, debt levels declined from a peak in 2004 (USD 39.8 billion) to a new low in 2006 (USD 9.6 billion) equivalent to 7.71% of Nigeria's GDP. The debt relief eliminated a yearly $2.3 billion debt service burden and resulted in an appreciation of the Nigerian Naira against the U.S. dollar from ₦132 in 2005 to ₦118 in 2008.

The 2010s to Now: New Creditors and Financing Opportunities.

Following the significant level of debt relief during the mid-2000s, debt began to accumulate due to new financing opportunities and actors, including the private sector and China. The increase in the scope of lenders has allowed Nigeria to finance huge deficits and ambitious development plans, including major infrastructure projects. Concurrently, the government has taken proactive measures in ensuring debt is effectively managed and data is available to civil society. For example, Nigeria – with the involvement of

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[17] Mathias Chukwudi Isiani, Ngozika Anthonia Obi-Ani, Paul Obi-Ani, Chukwudi G. Chidume & Stella Okoye-Ugwu (2021) Interrogating the International Monetary Fund (IMF) Policies in Nigeria, 1986–2018, Cogent Arts & Humanities, 8:1, DOI: 10.1080/23311983.2021.1932283
[18] Centre for Global Development Nigerian Debt Relief https://cgdev.org/topics/nigerian-debt-relief

the World Bank and the IMF – developed a Medium-Term Debt Management Strategy 2012-2015. This included macroeconomic assumptions, the sources of financing, and pricing assumptions[19]. In 2016 a new three-year Debt Management Strategy was also introduced[20]. In 2019, a further strategy covering the period of 2020-2023 was drafted focusing on topics including borrowing strategies, reducing debt service costs, moderating debt-related risks, and ensuring debt sustainability[21]. This reflects a wider trend in Nigeria's attempts to make all data surrounding sovereign debt available to public scrutiny.

As a result of the emergence of new creditors, Nigeria's external debt stock has become varied. Official multilateral organizations are Nigeria's largest creditors, accounting for 50% of total debt stock, followed by commercial private-sector creditors holding 37% of the country's external debt (figure 2). China makes up the largest share of official bilateral lenders, accounting for 11% of the 13% total.

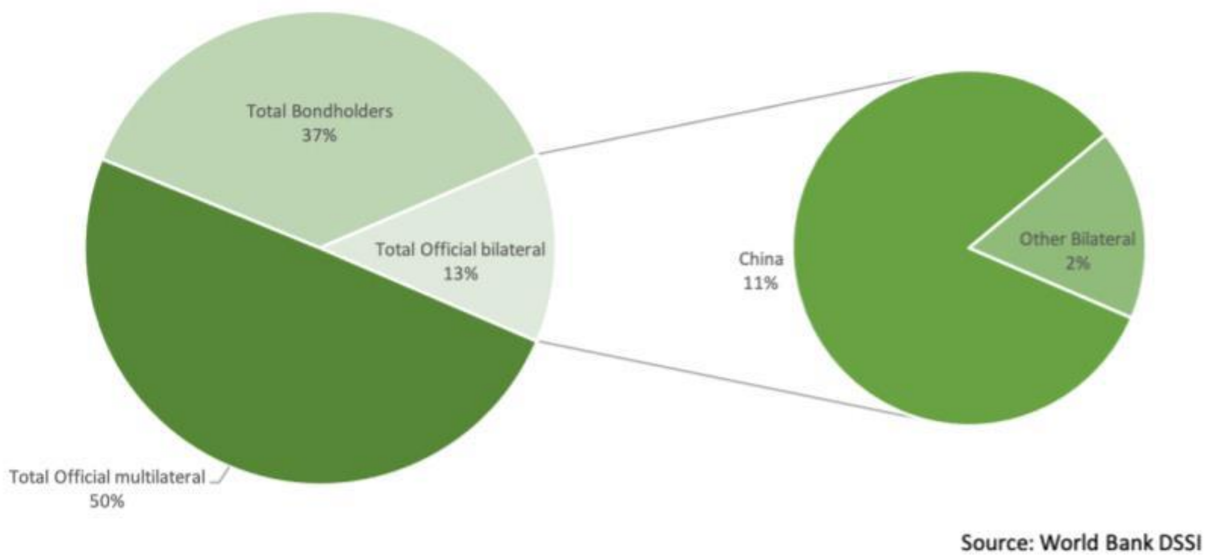


Figure 2: Breakdown of Nigeria's Debt Stocks
Source: World Bank DSSI

Loans from Chinese partners.

China is both a significant creditor and trading partner for Nigeria. Consequently, balanced trading policies and coordination are required to realize the mutual gains from Nigerian-Chinese economic cooperation. According to the *Africa Report*, the trade deficit between China and Nigeria from 2015 to 2018 stood at USD 17.5 billion and total trade between the two countries was approximately USD 49 billion[22]. In 2019, Nigeria's top exports to China were dominated by natural resources, including crude petroleum, equating to USD 1.14 billion, followed by petroleum gas (USD 1.11 billion) and ores (USD 43 million). Comparatively,

[19] Debt Management Office Nigeria. "Nigeria's Debt Management Strategy, 2012-2015." https://www.dmo.gov.ng/publications/other-publications/debt-management-strategy/1028-medium-term-debtstrategy-2012-2015/file
[20] Debt Management Office Nigeria. "Nigeria's Debt Management Strategy, 2016-2019." June 2016. https://www.dmo.gov.ng/publications/other-publications/debt-management-strategy/1288-nigeria-s-debtmanagement-strategy-2016-2019/file
[21] Ibid.
[22] https://www.theafricareport.com/29060/nigeria-and-china-understanding-the-imbalanced-relationship/

China's top exports to Nigeria were in manufactured or processed goods such as telephones (USD 526 million), rubber tires (USD 369 million) and light pure woven cotton (USD 301 million)[23].

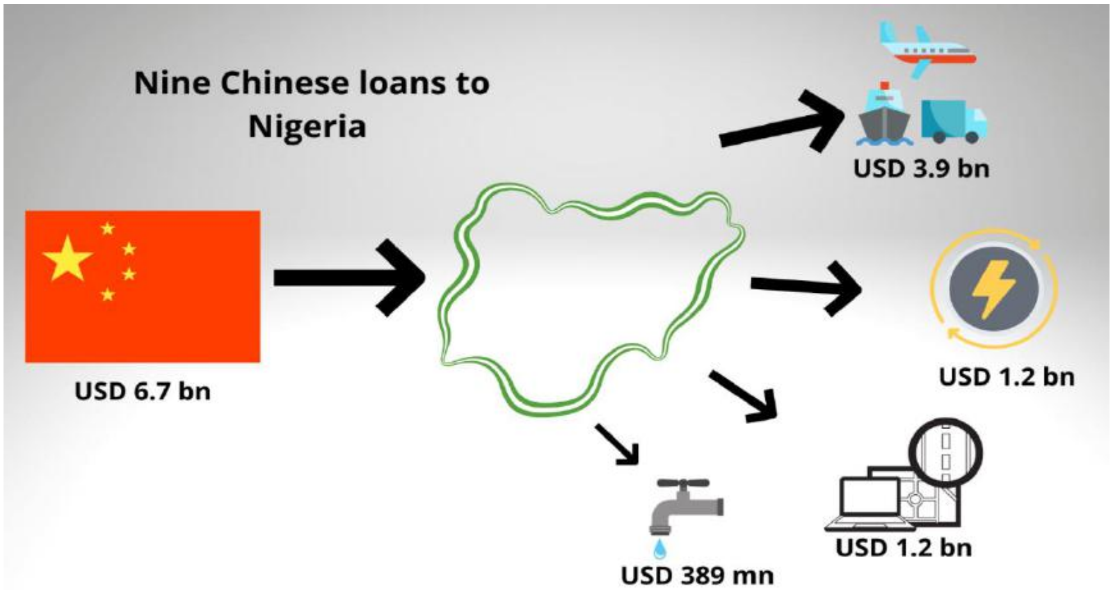
Beyond trade, China is Nigeria's biggest official bilateral creditor and has enabled the government to pursue largescale infrastructure projects, especially in the rail and transport sector. The total borrowed from China in 2019 amounted to 3% of its total official bilateral debt payment but accounted for 11% of its total debt payment. There are currently 11 active projects financed by China, mostly focusing on transport and power sectors, listed on Nigeria's DMO website.

According to SAIS-CARI, Nigeria has secured 19 loans totalling USD 6.7 billion from Chinese partners[24]. The transport sector has received the most financing at USD 3.9 billion, followed by power (USD 1.2 billion), ICT (1.2 billion) and water (389 million).

China's Export-Import Bank (EXIM) has provided most loans, financing 14 out of 19 loans (74%), at an interest rate of 2.5%, with a seven-year grace period (for two loans that had data available). EXIM bank loans are mainly directed to transport (8 loans) or ICT (4 loans).

In 2017, Nigeria received its largest loan from China, just over USD 1.2 billion (2.5% interest) for the Lagos-Ibadan Railway Modernisation Project II, which was contracted to China Civil Engineering Construction Corporation. The Lagos-Ibadan Railway Modernisation Project II will connect Lagos – Nigeria's commercial and port city – to Ibadan, an industrial city in the north. It is the first double-track railway in West Africa and cuts travel time to around two hours, reducing road traffic and facilitating trade within Nigeria.[25] News sources report that the project employed around 10,000 local people during its peak and had created 4,000 local jobs.[26] It is also part of the wider Lagos-Kano Railway Modernization Project, which will cover 1,300 km and link the country's capital to the north-easternmost region, creating several positive spill-over effects, such as reduced travel time, cutting trade costs, and job provision.

[23] https://oec.world/en/profile/bilateral-country/chn/partner/nga#:~:text=B%20in%202019.-,In%202019%2C%20Nigeria%20exported%20%242.52B%20to%20China.,and%20Zirconium%20Ore%20(%2443M).
[24] China Africa Research Initiative and Boston University Global Development Policy Center. 2021. Chinese Loans to Africa Database, Version 2.0. Retrieved from https://chinaafricaloandata.bu.edu/
[25] http://www.xinhuanet.com/english/2020-07/24/c_139237908.htm
[26] https://www.globaltimes.cn/page/202106/1225957.shtml



Interestingly, beyond EXIM, the remaining five projects come from a variety of lenders, including China Development Bank who lent USD 157 million to Lekki Port LFTZ Enterprise Ltd. Other loans come from Chinese enterprises, including Alcatel-Lucent Shanghai Bell Co (USD 78 million) financing through supplier credit, with a 3.5% interest rate and 3-year grace period for the ALCATEL Nigerian Local Government Rural Telephony Project, which was contracted to the same company. Other companies have charged higher interest rates, such as China Machinery Engineering Corporation who provided USD 115 million at a 6% interest and a 6-year grace period under supplier credit financing for Omotosho Gas Power Plant Project 335 MW, which was constructed by the same company.

The Nigerian DMO provides publicly available data and information on Chinese loans as part of its debt management and transparency efforts. In December 2020, the DMO reported that external debt stood at USD 33.3 billion. Of the total external debt, only USD 3.3 billion was owed to China's EXIM bank. However, debt owed to China formed 80.1% (USD 4.1 billion) of the total debt lent by official bilateral lenders[27]. The DMO also states that the loans are tied to specific projects; Four Airport Terminal Expansion projects and railway modernization projects in Abuja, Lagos, Port Harcourt, Kaduna, Ibadan[28]. Additionally, December 2020 saw the approval of USD 2.5 billion in loans from the Bank of China for the construction of the Ajaokuta-Kaduna-Kano AKK gas transmission pipeline[29].

[27] https://africacheck.org/fact-checks/factsheets/factsheet-unravelling-nigerias-debt-china
[28] https://www.dmo.gov.ng/facts-about-chinese-loans-to-nigeria
[29] https://dailytrust.com/explaining-nigerias-china-debt-puzzle

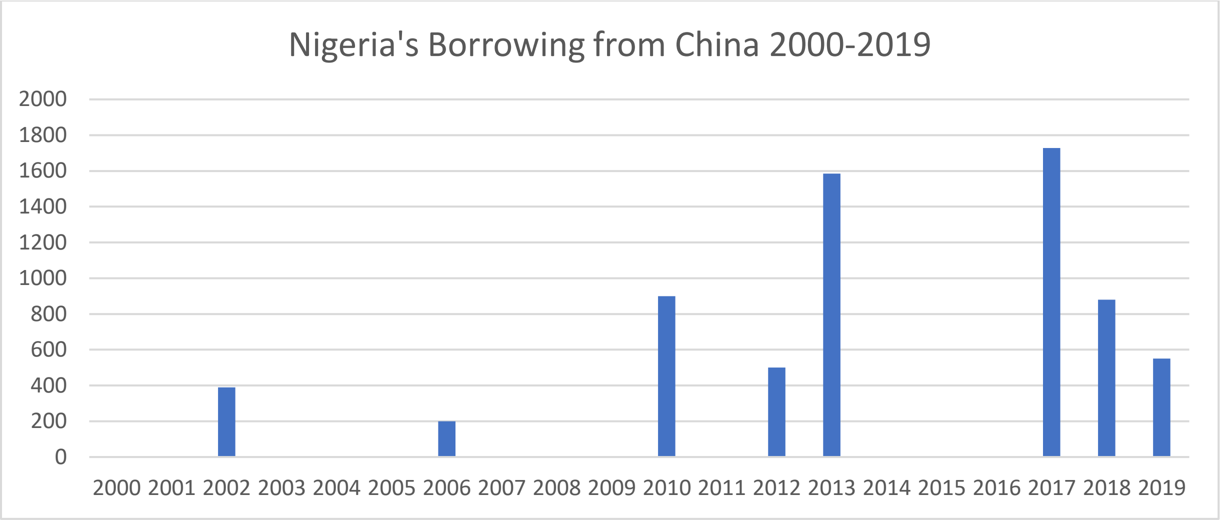


Figure 3: Loans secured by Nigeria from Chinese partners (2000-2019)
Source: SAIS-CARI

In terms of debt management and debt relief, Nigeria has successfully negotiated debt relief from Chinese partners, although the amount has been relatively low at USD 5.5 million. To further facilitate trade and investment, China and Nigeria announced a three-year swap of RMB 15 billion (equivalent to USD 2.3 billion) in 2018. The purpose of this swap is to make available liquidity in their respective currencies for the facilitation and promotion of trade and investment across the two countries. These swap lines could be extended beyond trade and investment and play a role in providing liquidity at times of constrained finance, especially during external shocks such as the COVID-19 crisis. Moreover, it is feasible that these swap lines could be utilized for SDR reallocation, whereby China could reallocate part of its SDRs to African countries – Nigeria included – to provide fiscal space.

The Private Sector

Nigeria has issued a total of six Eurobonds. This began in 2011, with its first Eurobond at USD 500 million.[30] In 2017, Nigeria gave a USD 1 billion offering in Eurobonds, this was almost eight times oversubscribed, with a yield of 7.875%, making the financing choice very costly for Nigeria[31]. Although it has not been clear what assets have been created through these Eurobonds, it has been reported that this financing would be directed towards infrastructure investment needs.

Most recently, Nigeria is planning to launch a new Eurobond issuance in October 2021 to finance the government deficit, with the issuance aiming to raise N2.343 trillion (USD 5.7 billion) in external finance.[32] This will be Nigeria's seventh Eurobond issuance, the previous one being in 2018, which raised USD 2.86 billion[33].

Beyond Eurobonds, Nigeria has also issued Sukuk bonds on three occasions. The most recent issuance in June 2020 was N150 billion (USD 395 million) but attracted N669.1 billion (USD1.62 billion). These have

[30] https://www.reuters.com/article/us-nigeria-eurobond-idUSBRE96116820130702
[31] https://qz.com/africa/908946/nigerias-eurobond-deal-raises-more-questions-for-kemi-adeosun-emefiele-and-president-buhari/
[32] https://www.reuters.com/article/nigeria-eurobond-idUSL1N2PB24I
[33] Ibid.

been directed towards the financing of 44 public road projects across the country.[34] Previous Sukuk bonds were allocated in 2017 and 2018, each at N100 billion (USD 243.1 million).[35]

Nigeria has also begun to venture into the Green Finance market from 2019, being the first African country, and the fourth country in the world, to issue a Sovereign Green Bond in a Climate Bonds Certified issuance, which raised USD 29 million.[36] Furthermore, Nigeria has accessed other Green Bonds, with Access Bank issuing the 1st Corporate Green Bond in Africa which raised N15 billion (USD 41 million) with the bond set at a 5-year, 15.5% fixed rate [37]. Most recently, Nigeria added another green bond in July 2021, with the NSP-SPV PowerCorp PLC Series 2 Green Bond, which intends to finance the development of a 15MW Pre-Phase 1 Solar Project[38], thus developing Nigeria's renewable energy infrastructure.

Engagement with Multilaterals

The IMF: As aforementioned in Section I, Nigeria received debt restructuring under the IMF's SAPs in 1986. This led to huge reforms to increase market liberalization. In response to COVID-19, under the IMF's Rapid Financing Instrument, Nigeria requested emergency financial assistance of SDR 2,454.5 million (USD 3.4 billion) which is 100% of Nigeria's quota.[39]

The World Bank: The World Bank has been primarily involved in financing socioeconomic projects as opposed to infrastructure financing. For example, in 2009 the institution assisted the Commercial Agricultural Development Plan, which totalled USD 185 million, with the World Bank's IDA committing USD 150 million whilst the Nigerian government committed USD 35 million.[40] The project promoted Drought Tolerant Maize alongside getting rice farmers to adopt a System of Rice Intensification which led to yields increasing from 2.7 metric tons to 3.6 metric tons per hectare.[41]

In December 2020, Nigeria secured a USD 1.5 billion loan from the World Bank to support Nigeria's COVID-19 recovery plan and to scale up the existing The State Fiscal Transparency, Accountability and Sustainability Program for Results (SFTAS) Additional Financing, which aims to increase accountability in public resource management[42]. Both of these projects are financed by USD 750 million from the World Bank's International Development Association. Alongside this, the World Bank, with the Nigerian government, established a Country Partnership Framework that aims to invest in human capital (through education, healthcare and social support), promote employment, enhance resilience, and increase public financial management.

Additionally, Nigeria approved a USD 8.325 billion external borrowing plan that includes multilateral lenders such as the World Bank, intending to finance infrastructure projects. The Nigerian President has noted the importance of developing non-oil industries to reduce vulnerability to external revenue shocks concerning oil. However, it is planned that over half of the lending will be from Chinese lenders including ICBC and EXIM bank.[43] Other lenders include 490 million Euros from the French Development Agency and European Investment Bank.[44]

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[34] https://www.afdb.org/en/countries-west-africa-nigeria/nigeria-economic-outlook
[35] https://nairametrics.com/2020/07/21/fashola-to-fix-44-roads-across-nigeria-with-sukuk-funds/
[36] https://www.climatebonds.net/2019/04/nigeria-access-bank-1st-certified-corporate-green-bond-africa-leadership-green-finance
[37] ibid.
[38] https://www.esi-africa.com/industry-sectors/finance-and-policy/nigeria-adds-another-green-bond-to-the-market/
[39] https://www.imf.org/en/News/Articles/2020/04/28/pr20191-nigeria-imf-executive-board-approves-emergency-support-to-address-covid-19
[40] https://projects.worldbank.org/en/projects-operations/project-detail/P096648
[41] https://www.worldbank.org/en/news/press-release/2013/07/12/world-assisted-commercial-agriculture-development-project-disburse-over-n209-million-to-3000-farmers-in-kano-state
[42] https://www.worldbank.org/en/news/press-release/2020/12/15/world-bank-group-to-boost-nigerias-efforts-to-reduce-poverty
[43] https://www.reuters.com/article/nigeria-borrowings-idUSL1N2OR202
[44] ibid.

The African Development Bank: The AfDB finances both infrastructure and social protection programs in Nigeria through multiple avenues. At the end of 2019, the AfDB active portfolio had 61 operations in Nigeria totalling USD 5 billion.[45] Of these 61 operations, 29 were public sector (USD 2 billion) whereas 32 were non-sovereign operations (USD 3 billion). In 2019, the AfDB approved USD 15 million investment to an Infrastructure Credit Guarantee Company (InfraCredit). These loans aimed to increase infrastructure financing through the domestic debt capital markets in Nigeria, thus encouraging infrastructure to be financed through the local currency – the Naira - rather than foreign currency.[46] Looking forward, according to the most recent Country Strategy Paper (2020-2024), key priority areas include infrastructure development and promoting social inclusion through agribusiness and skills development. Most recently, in July 2021, the AfDB approved a USD 50 million loan to Nigeria's commercial bank First City Monument Bank for investment in renewable energy, women-empowered agribusiness companies and manufacturing.[47]

Nevertheless, as highlighted in the AfDB Country Strategy Paper, Nigeria's USD 22 billion borrowing plan for infrastructure development has been suspended by the government due to COVID-19 impacts, such as lower oil export revenue and budget constraints.[48]

Summary. Nigeria has been able to secure funding for infrastructure-based projects from Chinese partners, which has been largely neglected by traditional Bretton Woods institutions such as the World Bank. These institutions tend to focus on social projects or emergency revenue mobilization. The creation of infrastructure assets helps to address Nigeria's infrastructure gap and has several spill-over effects, for example, job provision, reducing supply chain costs and inefficiencies and people-to-people transfers. Therefore, it is important when assessing the quality of these projects not to only account for profitability as the sole measure of success. However, Chinese partners are not the only source of infrastructure financing, with the private sector and the AfDB also being valuable sources. In respect to the private sector, bond issuance is often at higher yields (at around 6-7%) than Chinese concessional lending (2.5% interest rate), thus making them a costly source of financing.

Is Nigeria facing a 'debt crisis?' The importance of focusing on debt quality over debt quantity.

While Nigeria's debt has been on the rise in absolute terms since the mid-2000s, if we look at debt as a percentage of GNI, we find a peak in Nigeria's debt levels in the 1980s and 1990s, however now - in terms of economic size - the majority of debt levels are back to 1970s level of debt exposure (figure 4). As figure 4 shows, in 1970, Nigeria's debt as a percentage of GNI stood at 6.9%. In 1994, as debt continued to accumulate from rising interest rates and falling oil prices, rather than from finance for productive infrastructure, debt as a percentage of GNI increased to 105.1% in 1994. By 2018, this declined to 12.4%.

[45] https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-approves-new-five-year-strategy-nigeria-35958
[46] https://www.afdb.org/fr/news-and-events/nigeria-african-development-bank-approves-15-million-investment-package-for-infrastructure-credit-guarantee-company-19194
[47] https://www.afdb.org/en/news-and-events/press-releases/nigeria-african-development-bank-bolsters-women-empowered-businesses-50-million-loan-fcmb-bank-44530
[48] https://www.afdb.org/en/documents/nigeria-country-strategy-paper-2020-2024

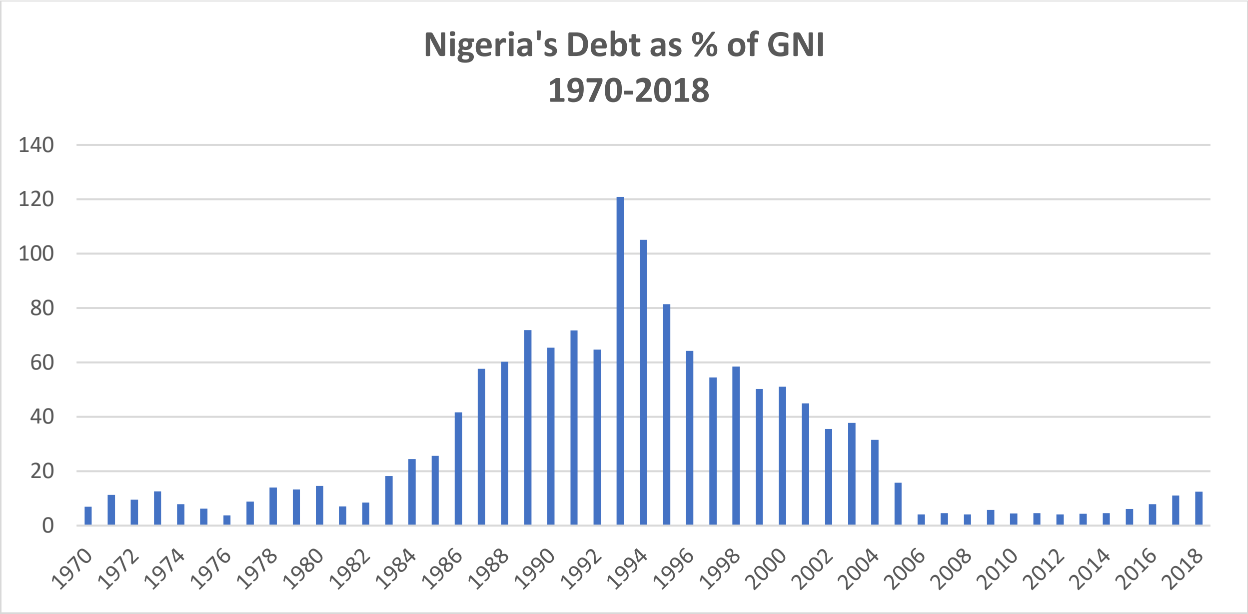


Figure 4: Nigeria's Debt as % of GNI (1970-2018)
Source: World Bank

This demonstrates that Nigeria is returning to "normal" debt levels, and – at least before COVID-19 – that there is significant room for growth in debt levels to meet infrastructure needs. Additionally, Nigeria's debt as a % of GNI is the lowest in the ECOWAS region (figure 5).

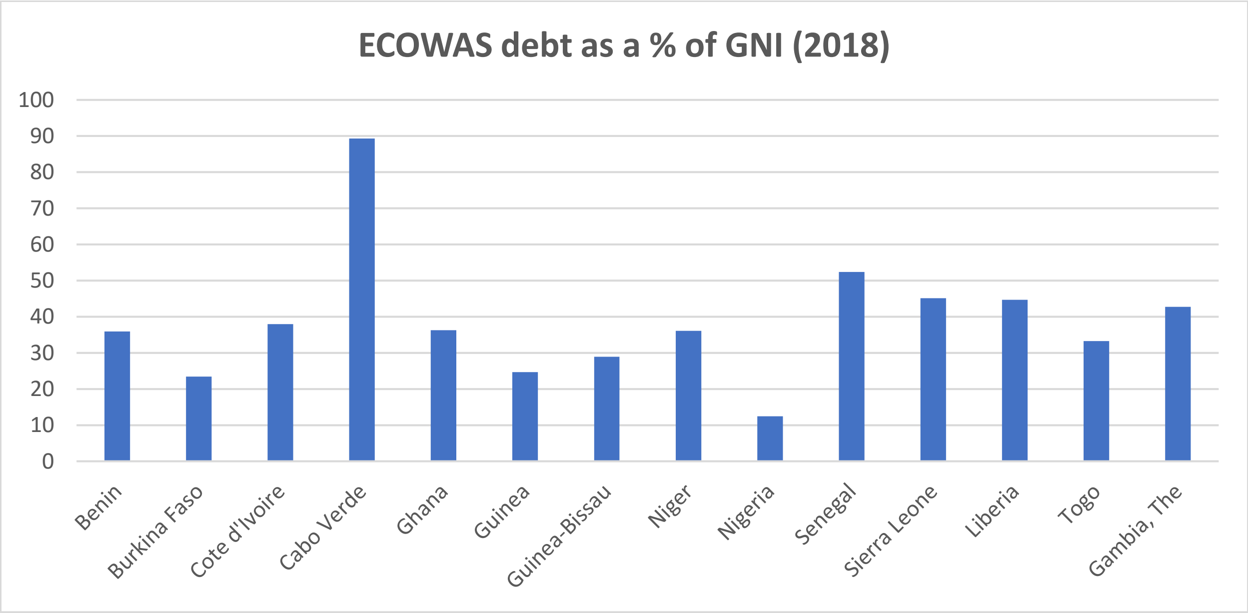


Figure5: ECOWAS debt as % of GNI (2018)
Source: World Bank

However, COVID-19 is placing pressure on the debt servicing capacity of Nigeria, since most of the revenue is used to service foreign debt, which in turn constrains the funds available for investment in growth-focused development projects. For example, according to Nairametrics[49], since 2011, the government has earned N33.2 trillion in revenue however, debt servicing cost N14.87 trillion (USD 36.1 billion). Non-debt recurrent expenditure stood at N29.39 trillion (USD 71.4 billion) – accounting for about 50.6% of the total budget expenditure (88.5% of revenue) over the past decade.

Due to the COVID-19 pandemic, the government is increasing its spending on debt service. As Nairametrics reports, in the first quarter of 2021, the government spent N1.02 trillion on total debt service. This consumed 98% of its revenue, a 35.7% year-on-year increase[50] – N612.71 billion was on domestic debt service, whereas N410.1 billion went to external debt service (N202.61 billion difference).[51] This reflects the governments increasingly constrained capacity to finance COVID-19 socioeconomic spending and address critical financing gaps for continued development.

[49] https://nairametrics.com/2021/01/19/nigeria-spends-n29-trillion-on-recurrent-non-debt-expenditure-in-last-10-years/
[50] https://nairametrics.com/2021/06/23/nigerian-government-spends-n1-02-trillion-on-debt-servicing-in-q1-2021/
[51] https://nairametrics.com/2021/06/23/nigerian-government-spends-n1-02-trillion-on-debt-servicing-in-q1-2021/

Section II: Financial Revenue Sources

Oil and Gas Exports

Nigeria's economy heavily depends on the oil and petroleum industry. Oil exports accounted for 94.1% of total exports in 2018, while oil rents accounted for 9% of GDP.[52] In 2019, crude petrol provided USD 46 billion, followed by petroleum gas at USD 7.7 billion.[53] Furthermore, oil revenue provides almost 90% of Nigeria's foreign exchange earnings, making it a top source of financial revenue.[54]

However, oil exports are highly vulnerable to price fluctuations. For example, as noted earlier, in the 1970s the Nigerian government sought ways to deal with the revenue shortfall triggered by oil price crashes and a sudden loss of revenue. The crucial need to generate revenue internally made taxation a matter of urgency and importance, with the local, state, and federal government(s) tending to become more aggressive and innovative in revenue collection.

Oil prices also collapsed in 2014-2016, resulting in Nigeria's economic growth rate dropping to 2.7% in 2015. In 2016, it dropped further by - 1.6%, compared to an average of 7.4% throughout 2000-2015. The forecast economic growth has slowed further since then, with an average of 1.63% between 2016 and 2019. This has led to an increasing fiscal deficit, as for example, in 2013 the fiscal deficit accounted for just 2.3% of GDP, but by 2017 had grown to 5.4% of GDP.

Furthermore, at the beginning of the pandemic oil prices collapsed again, and whilst oil prices have since increased, they remain below the prices of the pre-COVID-19 era. This has resulted in a continuing challenge for the country in terms of fiscal space. To bolster the oil sector, the Nigerian government has passed the Petroleum Industry Bill in August 2021. This aims to create a clear regulatory framework to attract foreign investment into the oil industry, thus increasing production and revenues.[55]

[52] https://theconversation.com/why-being-endowed-with-oil-is-not-always-a-boon-the-case-of-nigeria-and-angola-153892
[53] https://oec.world/en/profile/country/nga#:~:text=Exports%20The%20top%20exports%20of,and%20Ghana%20(%244.04B).
[54] Nwanosike, Dominic et al. "Economic Development Dynamics in Nigeria: Evidence from 1914-2014." Saudi Journal of Business and Management Studies. Vol-1, Iss-4, p154-161. November 2016.
[55] https://www.hoganlovells.com/en/blogs/the-a-perspective/the-2020-oil-price-crash-lessons-from-nigeria

However, oil production creates high environmental costs for Nigeria, stimulating environmental damage and pollution. Each year, around 40 million litres of oil is spilt into the Niger River, damaging the local ecosystem alongside impacting human health through water contamination. [56] This generates additional socioeconomic impacts, such as degradation of areas worked by local fishing or farming communities. Concurrently, pollution also has a financial impact on the government. For example, a World Bank study found that air pollution generated USD 2.1 billion of losses for Nigeria in 2018 from illness and premature deaths.[57]

Agricultural exports

Although far from the revenue oil exports provides, agricultural exports are also an important source of finance. For example, in 2019 foodstuffs and vegetable products provided USD 1.03 billion and USD 770 million in exports, respectively. Cocoa beans are Nigeria's 5th top exports, providing USD 715 million in 2019 (1.12% of total exports or 69.3% of all foodstuff exports)[58]. The agricultural sector is also the largest employment sector in Nigeria, accounting for about 36% of the labour force.[59]

Nevertheless, Nigeria's agricultural sector faces several constraints. This includes ineffective policy measures that were intended to promote agricultural development. For example, there was a ban on maize imports in an attempt to protect Nigeria's domestic industries from competition. However, this resulted in increased labour scarcity alongside limiting access to farm equipment, fertilizers and seedlings. The maize import ban also impacted the value chain, ultimately increasing the price of bags of maize which further affected poultry farmers' ability to feed their livestock.[60]

Remittances

Remittances are another core source of financial revenue, accounting for 5.3% of Nigeria's GDP (USD 23.8 billion) in 2019 – providing a significantly higher amount than agricultural exports for comparison.[61] Nigerian remittances are the highest in the continent, accounting for 40% of remittance flows to the sub-Saharan African region.[62] According to PwC, remittance inflow in 2017 (USD 23.63 billion) was 7.4 times larger than official development assistance, which equated to just USD 3.4 billion.[63] However, according to the World Bank, due to COVID-19, remittance flows fell from 23.8 billion USD in 2019 to USD 17.2 billion.[64]

[56] https://www.theguardian.com/global-development/2019/dec/06/this-place-used-to-be-green-the-brutal-impact-of-oil-in-the-niger-delta
[57] https://www.worldbank.org/en/topic/environment/publication/the-cost-of-air-pollution-in-lagos
[58] https://oec.world/en/profile/country/nga#:~:text=Exports%20The%20top%20exports%20of,and%20Ghana%20(%244.04B).
[59] https://www.pwc.com/ng/en/assets/pdf/afcfta-agribusiness-current-state-nigeria-agriculture-sector.pdf
[60] https://businessday.ng/opinion/article/nigerias-natural-resource-curse-from-crude-oil-to-agriculture/
[61] https://www.afdb.org/en/countries-west-africa-nigeria/nigeria-economic-outlook
[62] https://www.worldbank.org/en/news/press-release/2021/05/12/defying-predictions-remittance-flows-remain-strong-during-covid-19-crisis
[63] https://www.pwc.com/ng/en/pdf/the-economic-power-of-nigerias-diaspora.pdf
[64] https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=NG

Tax sources

In a bid to diversify tax sources, and avoid multiple collections from the same taxpayer, the Joint Tax Board (JTB) in Nigeria stratified taxes into tiers as followed:

- *Federal Taxes:* including Custom and Excise duties, Value Added Tax, Company and Personal Income Taxes and Education tax.
- *State Taxes:* including road taxes, betting and lotteries tax, development levies, right of occupancy levies on state-owned land, business registrations and market taxes.
- *Local Government Taxes:* including various rates on kiosks, shops, tenement rates, vehicle licenses, permit fees for advertisements, billboards, birth, marriage, and death certificates, market, and motor park levies among others.[65]

According to the Nigerian Federal Inland Revenue Service (FIRS), from 2002 to 2011, internally generated revenue came to a total of ₦ 167 billion (USD 405.8 million), while taxes collected by the FIRS from Abuja totalled ₦ 19.2 trillion (USD 46.7 billion). Furthermore, a 2017 taxation study showed that roughly 35% of tax authorities and 45% of taxpayers strongly agree that taxes are among the major tools for revenue generation by the Federal, State, and Local Governments. Conversely, it was also identified that the lack of taxpayer databases hinders the government's ability to correlate tax-based information, which subsequently impedes the ability to tackle illicit tax flows. Going forward, as the African Development Bank notes, Nigeria must continue to broaden the tax base, which "could strengthen Nigeria's fiscal buffers" against external shocks (such as oil price crashes and remittance drops). However, tax shifts should work alongside other developments in Nigeria's economy, to not burden the population or discourage investment.[66]

[65] Eneojo .S, Tyokoso .G, 2014. *Taxation and Revenue Generation: an Empirical Investigation of Selected States in Nigeria.* Journal of Poverty, Investment, and Development. pp .102-114 vol.4.
[66] https://www.afdb.org/en/countries-west-africa-nigeria/nigeria-economic-outlook

Section III: Financial Exposure

Nigeria is not assessed by the IMF and World Bank's Debt Sustainability Analysis (DSA). Nevertheless, the IMF's DSA debt threshold has had adverse effects on some African economies, whereby countries that try to maintain debt thresholds experience worse economic conditions – including low growth rates, poverty, high unemployment and strikes – because the government cannot meet demands. A 2015 study by Kidochukwu Obi demonstrated that maintaining IMF-recommended debt sustainability thresholds of 40% and 45% of debt-to-GDP in Nigeria – can constrain a country's development, rather than support it.[67] Obi estimates that these thresholds could drive output towards negative growth of -19.5% and -27.9%, respectively.

Furthermore, the Nigerian government invoked the Fiscal Responsibility Act of 3%, which allows for the accumulation of external debt at a 3% debt sustainability threshold to ensure fiscal management. Overall, the sustainability threshold of debt acquisition should not be decided in a vacuum. Such a threshold should correspond to the country's growth objectives, whereby a zero-growth deficit is maintained by a debt-output ratio that ensures steady and maximum attainable growth. The DMO reports that Nigeria's recent debt-to-GDP ratio is still below the threshold of 55% as recommended by the World Bank and IMF.

Yet, despite remaining below the threshold, Nigeria has a risk premium of 5.33%[68]- the second highest out of the four West African countries this report examines, just behind Ghana. Further, Nigeria's credit score varies between credit agencies. For example, Fitch Ratings gives Nigeria a credit score of 30, however, S&P ratings give a credit score of 25. A credit score below 30 is below investment grade, thus constraining Nigeria's access to the international capital market.

Beyond the IMF and World Bank, regional financial relationships are a critical aspect of Nigeria's fiscal situation. The African Union Constitutive Act establishes three financial organs to support economic integration within the African region in accordance with the 1991 Abuja treaty, of which Nigeria is a signatory.[69] These include the African Central Bank (ACB), the African Investment Bank, and the African Monetary Fund (AMF). The proposed ACB is expected to be based in Abuja, Nigeria, and is poised to be a major financial body established under the purview of the African Union's *Agenda 2063* program. However, the progress of these institutions is slow. In 2019, Nigeria still had not signed nor ratified the proposal for the establishment of the AMF, with only 12 of 55 African member-states signing.[70]

[67] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2709119
[68] https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.htm
[69] Financial Institutions of the African Union. *The 1991 Treaty Establishing the African Economic Community (Abuja Treaty).* https://au.int/en/financial-institutions
[70] https://au.int/en/treaties/protocol-establishment-african-monetary-fund

Section IV: Current and Future Financing gaps

Achieving Nigerian SDGs.

As discussed above, Nigeria has significant financing needs which impact the ability to meet the SDGs and future economic growth and resilience. Furthermore, natural resource abundance can threaten environmental sustainability when there are no effective mechanisms of accountability and dedication to SDG fulfilment. For example, oil-reliant economies often prioritise profit-making, which can result in a disregard for the environment. In Nigeria, the Niger Delta region is a prime example of this.

Figure 6: SDGs at risk from environmental threats

Additionally, SDG 7 (affordable and clean energy) must account for socio-economic realities in Africa, where there is a stark difference in energy access between urban and rural areas. Decentralized grids of renewable energy in such areas can create chances for more competitive access to electricity thereby having the run-off effect of improved human development and economic productivity[71].

The Nigerian government has introduced policies that support SDG 2 (End Hunger, Achieve Food Security; Improved Nutrition and Promote Sustainable Agriculture) targets. For example, the Staple Crops Processing Zones (SCPZ), which aims to increase value-chain addition and increase agricultural productivity for small and medium-scale farmers. It is partially financed through the World Bank, which provided a loan of USD 100 million, whilst Nigeria contributed USD 35 million[72]. Other policy examples include *The Green Alternative Agriculture Promotion Policy, Nigeria Incentive-Based Risk-Sharing System for Agricultural Lending (NIRSAL), The Rural Finance Institution Building Program (RUFIN), Anchor Borrowers' Program, Commercial Agricultural Credit Scheme (CACS), and Youth Enterprise with Innovation in Nigeria (YouWiN).* These policies are essential considering Nigeria's rising food insecurity, which stands at 26.4% on the Food Insecurity Experience Scale.[1]

[71] Owusu, P.A. and Sarkodie, S.A. (2016), "A review of renewable energy sources, sustainability issues and climate change mitigation", Cogent Engineering, Vol. 3 No. 1, doi: 10.1080/23311916.2016. 1167990.
[72] https://documents1.worldbank.org/curated/en/396361468096264698/pdf/PID-Print-P148616-07-14-2014-1405345067407.pdf

SDG 4 aims to *Ensure Inclusive and Equitable Quality Education and Promote Lifelong Opportunities for all.* The Federal Ministry of Education developed an Education Strategic Plan titled 'Education for Change' to improve the quality and access to education by incentivizing performance and building capacity for teachers. The Tertiary Education Trust Fund (TETFUND) is intended to carry out that mandate in tertiary institutions, while The Enhanced Digital Skills program for youth draws partnership with Google, to train 125,000 young people across Nigeria through the Digital Skills for Africa program.

COVID-19 and the Impact on Financing.

As touched upon earlier, COVID-19 has presented additional financing demands and subsequently increased fiscal pressure on the Nigerian government. Indeed, as for many countries, COVID-19 presents a dual challenge: it impacts financial revenue streams and increases socioeconomic spending needs – especially for social protection and healthcare expenditures.

In terms of impact on financial revenue streams, crashes in oil prices, drops in remittance flows and increased spending on socioeconomic policies resulted in the economy coming under increased pressure, with GDP shrinking by about 3% in 2020. Alongside this, inflation increased to 12.8% in 2020, a 1.4% increase from 2019 levels, and the fiscal deficit, although being partially financed through external borrowing – as seen with borrowing from Eurobond issuance and multilateral loans – has increased to 5.2% in 2020, a 0.9% increase from 2019 levels.[73] Other measures to mitigate financial pressure include Nigeria accepting the IMF's most recent SDR allocation in August 2021, where the country received 2,352 million SDRs[74], approximately USD 3.35 billion.[75] Moreover, despite being eligible, Nigeria has decided to not participate in the World Bank's Debt Service Suspension Initiative (DSSI). The initiative could provide potential savings of USD 432.6 million from May 2020 to December 2021 (0.1% of GDP).

As a result of falling revenue, in June 2020, the government proposed to cut primary healthcare spending by over 43% due to declining revenues from oil exports.[76] Nevertheless, the government has mobilized large sums of capital to mitigate the impact of the virus. This includes an N500 billion (USD 1.2 billion, 0.3% of GDP) COVID-19 intervention fund to mobilize funds for health-related costs and social protection. The government also provided N150 billion (USD 364.6 million) for local governments.[77]

To control the pandemic and ease pressures on social distancing and hospital admissions, vaccination is essential. The Nigerian government aims to vaccinate 40% of its total population in 2021[78], with an additional 30% in 2022, to achieve an overall goal of 70% of the population being vaccinated. Assuming that the vaccine can be purchased for USD 3 per dose (the maximum ceiling cost set by COVAX for low and middle-income countries) it would cost UDS 844.2 million to vaccinate 70% of Nigeria's population of 201 million with two doses. However, 54.2% of Nigeria's population is under 20 years old[79] and are ineligible to receive the vaccine (as for many vaccines, recipients must be aged 18+). Therefore, the cost of a 70% vaccination rate falls to USD 386.6 million for the population aged 20+. Alternatively, if each dose cost USD 19 (the same as Senegal recently paid for doses of Sinopharm) it would cost Nigeria USD 2.4 billion to vaccinate 70% of the population aged 20+. However, currently, the government has budgeted N37.9 billion

[73] https://www.afdb.org/en/countries-west-africa-nigeria/nigeria-economic-outlook
[74] https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation#N
[75] https://nigerdeltaconnect.com/nigeria-entitled-to-3-35bn-in-new-imf-rights-allocation/
[76] https://www.bbc.co.uk/news/world-africa-53013413
[77] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#N
[78] ibid.
[79] https://www.statista.com/statistics/1121317/age-distribution-of-population-in-nigeria-by-gender/#:~:text=Age%20distribution%20of%20population%20in%20Nigeria%202019%2C%20by%20gender&text=In%20Nigeria%2C%20half%20of%20the,less%20than%20four%20years%20old.

(USD 92.1 million) for its COVID-19 vaccination program, which is likely attributed to the government expecting vaccine donations from COVAX.[80]

The country's vaccine rollout began in March 2021, with 3.9 million doses of Astra-Zeneca's COVID vaccine. The Nigerian government also made arrangements with the African Export-Import Bank to secure about 85 million doses, alongside requesting 41 million vaccines from the African Union and a further 16 million doses from COVAX.[81] The private sector also played a role in distributing vaccines, for example, the telecoms company MTN delivered 300,000 doses, with other companies expected to follow suit.

Whilst the Nigerian government expects to have enough vaccines for 70% of its population by 2022, the National Primary Healthcare Development Agency released a poll showing that only 50% of the population would likely be vaccinated[82]. In September 2021, only 0.8% of the population were fully vaccinated (1.54 million people). If vaccinations are further prolonged, economic activity will likely remain repressed from continued social distancing measures and recurrent health care expenditure on COVID-19 related measures.

[80] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#N
[81] ibid.
[82] https://www.un.org/africarenewal/magazine/april-2021/nigeria-covid-19-vaccine-rollout-kicks-africas-most-populous-country

Section V: Conclusions and Next Steps

Recommendation 1. While Nigeria has demonstrated the ability to mobilize domestic funds and secure external financing to address investment gaps and mitigate the current health crisis, the government needs to commit more to bolster its ownership of SDG delivery and financial policies. This includes involving and working with core stakeholders such as civil society organizations, women, youth, people with disabilities, local government authorities and the aged.

Furthermore, considering that Nigeria has already documented a commitment to making its debt public through data made available through the DMO, this should be taken a step further by establishing a platform that reflects how debt contributes to SDG goals and investment gaps. For example, the platform could include a project database, which includes debt levels and provides clear, accurate data on the profits produced from the asset or project alongside other tangible outcomes – such as job provision or cost reduction in the supply chain. This would both increase accountability, provide clear evidence of debt quality over quantity, and highlight gaps in respect to where financing should be directed, which in turn will increase Nigeria's bargaining power vis-à-vis lenders.

Recommendation 2. Looking at the interactions that Nigeria has with foreign financial institutions, debt acquisition thresholds should not only be serviceable but should also ensure maximum attainable growth. As mentioned, debt sustainability thresholds cannot be determined in a vacuum but must take into consideration contextual factors that guide economic decision-making. A one-size-fits-all approach ultimately has a net-negative effect on economies. As such, Nigeria, alongside other African countries, must push for a revised debt sustainability framework. Despite consistent narratives of a debt crisis and a high African credit risk premium, Nigeria remains one of the most important economies in the African region and is, therefore, an essential participant in this debate.

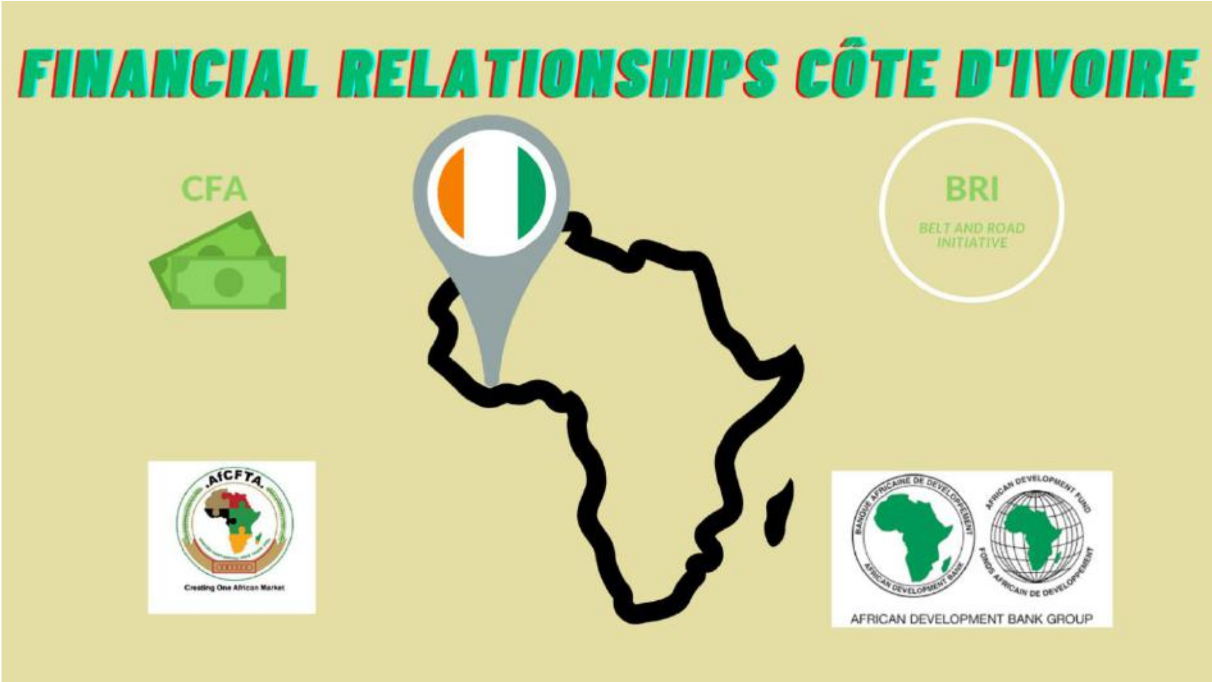
Chinese lenders have established their own debt sustainability guidance to guide Chinese banks in "going out", and as such, the Chinese government should also call for review and reform of the IMF's framework. Therefore, a specific recommendation for Chinese partners is to provide more details on their own framework to provide insights into how alternative assessments are formulated. Further, African governments and institutions themselves need their own debt sustainability threshold analysis. Given its DMO, Nigeria is well placed to lead this.

Recommendation 3. Reducing economic vulnerability to external shocks is critical for Nigeria. Although this had been given attention in previous government plans, post-COVID-19 the government must formulate a clear plan to enhance domestic financial revenue and savings to reduce overreliance on oil exports in the government budget. This involves directing investment into key non-oil sectors, especially those which contribute to the SDGs and engaging with bilateral, multilateral and private sector lenders to ensure that funds are being appropriately directed and aligned with Nigeria's Master plans. This relates to Recommendation 1 of a proposed platform that comprehensively assesses where debt is directed and how this supports SDG attainment.

Recommendation 4. Our final recommendation is that the government should look to collaborate with neighbouring countries in infrastructure financing to enhance regional infrastructure. Nigeria is a commercial and trade hub in the region, therefore increasing transport and infrastructure linkages across borders will facilitate trade and people-to-people flows. For example, extending the Lagos railway line to Benin's capital Porto-Novo (just 88 kilometres away) would facilitate cross border flows of goods and people, and create spill-over effects in terms of employment opportunities. Theoretically, this could be expanded even further, to serve Togo and Ghana's capital cities, and even further across the West coast. This enhancement of cross-border trade would be further complemented by the recent AfCFTA. Group negotiation allows for both risk and cost-sharing, which in turn can increase bargaining power vis-à-vis lenders.

CÔTE D’IVOIRE

Since the return of political stability in 2012, Côte d'Ivoire has enjoyed consistent and high economic growth, having averaged an 8% economic growth rate per year.[83] With a population of over 24 million people and a GDP of USD 58.5 billion, Côte d’Ivoire is classified as a lower-middle-income country, with the third-largest economy in West Africa, behind Nigeria and Ghana. It is also the dominant economy in the eight-country West African Economic and Monetary Union (WAEMU) customs and currency union.

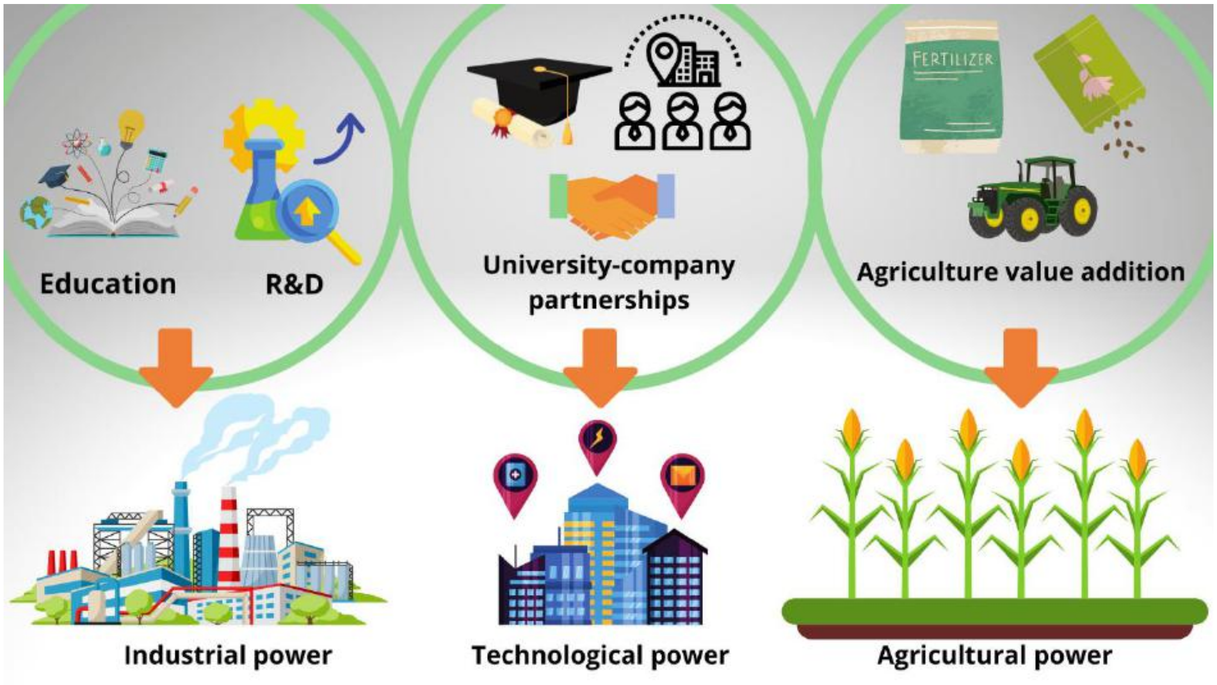


According to the AfDB, in 2020, Côte d’Ivoire’s GDP rose by 1.8%, a 4.6% decline from 2019 growth levels of 6.4%.[84] In 2021, the AfDB estimates that GDP will rebound to 6.2% and 6.5% in 2022. Initially, Côte d’Ivoire’s growth was estimated to reach 7.2% in 2020.[85] Nevertheless, consistent high economic growth rates have catalysed Côte d’Ivoire’s structural transformation towards an industrialised economy. The share of the primary sector fell by almost half, from 40.5% of GDP during 1960-1969 to 21.4% of GDP during the 2010-2019 period.[86] Comparatively, the share of the secondary sector increased from 15.6% of GDP (1960-1969) to 22.5% of GDP for the 2010-2019 period.[87]

[83] https://www.worldbank.org/en/country/cotedivoire/overview
[84] https://www.afdb.org/en/countries/west-africa/cote-d%E2%80%99ivoire/cote-divoire-economic-outlook
[85] Country Strategy Paper (CSP) 2018-2022 https://www.afdb.org/en/documents/cote-divoire-combined-country-strategy-paper-2018-2022-mid-term-review-and-2021-country-portfolio-performance-review-report
[86] ibid.
[87] Ibid.

The execution of Côte d'Ivoire's 2012–15 National Development Plan (NDP)[88], combined with structural reforms under the 2011–15 economic and financial program, helped drive economic growth. This growth has come with moderate inflation, a fiscal balance that is under control and a favourable trend in the balance of current transactions. The government is currently preparing a new National Development Plan (2021-2025) which aims at improving the diversification of the economy, boosting domestic value-added content in commodity exports and addressing structural bottlenecks from infrastructure gaps and weaknesses in human capital.

Further, Côte d'Ivoire's "Vision 2040" [89] defines the long-term vision of the country, focuses on several areas of development, including transforming Côte d'Ivoire into an (i) **industrial power** through education, which requires investment into education, training and research and development, (ii) a **technological power**, through investment and university-company partnerships, (iii) **an agricultural power**, to increase value-addition in the agricultural industry and (iv) **economic and financial power**.

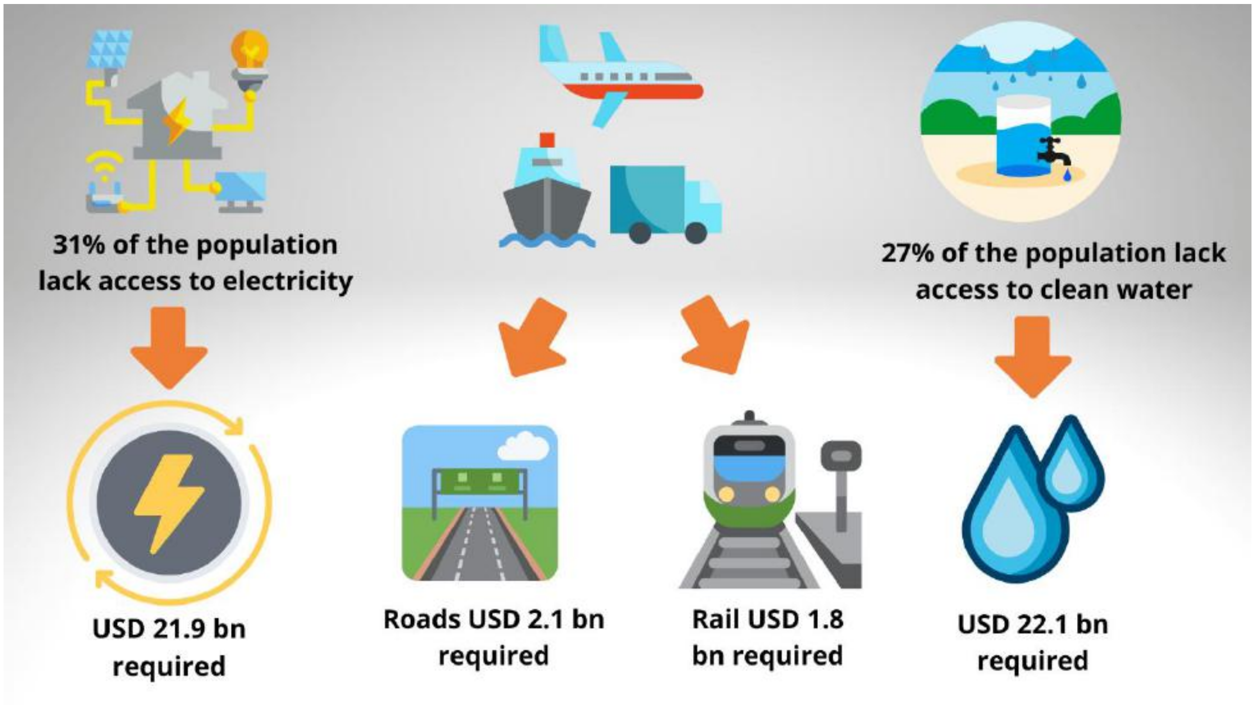


[88] https://www.imf.org/external/pubs/ft/scr/2016/cr16388.pdf
[89] http://www.plan.gouv.ci/assets/fichier/RAPPORT-SYNTHESE-ENP-CI-2040-version-finale-du-10-mars-2017-1-5-.pdf

Côte d'Ivoire is also firmly committed to implementing changes to achieve SDG targets by 2030. This commitment is demonstrated by: (i) the establishment of a national multi-party consultation framework; (ii) strong and high-level participation in the adoption summit and (iii) mainstreaming of the SDGs under the 2016-2020 NDP.

For the SDGs to be attainable, Côte d'Ivoire must address the remaining financing gaps which impede its structural transformation and overall development. For example, there have been significant improvements in the country's infrastructure due to loans from a variety of lenders. Throughout the mid-2000s infrastructure contributed an annual per capita GDP growth of 1.8%[90], resulting in the country ranking 21st out of 54 African countries in the Composite Africa Infrastructure Development Index 2020.[91] In the energy sector following government investment, installed power capacity jumped by 60% from 2011 to 2020, as power capacity increased from 1,391 MW to 2,229 MW.

However, further investment is required, with 31% of the population still lacking access to electricity.[92] Indeed, the energy sector has the largest absolute financing gap at USD 21.9 billion required.[93] Moreover, absolute funding gaps in transport infrastructure stand at USD 2.1 billion for road infrastructure and USD 1.8 billion for rail.[94] Water access is also critically in need of development, with 27% of the population lacking access to basic drinking water[95], with an absolute funding gap of USD 22.1 billion.



[90]Foster, Vivien, Pushak, Natailya (2011) Côte d'Ivoire's Infrastructure: A Continental Perspective. World Bank Report. https://openknowledge.worldbank.org/handle/10986/27854

[91] Country Strategy Paper (CSP) 2018-2022 https://www.afdb.org/en/documents/cote-divoire-combined-country-strategy-paper-2018-2022-mid-term-review-and-2021-country-portfolio-performance-review-report

[92] World Bank. Access to electricity (% of population) - Cote d'Ivoire https://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?locations=CI

[93] https://s3-ap-southeast-2.amazonaws.com/global-infrastructure-outlook/countrypages/GIH_Outlook+Flyer_Cote%20d'Ivoire.pdf

[94] ibid.

[95] World Bank. People using at least basic drinking water services (% of population) - Cote d'Ivoire https://data.worldbank.org/indicator/SH.H2O.BASW.ZS?locations=CI

Section I: Financial History & Status Quo

KEY TAKE AWAYS

- IN 1970 EXTERNAL DEBT WAS JUST USD 373.5 MILLION.
- THE 1970S OIL CRISIS SNOWBALLED EXTERNAL DEBT, DEBT PEAKED IN 1996 AT USD 19.5 BILLION.
- BY 2001 EXTERNAL DEBT REDUCED TO USD 11.6 BILLION FOLLOWING PARIS CLUB RESTRUCTURING IN 1998
- IN 2009, ADOPTION OF THE HIPC INITIATIVE LED TO DEBT RESTRUCTURING EFFORTS.
- IN 2018, TOTAL EXTERNAL DEBT STOOD AT USD 15.7 BILLION
- TOTAL EXTERNAL DEBT AS A % OF GNI STANDS AT 38% - SIGNIFICANTLY LOWER THAN THE PEAK OF 231% IN 1994.

The 1970s: Oil Shocks and Rising Interest Rates.

In 1970, Côte d'Ivoire's debt was relatively low, at just USD 373.5 million. However, following the oil shocks in 1973 and 1979, interest rates on lending increased substantially and debt levels rose correspondingly. In 1988, external debt reached USD 13 billion. This led Côte d'Ivoire to participate in the IMF's SAPs, beginning in 1981 – when debt stood at USD 8.1 billion.[96]

Accessing the SAPs required the government to conform to conditionalities, including sharply reducing its investment budget. Such measures constrained the financial space and therefore reduced investment into crucial infrastructure, which was essential for economic growth. Nevertheless, the government took measures to fulfil IMF conditionality's and the economic situation did not improve. Two additional loans of USD 250 million were provided in 1983 and 1986. Consequently, despite the SAPs, debt continued to accumulate, and in 1996 it peaked at USD 19.5 billion.

In 1998, the IMF approved the Enhanced Structural Adjustment Facility (ESAF) for Côte d'Ivoire, covering the period 1998 to 2000, in exchange for further structural reforms, such as privatisation. The IMF issued a loan equivalent to SDR 285.8 million (approximately USD 384 million), in exchange for economic reforms intended to support the country's economic performance. The ESAF loan carried a 0.5% annual interest rate, with a 10-year repayment period and a 5.5-year grace period.[97] Further, under the IMF ESAF programme, Côte d'Ivoire received debt treatment from the Paris Club totalling USD 1.4 billion.[98] Under these restructuring efforts, in 1998 the government issued six Brady bonds[99] totalling USD 2.4 billion.[100] The purpose of these bonds was to restructure banks debt into long-term bonds, backed by US treasury bonds. Overall, debt management and restructuring resulted in external debt gradually declining and by 2001 external debt equated to USD 11.6 billion – a USD 7.9 billion decline from the peak 1996 level (figure 7).

[96] https://ieg.worldbankgroup.org/sites/default/files/Data/reports/161precis.pdf
https://www.files.ethz.ch/isn/95334/39%20-%203%20chapters.pdf
[97] IMF, 1998. Press Release: IMF Approves Three-Year Arrangement Under the ESAF for Cote d'Ivoire
https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr9805
[98] https://clubdeparis.org/en/traitements/cote-ivoire-24-04-1998/en
[99] Brady Bonds are sovereignty debt securities issued the government as backed by US Treasury bonds
[100] https://www.reuters.com/article/ivorycoast-bond-idUSLDE70U1H920110131

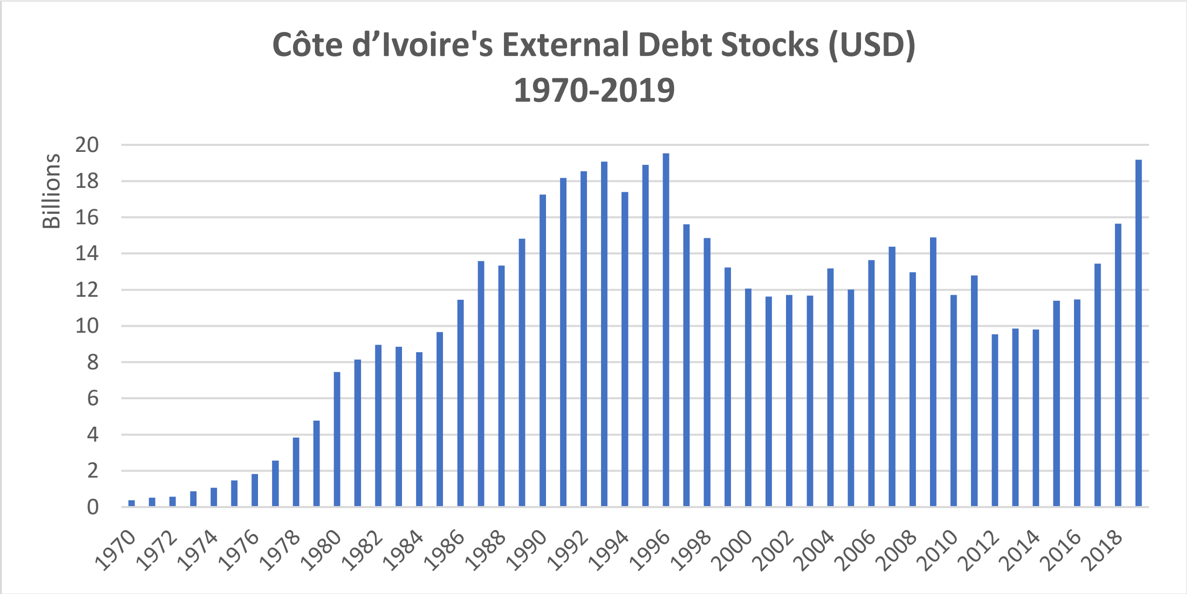


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Figure 7: Cote d'Ivoire's External Debt 1970-2019
Source: World Bank

The 2000s: HIPC and Debt Management.

After 2001, debt gradually began to increase as restructuring dates approached. This ultimately led Côte d'Ivoire to participate in the IMF's Heavily Indebted Poor Country (HIPC) initiative for debt relief in 2009. Following USD 3.1 billion of HIPC debt relief, this reduced external debt by 23.6%.[101] The country also participated in the Multilateral Debt Relief Initiative (MDRI), thereby receiving USD 1.3 billion in relief, alongside USD 3.3 billion of bilateral creditors under the Paris Club.[102] Côte d'Ivoire also obtained a rescheduling agreement from the Paris Club creditors on an exceptional basis. Côte d'Ivoire's most recent debt rescheduling with the Paris Club was in April 2002. Paris Club debt by the end of 2008 was estimated at USD 7 billion, of which USD 3.6 billion was in arrears. Overall, participation in HIPC and MDRI resulted in a considerable decline in Côte d'Ivoire's external debt when compared to the period of the 1990s, as shown in figure 7.

Beyond this, there was also further restructuring of commercial creditors in September 2009, when Côte d'Ivoire and the committee of Brady bondholders reached an agreement on restructuring outstanding debt of about USD 2.8 billion.[103] The Government offered bondholders the ability to exchange bonds for a new U.S. dollar-denominated bond, with a discount of 20%, a term of 23 years, and a six-year grace period. Other external commercial creditors held three types of instruments (Standard Bank/BNI securitizations, Sphynx 2007–10, and Sphynx 2008–11), each of which were sold to external investors and backed by Ivorian government securities. At the end of 2008, outstanding debt related to these instruments amounted to about USD 290 million, due to be repaid during 2009–11. The country's authorities publicly announced their intention to seek to restructure these instruments on terms consistent with the Paris Club and HIPC requirements.

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[101] World Bank (2012) CÔTE D'IVOIRE
Enhanced Initiative for Heavily Indebted Poor Countries (HIPC) Completion Point Document and Multilateral Debt Relief Initiative (MDRI) https://documents1.worldbank.org/curated/en/493151468261261477/pdf/702110REVISED0IDA0R20120016302.pdf
[102] IMF (2012) Debt Relief for Africa https://www.imf.org/en/News/Articles/2015/09/28/04/53/socar062612a
[103] https://www.imf.org/external/pubs/ft/scr/2009/cr09326.pdf

The 2010s To Now: New Creditors and Financing Opportunities.

Since 2012, the government has used the borrowing space created by the HIPC completion and debt restructuring to finance its investment plans, including several large key investments in the energy and infrastructure sectors. This has been complemented by the rise of new creditors offering different types of financing opportunities.

There has therefore been a shift in debt composition, with an increase in non-traditional creditors – such as China and commercial creditors as bondholders. The share of multilateral creditors in Côte d'Ivoire's external debt increased from 24.2% in 2015 to 26.2% in 2016, whilst the share of official bilateral creditors increased from 16.1% to 19.6%. By contrast, over the same period, the share of commercial creditors declined from 59.8% of the total to 54.2%.[104] Figure 8 shows a breakdown of Côte d'Ivoire debt stock by creditor as of 2020.

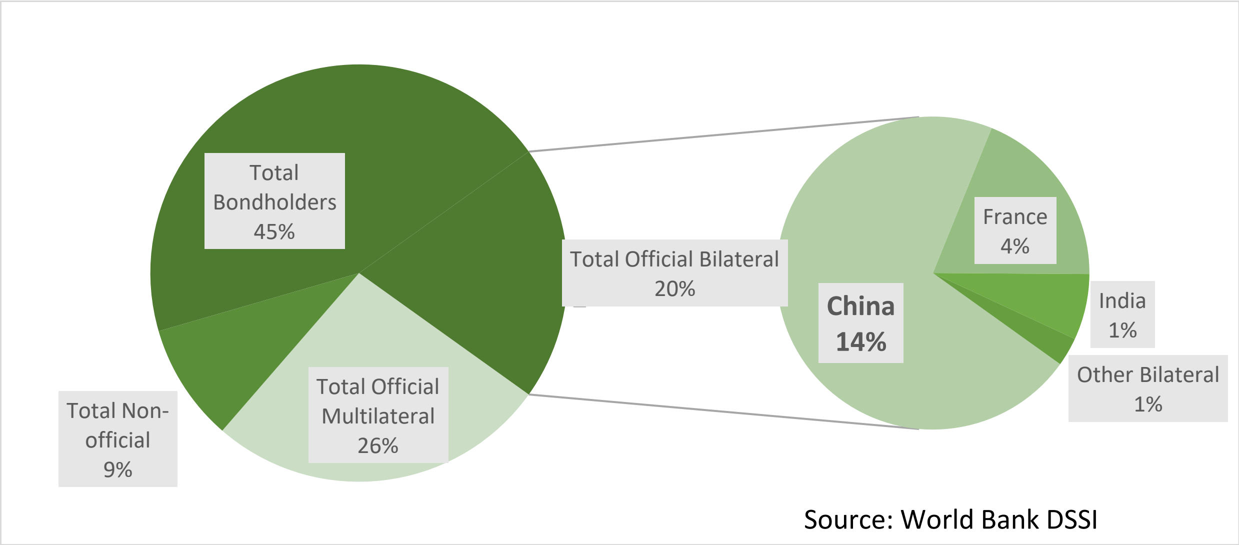

Figure 8: Breakdown of Côte d'Ivoire's debt
Source: World Bank DSSI

Chinese Partners.

Chinese actors have also acted as an important source of financing for Côte d'Ivoire. From 2000 to 2019, Côte d'Ivoire has obtained 23 loans from China, totalling USD 3.7 billion. [105] The top sector to receive loans is the power sector (USD 1.6 billion), followed by transport (USD 1.3 billion) water (USD 470 million) – all of which provide much-needed capital towards addressing Côte d'Ivoire's financing gap. Of these 23 loans, China's EXIM Bank has financed 15, followed by China's development agency – China International Development Cooperation Agency (CIDCA) financing 7 at 0% interest and the Bank of China financing 1.

[104] https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/C%C3%B4te_d_Ivoire_-_Decision_Point_Document_under_the_Enhanced_HIPC_Initiative_-_Appraisal_Reports.pdf
[105] https://chinaafricaloandata.bu.edu/

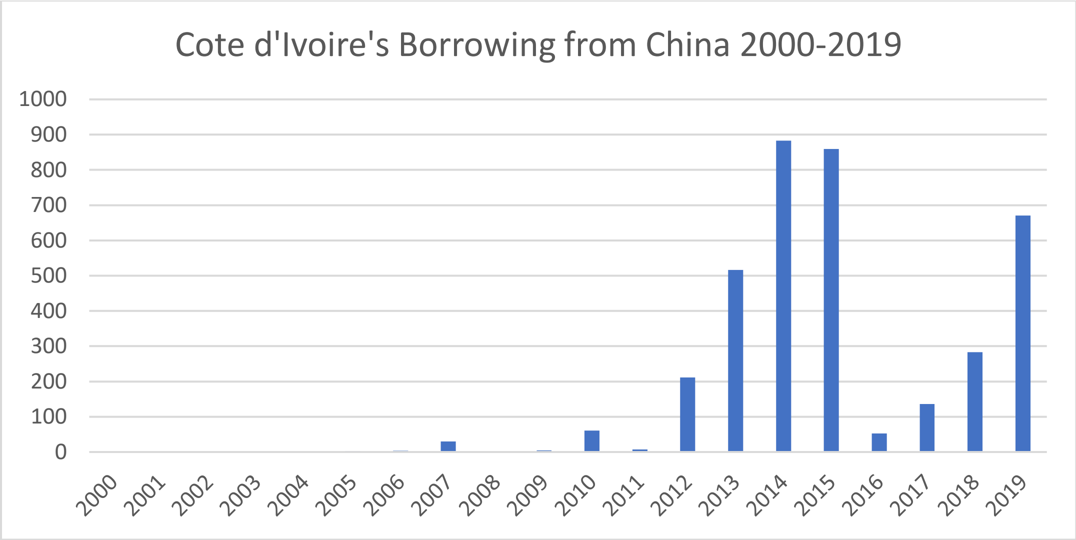

Figure 9: Côte d'Ivoire's Borrowing from China 2000-2019
Source: SAIS-CARI[106]

The type of projects financed has produced numerous assets to tackle infrastructure gaps. For example, the power sector has received 3 loans, all from the China EXIM bank. The first loan (USD 500 million) was obtained in 2013 for the Soubre Hydropower Project 275MW contracted to China's Sinohydro Ltd.[107] The loan had a 2% interest rate and a 9-year grace period with a 20-year term.

For the transport sector, Côte d'Ivoire has obtained 5 loans equating to USD 1.3 billion. The first loan obtained in 2012 was worth USD 115 million with a 2% interest rate and a 20-year term, was from China's EXIM bank and financed through preferential export buyer's credit (PEBC), which allows the borrower – Côte d'Ivoire – to finance Chinese imports and services. The purpose of the loan was to build the Abidjan-Grand Bassam Highway, which was contracted to China Machinery Engineering Corporation (CMEC). The second transport loan was obtained in 2014, worth USD 793 million by PEBC-finance from China's EXIM bank. The loan was used to expand the Abidjan Port, which is poised to be a major maritime hub in the West African region and is essential to facilitating Côte d'Ivoire's international trade.

The advantages of financing through PEBC are low financing costs and no credit insurance requirements, although approval times are often long due to government negotiations. The proceeds of these loans can be used to support up to 85% of a project's overall cost, but 15% counterpart funding is required.

Côte d'Ivoire has also negotiated debt relief from Chinese counterparts. In 2019, around USD 34.6 million of debt was written off - although this is only 0.9% of Côte d'Ivoire's USD 3.7 billion of total loans. Côte d'Ivoire also received USD 31.2 million as a donation from China.[108]

[106] Ibid.
[107] Ibid
[108] https://www.ecofinagency.com/public-management/2606-40225-cote-d-ivoire-secures-31-mln-donation-and-34-mln-in-debt-relief-from-china

The Private Sector.

The increase in commercial creditors in Côte d'Ivoire is largely attributed to Eurobond issuances. Côte d'Ivoire issued its first Eurobond in 2014, raising USD 750 million, followed by a USD 1 billion issuance in 2015.[109] In support of the 2014 issuance, Moody's and Fitch assigned the country sovereign bond risk ratings of B1 and B, respectively, both with a positive outlook. Most recently, Moody's upgraded Côte d'Ivoire's risk rating to Ba3 (stable outlook).[110] Eurobond financing contributed to the 2017 investment budget which allowed Côte d'Ivoire to tackle financing gaps for future economic growth and also provided financial space following a drop in cocoa prices.[111]

In November 2020, Côte d'Ivoire issued another Eurobond (USD 1.19 billion), which was five times oversubscribed.[112] This was intended to finance the budget deficit incurred from COVID-19 measures and reduced economic activity. Around CFAF 150 billion (USD 269.8 million) of the 2020 Eurobond will fund the state budget to finance the priority investments outlined in the 2020 Finance Law, following commitments made with the IMF.[113] The remaining amount will be used to buy back three existing series of Eurobonds which aligns with Côte d'Ivoire's Medium-Term Debt Management Strategy, which intends to ensure public debt management.[114]

African Development Bank.

Côte d'Ivoire has also been active in securing loans from the AfDB, with total investments equating to USD 2.7 billion[115] – a fourfold increase since 2015. According to the most recent African Development Bank 'Côte d'Ivoire Combined Country Strategy Paper (CSP) (2018-2022)'[116], UA 1000.8 million[117] in resources was mobilised for the CSP, with 94.3% of funds from the African Development Bank. A total of 19 out of 27 projects under the CSP have been approved, with 13 of these approved projects concerned with improving "transformative infrastructure and governance for economic competitiveness and investment effectiveness".[118] These 13 projects equate to UA 629.3 million with the top sector receiving projects being energy (5 projects), governance (4), transport (2) and water and sanitation (2).

From AfDB engagement, there have been developments in transport infrastructure. For example, under the CSP, the length of asphalted interurban roads increased by 2.37% with a total construction of 201.4 kilometres of roads. Other examples are found in energy, with ADB projects resulting in a 9.5% increase in electricity access – although this fell short of the 20% target due to construction delays.

In respect to agriculture, under the Indénié-Djuablin Region Agricultural Infrastructure Support Project, financing was provided to increase research into crop production, leading to the cassava yield increasing to 23.4 t/ha at end of 2019, compared with the initial target of 16 t/ha.[119] In July 2021, AfDB announced it

[109] https://oxfordbusinessgroup.com/analysis/diversified-deals-authorities-look-finance-debt-through-eurobond-issues
[110] https://tradingeconomics.com/ivory-coast/rating
[111] https://www.jeuneafrique.com/448159/economie/leurobond-ivoirien-va-permettre-de-combler-trou-budget-2017/
[112] https://www.reuters.com/article/ivorycoast-bonds-idUSL8N2IB4QA
[113] https://finances.gouv.ci/actualites/65-contenu-dynamique/actualite/753-eurobond-2020-mobilisation-exceptionnelle-de-1-milliard-d-euro-les-investisseurs-renouvellent-leur-confiance-a-la-cote-d-ivoire-et-au-president-alassane-ouattara
[114] https://finances.gouv.ci/actualites/65-contenu-dynamique/actualite/753-eurobond-2020-mobilisation-exceptionnelle-de-1-milliard-d-euro-les-investisseurs-renouvellent-leur-confiance-a-la-cote-d-ivoire-et-au-president-alassane-ouattara
[115] https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-support-creation-agricultural-value-chains-cote-divoire-president-adesina-44535
[116] https://www.afdb.org/en/documents/cote-divoire-combined-country-strategy-paper-2018-2022-mid-term-review-and-2021-country-portfolio-performance-review-report
[117] UA is the official currency for African Union projects
[118] https://www.afdb.org/en/documents/cote-divoire-combined-country-strategy-paper-2018-2022-mid-term-review-and-2021-country-portfolio-performance-review-report
[119] ibid.

will be providing investment into Côte d'Ivoire's agricultural value chains.[120] This is aligned with the country's National Development Plan (2021-2025), and will also support the country's COVID-19 economic recovery.

Is Côte d'Ivoire facing a 'debt crisis?'

Since 2014, Côte d'Ivoire's external debt has been on an upward trend reaching just under USD 15.7 billion in 2018. However, most importantly, financing from debt has produced numerous productive, tangible assets which, alongside other financial revenue streams, have contributed towards Côte d'Ivoire's consistently high economic growth. Therefore, when accounting for Côte d'Ivoire's increasing levels of debt it is important to contextualise this within the role of GNI.

As shown in figure 10, Côte d'Ivoire's debt as a percentage of GNI has declined to 37.9% - close to 1970 levels - thus negating popular notions that Côte d'Ivoire is heading towards a 'debt crisis'. Rather, accounting for GNI shows that Côte d'Ivoire's economy has grown alongside the increase in absolute level debts, thus reflecting how debt can be an instrumental source of capital for development, and not necessarily a constraint. Since debt as a percentage of GNI is relatively low, this also shows there is room for growth in debt, which can be used to finance COVID-19 recovery and address financing gaps.

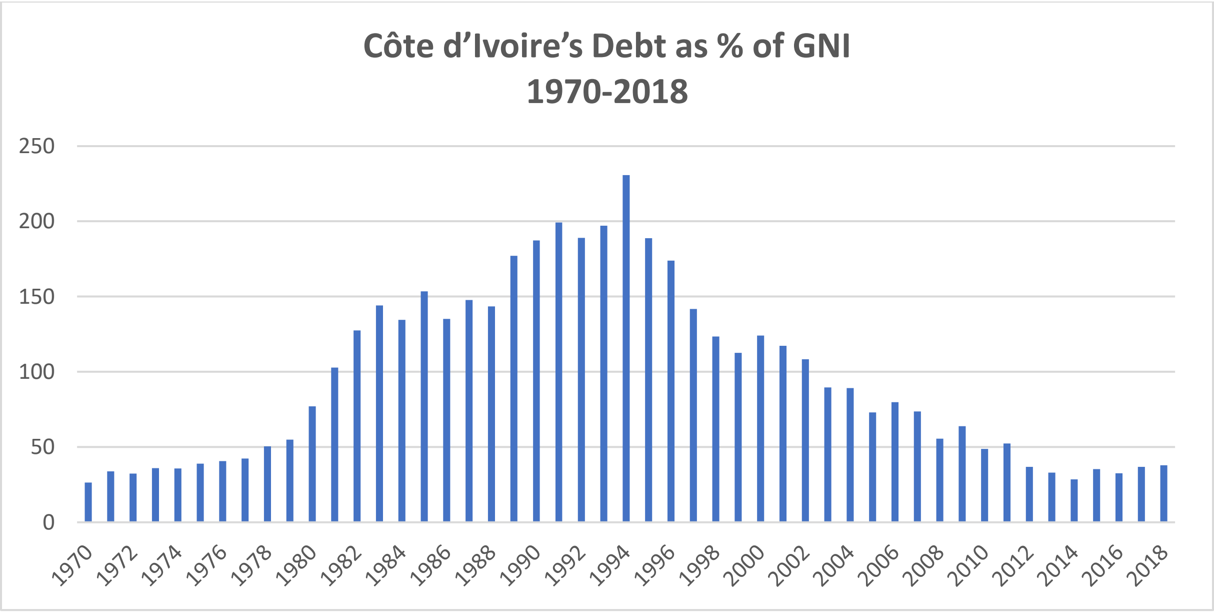

Figure 10: Côte d'Ivoire's Debt as % of GNI
Source: World Bank

[120] https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-support-creation-agricultural-value-chains-cote-divoire-president-adesina-44535

Section II: Financial Revenue Sources

Côte d'Ivoire's economy has become reasonably diversified. Economic growth is driven by agriculture (24% of GDP in 2016), industry (29%, including mining with 6%), and services (47%) sectors.[121] Industrial sectors, especially construction, have grown considerably since 2011, in part because of government infrastructure programs. The following section explores Côte d'Ivoire core financial revenue sources.

Exports: Exports are a crucial source of revenue for Côte d'Ivoire. According to the World Bank, exports of goods and services (% of GDP) in Côte d'Ivoire were reported at 24% in 2019.[122] In the same year, Côte d'Ivoire ran a trade surplus of USD 2.2 billion, with exports totalling USD 12.7 billion and imports totalling USD 10.5 billion.[123] Côte d'Ivoire's top exports are from the agricultural or raw material industries, with the country's leading exports being; Cocoa Beans (USD 3.84 billion), Gold (UDS 1.09 billion), Rubber (USD 1.08 billion), Refined Petroleum (USD 1.02 billion), and Crude Petroleum (USD 941 million).[124] The Netherlands is the top consumer of Côte d'Ivoire's exports.

Agricultural Exports: Agriculture is a crucial source of revenue for Côte d'Ivoire, with the sector employing around 45% of the overall labour force, including 73% of employed residents in rural areas.[125] Cocoa and cocoa preparations are Côte d'Ivoire's top agricultural sector trade products with over a 50% share of exports.[126] This contributes to around 15% of the country's GDP whilst employing 7 million Ivorians.[127] However, there are at least three challenges to accessing higher revenues regarding agricultural exports, namely (i) low value-addition, (ii) volatility in export market prices and (iii) climate change vulnerabilities.

(i) Low value-addition: Despite cocoa and coca-based products leading in Côte d'Ivoire's exports – making the country the world's leading cocoa producer – the country only processes 30% of its cocoa.[128] The government has adopted measures to promote cocoa processing through subsidies, although these have been costly, and have not yet delivered sustainable job creation.[129] Nonetheless, the volume of cocoa processed increased from 474,000 tons (2015/16 crop year) to 577,000 tons (2016/2017 crop year)

121 https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2018/05/8-1.pdf
122 World Integrated Trade Solution https://wits.worldbank.org/CountrySnapshot/en/CIV
123 https://wits.worldbank.org/CountryProfile/en/CIV
124 OEC Cote d'Ivoire https://oec.world/en/profile/country/civ
125 World Bank. 2017a. "Côte d'Ivoire Jobs Diagnostic." Jobs Notes issue 3, based on Jobs Diagnostic Côte d'Ivoire—Employment, Productivity, and Inclusion for Poverty Reduction, edited by Luc Christiaensen and Patrick Premand, Washington, DC: World Bank, 2017.
126 OEC Cote d'Ivoire https://oec.world/en/profile/country/civ
127 Ibid.
128 https://www.afdb.org/en/documents/cote-divoire-combined-country-strategy-paper-2018-2022-mid-term-review-and-2021-country-portfolio-performance-review-report
129 World Bank. 2017a. "Côte d'Ivoire Jobs Diagnostic." Jobs Notes issue 3, based on Jobs Diagnostic Côte d'Ivoire—Employment, Productivity, and Inclusion for Poverty Reduction, edited by Luc Christiaensen and Patrick Premand, Washington, DC: World Bank, 2017

supporting the country's progress towards its target of increasing the processing rate of cocoa from 30% in 2016 to at least 50% in 2020.[130]

(ii) Export market volatility: The agricultural sector is vulnerable to exogenous shocks, such as price volatility. In 2000, a drop in commodity prices generated a recession, and a year later, poor cocoa and coffee harvests coupled with declining coffee market prices resulted in a decline in GDP by 3.3%.[131] To mitigate the vulnerability, financing is required in both value-addition of agricultural products alongside the diversification of crop production.

(iii) Climate Change: Climate change threatens the country's agricultural sector and the subsequent export revenue it provides. Cocoa is extremely vulnerable to climate change as rising temperatures reduces the soil fertility in the Southeast's agricultural regions. The dominance of cocoa in the country's export basket increases vulnerability to climate change, underscoring the need for diversification. Importantly, cocoa is one of the major causes of Côte d'Ivoire's deforestation, with 60% of the country's forests disappearing between 1990 and 201[132], increasing the country's vulnerability to climate hazards such as floods. There are examples of Côte d'Ivoire mobilising finance to mitigate climate impacts. For example, in 2019 over USD 1 billion was mobilised in partnership with the UN in reforestation efforts.[133]

Extractive Exports: Extractives are another component in Côte d'Ivoire's export basket, with Gold providing USD 1.09 billion in revenue in 2019, counting for 7.9% of exports, followed by rubber (USD 1.08 billion and 7.8% of exports), Refined Petroleum (USD 1.02 billion and 7.4% of exports), and crude Petroleum (USD 941 million and 6.9% of exports).[134] However, akin to agricultural exports, extractive exports are also vulnerable to exogenous market shocks, such as repressed demand and price crashes.

Remittances: Côte d'Ivoire is an important remittance market in West Africa. In total, around 1 million Ivoirian migrants live abroad, with remittance inflows equivalent to around 1% of GDP in 2016.[135] Most remittance inflow originates from Burkina Faso, equating to USD 187 million annually. This is followed by Liberia, with USD 50 million sent to Côte d'Ivoire.[136] Nevertheless, the country is a net sender of remittances, sending approximately USD 650 million[137] annually to other countries, often the surrounding West African region. The WAEMU's regulatory framework and the common currency enable a cheaper, efficient flow of remittances. Further, mobile money has made significant progress in uptake over a short period. Yet, the value of informal flows is still high.

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130 International Finance Corporation and World Bank report 2020
131 https://www.oecd.org/countries/cotedivoire/1824151.pdf
132 https://www.worldbank.org/en/country/cotedivoire/publication/cote-d-ivoire-economic-update-so-tomorrow-never-dies-key-messages
133 https://www.un-redd.org/post/2019/09/03/1-for-20-partnership-mobilizing-usd-1-billion-to-restore-the-ivorian-forest-cover-to-20
134 OEC Cote d'Ivoire https://oec.world/en/profile/country/civ
135 https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data
136 World Bank, 2016. Côte d'Ivoire. Available online: https://data.worldbank.org/country/cote-divoire
137(no outflows data is available for 2016 and 2017) World Bank, 2018. Remittance Prices: Price comparison. Available online: https://remittanceprices.worldbank.org/en

Tax: Tax is another source of domestic revenue, although it is significantly underdeveloped compared to Côte d'Ivoire's West African neighbours. Indeed, from 2016 to 2019, the tax burden stood at 11.9% of GDP, compared to an average of 20% from the WAEMU.[138]

[138] Country Strategy Paper (CSP) 2018-2022 https://www.afdb.org/en/documents/cote-divoire-combined-country-strategy-paper-2018-2022-mid-term-review-and-2021-country-portfolio-performance-review-report

Section III: Financial Exposure

According to the IMF and World Bank DSA,[139] Côte d'Ivoire is classified as in 'Moderate Debt Distress' due to its limited capacity to absorb financial shocks. This conclusion is reached even though Côte d'Ivoire's debt burden currently remains below the 55% threshold of debt to GDP – in 2021, external debt to GDP is projected at 38.2%.[140] However, the country is viewed as vulnerable in the case of external shocks.

The process of the DSA is inherently flawed.[141] Firstly, the assessment is exclusively conducted for poor countries, and classes these countries – including Côte d'Ivoire – as either in moderate, high or within 'debt distress'. Many of these countries still have fiscal space and have not yet breached their thresholds. Furthermore, as previous studies have shown, countries can develop with high levels of debt-to-GDP – standing as high as 75-100%.[142] Côte d'Ivoire is a prime example of the IMF-World Bank DSA tendency to ignore the 'positives' of financing through debt. For example, the debt that Côte d'Ivoire incurs can have positive spill-over effects which generate further economic growth. The debt-funded Port of Adibjan accounts for 80% of Côte d'Ivoire's international commercial exchange[143] and is estimated to provide 75,500 direct and indirect jobs. The DSA fails to account for the assets created through debt, and therefore, it provides an incomplete picture.[144]

Moreover, DSA assessments provide a negative signal to potential investors and constrain financing options. For example, Côte d'Ivoire's classification of moderate debt distress results in higher risk premiums, which for Côte d'Ivoire currently stand at 3.49%.[145] This comes despite Côte d'Ivoire being the only country in the region with a credit rating of 40.[146]

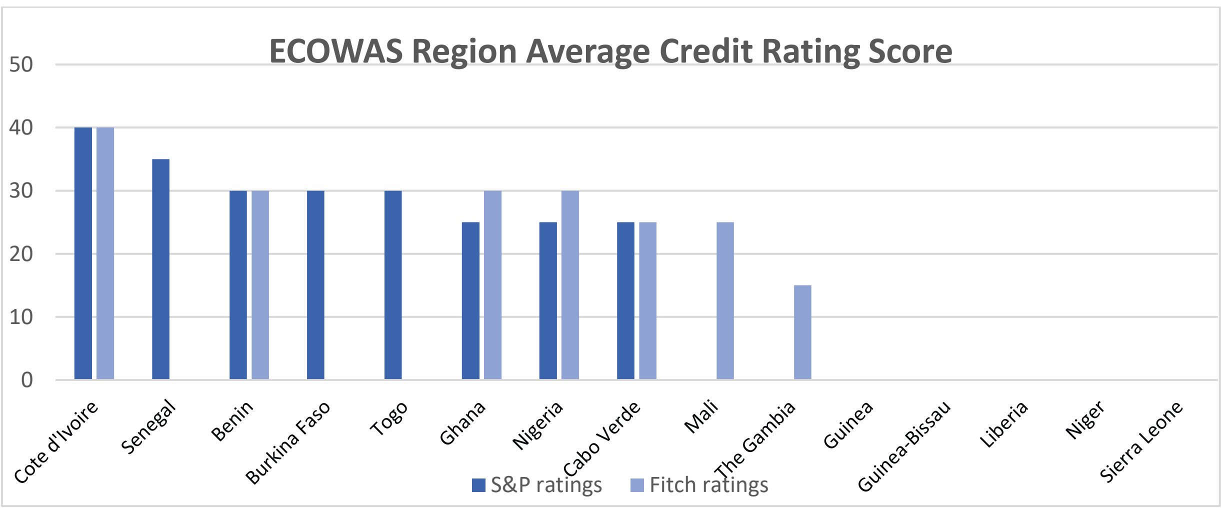

Figure 11: ECOWAS Region Average Credit Rating Score

[139] https://documents1.worldbank.org/curated/en/752271609127447827/pdf/Cote-d-Ivoire-Joint-World-Bank-IMF-Debt-Sustainability-Analysis.pdf
[140] https://www.imf.org/external/pubs/ft/dsa/pdf/2020/dsacr20132.pdf
[141] Ryder, Hannah (2021) How multilaterals exaggerate Africa risk https://african.business/2021/08/trade-investment/how-multilaterals-exaggerate-africa-risk/
[142] Salmon, Jack and de Rugy, Veronique, 2020, Debt and Growth: A Decade of Studies. Mercatus Research Paper, Available at SSRN: https://ssrn.com/abstract=3690510 or http://dx.doi.org/10.2139/ssrn.3690510
[143] https://ipcsa.international/about/members/members-africa/748-2/
[144] https://african.business/2021/08/trade-investment/how-multilaterals-exaggerate-africa-risk/
[145] https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.htm
[146] Countries with ratings that fall below 30 are below investment grade and therefore do not qualify for issuing Eurobonds and are restricted from private loans.

Relationship with Regional and Continental Financial Institutions.

West-Africa Economic and Monetary Union: Côte d'Ivoire is a founding member of the West-Africa Economic and Monetary Union (WAEMU). The WAEMU aims to foster regional integration through unified policies. During COVID-19, the WEAMU decided on a temporary suspension of the WAEMU Growth and Stability Pact – which aimed for consistent national fiscal and monetary policies between governments. This included a suspension of the 3% GDP fiscal deficit rule, which allows for members to increase their fiscal deficit to mobilise financing to address the COVID-19 pandemic[147].

Côte d'Ivoire has also worked with the Regional Central Bank (BECEO) of WAEMU in addressing the financing challenges of COVID-19. For example, in April 2020, BCEAO created a three-month refinancing window with a fixed rate of 2.5% of the "COVID-19 Treasury Bill" with a short-term duration of three months issued by member counties to provide additional financing. Côte d'Ivoire issued Treasury Bills equivalent to 1.5% of the country's GDP.[148] Further, in February 2021, BCEAO created a six-month refinancing window at the bottom of the interest rate corridor to allow member countries to finance bonds with a maturity of over three years. For Côte d'Ivoire, the total amount of bonds eligible for this refinancing equates to 1.9% of projected 2021 GDP growth.

[147] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
[148] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19

Section IV: Current and Future Financing gaps

Despite Côte d'Ivoire's high and consistent level of economic growth from 2012 onwards, and its procurement of financing for numerous projects, there remains significant development gaps. According to the Global Infrastructure Hub, which provides estimates for the financing required to achieve universal access to electricity, water, and sanitation in line with the SDGs, the absolute funding gap stands at USD 51.5 billion, with the largest gaps in the electricity (USD 21.9 billion) and water (USD 22.1 billion) sectors[149], followed by a significant drop in road infrastructure (USD 2.1 billion) and rail (USD 1.8 billion).

Cumulative Infrastructure Investment Needs in Côte d'Ivoire, USD billions, 2016–40

	Road	Rail	Airports	Ports	Telecoms	Electricity	Water	Total
2016–40 Current trends (CT)	27.3	2.9	0.9	0.5	17.2	3.1	13.3	65.2
2016–40 Relative investment need (RIN)	29.4	4.7	1.8	1.8	18.7	3.1	19.4	78.8
2016–40 Relative investment gap (RIN-CT)	2.1	1.8	0.9	1.3	1.5	0.0	6.1	13.6
2016–40 SDG requirement over and above RIN						21.9	16	37.9
2016–40 Absolute gap (RIN+SDG–CT)	2.1	1.8	0.9	1.3	1.5	21.9	22.1	51.5

Source: Global Infrastructure Hub and Oxford Economic, "Global Infrastructure Outlook," 2018.

Note: CT = current trends; RIN = relative investment need; SDG = sustainable development goals. All figures in USD billions, based on 2015 prices and exchange rates.

Figure 12: Infrastructure Investment Needs in Côte d'Ivoire
Source: Global Infrastructure Hub and Oxford Economic[150]

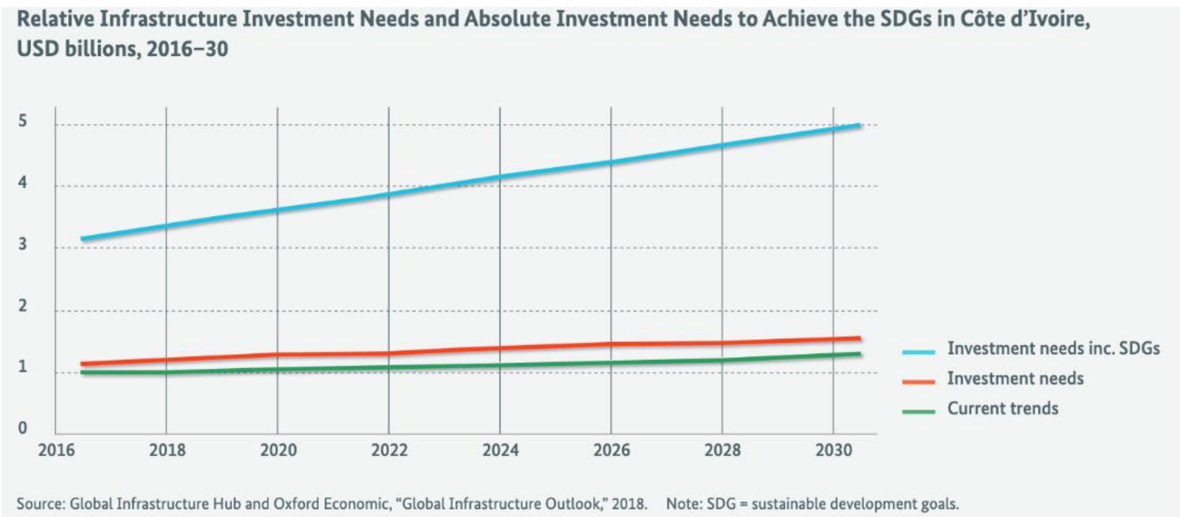

Figure 13: Infrastructure Investment Needs to Achieve the SDGs
Source: Global Infrastructure Hub and Oxford Economic[151]

[149] https://s3-ap-southeast-2.amazonaws.com/global-infrastructure-outlook/countrypages/GIH_Outlook+Flyer_Cote%20d'Ivoire.pdf
[150] Global Infrastructure Hub and Oxford Economic, "Global Infrastructure Outlook," 2018
[151] Global Infrastructure Hub and Oxford Economic, "Global Infrastructure Outlook," 2018.

COVID-19 and Additional Financing Needs.

The COVID-19 pandemic has brought numerous challenges to financing capacity, with the country's real GDP increasing by only 1.8% in 2020, well below its 6.4% growth rate attained in 2019.[152] The pandemic presents a dual challenge. Firstly, it simulated a significant decline in financial revenue sources. Weakened global demand hit Côte d'Ivoire's export sectors hard, including; the export agriculture sector (which contracted by 2.2%), agro-food industries (–1.3%), forestry (–16.5%), mining (–4.8%), petroleum products (–26.9%), and transport (–1.8%)[153]. This led to inflation rising from 0.8% in 2019 to 1.8% in 2020.

Secondly, the pandemic has generated an increase in expenditure needs for socioeconomic support measures, thus increasing financial pressure as less revenue is generated through traditional revenue streams. From March to May 2020, the government imposed social distancing measures, which included banning all international travel and closing non-essential businesses and schools[154]. These measures, whilst necessary, limited Côte d'Ivoire's economic growth.

Moreover, in response to the pandemic, the government launched an emergency health response plan of 96 billion CFAF[155] (USD 171.4 million) equivalent to 0.3% of GDP. This financing was poured into essential services, such as equipment for intensive care units, expanding testing capacity and pharmaceutical development. Alongside this, the government created four special funds, each equating to 1.5% of GDP, and provided financial support for the agricultural industry worth 300 billion CFAF (USD 494 million) or 0.8% of GDP.[156]

Overall, Côte d'Ivoire's economy is predicted to rebound strongly with real GDP growing by 6.2% in 2021 and 6.5% in 2022. The budget deficit is expected to be reduced to 4.3% of GDP in 2021, then to 3.3% of GDP in 2022.[157] However, prolonged vaccination rollout due to vaccine inequality is a central risk factor to economic recovery. The country's vaccine rollout began in March 2021, however, in August 2021, only 4.7%[158] of the population had received at least one dose of the COVID-19 vaccine (1.23 million people).[159] If vaccinations remain low, continued social distancing measures will be required to keep infections under control, thus further repressing economic activity.

Côte d'Ivoire's total population stands at 26.38 million[160], however, the country has a large youth population. There are 10.95 million people[161] under the age of 14, and who therefore do not currently qualify for many vaccines currently available, leaving 15.42 million people (aged over 14 years) who qualify for vaccination.

Assuming that the vaccine can be purchased for USD 3 per dose (the maximum ceiling cost set by COVAX[162] for low and middle-income countries), it would cost USD 92.5 million to vaccinate Côte d'Ivoire's population aged 14+ with two doses. Alternatively, if each dose cost USD 19, the same as Senegal recently paid for doses of Sinopharm, it would cost Côte d'Ivoire USD 586 million to vaccinate its population aged 14+.

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152 ADB Group Côte d'Ivoire Economic Outlook 2021
153 ibid
154 https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#C
155 ibid
156 https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#C
157 ADB Group Côte d'Ivoire Economic Outlook 2021
158 https://ourworldindata.org/coronavirus/country/cote-divoire
159 https://ourworldindata.org/grapher/people-vaccinated-covid?tab=chart&stackMode=absolute&time=earliest..latest&region=World&country=~CIV
160 https://data.worldbank.org/indicator/SP.POP.TOTL?locations=CI
161 https://data.worldbank.org/indicator/SP.POP.0014.TO?locations=CI
162 https://www.gavi.org/news/media-room/new-collaboration-makes-further-100-million-doses-covid-19-vaccine-available-low

Côte d'Ivoire has agreed with the COVAX facility to access COVID-19 vaccines at no cost, however, this is planned to cover just 20% of the population. Furthermore, the government plans to acquire 3.5 million doses of the Johnson & Johnson vaccines by December 2021, obtained through the African Union's African Vaccine Acquisition Trust[163], although the procurement cost of this has not been released.

The country has taken additional steps to increase fiscal space during COVID-19, for example through issuing a Eurobond in November 2020 to address the budget deficit generated by COVID-19 impacts. Other measures include participation in the G20's DSSI in December 2020, to alleviate the debt repayment burden. The potential DSSI savings from May 2020 to December 2021 equates to USD 361.3 million – this accounts for just 0.6% of GDP. However, one of the challenges to debt rescheduling is that the DSSI only covers official bilateral creditors, who only account for 20% of the country's external debt. Comparatively, 45% of the country's external debt is held by commercial creditors, which have no obligation to cancel or suspend debt repayments.

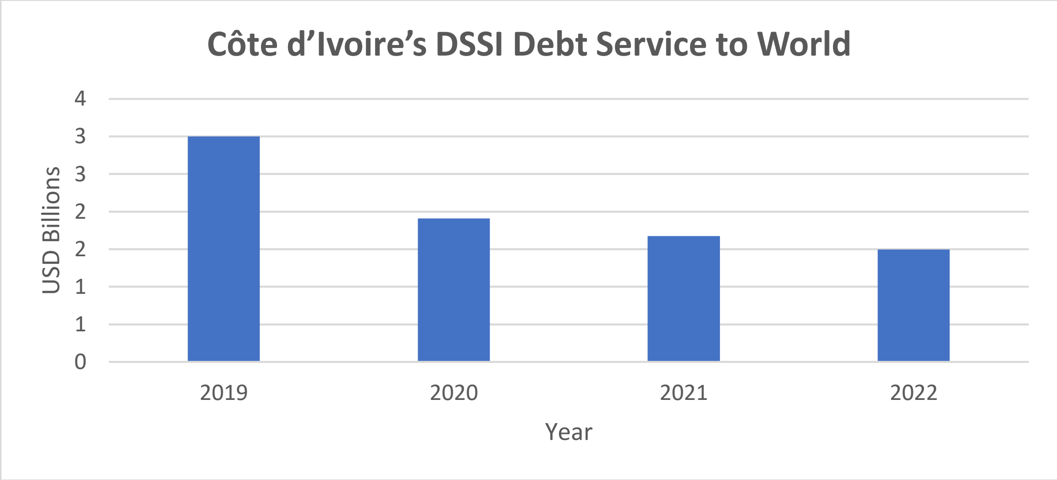


Figure 14: Côte d'Ivoire's World Debt Service under DSSI (2019-2022)
Source: World Bank DSSI

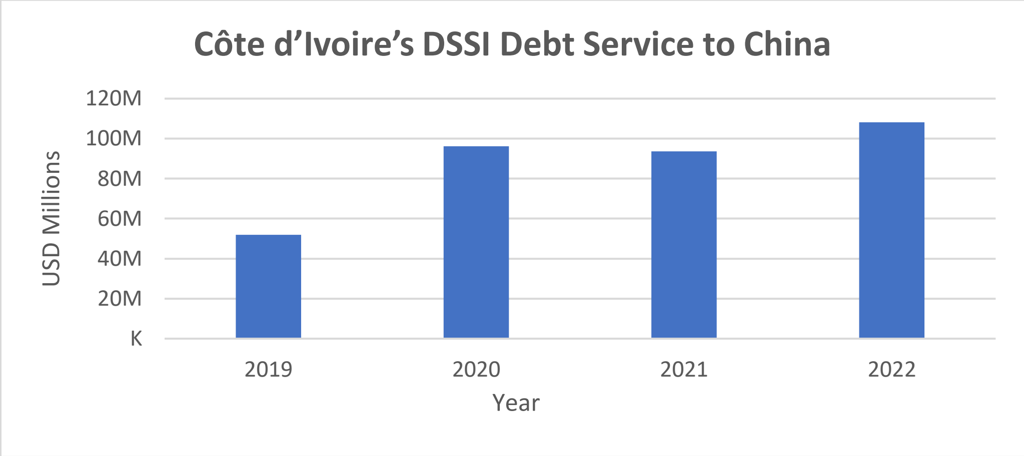


Figure 15: Côte d'Ivoire's DSSI debt service to China
Source: World Bank DSSI

[163] https://www.bloomberg.com/news/articles/2021-07-21/ivory-coast-to-buy-j-j-covid-19-shots-as-neighbor-takes-donation-krdueb0n

Beyond the DSSI, in August 2021, the IMF issued a general SDR allocation for all member countries. For Côte d'Ivoire, this stood at USD 623.4 million[164], equivalent to just 1.06% of GDP. In addition to these measures, the government has called for further support of the country's National Response Plan. Subsequently, the IMF has disbursed an additional USD 975 million under the Rapid Response Facility as well as USD 280 million as an Extended Credit Facility. Other support includes USD 89 million from the AfDB, USD 27.5 million from the BOAD, USD 49.5 million from the Islamic Development Bank, and USD 47.5 million from Germany.[165]

Overall, the financing made available through various mechanisms such as the DSSI, SDR allocation and other credit extensions is not enough to cover COVID-19 vaccines, socio-economic support, economic recovery and Côte d'Ivoire's existing infrastructure finance gaps. Considering Côte d'Ivoire's debt as a percentage of GNI is similar to 1970s levels there is space for further debt accumulation as an essential source of financing to continue economic growth.

[164] https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation
[165] https://documents1.worldbank.org/curated/en/136101617297016229/pdf/Cote-d-Ivoire-COVID-19-Emergency-Response-and-System-Preparedness-and-Response-Project-Additional-Financing.pdf

Section V: Conclusions and Next steps

Whilst Côte d'Ivoire has enjoyed high economic growth rates and made significant progress in securing financing for development, financing gaps persist. As such we have four recommendations.

Recommendation 1. Côte d'Ivoire's government should push for a revised DSA framework. The country should look to regional groupings – including WAEMU – to support this. Pushing for shifts in DSA includes a shift in the narrative around debt, from viewing debt as purely a constraint and towards a view of debt that conceives it as an essential source of financing. Countries classified by the IMF and World Bank as in 'high risk' or even moderate risk of debt distress can have a severe impact, as this classification produces a negative signal about the country's investment potential. Côte d'Ivoire is in a good position to lead these calls due to its stable credit rating score and long-term economic growth, despite having a higher credit risk premium and 'moderate' debt distress categorisation. Civil society should also look to shift the narrative of Côte d'Ivoire 'debt risk' by engaging with data on Côte d'Ivoire's debt to GNI, and also by focusing on the implications that the IMF and World Bank's DSA has on constricting potential financing opportunities.

Recommendation 2. Côte d'Ivoire should look to work with the regional partners – such as WAEMU or the ECOWAS grouping - to establish a coordinated approach to DSSI and SDR reallocation to increase bargaining power. In respect to DSSI, leaders should push for further debt cancellation, as debt suspension simply pushes debt repayments into the future. Alongside this, Côte d'Ivoire should push for the inclusion of other creditors beyond bilateral lenders in the DSSI – such as commercial and multilateral lenders who make up 45% and 26% of Côte d'Ivoire's debt stock, respectively. Nigeria faces a similar creditor composition, with commercial creditors holding the majority of the country's external debt, therefore there is an impetus to coordinate on such a position. Further, Côte d'Ivoire should negotiate additional debt cancellation with China, as it holds the largest portion of the country's bilateral debt accounting for 14%.

Recommendation 3. Côte d'Ivoire should look to develop its current revenue streams to decrease vulnerability to external shocks. In terms of developing agricultural exports, this would require directing domestic or externally-secured financing towards value-addition mechanisms, which in turn, will provide more direct and indirect jobs through the supply chain for Côte d'Ivoire's large youth population. Building on this, it is critical to ensure that investments into important sectors such as agriculture are not cancelled or postponed due to the pandemic or due to debt concerns. To secure a successful, robust and long-term recovery, more investment is needed – not less.

Recommendation 4. In the longer term, tax reforms should be conducted to increase tax contribution to GDP. The low rate of tax to GDP (11.9%) results in a low amount of domestic finance for mobilisation. The government should aim for a minimum of 20% tax to GDP, to bring this to a comparable level of its West African neighbours and increase domestic financial flows. This is partially related to Recommendation 3, as value-addition increases the spectrum of products open to value-added tax.

GHANA

In 2019, Ghana was set to be the fastest-growing economy in the world, with one of the largest cocoa production sectors and a growing oil sector. Classified as a middle-income country, it is the second-largest economy in the West African region with a population of over 26 million people and a GDP of USD 72.35 billion. It has a stable political environment, widespread initiatives to formalize the economy and a favourable taxation structure for foreign investment.

According to the AfDB, Ghana's GDP growth declined from 6.5% in 2019 to 1.7% in 2020, largely driven by the COVID-19 health crisis and the worldwide slump in oil prices.[166] Growth is expected to increase to 4% in 2021 driven by investments in the construction and manufacturing sectors alongside favourable prices in the gold and cocoa sectors. Consistent government economic reforms have created a strong economy however, the cost of these reforms has driven government financing needs. The COVID-19 pandemic has increased these already elevated fiscal pressures: the overall fiscal deficit was 7.6% of GDP in 2019 and grew to 16.2% of GDP in 2020; the debt-to-GDP ratio stood at 63.9% and grew to 76.1% in 2020.

Following its national development agenda for job creation and SDG poverty reduction, Ghana was the first country in the region to reduce poverty by half, thereby, meeting Millennium Development Goal (MDG) 1. Despite the achievement, poverty remains a serious issue in most rural areas, featuring low employment opportunities, low productivity of work, low income, and high vulnerability of certain populations to disasters and diseases.

[166] https://www.afdb.org/en/countries/west-africa/ghana/ghana-economic-outlook

Ghana's government continues to invest in poverty reduction. For example, The Strategic Plan For The Department Of Social Welfare (2019-2023), refers to Ghana's *Productive and Financial Inclusion Program for the Vulnerable and Excluded.* The objective of the program is to avail income-earning opportunities to poor households through social interventions. The intent here for the beneficiaries is to rehabilitate and/or maintain the financial and productive capacity of poor households. Ghana's strategy for poverty reduction is important to its national development agenda, particularly to support domestic resource mobilization through job creation and investments in education and skills training for vulnerable groups[167].

Since Ghana is considered one of Africa's leading and most stable economies, the positive economic outlook does not take away from the fact that there are still risks and challenges for sustained growth, especially when it comes to meeting its SDGs by 2030. In this regard, Ghana's government has sought ways to finance the attainment of the SDG targets, which primarily include a collaboration with the World Economic Forum's Sustainable Development Investment Partnership (SDIP) and Ghana's Country Financing Roadmap (CFR) for SDGs. The CFR is a program/initiative that indicates the government's effort to identify and design strategies to bridge the financing gaps hindering the attainment of SDGs. The CFR intends to build consensus through a multi-stakeholder approach that includes public-sector institutions finance institutions, and investors which will contribute to country-led plans to encourage private-sector participation in greater financing at scale geared towards SDG commitments.[168]

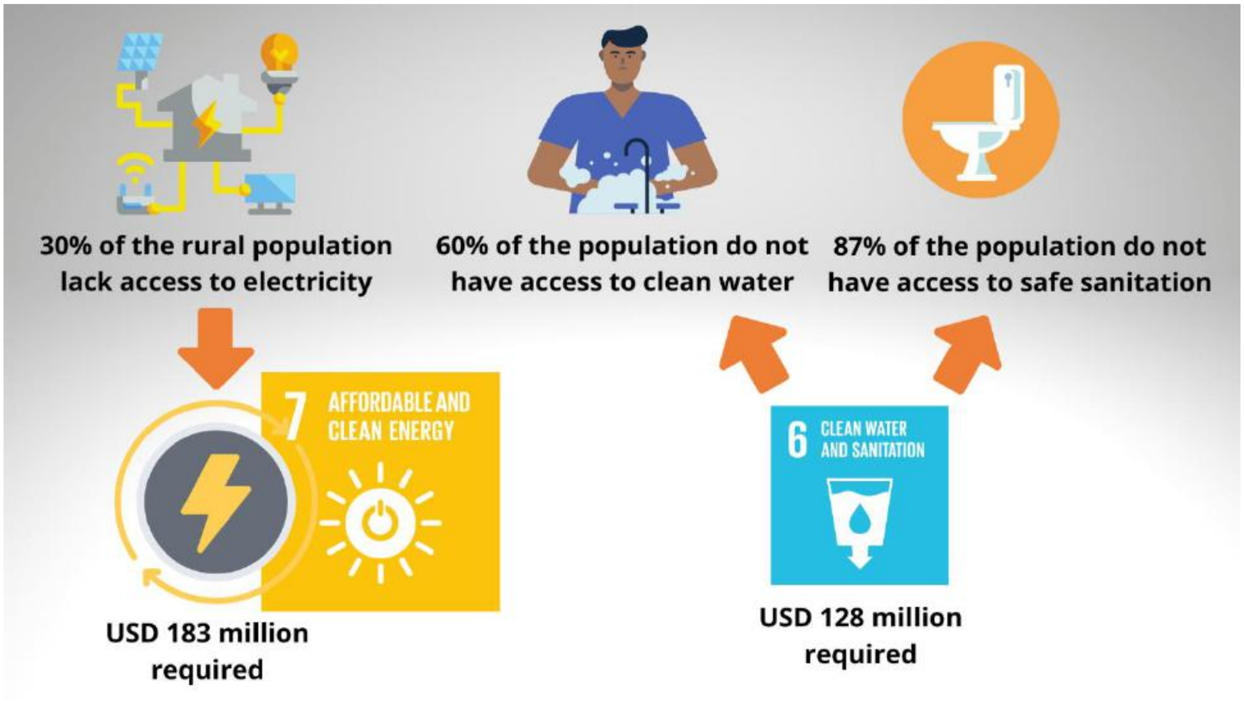
Complexities abound as concerns Ghana's financing needs, starting from the understanding that the increased reliance on commercial debt has contributed to the growing debt service burden. Moreover, while there is a strong track record of servicing debt to the IMF, public debt is still considered manageable and Ghanaian authorities have expressed confidence in their ability to meet debt obligations, including to the IMF.

In a bid to ramp up SDG attainment efforts, Ghana's government has begun integrating SDG budgeting and financing into the national budgeting process. In 2019, the total funds budgeted for SDG implementation were GHc15bn (USD 9.3 billion) representing 73% of total government spending.[169] This brings into focus the costs and SDG financing gaps, which according to the June 2021 Ghana Insight Report stands at USD 522.3 billion averaging USD 52.2 billion per year when looking at the total cumulative 10-year (2021-2030) cost of achieving SDGs. Additionally, the SDG financing gap within this context stands at USD 431.6 billion, and for 2021, the gap is approximately USD 43 billion.[170]

Moreover, Ghana has a significant infrastructure financing gap of USD 0.4 billion within an estimated infrastructure spend of USD 2.3 billion most significantly spent in the energy and water sector.[171] Although access to electricity is relatively high at 83.5% across Ghana, just under 30% of the rural population do not have access to electricity and significant underpricing has led to spending inefficiencies.[172] Additionally, due to its reliance on hydropower, Ghana is exposed to hydrological shocks. For example, in 2006 – 2007 low rainfall affected the yield of the Akosombo Reservoir, causing a power supply crisis. From 2005 – 2015 Ghana's total energy spending needs were estimated at USD 1.2 million per year representing a funding gap of USD 183 million.

[167] Dept. of Social Welfare (2019). *Strategic Plan for the Department of Social Welfare (2019~2023). by* Department of Social Welfare of the Ministry of Gender, Children, and Social Protection, and UNICEF Ghana. https://www.unicef.org/ghana
[168] http://www3.weforum.org/docs/WEF_SDIP_CFR_Ghana_Report_2021.pdf
[169] Country Financing Roadmap for the SDGs: Ghana INSIGHT REPORT, JUNE 2021. Page 9.
[170] ibid. For veracity, these estimates were provided by the Institute of Statistical, Social and Economic Research (ISSER) of the University of Ghana with support from the Ministry of Planning and other high-level offices in the government.
[171] https://openknowledge.worldbank.org/bitstream/handle/10986/3366/WPS5600.pdf?sequence=1&isAllowed=y
[172] https://data.worldbank.org/indicator/EG.ELC.ACCS.RU.ZS?locations=GH

Whilst a large proportion of Ghana's population have access to water, over 85% of the population only have access to basic drinking water services and just under 60% do not have access to safely managed drinking water.[173] Access to safely managed sanitation services is especially low at just a little over 13% of the population. Spending needs on water and sanitation infrastructure is therefore especially high at USD 0.4 billion per year – 14% of GDP in 2009. This represents a funding gap of USD 128 million per year. Other spending needs include USD 0.3 billion on transport and USD 0.1 billion on ICT, bringing Ghana's infrastructure funding gap to USD 357 million per year. Therefore, additional financing is necessary to meet these gaps.



[173] https://data.worldbank.org/indicator/SH.H2O.SMDW.ZS?locations=GH

Section I: Financial History & Status Quo

The 1970s: Oil Shocks and Rising Interest Rates.

In the 1970s, similarly to many other West African countries, Ghana’s debt was relatively low – USD 572.1 million.[174] However, Ghana’s economy is heavily reliant upon exports and therefore easily impacted by external shocks. Consequently, the worldwide oil shock, coupled with falling cocoa production levels and falling gold prices led to increasing fiscal pressure within Ghana throughout the 1980s and 1990s. Ghana’s government increasingly relied on external financing with external debt reaching a peak of USD 8 billion in 2003.

Ghana first implemented IMF and World Bank SAPs in 1983 to tackle the economic crisis created by continued droughts that constrained Ghana’s cocoa production coupled with the oil crisis. By 2001, Ghana applied for the HIPC relief and in the subsequent five years debt levels fell by 65% and GDP rose by 50%.[175] Ghana’s economy was further impacted by growing commodity prices and the recovery of cocoa production in the early 2000s, leading to further growth in the economy.

[174] World Bank data
[175] https://wp.nyu.edu/compass/2018/04/24/imperialism-by-default-how-the-hipc-initiative-cycles-debt-to-assert-foreign-economic-interests-in-ghana/

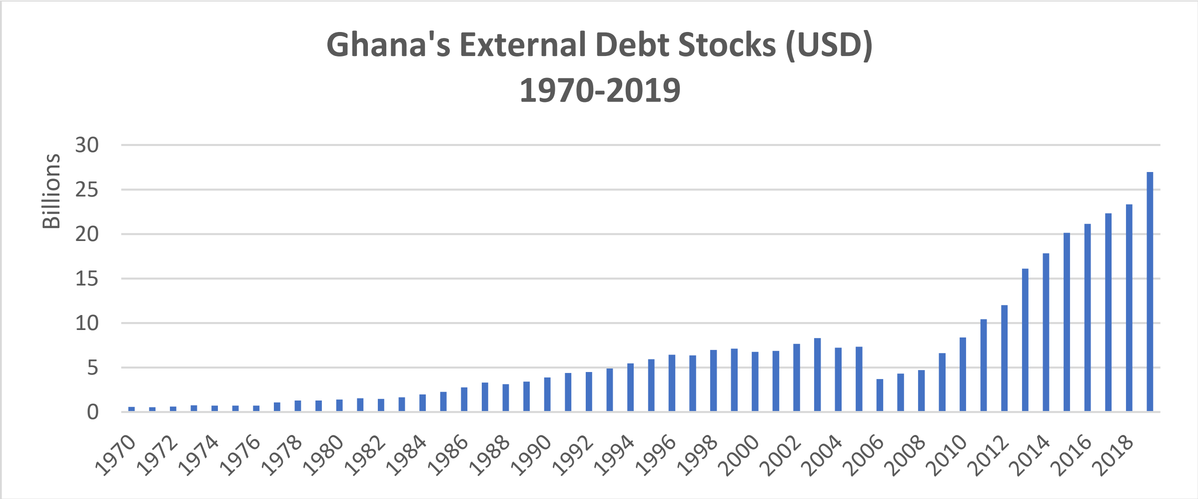


Figure 16: Ghana's External Debt 1970-2019
Source: World Bank

The 2000s: HIPC and Debt Management.

Following the Multilateral Debt Relief Initiatives (MDRI) in 2005/6, of which Ghana was a beneficiary, there were substantial rises in the external debt and total public debt stock due to increased borrowing space (see figure 15). Furthermore, the government of Ghana adopted an *expansionary fiscal position* in 2006-08 which was supported by external borrowing, a strategy that impacted the country's debt sustainability. At the end of 2008, Ghana was again impacted by a global financial crisis, and Ghana's public debt stood at US$8.1bn, equivalent to 34.8% of GDP. Public sector external and domestic debt levels were roughly on par at US$4bn roughly 17.4% each. External debt reached US$6.2bn by 2010, reflecting the engagements with bilateral and multilateral institutions, including the IMF.[176]

The 2010s To Now: New Creditors and Financing Opportunities

Public debt quickly rose from 48.4% of GDP (GHC35.1bn) in 2012 to GHC76.1bn (67.1% of GDP) in 2014 and by the end of March 2015, the debt stock had reached 65.3% of GDP. The implication here is that there was a 151% increase in debt stock between 2012 and 2015. Further, non-concessional external debt stock increased significantly from USD 838 million in 2008 to USD 901 million in 2012. The increase in non-concessional external financing demonstrated the structural changes in the country, most notably Ghana's strong economic performance and its achievement of middle-income status in 2010.

The rapid increase in Ghanaian borrowing was a result of several factors, including increased domestic growth, low global interest rates, and the adoption of robust economic policies. Like in other African economies, there has also been a shift in the composition of Ghana's debt. In particular, there has been an increase in non-traditional creditors such as China and commercial creditors as bondholders. Official creditors accounted for roughly 81.1% of the total external debt during 2007-2012, where multilateral and bilateral creditors made up 48.5% and 32.6% respectively. However, in 2020, this has shifted with bondholders holding the largest proportion of debt at 37%, followed by multilateral at 32%, non-official at 17%, and bilateral creditors accounting for the lowest proportion at just 14% (see figure 17).

[176] Staff team. IFS (2015). *Ghana: Public Debt and Debt Sustainability Issues.* Occasional Paper No. 3, pp. 5, Institute for Fiscal Studies (IFS).

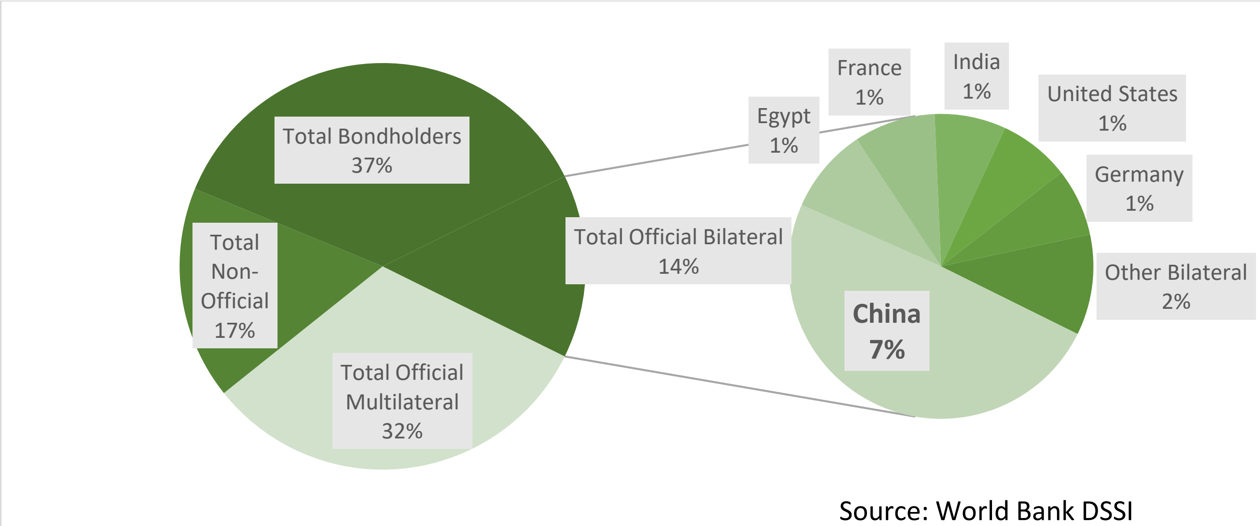


Figure 17: Breakdown of Ghana's debt
Source: World Bank DSSI

Chinese Partners.

Chinese finance is an increasingly important source of capital for infrastructure projects in Africa. Ghana was one of the top borrowers of Chinese funds in 2019, and although just 8% of total Chinese lending to Africa.[177] However, China does account for the largest proportion of bilateral lending (figure 17). According to the China-Africa Research Initiative, the largest recipients of Chinese loans in 2019 – Ghana included – have not restructured their debt with China since 2000. In 2019, investment fell below US$9bn for the first time since 2010, yet China continues to be an important source of infrastructure finance for many African countries.[178]

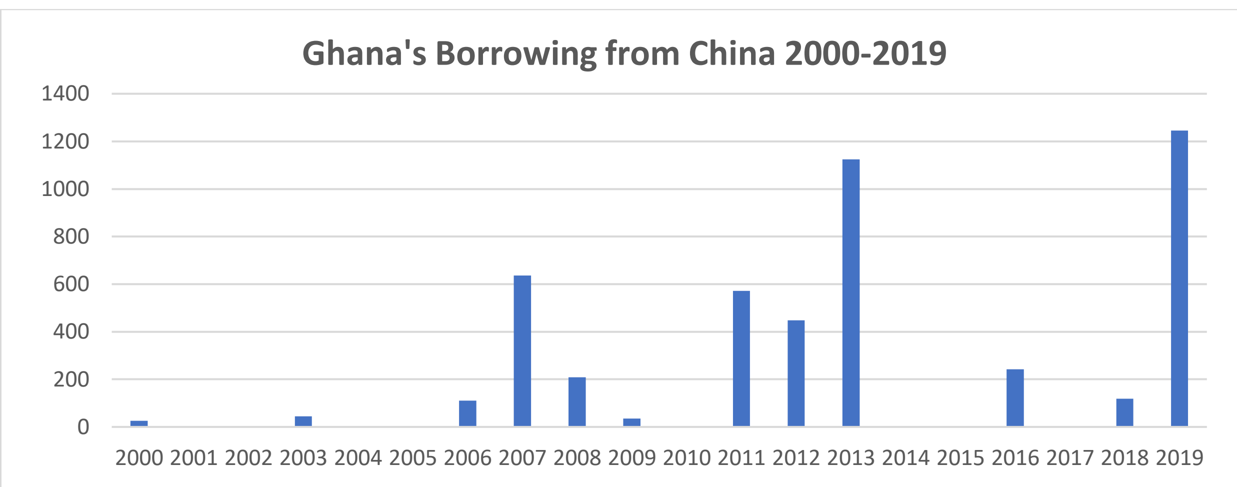


Figure 18: Ghana's borrowing from China
Source: World Bank DSSI

[177] excluding Angola due to high loan commitment in 2016
[178] Acker. K, Brautigam. D (2021). *Twenty Years of Data on China's Africa Lending.* Briefing Paper no.4. China-Africa Research Initiative. pp. 6.

Ghana is also one of the top borrowers of Chinese funds in West Africa. In 2011, Ghana secured a USD 3 billion loan from the China Development Bank partially using oil revenue as collateral. The credit line was originally set to be released in two blocks and the first project funded was a USD 800 million offshore gas pipeline and processing plant under the "Western Corridor Gas Infrastructure Development Project.[179]

A central concern regarding this loan was that the disbursement of the loan was considerably slower than expected. This was due to a combination of; falling oil prices, implementation issues, debt sustainability concerns, alongside a USD 1.3 billion drop in foreign exchange due to falling gold and cocoa prices and a current account deficit of 12% of GDP in 2013. Consequently, in 2014 the Ghanaian government renegotiated the loan to half of the original total to USD 1.5 billion.

In 2018, Ghana negotiated another resourced-backed loan with *Sinohydro*, a Chinese state-owned enterprise focused on infrastructure. The credit line was intended to finance infrastructure projects in Ghana worth USD 2 billion using revenues from bauxite as collateral.[180]

So far, the loan has specifically been used to finance the construction of high-priority roads, which began in 2019. In case Ghana's aluminium industry does not generate enough revenue to meet its loan obligations, Ghana has created a state-owned enterprise, the Ghana Integrated Aluminum Development Corporation (GIADEC), to implement the development of aluminium industry projects. Similar to Nigeria's economic reliance on oil, there are concerns that Ghana relying on its natural resources – such as bauxite mining – for loan collateral may cause environmental degradation that puts SDG attainment at risk.

Another concern regarding Ghana's increased borrowing is any corresponding increase in Ghana's interest payment burden. According to research projections, Ghana was expected to have 6.8% of GDP interest payments in 2014, and 7.1% in 2015. This would be two consecutive years since 2000 where total interest payments were expected to be larger than capital expenditure.[181]

Short Term Debt.

Ghana has made efforts to extend the maturity of foreign capital through limited and selective liberalization of capital accounts. Following the World Bank's 2012 report on *World Development Indicators,* Ghana's share of short-term debt in total foreign debt, and its share of short-term debt in total international reserves was vulnerable to fluctuation. For example, Ghana's short-term debt rose in 2013 to 22% of total external debt before falling the following year to 13.1% in 2016 and rising again to 17.2% in 2019.[182] As a percentage of international reserves, this corresponds to a rise to 65% in 2013, falling to 47% in 2016 and 2017 until rising again in 2019 to 61% of international reserves. Short-term debt is especially susceptible to sudden changes due to external shocks in the international financial market. Subsequently, Ghana short term debt exposes it to capital flow reversal and external financial shocks – for example, COVID-19 economic impacts.[183] The central challenge is therefore how to enforce measures to reduce short-term debt and extend the maturity of foreign debt.

[179] http://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/56d64a9e01dbaef868231233/1456884389759/CARI_PolicyBrief_10_Feb2016.pdf

[180] https://nicholasinstitute.duke.edu/sites/default/files/publications/The-Environmental-Implications-of-China-Africa-Resource-Financed-Infrastructure-Agreements-Lessons-Learned-from-Ghana%E2%80%99s-Sinohydro-Agreement.pdf

[181] Staff team. IFS (2015). *Ghana: Public Debt and Debt Sustainability Issues.* Occasional Paper No. 3, pp. 7, Institute for Fiscal Studies (IFS).

[182] https://data.worldbank.org/indicator/DT.DOD.DSTC.ZS?locations=GH

[183] William Gabriel Brafu-Insaidoo, Ferdinand Ahiakpor, Fiador Vera Ogeh & Cantah William G. | (2019) Macro-determinants of short-term foreign debt in Ghana, Cogent Economics & Finance, 7:1, 1630161, DOI: 10.1080/23322039.2019.1630161

Empirical investigations into short-term foreign debt in African countries such as Ghana are not available.[184] This is critically needed information considering that between 2000 to 2011, foreign debt stock took up roughly 66.2% of Ghana's total external financial liabilities, and about 63.1% of GDP through the same period. Researchers have made policy suggestions to manage short-term foreign debt. One option is to impose strategic levies on public and private sector short-term foreign borrowing to raise transaction costs. However, this would limit the attractiveness of Ghana for short-term financing, thereby reducing or discouraging such transactions.

African Development Bank

Ghana has also secured loans from the AfDB's African Development Fund (ADF) including in 2019, an USD 81.67 million loan to co-finance sections of the 695-km Eastern Corridor road, linking northern areas to the Ghanaian capital, Accra. The overall USD 113.27 million project is funded by other lenders including Opec Fund for International Development, the Ghanaian Government and the Japan International Cooperation Agency. It will cover 60-km of roads, two interchanges, community support initiatives and a bridge over the Volta River.

The community support element of the project includes rehabilitation of schools and health facilities, construction of markets and agro-processing facilities for livestock, fish, cassava, fruits and cereals, in addition to skills training. It, therefore, contributes to financing Ghana's infrastructure needs whilst supporting Ghana's SDG attainment – for example in relation to SDG 4, SDG 3 and SDG 9. Furthermore, with the expected creation of 1,500 jobs, the project supports Ghana's national development plan.

Previously, in 2017 Ghana had negotiated an ADF concessionary loan of $39.01 million to finance the Savannah Zone Agricultural Productivity Improvement Project.[185] The project began in 2018 and is expected to be completed in 2022. The loan has an interest rate of one per cent per annum, a grace period of five years and a re-payment period of 25 years exclusive of a grace period.[186] As above, it is linked to Ghana's national development plan and is expected to directly impact 50,000 economically active smallholders living in the Savannah Zone. Aiming to increase food and nutrition security and the incomes of farmers, it contributes to the attainment of SDG 2, SDG 8 and SDG 9.[187]

Is Ghana facing a 'debt crisis?'.

Like many other African governments, as Ghana's debt levels have risen in recent years, a narrative of high risk of debt distress and overall debt vulnerability continues. Many organisations stress that Ghana's debt service-to-revenue ratio has rapidly increased and exceeded its long-term threshold set by the IMF with debt servicing consuming significant parts of domestic revenue. Indeed, DSA by the IMF determines Ghana

[184] ibid.
[185] http://www.xinhuanet.com/english/2018-03/16/c_137042076.htm
[186] ibid.
[187] https://sapip.org.gh/

remains at a high risk of external and general debt distress even though the public debt has been assessed as sustainable.[188]

However, it is important to not take rising debt levels at face value. Rather, it is essential to contextualize this information to assess whether the debt has been of high quality and what outcomes such debt has produced. The conditions that plague other countries vis-à-vis debt sustainability are still present in the Ghanaian context and lower the quality of Ghanaian debt. They include, weak fiscal policies and coordination, weakening domestic currency, and deteriorated borrowing conditions internally and externally.[189]

In 2021, Ghana recorded one of the highest debt levels in the West African region at USD 21.91 billion.[190] However, most importantly, financing from debt has produced numerous productive, tangible assets which, alongside other financial revenue streams, have contributed towards Ghana's SDG attainment, national development plans and high economic growth. One important context of rising debt levels in Ghana is the role of GNI.

As shown in Figure 19, Ghana's debt as a percentage of GNI has declined to 36.8% – close to 1970 levels – thus negating popular notions that Ghana is heading towards a 'debt crisis'. Rather, accounting for GNI shows that Ghana's economy has grown alongside the increase in absolute level debts. This reflects that debt can be an instrumental source of capital for development, and not necessarily a constraint. Since debt as a percentage of GNI is relatively low, this also shows that there is room for Ghana to grow in debt and use this financing towards, for example, COVID-19 recovery and infrastructure financing gaps.

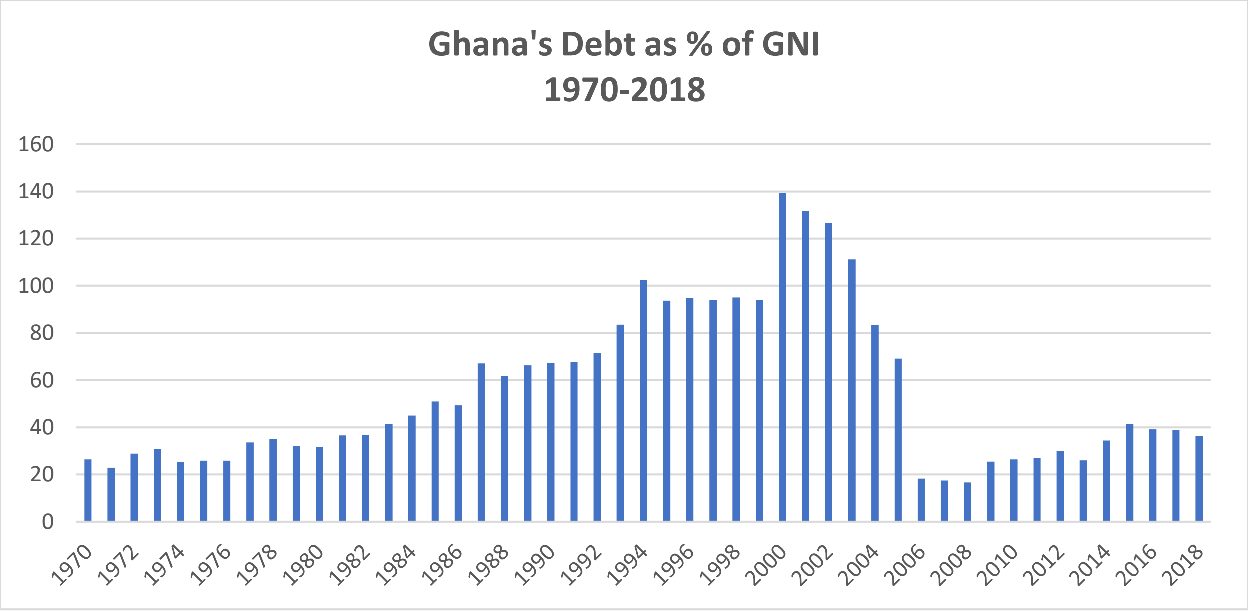


Figure 19: Ghana's Debt as % of GNI
Source: World Bank

[188] Public debt is assessed as sustainable given that authorities rigorously implement medium-term fiscal adjustment programs such as the Fiscal Consolidation Plan announced in the 2021 budget. Pp .19 IMF Country Report No.21/165
[189] Staff team. IFS (2015). *Ghana: Public Debt and Debt Sustainability Issues.* Occasional Paper No. 3, Institute for Fiscal Studies (IFS).
[190] https://www.statista.com/statistics/1242969/total-external-public-debt-in-west-africa-by-country/

Section II: Financial Revenue Sources

Agriculture

Ghana's once-flourishing agricultural sector remains under-resourced and the effect is now being realized. In the 1970s, there was an over 40% contribution from the agriculture sector towards GDP, whereas in 2016 this number reduced to 19.7%. Moreover, in 2019 agriculture employs only 29.75% of the population, many of whom are traditional smallholder farmers, including women and girls.[191] Land typically covers fewer than two hectares, and farmers are often among the rural poor and food-insecure.[192] Ghana's National Agricultural Vision aims to modernize agriculture and structurally transform the economy to provide food security, employment opportunities and poverty reduction.[193]

Cocoa

In 2019, Ghana was the second-largest exporter of cocoa beans worldwide, amounting to USD 1.6 billion. Cocoa production is an essential component of the Ghanaian economy, it contributes 3% to Ghana's GDP and supports approximately 4 million households. Due to the land expansion of cocoa farms in the 1980s and 90s, there is now limited virgin land for cocoa production. Consequently, many farmers are working on soil with decreased fertility and lower yields. To protect cocoa yields, investment in the intensification of cocoa production is necessary through investment in seeds, fertiliser, insecticides etc.[194] It is also likely that the cocoa industry will be impacted heavily by climate change because prolonged periods of decreased rainfall negatively impact cocoa yields.

[191] https://data.worldbank.org/indicator/SL.AGR.EMPL.MA.ZS?locations=GH
[192] https://www.ifad.org/en/web/operations/w/country/ghana
[193] http://mofa.gov.gh/site/
[194] https://cdn.odi.org/media/documents/11635.pdf

Although more than 70% of the world's cocoa production is from West Africa, most of the processing takes place in the global North.[195] As a consequence, Ghana's cocoa production captures an insignificant portion of the USD 87 billion global consumer market. However, this is gradually shifting, for example in Ghana, a domestic consumer chocolate producing sector has emerged – albeit slowly. Moreover, Ghana's quality control measures and the quality of its cocoa bean has created a premium export product ranging from USD 50– USD 100 per metric tonne.[196] Sophie van Huellen and Fuad Mohammed Abubakar argue in their research on this emerging sector, that financial infrastructure limits Ghana from shifting from middle-value added processing capacity to higher-value-added processing capacity.[197]

Mining

The mining sector is essential to the Ghanaian economy, it accounts for more than half of all FDI flows into Ghana, generates one-third of all export revenues, and is the largest tax-contributing sector (contributing 17.31%[198] to the total GRA corporate tax collection in 2020).[199] It also makes a significant contribution to GDP and creates much-needed employment. An ICMM report indicates that the success of Ghana's mining sector over the last decade has been due to government mining policies that have focused on regulation and promotion of small-scale mining and transparency and management of mineral revenues.[200]

Gold is a particularly important mineral to Ghana's mining sector. It is Ghana's leading export and in 2020 it accounted for 97.2% of Ghana's gross mineral revenue. Although COVID-19 led to a decrease in global demand for gold and represented the highest year-on-year decline in production since 2004, the downturn was offset by a high traded price of gold leading the export revenue to rise by 9.1%.[201]

Oil

Since 2011, oil has become a significant contributor to the Ghanaian economy. In 2007, significant oil reserves were discovered. Production, starting in December 2010, boosted GDP growth to 15% the year following (the non-oil growth rate was 9.4% that year). This occurred again in 2013, as oil dominated 5.4% of the growth rate, with the non-oil rate at 3.9%.[202] In the same year that oil production commenced, the Ghanaian government implemented the 'Ghana Shared Growth and Development Agenda (GSGDA)', a policy framework that identifies priorities in agricultural modernisation, oil and gas development, infrastructure and education.[203]

[195] https://link.springer.com/content/pdf/10.1057/s41287-020-00351-3.pdf
[196] https://www.cabri-sbo.org/uploads/files/Documents/case_study_2014_cabri_cabri_seminar_cabri_10th_annual_seminar_english_session_6.2_ghana_case_study.pdf
[197] https://link.springer.com/content/pdf/10.1057/s41287-020-00351-3.pdf
[198] http://ghanachamberofmines.org/wp-content/uploads/2021/09/2020-Mining-Industry-Statistics-and-Data.pdf
[199] https://www.icmm.com/website/publications/pdfs/mining-parterships-for-development/mining-in-ghana_what-future-can-we-expect
[200] ibid
[201] http://ghanachamberofmines.org/wp-content/uploads/2021/09/2020-Mining-Industry-Statistics-and-Data.pdf
[202] https://oxford.universitypressscholarship.com/view/10.1093/acprof:oso/9780198753438.001.0001/acprof-9780198753438-chapter-9
[203] https://pure.coventry.ac.uk/ws/portalfiles/portal/22206875/Binder2.pdf

Section III: Financial Exposure

Ghana's government remains committed to fiscal and debt sustainability. Going forwards, plans have been established to leverage digitization as a means of improving revenue collection and administration as well as facilitate implementation of property rate collection. The 2021 national budget statement further introduced tax initiatives to improve domestic revenue such as the sanitation and pollution levy as well as the energy sector recovery levy.

Moreover, Ghana's government has introduced a medium-term fiscal framework to improve spending controls and debt management with the intent of utilizing debt-management strategies that reduce costs and financing risks. Ghana's ability to raise growth is currently constrained by fiscal responsibilities and debt risks, with 50% of external debt in 2019 being commercial, it is imperative that the Ghanaian government engages in dialogue with creditors to explore and adopt favourable financing instruments.

Furthermore, in 2015, Ghana suspended its euro-bond sale after investors showed very little interest. The US$1.5bn credit line was a key factor in the medium-term debt management strategy within Ghana's IMF program. Moreover, the rise of interest rates on dollar bonds combined with the low confidence in the Ghanaian economy proved to be risky, and it was understood that such a setback would most likely lead to more austerity.[204]

Studies showed that the food processing sector was the most vulnerable to financial shocks. Through astute observation, researchers suggest that firms in the food processing sector must identify and manage the financial risks while they continue to positively influence their operations. This perspective includes policy interventions that include business development services that expose the food process sector to different strategies on how to identify, assess, and manage these risks.[205]

Financial institutions rarely grant credit facilities to indigenous farmers under the pretext that agri-financing is high risk. Subsequently, the lack of credit facilities for farmers has negatively impacted food production, with Professor Amin Hassan of the University of Development Studies stating that

It will be prudent for the financial institutions to adopt agri-funding policies in the development and mechanization of agriculture through a lending rate to farmers similar to what is obtainable in developed countries.[206]

According to the IMF and World Bank DSA,[207] Ghana is classified as 'at high risk of debt distress' due to higher than projected deficits and debt service levels. Moreover, public debt-to-GDP ratios exceed their thresholds under the 55% threshold. In the 2019 IMF-WB DSA in the incidence of an external shock to commodities, Ghana's debt to GDP ratio is projected to rise to between 53 – 65%.[208]

Additionally, the prolonged tensions with the IMF and poor fiscal metrics in Ghana was expected to drive a downgrade of Ghana's credit rating.[209] SP Group revised Ghana's credit rating in September 2020 to B- citing fiscal challenges brought on by COVID-19.[210] In June 2021 Fitch follow suit and also revised Ghana's credit rating score to negative 'B'. This reflects Ghana's high public debt level, low revenue base and the impact of COVID-19 on Ghana's public finances.[211] These downgraded credit ratings have the potential to further constrain Ghana's access to finance.

[204] Oxford Analytica (2015), "Ghana euro-bond setback may force more austerity", Expert Briefings. https://doi.org/10.1108/OXAN-DB205823

[205] Agyapong, D. (2021), "Analyzing financial risks in small and medium enterprises: evidence from the food processing firms in selected cities in Ghana", International Journal of Entrepreneurial Behavior & Research, Vol. 27 No. 1, pp. 45-77. https://doi.org/10.1108/IJEBR-05-2020-0269

[206] https://www.gardja.org/ghana-needs-innovative-agric-financing-policy/

[207] https://documents1.worldbank.org/curated/en/829241580327419447/pdf/Ghana-Joint-World-Bank-IMF-Debt-Sustainability-Analysis-December-2019.pdf

[208] ibid

[209] Oxford Analytica (2016), "Ghana's IMF bailout to persist despite souring ties", Expert Briefings. https://doi.org/10.1108/OXAN-DB212925

[210] https://www.spglobal.com/marketintelligence/en/news-insights/blog/lockdowns-impact-european-linear-broadcast-performance

[211] https://www.fitchratings.com/research/sovereigns/fitch-revises-ghana-outlook-to-negative-affirms-at-b-22-06-2021

Section IV: Current and Future Financing needs

Ghana has a strong track record of servicing debt to the IMF, which still consider public debt as manageable. Ghanaian authorities have also expressed confidence in their ability to meet debt obligations, including to the IMF. Discussions on Ghana's financial needs often revolve around the need for faster fiscal adjustment to reduce debt sustainability risks while protecting vulnerable households. There are also discussions around steps to manage the fiscal risks in state-owned enterprises, especially in the energy sector.

The IMF Consultation report for Ghana stated that energy and financial sector costs reached 15.5% of GDP, and annual gross financing needs passed 20% of GDP in 2020, public debt rose to 78% of GDP in 2020 from 64.4% in 2019.[212] Moreover, the AfDB reports that Ghana is expected to return to its budget deficit threshold of 5% of GDP in 2024. There were also FX rate risks because, 90% of domestic debt has short- to medium-term maturities, and 70% of the foreign currency debt was denominated in USD.[213] The AfDB goes further in its economic outlook to suggest that the government of Ghana should actively engage creditors in considering other financing options like debt renegotiations, restructuring, and debt service suspension.

The Ghanaian condition is not unique to the country, because the African Development Bank, in its 2021 African Economic Outlook report states that African debt has continued shifting towards commercial creditors as well as from external to domestic sources. Between 2000 and 2019, 18 African so-called *sovereigns* entered the international capital markets and within that same period, 125 Eurobond instruments were valued at over USD 155 billion, while local currency debt accounted for almost 40% of total debt stock.[214]

COVID-19 and Additional Financing Needs.

Although in 2020 around UDS 14 billion of financing needs is attributed to the pandemic, the Ghanaian government was able to raise USD 9.37 billion to cover financial needs in 2020. The funds were partially acquired from multilateral institutions like the AfDB, the World Bank and the IMF, this is further proven by the 13.7% year on year growth in Ghana's public debt.

According to the IMF[215], Ghana's growth slowed from 6.5% in 2019 to 0.4% in 2020 due to lower mining activities and decreased economic activity. Inflation spiked in April 2020 to 10.6% before falling to 7.5% in May 2021, with the current account deficit at 3.1% of GDP in 2020 following reduced oil exports and trade disruptions. Additionally, the Ghana cedi lost 3.9% against the US dollar in 2020 due to lower foreign exchange demand. As oil prices are expected to rise this should offset the deficit down to approximately 2.2% of GDP in 2021.

Ghana's total population stands at 31,072,945[216], however, the country has a youth population of 11,537,744[217] under the age of 14, and who therefore do not currently qualify for vaccination. The total number of people who qualify for vaccination (aged over 14 years) is 19.5 million people. Assuming that the vaccine can be purchased for USD 3 per dose (the maximum ceiling cost set by COVAX[218] for low and

[212] https://pfmtaxafrica.com/ghanas-gross-financing-needs-in-2020-exceeded-20-of-gdp-imf/
[213] https://www.afdb.org/en/countries/west-africa/ghana/ghana-economic-outlook
[214] https://www.afdb.org/en/documents/african-economic-outlook-2021. pp. 45
[215] https://www.imf.org/en/Publications/CR/Issues/2021/07/23/Ghana-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-462570
[216] https://data.worldbank.org/indicator/SP.POP.TOTL?locations=CI
[217] https://data.worldbank.org/indicator/SP.POP.0014.TO?locations=CI
[218] https://www.gavi.org/news/media-room/new-collaboration-makes-further-100-million-doses-covid-19-vaccine-available-low

middle-income countries), it would cost USD 117.2 million to vaccinate Ghana's population aged 14+ with two doses. Alternatively, if each dose cost USD 19, the same as Senegal recently paid for doses of Sinopharm, it would cost Ghana USD 742.3 million to vaccinate its population aged 14+.

In February 2021, Ghana was the first country to receive a vaccine shipment from the COVAX Facility. Since then, it has received 5,328,501, which covers only 9.25% of the population. The Ghanaian government originally aimed to vaccinate 20 million people by the end of 2021, however, widespread international vaccine hoarding and a failed bilateral agreement to procure 3.4 million doses of Russian vaccine Sputnik-V, have negatively impacted Ghana's vaccine supply. If vaccinations remain low, continued social distancing measures will be required to keep infections under control, thus further repressing economic activity.

The country has taken additional steps to increase fiscal space during COVID-19, for example through issuing a Eurobond in March 2021 to address the budget deficit generated by COVID-19 impacts. In the hopes of continued access to bond markets, unlike many other West African countries, Ghana has not participated in the World Bank's DSSI. This decision may have lost Ghana the opportunity to save USD 558.1 million.[219]

The IMF-WB have designated Ghana as experiencing a high risk of debt distress, however, the Ghanaian government has not restricted debt with China nor has it chosen to engage in COVID-related G20 debt restructuring initiatives so far which could equate to a total of USD 217 million as shown in figure 20.[220] If Ghana's fiscal space remains constrained, debt service and DSSI from Chinese partners have the potential to create fiscal space through savings.

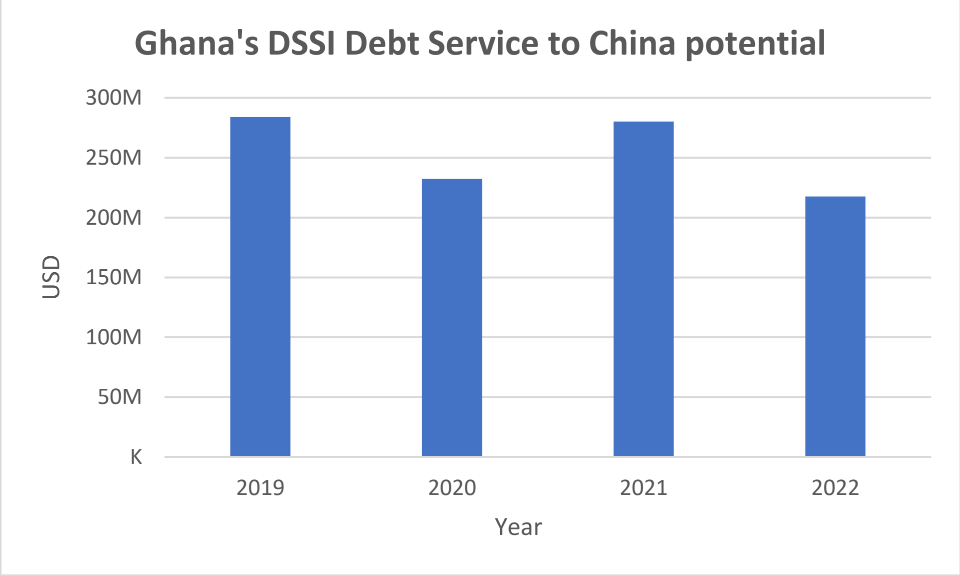


Figure 20: Ghana's potential DSSI Debt Service to China.
Source: World Bank DSSI.

[219] https://www.afronomicslaw.org/category/african-sovereign-debt-justice-network-afsdjn/twentieth-sovereign-debt-news-update-ghanas

[220] Acker. K, Brautigam. D (2021). *Twenty Years of Data on China's Africa Lending.* Briefing Paper no.4. China-Africa Research Initiative.

Section V: Conclusions and Next steps

Recommendation 1. Ghana is likely to be significantly impacted by its DSA assessment as at high risk of debt distress and simultaneously downgrading by credit rating agencies. Ghana must combine with the efforts of Côte d'Ivoire, alongside other African countries, to push for shifts in DSA. This includes a shift in the narrative around debt, from viewing debt as purely a constraint and towards a view of debt that conceives it as an essential source of financing. Ghana's downgrading by credit rating agencies can serve as a demonstration that countries classified by the IMF and World Bank as in 'high risk' or even moderate risk of debt distress can have a severe impact, as this classification produces a negative signal about the country's investment potential. Ghanaian civil society should also look to shift the narrative of Ghana's 'debt risk' by engaging with data on Ghana's debt to GNI, and also by focusing on the implications that the IMF and World Bank's DSA has on constricting potential financing opportunities.

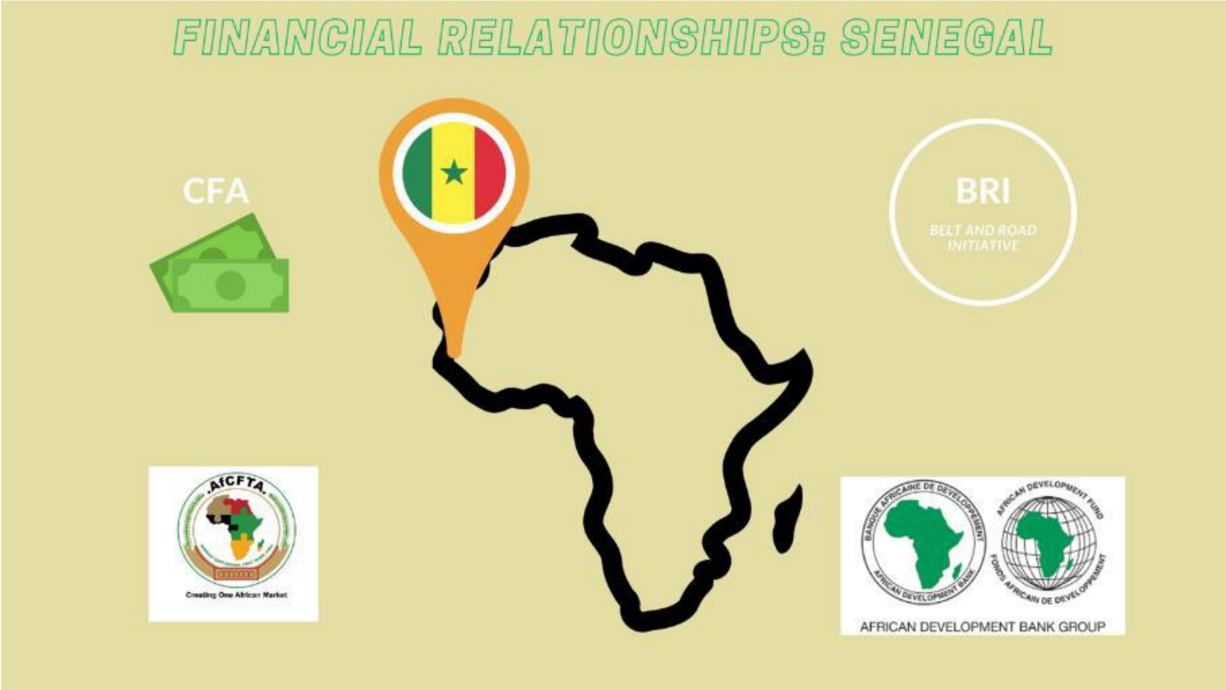
Recommendation 2. Ghana should look to develop its cocoa revenue streams to decrease vulnerability to external shocks. This includes investing in value-addition processing of chocolate and intensification of cocoa yields by directing capital investment to yield increasing activities – high-quality seeds, fertilizer, etc. This will also provide more direct and indirect jobs through the supply chain for Ghana's rural youth population. Building on this, it is critical to ensure that investments into important sectors such as agriculture are not cancelled or postponed due to the pandemic or due to debt concerns. To secure a successful, robust and long-term recovery, more investment is needed – not less.

Recommendation 3. Ghana was the first to receive COVAX Facility vaccinations, however, has experienced the negative impacts of global supply-chain shortages due to vaccine hoarding. Drawing on this experience, Ghana is in a position to work with its regional and international partners to promote local vaccine production across West Africa.

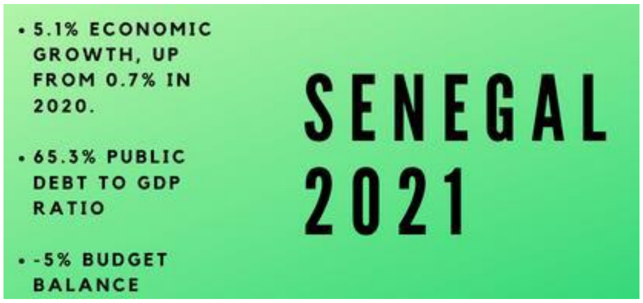
Recommendation 4. Our final recommendation is that the government should look to collaborate with neighbouring countries in infrastructure financing to enhance regional infrastructure. Ghana has a widespread energy ICT and transport infrastructure, extending these transport and infrastructure linkages across borders will facilitate trade and people-to-people flows. This would be further complemented by the recent AfCFTA. Group negotiation – for example collaborating with Nigeria – allows for both risk and cost-sharing, which in turn can increase bargaining power vis-à-vis

SENEGAL

Senegal is a growing economy with a significant impact on the rest of the West African Region. Its coastal location close to European markets gives it a competitive advantage alongside its political stability and investment in the private sector. Senegal was identified as a case study to understand how recipient countries' preferences and priorities match with the changed development co-operation landscape, in particular regarding new financing instruments, modalities and actors.



According to the AfDB, Senegal's GDP growth declined from 5.3% in 2019 to 0.7% in 2020, largely driven by the COVID-19 health crisis and the worldwide slowdown in tourism, trade and investment.[221] Growth is expected to increase to 5.1% in 2021 driven by the resumption of global growth, public investments and the growth of Senegal's hydrocarbon sector. Consistent government intervention to increase domestic resource mobilization is expected to continue Senegal's development of a strong economy. However, the COVID-19 pandemic has increased already elevated fiscal pressures: the overall fiscal deficit was 3.7% of GDP in 2019 and grew to 6% of GDP in 2020; the debt-to-GDP grew to 68.6% in 2020 from 64.1% the previous year.

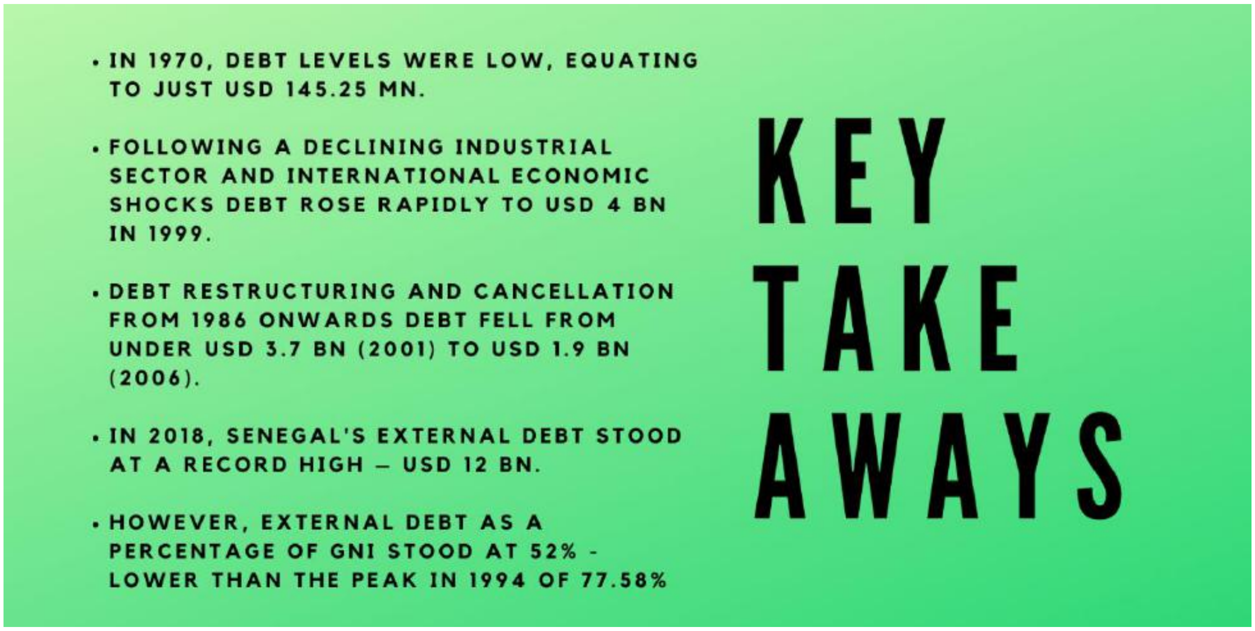


Through the Plan Senegal Emergent (PSE), since 2014, Senegal has aligned its economic priorities with the UN SDGs and key drivers of economic growth – including agriculture and private sector investment. Implementation of this plan alongside spending related to the COVID-19 pandemic has led to an increase in total public debt to 68.6% of GDP in 2020 in comparison to 61.4% in 2018.[222] In

[221] https://www.afdb.org/en/countries/west-africa/ghana/ghana-economic-outlook
[222] https://www.afdb.org/en/countries/west-africa/senegal/senegal-economic-outlook and https://www.imf.org/external/pubs/ft/dsa/pdf/2020/dsacr2011.pdf

the context of the increased availability of new and diverse sources of financing for development, Senegal's experience provides a crucial overview of the key emerging trends in external public financing.

Section I: Financial History & Status Quo



The 1970s: Impacts of Macroeconomic Shocks.

During the 1970s, economic policy in Senegal was focused on industrialisation and the development of small and medium businesses.[223] Two notable strategies were developed during this time – the National Company for Industrial Research and Development (SONEPI) and the Dakar Industrial Free Trade Zone (ZFID) – both aimed at strengthening the manufacturing sector for export.[224] By the end of the 1970s however, drought, a declining industrial sector and international economic shocks caused a macroeconomic crisis in Senegal.[225] These factors led to increasingly high debt service payments and constrained fiscal space.

To tackle this crisis, Senegal participated in the Heavily Indebted Poor Countries Initiative (HIPC) established by the World Bank and IMF. The HIPC Initiative imposed qualifying criteria for countries to access debt relief, including complying with economic and structural reform programs and poverty reduction strategies. Debt relief was conditional on countries opening up their economies and reducing the state's role in the economy (e.g., dismantling of government-owned monopolies).

Senegal's economic development during the 1990s was therefore heavily reliant on privatisation of previously state-owned enterprises, government investment in infrastructure and the expansion of export goods and services.[226] This led to a period of sustained growth following a devaluation of the CFA Franc in 1994.[227]

The 2000s: HIPC and Debt Management.

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223 https://oxford.universitypressscholarship.com/view/10.1093/acprof:oso/9780198776987.001.0001/acprof-9780198776987-chapter-7
224 Ibid.
225 Ibid.
226 https://assets.mcc.gov/content/uploads/2017/05/Senegal_II_CA_withCover.pdf
227 Ibid.

In late 2005, the Multilateral Debt Relief Initiative (MDRI) was approved and provided debt relief access to countries that successfully complied with the HIPC Initiative requirements. As of January 2006, twenty countries, including Senegal, were eligible for immediate MDRI relief. Senegal's participation in the MDRI and the HIPC initiative led to a downward trend in public debt from 78% to 20.9% between 2000 and 2006.[228]

Between 2006 to 2011 economic growth in Senegal was negatively impacted by external shocks and was only an average of 3.3%.[229] However, since the introduction of The Plan Senegal Emergent (PSE) – instituted by President Macky Sall in 2014 – the economy has grown at more than 6% per year up until 2018.[230]

The 2010s To Now: New Creditors and Financing Opportunities

The original 2014 PSE retained the pillars of the previous National Strategy for Economic Social Development.[231] However, it particularly focused on growth and the structural transformation of the economy.[232] Through the PSE, the Senegalese government planned a real GDP annual growth rate of 7.6% between 2015 – 2018 which fell short by 1% (the annual average over 2014-2018 was 6.6%).

During this growth period, external public debt rose rapidly due to government investments in the energy sector and on road infrastructure.[233] These were financed through bonds on the international market between 2009 and 2011.[234]

The 2016 – 2018 PSE resulted in several infrastructure improvements including the construction of the Diamniadio-AIBD-Sindia Motorway, the Regional Express Train (TER) between Dakar-Diamniadio-AIBD and Diamniadio Industrial Park.[235] There was also a significant improvement to fisheries infrastructure and a focus on improving access to water, particularly in Dakar.[236]

The new 2019 – 2023 PSE[237] focuses on strengthening the private sector and has five national initiatives:

- The Youth PSE 2035
- The Social and Solidarity-Based Economy PSE
- The Inclusive Digital Society PSE
- The Green PSE, or the Plan for Sustainable Reforestation of the National Territory
- The Industrialisation Cap PSE

Aligning with specific SDGs, the PSE is underpinned by three axes: structural transformation of the economy and growth (SDG 8 economic growth); human capital, social protection and sustainable development (SDG 11 sustainability); and governance, institutions, peace and security (SDG 16 peace and justice).

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[228] Ibid.
[229] https://www.imf.org/external/pubs/ft/scr/2017/cr1702.pdf
[230] https://www.worldbank.org/en/country/senegal/overview
[231] (i) growth and the structural transformation of the economy (ii) the promotion of human capital, social protection and sustainable development (iii) good governance, institutions, peace and security
[232] World Bank economic update 2014 https://openknowledge.worldbank.org/bitstream/handle/10986/21504/942580WP0Box380alEconomicUpdate0010.pdf?sequence=1&isAllowed=y
[233] https://assets.mcc.gov/content/uploads/2017/05/Senegal_II_CA_withCover.pdf
[234] Ibid.
[235] *Emerging Senegal* Presidency of The Republic of Senegal, 2021 https://www.presidence.sn/en/pse/results-and-perspectives
[236] Ibid.
[237] https://www.sentresor.org/app/uploads/pap2_pse.pdf

Phase 2 of the Priority Action Plan (PAP 2A) 2019 – 2023, operationalises the new PSE and has an estimated cost of FCFA 14.7 billion. [238]Three sector-focused programmes of the PAP 2A focus on building 100,000 new subsidised homes to house 10,000 current slum residents, the improvement of urban waste collection services and increasing the cultural capital of urban areas[239]. It aims to institute structural transformation of the economy and sustainable economic growth at an average rate of 8.6% over 2021 – 2023.[240]

As mentioned briefly above, alongside the implementation of the PSE, Senegal's debt levels have been rising. Figure 21 demonstrates a rapid increase in external debt since 2006. Consequently, a narrative of possible debt distress has been building amongst Senegal's multilateral partners. For example, in its 2017 Country Report, the IMF warned that large increases in government revenue would be needed to decrease the risk of debt distress.[241]

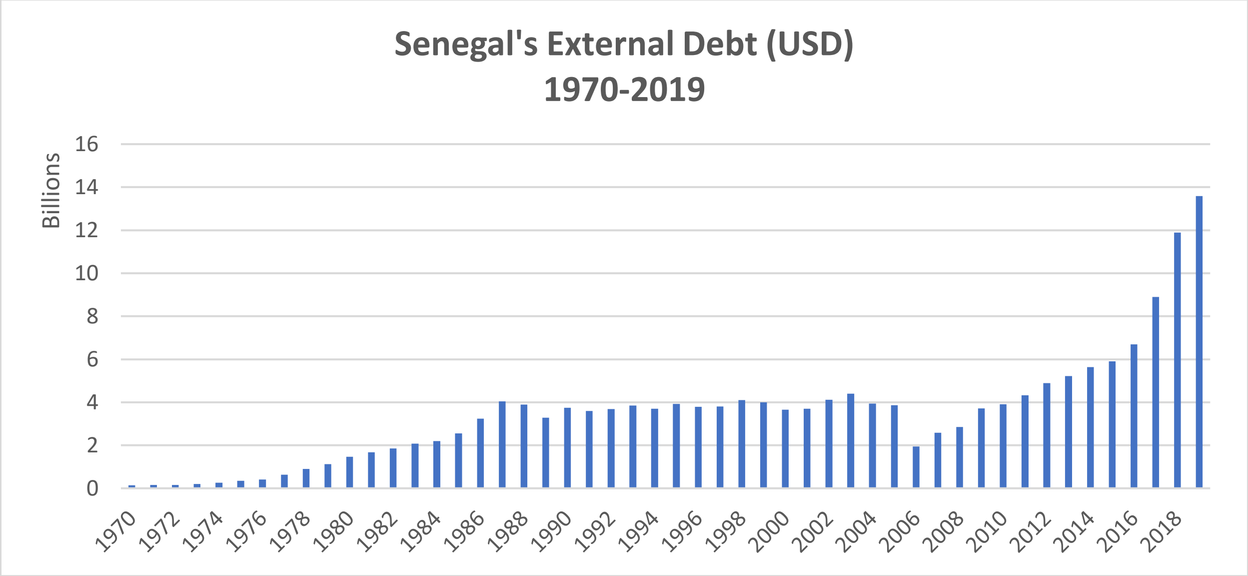

Figure 21: Senegal's External Debt 1970-2018
Source: World Bank

Of Senegal's bilateral creditors, its development financing relationship with China is growing rapidly. Senegal's latest "Development Co-operation Report" states that in 2013, China was already the country's third-largest provider of aid – see Figure 22 below.[242]

[238] https://www.tresor.economie.gouv.fr/Pays/SN/cadrage-economique
[239] *Emerging Senegal* Presidency of The Republic of Senegal, 2021 https://www.presidence.sn/en/pse/results-and-perspectives
[240] https://www.tresor.economie.gouv.fr/Pays/SN/cadrage-economique
[241] https://www.imf.org/external/pubs/ft/scr/2017/cr1702.pdf
[242] Government of Senegal Rapport Sur la Coopération au Développement 2013

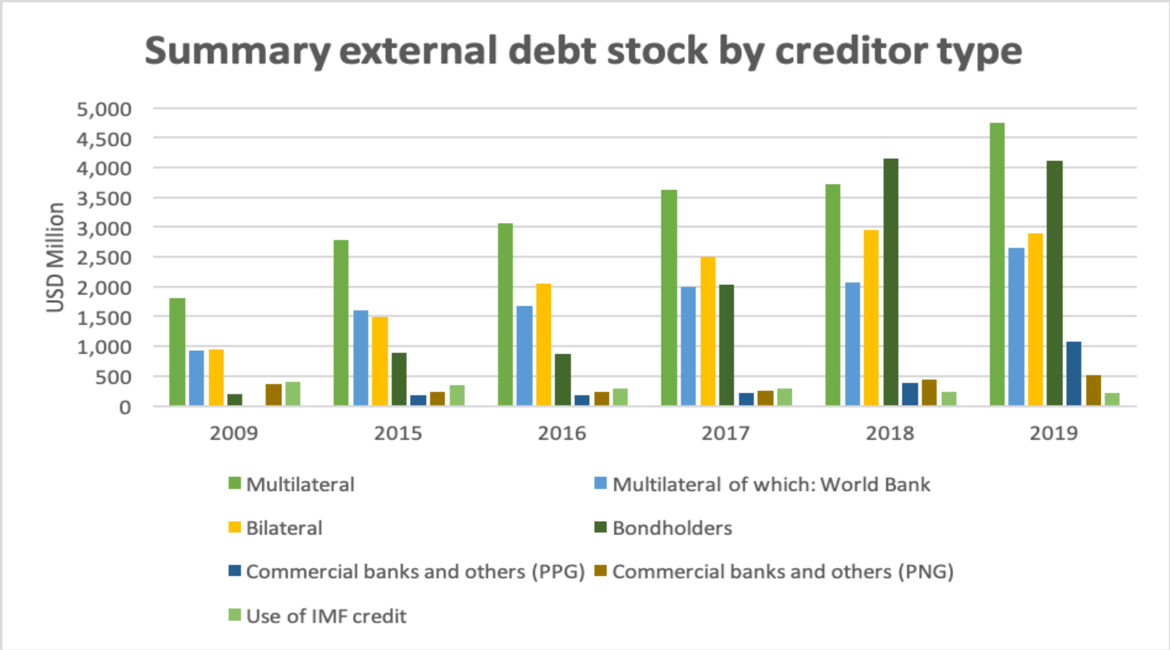

Figure 22: Senegal's external debt stock by creditor type
Source: World Bank

In 2013, Senegal had received two loans from China to finance road infrastructure totalling approximately USD 1.2 billion.[243] This is the equivalent of one year of total ODA to Senegal (2013-14 average) as recorded in the OECD Creditor Reporting System database.

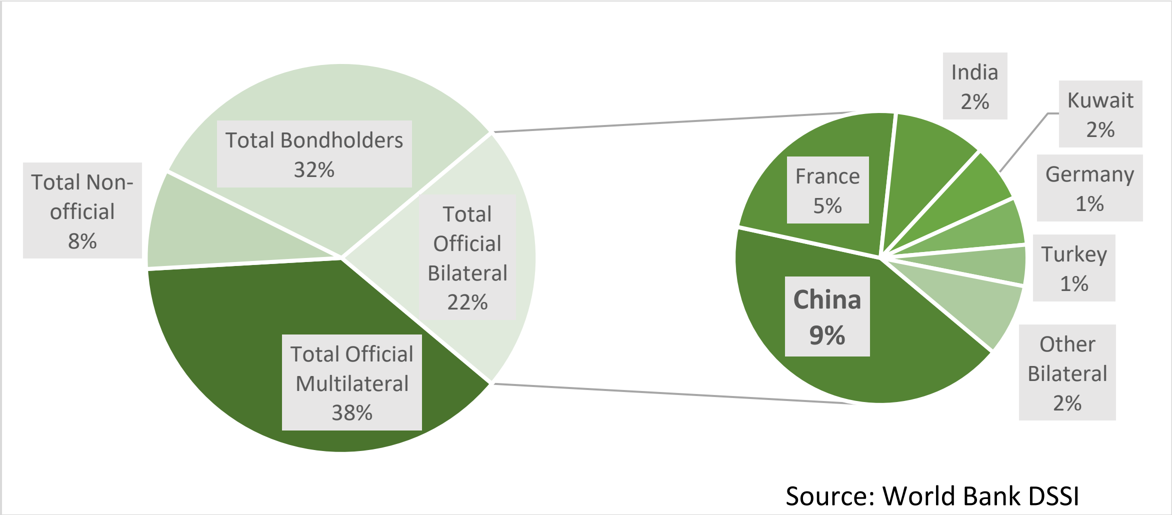

Figure 23: Senegal's external debt stock
Source: World Bank DSSI

[243] Some of the loans are extended at an interest rate of 2% with a grace period of 9 years and a maturity of 20 years. The concessional character of a loan from the point of view of the OECD DAC differs from the one applied in Senegal (for information on how concessional is approached in DAC statistics, see the "Converged statistical reporting directives for the CRS and the annual DAC questionnaire").

Senegal's debt service to China (increased in 2019 and has since remained the fourth highest in the ECOWAS region following Nigeria, Ghana and Côte d'Ivoire. In 2020, China was Senegal's largest official bilateral lender (figure 23). Senegal's financing relationship with China means that the country could be heavily impacted by debt servicing payments on Chinese loans. This is particularly relevant during the COVID-19 pandemic where fiscal space is constrained by high public spending. China's participation in the Debt Service Suspension Initiative (DSSI) – see figure 24 below – could therefore make an important impact on increasing fiscal space in Senegal, especially during times of crisis by lowering debt service payments.

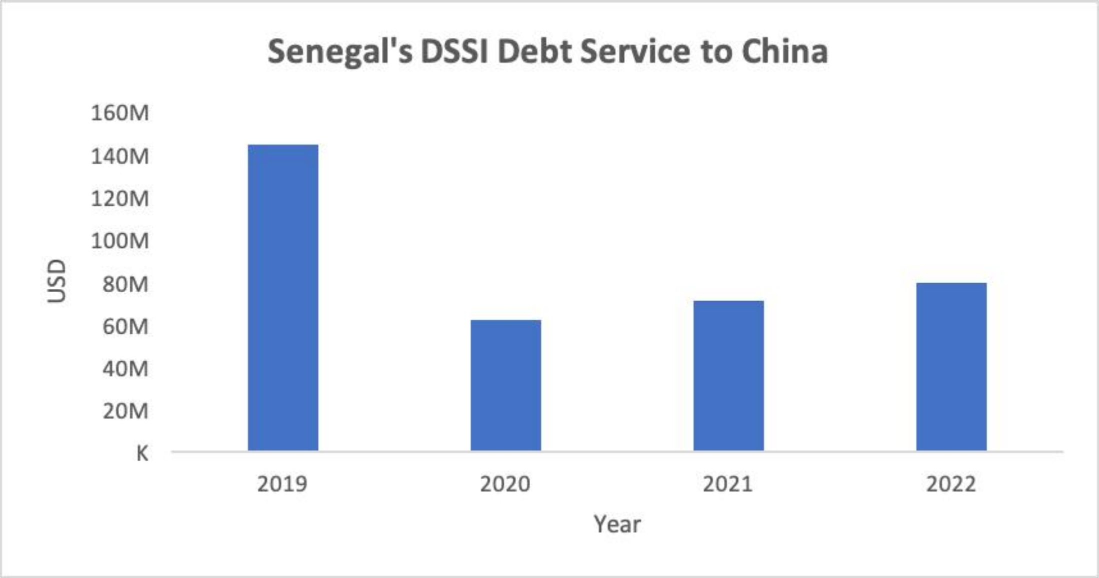

Figure 24: Senegal's DSSI Debt Service to China
Source: World Bank DSSI

In 2021, Senegal was allocated 310.2 million in Special Drawing Rights (SDRs) as part of the SDR reallocation to support COVID-19 economic recovery.[244] Whilst this allocation provides Senegal with much-needed flexibility and access to foreign currency, it is likely not enough to make a significant impact on the Senegalese economy without on-lending through IMF mechanisms such as the Extended Credit Facility or other multi-lateral partners.[245] In the case of IMF mechanisms, these programs are likely to have conditionality and be focused on specific project financing.[246]

[244] https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation
[245] https://www.fitchratings.com/research/sovereigns/on-lending-could-amplify-positive-impact-of-imf-sdr-allocation-02-06-2021
[246] Ibid.

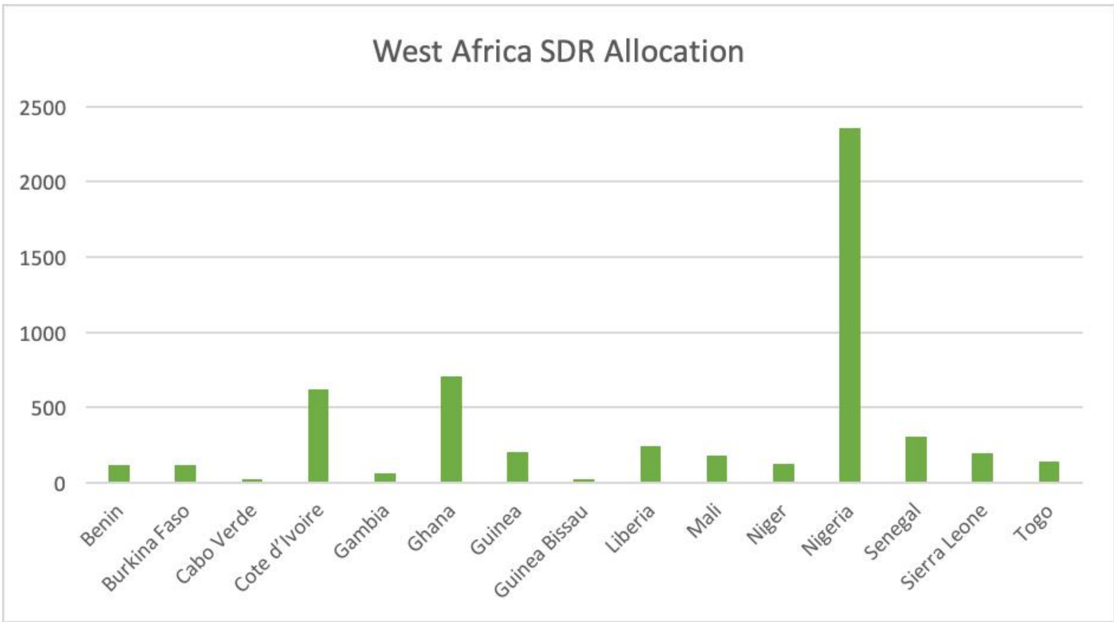

Figure 25: West Africa's SDR Allocation
Source: IMF[247]

COVID-19 Impact

This narrative has continued as spending has further increased to mitigate the impacts of the COVID-19 crisis. The pandemic has had a significant impact on the economy in Senegal and growth is estimated to have fallen by 0.7% in 2020. Reductions in tourism, transport and trade led to a contraction of real GDP by 0.3% in 2020.[248] Moreover, domestic resource mobilization has decreased from 17.5% of GDP in 2019 to 16.5% of GDP in 2020.[249]

When the crisis arose, Senegal expanded the current PSE to include a fourth focus: securing supplies and distribution for key foodstuffs, medicine and energy products and implementing the Economic and Social Resilience Program (PRES).[250] This includes financing of testing, treatment and prevention, food aid and economic support to those impacted by international and national restrictions – e.g. the tourism and transport sectors.[251] To finance this, Senegal is relying upon concessional borrowing including USD 20 million from the World Bank Fast Track COVID-19 Facility.

Although this increased public spending has led to an increase in debt to 68.6% of GDP in 2020 compared with 64.8% in 2019, Senegal's risk to debt distress remains moderate.[252] The AfDB reports that growth is expected to rebound to 5.1% in 2021.[253] This is likely to be driven by private consumption and investment resuming.[254]

[247] https://www.imf.org/en/Topics/special-drawing-right/2021-SDR-Allocation
[248] African Development Bank, African Economic Outlook 2021, From debt resolution to growth: The road ahead for Africa
[249] Ibid.
[250] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
[251] Ibid.
[252] https://www.afdb.org/en/countries/west-africa/senegal/senegal-economic-outlook and https://www.imf.org/external/pubs/ft/dsa/pdf/2020/dsacr2011.pdf
[253] African Development Bank, African Economic Outlook 2021, From debt resolution to growth: The road ahead for Africa
[254] https://www.worldbank.org/en/country/senegal/overview#1

Moreover, it is important to contextualise Senegal's rising debt levels. For example, Figure 26 below shows Senegal's debt as a percentage of GNI rather than GDP from 1970 to 2018. From this perspective, debt levels remain below the level of debt experienced during the height of Senegal's economic crisis in the 80s and 90s. Therefore, although levels have increased, it is not evident that Senegal is on the brink of debt distress. However, it is important that spending is allocated in a way that reflects Senegal's economic context and leads to sustainable economic growth.

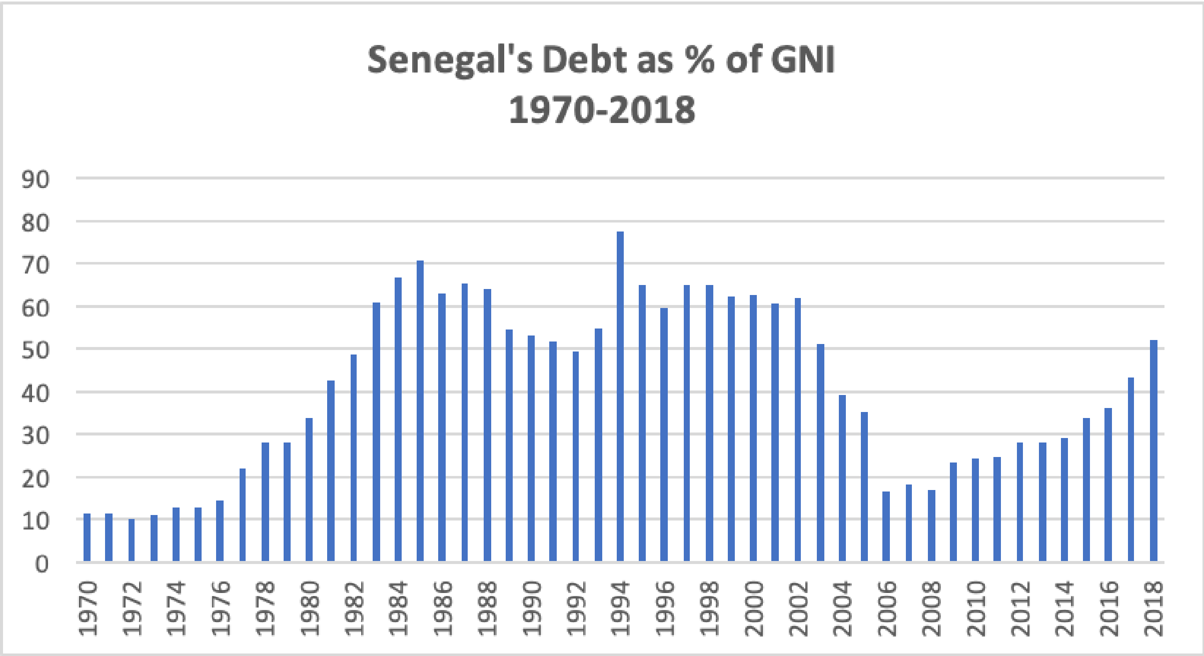

Figure 26: Senegal's Debt as a Percentage of GNI
Source: World Bank, International Debt Statistics

Section II: Financial Revenue Sources

Senegal's economy is heavily reliant upon the service sector, agriculture and tourism.[255] Also, although there are limited natural resources in Senegal, it has some of the highest phosphate production rates in the world.[256] Moreover, recent off-shore discoveries of oil and gas are expected to contribute to Senegal's economic growth from 2023 onwards, however, COVID-19 delays may cause revenue to be unavailable until 2025.[257]

Agriculture:

The 2019 - 2023 PSE allocated CFAF 986.3 billion to the agriculture sector boosting growth in the sector by 7.2% in 2019.[258] Agriculture accounts for 30% of all employment, the second biggest employment sector after services (57% of employment).[259] However, agriculture production is highly impacted by climatic variation. For example, good weather alongside increased investment led to particularly high growth rates in the sector in 2015 (11%) and 2017 (13%).[260] Therefore, investment in agricultural resilience and diversification is essential, alongside the growth of the service and industrial sectors as alternative sources of growth.

Horticulture:

Horticulture is a potential area for further agricultural growth in Senegal because of the country's proximity to Europe, alongside its warm climate. Furthermore, horticulture products remain a viable export during periods of poor rainfall where exports such as groundnuts would be negatively impacted.[261] Horticulture is also one of the fastest-growing agricultural exports globally and therefore investment and government planning in the horticulture sector would create an incentive for increased FDI in Senegal.[262] A number of reforms are necessary to make horticulture a viable investment, including land reform to improve access and VAT reimbursement issues impacting investors.[263]

Services:

Since 2001 the service sector has been steadily expanding and in 2020 the growth rate was projected to be 6.7%.[264] However, the sector has been negatively impacted by the COVID-19 pandemic and in particular, the social distancing measures that went alongside it. Consequently, in 2020 the service sector growth dropped to -1.7%.[265] The main driver of service sector growth has been from investment into Senegal's teleservices and the internet.[266] These are expected to recover by 2023 as the immediate effects of the pandemic recede.

[255] https://cg-281711fb-71ea-422c-b02c-ef79f539e9d2.s3.us-gov-west-1.amazonaws.com/uploads/2018/11/Senegal_Country_Plan_WS_Edits.pdf
[256] https://eiti.org/senegal
[257] World Bank Country Partnership Framework: Senegal https://documents1.worldbank.org/curated/en/608781583719225540/pdf/Senegal-Country-Partnership-Framework-for-the-Period-FY20-FY24.pdf
[258] https://documents1.worldbank.org/curated/en/608781583719225540/pdf/Senegal-Country-Partnership-Framework-for-the-Period-FY20-FY24.pdf page 7
[259] World Development Indicators Data https://databank.worldbank.org/source/world-development-indicators
[260] https://documents1.worldbank.org/curated/en/608781583719225540/pdf/Senegal-Country-Partnership-Framework-for-the-Period-FY20-FY24.pdf
[261] A Service Economy in Need of an Export Boost E. Philip Oxford University Press 2018 https://oxford.universitypressscholarship.com/view/10.1093/oso/9780198821885.001.0001/oso-9780198821885-chapter-13
[262] ibid.
[263] ibid.
[264] https://documents1.worldbank.org/curated/en/608781583719225540/pdf/Senegal-Country-Partnership-Framework-for-the-Period-FY20-FY24.pdf page 7
[265] World Development Indicators Data https://databank.worldbank.org/source/world-development-indicators
[266] https://santandertrade.com/en/portal/analyse-markets/senegal/economic-outline

Section III: Financial Exposure

To achieve the growth targets that are set out in the PSE, foreign financing is necessary to close Senegal's existing funding gaps. This financing needs to be targeted towards the economic context laid out above. As Senegal's debt levels have increased, so too has the diversity of creditors providing financing. In particular, Senegal has increased its non-concessional borrowing, leading the IMF to change its overall risk of debt distress analysis from low to moderate.[267]

Section IV: Current and Future Financing needs

Potential financial needs in three main sectors:

Energy

- Senegal's electricity is generated primarily by oil-fired plants
- Senegal has one of the highest electricity production costs in West Africa: about $0.30 per kWh.
- This is higher than the average developing country's power tariffs which range between $0.04 and $0.08 per kWh. This averages $0.22 per kWh in Senegal.
- This too is four times more than tariffs in South-East and Central Asia and Latin America and the Caribbean, impairing private sector competitiveness

Agriculture

- Agriculture, employs 60% of the population
- It remains heavily dependent on rain-fed crops which are vulnerable to adverse weather conditions. Despite interventions by central government and the country's technical and financial partners, constraints remain.
- In this context, food security remains a key challenge. The country is experiencing regular food crises and acute malnutrition rates exceed the emergency threshold of 10%.
- Irrigated areas remain very low despite the country's fairly high potential in terms of land and water.
- Agriculture is also constrained by a lack of access to land, and insufficient high quality inputs (especially fertiliser and seeds).

Infrastructure

- Senegal still experiences a notable infrastructure gap.
- The country needs to invest in infrastructure to improve its internal and external accessibility through regional programmes to reduce intra-ECOWAS trade-related costs.
- These infrastructure gaps represent bottlenecks to the development of agribusiness, value chains and the competitiveness of Senegalese products.
- Rural communities have little access to socio-economic facilities (water, transport, energy and economic services) with wide regional disparities.
- The 187 most isolated rural municipalities are scattered over 11 of the country's regions. In terms of urban mobility, pressure exerted by strong demand for transport in the Dakar peri-urban area in relation to weak supply remains a challenge.

COVID-19 and Additional Financing Needs.

The impact of the COVID-19 pandemic means that Senegal's already high financing needs have further increased. This includes FCFA 79.9 billion to provide social protection such as food aid and utility payments to vulnerable people during the pandemic.[268] The government also provided FCFA 500 billion to stabilise the economy through direct support for the tourism and transport industries, a partial credit guarantee scheme and an expedited payment of unmet obligations.[269]

[267] https://www.imf.org/external/pubs/ft/dsa/pdf/2020/dsacr2011.pdf
[268] IMF policy tracker https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
[269] Ibid.

Previous to the COVID-19 pandemic, government health expenditure was stable at 4% of GDP.[270] In 2018, this was equivalent to USD 1,481 per capita. The healthcare system is based on Universal Health Coverage with access provided through social assistance and a Universal Health Insurance Policy called Couverture Maladie Universelle (CMU) with an FCFA 50 billion budget.[271] In 2018, 49.64% of the Senegalese population were registered under the CMU.[272] During the pandemic between April 2020 and April 2021, the government increased health expenditure by allocating FCFA 97 billion to improve testing, treatment and prevention of COVID-19.[273]

Social spending and investment

Non-COVID-19 related financing needs include infrastructure improvements to provide better access to electricity and sanitation. Whilst the majority of people in Senegal have access to electricity (70%) 50% of the rural population need better infrastructure to access electricity.[274] Regarding sanitation, according to WHO UNICEF statistics, only 24.1% of the total population have safely managed sanitation services, and 32.7% have only basic sanitation services.[275] Moreover, 56.6% of the population have no access to handwashing facilities.[276]

In 2017, less than 30% of the population in Senegal had access to the internet.[277] Whilst this is likely to have increased in the last three years, widespread internet access is necessary to provide increased employment opportunities and better wellbeing overall. A study by Masaki, Ochoa and Rodríguez-Castelán highlights the importance of secure internet provision through 3G or fixed broadband internet to improve people's welfare in Senegal. This includes greater household consumption and significantly lower poverty rates in households that have 3G access.[278]

Infrastructure investment

As mentioned above, the total estimated cost of PAP 2A is FCFA 14.7 billion (approximately USD 26.4 billion) between 2019-2023.[279] This covers the cost of 27 projects such as the cereal corridors project. This agriculture-focused project is a continuation of the previous PSE and aims to increase long-term food self-sufficiency by decreasing the trade balance deficit of rice millet and maize by 50%.[280] Under the previous iteration, from 2014 – 2017 the project received CFAF 149 billion in public investments and cereal production more than doubled.[281]

To support the aims of the PAP 2A, Senegal has reformed the legal framework for public-private partnerships (PPPs).[282] This is particularly important to ensure adequate financing for planned PPP funded infrastructure projects such as the Blaise Diagne International Airport and the Taiba N'Diaye Wind Power

[270] WHO database https://apps.who.int/nha/database/ViewData/Indicators/en
[271] Elisabeth Paul,a,⁎ Youssoupha Ndiaye,b Farba L. Sall,c Fabienne Fecher,d and Denis Porignone An assessment of the core capacities of the Senegalese health system to deliver Universal Health Coverage Health Policy Open. Dec 2020 and Perspectives, Senegal towards emergence https://perspectives-cblacp.eu/en/le-senegal-sur-la-voie-de-lemergence/
[272] https://www.agencecmu.sn/performances-majeurs-de-la-cmu
[273] IMF policy tracker https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
[274] World Bank data https://data.worldbank.org/indicator/EG.ELC.ACCS.RU.ZS?locations=SN
[275] WASH data https://washdata.org/data/household#!/table?geo0=country&geo1=SEN
[276] ibid.
[277] https://data.worldbank.org/indicator/IT.NET.USER.ZS?locations=SN
[278] Masaki, Ochoa and Rodríguez-Castelán Broadband internet and household welfare in Senegal http://ftp.iza.org/dp13658.pdf
[279] https://www.tresor.economie.gouv.fr/Pays/SN/cadrage-economique
[280] Ministère de l'économie, des Finances et du Plan, *Plan Sénégal Émergent Plan d'actions Prioritaires* 2019 – *2023* December 2018
[281] Operational Office for Monitoring the Emerging Senegal Plan, *Développement de trois corridors céréaliers*
[282] IMF Country Report Senegal, July 2020

Plant.[283] The former project was introduced under the previous PSE and has since been expanded to include the renovation of five new aerodromes.[284]

The Taiba N'Diaye Wind Power Plant project will ensure USD 20 million of investment in the local community over the lifetime of the wind farm. Tackling energy poverty and aligning with the government's strategy to increase clean energy production will increase energy production in Senegal by 15%, providing electricity to 2 million people.[285] Total project costs are estimated at USD 330,900,000 and it is Senegal's first utility-scale wind power project selling energy to the national grid.[286]

Next Steps

Recommendation 1. Senegal is well-positioned to become a primary trade hub for West Africa, but more is needed to achieve the export growth required to reach the PSE objectives. Senegal has several competitive advantages: political stability, government commitment, good road networks, a major port, and a competitive exchange rate arrangement. It is also one of the most industrialized countries in the region, with favourable investment ratings. However, experiences in other countries suggest that even though access to international markets and a competitive price environment are crucial, Senegal would be better able to leverage its advantages by making significant improvements in structural competitiveness and the macroeconomic environment.

Recommendation 2. With Senegal in a currency union (including the west African regional bloc single currency 'ECO' expected in 2027) and a regional exchange rate broadly in line with fundamentals, fiscal policy and structural measures are the only levers available to boost competitiveness. Structural change will require strong actions to increase net national savings by reducing fiscal deficits and stimulating household savings. Sound fiscal policies will provide the government with greater freedom to implement policies to boost exports. Credible policies overall will attract the type of investment needed to develop a more diversified and upgraded export basket.

Recommendation 3. Senegal needs investments or an international financial architecture that is fully aligned with the country's development priorities while reflecting national capacities and levels of development. This approach would strengthen Senegal's policy space to promote sustained, inclusive and sustainable economic growth in line with the 2030 Agenda for Sustainable Development. In this respect, Senegal is likely to adopt a phased approach, focusing initially on a subset of the SDGs [287] as spelt out in its current Priority Action Plan[288] which is already aligned with the 2030 Agenda.

Recommendation 4. To get the best from its important partnership with China and other creditors, transparency is an important norm to inform citizens and tackle misinformation. Furthermore, it is not clear whether or not Senegal would benefit if China or other creditors strictly followed the OECD Arrangement on Officially Supported Export Credits, as their financing costs would likely rise. However, to ensure value

[283] PPP Knowledge Lab database https://pppknowledgelab.org/countries/senegal
[284] *Plan Sénégal Émergent Plan d'actions Prioritaires* 2019 – *2023*
[285] Lekela, Senegal, *Parc Eolien Taiba N'Diaye* https://lekela.com/projects/senegal-taiba-ndiaye/
[286] Information Summary for the Public for Parc Eolien Taiba N'Diaye https://www.dfc.gov/sites/default/files/2019-08/9000026049.pdf
[287] These include SDGs 2, 3, 4, 5, 6, 7, 9, 15, 16, 17 (Source: PTIP 2016-2018)
[288] « Plan d'Actions prioritaires » - PAP/PSE 2014-2018

for money, it is critical to insist on competitive tenders for its procurement requirements, no matter how concessional the associated export credit is. If a competitive tender is not possible, officials can still do comparison shopping by soliciting estimates from comparable companies for the goods and services offered under Chinese finance.

Lenders such as China Eximbank are already aware of the importance of being seen to be responsive to these issues, but continued pressure on the bank (along with other export credit agencies) to be “responsible partners” is not out of place. Nonetheless, the government can do more itself. For example, to improve technology transfer and local training, Senegal is requesting that Chinese (and other) companies partner with local firms when submitting bids. Senegal could go further than this by offering subcontracts to local firms and further putting a ceiling on imports of expatriate labour. Building up local capacity to negotiate favourable natural resource deals with China Eximbank and Chinese companies should also be a priority. An international presence from a highly respected firm could provide a form of credibility that is lacking in some of the deals presently on the table. A high-level closed-door workshop where Senegalese officials who have worked on these deals can meet to exchange experiences and information would be useful.

Continued engagement with Chinese and other partners working in the area of foreign aid and export finance will build relationships and increase knowledge on each side. In the context of working with China, workshops should involve Chinese officials from the Ministry of Commerce and the China Eximbank, and these should be solution-focused and driven by experience sharing rather than an academic discussion. The invitation of Chinese officials to join the project and programme evaluations of other non-DAC donors and financiers would also be a useful way to exchange ideas.