United Nations
Economic Commission for Africa

Sub-Regional Office for West Africa

ECA/WA/ICE/23/01b
Distribution: Limited

Twenty-Third Session of the Intergovernmental Committee of Senior Officials and Experts (23rd ICE)

Document: English
Original text: English

Issues paper

Maximizing Investments to Achieve Optimum Demographic Dynamics in West Africa in a COVID-19 era: The Imperative of Building Back Better

Virtual Meeting: 26-27 November 2020

Contents

Introduction

1. The importance of population as an engine of economic growth and development if well managed cannot be overemphasized. Population will remain a core tenet in all domains of development. In more recent times, the population–development nexus has been widely captured under the "demographic dividend." This refers to accelerated economic growth resulting from a changing age structure in a country's population. It arises when fertility and mortality decline in high fertility and mortality settings, reducing dependency ratios and creating a "window of opportunity" for savings, increased productivity and investment. This can boost economic growth and poverty reduction. The concept of a demographic dividend prescribes that in the developing world, a rise in the proportion of the working-age population amid other related changes (such as high levels of per capita income), builds a strong impetus for economic development (Bloom and Williamson, 1998; Mason, 2005; Mason et al., 2016).

2. It is posited that fertility decline in low-income countries yields a substantial dividend, arising simply from increasing the resources per capita for services, infrastructure and livelihoods due to lowering dependency on human and all other resources. The caveat is that for the demographic dividend to materialize, policy makers should use the "window of opportunity" to maximize investments in critical socioeconomic sectors. Thus, a far larger dividend can be reaped with good policy management and investment in physical and human capital, using the period of declining dependency ratios to transform economies, so that their growth potential remains high long after the window has closed. Several Asian countries have witnessed the benefits of the demographic dividend. This so-called "Asian Miracle," which has been attributed to investments in contraception to reduce fertility rates, has led to higher quality education which is accessible to all, and increased labour force participation (Drummond et al., 2014).

3. The West African sub-region's unique demography has become a frequent topic in regional and global policy debates on Africa's development. The consensus has been that the sub-region is set to optimize its window of opportunity by taking advantage of its demographic dynamics, especially with respect to the population age structure. For instance, regional discussions are inclined towards the launch of the roadmap drawn up by the African Union Commission (AUC) and its partners on the theme: "Harnessing the Demographic Dividend through Investments in Youth" (AUC, 2016). Indeed, a substantial number of the 15 ECOWAS countries are at the nascent stage of this window (ECA, 2020a). As a result, there is an urgent need to ensure that this opportunity is not squandered in the absence of policy and institutional settings, which could be channelled to optimize investments conducive to economic growth and actualization of the SDGs.

4. Maximizing investments to secure future economic growth and human development is especially relevant in the current COVID era. The West African sub-region has been facing the pandemic since March 2020, with negative human, social and economic impacts. In addition to impeding the attainment of optimal demographic dynamics (including population dynamics, health, education, economic growth governance, urbanization, migration, and gender development), COVID-19 has jeopardized efforts to achieve Agenda 2030 of the Sustainable Development Goals (SDGs), as well as the AUC's Agenda 2063.

5. Despite containment measures and economic and social support policies, COVID-19 has led to social distress and economic losses in terms of jobs and incomes among a large part of population, especially women and the most vulnerable, including children, the youth, the poor and minority groups.

6. Yet, faced with the call to respond to the immediate and urgent health and social needs related to COVID-19, and the shrinking of their fiscal spaces, African governments, including those in West Africa, face difficult trade-offs. Their desire to halt the pandemic in its tracks may well hamper their policy choices and capacity to safeguard the gains already made on health, education and other social services. Simply put, dedicated investments towards unlocking the demographic dividend are being put at risk.

7. However, it is noteworthy that the COVID-19 pandemic has brought to the fore the fragility and vulnerability of countries' social sectors, including health, education, social protection and security coverage – all of which are essential to human capital formation. Indeed, human capital formation is under threat even though it is a key determinant to building back stronger and more resilient economies and social sectors post pandemic.

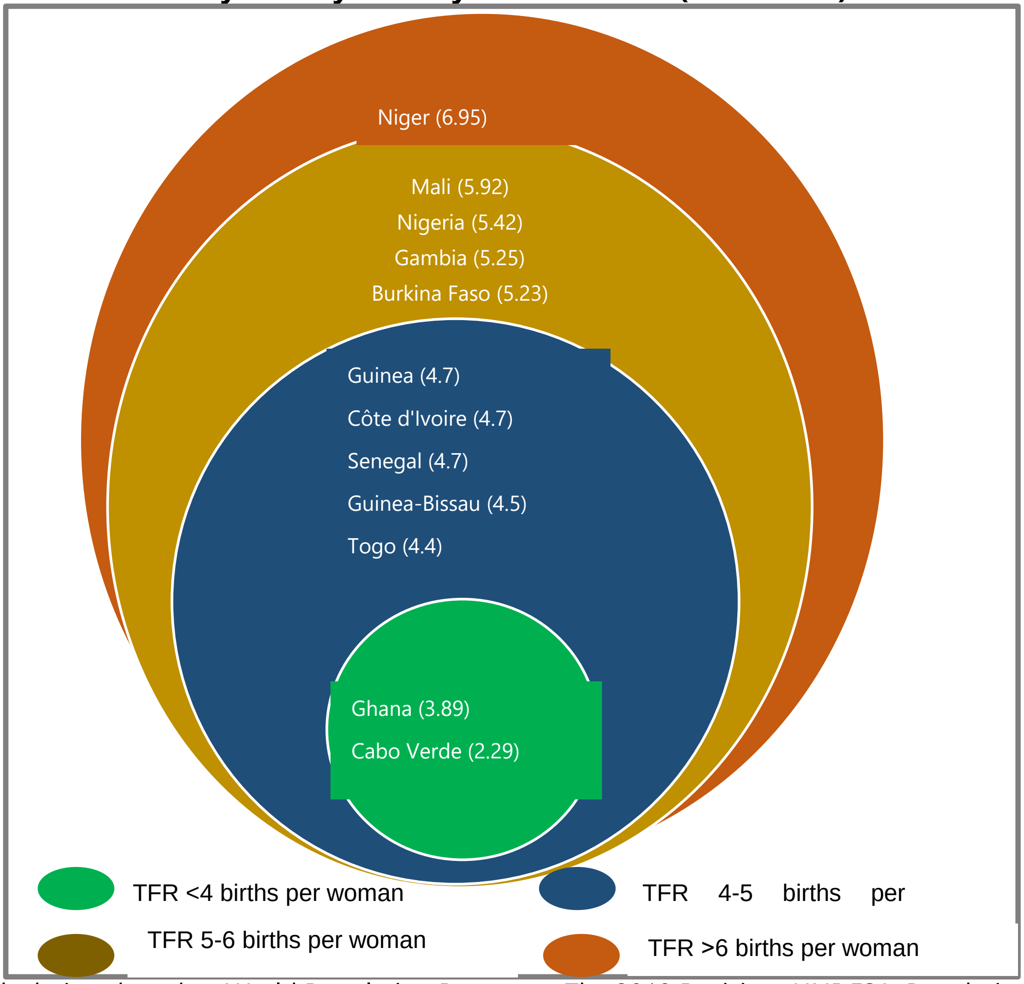
8. It is therefore imperative not only to meet the basic needs and demands related to COVID-19, but also to maximize investments for faster post COVID-19 economic growth, by optimizing the demographic dynamics that exist in the West African sub-region. Doing so requires a full understanding of the macroeconomic determinants of health and other social services.

9. This paper analyses the need to maximize investments and optimize the rewards that the demographic dividend can bring. It is anticipated that this analysis will provide the participants attending the ECA 23rd Session of the Intergovernmental Committee of Senior Officials and Experts for West Africa (ICE), with insights and topics for discussion that will feed into the policy debates. This paper reviews the demo-economic trends in West Africa, discusses the need to leverage demographics dynamics to achieve associated SDGs and targets, and focuses on the imperative to maximize and strategize investments to harness the demographic dividend in the current COVID era. Lastly, the paper proposes a number of issues to be discussed by the 23rd ICE participants.

Brief overview of demographic and economic trends in West Africa

10. Population dynamics[1] and the resulting demographic transition of Africa are unprecedented in comparison to all other world regions[2]. Nonetheless, there are variations within this global sub-region in terms of its population profile. Despite the persistence in the aggregate high fertility of this region (5.2 children per woman) (UNDESA, 2019a), four distinct clusters of countries can be identified, ranging from high to low fertility rates (Figure 1).

Figure 1: Total Fertility Rate by Country in West Africa (2015–2020)



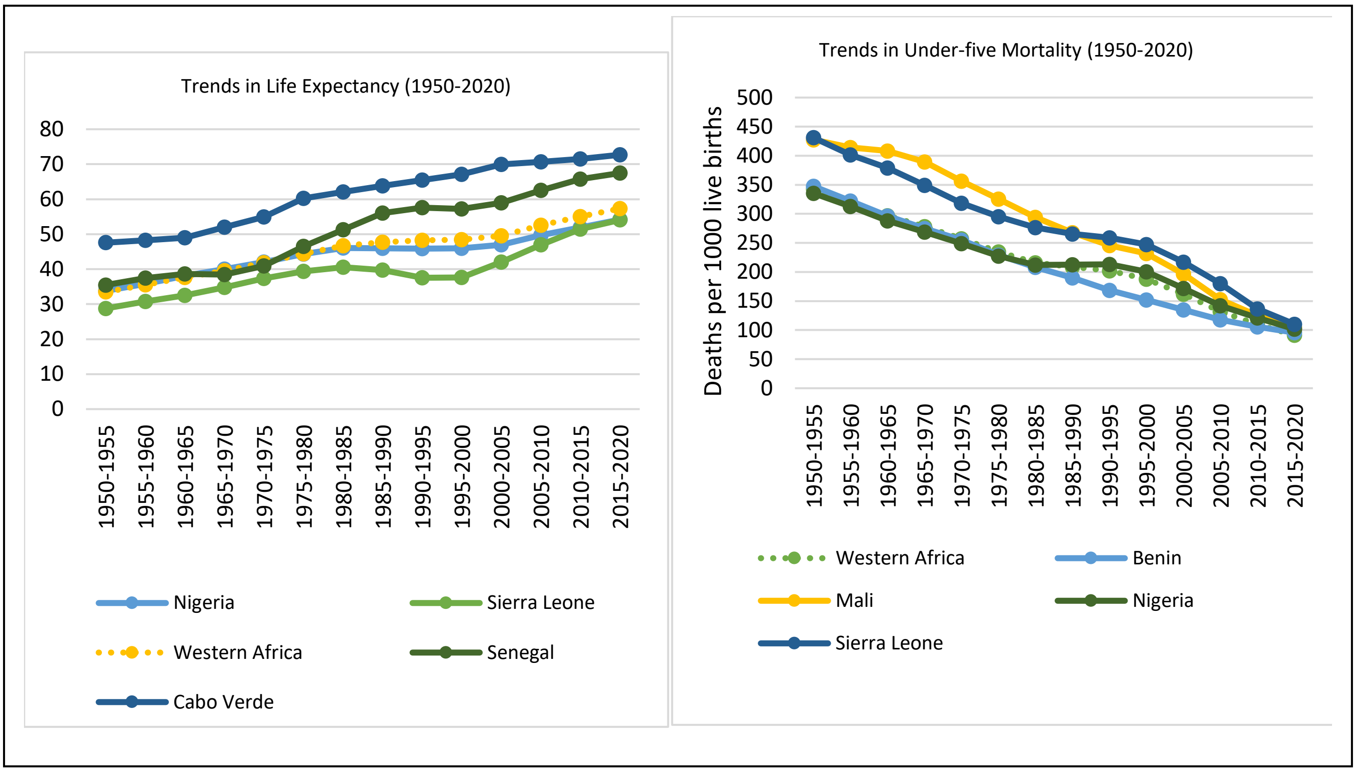
Source: ECA calculations based on World Population Prospects: The 2019 Revision*, UNDESA, Population Division.*

[1] The base population processes, namely fertility, mortality and migration, generally lead to changes in the population size and distribution, the growth rate and the age-sex structure. Intrinsic in these areas are issues of morbidity, urbanization and globalization.

[2] The West African population was estimated at approximately 400 million in 2020 (5 per cent of the world population). The sub-region houses Nigeria (200 million population in 2020), which is currently the most populous nation in Africa and the only African country in 10 most populous countries globally.

11. Nonetheless, over the last few decades,[3] significant strides have been achieved in the sub-region with respect to mortality and life expectancy at birth, which is an important measure of the quality of life of individuals (Figure 2).

Figure 2 : Trends in Mortality and Life Expectancy, 1950–2020

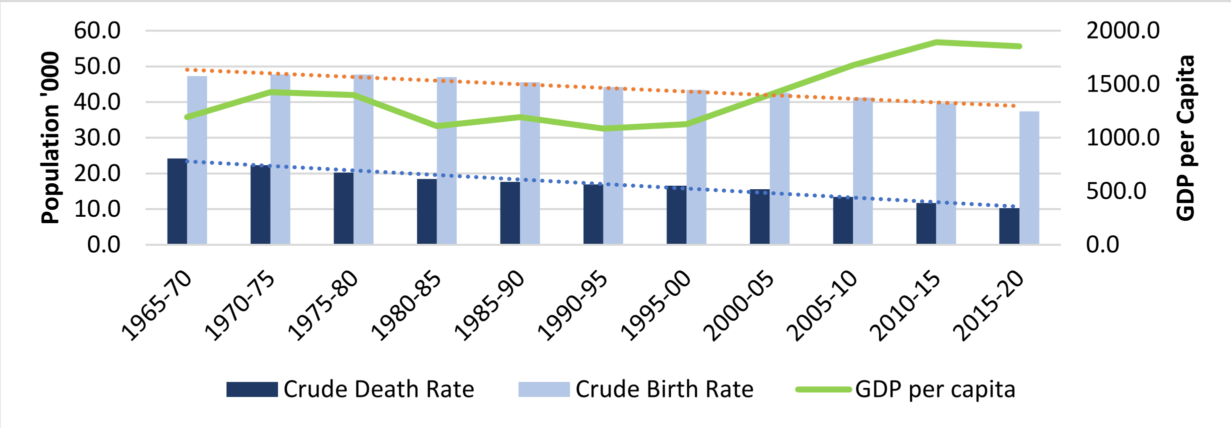


Source: ECA calculations based on UNDESA, Population Division.

12. Economic growth is necessary for meaningful structural transformation and economic development. Such growth is also dependent on responsible production and consumption (in accordance with SDG 12) and is reliant on decent work and growth (SDG 8). Over recent years, economic growth in the sub-region has risen steadily; averaging more than 5 per cent from 2009 to 2015 before slowing, at 0.2 per cent in 2016. Thereafter a gradual recovery was recorded with an average growth of more than 3 per cent in 2018 and 2019 (ECA, 2019b). However, the economic outlook in West Africa is bleak in 2020, due to the adverse shock of the COVID-19 pandemic.

[3] Infant mortality decreased from 196 in 1950 to 57 deaths per 1000 live births in 2020; Under-five mortality fell from 342 to 91 deaths per 1000 live births over the same period; the crude death rate (mortality at all ages) also decreased from 30.4 to 10.3 deaths per 1000 population over1950–2020.

Figure 3: Trends in Population Change and GDP per Capita,1970–2019



Source: *ECS Source: Calculations based on* World Population Prospects: The 2019 Revision*, UNDESA, Population Division.*

Addressing demographic dynamics towards the achievement of SDGs in a COVID-19 era

13. Population dynamics remain an underlying cause of many of the development challenges the West African and the Sahel regions are facing. Likewise, rapid population growth has also been an obstacle to inclusive economic growth. For example, despite an average favourable economic growth trend, Nigeria is home to one in two West African inhabitants and to 85 million people out of 200 million living in extreme poverty (UNDESA, 2019a).

14. Rapid population growth, without adequate sustainable economic growth, has impeded efforts and increased the challenges facing West African governments. The key objectives of these countries are to eradicate poverty, achieve a better quality of life for their populations, combat hunger and malnutrition, and strengthen the quality, expansion and coverage of healthcare and education, while reducing morbidity and mortality (UNFPA, 2018). The COVID-19 pandemic has exacerbated the challenges facing policy-makers today, while exposing threats to reap the benefits of the demographic dividend. As a result, the negative impact of the pandemic has highlighted the critical dimensions of the demographic dividend and sustainable development that need to be addressed, namely in health, education, economic growth and governance.

15. ECA has estimated that at least US$100 billion is required urgently to address the immediate needs of the populations resulting from the pandemic (ECA, 2020b). The health of African populations, and of the health systems and infrastructure, has undoubtedly been weakened by the virus. Prior to the outbreak, health systems in West Africa required major investments and strengthening to meet the demands of the growing population. Governments' commitment to meet the target of allocating at least 15 per cent of their annual budget to improve the health sector proved difficult to achieve. Recommendations have been made by the WHO and its partners to boost health spending, yet the unprecedented health crisis

threatens national health plans. Refinancing of health budgets, additional budgets and reallocations of resources from programmes that were planned prior to the pandemic may be under discussion to deal with this new threat which could compromise the fragile fiscal space of African and West African countries. The funding and other responses to COVID-19 will also potentially divert resources and efforts from other diseases and health issues.

16. It is also projected that about 19 million jobs will be lost in Africa as a result of the pandemic, pushing some 5-29 million people into extreme poverty (ECA, 2020b). This will mean higher economic dependency, as people who were once active workers become dependent on the remaining active workforce as well on the state. Yet, the actualization of a demographic dividend is reliant on age and economic dependencies/support ratios. Gender inequalities are also projected to worsen, as women and youth will be most vulnerable to unemployment and poverty if timely efforts are not made.

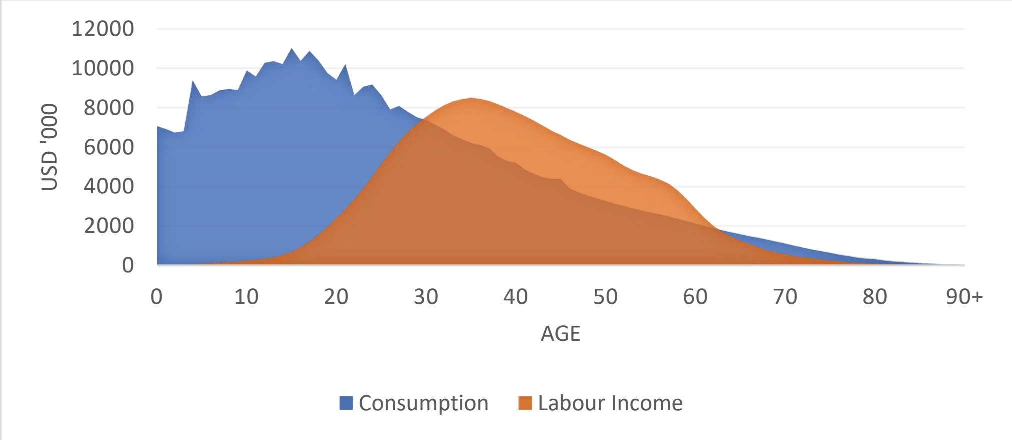
17. Overall, simultaneous economic and health shocks resulting from the pandemic will threaten the demographic dividend and risk reversing the significant gains made in the sub-region's growth and human capital empowerment. Moreover the youth group, who represent the population sector who can catalyze the demo-economic gains for Africa's growth, will be heavily affected by the negative impacts on education and employment due to school closures and job disruptions. To safeguard the demographic dividend's progress towards the attainment of the SDGs, current response measures and recovery efforts post COVID-19 must ensure adequate investment in health, education, economic transformation for productive jobs, and good governance (Beegle and Christiaensen, 2019).

The Evidential Case: Financing the Demographic Dividend in West Africa

18. **A socio-demographic outlook**: if West Africa is to learn from the experience of other regions, then evidence from Asia needs to be taken into account. A brief assessment of this region shows that even in similar demographic transitions, the final economic outcomes can differ significantly. This underscores the role of policies to ensure the translation of potential growth into actual dividends. The Asian region experienced a 20 per cent increase in the share of its working-age population between 1965 and 2010 (Drummond et al., 2014). The region also registered a seven-fold increase in its GDP per capita. Some of the main factors that have been attributed to Asia's favorable economic and development outcomes have been the more focused investments in human (education and health) and physical capital, together with higher labour participation rates, and an initial emphasis on labour-intensive, export-led growth which allowed the region to maximize the benefits from the increased workforce. Quantifying the potential demographic dividend of West Africa needs to acknowledge Asia's experience and must also take account of West African countries' experiences (South Africa, Botswana, Cabo Verde, Seychelles and Mauritius), as these nations have recorded a good performance in the attainment of the demographic transition (IMF, 2014).

19. **A demo-economic outlook**: Economic life cycle deficit (LCD) (i.e., the difference between labour income and consumption at each age), has been useful in determining the period of dependency. If an economy's labour income exceeds its consumption expenditure, it implies that such an economy is in surplus. Figure 4 indicates that West Africa's consumption expenditure exceeds its labour income at ages 0–28 (ages of economic dependence), and that beyond this period, surplus commences, where labour income exceeds consumption expenditure (ages of savings), with this period lasting for 33 years. Thus, by age 63, the surplus ends and old-age dependency results. In other words, the actual dependency years in West Africa are between ages 0-28 (child and youth dependency) and above 63 (old-age dependency).

Figure 4 : Age Profile of Aggregate Consumption and Labour Income for West Africa, 2016



Source : ECA, adapted from Olaniyan et al. 2018.

20. The effect of population parameters on economic growth in West African countries has shown a significant positive impact. The coefficient of demographic dividend, measured as an economic support ratio, is positive and significant, confirming the existence of a demographic dividend in West Africa. A 1 per cent increase in demographic dividend contributes about 2.28 per cent to per capita income growth (Olaniyan et al., 2018; Bloom et al., 2015). Thus, an increase in the benefit that accrues from a decline in mortality and fertility rates promotes accelerated economic growth. If fewer people are supported relative to the working population, the resulting window of opportunity becomes a great input into the production of long-term growth.

21. Regarding the high level of child and youth dependency on the economic support ratio, this will call for a vested interest in scaling up the productivity of the economically active age group for maximum benefits, while creating the conditions necessary for the transition of the potential-but-inactive population into active decent labour participation. For instance, the needs of this age group include high-level education, an upgrading of skill sets to meet market demands, access to reproductive health, a boost in decision-making/governance, and labour force participation especially for women, as well as incentivizing productivity and labour markets (UNFPA, 2016; AUC, 2016). These will be critical programme areas that support increased financing, in order to maximize the benefits of the demographic dividend window.

Maximizing Investments for West Africa's Demographic Dynamics: Public, Private and External Resources

22. Harnessing demographic dynamics and optimizing the demographic dividend are fully anchored in the achievement of the SDGs. The use of the term "Investment" is applied because the resources allocated to social and demographic dividend issues (i.e. education, health, and social protection) yield to returns. Investment in harnessing the demographic dividend consists of public, private and external resources that are used mainly to create growth and decent work (SDG 8) and ensure good health (SDG 3), quality education (SDG 4) and robust institutions and governance (SDG 16). Investing in these areas will open the window of opportunity presented by the demographic dividend, thereby accelerating the sub-region's progress and achievement of its development agenda goals, and spearheading structural transformation in West Africa.

23. In the health sector, current efforts at addressing fertility and mortality issues such as contraceptive prevalence and maternal child health (MCH) need to be strengthened. There is also a need to better leverage cultural and religious aspects, as sociocultural beliefs and practices also need to be considered in high fertility settings.

24. Regarding education, all 15 countries in the ECOWAS bloc signed the Fast Track Initiative on Education in 2000 and committed to boosting their education spending to 20 percent of government spending (FTI, 2009). Gains have been made with the increase of net enrolment rates at the primary level, where the gender gap is closing considerably. However, much remains to be accomplished to ensure quality education and access to higher levels (ECA, 2019b). In the long term, a loss in years of education will lead to a high proportion of working-age people, whose skills and education fail to match the skillset demands of the labour market.

25. It is therefore imperative to maximize investments so as to close the financing gap of SDGs and achieve the optimal demographic dividend. Africa needs to raise an estimated 11 per cent of GDP per year for the next 10 years to close the wide SDGs financing gap, which ranges from US$ 614 billion to US$ 638 billion per year (ECA, 2019a). This could amount to at least US$ 153.5 billion for the West African sub-region, accounting for about a quarter of Africa's GDP in 2019 (ECA, 2020b). It is also estimated that an additional expenditure of US$ 0.5 trillion for Low-income Developing Countries (LIDCs) will need to be invested by 2030 in the areas of education, health, and infrastructure (roads, electricity, water and sanitation), relative to a baseline of current spending to GDP in these sectors. This will represent 15 per cent points of GDP in 2030 (IMF, 2019).

26. To narrow the financing gap, African countries need to enhance domestic resource mobilization, which implies sustained improvement in the efficacy of fiscal policy. To that end, the current limited fiscal space both at continental and sub-regional levels should be addressed. Africa remains the global region with the lowest tax-to-GDP ratio. At an estimated 13.4 per cent in 2018, its tax-to-GDP ratio was lower than that of Asia (14 per cent), Europe (25 per cent) and Latin America (18 per cent) (ECA, 2019a). The West African performance falls

below the continental level, with tax revenue (including grants) mobilization amounting to 9.6 and 10.8 per cent of GDP in ECOWAS in 2018 and 2019 respectively. Moreover, the West African budget deficit stood at around 5 per cent between 2017 and 2019, with higher levels recorded in Ghana (7.4 per cent) and Liberia (5.4 per cent) in 2019 (ECA, 2019a).

27. Deficit financing is another channel to mobilize investment resources and actualize the demographic dividend, even though COVID-19 is eroding the debt ratio of most West African countries. However, the ECOWAS public debt ratio is relatively limited (at 35 per cent of GDP in 2018), which is well below the maximum threshold of 70 per cent adopted in the community framework of macroeconomic convergence. There are nonetheless mixed performances across the sub-region, with debt levels ranging from 28.4 per cent in Nigeria to 130 per cent in Cabo Verde. In addition to Cabo Verde, The Gambia (82.8 per cent), Ghana (71.2 per cent), Sierra Leone (79.2 per cent) and Togo (71.5 per cent) have debt levels exceeding 70 per cent. Although the overall debt-to-GDP ratio is relatively low in countries such as Nigeria (28.4 per cent), debt service absorbs a considerable share of tax revenue. In 2018, the amount of interest paid on domestic debt by the Nigerian Federal Government accounted for 60 per cent of its tax revenue (ECA, 2019b).

28. In addition to government resources, other actors such as the private sector, households and external partners are key contributors to investments in sustainable goals and targets associated with the demographic dividend. For instance, in the health sector, these three actors with respective contributions of 36.1 per cent, 22.3 per cent and 6.9 per cent jointly covered 65.3 per cent of expenditures in Africa in 2015, against 34.7 per cent from the government domestic resources (ECA, 2019).

Conclusions

29. West Africa's population dynamics, if well managed, could fuel regional economic growth and inclusive development. Despite the youth bulge imposing supply pressures on education systems and labour markets, the emerging demographic transition could result in declining dependency ratios, leading to a positive impact on overall economic growth, creating a demographic dividend. Easing population pressure and investing in human resources would enable inclusive growth and raise standards of living.

30. For the West Africa sub-region, a multidimensional approach will be needed, as it would be impossible for unidimensional reforms to fully offset the impact of demographic dynamics on spending. In this context, many countries will need to strengthen their tax systems and improve the efficiency of public spending programmes in the sectors of education, health, employment, the private sector, the environment and governance. A multidimensional approach should bring together all the actors involved, as governments alone cannot meet all development sector costs. The private sector, households and development partners have an important role to play in helping to close the funding gap in key demographic pillars (health, education, the labour market and productivity, and governance).

31. The current COVID-19 pandemic has emerged as a wake-up call to innovation, one demanding unprecedented and urgent responses from all government departments. Nevertheless, to address the mounting pressures, Africa must not lose its focus on existing

population issues and commitments made to optimize the health, education and well-being of their populations to reap demographic dividends. The window of opportunity is time-bound and critical. If the losses to the well-being and potentialities of the youth and working-age population caused by the COVID-19 pandemic are not mitigated, then the economic growth prospects and bright future for the continent and sub-region will be jeopardized.

Issues for discussion

- What are the challenges and opportunities for maximizing investments towards achieving the demographic dividend in West Africa in a COVID-19 era?
- What specific policy actions should countries take to foster health, education and other social services, in order to harness the demographic dividend in West Africa?
- How could governments ensure that demographic dimensions are integrated into national strategies, budget, policies, and programmes to building back better their economies, post COVID-19?
- What are the linkages between economic transformation and investing in demographic dividends? How could economic transformation policies help to solidify the demographic dividend?
- What instruments, sources of funding, actors and interventions could best contribute to optimizing the demographic dividend in West Africa?
- What transformative partnerships are needed, and with whom, to optimize demographic dynamics?
- What should be the role of regional institutions in sustaining the gains of the demographic dividend?
- Within the West African context, what would be the specific benefits of targeted measures towards the empowerment of women and the youth, with regard to maximizing investments to achieve demographic transition?

References

African Union Commission (2016). AU Roadmap on *Harnessing the Demographic Dividend through Investments in the Youth*. Addis Ababa: AUC.

Amega, K. (2018). “Remittances, Education and Health in Sub-Saharan Africa,” *Cogent Economics & Finance,* 6:1.

Beegle, K., and L. Christiaensen, L. (2019). *Accelerating Poverty Reduction in Africa.* Washington D.C.: World Bank.

Bloom, D. and others (2000). “Population Dynamics and Economic Growth in Asia,” *Population and Development Review,* 26, 257-290.

Bloom, D. and Williamson, J.G. (1998) " Demographic Transitions and Economic Miracles in Emerging Asia”, *The World Bank Economic Revi*ew, 12, (3 4):19–55

Bloom, D. and others (2015). Prospects for Economic Growth in Nigeria: A Demographic Perspective. PGDA Working Paper No. 127.

Drummond, P., and others (2014). Africa Rising: Harnessing the Demographic Dividend.. Working Paper 14/143

ECA (2019). *Health and Economic Growth in Africa, 2019*. Addis Ababa: United Nations Economic Commission for Africa.

—— (2019a). *Economic Report on Africa: Fiscal Policy for Financing Sustainable Development in Africa,* March 2019. Addis Ababa: United Nations Economic Commission for Africa.

—— (2019b). *Socio Economic Profile of West Africa 2018 and Prospects 2019*, Addis Ababa: United Nations Economic Commission for Africa.

—— (2020a). Population Dynamics, Demographic Dividends and Sustainable Development in West Africa, ECA/SROWA. Working document.

—— (2020b). COVID 19 in Africa, Protecting Lives and the Economy. April 2020. Addis Ababa: United Nations Economic Commission for Africa.

—— (2020c). Socio Economic Profile of West Africa 2019 and Prospects 2020 (Working Document)

—— (2020d). COVID-19: Lockdown Exit Strategies for Africa. Addis Ababa: United Nations Economic Commission for Africa.

FTI (2009). Financing and FTI Trust Funds. Education for All – Fast Track Initiative. Washington, D.C.:: World Bank;

IMF (2014). https://www.imf.org/external/pubs/ft/wp/2014/wp14143.pdf. New York: International Monetary Fund.

—— (2019). Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs. (IMF Staff Discussion note), January 2019. New York: International Monetary Fund.

Mason, A. (2001). "Population, Capital, and Labor." Ch. 8 in Mason A (ed.), *Population Change and Economic Development in East Asia: Challenges Met, Opportunities Seized*. Stanford: Stanford University Press.

Mason, A. (2005). "Demographic Transition and Demographic Dividends in Developed Countries" Department of Economics, University of Hawaii at Manoa and Population and Health Studies, East-West Center, Article, January 2015

Mason, A., R. Lee. and J. Xue Jiang (2016). "Demographic Dividends, Human Capital , and Savings", *Journal of Economics of Ageing.* April 2016. 7:10–122

NTA (2019). National Transfer Accounts Africa Conference. Somone, Senegal.

Olaniyan, O. and others (2018). *Harnessing the Demographic Dividend for the Sustainable Development of Nigeria: 2016 Demographic Dividend Report of Nigeria.* Published by Health Policy Training and Research Programme (HPTRP). University of Ibadan, Nigeria for the United Nations Populations Fund (UNFPA).

UNDESA (2019a). *World Economic Prospects.* https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-october-2019-briefing-no-131/

—— (2019b). *World Population Prospects.* New York: United Nations Population Division, UNDESA..

UNDP (2018). *Human Development Indices and Indicators 2018 Statistical Update.* New York: United Nations Development Programme.

UNESCO 2020. COVID-19 Education Response. Paris: UNESCO. https://en.unesco.org/covid19/educationresponse

UNFPA (2016). *Building Quality Human Capital for Economic Transformation and Sustainable Development in the Context of the Istanbul Programme of Action*.. https://www.unfpa.org/publications/foundations-future

—— (2018). *Annual Report.* New York: United Nations Population Fund.