WEST AFRICA ECONOMIC OUTLOOK 2026

Mobilizing West Africa's Development Financing at Scale in a Fragmented World

AFRICAN DEVELOPMENT BANK GROUP

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ACKNOWLEDGEMENTS

The Regional Economic Outlook (REO) 2026 for West Africa was prepared in the Vice-Presidency for Economic Governance and Knowledge Management Complex, under the general direction and supervision of Prof. Kevin C. Urama, Chief Economist and Vice-President, with support from Alexandre Kopoin, Special Assistant to the Chief Economist; Adamon Mukasa, Principal Research Economist; and Amah Koffi, Senior Executive Assistant.

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The REO 2026 for West Africa was drafted by Salim Babalele, Economist, under the supervision of Jacob Oduor, and Marcellin Ndong Ntah, Lead Economists. Other team members included Kelvin Kanswala Banda, Principal Country Economist, as well as Prof. Sessi Tokpavi, Consultant, and Prof. Alain Serge Kpassokro, Consultant, who contributed to background notes on chapters 2 and 3 of the report, respectively.

The Team also wishes to express its gratitude to: (i) the Nigeria Country Department led by Dr Abdul Kamara, Director General; (ii) the Department of Macroeconomic Policy, Forecasting and Research (ECMR) led by Anthony Simpasa (Director); (iii) the Department of Transition States (RDTS) led by Yero Baldeh (Director); and other departments represented in the Bank's Knowledge Management Committee, for their valuable contributions during the process of the preparation of the report.

The Bank would like to thank the regional and country level authorities for hosting and facilitating the mission undertaken to prepare the REO 2026, as well as representatives of government institutions, development partners, the private sector, civil society organizations, and other stakeholders for their availability and the quality of the discussions and exchanges held during the mission.

The data used in this Report were compiled by the Department of Statistics (ECST), led by Samson Babatunde Omotosho, Director, with the participation of Koua Louis Kouakou, Manager of the Economic and Social Statistics Division, and Anouar Chaouch, Senior Statistician.

Peer review comments were received from Paul Mpuga, Division Manager (ECMR); Hammed Amusa,Chief Research Economist (ECMR); Martin Nandelenga, Senior Research Economist(ECMR); Benjamin Camara (KMC), the ECST team and from the Knowledge Management Committee of the Bank. The Report also benefited from the valuable contribution of Gabriel Victorien Mougani, Founder and Manager, ConnInv2A, contributed as an external reviewer.

The cover of the report is based on an original design by Laetitia Yattien-Amiguet and Justin Kabasele of the Bank's External Relations and Communications Department. Copy-editing was carried out by Ahmadou Gaye while layout and design were undertaken by Creable Media.

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ACRONYMS AND ABBREVIATIONS

ADF	African Development Fund
AEO	African Economic Outlook
AELP	African Exchanges Linkage Project
AES	Alliance of Sahel States
AfCFTA	African Continental Free Trade Area
AfCRA	African Credit Rating Agency
AfDB	African Development Bank
AFSM	African Financial Stability Mechanism
ALSF	African Legal Support Facility
AML	Anti-Money Laundering
AMV	African Mining Vision
APIX	Investment Promotion and Major Works Agency (Senegal)
ASA	Advisory Services and Analytics (World Bank)
ASTER	Integrated public expenditure and accounting system (Senegal)
ATAF	African Tax Administration Forum
ATIDI	African Trade and Investment Development Insurance
AU	African Union
BCEAO	Central Bank of West African States
BEPS	Base Erosion and Profit Shifting
BOAD	West African Development Bank
BRVM	Regional Securities Exchange (WAEMU)
CEPICI	Investment Promotion Centre of Cote d'Ivoire
CFA	African Financial Community (franc)
CFT	Combating the Financing of Terrorism
CIMA	Inter-African Conference on Insurance Markets
CIPRES	Inter-African Conference on Social Welfare
CIT	Corporate Income Tax
CNI	National Identity Card (Carte Nationale d'Identite)
COVID-19	Coronavirus Disease 2019
CPIA	Country Policy and Institutional Assessment
DGID	Directorate General of Taxes and Domains (Senegal)
DRM	Domestic Resource Mobilisation
EBID	ECOWAS Bank for Investment and Development
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
EPSS	ECOWAS Payment and Settlement System
ESG	Environmental, Social and Governance
EU	European Union
FDI	Foreign Direct Investment
FIRS	Federal Inland Revenue Service (Nigeria)
FOCAC	Forum on China-Africa Cooperation
FONSIS	Sovereign Fund for Strategic Investments (Senegal)
FX	Foreign Exchange
GCF	Green Climate Fund
GDP	Gross Domestic Product
GIFMIS	Ghana Integrated Financial Management Information System
GSE	Ghana Stock Exchange
ICUMS	Integrated Customs Management System (Ghana)
IDA	International Development Association
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System

IMF	International Monetary Fund
LNG	Liquefied Natural Gas
MIGA	Multilateral Investment Guarantee Agency
MPR	Monetary Policy Rate
MRV	Measurement, Reporting and Verification
MSME	Micro, Small and Medium Enterprises
NAFAD	New Financial Architecture for Development
NGN	Nigerian Naira
NGX	Nigerian Exchange
NIN	National Identification Number (Nigeria)
NIPC	Nigerian Investment Promotion Commission
NPL	Non-Performing Loan
NPRA	National Pensions Regulatory Authority (Ghana)
NSIA	Nigeria Sovereign Investment Authority
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PAPSS	Pan-African Payment and Settlement System
PFM	Public Financial Management
PIM	Public Investment Management
PIT	Personal Income Tax
PPP	Public-Private Partnership
RSTI	Simplified regime for self-employed workers (Regime Simplifie des Travailleurs Independants)
SDG	Sustainable Development Goal
SEEA	System of Environmental-Economic Accounting
SIGFiP	Integrated Public Finance Management System (Benin)
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
SPI	Pan-African Payment and Settlement Initiative
SSA	Sub-Saharan Africa
SSNIT	Social Security and National Insurance Trust (Ghana)
TFP	Total Factor Productivity
TIN	Taxpayer Identification Number
TSA	Treasury Single Account
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union
WASMIC	West African Capital Markets Integration Council
WDI	World Development Indicators
WIR	World Investment Report

EXECUTIVE SUMMARY

West Africa enters the 2026 outlook period with robust but uneven growth momentum. Regional real GDP grew by an estimated 4.8% in 2025, up from 4.7% in 2024, and is projected at 4.7% in 2026 and 4.5% in 2027. Growth in 2025 exceeded Africa's average of 4.4% and was second only to the East African region. This strong performance was driven mainly by the recovery in agriculture following the 2024 drought, post-rebasing disinflation in Nigeria, accommodative monetary policy across WAEMU, and a weaker US dollar that softened imported inflationary pressures. Underlying this stronger performance, three structural drivers are reshaping the region's growth trajectory: expanding hydrocarbon and mining production in Senegal, Niger, and Guinea; the demographic dividend in non-resource-intensive economies; and the deepening implementation of the AfCFTA. A temporary external shock—the Strait of Hormuz supply chain disruption—is clouding the near-term outlook by raising the cost of imported energy and fertilisers, but it does not alter the underlying trajectory.

The critical caveat is that real GDP per capita is projected at only 2.5% in 2026 and 2.4% in 2027, well below the 3.5% threshold required to translate growth into meaningful poverty reduction, assuming lower inequality. Policy must therefore focus on preserving macroeconomic stability through prudent monetary policy, credible fiscal anchors, and the structural transformation needed to raise per capita growth. Both ultimately depend on the same underutilised lever: domestic resource mobilisation. The regional tax-to-GDP ratio averaged just 9.9% between 2018 and 2024, approximately 10 percentage points below the WAEMU convergence benchmark of 20%, thereby constraining fiscal space, debt sustainability, and development financing capacity through a common underlying constraint. The AfDB estimates the region's development financing gap at US$90–100 billion, driven by fragmented and underutilised financial resources rather than by an absolute scarcity of capital.

The two most binding constraints are the limited depth of domestic revenue systems and the misallocation of long-term institutional capital. Gross capital formation has remained within a narrow range of 23–24% of GDP since 2010, well below that of middle-income comparator economies. Savings investment gaps exceed 5% of GDP in most countries and reach 20% in Sierra Leone and Guinea, while the financing required to place fragile states such as Mali and Niger on a path of structural transformation far exceeds the limits of conventional public finance (Section 2.2).

Four policy levers offer the greatest potential impact to mobilise large-scale development finance for West Africa in a fragmented world. First, broadening the tax base and rationalising tax expenditures, with Senegal foregoing 4.2% of GDP and Côte d'Ivoire 2.9% of GDP each year, while accelerating real-time VAT e-invoicing, digital cadastres for property taxation, and customs modernisation. Second, transparently harnessing natural-capital rents through sovereign wealth funds in Nigeria, Ghana and Senegal, and stronger extractive revenue management across other resource-rich economies such as Niger, Guinea and Sierra Leone, embedding extractive taxation in the medium-term fiscal framework. Third, formalising the informal sector to capture the demographic dividend, by simplifying and digitising business registration, applying simplified presumptive regimes, strengthening human capital, and converting youth labour force entry into formal sector productivity and a broader tax base. Fourth, redirecting domestic institutional savings, particularly pension assets and insurance reserves, away from short-dated public securities and toward productive long-term investment vehicles, supported by regional capital market integration through the BRVM and the planned West African Securities Market Integration Council. Together these levers could meaningfully narrow the gap without relying on external markets that have become harder to access and more expensive.

Despite several challenges, West Africa's financial systems have significant potential to facilitate the accelerated mobilisation of long-term development finance. The banking systems remain dominated by short-tenor lending. Market concentration is high, constraining its ability to intermediate the demand and supply of long-term development financing.

Capital markets are fragmented across small national exchanges with limited depth, pushing institutional investors toward sovereign debt rather than productive private sector assets, while payment systems remain costly and uneven, thereby eroding the gains from regional trade integration. The result is a structurally elevated cost of capital and heightened sensitivity to global shocks: when external financial conditions tighten, sovereign spreads widen sharply, Eurobond market access narrows, and credit ratings often move procyclically, reflecting perceptions that may overstate underlying risk.

The agenda set out in this Outlook responds directly to these vulnerabilities. Consolidating exchanges through the BRVM and operationalising the West African Securities Market Integration Council would provide the depth required to attract global institutional capital. Integrating regional payment systems through the Pan-African Payment and Settlement System (PAPSS) would reduce transaction costs and retain liquidity within the region. Operationalising the African Credit Rating Agency would help correct the asymmetric pricing of West African sovereign and corporate risk, while measured progress towards an ECOWAS single currency would strengthen monetary credibility and reduce reliance on external anchors. Strengthening parliamentary oversight, audit independence, and public financial management transparency, areas where Afrobarometer evidence confirms strong public demand, would consolidate the gains. Pursued together, these reforms would shift West Africa from a price taker in fragmented global finance towards a region that mobilises its own resources at scale and on its own terms.

The region's challenge is therefore twofold: capital that exists but is poorly mobilised, allocated, and intermediated; and growth that is robust but not yet transformative, generating insufficient productivity, quality employment, and durable poverty reduction.

ECONOMIC PERFORMANCE AND OUTLOOK

1

Key Messages

- West Africa's growth accelerated to 4.8% in 2025, from 4.7% in 2024, and is projected at 4.7% in 2026 and 4.5% in 2027, above Africa's average and driven by robust agricultural output and sustained public investment in energy, logistics, and transport infrastructure, with additional impetus from expanding mining and hydrocarbon production, and a recovery in private construction activity. A prolonged Middle East crisis, high inflation, and rising debt vulnerabilities pose risks to the outlook.

- West Africa's macroeconomic fundamentals have remained stable, supported by bold reforms and prudent macroeconomic management. Exchange rate stability was supported by the WAEMU CFA franc peg as well as central bank actions focused on rebuilding reserves and improving liquidity. Regional inflation eased, while fiscal deficit narrowed, reflecting sustained fiscal consolidation and tax administration reforms that improved revenues. West Africa remained the only African region with a current account surplus in 2025, supported by higher exports of oil, cocoa, gold, and agricultural products.

- Policy measures to sustain macroeconomic stability should include continued fiscal consolidation and broadening the tax base through digital tax administration and the gradual formalisation of the informal sector which accounts for an estimated 91.6% of regional employment, via simplified tax regimes and digital payments, strengthening debt management to improve transparency in debt reporting, as well as diversifying exports to minimise exposure to external shocks.

- Growth is robust but not yet transformative, and the macroeconomic stability now being consolidated underpins the region's future capacity to finance its own development at lower cost.

1.1 Introduction

This chapter presents West Africa's recent economic performance and outlook for the 2026-2027 period. It also examines the trends in key macroeconomic indicators including fiscal and monetary policies, inflation dynamics, public debt, and the external sector. West Africa's economic performance in 2025 reflected resilience, having withstood successive global shocks while sustaining growth. Persistent fragility in the central Sahel, and the structural informal economy shape the policy agenda. The chapter closes by setting out policy options to foster high and resilient growth, support macroeconomic stability and economic transformation, and address the shocks that continue to buffet the regional economy.

1.2 Growth Performance

West Africa sustained its growth momentum in 2025, supported by improved agricultural output, accommodative monetary policy in WAEMU, post-rebasing disinflation in Nigeria, the ramp-up of new hydrocarbon and mining capacity, and a weaker US dollar that eased inflation pass-through to domestic prices. Growth was broad-based: 12 of the region's 15 economies recorded higher growth in 2025 than in 2024, led by Senegal, Benin, Niger, Guinea, and Burkina Faso. Senegal's first full year of Sangomar crude and GTA LNG production, and Guinea's bauxite-and-infrastructure surge, were the headline contributors. Sierra Leone, The Gambia, and Togo were notable exceptions to the regional acceleration, recording slower growth in 2025 than in 2024.

On the demand side, household consumption and public investment remained the main drivers of growth. Private investment also recovered in Côte d'Ivoire, Senegal, Benin, and Togo. On the supply side, agriculture made a strong contribution in 2025 (accounting for about 22% of regional GDP, with shares above 30% in non-resource-intensive economies); industry, particularly hydrocarbons, bauxite and construction, lifted output in Senegal, Niger, and Guinea; services remained the largest sector, accounting for around 53% of regional GDP, supported by financial services, telecommunications, and the post-naira liberalisation rebound in Nigerian consumer-facing services.

1.2.1 Forces Shaping West Africa's Economic Growth Performance and Outlook

West Africa's macroeconomic performance has been and will continue to be shaped through 2026–2027 by several factors, including domestic and external dynamics. Domestic structural factors are expected to weigh more heavily on the medium-term outlook than the Middle East conflict: the region's direct trade and remittance exposure to the Gulf is limited, so the conflict transmits mainly through higher imported energy, fertiliser, and freight costs, and tighter global financing conditions, while the WAEMU's euro peg dampens the exchange rate channel for eight of the fifteen economies. Domestically, macroeconomic instability arising from high inflation, exchange rates volatility, fiscal pressures and structural bottlenecks, particularly energy and infrastructure gaps have a significant impact on economic performance of the region. Currency weakness and imported price pass-through have intensified inflationary pressures, prompting monetary tightening that could dampen credit and investment. Nigeria's recent FX reforms and fuel-subsidy removal, for example, contributed to raising import costs (fuel/food) and contributing to higher inflation in the short run, even as they aim to correct imbalances and improve longer-term efficiency. Structural constraints such as inefficiencies and shortages in electricity generation linked to monopolistic energy systems are a binding drag on productivity, making energy-sector reforms and infrastructure investment central to the region's medium-term performance.

Regional insecurity and geopolitical fragmentation, notably the Sahel crisis, also weigh on economic activity. Violent extremist threats emanating from the Sahel have expanded toward the northern borderlands of Benin, Togo, Côte d'Ivoire, and Ghana, disrupting livelihoods and economic activity, undermining investor confidence, and prompting governments to divert scarce fiscal resources from development priorities (education, health, roads and energy) to security responses. Together, these forces constrain private investment, raise risk perceptions, and reduce productivity growth.

The escalation of the Middle East conflict is a pivotal external shock shaping West Africa's near-term macroeconomic environment, affecting the region through: (i) commodity price spikes (oil, gas and fertilisers), (ii) trade/logistics disruptions, and (iii) tighter financing conditions as global risk aversion rises. Many CFA-zone economies are net oil importers and remain exposed to deteriorating terms of trade. Senegal and Niger may reap benefits from higher crude prices amid newly expanded production capacity and exports (Sangomar and GTA LNG in Senegal; the Niger-Benin export pipeline). For Nigeria, the benefits are more uncertain due to ageing pipeline infrastructure, a decade of under-investment, and crude theft keeping output below its OPEC quota, and limiting the pass-through to fiscal and export receipts. Yet, countries more integrated into global financial markets including Nigeria and Côte d'Ivoire may face tighter access to external financing as risk premia rise. Risks remain tilted to the downside if the external shock persists (keeping energy, fertiliser and freight costs elevated), if global financing conditions tighten further, or if insecurity deepens and spreads along strategic corridors. Under such scenarios, inflation may remain sticky, policy space could narrow (especially where buffers are thin), and private investment could soften, reinforcing the importance of restoring macro stability, accelerating energy and infrastructure reforms, and strengthening resilience through diversified trade and supply chains. Household welfare could also be affected if remittance flows from the Gulf weaken.

It is against this backdrop that West Africa's growth is expected to remain relatively stable at about 4.7% in 2026 and 4.5% in 2027 supported by broad-based drivers including agricultural output and agro-processing value chains, public investment and continued expansion in mining and hydrocarbons in several countries. However, risks remain tilted to the downside if the global shock persists, financing tightens further, or insecurity deepens.

Box 1: Implications of the Middle East conflict on West Africa

The resurgence of geopolitical tensions in the Middle East has created uncertainty for the global economy, with disruptions to strategic trade routes transmitting directly into African and West African economies. The February 2026 blockade of the Strait of Hormuz, through which nearly 20% of global oil trade transits, triggered sharp volatility in energy markets. Brent crude prices rose by US$18 to US$22 per barrel above pre-shock baselines, with several trading sessions exceeding US$100 per barrel, consistent with continental averages. Fertiliser prices, including urea and DAP, increased by 25 to 35%, raising agricultural input costs across the Sahel and amplifying food price inflation.

For West Africa, three transmission channels mirror Africa-wide patterns. First, the imported fuel and fertiliser channel raised consumer price inflation by 0.4 to 0.7 percentage points, with the largest impact on non-resource-intensive economies such as Cabo Verde, The Gambia, Sierra Leone, and Liberia. Second, the current account channel provided short-term gains for hydrocarbon producers including Nigeria, Senegal, and Niger, but compressed the regional surplus from 2.0% of GDP in 2025 to a projected 1.1% by 2027. Third, the financial conditions channel tightened external financing, widened frontier spreads, and raised borrowing costs for vulnerable sovereigns.

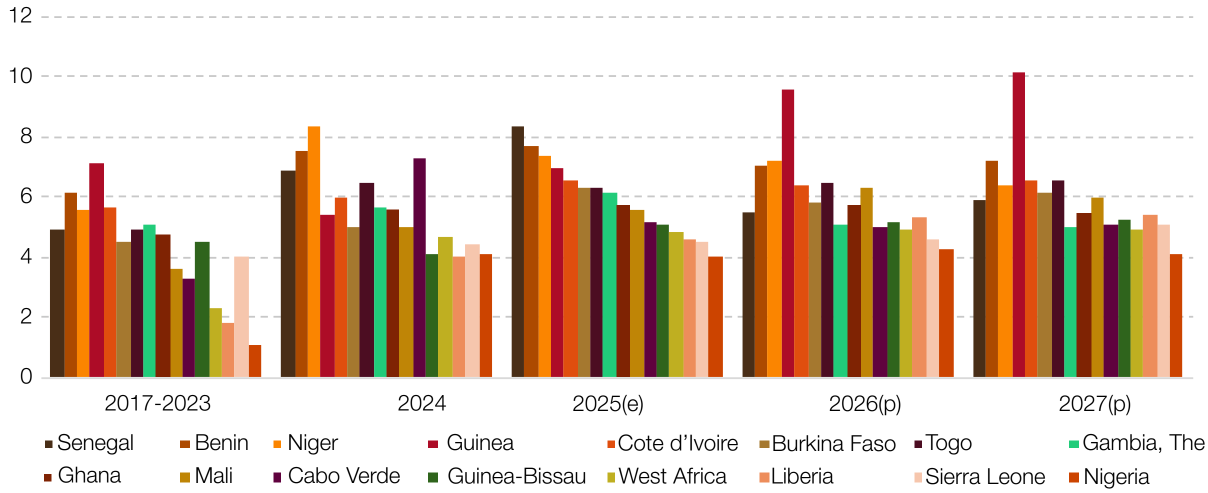
Overall, West Africa's exposure reflects the heterogeneity highlighted in Africa-wide analyses. Net oil exporters benefit temporarily, while net importers face deteriorating external balances and higher inflationary pressures. Prolonged disruptions risk eroding these gains, underscoring the need for resilience strategies such as diversifying energy supply, strengthening logistics infrastructure, and building macro-financial buffers. The West African Power Pool could play a critical role in reducing West Africa's exposure by lowering reliance on imported fuels and enabling access to cheaper regional electricity. By strengthening regional energy security and stabilising electricity supply, it would cushion the economic and inflationary impacts of global energy price shocks.

Indicator	Pre-shock (2025 average)	Post-shock (mid-range, as at May, 2026)
Brent crude (US$/barrel)	82	102
Fertiliser price index (2024 = 100)	100	130
Inflation impact (pp added)	0.00	0.55
Regional current account balance (% of GDP)	1.99	1.09

1.2.2 Recent Growth Performance

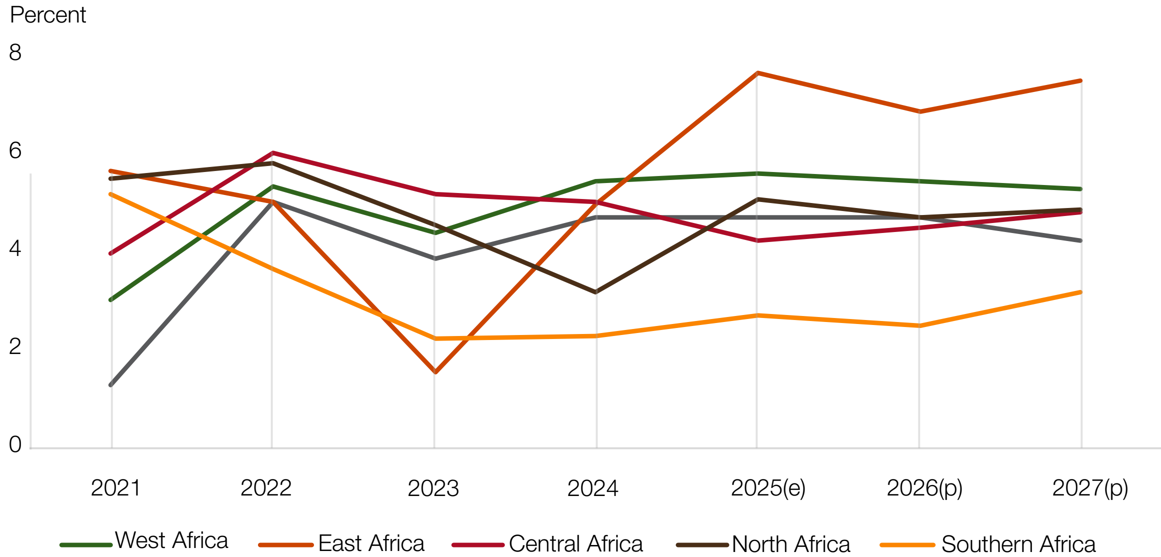
West Africa's real GDP grew by an estimated 4.8% in 2025, up from 4.7% in 2024. The region's growth was underpinned by improved agricultural output, relatively accommodative macroeconomic policy, the gradual ramp-up of new hydrocarbon and mining capacity, and a weaker US dollar that eased inflation pass-through to domestic prices. Country dispersion within the region is wide, with hydrocarbon producers Senegal and Niger at the top of the regional growth distribution (Figure 1.1); resource-intensive economies, including Guinea, Ghana, Mali, Burkina Faso, and Liberia, occupy the intermediate tier, while non-resource-intensive economies such as Benin, Côte d'Ivoire, Togo, Cabo Verde, The Gambia, and Guinea-Bissau exhibit differentiated performance patterns driven by agriculture, services, and port logistics. For analytical purposes, the report groups the region's economies into four categories: (i) Nigeria, the region's largest economy; (ii) the emerging hydrocarbon producers (Senegal, Niger); (iii) other resource-intensive economies (Ghana, Guinea, Mali, Burkina Faso, Sierra Leone, Liberia); and (iv) non-resource-intensive economies (Benin, Côte d'Ivoire, Togo, Cabo Verde, The Gambia, Guinea-Bissau).

Figure 1.1: Real GDP Growth by Country, 2017-2027 (%)



Source: Statistics Department, African Development Bank.

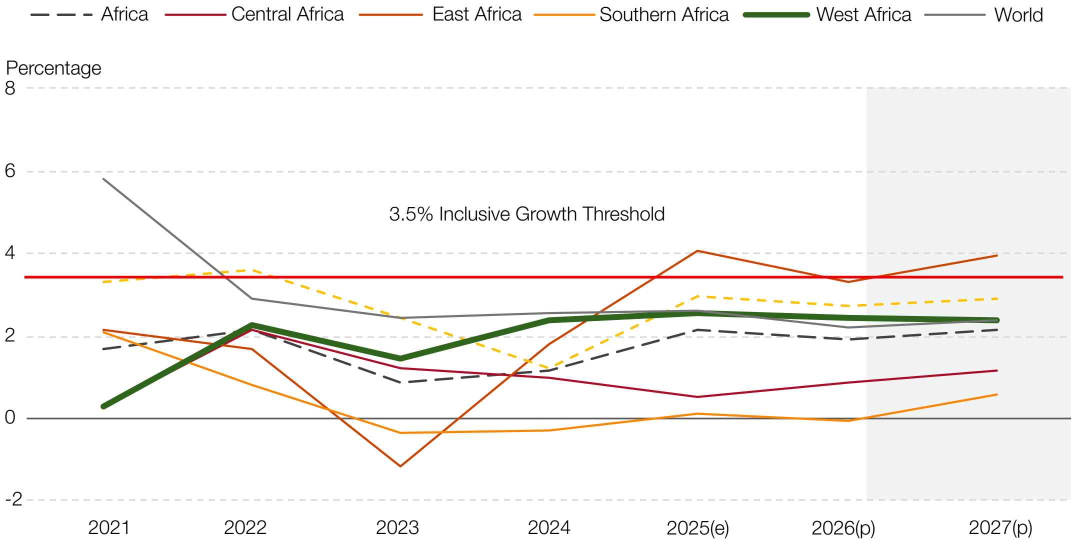
Figure 1.2 (Regional): Real GDP Growth in Africa by Region, 2017-2027



Source: Statistics Department, African Development Bank, AEO 2026

Real GDP per capita: Strong headline growth is not yet delivering commensurate gains in living standards, and Africa's resilience paradox is fully visible in West Africa. Continental real GDP per capita grew by 2.1% in 2025, below the minimum 3.5% required to reduce poverty and inequality and promote inclusive growth. West Africa performed somewhat better, at an estimated 2.6% in 2025, projected at 2.5% in 2026 and 2.4% in 2027, but still below the threshold (Figure 1.3). Cross-country dispersion is wide: Guinea, Benin, Côte d'Ivoire, Togo, and Niger post per-capita gains above 3%, while Nigeria, with population growth near 2.4%, records gains of 2.0% or less.

Figure 1.3: Africa's Real GDP per Capita Growth, 2021-27

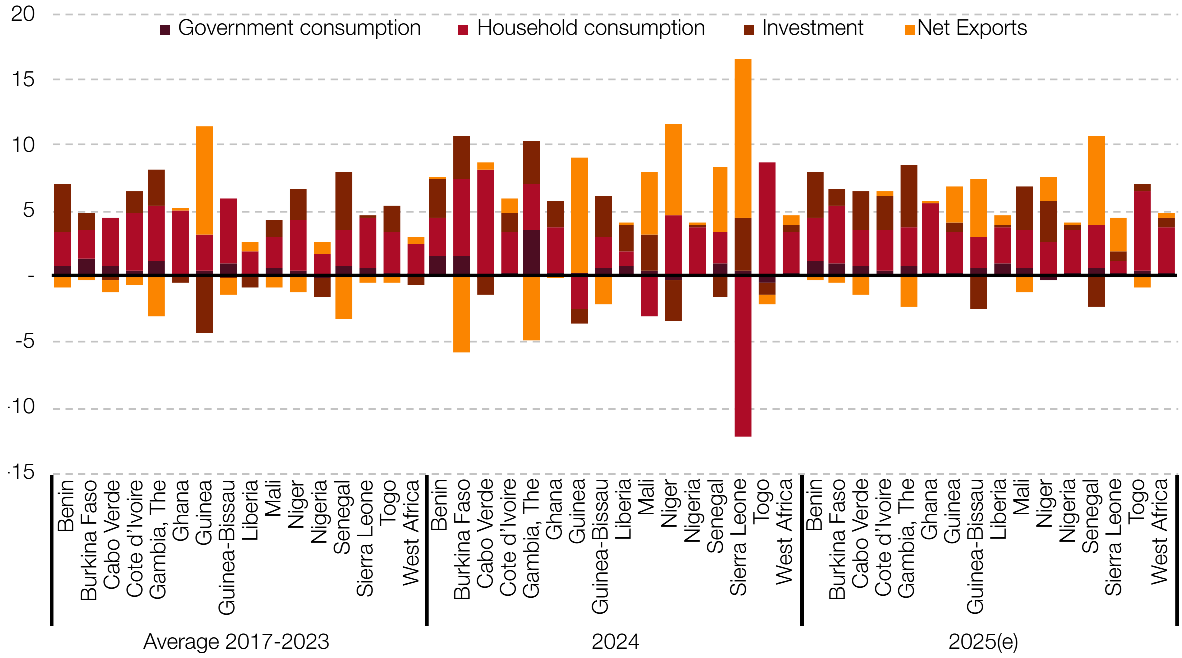


Source: Statistics Department, African Development Bank, AEO 2026

1.2.3 Sectoral and Demand-Side Decomposition of Growth

On the demand side, household consumption and public investment remained the dominant drivers (Figure 1.4). Net exports turned strongly positive in hydrocarbon-producing economies but negative in major importers (Cabo Verde, The Gambia, and Sierra Leone), due to the import bill for fertilisers and refined products over the 2017–2025 period.

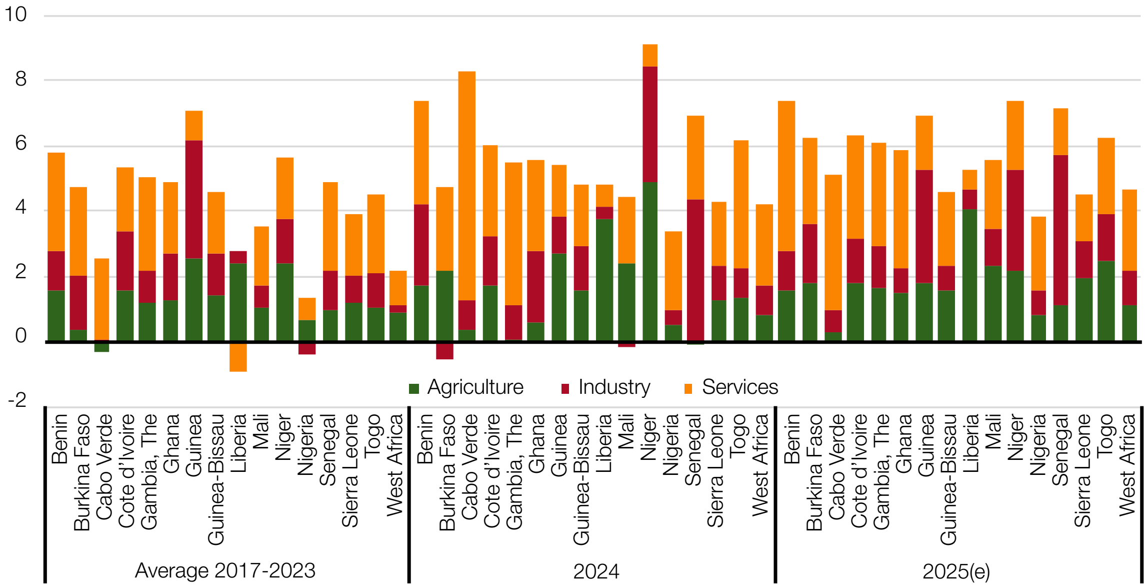
Figure 1.4: Demand-Side Decomposition of GDP Growth, 2017– 2025



Source: Statistics Department, African Development Bank

On the supply side, agriculture accounts for about 22% of regional GDP (Figure 1.5) and made a strong contribution in 2025, supported by improved rainfall and yield-enhancing interventions; industry lifted output via hydrocarbons in Senegal (GTA LNG), the Agadem pipeline in Niger, mining expansion in Guinea, and gold production in Ghana; services, the largest sector at around 53% of GDP, remained the stable engine of growth, supported by financial services, telecommunications, and the post-naira-liberalisation rebound in Nigerian consumer-facing services.

Figure 1.5: Sectoral Decomposition of GDP Growth, 2017 – 2025



Source: Statistics Department, African Development Bank

The composition of growth explains why it translates so slowly into structural transformation: it relies on primary commodity output, low-productivity services, and public investment rather than manufacturing and industrial deepening, so employment gains accrue mainly in informal services. Until the drivers shift toward higher-productivity tradables, headline growth will continue to outpace gains in living standards.

1.2.4 Medium-Term Outlook to Growth

West Africa's growth momentum is expected to hold through the outlook period despite a fragmented global environment. Africa's real GDP grew by an estimated 4.4% in 2025 and is projected at 4.2% in 2026, assuming the current global supply shock lasts only two to three months, before recovering to 4.4% in 2027. West Africa outperformed this benchmark, with regional growth of 4.8% in 2025, ranking second only to East Africa (5.9%) among the continent's five regions, and is projected at 4.7% in 2026 and 4.5% in 2027, with 10 of the region's 15 economies expected to grow at 5% or more in 2026 (Figure 1.2). Should the conflict in the Middle East instead persist for three to six months, continental growth would decline to 4.0% in 2026, with West Africa's outturn commensurately lower.

1.3 Risks to the Outlook

The growth outlook is balanced but tilted modestly to the downside. The dominant external risk is a prolonged Strait of Hormuz disruption, which would raise imported energy and fertiliser costs and tighten global financial conditions. Domestic risks centre on the ECOWAS/AES rupture, with potential disruption to trade and customs cooperation, free movement of people, regional security coordination, and supply chains linking Sahelian and coastal economies, fragile macro-fiscal positions in several economies, and persistent insecurity in the central Sahel. Upside risks come from an assumed resolution of the Middle East conflict and reopening of the Strait of Hormuz, accelerated AfCFTA/PAPSS uptake, and an earlier-than-expected ramp-up of the Simandou iron ore project in Guinea. Although progress has been slower than anticipated, the first ore shipments are now expected in late 2026.

1.3.1 Downside Risks

A prolonged crisis in the Middle East—more specifically a Strait of Hormuz disruption—would keep imported energy and fertiliser costs elevated, yielding windfalls for Senegal and Niger but compressing the current accounts of net importers (Cabo Verde, The Gambia, and Sierra Leone). The principal inflation channel is fuel, passing through to transport, electricity, and food costs, and threatening to reignite inflation in Nigeria and Ghana just as the 2024–25 disinflation gains were consolidating. Fertiliser capacity in Nigeria and Senegal offers only a partial buffer, as domestic prices track export parity. The regional projections are anchored in the AEO 2026 baseline, which assumes the global supply shock lasts only two to three months. Should the conflict instead persist for three to six months before a gradual de-escalation, Africa-wide growth would fall by 0.4 percentage points to 4.0% in 2026, with West Africa's outturn commensurately lower.

A prolonged shock would also tighten global financial conditions, with widening frontier spreads raising refinancing risk for the 2024-25 Eurobond issuers (Côte d'Ivoire, Benin, Senegal and Nigeria) and elevated debt in Cabo Verde (87.3% of GDP), Senegal (119%) and The Gambia (47.7%) leaving little buffer. Domestically, the ECOWAS/AES rupture fragments policy coordination, trade-finance arrangements and cross-border value chains, while violent extremist activity spreading into the northern borderlands of Côte d'Ivoire, Benin, Togo and Ghana disrupts agricultural value chains, widens investor risk premia and in Alliance of Sahel States economies crowds out capital budgets through rising security expenditure.

Implementation risk is itself macro-relevant: electoral cycles in 2026-27, political economy resistance to subsidy and tax reforms, and uneven administrative capacity could delay the fiscal and structural agenda that underpins the baseline.

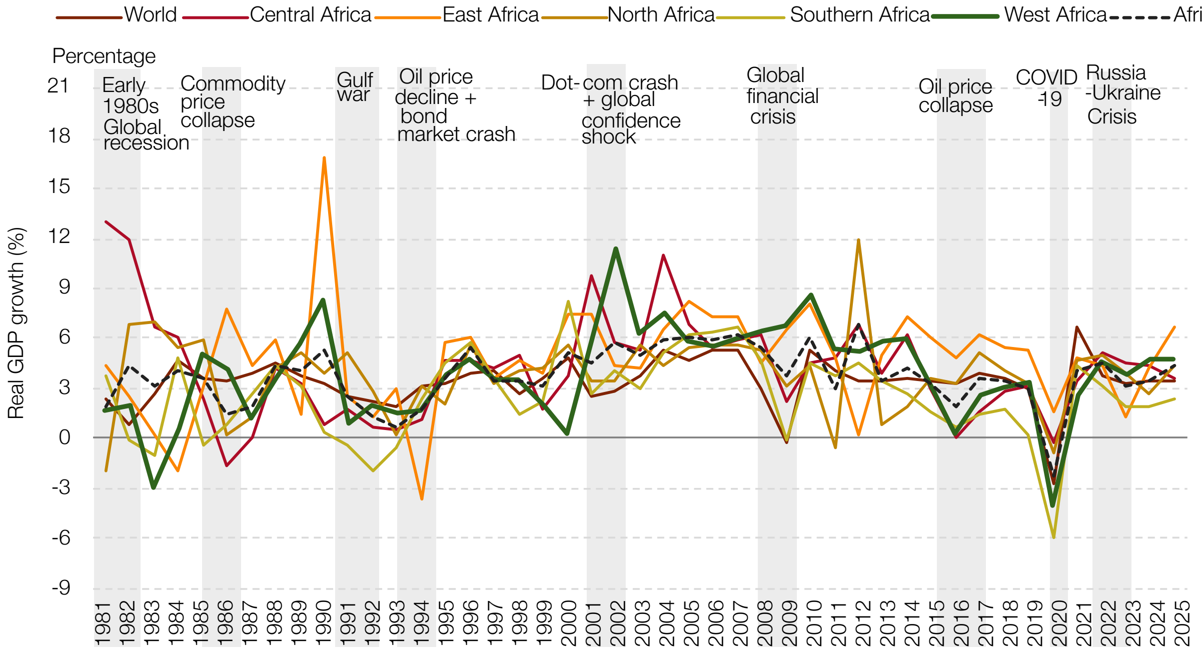
1.3.2 Upside Risks

A faster-than-expected resolution of the crisis in the Middle East, and more specifically the Strait of Hormuz disruption, would unwind the 2026 supply chain premium and accelerate disinflation. Accelerated AfCFTA and PAPSS uptake, with the BCEAO's interoperable platform now fully linked to PAPSS, could expand intra-regional trade and reduce FX-reserve drain through extra-continental clearing. The global pivot away from Middle East supply routes could favour the region's new capacity — Nigeria's fertiliser and petrochemical complex, Senegal's phosphate cluster, and GTA LNG. An earlier-than-expected ramp-up of Simandou iron-ore exports in Guinea could also lift West African growth by an additional 0.3–0.5 percentage points in 2027. The post-2023 reform momentum in Nigeria, Ghana, and Senegal, if sustained, could attract a measurable rebound in FDI to non-resource economies (Benin, Côte d'Ivoire, Togo) and crowd in long-duration institutional capital.

1.3.3 Implications of Global Shocks and Geopolitical Fragmentation on West Africa's Long-Run Growth

The long view underscores the region's resilience. Since 1980, West Africa has weathered a succession of global shocks similar to those affecting the rest of the continent—the oil crises of the 1970s, the 1990–92 Gulf War, and the 2008–09 global financial crisis, the 2013-14 commodity-price collapse, COVID-19 and now the supply-chain shock from the Middle East conflict alongside region-specific stresses including Sahelian insecurity, climate shocks and the ECOWAS/Alliance of Sahel States rupture. As Figure 1.6 shows, the region has recovered from each successive episode increasingly quickly, reflecting two decades of more prudent macroeconomic management and structural reforms. The current period of fragmentation also raises structural risks in trade finance redirection, FX-reserve depletion, and disruption of intra-regional coordination, each of which could be amplified through tighter financial conditions and weaker investment. The unfinished challenge, as at the continental level, is converting episodic booms into sustained and inclusive growth in per capita income.

Figure 1.6: Historical Growth by Region, 1980-2025



Source: Statistics Department, African Development Bank (AEO 2026).

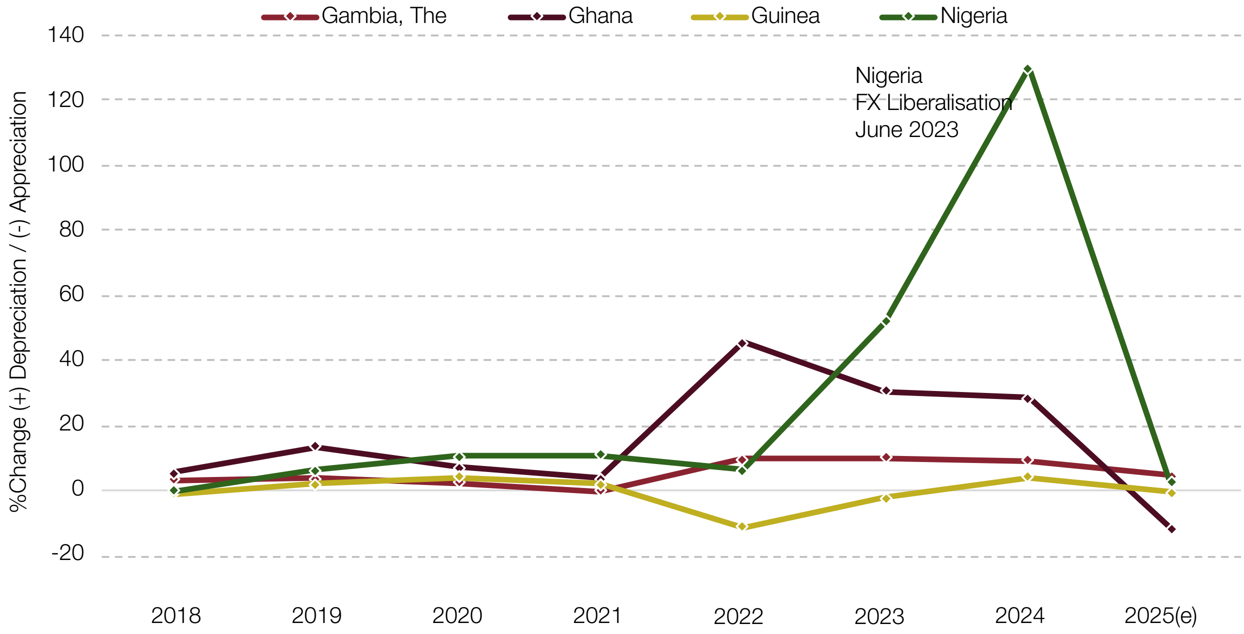
1.4 Macroeconomic Developments, Implications, and Outlook

This section examines five dimensions of West Africa's macroeconomic landscape in 2024-2025: exchange rate dynamics, inflation and monetary policy, fiscal balances and debt sustainability, external positions and financial flows, and implications for the development financing agenda. Together, these dimensions reveal an economy navigating a delicate transition from stabilisation to investment-led growth against a backdrop of tightening global financial conditions and persistent structural constraints.

1.4.1 Exchange Rate Developments

Exchange rate dynamics in West Africa diverged sharply between the WAEMU bloc and the floating exchange rate regimes of Nigeria, Ghana, and Sierra Leone in 2024-2025 (Figure 1.7). The WAEMU CFA franc, pegged to the euro, remained broadly stable, supported by the BCEAO's reserve management and monetary policy framework. The naira stabilised in 2025 after the 2023-24 foreign exchange market liberalisation (which had seen the naira lose roughly 70% of its value, from an average of 424/US$ in 2022 to 1,479/US$ in 2024), supported by deeper FX-market and tighter monetary policy; the cedi appreciated modestly at disinflation in Ghana gathered pace; the leone stabilised following monetary tightening by the Bank of Sierra Leone (BoSL) and continued implementation of the IMF Extended Credit Facility. Central bank actions across the region focused on rebuilding reserves, tightening reserve requirements, and calibrating policy rates to anchor expectations.

Figure 1.7: Exchange Rate Changes by Country, 2018-2025

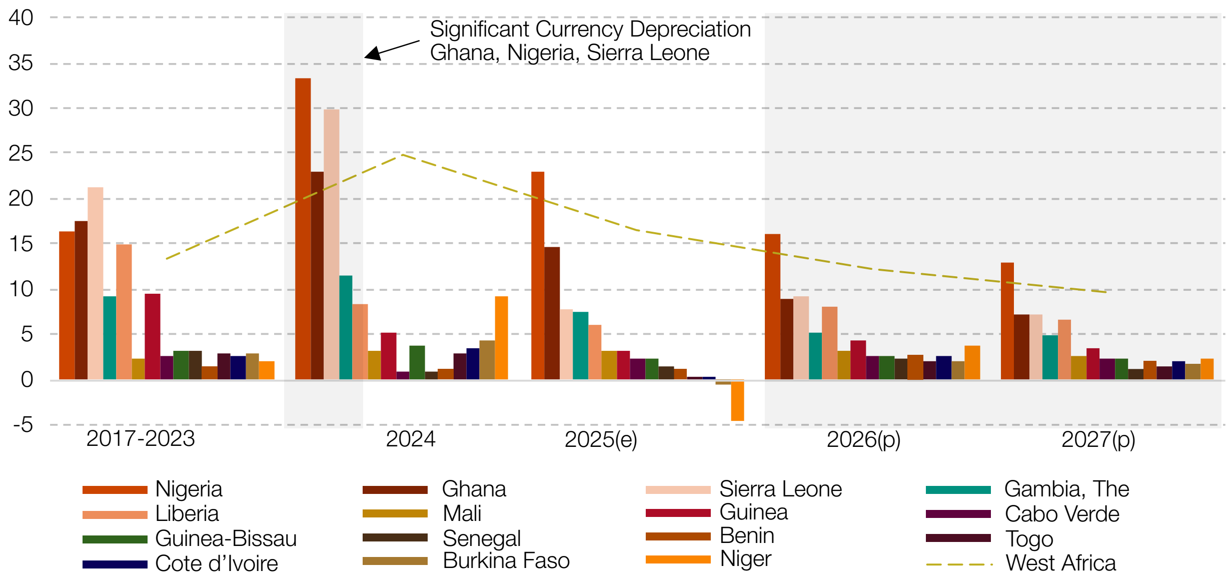


Source: Statistics Department, African Development Bank
Note: The WAEMU members' CFA franc is pegged to the euro and recorded negligible movement against the US dollar. Liberia also uses the US dollar

1.4.2 Inflation Dynamics and Monetary Policy Stance

Regional inflation eased to an estimated 16.5% in 2025, from 24.8% in 2024, with most of the decline driven by Nigeria (33.2% to 23.0%) and Ghana (22.9% to 14.6%) – see figure 1.8. The decline reflected tighter monetary policy, the January 2025 rebasing of the consumer price index (which mechanically reduced measured inflation) in Nigeria, relative exchange-rate stabilisation, and improved agricultural yields that slowed staple food price growth. WAEMU inflation remained anchored within the 1–3% convergence band, reflecting the CFA peg and BCEAO discipline. Looking ahead, regional inflation is projected to average 12.2% in 2026 (around half a percentage point above the pre-Hormuz baseline) before easing further to 9.8% in 2027, as imported energy and fertiliser price pressures gradually unwind.

Figure 1.8: Inflation, by country, 2017-2027 (%)



Source: Statistics Department, African Development Bank

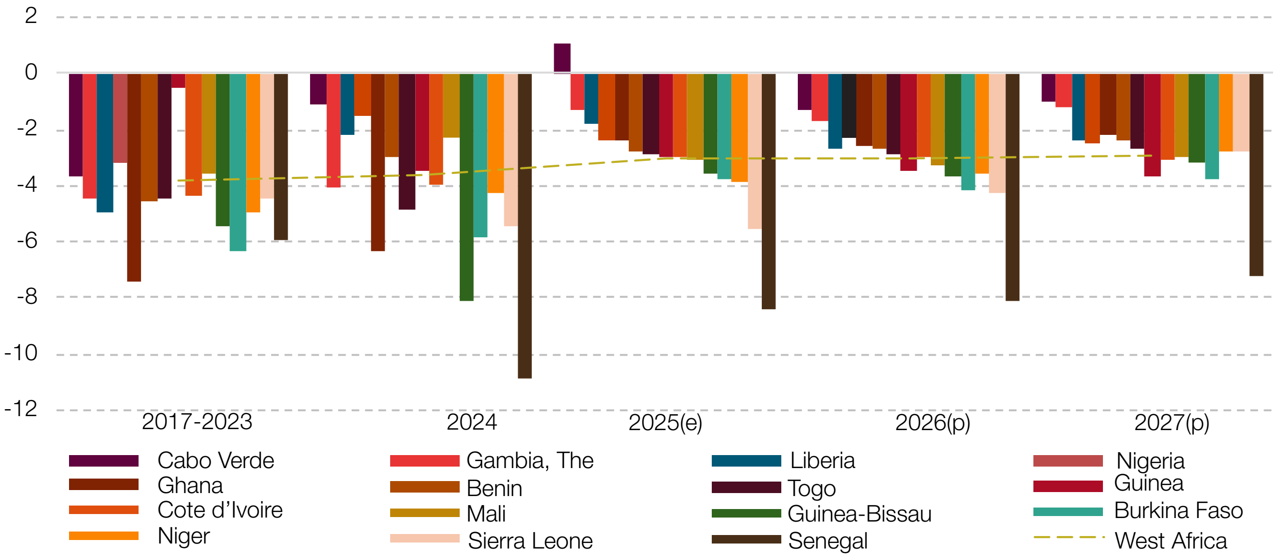
The Central Bank of Nigeria held the MPR at restrictive levels through 2024-25 to contain inflation; the Bank of Ghana tightened its policy rate through 2024 and eased it modestly in 2025; the BCEAO has kept its main refinancing rate broadly unchanged. Coordination between monetary and fiscal policy has improved in WAEMU but remains uneven elsewhere, with fiscal dominance risks in Nigeria and Ghana. Financial-sector indicators have held up: credit to the private sector remained broadly stable across the region in 2025, with WAEMU bank credit growth at around 8%.

The regional disinflation trend continued into 2025, with headline inflation averaging 16.5% (down 8.3 percentage points from 24.8% in 2024). However, this overall decline masks wide dispersion among individual countries with Nigeria and Ghana driving the bulk of the fall and WAEMU members operating in a much narrower 1 to 3% band; the four analytical country groupings (Nigeria; emerging hydrocarbon producers; other resource-intensive economies; and non-resource-intensive economies) broadly mirror the regional disinflation pattern, with differences across groups reflecting differences in exposure to imported energy and food prices, as well as exchange rate regimes. The financial sector dynamics are addressed in detail in Chapter 3, which examines credit to the private sector and the depth of financial intermediation across the region.

1.4.3 Fiscal Policy Developments and Implications for Growth

The regional fiscal deficit narrowed to 3.0% of GDP in 2025, from 3.6% in 2024 (Figure 1.9), and is projected to remain at 3.0% in 2026 before declining to 2.9% in 2027. This is below Africa's average of 4.9% and consistent with the ECOWAS fiscal convergence ceiling of 3%. Senegal (with a fiscal deficit of 8.4% of GDP in 2025, projected to decline to 8.1% in 2026) is a notable outlier, reflecting substantial infrastructure investment, one-off expenditure associated with major energy and transport projects, and the recognition of liabilities identified during the 2024–2025 public finance audit. The quality of fiscal consolidation is improving: expenditure is shifting towards capital investment in Côte d'Ivoire, Benin, Senegal, and Togo, while revenue mobilisation is accelerating through digital tax administration in Senegal, Côte d'Ivoire, Ghana, and Nigeria. Fiscal deficits are financed through a combination of Eurobond issuance, domestic bond markets, multilateral financing (AfDB, World Bank, and IMF), and bilateral support.

Figure 1.9: Fiscal Balance by country, 2017-2027 (% of GDP)



Source: Statistics Department, African Development Bank

The regional tax-to-GDP ratio was an estimated 9.9% in 2024, the latest year with comparable data and well below the continental average of about 13.4% (AEO 2026), pulled down in particular by Nigeria's low ratio (7.0% in 2024). The AEO narrative on declining ODA flows and fiscal space compression applies with particular force to West Africa's ADF-only economies (Benin, Burkina Faso, The Gambia, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Sierra Leone, Togo), several of which experienced bilateral ODA cuts and the termination of USAID programmes in 2025. The fiscal implication is that the space for countercyclical support to households in response to the current shock is highly uneven across the region; domestic resource mobilisation must therefore anchor the medium-term response.

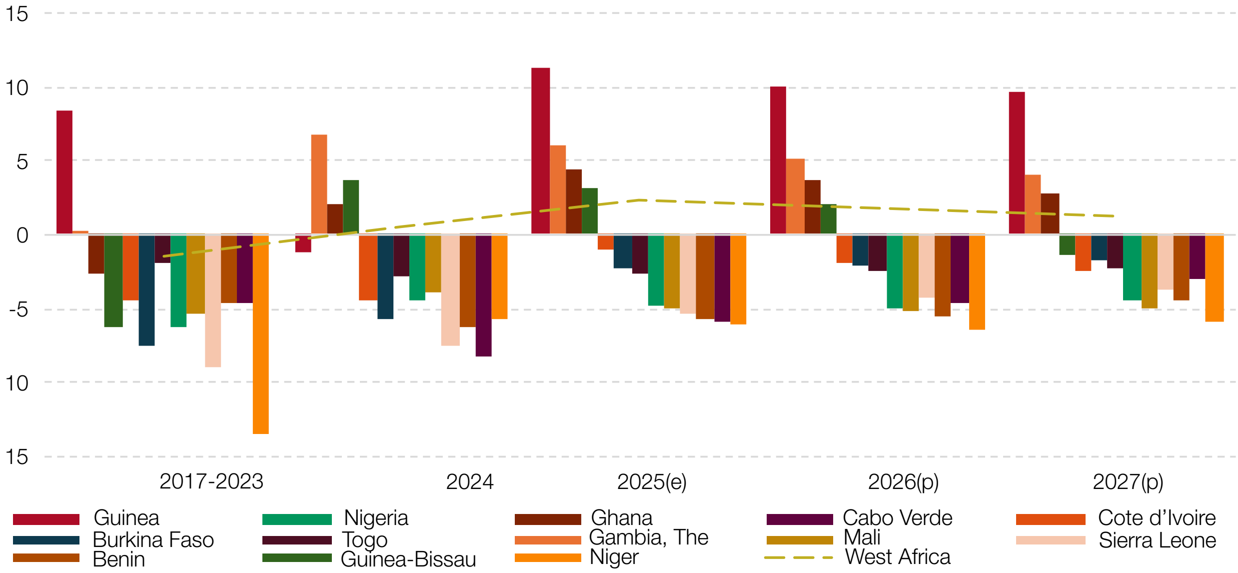
Although the regional fiscal deficit narrowed to 3.0% of GDP in 2025, the underlying picture is heterogeneous across the four country groupings defined in Section 1.2, with Senegal's 8.1% projected deficit in 2026 a notable outlier and several WAEMU members close to, or already within, the convergence ceiling. A deeper DRM and fiscal space agenda is developed in Chapter 2, where tax-to-GDP gaps, tax expenditure leakage, and the sequencing of revenue reforms are examined in detail.

1.4.4 External Position and Current Account Balance: Developments, Outlook, and Implications

West Africa remained the only African region with a current-account surplus in 2025, at an estimated 2.0% of GDP, anchored by Nigeria (6.0%) and Ghana (4.4%) (Figure 1.10). The surplus is projected at 1.6% in 2026 and 1.1% in 2027, as higher fertiliser and capital goods import bills outweigh the positive contribution from higher oil prices. Trade balance dynamics vary widely: hydrocarbon producers Nigeria, Senegal, and Niger run goods surpluses; agricultural exporters Côte d'Ivoire, Ghana, and Burkina Faso are net exporters of cocoa, gold, and other agricultural commodities; non-resource economies remain dependent on tourism, services, and remittances. Gross international reserves stood at an estimated 3.0 months of imports in 2025, up from 2.8 months in 2024, just reaching the IMF's three-month adequacy benchmark, though still the lowest coverage among Africa's five regions.

The regional current-account surplus of 2.0% of GDP in 2025 is essentially a Nigeria and Ghana story; the other resource-intensive and non-resource-intensive groupings continue to record deficits that are sensitive to imported energy prices and fertiliser costs. External vulnerabilities are highest in the non-resource-intensive grouping, where reserve coverage is thinnest.

Figure 1.10: Current Account Balance by Country, 2017-2027 (% of GDP)

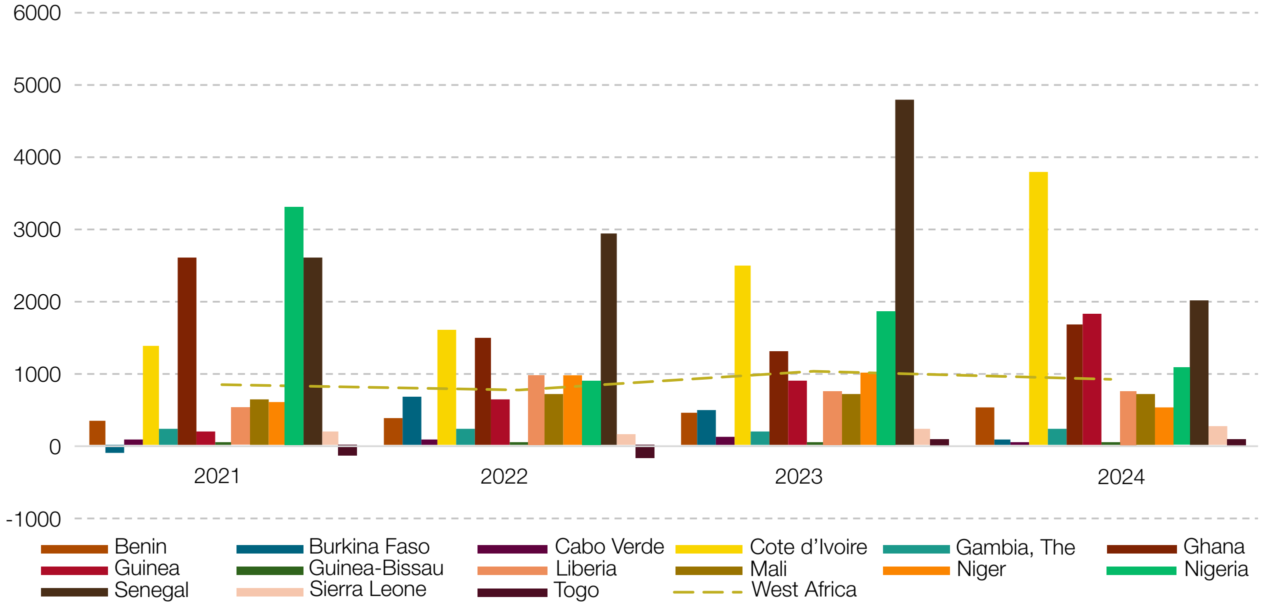


Source: Statistics Department, African Development Bank

1.4.5 External Financial Flows, Implications and Outlook

West Africa received US$13.7 billion of FDI in 2024 (UNCTAD WIR 2025) and US$34.9 billion of remittances. FDI dynamics were heterogeneous: Senegal ($2.0bn), Niger ($1.0bn in 2023), and Côte d'Ivoire ($3.8bn) registered durable rebounds linked to hydrocarbons, mining, and infrastructure; Nigeria's FDI remained subdued at around US$1.08 billion despite the 2023–24 reform agenda (Figure 1.11); FDI to non-resource economies (Benin, Togo, Cabo Verde) was steady but small.

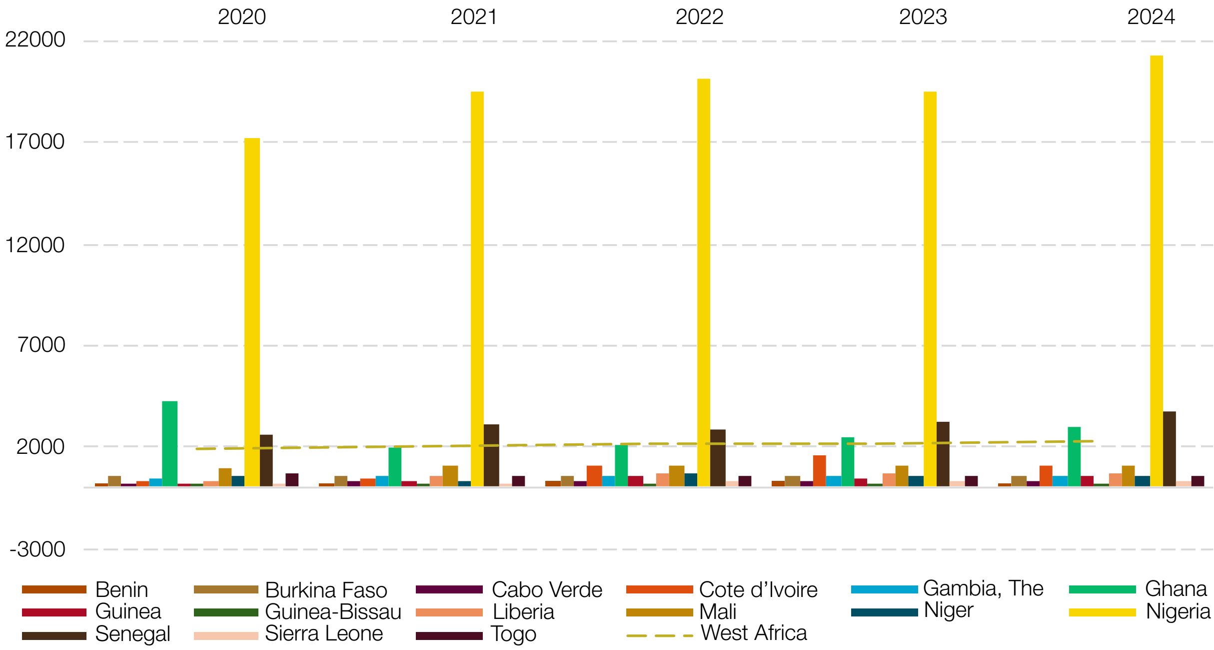
Figure 1.11: FDI Inflows by country, 2021-2024 (millions, US$)



Source: Statistics Department, African Development Bank and UNCTAD 2025 World Investment Report.

Remittances remained a stable and dependable source of external income for households, with Nigeria alone receiving US$21.2 billion in 2024, around 36% of SSA's aggregate (Figure 1.12), followed by Senegal (US$3.7 billion) and Ghana (US$3.0 billion). External vulnerabilities are ttightly linked to global financial conditions, with widening frontier spreads compressing portfolio inflows.

Figure 1.12: Remittance Inflows (US$ million) 2021 – 2024



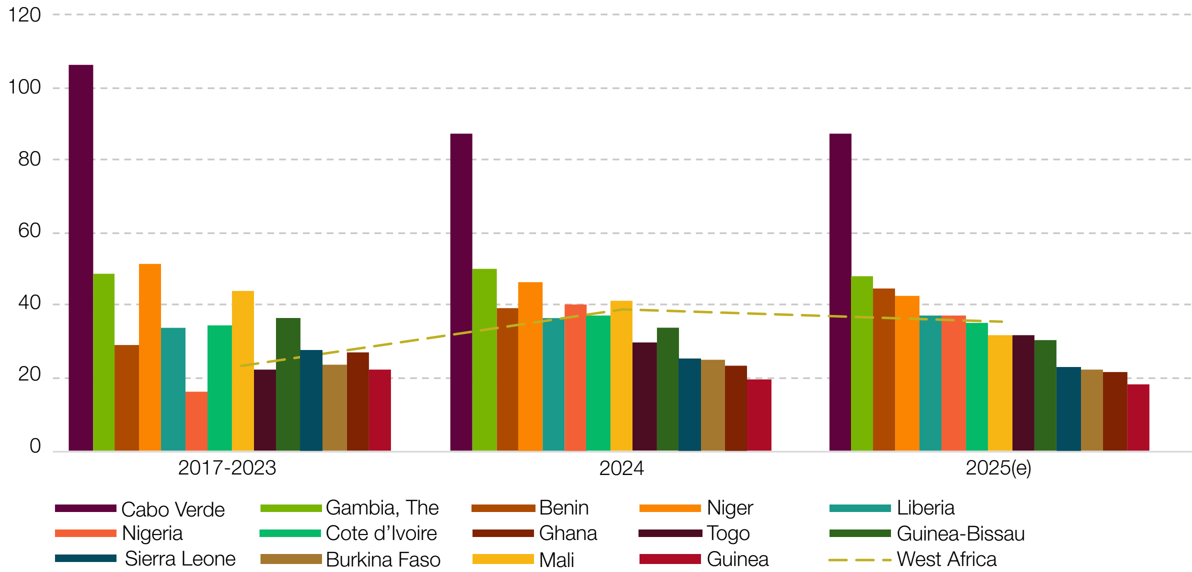
Source: Statistics Department, African Development Bank and UNCTAD 2025 World Investment Report.

These external flows feed directly into the development finance framework developed in Chapter 2, particularly the diaspora capital and FDI crowding-in discussions.

1.4.6 West Africa's Debt Dynamics and Implications for Development Financing

Region wide, external debt declined to 35.6% of GDP in 2025 from 39.1% in 2024 (Figure 1.13). Cabo Verde (87.3% external; its 2026 Country Focus Report reports total public debt of about 103% of GDP) and The Gambia (47.8%) continue to record high debt levels. However, Senegal now ranks as the region's most heavily indebted economy, with total public debt (domestic plus external) revised to about 132% of GDP following the 2025 audit— a major revision from the pre-audit external debt estimate of 58.9% (Figure 1.13 reports external debt on a pre-audit basis). Nigeria's external debt declined to 36.8% of GDP in 2025, from 40.5% in 2024 (Figure 1.13), though it remains well above its 2017–2023 range of 13–21% due to structural reform-related borrowing. Debt-service burdens remain heavy where exports are insufficient: Senegal's debt service reached 41.9% of exports in 2025, and Nigeria's 24.8%, limiting fiscal space for development and social spending. The composition of debt is also shifting toward domestic markets and concessional financing, which lowers refinancing risk but leaves debt-service burdens elevated through 2027.

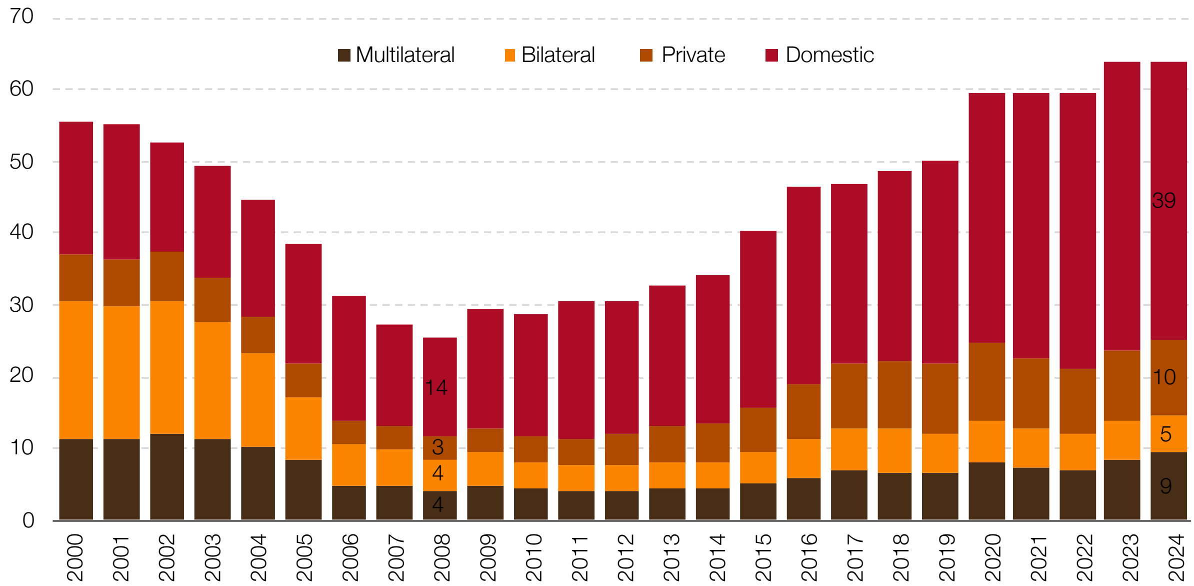
Figure 1.13: Total External Debt by country, 2017-2025 (% of GDP)



Source: Statistics Department, African Development Bank and UNCTAD 2025 World Investment Report
Note: Senegal is excluded owing to the substantial and widely disputed divergence between its pre- and post-2025-audit external-debt figures.

West Africa's debt story mirrors the continental shift in composition more than in level. Africa's public debt stock reached $1.9 trillion in 2024, although the debt-to-GDP ratio is easing (62% in 2025), from an average of 63.9% in 2023-24 (Figure 1.14). More consequential is the change in structure: debt has shifted from concessional sources toward non-Paris-Club and commercial creditors, with commercial debt rising from 12% of the total in 2010 to 16.3% in 2024, driving up debt-service costs. The same shift is visible in the region: Côte d'Ivoire, Benin, Senegal and Nigeria returned to the Eurobond market in 2024-25 at higher coupons, while WAEMU members rely increasingly on the regional domestic market, lowering refinancing risk but keeping service burdens elevated through 2027.

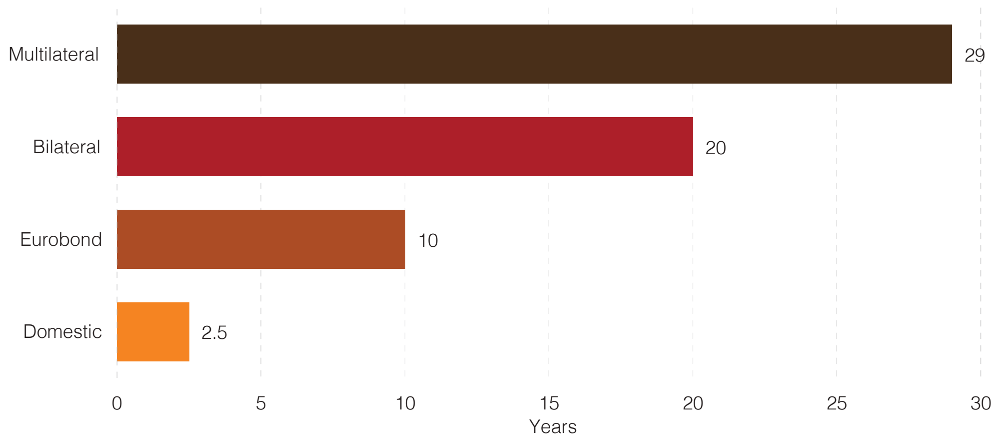
Figure 1.14: Gross Debt and Decomposition by Creditor Type, 2000-2024 (percent GDP)



Source: Statistics Department, African Development Bank, AEO 2026

The maturity profile compounds the cost shift. As figure 1.15 shows at the continental level, domestic debt is concentrated at short maturities, exposing issuers to rollover risk when maturing debt must be refinanced at higher rates or struggles to find buyers while Eurobond redemptions cluster later in the decade. With the median interest rate on domestic debt in Africa at 8.8% in 2024, West Africa's recent issuers face a refinancing profile that argues for proactive liability management and maturity extension, as recommended in Section 1.5.

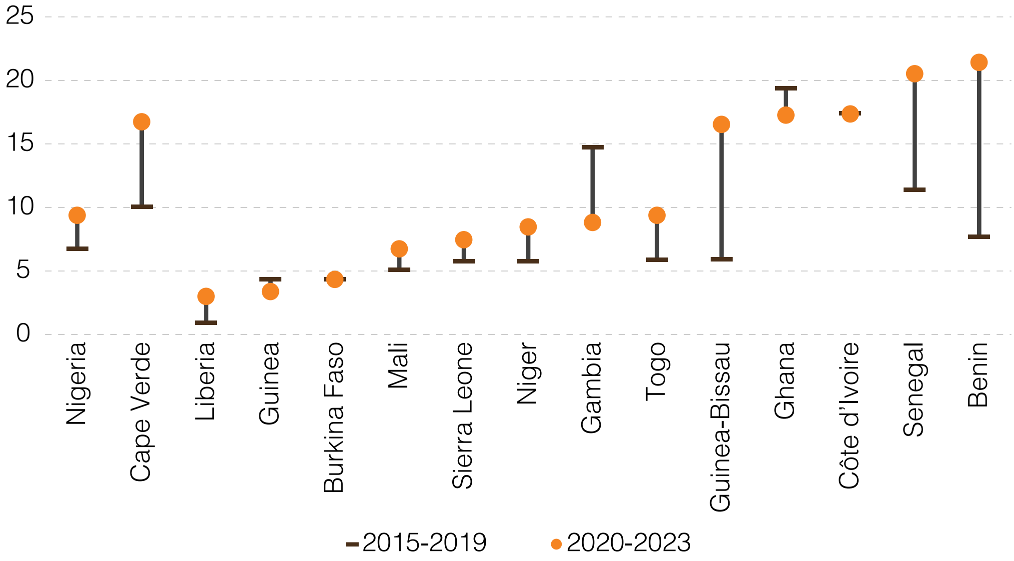
Figure 1.15: Distribution of Debt Maturity (in years) by Instrument, 2015-2024



Source: Statistics Department, African Development Bank, AEO 2026

Debt service is absorbing a rising share of public resources. Across Africa, the share of government revenue devoted to external debt service rose from 23.7% in 2017 to 31% in 2024. Figure 1.16 shows the regional picture: between the 2015-19 and 2020-23 averages, external debt service rose as a share of government revenue in most West African economies with Cabo Verde (10.0% to 16.7%) and Benin (7.7% to 16.5%) among the sharpest increases and narrowing the fiscal space available for development and social spending.

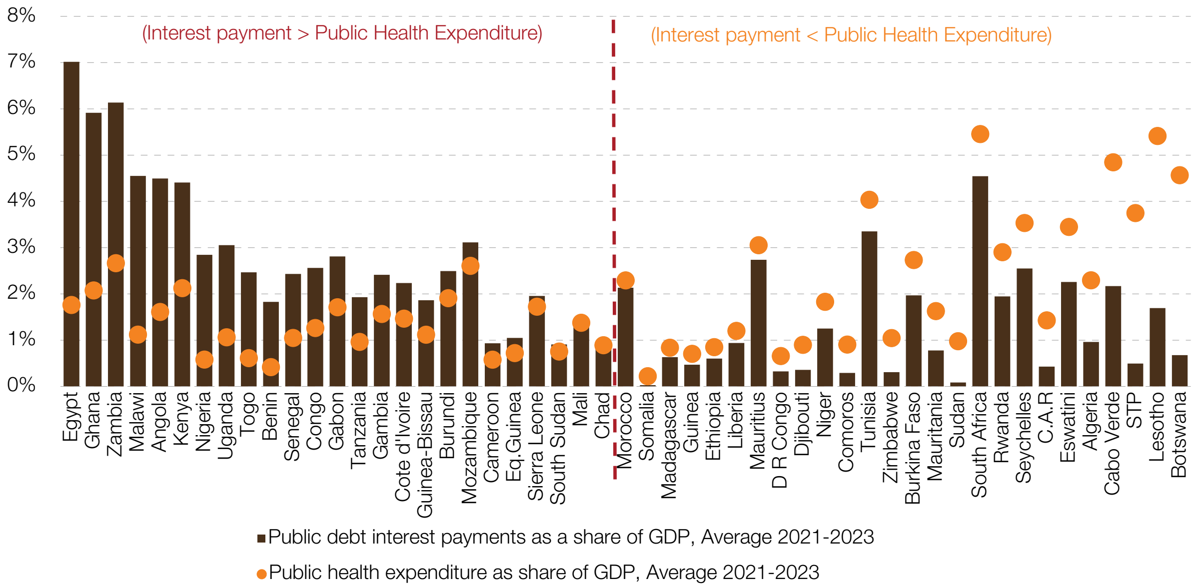
Figure 1.16: Debt Service on External Debt in West Africa, 2015–23



Source: Staff calculations using data from World Bank International Debt Statistics, AEO 2026

The crowding-out is starkest when set against social spending: between 2021 and 2023, 25 of the 51 African countries with data spent more on external-debt interest payments than on healthcare. Figure 1.17 shows the West African economies where interest payments rival or exceed public health expenditure as a share of GDP with the starkest cases being Nigeria and Ghana, the figure serves as a direct illustration of how debt-service costs displace development spending, and why revenue mobilisation (Chapter 2) and liability management dominate the region's policy agenda.

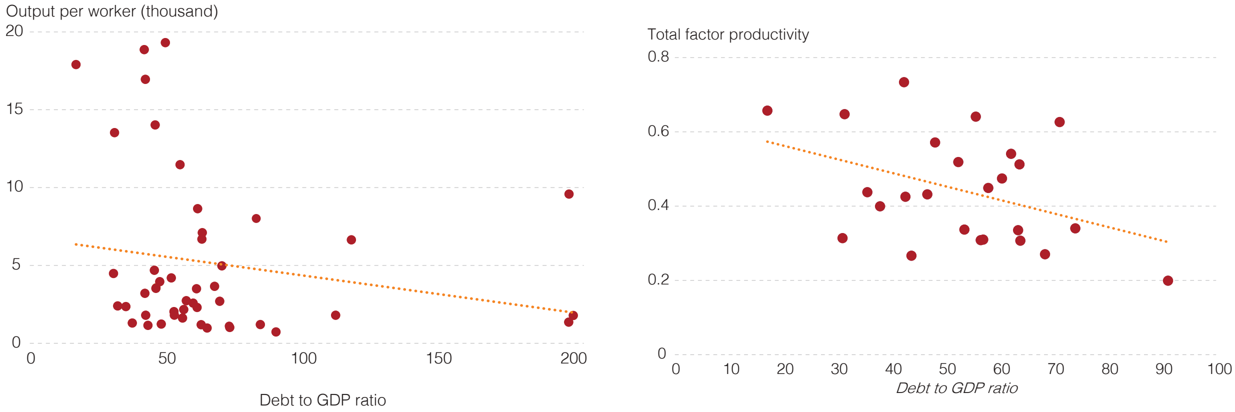
Figure 1.17: Interest Payments on Public Debt and Health Expenditure, 2021–23



Source: Staff calculations using data from World Bank International Debt Statistics, AEO 2026

Empirical evidence reinforces the concern. At the continental level, public debt is negatively correlated with both output per worker and total factor productivity: a 1% increase in public debt is associated with declines of 4.9% in labour productivity and 4.6% in TFP (Figure 1.18). The mechanism runs through the budget large interest bills crowd out public investment in infrastructure, social services and institutions, the drivers of human capital and productive efficiency and also through credit markets, where heavy sovereign borrowing raises private financing costs. For West Africa, where debt-service ratios are rising, the finding underscores that borrowing must be matched by improvements in public investment efficiency (Section 2.4.6).

Figure 1.18: Debt to GDP and productivity relationship in Africa



Source: Staff calculations using data from World Bank International Debt Statistics, AEO 2026

Taken together, these dynamics define the region's future financing capacity. Disinflation and exchange-rate stability lower the cost of capital; fiscal consolidation rebuilds budgetary space; the current-account surplus and reserve buffers underpin external credibility. Against these gains, elevated debt-service burdens still pre-empt the very spending the transformation agenda requires.

1.5 Policy Recommendations

The recommendations are sequenced by horizon and differentiated by capacity: immediate measures to consolidate stability (monetary vigilance, differentiated fiscal stances); medium-term structural reforms (revenue mobilisation, debt management, investment efficiency); and regional workstreams (reserve adequacy metrics, convergence, payments integration) with the depth of each calibrated to country institutional capacity.

Anchor monetary credibility: Monetary authorities in Nigeria and Ghana should anchor inflation expectations and prevent wage price spirals, while remaining alert to financial stability risks. WAEMU's BCEAO should preserve reserve adequacy and coordinate fiscal monetary anchors across its eight member economies.

Fiscal Consolidation: The appropriate stance varies across the region: countries with still-elevated deficits and debt vulnerabilities (e.g., Senegal, Sierra Leone, Guinea-Bissau) should deepen consolidation, including by tightening cash management and reducing leakages, while those that have achieved their adjustment targets (e.g., Benin, Côte d'Ivoire, Cabo Verde) should pivot to rebuilding fiscal buffers, re-orienting public spending toward growth-enhancing investment, and pursuing structural reforms that raise potential growth.

Manage external vulnerabilities: For countries facing heightened external vulnerabilities, authorities should strengthen debt management offices, improve transparency in debt reporting, and extend maturities where possible to reduce rollover risk. Building adequate FX reserves using a regional reserve adequacy metric sensitive to commodity price cycles will help mitigate external shocks. Countries should also consider that analysing future foreign-currency inflows versus future external debt outflows is one of the core principles of external sustainability and macroeconomic risk management.

Protect Growth from supply shocks: Establish strategic reserves in fertiliser, refined petroleum products, and key food staples to cushion against external supply disruptions.

Accelerate structural transformation: Preferred procurement policies for ECOWAS and AfCFTA origin goods should be adopted to strengthen regional supply chains.

Expedite economic diversification: Governments should prioritise agro processing, critical minerals processing (e.g., Guinea's bauxite to aluminium corridor), and textile value chains in Senegal, Benin, Togo, and Burkina Faso. Operationalise AfCFTA goods and services protocols, accelerate the AfCFTA Investment Protocol, deepen PAPSS usage in both francophone and anglophone West Africa, and remove residual non tariff barriers within ECOWAS and WAEMU.

Broaden the tax base and align debt management strategies: Broaden the tax base through digital tax administration, scaling Nigeria's TaxPro-Max and Côte d'Ivoire's e-Impôts as a replicable model for ECOWAS-wide harmonisation of digital filing and taxpayer registration. The WAEMU Commission and ATAF should coordinate the regional uptake of OECD BEPS Pillar Two to curtail profit-shifting and capture corporate tax revenues currently lost to low-tax jurisdictions. Countries should align national debt-management strategies with a regional reserve-adequacy framework sensitive to commodity-price cycles.

Deepen pension and insurance assets and expand domestic resource mobilisation: Reform pension and insurance investment mandates to allow meaningful allocation to infrastructure and private equity. Operationalise sovereign wealth funds and stabilisation funds with rule based withdrawals to anchor fiscal credibility. Expand blended finance instruments through partnerships with AfDB, IFC, and MIGA to crowd in private capital.

Improve trade capacity and strengthen regional financial integration: Invest in Gulf of Guinea port capacity and digital trade facilitation tools such as single window systems across ECOWAS and WAEMU. Embed natural capital accounting (SEEA) into macro fiscal frameworks to ensure resource wealth is managed sustainably. Strengthen regional financial integration by interlinking BRVM, NGX, and smaller exchanges through the AELP framework, and gradually operationalise the Eco currency convergence trajectory to reduce dollar dependency.

MOBILISING WEST AFRICA DEVELOPMENT FINANCING AT SCALE IN A FRAGMENTED WORLD

2

Key Messages

- The financing challenge is a double failure where too little capital is mobilised, and what is mobilised is allocated too short and too safely. The regional level is the multiplier: pooling and mutualisation turn fifteen shallow national pools into one investable market, and the levers in this chapter form a single system each strengthens the others.
- West Africa needs an estimated USD 90-100 billion annually to meet its development goals, yet gross capital formation has stagnated at around 23-24% of GDP, a figure far below the 33%+ average for middle-income economies.
- Tax revenues remain critically low. The regional tax-to-GDP ratio of 9.9% is well below Africa's average of about 13.4% and the WAEMU 20% benchmark. Reforms to broaden the tax base, digitalise administration, and tackle informality can yield an additional 2-4 percentage points of GDP.
- Public financial management efficiency is as important as revenue mobilisation. Leakages, low budget-execution rates, and weak public investment management reduce the development impact of every dollar collected. Digitalisation of PFM systems, treasury consolidation, and stronger audit institutions are essential.
- Pension funds, sovereign wealth funds, and insurance companies across the region manage growing pools of assets but invest disproportionately in short-term government securities. Regulatory reforms can redirect this capital toward infrastructure, private equity, and green industrialisation.
- Global fragmentation is both a risk and an opportunity. Tighter external financing conditions are constraining access to international capital markets, but West Africa can leverage its strategic minerals, AfCFTA trade corridors, and diaspora networks to attract new investment.

2.1 Introduction

West Africa faces growing challenges in securing the financing required to sustain its development agenda. While the region's growth potential remains robust, limited capital mobilisation, particularly intensified by tightening financial conditions and climate and geopolitical pressures, constrain the expansion of productive capacity and governments' capacity to finance development agendas focused on structural transformation, inclusive growth, and sustainable development. This context demands a fundamental shift, from merely managing development to accelerating it. Moreover, it reinforces the importance of the African Development Bank's (AfDB) support to regional member countries in accessing reliable, diversified, and scalable financing to advance their development priorities.

Expanding access to development finance therefore becomes a strategic priority for accelerating structural transformation, strengthening resilience, and promoting inclusive growth. And the global fragmentation presents an opportunity for West Africa to articulate a clearer regional vision, deepen partnerships, and reinforce the role of regional institutions in coordinating and mobilising capital.

The scale of the task frames this chapter. The AEO 2026 estimates that lifting Africa's growth from roughly 4% to the 7% a year needed for sustainable and inclusive growth requires a sharp acceleration in capital accumulation: more than doubling the growth of the capital stock from about 3.3% today to around 8.7% annually by 2030, a cumulative additional investment effort of approximately \$3.5 trillion over 2026–35. West Africa, growing at 4.8%, faces the same arithmetic. This chapter therefore examines the region's levers for mobilising capital at scale: domestic revenue (Section 2.3), public financial management and investment efficiency (2.4), formalisation of the informal sector (2.5), public-private partnerships (2.6), pension and sovereign wealth capital (2.7), diaspora finance (2.8) and natural capital (2.9). This chapter also provides an overview of the evolving financing landscape and examines strategic levers to catalyse sustainable resource mobilisation. The chapter quantifies the scale of the financing gap and provides recommendations to build a resilient ecosystem, ensuring that large-scale financing supports long-term growth while preserving macroeconomic stability.

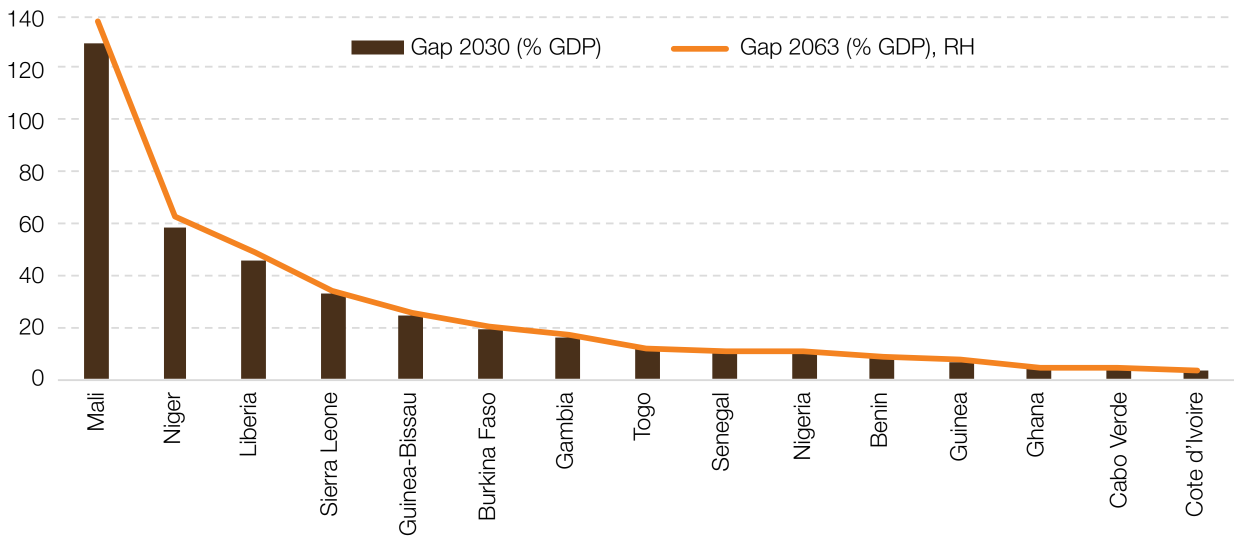
2.2 Quantifying West Africa's development financing needs

West Africa continues to face persistent challenges in mobilising investment to drive structural transformation. Between 2010 and 2025, gross capital formation (GCF) has remained broadly stable, fluctuating between 23.2% and 24.4% of GDP, and is projected at 23.8% in 2026. These levels remain far below middle-income countries (MICs), which average above 33%, and East Asia and the Pacific excluding high-income economies (EAP), which sustain rates above 38%. This 10-15 percentage-point gap highlights the structural nature of the region's financing deficit (Figure 2.1). The gap is best read not as an external shortfall awaiting donor or market financing, but as the measure of the region's structural inability to convert its own savings into productive capital. This is the intermediation failure that the remainder of this chapter, and Chapter 3, are designed to address.

Country-level trends show wide divergence with high-investment economies such as Liberia, Benin, and Senegal consistently exceed 30% of GDP, with Senegal reaching 45.3% in 2022. By contrast, Nigeria, Sierra Leone, and Mali remain below 19%. Ghana's sharp decline, from 23.6% (2010–2019) to 9.7% by 2025, illustrates the impact of macroeconomic instability. This dispersion carries direct policy content where countries with deep gaps but weak absorption capacity need project-preparation and institutional groundwork before volume; those with narrower gaps need longer-tenor, cheaper capital. A uniform regional prescription would misallocate both effort and money.

Savings-investment dynamics reinforce this diagnosis. Most countries record negative gaps, with deficits exceeding 5% of GDP and reaching 20% in Sierra Leone and Guinea. The shortfall is also unevenly distributed: Mali (129.5% of GDP) and Niger (59%) sit well beyond their fiscal capacity, while Cote d'Ivoire (3.5%) and Ghana (4.2%) face manageable gaps. ECOWAS and WAEMU have mandated a convergence criterion requiring all member states to attain a minimum 20% tax-to-GDP ratio. Therefore, closing the regional gap by 2030 would require a significant rise in tax-to-GDP, alongside significantly higher institutional, diaspora and external-private capital mobilisation.

Figure 2.1: Estimated annual financing gap (% GDP) for structural transformation by 2030 and 2063



Note: The annual financing gap is expressed relative to each country's 2024 projected GDP and is estimated using the same methodology and horizon as the continental estimates in AEO 2026, of which West Africa accounts for an estimated $90–100 billion.
Source: African Economic outlook 2024, AfDB

2.3 Mobilising Fiscal Resources at Scale

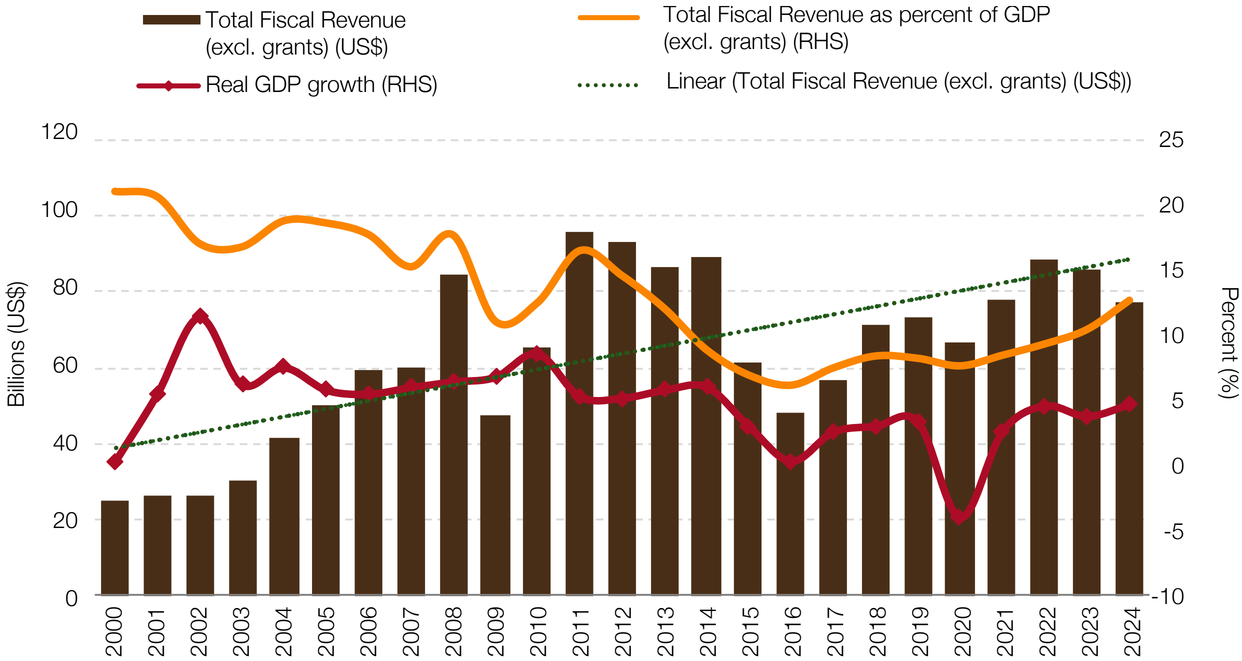
Domestic revenue is the foundation of macro-financial credibility as it is the first variable investors, creditors and rating agencies read and the structure of taxation shapes both vulnerability (reliance on volatile commodity and trade taxes) and the pace of transformation (the incentives facing firms to formalise, invest and scale). The core of domestic revenue mobilisation, namely the mobilisation of domestic public resources, lies at the heart of West Africa's development financing challenge, as fiscal space narrows and external funding grows less reliable. Taxation is the most stable and sustainable source of public revenue available to governments in the region. Assessing the level and structure of tax effort is therefore critical, both to gauge the scope for additional mobilisation and to identify the structural constraints that continue to limit fiscal capacity.

2.3.1 Is the paradox of Domestic Revenue true in West Africa?

West Africa exhibits the continent's domestic revenue paradox in amplified form. Africa's nominal fiscal revenue more than tripled from about $154 billion in the early 2000s to nearly $589 billion at its peak in the early 2020s, yet revenue as a share of GDP declined to about 16.2% by 2024, because the expansion reflected growth, commodity cycles, inflation and exchange rate effects rather than durable gains in tax productivity (Figure 2.2). The regional pattern is sharper still: headline revenues have risen on hydrocarbon receipts and inflation-driven nominal growth, while the tax-to-GDP ratio remains at 9.9%, well below the continental average confirming that recent gains are largely cyclical rather than structural, and reinforcing the case for the deeper reforms set out in Sections 2.3.4–2.3.6.

West African economies appear to be generating more revenue overall, but the increase is not driven by stronger or more effective taxation. Nominal revenues across the region grew at 9% annually over 2018 to 2024, but the tax-to-GDP ratio remained broadly stable at around 9.9%, well below Africa's average of about 13.4% and the WAEMU 20% benchmark. The headline rise reflects temporary sources, particularly hydrocarbon receipts in Nigeria, Senegal and Niger, alongside inflation-driven nominal growth in revenue. The underlying tax systems across most economies in the region remain weak, characterised by low compliance, a narrow tax base, and structural inefficiencies. Reliance on such unstable sources undermines long-term fiscal stability and points to the need for sustained improvements in tax policy and administration.

Figure 2.2: Trends in West Africa's Total Fiscal Revenue (excluding grants), 2000-2024



Source: Statistics Department, African Development Bank, AEO 2026

2.3.2 West Africa's Tax Structure and Revenue Administration: Patterns, Gaps, and Challenges

West Africa's tax systems remain structurally narrow, reflecting heavy reliance on indirect and trade-related taxes and limited contributions from broader domestic bases. Goods and Services (G&S) taxes, particularly VAT, dominate revenues, accounting for 40–65% of G&S receipts. By contrast, income and profit taxes remain weak, averaging just 2-7% of GDP across most countries. Customs and import duties still represent a significant share in economies such as Nigeria, Cabo Verde, and Togo, creating vulnerability to trade liberalisation shocks. Social security contributions are near zero in countries like Guinea, Liberia, and Sierra Leone, reflecting the dominance of informal employment.

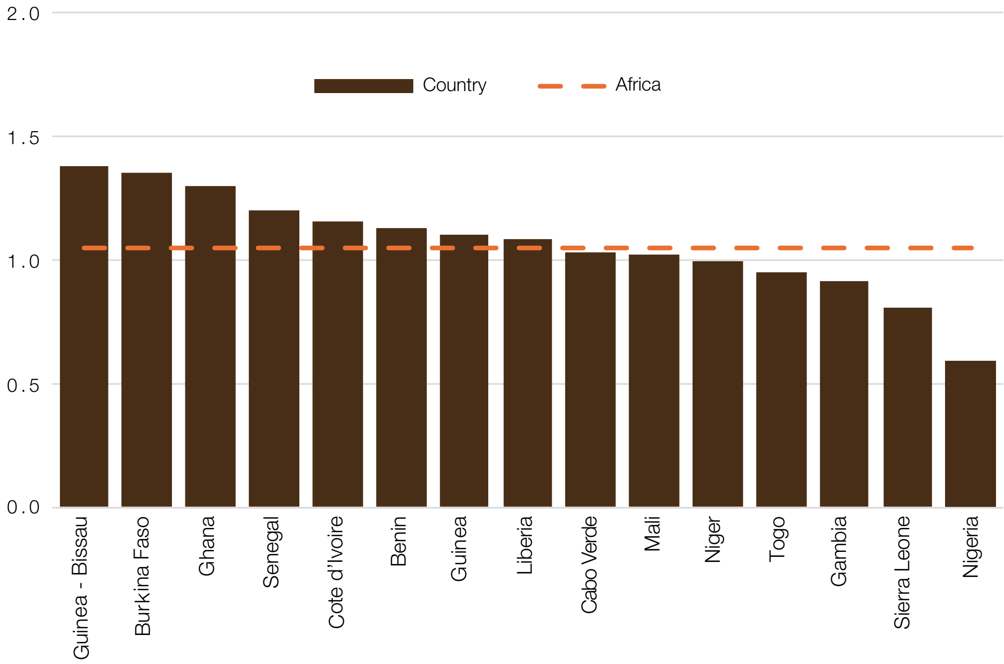
Overall, taxes on goods and services (including VAT) and trade taxes remain the main sources of revenue, accounting for over 51% of total tax revenue, while personal and corporate income taxes contribute roughly 40%. Statutory personal income tax (PIT) rates average 31%, slightly below Africa's average of 31.5% and significantly lower than the European Union average of 43.4%. Extensive exemptions and tax expenditures—whereby Senegal foregoes 4.2% of GDP annually and Côte d'Ivoire 2.9%—further compress revenues. Weak compliance, outdated taxpayer registers, and limited digitalisation outside Nigeria, Ghana, Senegal, and Côte d'Ivoire, although Benin and Togo have made significant strides in digital-led tax administration over the past five years, raising their tax-to-GDP ratios from 9.7% to 13.4% and from 12.1% to 15.2%, respectively, between 2017 and 2024, compound structural constraints, leaving fiscal space narrow and volatile.

2.3.3 Tax Efficiency, Buoyancy, and Structural Revenue Gaps in West African Countries

West Africa's macroeconomic performance over 2021–2025 provides a useful foundation for assessing tax efficiency and revenue buoyancy. Despite inflationary pressures and tighter global financial conditions, the region remained resilient, with GDP rising from 2.6% in 2021 to nearly 4.8% in 2025. This sustained expansion supported moderate improvements in tax buoyancy, with several countries showing revenue responses broadly aligned with, or slightly above, the pace of economic activity (Figure 2.3).

These outcomes point to incremental progress in tax administration and compliance, though buoyancy remains uneven. In many economies, revenues still respond weakly to growth, reflecting narrow tax bases, high informality, and limited institutional capacity. The region therefore faces a dual challenge: sustaining macroeconomic resilience while addressing persistent inefficiencies in domestic revenue mobilisation.

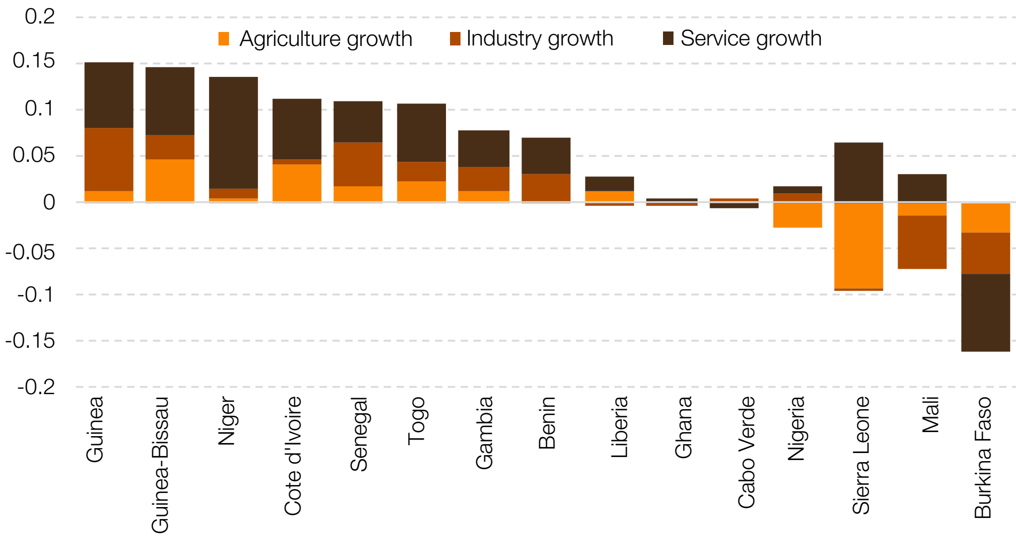
Figure 2.3: Tax Revenue Buoyancy in West Africa (benchmarking) 2021-2025



Source: Staff estimation using data from the African Development Statistics

A sectoral perspective highlights deeper asymmetries. Services contribute most positively to buoyancy, reflecting their expanding role in urbanising and diversified economies (Figure 2.4). Agriculture and industry often show weaker or negative buoyancy, constrained by informality, limited value-added capture, and preferential regimes. These disparities reinforce structural revenue gaps, as fiscal systems fail to harness growth potential in key sectors. Addressing them will require targeted sectoral reforms, stronger tax enforcement, and closer alignment between fiscal policy and structural transformation.

Figure 2.4: West Africa's Sectoral Tax Buoyancy, 2021-2025



Source: Staff estimation using data from the African Development Statistics

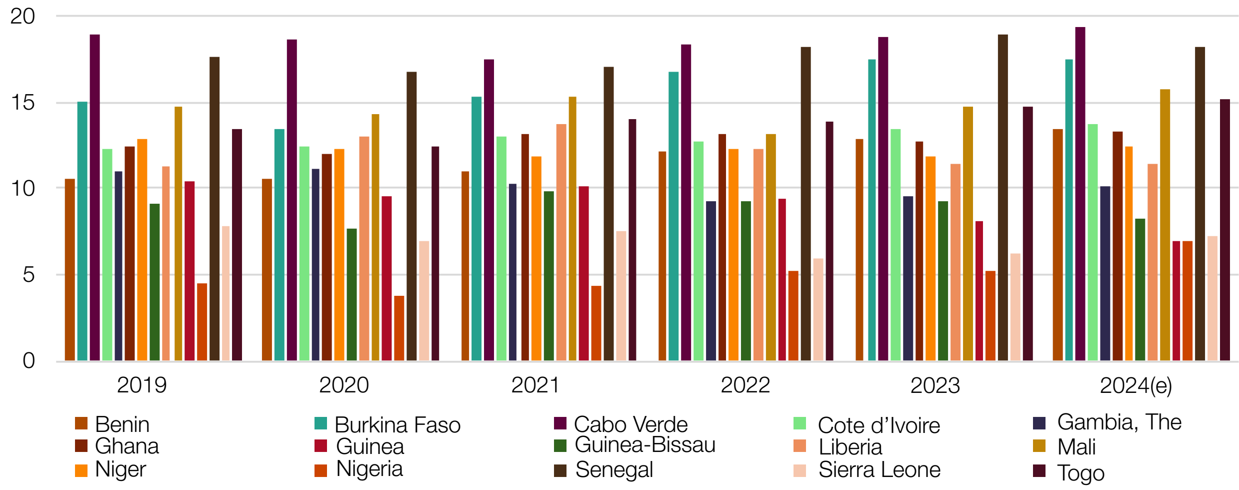
2.3.4 Operationalising West Africa's Untapped Revenue Potential

Broadening the tax base requires reducing exemptions and progressively integrating informal sector operators via simplified presumptive regimes. Strengthening administrative tools such as integrated taxpayer registers, risk-based audits, and real-time VAT e invoicing will improve efficiency. Leveraging national ID platforms such as Nigeria's NIN, Ghana's GhanaCard, and Côte d'Ivoire's CNI biométrique can enable cross agency data integration and enhance compliance enforcement. Early evidence points to measurable gains: Ghana's use of the GhanaCard as the sole taxpayer identifier has expanded the registered taxpayer base by linking identity, banking and tax records; Nigeria's NIN-TIN linkage supported the rise in its tax-to-GDP ratio from 5.2% in 2023 to 7.0% in 2024; and Benin's digital tax services contributed to a 3.7 percentage point revenue gain between 2017 and 2024, although attribution is partial and complementary reforms matter. If sustained over five to seven years, these reforms could generate 5–7 percentage points of GDP in additional revenue. Senegal's modernisation program and Ghana's post 2023 consolidation provide regional templates.

Table 1: Policy Instruments for Effective Revenue Mobilisation in West Africa

Policy Instrument	Actionable Strategy
Tax base broadening	Reduce exemptions; gradually integrate informal sector via presumptive regimes
Administrative strengthening	Integrated taxpayer registers; risk-based audits; VAT e invoicing
Digital integration	Leverage national ID platforms for cross-agency data sharing
Compliance enforcement	Enhance monitoring, penalties, and enforcement capacity
Direct taxation expansion	Strengthen PIT and CIT systems; reduce reliance on VAT/ trade taxes
Social contributions	Expand contributory protection systems; encourage labour formalisation

Figure 2.5: Trend of West African Countries Tax-to-GDP Ratio, 2019 to 2024



Source: Statistics Department, African Development Bank

Stabilising and expanding domestic revenue mobilisation will also require shifting beyond heavy reliance on VAT and trade taxes. Priority should be given to strengthening direct taxation, particularly personal and corporate income taxes, which remain limited despite growth. Expanding contributory social protection systems and encouraging labour formalisation could help develop social security contributions, diversifying revenue sources while strengthening coverage. Gradually reducing dependence on customs duties as trade liberalisation advances will further build resilience.

2.3.5 Revenue Reforms and Sequencing

A phased reform strategy enables WAEMU and ECOWAS governments to achieve early wins and build institutional capacity. For early-stage countries (Sierra Leone, Liberia, Guinea-Bissau, The Gambia), the priority is high-return interventions that do not require major legal overhauls: integrating taxpayer registers, strengthening filing and payment enforcement, and rolling out e-invoicing systems.

Box 2: Key Tax Reforms Aimed at Strengthening Domestic Resource Mobilisation in Selected West African Member Countries

Senegal: ASTER tax administration modernisation programme (2018 to 2026); raised tax-to-GDP from 15.5% in 2018 to 18.2% in 2024

Cote d'Ivoire: e-Impots gateway and large taxpayer office reform; tax-to-GDP rose from 11.9% in 2018 to 13.8% in 2024.

Ghana: post-2023 fiscal consolidation; broadening VAT base and modernising customs through ICUMS.

Nigeria: Federal Inland Revenue Service TaxPro-Max digitalisation; over 11 million taxpayers onboarded with automated filing and payment.

For more advanced reformers (Senegal, Côte d'Ivoire, Ghana, Nigeria), the agenda shifts toward base broadening, tax expenditure rationalisation, property taxation, and customs modernisation.

2.3.6 Institutional Enablers and Digitalisation of Revenue Collection Systems

Professional revenue authorities with operational autonomy are the foundation of sustainable revenue mobilisation. Semi-autonomous agencies (Senegal DGID, Nigeria FIRS, Ghana Revenue Authority, Côte d'Ivoire DGI) have outperformed ministry-embedded administrations. Digitalisation is the most consequential lever: Nigeria's TaxPro-Max, Senegal's e-tax platform and Côte d'Ivoire's online declaration system have raised filing rates and shortened compliance cycles. Sustained gains require stable funding, performance-based management, and protection from political interference in enforcement decisions.

Box 3: Key Actions and Reforms Aimed at Modernising Revenue Collection in West Africa

FIRS TaxPro-Max (Nigeria): automated registration and filing for 11+ million taxpayers; single sign-on with the corporate affairs registry.

e-Impots (Côte d'Ivoire): e-filing and e-payment for medium and large taxpayers; CNI-biometric linkage.

Etax (Senegal): integrated with national ID database; pre-filled returns for medium taxpayers.

ICUMS (Ghana): integrated customs management system with single window for trade declarations.

2.3.7 Role of International Cooperation and Development Partners

AfDB-supported DRM programmes in Côte d'Ivoire, Senegal, Ghana and Liberia, including the AfDB flagship regional tax administration program (STACP-WA) have strengthened tax administration capacity, supported customs digitalisation and helped governments broaden their tax bases. The IMF Revenue Mobilisation Trust Fund, World Bank ASA and PIM programmes, and the EU Global Europe Initiative on Sustainable Finance have collectively supported tax administration modernisation, customs digitalisation and PFM reform. Three priorities should anchor the next phase: (i) consolidating interoperable digital ID and taxpayer registers, (ii) scaling real-time VAT e-invoicing across BCEAO, and (iii) building risk-based audit capacity in large taxpayer offices. At the regional institutional level, the WAEMU Commission has advanced tax policy harmonisation through directives on VAT, corporate taxation, and transfer pricing, while the ECOWAS Commission coordinates the Common External Tariff and broader trade facilitation reforms. Strengthening the supervisory and coordination roles of these regional bodies would amplify the impact of country-level DRM programmes.

2.3.8 Other Relevant Issues Regarding Large-Scale Tax Revenue Mobilisation in West Africa

The integration of natural resource taxation: Nigeria, Senegal, Niger, Ghana, Guinea and Sierra Leone collectively forego significant rents through outdated mining and petroleum fiscal regimes. Updating these regimes in line with the African Mining Vision and the AU's Mineral Resources Governance Framework could yield an additional 1 to 2 ppt of tax-to-GDP across the region.

Intergovernmental tax coordination: West African economies that combine VAT harmonisation under WAEMU, alignment with the ECOWAS Common External Tariff, and bilateral tax information exchange agreements with major trading partners are best positioned to limit base erosion. Strengthening the African Tax Administration Forum (ATAF) as the principal regional coordinator is therefore a strategic priority.

2.4. Improving Public Financial Management Systems

Enhancing expenditure efficiency in West Africa requires addressing three interconnected priorities: namely closing the budget transparency gap, strengthening debt sustainability frameworks, and bridging the persistent disconnect between formal PFM rules and actual administrative implementation capacity. The argument of this section runs as a chain whereby transparency builds credibility; credible budgets execute better; better execution raises the efficiency of each franc and naira spent; and efficient spending sustains more debt safely.

2.4.1 West Africa's Position: Progress Amid Persistent Institutional Gaps

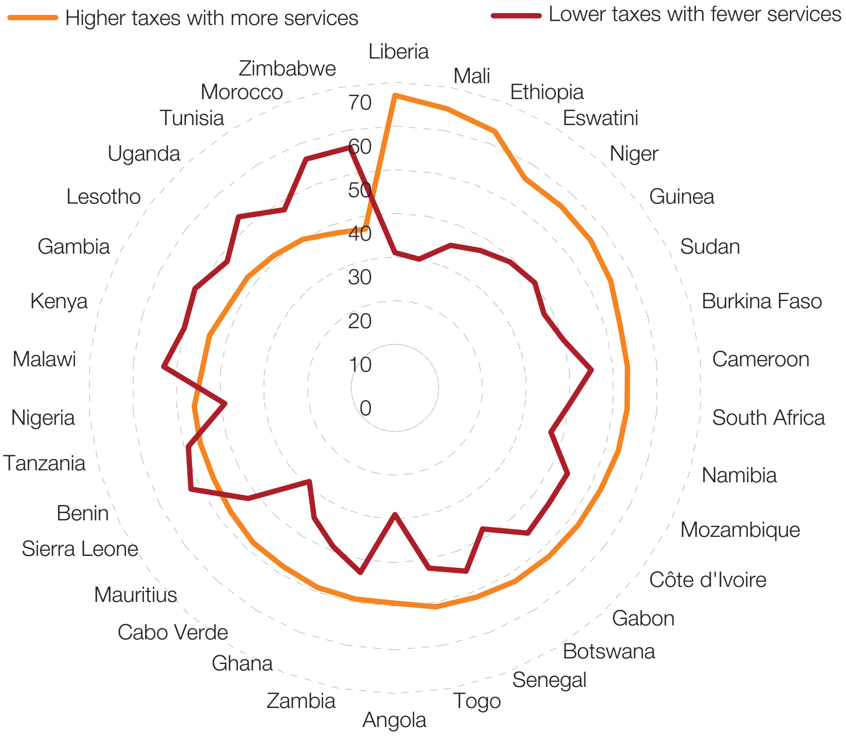
West Africa has made measurable progress in strengthening public financial management (PFM) systems, driven by reforms in budget preparation, treasury operations, and the gradual adoption of digital tools. Several countries have introduced medium term expenditure frameworks, expanded the use of integrated financial management information systems (IFMIS), and improved cash management practices, contributing to greater fiscal discipline and more transparent budget execution.

However, progress remains uneven and constrained by persistent institutional gaps. IMF assessments of Sub-Saharan Africa economies (IMF 2023) note that weaknesses in commitment controls, limited coverage of fiscal reporting, and fragmented accounting systems continue to undermine the credibility and reliability of fiscal data. In many countries, the effectiveness of audit institutions and parliamentary oversight remains limited, while procurement systems are still characterised by opacity and weak enforcement. OECD assessments (2022) further point to gaps in fiscal transparency, including incomplete reporting on extra budgetary entities and state owned enterprises. As a result, despite ongoing reforms, PFM systems across West Africa remain only partially equipped to support efficient resource allocation, safeguard public funds, and underpin a more robust domestic resource mobilisation agenda. West Africa member countries can learn from some African countries, which have developed notable best practices in strengthening public financial management (PFM), fiscal oversight, budgeting, revenue administration, and transparency. These include (i)Botswana considered one of Africa's strongest long-term public finance management cases; (ii) Rwanda enhanced its PFM, specifically digital public administration, revenue modernisation, performance-based governance, and integrated financial management systems; and (iii) Mauritius is generally viewed as one of Africa's strongest governance and fiscal management performers.

2.4.2 Improvements in Transparency and Fiscal Accountability

Citizens are willing to pay for performance. Across Africa, survey evidence shows that a significant share of citizens would accept higher taxes in exchange for better public services and West African countries top the continental ranking, led by Liberia (67%), Mali (65%), Niger (56%) and Guinea (56%) (Figure 2.6). The binding constraint on revenue is therefore not willingness but trust. Where taxpayers must effectively "pay twice", once through formal taxes and again through private provision of essential services the state fails to deliver, tax morale and voluntary compliance erode, a breakdown that is most pronounced in fragile and conflict-affected settings. Linking revenue reforms to visible, inclusive improvements in service delivery is the region's highest return compliance strategy.

Figure 2.6: West Africa: Higher Taxes with More Services vs Lower Taxes with Fewer Services



Source: Statistics Department, African Development Bank, AEO 2026

Without transparent baselines, downstream reforms in audit, procurement and debt management cannot anchor. Open-budget portals, citizens' budgets and machine-readable fiscal data are low-cost, high-impact entry points for rebuilding budget credibility, strengthening public scrutiny, and anchoring downstream reforms in audit, procurement and debt management.

2.4.3 Budget Transparency Has Not Translated into Credibility

Despite improvements in published transparency, budget execution credibility remains uneven across West Africa. For countries with available data, budget deviations exceeding 10% of planned outlays were recorded in over a quarter of the region's economies in 2023 (IMF), with particularly wide gaps in fragile and commodity-dependent economies where revenue volatility interacts with weak cash management. The credibility gap reflects three structural weaknesses: cash-flow management is overly reliant on month-end Treasury smoothing rather than a properly funded TSA; inconsistent commitment controls, particularly at sub-national level and in SOEs; and supplementary budgets used as a substitute for in-year reallocation discipline. Strengthening the linkage between transparency disclosures and execution accountability is the single highest-leverage PFM reform agenda for the region.

2.4.4 Strengthening Oversight, Audit, and Public Accountability

Although several countries have taken steps to reinforce supreme audit institutions (SAIs), expand parliamentary budget oversight functions, and improve the publication of fiscal information, progress remains uneven. In West Africa, SAIs takes the form of the Courts of Auditors in WAEMU members and Auditor General or Audit Service offices in anglophone countries. They are often constrained by limited independence, inadequate resources, weak skills in the field of public finance auditing, and weak enforcement of audit findings. These shortcomings are increasingly visible in the region's deteriorating debt management practices. The World Bank's CPIA debt policy rating for West Africa declined from 3.5 in 2013 to 3.3 in 2023, slipping below the 3.5 threshold that the World Bank associates with sound policy performance and leaving the subregion only marginally above the IDA country average while many West African countries exhibit inadequate debt sustainability analysis and weak coordination between fiscal and monetary authorities.

Underlying these challenges is an institutional gap between formal PFM rules and the capacity to implement them. CPIA public sector management scores show a two-tier structure: Cabo Verde (4.0), Côte d'Ivoire (3.8), Benin (3.7) and Senegal (3.6) cluster at the top; Guinea-Bissau (2.2), Mali (2.2), Nigeria (2.7) and Liberia (2.8) lag. The gap correlates with budget execution: top cluster countries show single-digit deviations from planned outlays, while bottom cluster countries routinely exceed 20%. Closing the gap requires sustained investment in PFM staff, IT systems and audit institution autonomy.

2.4.5 Digital Transformation of Public Financial Management Systems

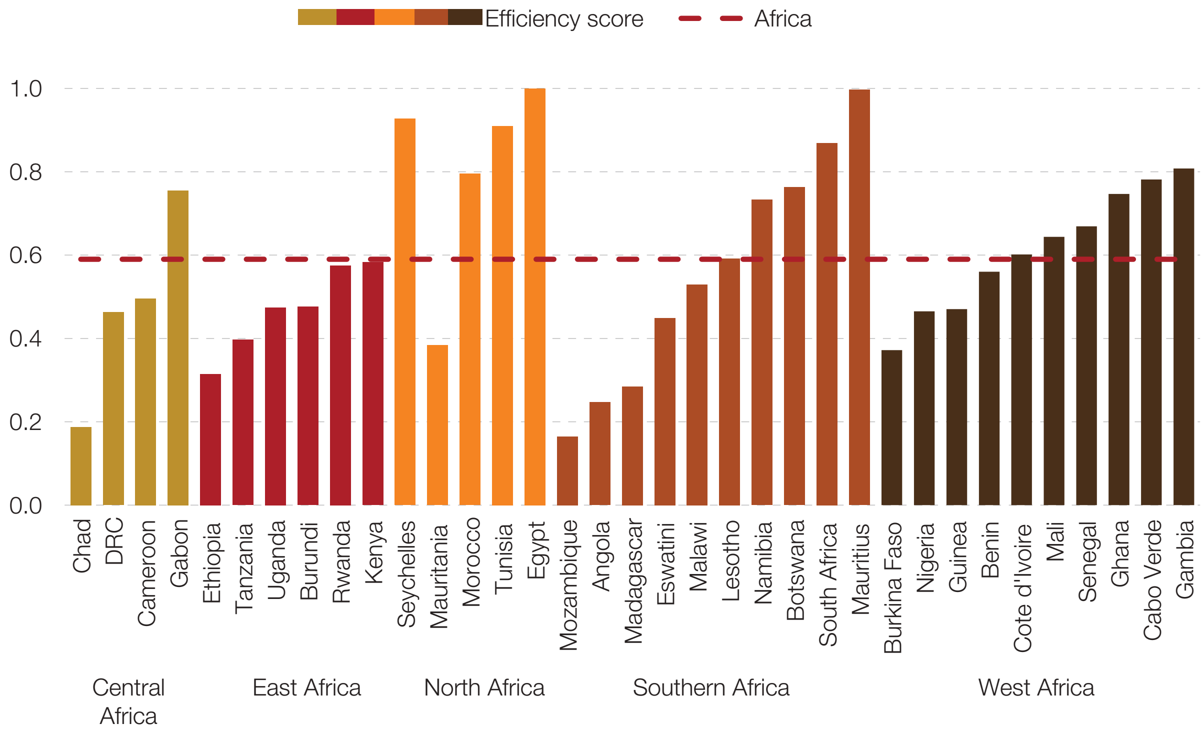
Digital transformation of PFM is delivering measurable dividends across West Africa. IFMIS coverage of central government spending now exceeds 80% in Senegal (ASTER), Benin (SIGFiP) and Ghana (GIFMIS); execution errors and arrears have fallen, and audit turnaround times have halved. Fewer than half of ECOWAS countries extend IFMIS to sub-national governments and SOEs, however. E-procurement is more uneven: Nigeria, Senegal and Côte d'Ivoire have functioning platforms, but coverage and contract-level transparency vary widely.

2.4.6 Economic Dividends and Fiscal Gains from Closing the Efficiency Gap

Closing West Africa's public expenditure efficiency gap offers substantial economic and fiscal dividends. Weaknesses in public financial management and investment systems reduce the productivity of spending and limit growth impact. Strengthening fiscal frameworks, improving project appraisal and execution, strengthening of human skills, and enhancing transparency would allow countries to extract far greater value from existing investment levels, a priority amid tightening fiscal space and rising debt.

Africa's average public investment efficiency score stands at about 0.59, implying that $41 of every $100 of public investment does not translate into productive capital, an efficiency gap far above the global average of 14% and those of other developing regions. West Africa spans the full range with an average of 0.61 (Figure 2.7): Cabo Verde (0.78), Ghana (0.75), Senegal (0.67), and Côte d'Ivoire (0.60) operate closer to the frontier, while Burkina Faso (0.37), Guinea (0.47), and Nigeria (0.46) lose half or more of every dollar invested. Converging toward best practice in investment planning, project selection and execution would, in effect, expand infrastructure investment without requiring additional fiscal resources.

Figure 2.7: Public Investment Efficiency Scores, Africa



Source: Staff calculations using data from World Bank International Debt Statistics, AEO 2026

Fiscal gains are equally significant. Reducing leakages, cost overruns, and delays expands fiscal space without raising taxes, enabling governments to finance climate adaptation, human capital, and social protection while improving debt sustainability and investor confidence.

2.4.7 Other relevant issues regarding improvement of PFM systems in West Africa

The integration of climate-related fiscal risk into the budget cycle: West African economies (particularly Senegal, Cabo Verde, The Gambia) are exposed to escalating climate shocks that should be reflected in medium-term expenditure frameworks and contingent liability disclosures.

The management of public investment pipelines: most ECOWAS countries lack a single public investment management gateway that applies comparable appraisal standards across procurement modalities, including PPPs. Standing up such gateways, learning from the Senegal Public Investment Selection System, would raise efficiency without additional resource requirements.

2.5 Formalising the Informal Sector

The informal sector dominates the economic landscape of West Africa, accounting for an estimated 91.6% of employment. Formalisation will widen the tax base, deepen financial intermediation, and improve the productivity of scarce public resources such as public infrastructure, social services, and targeted SME support programmes. Furthermore, gradual formalisation strengthens economic data collection and policymaking by providing governments with accurate understanding of economic activity. The pathway is digital and gradual rather than coercive. Formalisation is also a transformation policy as formal firms invest at longer horizons, adopt technology faster and integrate into value chains. So, the productivity dividend compounds the revenue dividend.

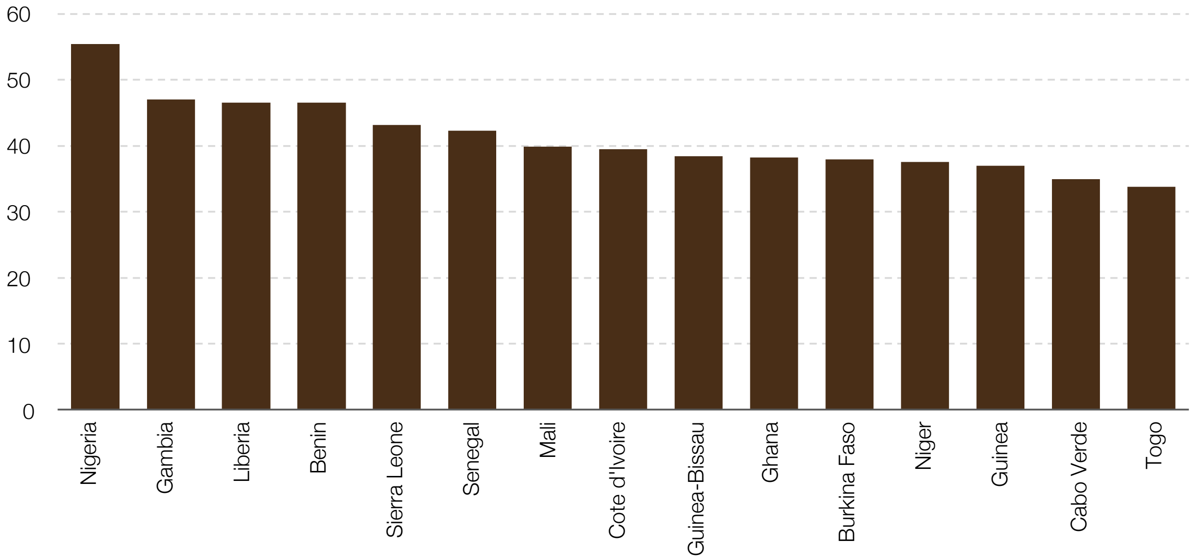
2.5.1 Economic Costs of Informality and the Returns to Formalisation

Informality is a foundational dimension of West African economies, with informal sector accounting for an average of around 45% of regional GDP from 2010-2022 according to the IMF. Informality is concentrated in agriculture, retail trade and household services, but is spreading through transport, construction and digital trade sectors. Its scale and structure vary widely across the region: Cabo Verde and Senegal record around 25 to 30% of GDP, partly reflecting earlier digitalisation and stronger institutions, while Guinea-Bissau and Niger exceed 50%. In Nigeria, productivity in informal firms is estimated to be less than one third of that of formal firms, limiting the country's ability to diversify beyond oil. In Ghana, informal enterprises account for more than 90 % of firms but contribute only around 30 % of value added, illustrating the productivity gap. In Senegal, the informal sector absorbs most new entrants but offers low earnings and limited job security, reinforcing underemployment.

Informality is both a buffer against shocks and a structural constraint on productivity and revenue. Informality cushions households against shocks absorbing workers shed by the formal sector during downturns and provides flexible, low-entry-cost income opportunities where formal jobs and safety nets are absent, but it is simultaneously a structural constraint on productivity and revenue.

Informality also constrains domestic resource mobilisation. Countries with high informality –such as Guinea-Bissau, Niger, and Liberia – struggle to raise tax revenues above 10-12 % of GDP, well below the regional convergence target of 20 %. By contrast, countries that have made progress in formalisation such as Benin and Côte d'Ivoire have also seen tangible revenue gains. For example, Benin's tax-to-GDP ratio rose from 9.7% in 2017 to 13.4% in 2024, and Côte d'Ivoire's from 12.0% to 13.8%, partly due to simplified regimes for small taxpayers and better enforcement.

Figure 2.8: Contribution of the informal sector to GDP in West Africa, Average 2015–2020



Source: Staff calculations using data from Elgin et al. (2021)

Formalisation yields measurable returns when supported by appropriate incentives. In Togo, the introduction of a simplified tax regime (TPU) increased the number of registered micro enterprises. In Benin, reforms to streamline business registration and reduce compliance costs led to a surge in new formal firms. In Ghana, linking business registration to access to public procurement has encouraged SMEs to formalise. These examples show that formalisation is most effective when it expands opportunities rather than imposing burdens.

At the worker level, informality perpetuates vulnerability. In Sierra Leone and Liberia, more than 90 % of workers lack social protection coverage. In Senegal, the extension of health insurance to informal workers has begun to reduce this gap, demonstrating that targeted policies can improve welfare and strengthen the incentives to formalise.

2.5.2 Digitalisation as a Catalyst for Formalisation

Digitalisation is now the most powerful lever for formalisation in West Africa. Well-designed digital tools bring informal actors into formal systems by simplifying registration, lowering compliance costs and expanding financial access. Benin's e-Registration platform, Senegal's DGID one-stop window, and Côte d'Ivoire's e-tax platform have measurably broadened the tax base. Mobile money penetration above 50% of adults in Ghana, Côte d'Ivoire and Senegal is anchoring digital identity, payments and credit scoring. The key unlock for ECOWAS is interoperability across national platforms and a regional digital ID framework. Digitalisation also strengthens the value proposition of formality. Access to digital payments, e commerce platforms, and financial services increases incentives for firms to remain visible to the state. In Senegal, digital platforms have enabled informal transport operators and traders to access micro credit and insurance. In The Gambia, digital tax systems have reduced compliance costs and improved transparency.

The region's digital infrastructure is also expanding rapidly. Mobile money penetration reached an estimated 60% of adults in 2024, with WAEMU at 75%. Regional payment systems such as PAPSS, MTN Mobile Money, Wave, Airtel Money, and M-Pesa now provide the rails for retail digital payments. Penetration nonetheless varies widely across countries highest in Côte d'Ivoire, Senegal and Ghana, far lower in Guinea-Bissau, Liberia and Sierra Leone reflecting gaps in network coverage, electricity access and agent density, particularly in rural areas. However, the impact of digitalisation depends on complementary reforms such as improving connectivity in rural areas (notably in Mali and Niger), strengthening regulatory frameworks for digital finance, and building trust in digital public services. When these conditions are met, digitalisation becomes a catalyst for structural transformation, enabling West African economies to transition gradually toward more productive and formalised economic structures.

2.6 Scaling Up Public-Private Partnerships (PPPs)

Public-Private Partnerships have the potential to mobilise long-term private capital into West Africa's infrastructure investment, but they require credible legal and institutional frameworks, stronger project preparation pipelines, and disciplined management of fiscal risks. PPPs substitute for scarce fiscal space only when project quality and fiscal discipline are enforced together; where institutional capacity is weak, they mutate into hidden liabilities and contingent fiscal risks. Capacity building and transparent fiscal accounting of PPP commitments must therefore be sequenced before scale-up.

2.6.1 Building Credible PPP Enabling Frameworks and Project Preparation Ecosystems

A key determinant of PPP performance is the adequacy of legal and regulatory frameworks. A 2024 ALSF survey shows that most African countries have adopted PPP legislation, although more than forty percent still rely on general procurement codes. Within West Africa, Senegal's 2021 PPP law, Côte d'Ivoire's CNP PPP steering committee, and Nigeria's Infrastructure Concession Regulatory Commission represent relatively effective models. Many WAEMU countries however continue to operate without dedicated PPP statutes, which limits clarity on risk allocation, approval processes, and fiscal oversight.

Strengthening PPP ecosystems requires consolidating fragmented governance structures, empowering PPP units with clear mandates, and embedding fiscal risk ceilings and affordability checks within medium term fiscal frameworks. Countries also need greater access to preparation support through facilities such as Africa50 and the AfDB Project Preparation Facility. Standard risk allocation matrices, model contracts, competitive procurement, strict limits on unsolicited proposals, and disciplined renegotiation practices are essential for investor confidence and value for money.

Despite active efforts by the ECOWAS Commission to harmonise regional infrastructure and public-private partnership (PPP) frameworks, the bloc has not yet established a centralised, supranational regulatory authority.

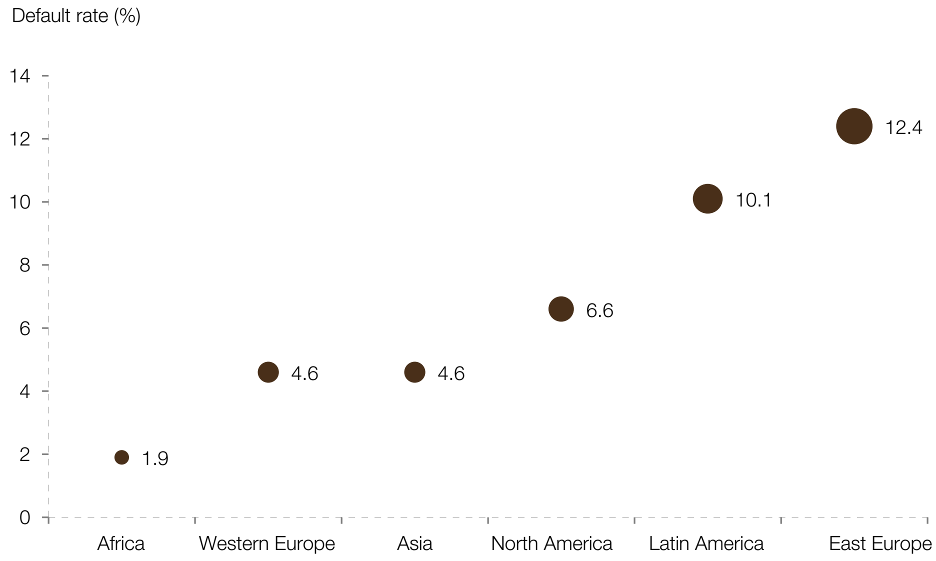
While this harmonisation process continues to evolve, significant progress has been achieved through targeted initiatives. This includes the creation of regional PPP guidelines, shared technical platforms, improved project-preparation mechanisms, and enhanced coordination for cross-border infrastructure. However, because a single overarching authority is absent, the execution, approval, and management of these projects still relies heavily on independent national legal systems.

2.6.2 Making Marginal Projects Bankable and Connecting them to Capital Markets

Improving the bankability of PPP projects in West Africa requires a combination of financial instruments, stronger project structuring, and deeper engagement with long-term investors. Many projects remain marginal because they cannot meet the risk return expectations of private financiers. Viability gap funding, guarantees, and blended finance instruments are therefore essential tools for transforming technically sound but financially weak projects into bankable opportunities.

Perceived risk, not actual performance, is the binding constraint on private infrastructure finance. Africa records the lowest infrastructure loan default rate globally, at 1.9%, compared with 12.4% in Eastern Europe and 10.1% in Latin America (Figure 2.9) yet West African projects are priced as if the opposite were true. Closing this perception gap, through guarantees, first-loss instruments, credible project preparation and better performance data, is precisely the role of the facilities discussed in this section. Facilities such as Africa50, the AfDB Partial Risk Guarantee, and the World Bank's International Development Association (IDA) Private Sector Window have already supported several West African transactions by reducing early-stage risk and improving creditworthiness.

Figure 2.9: Infrastructure loan default rates by region (%)



Sources: (a) Moody's Analytics, 2020; (b) African Development Bank staff calculations

Guarantees and risk sharing instruments are particularly important in sectors such as energy, transport, and water, where revenue volatility and regulatory uncertainty remain high. Instruments such as political risk insurance, liquidity support, and minimum revenue guarantees can help align risk allocation with investor expectations. Blended finance mechanisms, including concessional tranches and subordinated debt, can further improve project viability by lowering the weighted average cost of capital.

2.6.3 Managing Fiscal Risks and Safeguarding Value for Money

A credible PPP system requires systematic value-for-money assessments. These assessments compare PPP procurement with traditional public investment and ensure that projects are selected based on efficiency and affordability rather than off-budget incentives. For West Africa, establishing an integrated public investment and PPP gateway would allow governments to apply consistent appraisal standards across all procurement modalities. This would reduce the risk of politically motivated project selection and strengthen fiscal discipline.

ECOWAS-level standards for contingent liability disclosure, aligned with the BCEAO fiscal statistics framework, would improve comparability and transparency across member states. Stronger procurement integrity is also essential. Competitive tendering, strict limits on unsolicited proposals, and disciplined renegotiation practices help safeguard value for money and maintain investor confidence.

Effective fiscal risk management is therefore central to sustainable PPP expansion because improving disclosure, strengthening appraisal systems, and embedding fiscal safeguards, West African governments can ensure that PPPs contribute to long-term development rather than creating hidden liabilities that undermine fiscal stability.

2.7. Mobilising Long-Term Capital from Regional and Institutional Investors

West Africa's institutional financial system is not capital-poor; rather, it is characterised by significant pools of dormant or misallocated capital, held in short-term instruments as a result of regulatory conservatism, shallow financial markets, and a shortage of suitable long-term investment vehicles. Pension funds and sovereign wealth funds have the potential to serve as the region's principal sources of patient capital. The central message of this section is that the capital already exists—approximately USD 38 billion in pension assets and USD 4.3 billion in sovereign wealth funds—but remains concentrated in short-term, low-yield government securities. Redirecting even a modest share of these assets towards long-term productive investment would advance three complementary objectives simultaneously: mobilising additional development finance, accelerating structural transformation, and strengthening macroeconomic stability. Such a reallocation would finance critical infrastructure, deepen domestic and regional capital markets, and reduce sovereign dependence on short-term debt rollover.

2.7.1 Pension Funds as Patient Capital: What the Data Implies for Reform

Pension funds regulated under the CIPRES framework and insurance companies supervised by CIMA collectively manage a growing pool of long-term savings across West Africa. Despite this expansion, their portfolios remain heavily concentrated in short-term government securities and bank deposits. This conservative allocation reflects regulatory limitations, pension funds' reluctance to undertake long-term investments due to risk concerns of shallow capital markets, and a shortage of investable long-duration instruments. It also creates a structural mismatch: institutional investors hold long-term liabilities, yet their assets are predominantly short-term, low-yield, and weakly diversified.

Country evidence illustrates these contradictions. Nigeria manages roughly NGN 22 trillion (about USD 24 billion) in pension assets, but more than 60% is invested in federal government securities. Persistent naira depreciation has also eroded the dollar value of assets, limiting the system's ability to invest regionally or globally. Ghana manages around between USD 6 and 9 billion under its three-tier scheme, with a similarly high concentration in domestic government bonds, exposing contributors to sovereign risk and limiting support for private sector development. In the WAEMU region, CIPRES regulated pension funds manage approximately USD 7 billion, also dominated by sovereign exposure.

Insurance markets show a similar pattern. Life insurance, which is naturally suited for long-term infrastructure financing, accounts for less than 30% of policies across most markets. Non-lifelines, often compulsory, dominate the sector and reinforce the short-term orientation of portfolios. This misalignment between long-term liabilities and short-term assets is one of the most significant inefficiencies in West Africa's financial architecture.

Reforms can unlock the potential of pension funds as "patient" capital i.e. long-horizon funds that can remain invested for a decade or more, matching the maturities infrastructure assets require. Updating investment guidelines to allow meaningful allocations to private equity, infrastructure bonds, and Sharia-compliant instruments is essential particularly given that a significant share of West Africa's population is Muslim, creating demand for sukuk and other non-interest-bearing products that conventional mandates cannot serve. Across Nigeria, Senegal, Mali, Guinea, and Niger, Islamic finance instruments can expand both the saver base and the investor base for long-term infrastructure financing. Nigeria's 2024 PenCom reforms, which expanded permissible allocations to infrastructure funds and alternative assets, provide a useful template. Developing standardised infrastructure bonds and PPP-linked instruments that meet institutional risk return requirements is equally important. Regional co-investment vehicles through BOAD, EBID, and Afreximbank can pool and sub-scale national allocations into bankable regional projects, enabling pension funds to serve as anchor providers of long-term capital.

2.7.2 Sovereign Wealth Funds: Shifting from Outward Bias to Strategic Investment Windows

Encouragingly, some of these funds are increasingly looking inward for investment opportunities rather than allocating predominantly to foreign assets, a shift led by Nigeria's NSIA. NSIA manages roughly USD 2.5 billion across stabilisation, future generations, and infrastructure windows. Ghana's Stabilisation and Heritage Funds hold about USD 1.3 billion under the Petroleum Revenue Management Act, while Senegal's FONSIS manages close to USD 500 million with a mandate to co-invest in strategic sectors. Although their mandates differ, all three funds were initially structured with a strong outward investment bias, allocating heavily to US and European fixed income assets. This approach preserved capital but limited their contribution to domestic and regional investment.

NSIA's infrastructure window demonstrates how sovereign funds can channel capital into power, transport, healthcare, and agro industry while maintaining commercial discipline. Ghana's Heritage Fund highlights the importance of clear fiscal rules that anchor withdrawals and protect the savings function. Senegal's FONSIS illustrates how co investment with private partners and development banks can mobilise additional capital for priority sectors. These experiences show that sovereign funds can play a more active role in long-term development financing when governance and mandates are aligned with national priorities.

Reorienting existing institutional vehicles offers the most immediate opportunity to unlock patient capital. Caisses des Dépôts et Consignations in Benin, Senegal, and Côte d'Ivoire are structurally designed to transform regulated long-term savings into infrastructure financing. Their countercyclical mandate allows them to invest where private actors face constraints, making them central to the region's long-term financing strategy. Similarly, the Ghana Infrastructure Investment Fund and NSIA were created to channel institutional capital into strategic domestic sectors, yet both remain conservatively managed with portfolios still weighted toward low-risk external assets.

Unlocking the full potential of these institutions requires stronger governance, deeper capitalisation, and a gradual increase in allocations to domestic infrastructure, industrial development, and regional projects. Safeguards such as transparent reporting, clear investment rules, and strong fiscal anchors are essential to ensure that sovereign wealth funds support development objectives without compromising financial sustainability. Therefore, it is essential that existing sovereign wealth funds (SWFs) in West Africa strengthen their adherence to the Santiago Principles to strengthen transparency and accountability in resource management.

2.8 Leveraging Diaspora Capital

Migrant remittances have emerged as a structurally significant source of external financing in West Africa. Nigeria alone received USD 19.54 billion (approximately 36 percent of the SSA aggregate), Senegal (USD 3.27 billion), Ghana (USD 2.43 billion), Mali and Côte d'Ivoire (each USD 1.04 billion). For several economies, these transfers exceed both FDI and ODA as a share of GDP, reaching 21% of GDP in the Gambia and 10.6% in Senegal. This underscores the remittance's macroeconomic relevance beyond the household level.

High transfer fees continue to limit the impact of remittances, while diaspora savings remain a major untapped source of financing. Unlocking this potential requires competitive pricing, credible governance, and regulatory frameworks that enable instruments such as diaspora bonds, remittance backed securities, and direct investment platforms to scale effectively.

The policy challenge is to convert flows into stocks. Channelling even a modest share of the USD 40 billion in annual remittance inflows into diaspora bonds, securitised instruments, and dedicated investment platforms would transform a largely countercyclical source of household income support into patient capital for productive investment, shifting the diaspora's role from consumption-smoothing to transformation finance.

2.8.1 State of Financial Resources from the African Diaspora

Diaspora financial flows are one of the most stable and countercyclical sources of external finance for West Africa. Remittances to the region exceeded USD 40 billion in 2024, outpacing foreign direct investment and official development assistance in several countries. These flows are not immune to shocks in migrants' host economies, however: remittances to Africa fell by about 3% in 2020 when COVID-19 hit key destination countries, and the Middle East conflict poses a similar risk: the Middle East hosted about 6.5 million African diaspora in 2024 (14.1% of the total), and conflict-related job losses would reduce transfers, with West African countries with growing Gulf-based diasporas, including Ghana and Nigeria, among those exposed. This underscores the case for diversifying diaspora finance instruments (bonds, securitised flows) beyond pure remittance dependence.

Despite the scale, these flows remain constrained by high transfer costs. The average cost of sending money to West Africa was approximately 8% in 2024, far above the SDG target of 3%. Mobile money platforms have reduced transfer costs in some corridors—notably between Senegal and the European Union through Wave and Orange Money, and in Ghana through MTN Mobile Money—but bank-based corridors remain expensive, particularly for transfers to Nigeria from the United Kingdom, the United States, and the Gulf countries.

Beyond remittances, diaspora investment instruments remain underdeveloped. Diaspora bonds have been used selectively, with Nigeria's 2017 issuance raising USD 300 million and Ethiopia's earlier bonds mobilising a similar amount. These experiences demonstrate the potential for structured diaspora investment products, although uptake has been uneven due to governance concerns, currency risk, and limited investor outreach. Modernising these instruments through digital native platforms, including mobile app subscription models, blockchain based settlement, and regional clearing through PAPSS, could broaden participation and reduce transaction frictions.

A significant share of remittances still flows through informal channels, driven by high costs, limited financial inclusion, and regulatory barriers. Strengthening competition in remittance markets, expanding interoperability between mobile money and banking systems, and improving Know Your Customer frameworks linked to national ID systems can shift flows toward formal channels.

Unlocking the development potential of diaspora capital requires a coherent policy and institutional framework. Priority reforms include establishing dedicated diaspora investment units, introducing tax-advantaged savings and investment products, and creating regional diaspora investment funds. Together, these measures would help transform diaspora resources from a source of household consumption support into productive investment and a more stable, long-term source of development finance for West Africa.

2.9 Harnessing West Africa's Natural Resources Assets

West Africa is endowed with substantial natural resource wealth that shapes its economic structures and development trajectories. The region hosts major hydrocarbon producers – most notably Nigeria, Africa's largest oil producer, and emerging offshore gas players such as Ghana and Côte d'Ivoire. Several Sahelian economies, including Mali, Burkina Faso, and Niger, are among the continent's leading producers of gold and uranium, making mineral rents a critical source of export earnings and fiscal revenues. Coastal economies such as Guinea and Sierra Leone hold abundant bauxite and iron ore reserves, positioning them as key suppliers in global mineral value chains.

Yet the distribution of natural resources across the region is highly uneven, resulting in differentiated patterns of economic dependence. Hydrocarbon rich economies remain structurally reliant on oil rents, which dominate government revenues and foreign exchange earnings exposing them to shocks. In contrast, mineral rich but industrially constrained economies – such as Guinea and Mali – capture only a limited share of value added due to weak processing capacity and limited domestic linkages. The literature underscores the risks associated with such dependence: resource rich economies often face heightened exposure to external shocks, governance vulnerabilities, and slower long term growth (Sachs and Warner, 2001; Ross, 2012).

Overall, West Africa's natural resource endowment represents both an opportunity and a structural constraint. Without stronger institutions, transparent governance, and deliberate strategies to foster value addition and diversification, the region's abundant natural wealth risks reinforcing volatility rather than driving structural transformation.

2.9.1 Moving Beyond the Extractive Model

Despite abundant natural resources, most West African economies have struggled to convert resource wealth into broad based productivity gains, manufacturing growth, or sustained job creation. Nigeria illustrates this paradox whereby its manufacturing share declined from 17% of GDP in 1981 to below 10% in 2024, even after four decades of oil revenue. Guinea, home to the world's largest bauxite reserves, continues to export raw ore at margins below 15%, compared with alumina margins of 30 to 40% and aluminium margins above 50%. In June 2026, Guinea announced that all raw gold extracted in the country will be refined domestically before export, signalling a policy shift toward local value addition. These patterns underscore the need to shift from exporting raw commodities to building integrated value chains that generate domestic capabilities, employment, and technological learning.

A transition beyond the extractive model requires a deliberate strategy anchored in value addition, local processing, and knowledge intensive innovation. Several flagship initiatives across the region demonstrate what is possible. Guinea's emerging bauxite to aluminium Simandou corridor, Senegal's phosphate to fertiliser cluster, and Nigeria's gas to petrochemicals integration show how resource sectors can anchor downstream industries. Scaling these initiatives requires reliable energy, competitive logistics, and regulatory frameworks that reward domestic processing rather than raw material exports.

Three disciplines should govern this agenda. Governance first: whether extraction stabilises or destabilises public finances is determined by the fiscal regimes and transparency around it. Instruments second: carbon, blue and nature-linked finance must be matched to real institutional capacity including measurement, reporting and verification systems rather than adopted as labels. And destination third: the question is not only how to finance but what to finance, therefore, priority belongs to the value chains with the highest transformation content, as the Simandou corridor, phosphate-to-fertiliser cluster and gas-to-petrochemicals integration illustrate.

2.9.2 Natural Capital, Economic Performance, and Macroeconomic Sustainability

West Africa holds significant natural capital assets that remain largely untapped as sources of long-term development finance. Tropical forests, peatlands and marine ecosystems in Côte d'Ivoire, Ghana and Nigeria position the region as a cost competitive generator of high-quality carbon credits. The voluntary carbon market is projected to reach USD 10 to 40 billion by 2030, yet Africa currently captures less than 2% of global issuance. Debt-for-nature swaps, blue bonds and sustainability-linked instruments offer additional channels, but require clearer rights frameworks, Measurement Reporting and Verification (MRV) capacity, and credible institutional anchors.

Natural capital also includes strategic minerals essential for the global sustainability transition. West Africa holds a significant share of global critical minerals, with Sub Saharan Africa estimated to contain about 30% of proven reserves. Nigeria, Ghana, Guinea, and Sierra Leone hold significant reserves of bauxite, manganese, lithium, and other critical minerals whose demand could rise by up to 500% by 2050. However, the region continues to export these resources predominantly in raw form. Expanding value added processing, supported by renewable energy investments such as Senegal's solar expansion delivering power below €0.04 per kilowatt hour, offers a credible pathway to green industrialisation and long term revenue generation.

Harnessing natural capital for development finance will require stronger governance, transparent resource management, and the integration of carbon markets, renewable energy, and mineral value chains into national development strategies. Deploying targeted policy reforms, natural capital can become a cornerstone of sustainable and long term financing for West Africa.

2.9.3 Natural Capital as a Source of Financing

Natural capital is emerging as one of West Africa's most promising yet underutilised sources of long term development finance. The region's forests, peatlands, mangroves, and marine ecosystems position several countries, particularly Ghana, Côte d'Ivoire, and Nigeria, to generate high quality carbon credits at a time when global demand is accelerating. The Africa Carbon Markets Initiative estimates that nature based solutions alone could generate up to USD 15 billion annually at USD 50 per ton of carbon, while creating as many as 190 million African jobs by 2050.

Beyond carbon, natural capital also provides access to innovative financing instruments. Debt for nature swaps, already executed in Gabon and Seychelles, are being explored for Cabo Verde, Guinea Bissau, and Liberia, offering a pathway to reduce debt burdens while protecting critical ecosystems. Blue economy financing windows, including sustainable fisheries licensing, marine spatial planning, and blue bonds, could unlock additional resources for coastal states.

Realising the financing potential of natural capital will depend on stronger regulatory systems, transparent governance, and the integration of carbon markets, blue economy instruments, and biodiversity assets into national development strategies. With coherent reforms, natural capital can evolve from an overlooked asset into a central pillar of sustainable financing for West Africa's long term development agenda.

2.9.4 Governance, Institutions and Macroeconomic Stability

Transparency initiatives have expanded across the region, with near universal participation in the Extractive Industries Transparency Initiative. Yet enforcement remains uneven, and contract quality varies widely. Strengthening disclosure requirements, improving contract negotiation capacity, and ensuring parliamentary review of major resource agreements would help reduce opacity and build public trust. Countries such as Nigeria, through the NSIA governance framework, and Ghana, through the Petroleum Revenue Management Act, offer domestic examples of how clear fiscal rules and independent oversight and accountability can anchor savings and stabilisation functions. Cross country evidence shows that resource rich economies with credible stabilisation funds experience significantly lower output volatility than peers without such institutions. Beyond the near-universal participation in the Extractive Industries Transparency Initiative (EITI), which promotes transparency in the oil, gas, and mining sectors, adherence to other key continental and global initiatives remains critical. These could include the African Mining Vision (AMV), which aims to ensure that mineral resources contribute to industrialisation, structural transformation, local value addition, and sustainable development, as well as the Organisation for Economic Co-operation and Development Due Diligence Guidance, which establishes standards for responsible mineral supply chains.

Looking ahead, modernising public institutions will be essential. Priority reforms include clarifying mandates across regulatory bodies, improving supervisory oversight in extractive and environmental sectors, and enhancing coordination among fiscal, environmental, and planning authorities. Digital tools, including AI enabled monitoring systems, can strengthen contract oversight, track resource flows in real time, and improve accountability to citizens. With these reforms, West African countries can better manage systemic risks, stabilise public finances, and ensure that natural resources contribute to inclusive and sustainable development.

2.10 Crowding-in Global Private Capital in a Fragmented World

Global financial fragmentation, rising risk premia, and tightening external financing conditions have significantly reduced West Africa's access to international capital. As global investors become more selective and geopolitically aligned, the region faces declining FDI inflows, higher borrowing costs, and heightened perceptions of sovereign risk. Mobilising global private capital at scale therefore requires a combination of risk mitigation instruments, institutional credibility, and strategic positioning within emerging global investment trends.

The result is that de-risking instruments work only where institutions and preparation pipelines make projects insurable: guarantees price risk, but they do not create bankable assets. The binding constraint is as much the supply of credible, well-prepared projects as the supply of capital.

2.10.1 Foreign Direct Investment signals both West Africa Potential and its Fragility

Foreign direct investment into West Africa continues to reflect the region's dual reality: strong underlying potential but persistent structural fragilities. Net FDI inflows reached USD 13.7 billion in 2024, driven largely by renewed activity in hydrocarbons, mining, and infrastructure. Senegal, Niger, and Côte d'Ivoire recorded durable rebounds as major projects advanced, including Senegal's Sangomar offshore oil development and Côte d'Ivoire's Abidjan port expansion. By contrast, Nigeria attracted only USD 1.08 billion despite its 2023-2024 reform agenda, underscoring the gap between policy ambition and investor confidence. FDI into non resource economies such as Benin, Togo, and Cabo Verde remained steady but modest, reflecting limited scale and slower project pipelines.

The fragility of regional FDI reflects three structural factors. First, sectoral concentration: extractive industries account for more than 60% of West African FDI, leaving flows hostage to commodity price cycles. Second, perception-driven risk premia inflate the cost of capital, with several sovereigns facing spread premia of 2 to 4% points above what fundamentals justify. Third, regulatory and judicial bottlenecks slow project execution. De-risking instruments, Africa Credit Rating Agency (AfCRA) operationalisation, and regional capital market integration could compress these premia.

Strengthening the region's investment ecosystem will require a combination of institutional reforms and targeted financial instruments. Investment promotion agencies such as APIX Senegal, Côte d'Ivoire's CEPICI/UCID, and Nigeria's NIPC need stronger mandates, deeper investor services capacity, and more coordinated aftercare systems. Accelerating implementation of the AfCFTA Investment Protocol can help harmonise rules and reduce fragmentation across markets. Regulatory predictability can be reinforced through sound institutions, model bilateral investment treaties, transparent dispute resolution mechanisms, and stable tax and currency frameworks.

2.10.2 De-risking and Blended Finance: Building Bankable Pipelines

Blended finance has become the most effective mechanism for mobilising long term private capital in West Africa, particularly in sectors where commercial investors remain hesitant due to political, regulatory, or currency risks. Development finance institutions play a central role in this ecosystem. By providing first loss capital, political risk insurance, and partial credit guarantees, institutions such as MIGA, ATIDI, the AfDB, and the Africa Guarantee Fund reduce risk profiles and make high impact projects investable. Local currency guarantees are particularly important in West Africa, where exchange rate volatility remains a major deterrent to private participation. Innovative blended finance tools are gaining traction. First loss capital from concessional sources, viability gap funding for infrastructure, and breach of contract coverage for PPPs help close bankability gaps in energy, transport, and digital economy projects.

Building a pipeline of bankable regional projects requires structured project preparation, transparent procurement, and predictable regulatory environments. Platforms such as the Africa Investment Forum, Africa50, and the IFC Infra-Ventures facility have demonstrated their ability to accelerate project development by standardising feasibility studies, financial models, and risk allocation frameworks. These efforts complement the PPP instruments discussed in Section 2.6 and help create a coherent regional pipeline aligned with the AfCFTA's investment priorities.

For West Africa to fully leverage blended finance, development of strategies must articulate clear sector priorities, credible regulatory pathways, and coordinated regional projects. Strengthening institutions, contract enforcement, improving creditworthiness of public off takers, and ensuring transparent procurement will be essential to attract private capital at scale. With these reforms, blended finance can evolve from a niche tool into a central pillar of the region's development financing architecture.

2.10.3 External Portfolio Inflows

Net portfolio inflows to West African economies have been thin and volatile over the past decade, heavily concentrated in Senegal, Nigeria, Ghana, and Côte d'Ivoire. Inflows are punctuated by sharp risk-off episodes (2020, 2022, 2023) that drain local currency bond markets within weeks. Global financial conditions transmit quickly through portfolio channels: every 100 basis points of US monetary policy tightening correlates with roughly 1% of GDP in outflows from African local currency bond markets, underscoring the importance of building domestic investor bases that can absorb volatility.

Deeper regional bond markets such as the BRVM (for WAEMU) and the Nigerian Exchange (NGX) have grown in scale and diversity over the past decade, but liquidity remains shallow and secondary market turnover low. Interoperable custody and settlement infrastructure, including linkages with PAPSS and the African Exchanges Linkage Project (AELP), are preconditions for attracting long-horizon external portfolio capital. Harmonising disclosure, custody and settlement standards across ECOWAS would allow West African sovereign and corporate issuers to access a deeper and more stable portfolio investor base.

2.10.4 Leveraging Fragmentation to Build Strategic Platforms

Fragmentation in the global financial system carries opportunities for West Africa. As global capital becomes more selective, screening for ESG performance, data protection compliance, geopolitical risk, and payment friction, jurisdictions that move early on harmonised regulation, digital asset frameworks, and cross-border payments can convert compliance capacity into a capital attraction advantage. Aligning with global ESG disclosure trends, including both mandatory and voluntary frameworks, could help West African countries attract increased green and sustainable investment flows.

The AfCFTA digital trade protocol can be operationalised in West Africa through PAPSS and the ECOWAS Payment and Settlement System (EPSS), with regional pilots in agro-processing, pharmaceuticals and creative industries value chains. The regional financial hubs positioning under the African Financial Stability Mechanism should be complemented by a Dakar or Abidjan WAEMU financial services hub anchored on the BRVM and BCEAO framework. Also, special economic zones linked to critical mineral value chains (Guinea's bauxite-to-aluminium corridor, the Mauritania-Senegal gas-to-power cluster, Nigeria's Lekki-Lagos critical minerals processing hub) can convert resource exposure into industrial scale.

2.10.5 Strengthening Partnerships to Mobilise Capital, Investment and Trade

Strategic partnerships are shifting from aid-centric relationships toward reciprocal investment, trade and technology platforms with arrangements such as the EU-Africa Global Gateway and the Lobito Corridor, China's Belt-and-Road and Forum on China-Africa Cooperation (FOCAC), India's IAF deepening, and Gulf-sovereign investment vehicles are reshaping the agenda of partners available to West African governments.

Pooling demand at regional level (ECOWAS and AU) to negotiate from a position of strength on commodity pricing, digital standards, and technology transfer can anchor regional engagement in West Africa. Structuring partnerships around co-investment and guarantees rather than grants alone, can also help to build repeatable capital pipelines that private investors can scale.

2.11 Conclusion and Policy Recommendations

West Africa's development trajectory is constrained less by an absolute scarcity of capital than by the fragmentation, underutilisation, and misallocation of the resources already available within and around the region. This chapter has shown that unlocking long term financing requires a coordinated strategy that strengthens both domestic and regional resource mobilisation, improves public financial management, deepens financial markets and their integration, mobilises institutional investors, leverages diaspora capital, monetises natural assets, and crowds in global private investment. These reforms are mutually reinforcing. Together, they can reshape the region's financial architecture and provide the long term capital needed for inclusive and resilient development.

The recommendations are thus sequenced: in the short term, measures that cost little and signal much (transparency, e-invoicing, PPP fiscal accounting); in the medium term, system-building reforms (taxpayer registers, pension mandates, project preparation facilities); and over the long term, the regional construction i.e. pooled markets, mutualised guarantees and integrated payments that multiply all of them.

The immediate priority is to restore macroeconomic stability and rebuild fiscal credibility. Countries should strengthen domestic resource mobilisation by expanding digital tax administration through establishing autonomous revenue authorities with operational and budgetary independence, thereby reducing leakages, and improving compliance. Strengthening the African Tax Administration Forum (ATAF) over the short to medium term will also support cross country peer learning capabilities. Public financial management reforms such as fully funded Treasury Single Accounts, transparent budget execution through open budget portals, and stronger oversight institutions are essential to rebuild trust among citizens, markets, and development partners. Lowering remittance costs, improving procurement systems, and operationalising PPP project preparation facilities will also help stabilise the financing environment.

West Africa can also operationalise the AfCFTA digital trade protocol through PAPSS and the ECOWAS Payment and Settlement System, reinforced by regional pilot projects in key value chains. Financial hubs should be strengthened under the African Financial Stability Mechanism, with a WAEMU hub in Dakar or Abidjan anchored on BRVM and BCEAO. Special economic zones tied to critical mineral corridors can turn resource exposure into industrial scale. Over the medium term, West Africa must unlock the large pools of domestic capital held by pension funds, insurance companies, sovereign wealth funds and Caisses des Dépôts et Consignations. Regulatory reforms should allow meaningful allocation to infrastructure, private equity and green industrialisation. Strengthening natural resource governance, improving SOE oversight, and diversifying revenue beyond commodity rents are the parallel tasks. PPPs structured around viability gap funding and blended finance can crowd in private capital where pure public investment cannot.

In the long term, West Africa must build a resilient regional financial architecture capable of sustaining structural transformation. This requires bridging the divide between anglophone and francophone markets, strengthening regional institutions, and institutionalising risk mitigation mechanisms that permanently reduce the cost of capital. Transparent regulation, predictable contract enforcement, and improved data will narrow the gap between perceived and actual risk. The region must also position itself strategically within global value chains in critical minerals, renewable energy, pharmaceuticals, and agro processing. Achieving this will require long term planning, coordinated industrial policies, and sustained investment in infrastructure, skills, and technology.

Ultimately, West Africa’s ability to finance its development on its own terms will depend on its capacity to combine domestic resource mobilisation, institutional capital, natural capital monetisation, diaspora engagement, and global private investment within a coherent and resilient financial ecosystem.

3

STRENGTHENING AND CONSOLIDATING WEST AFRICA'S FINANCIAL SYSTEMS AND AGENCY IN THE CHANGING WORLD

Key Messages

- West Africa's financial system is growing but remains too shallow to finance structural transformation. Bank credit to the private sector averages less than 20% of GDP, far below what is needed. Deepening intermediation is the region's most urgent financial priority.

- Financial inclusion has advanced through mobile money, but significant gaps remain. While Ghana (76.9%) and Senegal (69.6%) have achieved broad account ownership, fragile states such as Niger (13.8%) remain largely excluded. Expanding access through digital finance, Islamic instruments, and fintech innovation is essential to integrating the informal economy.

- Regional financial integration is the multiplier. Interlinking capital markets (BRVM, NGX, GSE), operationalising PAPSS and PI-SPI for cross-border payments, and harmonising banking supervision under Basel-aligned frameworks will generate the market scale needed to attract global institutional investment.

- Monetary and informational sovereignty are long-term imperatives. Operationalising the African Credit Rating Agency (AfCRA) to reduce dependence on external ratings, and advancing the ECOWAS "Eco" single currency, are structural steps toward West Africa setting its own terms of engagement with global financial markets.

3.1 Introduction

West Africa enters the coming decade at a moment when the global financial landscape is becoming more volatile, fragmented, and less supportive of long term development than at any point in recent history. Domestic financial systems remain shallow, unevenly regulated, and vulnerable to liquidity shocks, and currency instability. These pressures highlight the urgency of building a more resilient and strategically autonomous financial architecture. This chapter examines how West Africa can strengthen and modernise its financial system to navigate this increasingly complex environment. It assesses the structural vulnerabilities embedded in domestic banking systems, capital markets, and payment infrastructures and evaluates the fragmented nature of regional financial integration, where anglophone and francophone systems continue to operate in parallel rather than as a unified market, limiting the region's ability to mobilise capital at scale.

3.2 Strengthening West Africa's Financial System: Addressing Bottlenecks and Expanding Reach and Impact

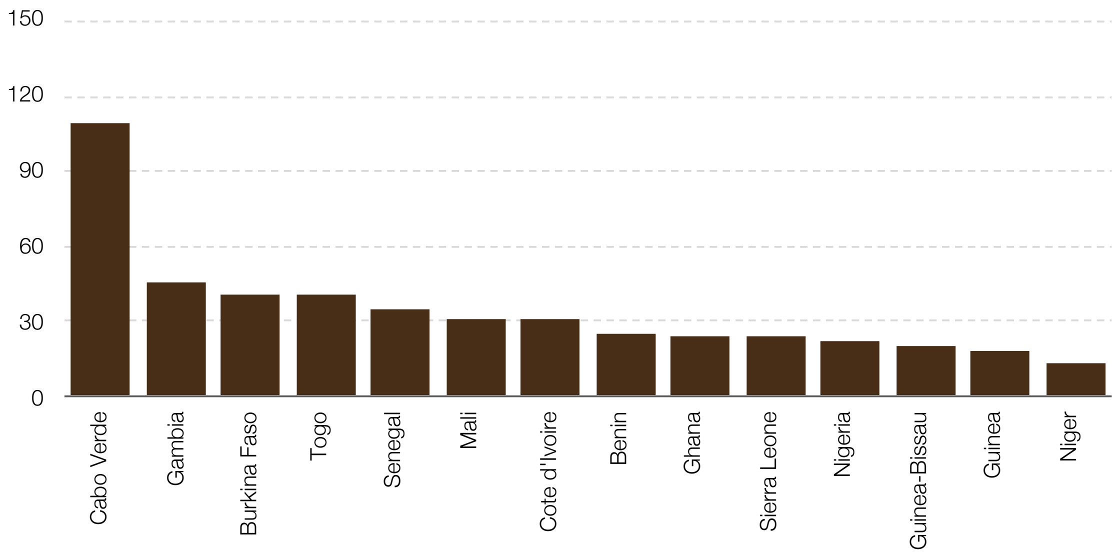
West Africa's financial system remains bank-dominated, shallow and concentrated. The test of the financial system is productive intermediation, not how much money it holds, but where it puts it. By the same logic, inclusion is measured beyond access: what matters is usage, quality and economic impact. Each segment has a distinct function in the financing architecture: banks intermediate savings; insurers and pension funds supply duration; development banks absorb early-stage risk; fintech extends distribution at low cost; and Islamic finance mobilises pools that conventional mandates cannot serve. The sections that follow assess each against its function. The diagnostic below also maps the current state and identifies the levers to expand reach and impact across the region's 15 economies.

3.2.1 Current State of the West African Financial System

West Africa's financial architecture is defined by banking sector primacy with a significant disparity in deposit mobilisation. As evidenced in Figure 3.1, bank deposits as a percentage of GDP in 2021 reached high levels in Cabo Verde (109.8%), while remaining more moderate in regional hubs like Senegal (34.9%) and Côte d'Ivoire (30.4%), and remarkably shallow in Niger (13.3%). However, despite commercial banks holding over 50% of the system's total assets, these resources are not contributing enough to long-term development. Most regional bank lending remains concentrated in short-term and low-risk asset classes, illustrating a failure to effectively intermediate domestic savings into the patient capital required to meet structural transformation objectives.

Structural disparities in credit mobilisation across the region are fundamentally linked to the quality of regulatory frameworks and institutional stability. Cabo Verde, with the region's highest regulatory quality estimate of 0.23, facilitates domestic credit at 62.6% of GDP. In contrast, jurisdictions with weaker supervisory frameworks and higher political uncertainties, such as Nigeria (-1.02) and Sierra Leone (-1.00), exhibit credit levels as low as 9.4% and 3.7%, respectively. Weak collateral enforcement and slow judicial processes in these jurisdictions increase perceived credit risks, leading financial institutions to adopt conservative lending practices and prioritise safe government securities over private enterprises.

Figure 3.1: Bank deposits as percent of GDP, 2021



Source: World Bank Global Financial Development Database

Capital markets in West Africa remain shallow, illiquid, and highly sensitive to macroeconomic and political uncertainties. While the region hosts established exchanges like the Nigerian Exchange (NGX), the Ghana Stock Exchange

(GSE) and the BRVM, market capitalisation as a percentage of GDP (2020–2024) remains low at 11.8% in Nigeria and 11.6% in Côte d'Ivoire, compared to the South African benchmark of 277.1%. This shallowness is often exacerbated by volatile inflation and exchange rate instability, particularly in Ghana and Nigeria, which distorts price signals and undermines market confidence (OECD, 2025). Such uncertainties discourage both domestic and foreign institutional investors from participating in regional equity markets, thereby raising the cost of capital.

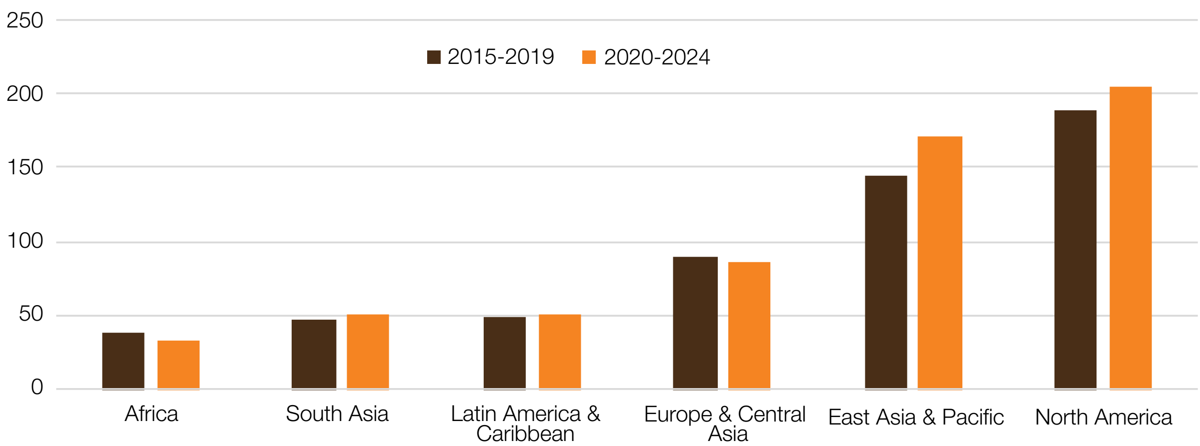
Progress in financial inclusion remains defined by a stark divergence between stable economies and those facing situations of fragility. Non-transition states like Ghana (76.9%) and Senegal (69.6%) have achieved high levels of account ownership across all formal financial services, including bank accounts, mobile money accounts, and electronic wallets, yet inclusion drops significantly in transition or fragile contexts like Niger (13.8%) and Guinea (34.2%). This limited inclusion deprives financial institutions of a broad deposit base and diversified demand. State fragility characterised by weak governance and limited administrative capacity acts as a primary barrier to deep financial intermediation. To enhance economic sovereignty, the region must move beyond basic access and address the lack of Sharia-compliant products, which are essential for populations that avoid conventional interest based finance, and digital registries that currently keep the informal economy outside the formal financial architecture.

Persistent credit risks and high non-performing loans continue to constrain financial intermediation and elevate the cost of capital. Asset quality across the region reveals a sharp divergence; non-performing loans (NPLs) remain significantly above international benchmarks in many countries, reaching 26.8% in Niger, 20.6% in Ghana, and 18.7% in Guinea-Bissau. These high default rates, often linked to weak supervision, force banks to price risk prohibitively. In contrast, Benin (4%) and Nigeria (4.9%) have maintained NPLs near the recommended 5% threshold. Notwithstanding surplus liquidity in some systems, an intermediation gap persists where the lack of credit is driven by high-risk perceptions rather than a shortage of funds (Beck et al., 2025).

The cumulative effect of these structural frictions is a massive financing gap for the region's productive small and medium enterprises. High market concentration and a dual-track institutional structure stifle innovation, with the top three banks controlling over 94% of assets in Burkina Faso and 100% in Liberia.

This oligopolistic structure reinforces the crowding out of the private sector, as banks prioritise safe, high-yield government debt. Consequently, the MSME finance gap has reached 30% of GDP in Nigeria and an acute 63% in Guinea-Bissau. Furthermore, wide interest rate spreads, which are more than double the global average in jurisdictions like Sierra Leone (13.5%), reflect high operating expenses and a lack of competitive intensity.

Figure 3.2: Average Domestic Credit to the Private Sector (as a Percentage of GDP), 2015–2024



Source: African Development Bank staff computations based on World Bank (WDI), 2025.

3.2.2 Broadening the Catchment Area: Expanding the Financial Sector's Reach and Impact

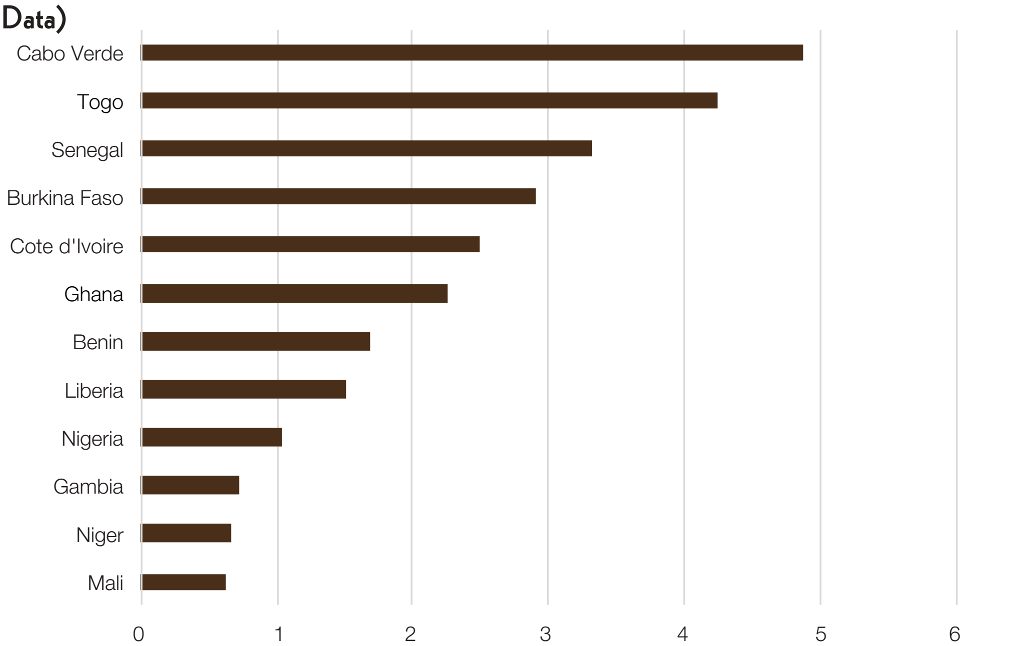
Expanding the reach of West Africa's financial sector is essential to mobilise savings, channel investment, and ensure that financial services benefit households and enterprises across the region. Despite progress in financial inclusion, a large share of the population and many businesses remain unbanked or underbanked with only about 45-50% of adults in West Africa holding a bank account (bank, mobile money, or electronic wallet) according to the World Bank Global Findex 2021-2022, leaving a large share of the population and many businesses unbanked or underbanked. This limits the capacity of the financial system to mobilise domestic resources and constrains the region's ability to finance long term development. Broadening the catchment area requires coordinated action across banks, development finance institutions, microfinance providers, insurers, and capital markets, supported by strong regulatory frameworks and innovative instruments.

National development banks and regional institutions such as the ECOWAS Bank for Investment and Development and the West African Development Bank are critical to addressing sectoral credit gaps. Nigeria's Bank of Industry provides a benchmark, having raised USD 2.2 billion through global syndication in 2024–25 and expanded its assets to over 5 trillion naira. To replicate such success, West African development banks must diversify funding sources beyond government budgets, adopt standardised governance practices, and prioritise lending to MSMEs and youth led enterprises.

Mobilising long term finance also requires reorienting pension and sovereign wealth assets. Nigeria and Ghana have expanded pension resources through reforms that shifted asset management to private fund managers, yet allocations remain heavily concentrated in government debt. Redirecting a portion of these funds toward infrastructure, private equity, and green industries would provide patient capital and lengthen regional yield curves. The Nigeria Sovereign Investment Authority illustrates how co investment platforms can crowd in private capital and reduce reliance on volatile external flows.

Insurance markets remain shallow, with penetration averaging less than 2% of GDP. Reforms by CIMA and Ghana's NIC to raise minimum capital requirements are expanding sectoral reach, but further progress depends on risk based supervision and the adoption of bancassurance models. By channelling premium inflows into bonds and equities, insurers can enhance capital market liquidity and support long term risk taking.

Figure 3.3: Insurance Company Assets, as a Percentage of GDP (2020 or Latest Available Data)



Source: Swiss Re Institute (2026).

Digital finance is transforming access. Mobile money penetration now exceeds 60% of adults, and interoperable payment platforms such as BCEAO's PI SPI launched in 2025 are enabling real time transactions across account types. Regulatory sandboxes introduced by the Central Bank of Nigeria and the Bank of Ghana are fostering fintech innovation while safeguarding systemic stability.

Diversification into Islamic finance, climate finance, and real estate offers additional pathways. Sovereign Sukuk issuances in Nigeria, Senegal, and Côte d'Ivoire have broadened participation, while Nigeria's pioneering green bonds demonstrate how thematic debt can fund renewable energy and climate resilience. Urbanisation is creating opportunities in real estate, where property yields of 8 to 12% can attract institutional investors if land registries are digitised and collateral frameworks strengthened.

Ultimately, broadening the catchment area requires regulators to balance financial inclusion with macro financial stability. By mobilising diverse pools of capital, strengthening oversight, and deepening regional markets, West Africa can transform its financial sector into a driver of inclusive growth and long term development.

3.3 Consolidating West Africa's Financial System: A Cohesive and Integrated Financial Architecture

Consolidating these layers, deepening regional financial integration, and aligning national regulation with continental financial architecture is essential to unlock the scale economies that domestic capital pools require. This section examines the state of regional integration and sets out concrete policy pathways for consolidation.

3.3.1 West Africa's Financial System Integration

Regional equity markets in West Africa remain dispersed and fragmented, with activity heavily concentrated in a few dominant hubs. While the regional market capitalisation has grown, the landscape is defined by a few deep exchanges—notably the Nigerian Exchange (NGX) and the West African Regional Stock Exchange (BRVM)—while others operate with low turnover and limited participation. The West African Capital Markets Integration Council (WASMIC) has been spearheading efforts to integrate these exchanges across Cabo Verde, Ghana, Nigeria, and Sierra Leone. Furthermore, the African Exchanges Linkage Project (AELP) represents a major step toward addressing this segmentation by connecting the BRVM and NGX with other major continental bourses. However, this integration has not yet yielded full results for smaller markets, where liquidity remains localised, hindering cross-border portfolio diversification and raising transaction costs for regional investors.

The expansion of pan-African banking groups headquartered in West Africa acts as a strategic bridge for regional integration. The growing role of groups such as Ecobank, United Bank for Africa (UBA), and Attijariwafa Bank demonstrates the steady penetration of regional expertise across the continent. These institutions combine large balance sheets with extensive cross-border networks to expand trade finance, payment systems, and credit to the private sector. By leveraging their regional footprint, these pan-African banks help to reduce the reliance on fragmented and externally intermediated financing channels. To fully leverage their role, authorities must strengthen regulatory cooperation and establish regional supervisory colleges to manage the multi-jurisdictional challenges of cross-border operations.

Fragmented cross-border payment and monetary systems continue to restrict efficient trade and financial transactions in West Africa. Despite the potential of the Pan-African Payment and Settlement System (PAPSS) and the launch of the Instant Payment Interoperable Platform (PI-SPI) by the BCEAO in 2025, the regional architecture is still hindered by a multiplicity of currencies and regulatory frameworks. Nearly half of intra-African payments are currently routed through correspondent banks outside the continent using foreign anchor currencies. This fragmentation results in high transaction costs and counterparty risks, underscoring the need for a coordinated and interoperable regional payment infrastructure to redirect capital toward the regional private sector and improve market access.

3.3.2 Policy Pathways to Consolidate West Africa's Financial System

Establishing a coordinated and interoperable regional financial architecture is essential for facilitating efficient regional liquidity circulation. The Pan-African Payment and Settlement System (PAPSS), operating under the PI-SPI (Pan-African Payment and Settlement Initiative) framework, is already the most advanced vehicle for achieving this and its rapid operationalisation should be the centerpiece of West Africa's financial-integration strategy.

Complying with internationally recognised banking regulatory frameworks developed by the Basel Committee on Banking Supervision. Harmonising banking supervision and prudential standards across the region will reduce regulatory arbitrage and enhance cross-border stability. Achieving an integrated financial system requires the gradual convergence of regulatory frameworks governing capital adequacy, liquidity management, and resolution protocols. Existing sub-regional arrangements, such as those within the WAEMU, provide institutional laboratories for this coordination. Broadening this alignment to the entire ECOWAS region is necessary to establish a functional "regional banking passport." Implementing structured information-sharing platforms and supervisory colleges will improve risk transparency and enhance confidence in cross-border financial transactions.

Leveraging established regional platforms as transitional integration anchors provides a pragmatic roadmap for broader financial consolidation. Sub-regional monetary unions, such as the CFA zones, already embody advanced forms of financial coordination, including shared central banking frameworks and harmonised prudential regulations. Utilising these established systems as transitional anchors allows the region to build on tested institutional arrangements rather than purely aspirational frameworks. A forward-looking strategy involves establishing cross-regional equivalence frameworks that harmonise core standards while respecting the diverse institutional identities of member states, ultimately translating regional progress into continent-wide compatibility.

Consolidating regional stock markets and risk assessment frameworks is a prerequisite for attracting large-scale global institutional investment. Rather than pursuing immediate wholesale mergers, the region should adopt a layered integration model that harmonises listing standards, disclosure rules, and investor protection frameworks. Initiatives like the African Exchanges Linkage Project (AELP) are vital for concentrating liquidity and improving price discovery across West African bourses. Simultaneously, the operationalisation of the African Credit Rating Agency (AfCRA) offers an opportunity to diversify analytical perspectives and reduce the informational asymmetries that currently lead to the subjective mispricing of regional risk.

Building a robust regional financial safety net is critical to protect West African sovereigns from balance of payments crises and global volatility. Consolidating the financial system requires a mechanism capable of absorbing shocks arising from tightening global financial conditions. Strengthening regional financing and stability arrangements, in coordination with the proposed African Financing Stability Mechanism (AFSM), offers an essential layer of protection. These pools of shared resources provide an efficient way for countries to insure against crises without the heavy conditionality often attached to external anchors, thereby embedding crisis response capacity within the region's evolving financial framework.

Strengthening sovereign risk governance across West Africa is vital for mitigating macro-financial pressures and enhancing market credibility. Consolidating the financial system requires better coordination of existing public debt management frameworks, monetary authorities, and fiscal oversight institutions. Institutional reforms aimed at improving debt transparency and fiscal monetary alignment will help integrate financial governance into a more coherent system that supports cross-border financial activity.

3.4 Towards Financial Agency and Sovereignty

3.4.1 Imperatives of West Africa's Financial Agency

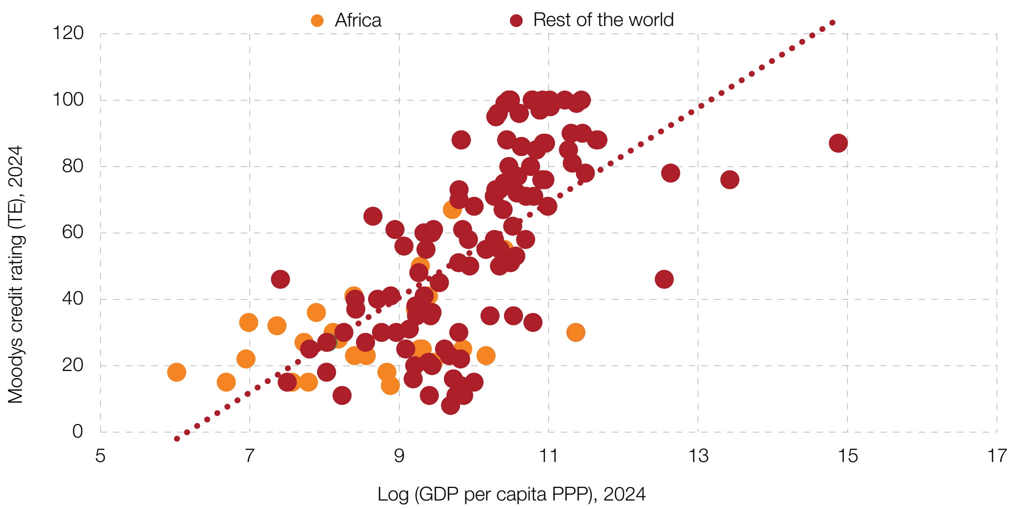
Reclaiming West Africa's financial agency requires a fundamental shift toward influencing the primary terms of regional and global financing. Financial agency refers to the capacity of the region's nations to exert meaningful influence on the size, structure, and cost of their financing needs. Achieving this goes beyond simply improving access to capital, it entails a coherent package of institutional and market building reforms that allow West African countries to exercise greater control over how their risks are assessed and priced. A critical priority in this regard is the operationalisation of the African Credit Rating Agency (AfCRA), which will provide data-driven assessments tailored to the region's macroeconomic realities, thereby rationalising the cost of debt and reducing the reliance on biased external assessments.

The strategic and smooth transition to the "Eco" single currency remains a prerequisite for securing regional monetary sovereignty and reducing structural dependency on external anchors. Achieving this transition first requires strong and well-functioning monetary and currency cooperation mechanisms. While the WAEMU sub-region already benefits from a common currency and shared central banking architecture, the broader ECOWAS initiative seeks to harmonise monetary policies across all fifteen member states. Achieving this union is a strategic imperative to eliminate internal exchange rate risks that currently hinder intra-regional trade and to mitigate the currency debt spirals caused by the dominance of the US Dollar.

Adherence to international regulatory codes and the successful exit from global monitoring lists serve as critical validations of West Africa's financial agency. The region's quest for autonomy is validated by how well it aligns with international prudential measures and global transparency standards. The impact of the FATF "grey list" demonstrates the power of global incentive-compatible action; for nations like Nigeria, the process of addressing deficiencies in AML/CFT frameworks required high-level political commitment and cabinet-level attention. As evidenced by the successful removal of various regional states from such lists, these reforms not only restore international correspondent banking confidence but also enhance a country's negotiating position with international financial agencies, ultimately lowering borrowing costs.

Creditworthiness tracks fundamentals. Across countries, GDP per capita is highly correlated with sovereign credit risk ratings (Figure 3.4): higher income economies borrow more cheaply, and cheaper borrowing in turn accelerates income growth. For West Africa, the implication is twofold. Durably lower borrowing costs ultimately require sustained growth in per capita

Figure 3.4: GDP Per Capita and Its Relationship with Credit Rating



Source: Staff calculations using data from World Bank International Debt Statistics 2025.

incomes; in the interim, strengthening the region's data infrastructure, ratings engagement and financial agency can narrow the premium the region pays over what its fundamentals warrant.

3.4.2 Institutional Structures for a Resurgent and Impactful Financial Sector

Adopting risk-weighted supervisory models in West Africa is essential for identifying systemically important institutions and ensuring long-term financial stability. To mitigate systemic risks, focus is shifting from mere compliance with Basel II and III requirements towards identification of Domestically Systemically Important Banks (D-SIBs) to establish robust resolution regimes that minimise contagion risks across borders. This rules-based approach to financial management depends heavily on the quality and transparency of data. Enhancing data integrity through modernised collection methods is a strategic priority to ensure that regional supervisory ambition aligns with institutional and balance sheet realities.

Institutionalising regulatory sandboxes and cybersecurity protocols is vital for managing the rapid expansion of digital finance and fintech across West African hubs. The liberalisation of the regional financial environment has led to a proliferation of new products, including mobile-based lending, often emerge ahead of appropriate legislation. To protect payment and settlement systems from global exposure risks, regional central banks are increasingly utilising virtual "regulatory sandboxes" to test innovations under controlled conditions.

Bridging the informational gap through modernised credit infrastructure will allow West Africa to extend financial agency to the majority of its population. While credit reference bureaus have been introduced in jurisdictions such as WAEMU to reduce information asymmetries, their impact remains modest because they are not consistently integrated with national population registries. To become fully effective, these bureaus should be integrated with digital identity platforms in order to improve borrower monitoring and credit risk assessment.

Expanding social protection coverage through inclusive institutional models serves as a fundamental requirement for building a resilient regional financial architecture. As illustrated in the data, West Africa exhibits a profound disparity in social protection effective coverage, which acts as an automatic economic stabiliser during periods of volatility. While nations like Cabo Verde (60.3%) and Togo (38.7%) have achieved coverage levels above the Sub-

Box 3: National Examples of Successful or Ongoing Reforms for Strengthening Financial Architecture and Governance in West Africa

Nigeria Sovereign Investment Authority (NSIA): three-window structure (stabilisation, future generations, infrastructure) with independent board governance; raised USD 2.2 billion through global syndication in 2024 and 2025.

BCEAO interoperable instant payment platform (launched in September 2025): links bank and mobile money accounts across all eight WAEMU member states with full PAPSS integration.

Ghana three-tier pension reform (NPRA, SSNIT and private trustees): structured long-duration capital pool with progressive widening of investment guidelines toward infrastructure.

Senegal sovereign Sukuk programme (2014 and 2016 issues): first regional sovereign Shariah-compliant issuance; template for Sukuk expansion across WAEMU.

Bank of Ghana digitalised Collateral Registry: digital perfection of security interests; halved the time and cost of formal SME credit access.

Saharan average of 15.4%, others remain deeply underserved, with Guinea-Bissau and Guinea standing at just 2.5% and 3.7%, respectively. These gaps highlight a governance deficit that limits the region's capacity to build human capital. Reforming these institutions to prioritise member benefits and introducing micro-pension systems such as Côte d'Ivoire's Security Scheme for Self-Employed Workers (or Régime Social des Travailleurs Indépendants – RSTI in French) is a strategic necessity to transform social security into a powerful tool for domestic resource mobilisation and long-term economic sovereignty.

The agenda must be honest about implementation risk: regulatory frameworks diverge between WAEMU and anglophone members, integration requires politically difficult cessions of supervisory sovereignty, and capacities are unequal. A variable geometry approach i.e. building on what already works (the payment rails) and letting willing subsets move first is more credible than a single-speed blueprint.

3.5 Conclusions and Policy Recommendations

West Africa stands at a decisive structural turning point where the consolidation of its financial systems represents a critical pathway toward long-term economic transformation. Reclaiming financial agency requires a fundamental shift from a model of external dependency and bank-led primacy toward the strategic mobilisation of domestic institutional assets and deeper regional integration. By modernising legal foundations, harmonising regulatory standards, and building local institutional gatekeepers, the region can transform its fragmented markets into a resilient architecture capable of funding its own development. Strengthening the link between digital transactional success and deep financial intermediation remains the primary challenge to ensure that the region's economic engine can support broad participation, withstand global volatility, and secure permanent economic sovereignty. In addition, Incentives should be introduced to encourage the banking sector in West Africa to redirect lending from short-term activities toward productive investment."

In the **short term**, the immediate priority involves strengthening the foundation of the regional architecture through enhanced transparency and regulatory convergence. Governments should prioritise the establishment of unified digital collateral registries, following the successful model of the Bank of Ghana, to reduce the high information asymmetries that currently hinder SME lending. Simultaneously, regulators must fast-track AML/CFT reforms to exit global grey lists and restore international correspondent banking confidence, which is essential to lowering transaction costs. This phase must also include the full operationalisation of interoperable payment platforms, such as the BCEAO's PI-SPI, and their integration with the Pan-African Payment and Settlement System (PAPSS) to settle intra-regional trade in local currencies and preserve scarce foreign exchange reserves.

In the **medium term**, efforts must focus on building market depth and reorienting long-term institutional capital toward the productive economy. Governments should modernise pension and insurance investment guidelines to allow a higher allocation toward domestic private equity and infrastructure funds, moving away from a total reliance on government debt. The regionalisation of successful de-risking models, such as Nigeria's Bank of Industry, is vital to provide the credit guarantees and "onshore" mobilisation needed to close the massive MSME financing gap. This period also requires the operationalisation of the African Credit Rating Agency (AfCRA) to provide data-driven risk assessments that reflect regional realities and counter global rating bias. Furthermore, scaling inclusive institutional models like Côte d'Ivoire's micro-pension system will diversify the domestic capital pool and ensure that financial agency encompasses the bulk of the population.

In the **long term**, achieving full financial sovereignty requires the completion of a unified regional capital market, development of an integrated regional market and the total elimination of structural currency dependencies. The fifteen nations must finalise the interlinking of all securities exchanges under the WASMIC framework to create the market size necessary for large-scale global institutional investment. Achieving a complete transition to local-currency financing for infrastructure and climate projects will protect the regional architecture from global interest rate volatility and the structural mismatch of foreign-currency debt. As the system matures, West Africa must accelerate the "Eco" single currency project to eliminate internal exchange rate risks and enhance its collective bargaining power. By leading the advocacy for global financial architecture reform and aligning all development cooperation with the New African Financial Architecture for Development (NAFAD), the region can achieve permanent financial self-sufficiency.

The answer to the report's central question "how mobilised resources become productive capital at regional scale" runs through four key conversions. Domestic revenue provides the base; public financial management and investment efficiency preserve its value; pension, sovereign, and diaspora capital extend its time horizon; and an integrated regional financial system allocates it across borders toward projects with the highest structural transformation potential. Each conversion is therefore necessary, but none sufficient on its own. This is West Africa's financing agenda.