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AFRICA'S PULSE

AN ANALYSIS OF ISSUES SHAPING AFRICA'S ECONOMIC FUTURE

DELIVERING GROWTH TO PEOPLE THROUGH BETTER JOBS



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Executive Summary

Growth recovery remains elusive in Sub-Saharan Africa and risks for another lost decade are real

- ▶ Economic growth in Sub-Saharan Africa (SSA) is expected to slow to 2.5 percent in 2023, from 3.6 percent in 2022. It is projected to increase to 3.7 percent in 2024 and 4.1 percent in 2025. However, in per capita terms, growth in the region has not increased since 2015. In fact, the region is projected to contract at an annual average rate per capita of 0.1 percent over 2015–25, thus marking a lost decade of growth in the aftermath of the 2014–15 plunge in commodity prices. Real gross domestic product (GDP) of the Eastern and Southern Africa subregion is set to grow at 1.9 percent in 2023 (down from 3.5 percent in 2022), while the Western and Central Africa subregion is expected to grow at 3.3 percent this year (compared to 3.8 percent in 2022).
- ▶ The continued slump of the region's large economies is dragging down Sub-Saharan Africa's economic performance. South Africa's GDP is expected to grow at 0.5 percent in 2023 as energy and transportation bottlenecks continue. Nigeria and Angola are projected to grow at 2.9 and 1.3 percent, respectively, due to lower international prices and currency pressures affecting oil and non-oil activity. In Sudan, economic activity is expected to contract by 12 percent because of the internal conflict halting production and destroying human capital and state capacity. Excluding Sudan, the region is expected to grow at 3.1 percent in 2023.
- ▶ Sub-Saharan Africa has witnessed an increased incidence of attempts to destabilize governments by unconstitutional or violent means in recent years. Coups, violent extremism, riots, and social unrest have become more commonplace. Ongoing conflicts, contested elections, and economic challenges have caused instability in countries like the Democratic Republic of Congo, Ethiopia, Somalia, and Sudan. Recent coups in Niger and Gabon are likely to set back needed reforms. Violent extremism, concentrated in the Sahel countries, carries the seeds of contagion to other parts of the continent and has had devastating impacts on lives, livelihoods, and the prospects for peace and inclusive growth. Overall, increased conflict and violence in the region weigh on economic activity, and this rising fragility may be exacerbated by climatic shocks.
- ▶ Debt overhang weighs heavily on Sub-Saharan African economies. Debt distress risks in the region remain high and have been amplified since the COVID-19 pandemic. The share of International Development Association–eligible countries in the region at high risk or already in debt distress has expanded from 27 percent in 2015 to 55 percent in 2023 (as of end-June 2023). The debt surge in the region came along with a shift in its composition away from concessional borrowing toward private creditors and non-Paris Club bilateral creditors. As a result, debt service burden and vulnerability to shocks have increased. Rising debt service ratios—at a staggering 31 percent of revenues in the region in 2022—are depleting the resources available to support public investments and social programs. With stagnant exports, it may also reduce the availability of foreign exchange for essential imports needed for production and investment.

- ▶ The global economic environment remains uncertain and unlikely to come to the rescue for Sub-Saharan African countries. The growth resilience experienced in the first half of 2023, with the resilient consumption in the United States and the economic reopening in China, is expected to fade in the second half of this year. In recent months, business sentiment in industry has deteriorated, while that in services has moderated among the region's main trading partners. Global headline inflation has decelerated, although it remains above target in most inflation-targeting countries. The slow pace of reduction in core inflation implies that the risk of de-anchoring inflationary expectations may keep interest rates higher for a longer period. Tightening global financial conditions are increasing sovereign spreads and weakening currencies, thus increasing debt burdens and curtailing access to global capital markets.
- ▶ Amid the domestic headwinds and uncertain global growth, there are “pockets of resilience” in the region. In 2023, the Eastern African community is expected to grow by 4.9 percent, while the West African Economic and Monetary Union (WAEMU) is set to grow by 5.1 percent. Comparing the speed and persistence of per capita growth over the medium term (2001-19) and post-pandemic growth prospects (2022-25) reveals that economic activity has been resilient (above 2.5 percent in both periods) in countries such as Benin, Côte d'Ivoire, Ethiopia, Mauritius, Rwanda, and Uganda. Still, the quality of growth and its sustainability in the future remain a matter of concern.
- ▶ Inflation has been receding but it is still above central bank targets in most countries in the region. The slowdown in global demand, easing of global supply chain disruptions, lower commodity prices, and contractionary monetary policy are contributing to lower inflation. Inflation is expected to slow to 7.3 percent in 2023, down from 9.3 percent in 2022. Yet, 18 countries in the region have average annual inflation rates of two-digits or more in 2023. Inflationary pressures are dominated by higher food and fuel prices, and weaker domestic currencies—thus, eroding household income and, hence, weighing on private consumption. The impact on income and consumption is disproportionately higher among the poor as they spend a greater share of their income on food.
- ▶ Improvement of fiscal balances has been sluggish, although fiscal consolidation is underway in some countries. In fact, fiscal deficits in 2023 are still above pre-pandemic levels for nearly two-thirds of countries in the region. Domestic resource mobilization and greater efficiency in spending are critical to mitigate fiscal and debt sustainability risks, bring down inflation, and create fiscal space for development spending. In 2023, fiscal consolidation efforts in the region are reflected in revenue reforms (for instance, Kenya and Ghana) and subsidy reforms (Angola and Nigeria). Digital tools to improve tax administration and compliance have also been deployed in recent years.

Sub-Saharan Africa's growth has delivered poor job creation and slow poverty reduction

- ▶ Sub-Saharan Africa's growth over the past two decades has not contributed to the creation of jobs for more people. The region grew at a modest annual average rate of 1.4 percent between 1991 and 2019, despite having a growth spell during 2000–14 when output per capita grew at an annual rate of 2.8 percent. The faster growth experienced during this period translated to a modest increase in the share of working age individuals with wage jobs (from 14 to 16 percent).

- ▶ Growth in the region has also been inadequate to reduce extreme poverty and boost shared prosperity. This has been compounded by the lower responsiveness of poverty to growth spells in Sub-Saharan Africa vis-à-vis other regions. The poverty headcount ratio at \$2.15 per day has declined slightly to 37.2 percent in 2023, from a COVID-19 peak of 37.6 percent in 2020, while the number of the poor has increased to 462 million people.
- ▶ Tightening financial conditions weigh on businesses' ability to invest and expand, thus limiting capital deepening and job creation. Rising commercial domestic and international interest rates affect business and household spending plans. High debt service costs reduce the government's margin for financing fiscal policies to support businesses and households. Against this background, African policy makers need to design an inclusive growth strategy to provide steady and productive jobs for the more than 10 million youth that join the workforce each year. Current growth patterns generate only 3 million formal jobs annually, thus leaving many young people unemployed. Creating job opportunities for the youth will drive inclusive growth and turn the continent's demographic transition into a demographic dividend.

Jobs-friendly policy reform could deliver greater welfare to African people

- ▶ The urgent need for job creation is a pressing concern in the region. In Sub-Saharan Africa, only one in six workers has a wage job, compared to one in two in high-income countries. Moreover, the lack of quantity contributes to poor job quality, as defined by unstable employment, inefficient use of skills, lack of appropriate equipment, or inhumane working conditions. This in turn is reflected in high levels of involuntary self-employment and the prevalence of informality. Globally, Sub-Saharan Africa has the highest rates of self-employment and unpaid family employment, leading to depressed worker productivity and limiting workers' earnings for their skills.
- ▶ Lack of capital undermines the structural transformation required for good quality jobs. The development of labor-intensive manufacturing sectors seems to be missing in Africa, with improvements in agricultural productivity leading to service sector growth in urban areas. This translates into poor labor productivity and lack of investment in labor-complementing capital. Capital deepening is the primary driver for growth at lower levels of GDP per capita, yet Sub-Saharan Africa owns only two percent of the global capital stock and accounts for 12 percent of the global working age population.
- ▶ The expected growth of the working age population underscores the urgency of creating good jobs and expanding skill sets. Between 2030 and 2050, Sub-Saharan Africa is expected to account for 90 percent of the growth in the world's working age population. The potential dividends from declining fertility are contingent on productive employment of labor-market entrants. Participation of more women in the labor force is central to fuller gains from the demographic dividend, as they are likely to contribute more to the workforce as family size declines.
- ▶ Urban jobs have hardly increased relative to the working age population despite the rapidly expanding cities on the continent. The urban employment share of the working age population has remained roughly 22-23 percent over the past two decades. Much of the population in the region remains rural and employed in agriculture, which is strongly associated with poverty. Underemployment of agricultural labor, partly due to seasonality, explains much of the labor productivity gap between agricultural and nonagricultural workers in rural communities.

However, the emergence of secondary cities closer to rural populations and movement away from family farming to larger farming operations may set the stage for further development.

- ▶ Development of semi-skilled occupations is severely lacking in the region. Since 1991, the share of semi-skilled occupations has barely risen, from 24 to 27 percent of employment, while high-skilled occupations have remained stagnant at 10 percent. Moreover, although the average years of schooling has increased, the level and quality of learning is still below other regions. Returns to job experience are lower in Sub-Saharan Africa than in the developed world, so shortfalls in school achievement are magnified in their significance. Countries in Sub-Saharan Africa often fall below the trend in the level of human capital for their respective levels of GDP, with the shortfall most pronounced in countries with relatively high levels of income for the region.
- ▶ Lack of firm growth holds back the creation of good quality jobs, as 96 percent of firms have fewer than five employees. Policies that disproportionately affect larger firms—through taxes, regulations, or uneven enforcement—inhibit workforce expansion and lead to misallocation of resources. These policies cause underutilization of labor and capital, high levels of involuntary self-employment, and the prevalence of informal work arrangements, while potentially inefficient larger firms can control markets without interference from competitors.
- ▶ Captured markets constrain firms from creating new jobs. Competition can lead directly to job creation and wage growth, with benefits to downstream markets as well. To a large extent, competition regulation on the continent is in early stages, and improved enforcement, integrated policy, and enhanced transparency in government operations can yield significant opportunities. In this area, expanding technical proficiency and state capacity can lead to increased effectiveness, as shown by a handful of success stories in the region.
- ▶ Infrastructure represents a key barrier to entry for new firms, thus impeding job growth through three main channels: barriers to firm entry, high operating costs, and lack of export competitiveness. These barriers have affected the energy, digital infrastructure, and transport sectors in Sub-Saharan Africa.
- ▶ Export diversification remains a significant issue. The shift in trade from advanced economies to non-African developing economies has not led to a significant transformation and has slowed in recent years, while complexity of exports remains low and is moving in the wrong direction. In contrast, intra-Africa trade is more diversified and has a greater technological content. On average, manufactured goods accounted for about 40 percent of intraregional trade over 2007–17, compared to 16 percent for interregional trade. The African Continental Free Trade Area (AfCFTA) presents significant opportunities for job growth and could potentially lead to the creation of an estimated 18 million new jobs.
- ▶ Even with strong improvements in labor demand, the region will need to provide a path to employment for the most vulnerable to meet the job growth promised by the demographic transition. To a large extent, the gender wage gap reflects employment segregation, representing a loss of potential productivity from the misallocation of female labor. Similarly, poverty can lead to self-reinforcing cycles of joblessness and poor productivity through worse education, health, productivity-enhancing inputs, and access to customers. In fragile and conflict-affected countries, internally displaced populations, refugees, and migrants are especially vulnerable and may have difficulty accessing local opportunities and resources.

POLICY RESPONSES

- ▶ Sub-Saharan Africa faces the challenge of creating better jobs for more people. This will require an ecosystem that facilitates firm entry, stability, and growth as well as skill development that matches business demand. A strategy that enables firm growth and delivers high-quality jobs would rest on the following pillars: (1) fiscal stabilization and debt reduction, (2) political stability and a stronger institutional framework to support markets, and (3) demand-driven skills and improved organizational transformation of work.

Achieving inclusive growth through fiscal stabilization and debt reduction

- ▶ Creating fiscal space is necessary to curb inflation and support economic activity in Sub-Saharan Africa. Mobilizing tax revenues and broadening the tax base are critical if African countries are to finance investments in the human capital, health, and infrastructure needed for firm entry and growth. Improving the tax structure, imposing new taxes (say, on land valuation and soft drinks), introducing effective carbon-pricing policies, and streamlining tax exemptions are essential. The region needs to rely on innovative approaches by leveraging digital solutions to improve tax administration and compliance and raise revenues from underutilized sources of taxation like property taxes. Curbing illicit financial flows could potentially bring in US\$89 billion per year to Sub-Saharan African economies.
- ▶ Government debt reduction and improved debt management—including efficient debt restructurings—would help to restore the sustainability of the public sector. National debt management policies should emphasize greater transparency, participation, accountability, coherent decision making, and effective institutional arrangements. New government borrowing should follow publicly disclosed, predictable, and binding legal procedures—including the terms and conditions of loan contracts. Finally, improving the comparability of treatment during the restructuring process should involve coordinated and simultaneous negotiations across the wider array of creditors in the region, and the use of net present value debt reduction based on common discount rates.

Ensuring political stability and strengthening institutions to support the market economy

- ▶ The democratic process in Sub-Saharan African countries needs to be strengthened. The approach should be people-centered, enhance community resilience, and rebuild the social contract between citizens and the state. Efficient provision of public goods and services across the country—especially in at-risk areas—would reinvigorate the legitimacy of the state.
- ▶ Strengthening state capacity is critical for creating an environment in which markets can function. Building up state capacity to deliver public goods, such as citizen security and social and physical infrastructure, as well as management of investments in human capital, is essential for Sub-Saharan African countries. Greater state capacity would increase trust in government officials and the functioning of political participation mechanisms. Lack of state capacity, a feature of many fragile states, can be conducive to lackluster economic growth and low income, as well as greater incidence of conflict and civil war.

- ▶ Transformational growth requires designing and implementing regulatory frameworks that foster transparency, competition, and innovation. These frameworks would support institutions to bolster the business environment, which would yield high-quality jobs. Securing property rights, protecting investors (including minority shareholders), and guaranteeing contract enforcement are also essential. Shoring up independent institutions that enforce competition laws can also contribute to a well-functioning market economy.
- ▶ Another key policy would be to strengthen national and supranational institutions that support regional cooperation and integration. This would lead to economies of scale and agglomeration that would enable technology adoption, innovation, and greater competition on the continent. Effective implementation of the AfCFTA has the potential to deliver such promise. Empowering the AfCFTA Secretariat is essential to align and coordinate the concerted efforts of regional economic communities and member states.

Supporting demand-driven skills and promoting organizational transformation of work

- ▶ Skill development and greater labor mobility will increase the productivity of the region's economies, expand employment, and increase wages. For this to happen it is important to lay the foundations of human capital development. Interventions that improve learning in school are more cost-effective than those boosting school attendance alone. Teaching basic reading skills and early nutrition form the foundation. Cash transfers, either unconditional or conditional, have proven effective in increasing girls' school enrollment and attendance, as well as in curbing pregnancies among out-of-school girls and in-school girls. Vocational education can be useful for addressing the underemployed and those who have missed out on education as children. Participation should be based on the aptitudes and motivation of students, with attention to inclusion.
- ▶ Private sector reforms need to be cost effective. Regulatory improvements and more strategic enforcement can lead to significant benefits without significant costs. An organizational transformation of work would imply identifying constraints to firm entry, firm stability, and growth, and attracting investments.
- ▶ Identifying, nurturing, and supporting entrepreneurs is a cost-effective way to encourage economic activity in a country. African countries need a more comprehensive policy to integrate competition principles into sectoral and economywide regulation. Competition authorities can provide great value as advocates for regulation that ensures entry to markets, and active promotion of market access can counteract social barriers, including advancing gender equality.

- ▶ Private sector expansion requires stability and growth of firms. Size-dependent policies can have severe limiting effects on economic growth and productivity as they implicitly subsidize the least productive firms and tax the most productive ones. For example, differentiated tax rates, regulatory thresholds in licensing, and higher levels of enforcement as firms increase in size can create threshold effects for hiring beyond specific numbers of employees.
- ▶ Finally, the region's economies need to expand markets and attract international business to achieve scale. Effective implementation of the AfCFTA has the potential to stimulate trade-driven growth through shifting trade patterns toward less resource-oriented exports. However, the track record for implementing trade agreements in the region is not strong, and significant regulatory inconsistencies and non-tariff barriers remain. In addition, trade facilitation should include expansion of technical capacity and institutional controls over government agencies responsible for monitoring and managing cross-border trade.

Section 1. Recent Trends and Developments

1.1 GROWTH AND POVERTY

Growth of economic activity in Sub-Saharan Africa (SSA) is expected to have further slowed from 3.6 percent in 2022 to 2.5 percent in 2023—a downward revision of 0.6 percentage point from the forecast in the April 2023 edition of *Africa's Pulse*. More than half of the countries in Sub-Saharan Africa (28 of 48) have been downgraded in their 2023 growth estimates. Notably, the growth forecast for Sudan has been revised downward by 12.5 percentage points as the armed conflict triggered in April 2023 has damaged the country's industrial base as well as education and health facilities. It has also led to

a collapse in activity—including commerce, financial, and information and communications technology services—and the erosion of state capacity, with detrimental impacts on food security and forced displacement.¹ Excluding Sudan, growth in the region is set to be 3.1 percent, with a downgrade of only 0.2 percentage point from the previous issue of *Africa's Pulse* (figure 1.1). Other countries with large downward revisions in their 2023 growth forecasts include Niger (4.6

percentage points), which is grappling with the economic fallout from an unpredictable military takeover; the Central African Republic (1.7 percentage points), Guinea-Bissau (1.7 percentage points), Angola (1.3 percentage points), and Zambia (1.5 percentage points).

Economic growth in the region is being stifled by a series of homegrown factors, including monetary and fiscal policy tightness in response to high inflation and fiscal unsustainability, high risk of debt distress, structural constraints such as energy and transportation bottlenecks, and rising conflict and violence manifested in a series of events such as coup d'états, protests, and heightened social unrest across Sub-Saharan African countries. The impact of these domestic developments is magnified by uncertainty in the global economy—with a recovery that appears to have slowed amid divergences across regions. While household consumption in the United States remains strong as labor markets continue to be resilient, the euro area and China appear to be underperforming. The lifting of the coronavirus restrictions has led to a shift in the patterns of consumption throughout the world, signaled by a greater demand for services and a lower demand for manufactured goods. Persistent inflationary pressures—as captured by sticky and above target core inflation—may keep interest rates higher for a longer period. In turn, the real

FIGURE 1.1: Real GDP Growth in Sub-Saharan Africa: Large Economies Continue to Be in a Slump



Source: World Bank staff projections.

Note: e = estimate; GDP = gross domestic product; SSA = Sub-Saharan Africa.

¹ The magnitude of the downgrade in Sudan explains about three-quarters of the size of the downgrade for the entire region.

effects of the elevated interest rates among advanced countries have manifested in tighter lending standards and a weaker demand for credit. In Sub-Saharan Africa, the impact of the higher interest rates is felt through the public finances, as countries in the region continue to grapple with the elevated cost of debt, which restricts the space for priority development spending.

Economic activity in Sub-Saharan Africa is projected to accelerate to 3.7 percent in 2024 and 4.1 percent in 2025—a signal that growth in the region has bottomed out this year. The growth forecast for the region in 2024 has remained unchanged, while that in 2025 has been revised upward by 0.2 percentage point, compared to the April 2023 forecast. Growth in the region is expected to accelerate in the forecasting horizon, supported by a recovery in global output and trade, lower global inflation, and gradual easing of global financial conditions. Commitment to monetary and fiscal policy to restore macroeconomic stability in the region would help to boost households’ incomes and shore up business confidence.

Sub-Saharan Africa’s growth in 2023 was supported by gross fixed investment, although its contribution was smaller due to increased financing costs

Growth in Sub-Saharan Africa in 2023 was primarily supported by higher gross fixed investment, government consumption, and net exports (figure 1.2). High rates of inflation, fueled by food and energy prices as well as weaker currencies, have eroded the purchasing power of African citizens and, hence, explain the contraction of private consumption and its negative contribution to growth in 2023. The contribution of gross fixed investment, although positive, has declined this year as the (domestic and external) cost of financing remains elevated amid tightened financial conditions. The current account deficit declined in 2023 from the previous years as import growth decelerated at a faster rate than exports amid sluggish growth and weaker currencies. From the production perspective, the service sector continues to be the main driver of growth—accounting for nearly two-thirds of the recorded increase in gross domestic product (GDP) in 2023 (figure 1.3). The agriculture and industrial sectors made modest contributions. Rising costs of inputs and continued supply chain disruptions reduced the contributions of agricultural and industrial activities.

FIGURE 1.2: Contribution to GDP Growth, Demand Side

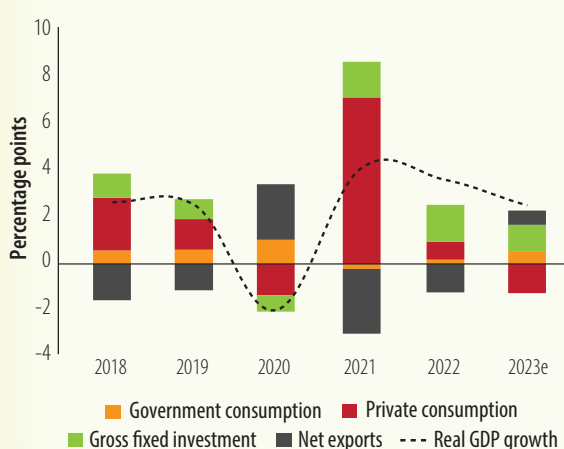
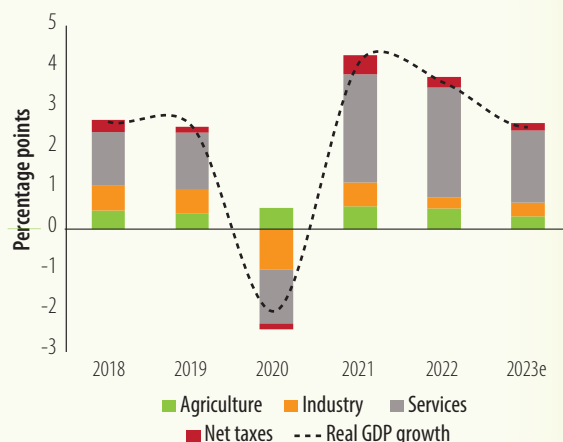


FIGURE 1.3: Contribution to GDP Growth, Production Side



Source: World Bank staff projections.

Note: Change in inventories and statistical discrepancy are not displayed. e = estimate; GDP = gross domestic product.

The modest economic performance in the region translates into a slower path of poverty reduction and inclusive growth

The sluggish recovery of economic activity from the poly-crisis² in Sub-Saharan Africa, projected in per capita terms, is characterized by a contraction of 0.1 percent in 2023 and an average expansion of 1.4 percent in 2024-25. It clearly falls short of putting the continent back on the pre-pandemic trajectory of poverty reduction. The poverty headcount ratio, measured as the percentage of the population living on less than \$2.15 a day, is expected to decline from a COVID-19 peak of 37.6

percent in 2020 to 37.2 percent in 2023, and to drop further to 36.1 percent in 2025 (figure 1.4).

Given the demographics in the region, this translates into an increase in the number of people living on less than \$2.5 per day from 433 million in 2020 to 462 million in 2023. It will increase further to 472 million people in 2025 (figure 1.5). Across the subregions, the weaker recovery in Eastern and Southern Africa (AFE)

compared with Western and Central Africa (AFW) is partly associated with a deceleration in the growth of investment and lower institutional quality over the past years. In per capita terms, the AFE subregion is set to contract at a rate of 0.8 percent in 2023, a larger downturn than that of the region as a whole. Growth performance is expected to remain subdued in the near term, increasing gradually to 1.3 percent in 2025. This outlook poses challenges to policy makers who seek to accelerate the recovery, reduce poverty, and put the economy on a sustainable growth path. Growth per capita in the AFW subregion is set to grow at a faster pace than that of the AFE subregion (0.7 percent in 2023 and 1.8 percent by

FIGURE 1.4: Headcount Poverty Ratio in Sub-Saharan Africa, by Subregion

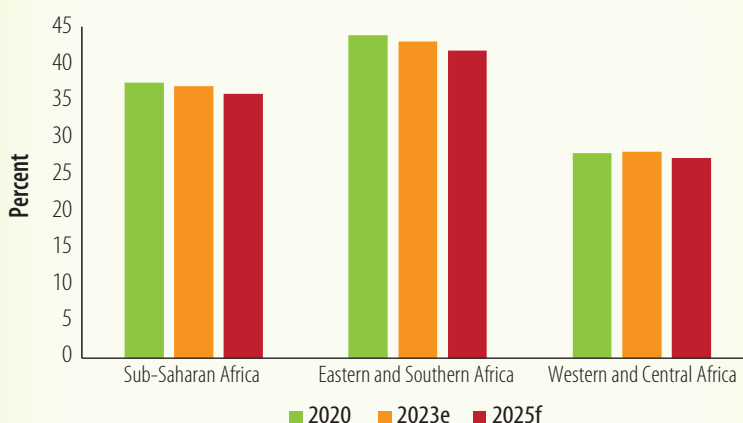
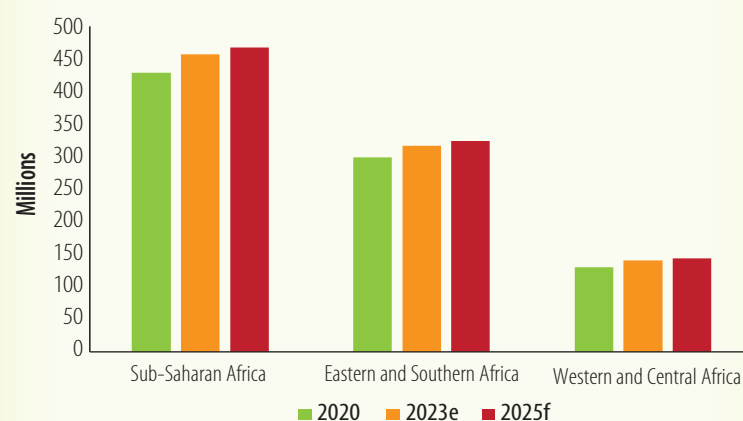


FIGURE 1.5: Number of the Poor in Sub-Saharan Africa, by Subregion



Source: World Bank staff estimates and projections.

Note: The headcount poverty ratio is based on US\$2.15 per person per day in constant 2017 international dollars using purchasing power parity rates. e = estimate; f = forecast.

² Poly-crisis refers to the occurrence of multiple catastrophic events, such as the climate crisis, the COVID-19 pandemic, and the war in Ukraine.

2025). However, it faces similar challenges. The poverty headcount ratio is considerably higher in AFE (43.2 percent in 2023) than in AFW (28.2 percent in 2023), although the former region has experienced a faster reduction in poverty rates.

Recent studies of growth spells across the world suggest that the responsiveness of poverty to economic growth in Sub-Saharan Africa is systematically lower relative to other regions.³ A weaker relationship between GDP and household consumption growth in Sub-Saharan Africa appears to drive this lower elasticity—thus suggesting that African countries need to achieve higher growth per capita to achieve similar improvements in average living standards as households in other regions. Policies that foster human capital formation (such as improving the quality of primary education and access to safe water and sanitation), the structural transformation of African economies (by improving agricultural productivity and inducing the shift toward nonagricultural jobs), and economic diversification (particularly away from extractive-based activities) would help to ensure that the benefits of growth are shared more equally across the population and have a larger impact on poverty.⁴

Growth across Sub-Saharan African countries: A tale of different subregions

The recovery of economic activity in Sub-Saharan Africa is characterized by subregions that are overperforming (compared to the regional average) and others that are underperforming. For instance, regions such as the East African Community and the West African Economic and Monetary Union (WAEMU) are performing better than the regional average in 2023, while the Economic and Monetary Community of Central Africa (CEMAC) and the largest countries in the region (Nigeria and South Africa) have underperformed. The wide variation of growth across countries in the region is confirmed by the coexistence of swaths of high growth and pockets of low growth that correlate with economic and political stability (or lack thereof). Box 1.1 characterizes the resilience of growth per capita across Sub-Saharan African countries by examining their post-crisis performance vis-à-vis their performance over the first two decades of this century.

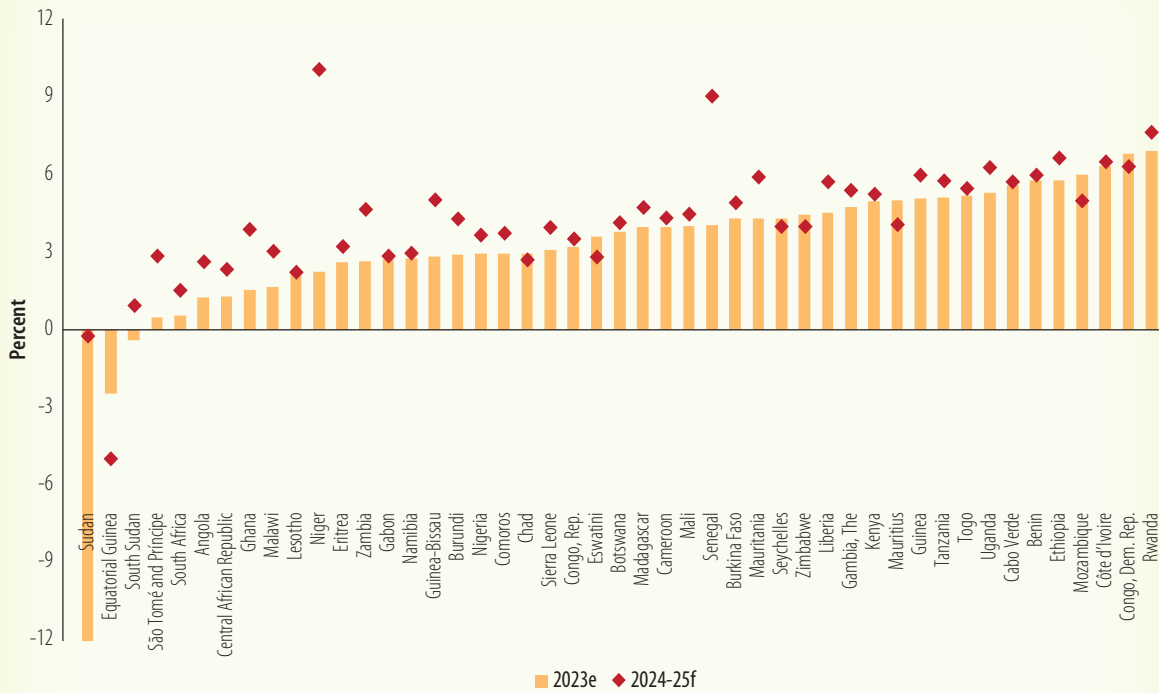
Sub-Saharan Africa's modest growth in 2023 is still driven by large countries in the region recording growth rates that are lower than their performance over the first two decades of the century. In 2023, about 60 percent of the countries in the region are growing at rates below their average growth in 2001–19. Among the 10 largest economies in Sub-Saharan Africa—which represent more than three-quarters of the region's GDP—seven are growing at rates that are below their long-term average growth. Sudan, Ghana, and Angola are among the countries with weaker performance in 2023 compared to their 2001–19 growth rates. However, growth is expected to accelerate for most countries as the predicted annual average growth rate for 2024–25 is higher than that of 2023 for 39 of 47 countries in the region (figure 1.6).

Economic activity in South Africa is expected to remain subdued, with growth decelerating sharply to 0.5 percent in 2023 from 1.9 percent in 2022. Structural constraints—including the severe energy crisis and transport bottlenecks—are holding back the economy. Scheduled power outages have increased in 2023, thus holding back manufacturing and mining. Poor

³ Wu, Atamanov, and Bundervoet (2023).

⁴ Cuevas, Narayan, and Sinha (2023).

FIGURE 1.6: Growth across Sub-Saharan African Countries in 2023



Source: World Bank staff estimates and projections.

Note: The long-term average growth for each country (as denoted by the red diamonds) is the average gross domestic product growth during 2000–14 (prior to the plunge in commodity prices). e = estimate; f = forecast.

port and rail performance have stymied domestic and foreign trade—thus limiting the ability of commodity exports to reach their destinations. In Nigeria, growth is set to decelerate from 3.3 percent in 2022 to 2.9 percent in 2023. Oil production remains below the OPEC+ quota amid capacity issues and lower international oil prices. Non-oil economic activity—particularly industry and services—still supports growth, although policy actions to remove fuel subsidies and unify the exchange rates might be weighing on these activities in the short term. After signs of growth acceleration in 2022, economic activity in Angola is set to grow at 1.3 percent in 2023. Maturing oil fields, insufficient investments, and lower oil prices contributed to a softening in oil production—thus, deteriorating fiscal and external balances and putting pressure on the kwanza. The weakening of the currency is also affecting investment and production in non-oil sectors.

Some countries are growing at a faster pace than their long-term rates and showing resilience amid the current poly-crisis environment. In Kenya, growth remains resilient this year despite political tensions that were partly due to the higher cost of living. Economic activity will increase by 5 percent in 2023, up from 4.8 percent in 2022, thanks to an expansion in agriculture and a pick-up in private consumption. Commitment to bringing down inflation to the target range and fiscal consolidation remain critical for achieving macroeconomic stability and fostering private sector-driven growth. In Côte d'Ivoire, the economic recovery remains strong—GDP is expected to rise by 6.3 percent in 2023. Industry, particularly manufacturing, is the main engine of growth. Extreme weather in the middle of the year may have weighed on

cocoa production and exports. Economic activity in the Democratic Republic of Congo appears to have lost some steam, as growth is expected to decelerate to 6.8 percent in 2023 (from 8.9 percent in 2022). The mining sector continues to be the main driver of growth; however, weaker prices and slower growth in the production of cobalt and copper have contributed to a deceleration of mining output growth to 12 percent in 2023 (from 23 percent in 2022). Non-mining growth is supported by an expansion in services. An increase in net exports—as a result of increased exports outpacing increased imports—supported economic activity on the demand side. Rising inflation, by contrast, weighs on private consumption.

Resource-rich countries

The growth effects of commodity prices on resource-rich countries depend on the net effects on trade. In countries where exports were offset by more rapid growth of the import bill, the current account deficit widened and economic activity decelerated. The opposite holds in countries with narrowing current account and fiscal deficits. In *oil abundant countries*, lower international oil prices and underperformance in terms of output—on average—have led to a narrowing of the current account surplus. This rendered a deceleration in aggregate output from 3.1 percent in 2021 to 2.5 percent in 2023. After emerging from long and protracted recessions in 2022, growth in the Republic of Congo and Chad accelerated in 2023 to 3.2 and 3.0 percent, respectively. The current account and fiscal surpluses narrowed in both countries during 2023. In the Republic of Congo, greater oil and mining output (iron ore and potash) led to an increase in net exports in 2023. Investments in the oil sector and rising activity at some wells are boosting oil output in 2023, although it remains below the OPEC+ quota. Greater investment expenditure is expected to be driven by the development of the gas sector. Economic activity in Chad was supported by better performance of both oil and non-oil sectors. Non-oil output growth is projected at 2.2 percent, driven by greater public investment. Specifically, the sectors with the largest contributions to GDP growth in Chad in 2023 are industry (primarily driven by the oil sector), services, and agriculture. Export proceeds are set to increase by 0.6 percent in 2023 because of high oil prices and an increase in oil production amid the Sudan border closure. This has resulted in a current account surplus of 2.2 percent of GDP this year.

Real output growth in *mineral and metal resource-rich countries* continued decelerating from 3.3 percent in 2022 to 1.7 percent in 2023. The growth projected in April 2023 has been downgraded by 0.3 percentage point as robust mining exports (thanks to increased capacity in some countries and favorable prices) have not offset the increase in the import bill. In Botswana, growth is expected to slow from 5.8 percent in 2022 to 3.8 percent in 2023 due to a decline in the global demand for diamonds and weaker prices. Uncertainty in the diamond sector receded as the government extended its diamond sales agreement with De Beers for a decade and extended the Debswana diamond licenses for the next 25 years. In addition, De Beers will annually capitalize the Diamond Diversification Fund, which is expected to reach \$750 million in the next decade. Inflation has declined at a faster-than-expected pace thanks to a drop in oil prices and, hence, transportation inflation. However, food inflation remains high—thus disproportionately hurting low-income households' consumption.

BOX 1.1: How Resilient Is the Post-Crisis Recovery across Sub-Saharan African Countries?

The taxonomy of growth resilience, which was introduced in volume 14 of *Africa's Pulse*,^a describes different groups of growth performers in the region according to the speed and persistence of the rate of gross domestic product (GDP) growth per capita. This analysis provides a broad picture of recent economic performance in Sub-Saharan Africa. It examines the strength of the growth prospects from the poly-crisis with respect to the economic performance during 2001–19 (figure B1.1.1). This issue revisits this classification by comparing annual average growth per capita rates for 2022–25 vis-à-vis those in 2001–19.⁵ The thresholds used to classify the countries are still the top and bottom terciles of the average annual GDP growth per capita of 43 countries in the region during 2001–19—that is, 2.6 and 1.4 percent, respectively.

FIGURE B1.1.1: Taxonomy of Growth per Capita in Sub-Saharan Africa, 2001–19 vis-à-vis 2022–25



Source: World Development Indicators, World Bank.

Note: The growth taxonomy compares the average annual rate of GDP growth during 2001–19 and 2022–25 against predetermined thresholds. These thresholds correspond to the 33rd and 67th percentiles of the annual average growth rate across 43 Sub-Saharan African countries during the first two decades of the 21st century (1.4 and 2.6 percent, respectively). Once the thresholds are established, the taxonomy classifies growth performance into five groups: (a) falling behind, (b) slipping, (c) stuck in the middle, (d) improved, and (e) established. For more details, see *Africa's Pulse*, volumes 14 and 15. GDP = gross domestic product.

The top tercile of growth performers in the region includes 10 improved and six established countries. According to our criteria, Côte d'Ivoire, Cabo Verde, Ethiopia, Mauritius, Rwanda, and Uganda comprise the group of established performers. The improved ones include Benin, Botswana, the Democratic Republic of Congo, Guinea, Kenya, Liberia, Mauritania, Niger, Senegal, and Togo. The combined group of countries houses 39.6 percent of Sub-Saharan Africa's population (472 million people in 2022) and produces 26.3 percent of the region's total GDP.

⁵ Comparison of growth per capita between 2010–14 and 2022–25 was undertaken and the results were qualitatively similar.

BOX 1.1 *continued*

The middle tercile of growth performers, also known as “stuck in the middle,” includes nine countries (Cameroon, Eswatini, The Gambia, Guinea-Bissau, Madagascar, Mozambique, Namibia, Sierra Leone, and Tanzania). This group accounts for about 15 percent of the region’s population (178 million people in 2022) and 9.0 percent of the region’s GDP. Eighteen countries are in the bottom tercile of growth performers—of which seven are in the group of falling behind countries, and 11 are considered slipping performers. Burundi, the Central African Republic, the Republic of Congo, the Comoros, Gabon, Sudan, and South Africa belong to the group of falling behind performers. The group of countries where growth is slipping consists of Angola, Burkina Faso, Chad, Equatorial Guinea, Ghana, Lesotho, Mali, Malawi, Nigeria, São Tomé and Príncipe, and Zambia. These two groups of countries account for 43.7 percent of the region’s population (541 million people in 2022) and produce 65 percent of the region’s total GDP.

a. World Bank (2016).

Economic activity in Namibia is projected to grow at a slower pace of 2.8 percent in 2023, down from 4.6 percent in 2022. The growth deceleration takes place on the back of relatively high inflation and monetary tightening and lower growth in South Africa and Europe. In contrast, growth was supported by greater mining output—in particular, uranium and diamonds—thanks to mineral exploration activities. On the demand side, growth was supported by investments and net exports, while private consumption was subdued amid higher inflation and rising interest rates. In Zambia, growth is expected to remain subdued at 2.7 percent in 2023 (down from 4.7 percent in 2022), as an increase in activity in the manufacturing and financial sectors was offset by poorer performance in the agriculture, mining, and energy sectors. The current account continued to record a surplus for a fifth consecutive year (3.8 percent of GDP in 2023), and the fiscal deficit is expected to continue narrowing. Zambia is in talks with foreign bondholders to restructure an additional US\$3 billion in debt, after reaching a US\$6.3 billion debt restructuring agreement with official creditors in June.

In 2022, the economy of Niger expanded at a fast pace due to increased mineral and oil exports as well as construction activity, including infrastructure projects such as the Kandadji dam. Growth is expected to decelerate sharply to 2.3 percent in 2023 as the Economic Community of West African States imposes strict economic, financial, and trade sanctions on the military junta that deposed President Mohamed Bazoum at the end of July. The sanctions could delay oil exports from the pipeline that were supposed to start by December 2023. In the wake of the military coup, the International Monetary Fund (IMF) has suspended its program with Niger, and international partners may reduce budgetary grants. Greater military and social spending will put pressure on the fiscal balance. Economic activity in 2023 is projected to have slowed in Liberia (4.5 percent), Mauritania (4.3 percent), and Sierra Leone (3.1 percent), while it may have expanded in Guinea (5.1 percent). Overall, growth in resource-rich countries is expected to have decelerated from 3.2 percent in 2022 to 2.2 percent in 2023.

Non-resource-rich countries

The economic fallout from the poly-crisis continues to drag the growth of non-resource-rich countries amid onerous import bills due to unfavorable terms of trade. Growth of the real GDP of non-resource-rich countries has dropped by 1.3 percentage points, to three percent in 2023. For this group of countries, inflation in 2023 has declined slightly to 7.3 percent (from a peak of 8.3 percent in 2022), the current account deficit has narrowed to 4.6 percent of GDP in 2023, and the fiscal deficit was reduced to 4.3 percent of GDP. Tightening of monetary policy as a result of record inflation in 2022 may have weighed on economic activity. The growth forecast for the countries in the WAEMU is expected to be 5.1 percent in 2023, down from 5.8 percent in 2022—and 0.4 percentage point lower than the April 2023 *Africa's Pulse* forecast. Real GDP growth decelerated from 2022 in Benin (which is expected to grow by 5.8 percent in 2023), Togo (5.2 percent), Guinea-Bissau (2.8 percent), and Côte d'Ivoire (6.3 percent), while it expanded from the previous year in Burkina Faso (4.3 percent in 2023), Mali (4 percent), and Senegal (4.1 percent). Fiscal and current account deficits in the WAEMU have narrowed in 2023 (to 5.3 and eight percent of GDP, respectively) but remain large.

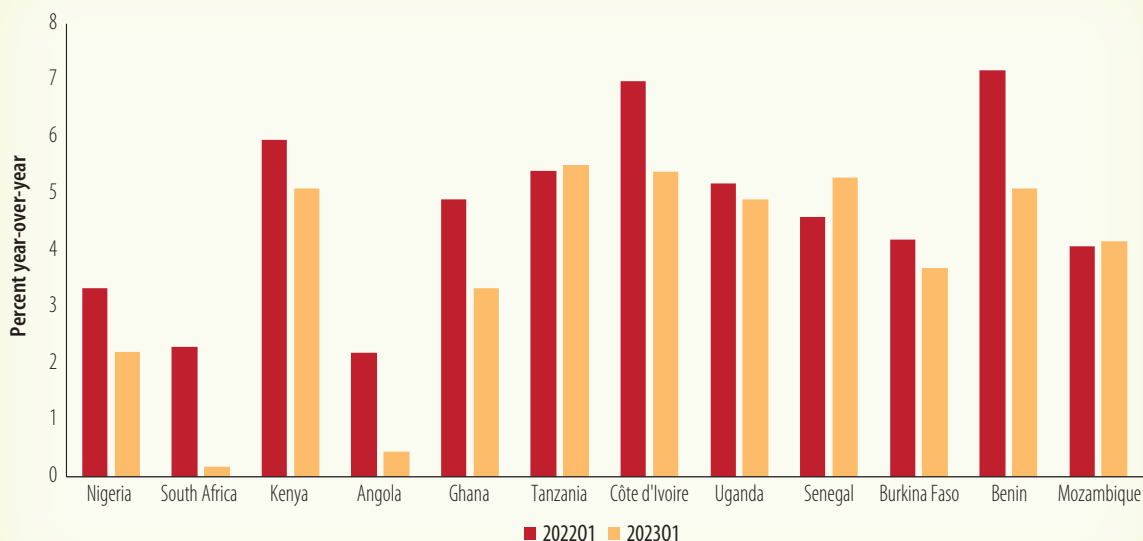
Outside the WAEMU, growth in Ghana is expected to decelerate from 3.1 percent in 2022 to 1.5 percent in 2023, and significantly below its average pre-pandemic growth (6.1 percent). Growth will be held back by high and persistent inflation, lower credit as a result of elevated interest rates, and weakness in the energy sector. These drivers will operate through a slowdown in the growth of household consumption and investment. Efforts toward fiscal consolidation will also hamper aggregate demand in the economy. From the production perspective, economic activity is dampened by poor performance in agriculture due to high input prices and the impact of the cocoa swollen shoot virus. In contrast, the extractive sectors appear to be supporting growth thanks to robust demand for the country's oil and gold. Commitment to restore debt sustainability is reflected in the completion of a comprehensive domestic debt exchange program and its proactive negotiation with external creditors, as well as the implementation of a series of fiscal consolidation measures. Eliminating monetary financing of the deficit and restricting central bank foreign exchange market interventions might help to reduce inflation, reconstitute reserves, and bolster investor confidence.

Real GDP growth in Ethiopia is expected to ease from 6.4 percent in 2022 to 5.8 percent in 2023, due to the intensification of fiscal and external pressures. Agriculture and services continue to support economic activity; however, acute foreign exchange shortages, the suspension of the country's African Growth and Opportunity Act beneficiary status, and lingering conflict in the northern part of the country are affecting the manufacturing and construction sectors. Similarly, economic activity decelerated in Mauritius from 8.8 percent in 2022 to five percent in 2023. The sustained recovery of the tourism sector underpins growth in the country—although the slower pace in 2023 is attributed to the impact of sluggish growth in Europe on international arrivals and a still tight monetary policy to fend off inflation.

High-frequency data point to mixed results in performance across African countries

Quarterly real GDP data for Sub-Saharan African countries reveal that the largest economies in the region had a softer start in 2023 compared to the first quarter of the previous year (figure 1.7). An uncertain trajectory for the global economy coupled with easing commodity prices and tight global financial conditions (as a result of still high global inflation) are among the external forces that might have influenced the slower start of the year. Inadequate power supply, a slowdown of the production in extractive resources (oil and mining), fiscal consolidation efforts,

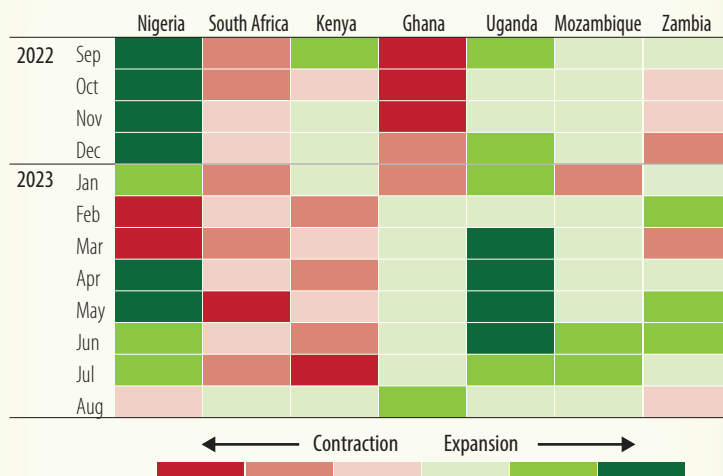
FIGURE 1.7: Real GDP across Selected Countries in Sub-Saharan Africa, 2022–23



Sources: Haver Analytics; Bloomberg Analytical Services.

Note: The figure presents the year-over-year growth of the first quarter of 2022 and 2023.

FIGURE 1.8: Purchasing Managers' Index across Sub-Saharan African Countries (seasonally adjusted)



Sources: Haver Analytics; Bloomberg Analytical Services.

Note: The figure plots the evolution of the Purchasing Managers' Index across countries in the region. Red (green) colors denote contraction (expansion). Darker (lighter) shades of the color denote that the contraction or expansion is larger (modest).

and foreign exchange and cash shortages were among the international factors contributing to the softening of real economic activity in the first quarter of 2023. More recent activity indicators in manufacturing and services across countries in the region show mixed results for the second quarter as well as the months of July and August (figure 1.8). On the one hand, Nigeria and Zambia have recorded a contraction in activity

in August (composite of manufacturing and services). Weak business confidence and rising input costs are driving the contraction of activity. For the rest of the countries, the Purchasing Managers' Index (PMI) signals an expansion in economic activity, although at a slower pace. Modest improvements in business conditions, an expansion of new orders (although at a slower pace), and buildup of inventories due to increases in input purchases were the main contributors. Firms are more optimistic about economic conditions in Ghana and Uganda, while business confidence appears to have weakened in Nigeria.

Eastern and Southern Africa

At the subregional level, inflationary pressures are receding in most AFE countries—and, in some cases, they are within or close to medium-term targets (for instance, Kenya, South Africa, and Uganda). It is likely that these countries may pause their hiking cycle, while others may need to continue to finetune policy to reduce inflation further (Angola, Ethiopia, and Nigeria). Economic performance has been widely heterogeneous across countries in the subregion.

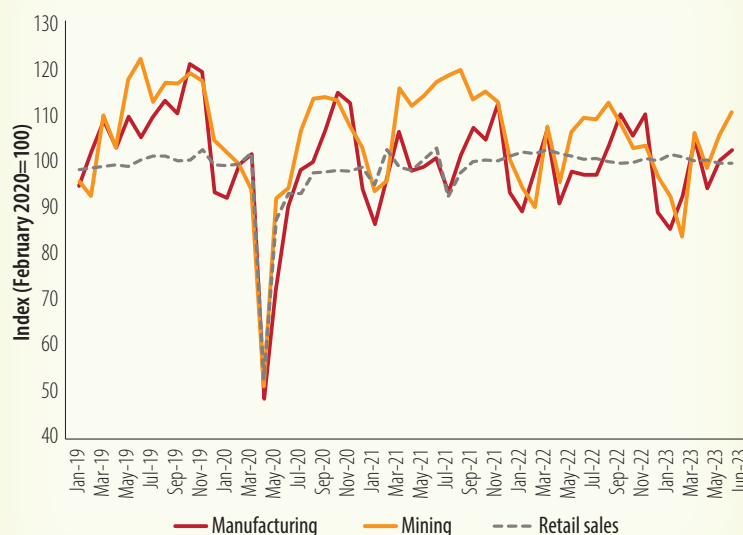
In South Africa, consumer inflation continued to decline, from 5.4 percent in June to 4.7 percent year-over-year (YoY) in July 2023—thus falling near the midpoint of the central bank's target range (3 to 6 percent). Lower prices of food and nonalcoholic beverages as well as transport (including fuel prices) were the main contributors. As a result of the lower inflation, the South African Reserve Bank (SARB) put a pause on its hiking cycle during the Monetary Policy Committee meetings since July. There is concern that the fiscal outlook has started to deteriorate: the government budget moved to a deficit of 143.8 billion rand in July from a surplus of 36.7 billion rand in June.

The return to budget deficits is partly attributed to higher interest payments and the larger-than-budgeted wage bill, among others.

High-frequency activity suggests that the economy managed to avoid a contraction in the second quarter of 2023 (figure 1.9). Manufacturing production rose 2.3 percent YoY in July (-1.6 percent month-over-month (MoM)) after jumping by 5.5 percent YoY in June. Industrial activity hence recorded its fourth straight month of expansion

although at a slower pace. The growth in manufacturing output is partly attributed to increases in electrical machinery; vehicles, parts and accessories; and other transport equipment. Mining production declined by 3.6 percent YoY in July (-1.7 percent MoM), after a 1.3 percent increase

FIGURE 1.9: Manufacturing, Mining, and Retail Sales in South Africa, 2019–23 (February 2020 = 100)

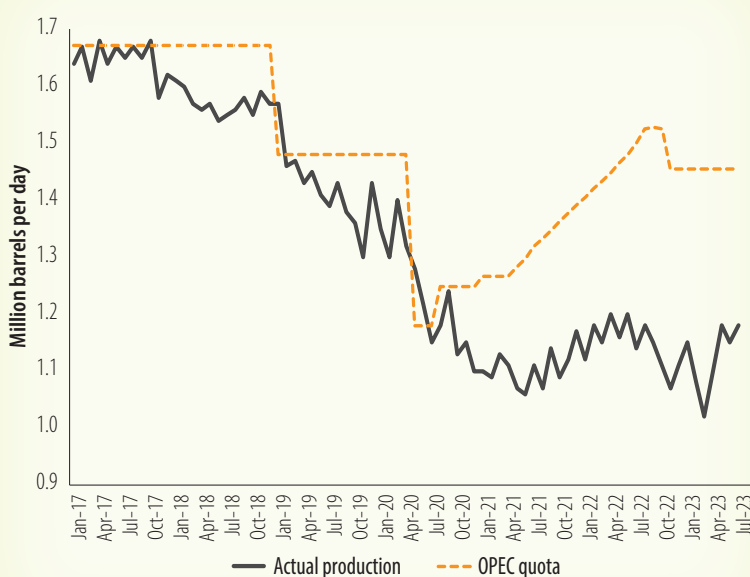


Sources: Haver Analytics; OPEC; International Energy Agency.

in June (1.2 percent MoM). In mining activity, output fell sharply for diamonds (-33.4 percent YoY), nickel (-16.3 percent), platinum group minerals (-10.4 percent), and coal (-7 percent). Electricity availability has improved over recent months but remains significantly below the peak recorded in the last decade. By contrast, retail sales continue to disappoint, registering a 0.9 percent YoY drop in June (+0.2 percent MoM), after declining by a revised 1.6 percent YoY in May (-0.9 percent MoM). More timely indicators signal that economic activity is struggling to sustain this momentum at the start of the third quarter. The seasonally adjusted ABSA PMI came in at 47.9 in August, up from 47.3 in July, the seventh consecutive month below the 50-point mark that separates expansion from contraction. The contraction is driven by more intensive load-shedding and the Western Cape tax strike. Widespread absenteeism was registered in many sectors as commuters could not reach their workplaces.

Angola expanded over the past three years after five consecutive years of contraction in economic activity. GDP is expected to grow at 1.3 percent in 2023, down from three percent in 2022. The growth momentum started to lose some steam by the end of 2022 (2.7 percent YoY in the fourth quarter, down from 4.4 percent in the previous one) and the deceleration in economic activity continued in the first quarter of 2023. Economic activity expanded by only 0.4 percent YoY in the first quarter of 2023—and it contracted by 1.1 percent on a quarterly basis.⁶ Weakness in the oil sector explains the recent growth slowdown in Angola. Oil production averaged 1.14 million barrels per day (mbpd) in the second quarter this year, down from nearly 1.2 mbpd in the same quarter of the previous year. Angola’s oil production continues to be below the OPEC+ quota of 1.46 mbpd. The level of production was at least 20 percent below the quota over the past 12 months (figure 1.10). Diminishing output as oil fields mature, high production costs, and inadequate levels of investment over the past years are key for

FIGURE 1.10: Monthly Crude Petroleum Production in Angola, 2017–23



Sources: Haver Analytics; OPEC; International Energy Agency.

understanding the poor performance of the sector. In addition, Angola had to grapple with less favorable oil prices: the average price of crude petroleum across the country’s oil fields dropped sharply to US\$73.7 per barrel in June 2023, down from a peak of US\$121.0 per barrel in July 2022—thus leading to a decrease in oil revenues that has impacted both the balance of payments and the government balance.⁷ As a result, the kwanza has contracted sharply since

6 On a quarterly basis, exploration and refining—the largest sector of the economy—contracted by 15.4 percent, its largest collapse since the last quarter of 2019. Diamond output and transport storage shrank 24.6 and 19.5 percent, respectively.

7 The poor performance of the oil sector in the first half of 2023 was also due to maintenance operations at one of the largest oil fields (Dália).

the second quarter of this year as the National Bank of Angola decided to stop defending the currency. The (year-to-date) 40 percent devaluation of the kwanza will heighten inflationary pressures and may prompt the National Bank of Angola to tighten monetary policy further.

Economic activity in Kenya continued to accelerate at the start of the year. GDP growth increased from 3.3 percent YoY in the last quarter of 2022 to 5.1 percent YoY in the first quarter this year. The acceleration of GDP was broad-based across all sectors of activity.⁸ Improved weather conditions, which alleviated the severe drought afflicting the country, drove the surge in agricultural output. The sector grew 5.8 percent YoY in the first quarter of this year, up from a 0.9 percent contraction in the last quarter of 2022. A seven percent slump in the shilling against the dollar during the quarter increased earnings of key farm exports such as tea, flowers, fruits, and vegetables. Growth in the retail and wholesale trade sector also accelerated to 5.7 percent in the first quarter, up from 2.7 percent in the previous quarter. Manufacturing sector growth increased slightly to two percent YoY in the first quarter, from 1.8 percent in the fourth quarter of 2022. Incoming activity data in August show an improvement in manufacturing and services business confidence. Private sector activity, as measured by the Stanbic Bank PMI, jumped to 50.6 in August, from 45.5 in the previous month, an improvement after six months of contraction. As protests dissipated and political stability increased, demand and activity recovered. New orders increased, although marginally due to higher costs. The rate of job creation accelerated as firms tried to keep higher activity levels. Inflationary pressures remained high and weighed on business costs due to weaker currencies, higher fuel prices, and taxes.

Strong performance in the agriculture sector—including sharp increases in poultry and fruit production—boosted economic activity in Ethiopia. However, a difficult political environment—active insurgencies in the Amhara and Oromia regions as well as a fragile peace deal with the regional administration in Tigray—coupled with high inflation and shortage of foreign exchange could weigh on economic activity in the short term. Exports have remained broadly stable, although the dynamics of goods exports are different from those of services exports. For instance, goods exports fell 12 percent YoY in the first 11 months of fiscal year 2023 because of onerous business costs and export surrender requirements. By contrast, services exports increased by four percent as Ethiopian Airlines recovered from the pandemic. In Uganda, economic activity continued its strong momentum in the first quarter of 2023: real GDP grew 4.9 percent YoY, after recording an upwardly revised 5.1 percent in the fourth quarter of 2022. A rapid expansion in agriculture (due to an increase in cash crop growing activities) and services (supported by information and communications and accommodation and food services) supported growth during the quarter. High-frequency indicators point to an improvement in private sector activity on the back of stronger demand, with output and new orders growing on a monthly basis throughout the year. The Stanbic Bank PMI has remained above the 50-point mark since August 2022—thus recording the 13th consecutive month of expansion in August 2023 (at 51.6). Increases in employment and wages are driving this expansion in private sector activity. Improved business conditions along with declining headline and core inflation (at 3.5 and 3.3 percent, respectively, in August) are supporting household consumption. The recent policy rate cut by the Bank of Uganda may also help support aggregate demand.

⁸ This figure is lower than the 6.2 percent growth registered in the first quarter of 2022.

Economic activity in Rwanda had a strong start in 2023. Real GDP grew by 9.2 percent YoY in the first quarter of this year, following the increase of 8.2 percent in 2022. Robust growth of private consumption and higher net exports drove this expansion. By contrast, investment outlays contracted as fiscal consolidation efforts led to a decline in public capital spending. From a sectoral perspective, contact-intensive services—that is, transport and hospitality services as well as retail and wholesale trade—contributed to the acceleration of growth in the first quarter. The extension of the Manufacture and Build to Recover Program supported manufacturing growth, while unfavorable weather conditions kept growth in agriculture subdued. Floods and landslides as a result of heavy rainfall in the second quarter of this year may weigh on economic activity.⁹ Growth in Mozambique remained resilient as Cyclone Freddy hit the country in February. Real GDP growth in the first quarter of 2023 (at 4.2 percent YoY) remained invariant relative to the previous quarter. An expansion of credit may have supported a pick-up in activity in the second quarter. The PMI corroborates the improvement in private sector business conditions throughout the year. Private spending may have received additional support from declining inflation. Liquefied natural gas projects in Mozambique have recently made some progress, which improves the economy’s long-term growth outlook. Finally, economic growth in Zambia slowed to 2.3 percent YoY in the first quarter of 2023, down from 4.4 percent in the fourth quarter of last year. A contraction in agriculture and mining activity dampened the acceleration of growth in manufacturing. Private sector activity appears to have expanded since the second quarter, as the PMI exceeded the 50-point mark in June and July (53.3 and 52.1, respectively)—up from a contraction in the first quarter. Inflows of foreign financing as a result of the debt restructuring agreement with the Creditor Committee may support economic and financial stability.

Western and Central Africa

In AFW, incoming data point to mixed results for growth and inflation across countries. Business activity appears to be continuing to stall or decelerate in some countries (Ghana and Nigeria), while it is expanding in others (Côte d’Ivoire). Inflation has been receding in some countries (for example, Benin, Burkina Faso, Côte d’Ivoire, and other WAEMU countries), while it is still high and with no clear sign of deceleration in other countries (Ghana and Nigeria).

Nigeria recorded growth in real economic activity of 2.5 percent YoY in the second quarter of 2023—slightly higher than the 2.3 percent in the previous quarter but down from 3.5 percent in the same quarter of 2022. By April-June 2023, the cash crunch started easing as the central bank extended the deadline to exchange old into new naira notes to the end of this year (figure 1.11).¹⁰ Economic activity was supported by 3.6 percent YoY growth in the non-oil economy (up from 2.8 percent in the first quarter)—that was particularly driven by services (4.4 percent YoY). However, the poor performance of the oil sector held back growth: it contracted by 13.4 percent YoY (compared to a contraction of 4.2 percent in the previous quarter). Average production of crude petroleum dropped to 1.22 mbpd in the second quarter of this year, from 4.3 mbpd in the same quarter of the previous year. The incoming Tinubu administration implemented a series of reforms that included the removal of fuel subsidies

⁹ World Bank (2023).

¹⁰ Cash shortages as a result of the mismanaged demonetization process—particularly during February and March—weighed on economic activity in the non-oil sectors. Non-oil sector growth softened to 2.8 percent YoY in the first quarter of 2023, down from 4.4 percent in the previous quarter.

and the devaluation and unification of the exchange rate system. Petroleum prices have more than tripled since the subsidies were lifted at the end of May. The naira has weakened by nearly 40 percent against the US dollar since the mid-June devaluation. Although these measures are intended to improve the fiscal and external accounts of the nation, their inflationary effects in the near term can erode the purchasing power of households and weigh on economic activity. Inflation continued to rise in July to an 18-year high of 24.08 percent YoY, with the central bank opting for a modest increase in interest rates. Finally, the Stanbic IBTC Bank PMI recorded its fourth consecutive month of expansion in July (53.5), although at a slower pace than at the start of the second quarter (57.6 in April). In July 2023, oil

production declined to 1.19 mbpd, from 1.25 mbpd in the previous month. The production of crude oil continues to be below the quota allocated by the OPEC+ alliance (figure 1.12).

During the first quarter of 2023, economic performance in Ghana exceeded market expectations: GDP growth accelerated to 4.2 percent YoY, from 3.2 percent in the last quarter of 2022. Agriculture and the service sector were the largest contributors to the acceleration of growth, while industrial output—particularly construction—recorded a downturn. More recent higher frequency indicators show mixed results. On the one hand, the S&P Global PMI signaled a better private sector business environment. The index increased from 50.5 in July to 51.9 in August, as output and new orders sharply increased. Employment grew for a ninth straight

FIGURE 1.11: Currency in Circulation in Nigeria, 2015–23

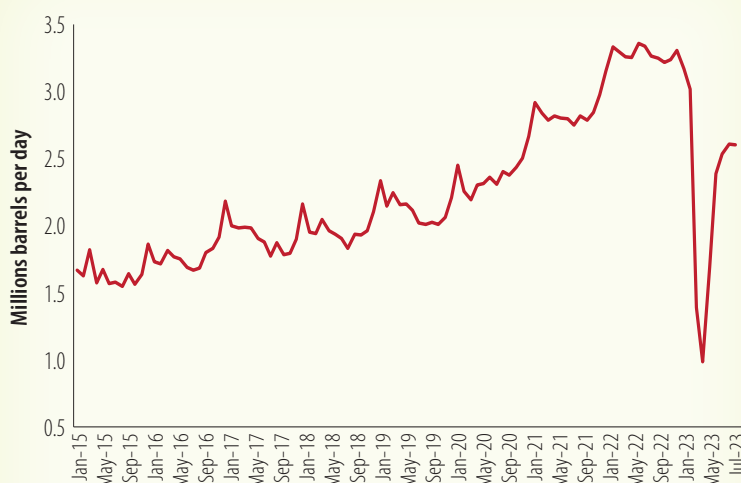
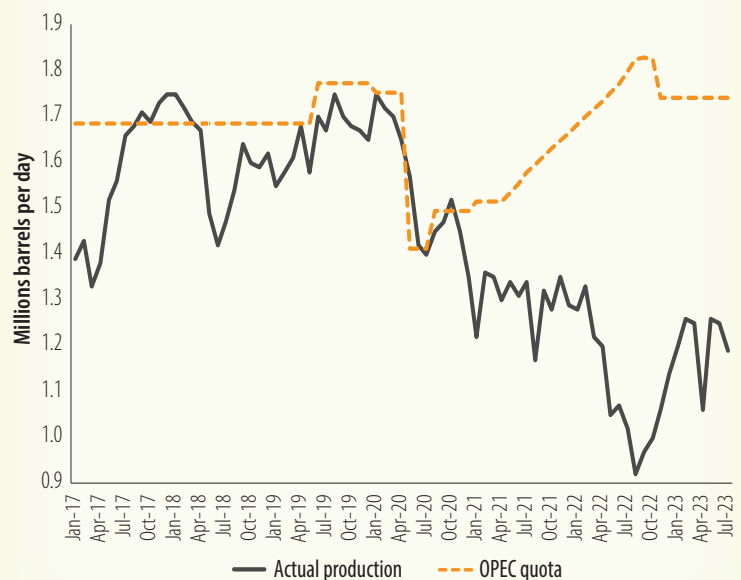


FIGURE 1.12: Monthly Crude Petroleum Production in Nigeria, 2017–23



Sources: Central Bank of Nigeria; OPEC; International Energy Agency.

month, and supplier delivery times shortened. On the other hand, high inflationary pressures coupled with weaknesses in the financial and energy sectors will weigh on growth of private consumption and investment. Fiscal consolidation, spearheaded by the tax increases enacted in April 2023, will constrain aggregate demand. The non-extractive sector will drive the slowdown of the economy. Agricultural activity will be affected by high input prices (for instance, fertilizers) and the fallout from the swollen shoot virus infecting cocoa trees. High interest rates will disincentivize investments in non-extractive sectors, while fiscal consolidation will impact public services.

In Côte d'Ivoire, the largest economy in the WAEMU, real GDP grew 5.4 percent YoY in the first quarter of 2023, up from 5.3 percent in the previous quarter but down from seven percent in the same quarter of the previous year. More recent activity indicators point to a more upbeat outlook for the second quarter. Industrial output growth sharply accelerated in May (7.1 percent YoY), thanks to robust manufacturing activity—particularly food and plastics. Electricity, gas, and water production also sped up in May. Inflation slowed to 4.1 percent YoY in June 2023, down from a peak of 6.3 percent in September 2022. However, higher prices for food, transportation, and some services led to an uptick in inflation during July 2023 (4.6 percent YoY). Heavy rains and floods in June put an end to the sale of cocoa export contracts for the 2023–24 season.

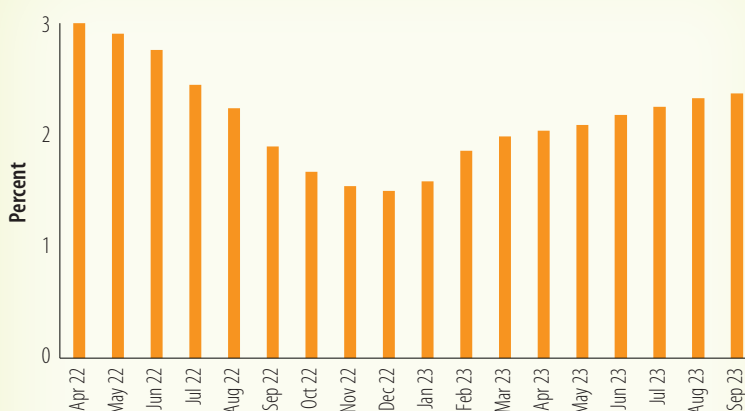
1.2 THE GLOBAL ENVIRONMENT

The global sharp tightening of monetary policy to contain high inflation is increasingly showing an effect on global growth. The resilience that global economic activity witnessed in the first half of 2023—with the economic reopening in China and resilient consumption in the United States—is expected to fade by the second half of this year (figure 1.13). For 2023 as a whole, global activity is projected to slow, with a pronounced deceleration in advanced economies. Economic activity in advanced economies is set to weaken substantially later this year as elevated monetary policy rates, tighter credit conditions amid banking sector stress, softening labor markets, and the lingering effects of the energy price spike of 2022 are expected to weigh on activity.

Growth in advanced economies eased in the first half of 2023. At the same time, tight labor markets supported robust wage growth and prevented a sharper slowdown in consumption. The tightness in labor markets is in part related to a slowdown in labor supply, with labor force participation rates falling (partly because of a rise in early retirements) and, in the United States, a decline in hours worked by those employed. The drag on growth from the ongoing monetary tightening to restore price stability is expected to peak in 2023 in many major economies, resulting in a substantial growth deceleration in the second half of this year, particularly in more interest rate-sensitive activities such as business and residential investment, including construction. Business sentiment in industry has stayed in contractionary territory, while that in services has moderated in recent months (figure 1.14).

In emerging markets and developing economies (EMDEs), growth firmed somewhat in early 2023 as external demand for many countries was supported by the pick-up in growth in China following the removal of strict pandemic-related mobility restrictions and the unexpected resilience in advanced economies.

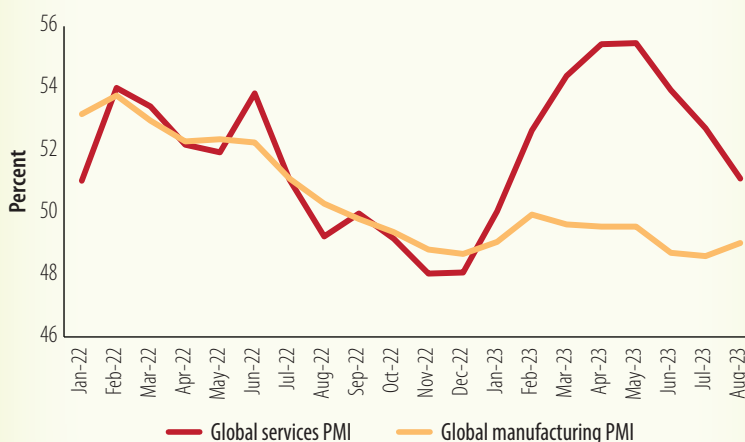
FIGURE 1.13: Consensus Global Growth Forecast



Sources: Consensus Economics; World Bank.

Note: The values plotted are monthly forecasts for 2023. The values show better than expected growth in the first half of 2023.

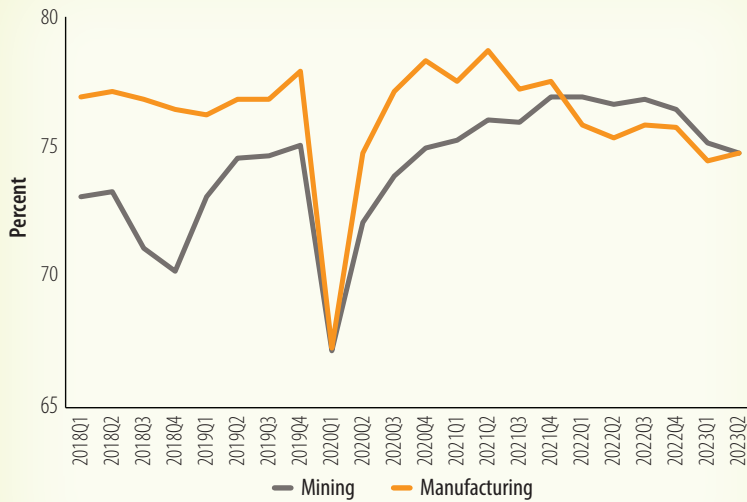
FIGURE 1.14: Business Sentiment



Sources: Haver Analytics; World Bank.

Note: PMI = Purchasing Managers' Index; values above 50 signal expansion.

FIGURE 1.15: Industrial Capacity Utilization in China



Source: Haver Analytics.

Note: Manufacturing and mining capacity utilization rates in China fell in the first half of 2023, consistent with the global slowdown in industry.

Activity is set to moderate in sectors that are more sensitive to interest rate movements as financing costs remain elevated, reflecting both domestic and advanced economy monetary policy tightening. In China, the economic reopening drove consumer spending in the first half of 2023, particularly on domestic services, but this recovery will be dampened by slowing economic activity. Weak external demand is expected to

weigh on manufacturing and trade in goods. Manufacturing capacity utilization in China has already fallen below the pre-pandemic level (figure 1.15). Investment is expected to pick up only modestly as infrastructure-related stimulus fades and high debt levels weigh on the property sector recovery. In addition, local governments that could potentially implement infrastructure investment programs to stimulate the economy frequently face high levels of debt that limit their fiscal space.

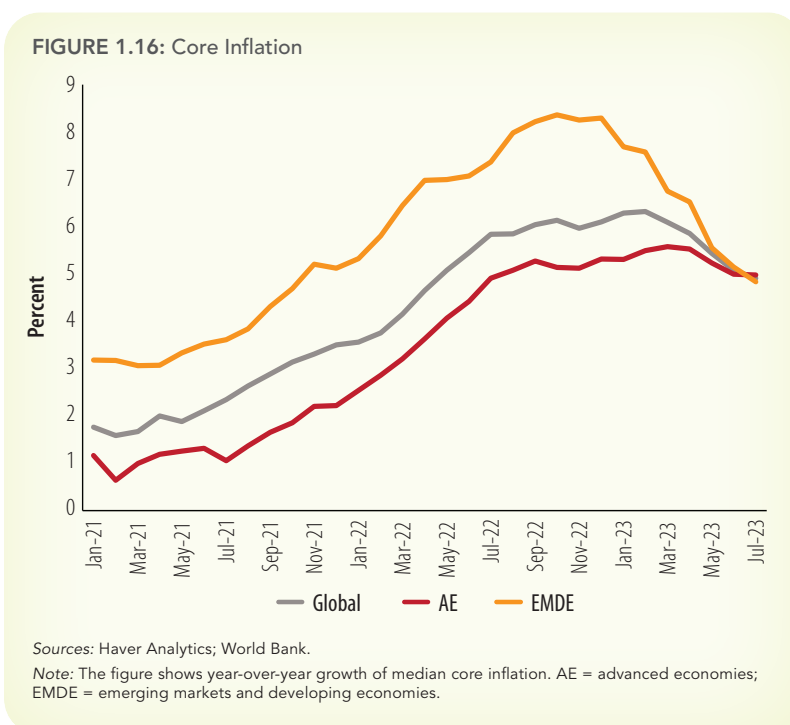
Subdued global demand and the continued movement of consumption toward services are dampening global trade. During the pandemic, trade growth was supported by a shift in the composition of demand toward tradable goods and away from contact-intensive—and thus less trade-intensive—services. The gradual rotation of demand back to its pre-pandemic composition is now slowing trade growth—as is the fact that the recovery in China is expected to be predominantly driven by services, which will limit positive spillovers to its trading partners through demand for goods and commodities. Growth of global trade in goods slowed in the first half of 2023 in tandem with weakening global industrial production, while services trade strengthened in the aftermath of the easing of pandemic-induced mobility restrictions that supported tourism. Pressures on global supply chains have abated alongside weakened demand for goods and improved global shipping conditions.

Inflationary pressures persist. Although global headline inflation has been decelerating as a result of base effects, abating supply chain pressures, and falling commodity prices, core inflation in many countries remains elevated. Inflation remains above target in almost all inflation-targeting economies. Headline global inflation has come down from a peak in mid-2022, largely reflecting favorable base effects from commodity prices falling below their 2022 peaks, along with declining supply chain pressures.

Energy prices have eased considerably since their peak in 2022, on account of weaker global growth prospects and a warmer-than-expected winter in the North, which reduced natural gas and electricity consumption. Energy prices could ease if global demand is weaker than

expected, especially if economic activity declines in China, which is expected to account for more than half of the increase in global oil demand in 2023. A lack of expansion of US oil production, low levels of spare capacity among OPEC members, and the possibility that the cartel may cut output further could lead to rising energy prices.

However, recent core inflation measures suggest that the disinflation that started last year has made only halting progress. Across EMDEs and advanced economies, median core inflation has decelerated in recent months (figure 1.16). Global inflation is projected to edge down gradually as growth decelerates, labor demand in many economies softens, and commodity prices remain stable. However, the slow pace of improvement means that core inflation is expected to remain above central bank targets in many countries throughout 2024.



Global financial conditions have become restrictive as the world is experiencing the fastest global monetary policy tightening cycle

since the 1980s. For EMDEs, higher interest rates in advanced economies often entail an extended period of costly external financing. Under the pressure of tight financial conditions, EMDEs have diverged into two broad subsets. The first subset includes those with comparatively solid credit ratings (B or above—the majority of EMDEs), which have so far been able to withstand global monetary tightening without incurring substantial increases in risk premia on external debt. The second subset includes EMDEs with lower credit ratings (below B), which have proved far more vulnerable. Their risk premia have increased substantially, in part because they have also experienced much greater currency depreciation than most other EMDEs.

Risks to the global economy are tilted to the downside. Bank turmoil in advanced economies in the first half of 2023 highlights the possibility of more disorderly failures, which could lead to systemic banking crises and protracted economic downturns. These failures could be triggered by rising nonperforming loans, lower asset values impairing balance sheets, a deeper correction in house prices, or losses from the heavily leveraged commercial real estate sector. House prices are already falling in many countries that constitute more than half of global activity. A combination of falling house prices and softening job markets could raise mortgage defaults, thereby further weakening bank balance sheets, while also weighing on household wealth and consumption. Furthermore, a much weaker-than-expected recovery in China could adversely

affect global growth and trade and dampen commodity demand.

In addition, higher or more persistent inflation could trigger further monetary tightening, resulting in a sharper decline in economic activity despite the fact that the scale of the interest rate increase, particularly in advanced economies, has already been outside recent historical norms. Especially for weaker EMDEs, premia on external debt could rise further in the event of higher global interest rates, further increasing the cost of debt refinancing.

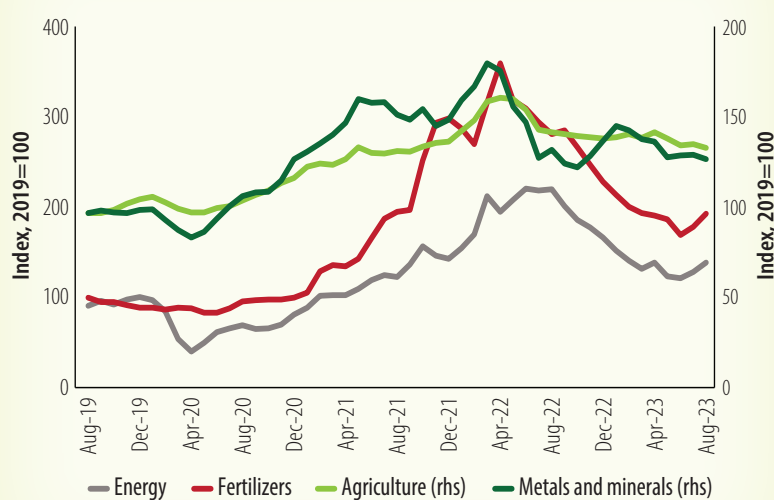
Commodity market developments

Commodity markets exhibited broad-based price declines in the first half of 2023, while energy and fertilizer prices trended upward in the third quarter. In August 2023, energy and fertilizer prices increased to their April 2023 levels. Rising crude oil prices in the third quarter offset the declines in natural gas and coal prices. Since April, the price of natural gas had dropped 17 percent by August in Europe, while it increased by 19.6 percent in the United States. In Japan, the price of liquefied natural gas has declined by 10.3 percent since April. Crude oil prices have increased by about 2.7 percent since April, averaging around US\$78.7 per barrel between April and August. However, crude oil prices in August were about 7.3 percent higher than in July and 15.6 percent higher compared to June. The increase in crude oil prices in the past two months resulted from supply cuts by the OPEC+ alliance, resilient oil demand in China, and faster-than-expected economic growth in the United States.

Between April and August, prices of agricultural commodities declined by six percent, with price declines in food, beverages, and raw materials. On July 17, 2023, the Russian Federation announced its withdrawal from the Black Sea Grain Initiative. This United Nations–brokered deal facilitated the export of nearly 33 million tons of grains and oilseeds to 45 countries from three Ukrainian Black Sea ports. Markets had anticipated Russia’s withdrawal from the deal. However, the protracted bombing of Ukrainian ports and grain silos saw wheat and corn prices rally to three-week highs in late July—a response that receded in August. Only about 2.7 percent of

the shipments under this deal went to Sub-Saharan Africa. However, on July 19th, India imposed a ban on exporting non-basmati rice in response to increases in domestic prices and fears of potential El Niño impacts in crucial rice-growing areas in Eastern and Southern India. India accounts for 40 percent of world rice exports, and the ban accounts for nearly half of its exports. Rice prices have been rising since April 2023, and India’s export ban

FIGURE 1.17: World Bank Price Indexes for Emerging Markets and Developing Economies



Sources: Bloomberg; World Bank.

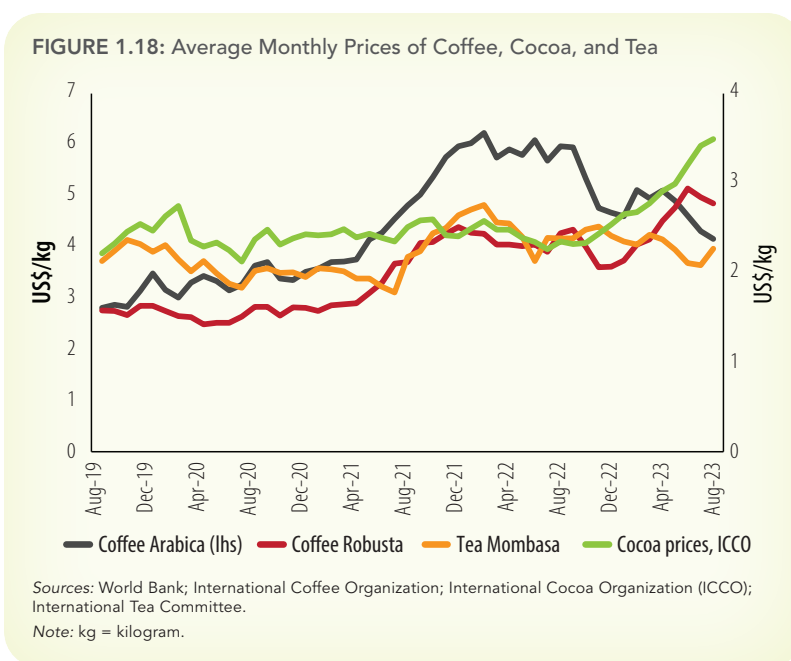
will further tighten global rice markets. Despite the nonrenewal of the Black Sea Grain Initiative and India's export ban on non-basmati rice, the World Bank's food price index is expected to average lower in 2023 compared to 2022.

The World Bank's Metals and Minerals Price Index declined by 7.2 percent between April and August 2023 due to the weak recovery of China, subdued global demand, and improved supply conditions

(figure 1.17). Nickel and zinc prices declined by 14.5 and 13 percent, respectively, while the prices of iron ore and copper declined by 6.1 and 5.2 percent, respectively, between April and August 2023. Tin and lead prices tightened a bit between April and August. Precious metals declined by 4.5 percent, with gold, silver, and platinum prices falling by 4.1, 6.3, and 12 percent, respectively.

Since April 2023, beverages have exhibited two divergent trends—increasing prices for cocoa and Robusta coffee and declining prices for tea and Arabica coffee (figure 1.18). Cocoa prices gained 20 percent between April and August 2023 amid uncertainties in the supply outlook from Côte d'Ivoire—the world's largest cocoa producer. Excessive rainfall, floods, and black pod disease are challenging production in West Africa, which increased supply risks and supported prices. Robusta coffee prices rose more than 7 percent between April and August 2023 amid concerns about decreasing supplies from India, Indonesia, and Vietnam. Prices of Arabica coffee declined by 18.7 percent since April, with a projection of a bumper harvest of the crop from Brazil in the second half of the year weighing on prices. The average price of tea in the Mombasa auction declined by about 4.2 percent.

Risks to the outlook. The World Meteorological Organization forecasts a 90 percent probability of the current El Niño event continuing during the second half of 2023, and it is expected to be at least moderate in strength. The strength and local impacts of El Niño, along with trade-restrictive measures such as India's recent rice export ban, constitute significant risks to the outlook for agricultural prices. Global economic recovery, particularly in China, will affect the outlook for energy and metals prices.



1.3 THE DOMESTIC ENVIRONMENT

Conflict and weak institutions are holding back the recovery of investments and growth

Sub-Saharan Africa faces a myriad of challenges to accelerate growth in a sustained and inclusive fashion. However, persistent political instability and resulting weak institutional quality are the most critical challenge. There is evidence that persistent political conflict and instability are weakening institutional quality in Sub-Saharan Africa—particularly fiscal institutions and fiscal space. For example, the quality of budgetary institutions has been found to be the weakest in fragile countries.¹¹

Weak institutions have also hindered countries' responses to global shocks and further contributed to (political and economic) instability. In Ethiopia, armed conflict, droughts, and high food prices have led to a reversal of poverty reduction gains. Sudan has witnessed broad destruction of its economic base, resulting in a projected GDP contraction of 12 percent in 2023, with extreme poverty rates rising. These examples demonstrate how conflict and instability can set countries back economically and undermine progress. The escalating conflict in Eastern Democratic Republic of Congo, and pre- and post-election tensions may weaken the reform agenda and reduce the country's capacity to maintain macroeconomic stability and diversify the economy.

Broadly speaking, political and economic institutions help shape the incentives of key players in society.¹² They can influence the drivers of economic growth potential (say, investments in physical and human capital, technology adoption, and the organization of production) as well as the distribution of resources.¹³ Over the past decade, the quality of political and economic institutions has deteriorated—thus, leading to inefficient policies as well as poor growth outcomes and prospects.

Rising conflict and political instability

Several countries in the region have repeatedly experienced political instability and conflicts. The region has seen a substantial increase in political violence and protests in recent years, with cases more than doubling since 2015, reaching 20,320 in 2022 (figure 1.19). This surge in violent incidents indicates a growing level of instability and social unrest. Countries like Sudan, Ethiopia, the Democratic Republic of Congo, and Somalia have experienced escalating violence and instability due to ongoing conflicts, contested elections, and economic challenges. The World Governance Indicator scores for political stability and absence of violence point to a greater likelihood of government takeover by unconstitutional or violent means (figure 1.20).

The evidence suggests that countries that remained fragile or regressed into fragility were not able to sustain adequate growth, and in many cases even experienced episodes of contraction of the economy. A wide array of indicators of political stability and accountability

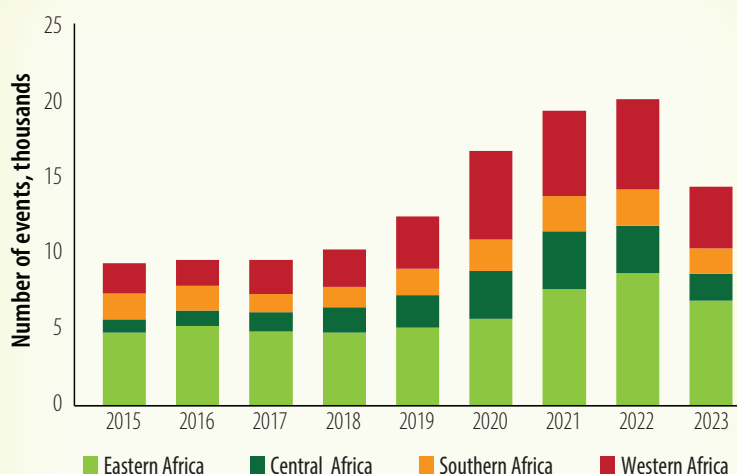
¹¹ Gelbard et al. (2017).

¹² A large strand of the literature suggests that economic and political institutions are a major determinant of economic outcomes—particularly growth and its drivers (say, investment and volatility). See North (1981, 1990), Olson (1982), Acemoglu and Robinson (2000, 2002), Parente and Prescott (1999), Acemoglu et al. (2001, 2002), Besley (1995), and Hall and Jones (1999), among others.

¹³ Different institutions will not only be associated with different degrees of efficiency and potential for economic growth, but also with different distributions of the gains across different individuals and social groups (Acemoglu and Robinson 2010).

appear to be highly and positively correlated with growth accelerations in African countries.¹⁴ Similarly, fragility has a significantly adverse impact on policies to maintain macroeconomic stability, mobilize revenues, and promote public and private investment. For example, an inflation rate above the 20 percent threshold, a proxy for macroeconomic instability partly resulting from political fragility, is a major impediment to growth in the region. Recent political instability events (Mali, Niger, and Gabon) and the resulting economic sanctions have dampened growth prospects in the affected countries. These events also raise concerns about adverse spillover effects on security and the economy's performance, potentially increasing the cost of financing fiscal programs. Diminished investor confidence, sanctions, and restricted access to financing could jeopardize growth performance.

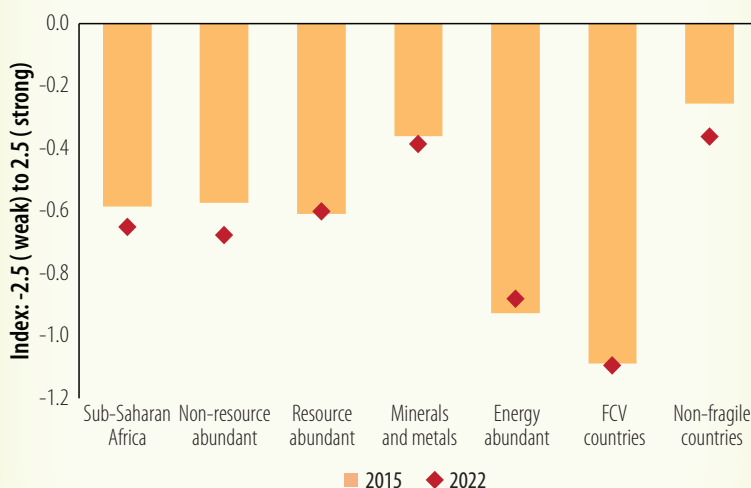
FIGURE 1.19: Political Instability, Conflict, and Violence



Source: Armed Conflict Location & Event Data Project (ACLED).

Note: The events include the number of battles, riots, protests, and explosions. Values for 2023 are as of September 8.

FIGURE 1.20: WGI Political Stability and Absence of Violence and Terrorism, 2015–22



Source: Kaufmann and Kraay 2023.

Note: FCV = fragility, conflict, and violence; WGI = World Governance Indicators.

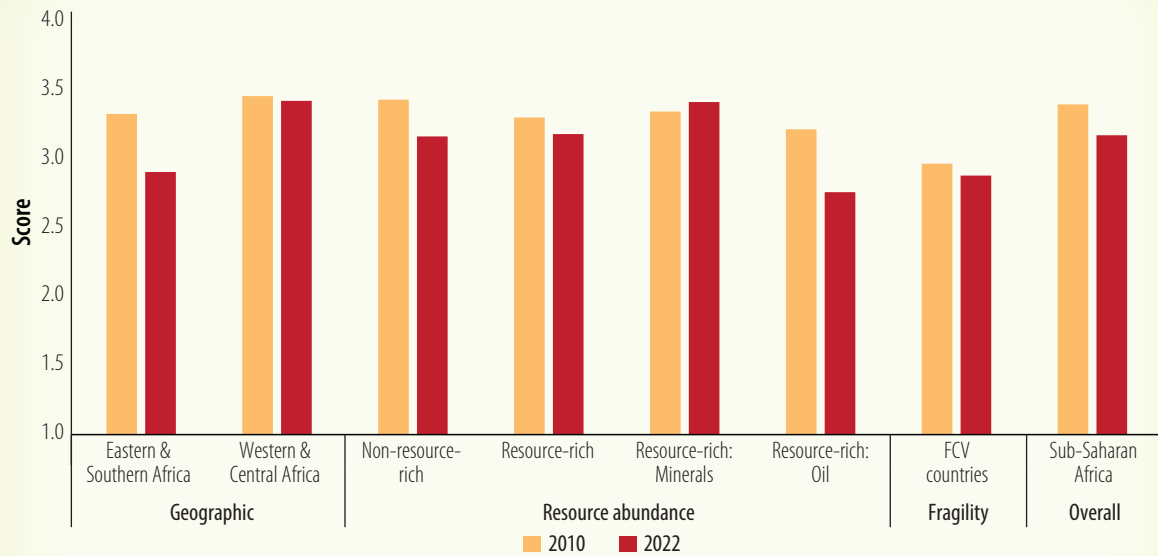
Deterioration in the quality of macroeconomic management

Over the past decade, Sub-Saharan Africa has experienced a deterioration in the quality of macroeconomic management, as captured by the indicators in cluster A of the Country Policy and Institutional Assessment (CPIA), namely, monetary and exchange rate, fiscal, and debt policies.¹⁵ Figure 1.21 reveals that this deterioration has been broad-based—except for

¹⁴ Gelbard et al. (2017); Sundaram, Chowdhury, and Clark (2022).

¹⁵ The CPIA examines the quality of a country's policies and institutional arrangements, and its indicators are grouped into four clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions. The indicators take values from 1 to 6, with high and rising scores indicating stronger policy and institutional frameworks. Overall, the CPIA indicators measure the extent to which a country's policy and institutional framework supports sustainable growth and poverty reduction and, hence, the effective use of development assistance. During the period under analysis, the CPIA indicators capture the extent to which the policies and institutions of Africa's International Development Association-eligible countries supported their recovery from the onset of the various shocks that these countries experienced over the past decade. The definitions of the clusters and their corresponding indicators can be downloaded at: <https://www.worldbank.org/en/data/datatopics/cpia>.

FIGURE 1.21: CPIA Economic Management Rating in Sub-Saharan Africa, 2010–22



Source: World Bank CPIA Africa (<https://www.worldbank.org/en/data/datatopics/cpia>).

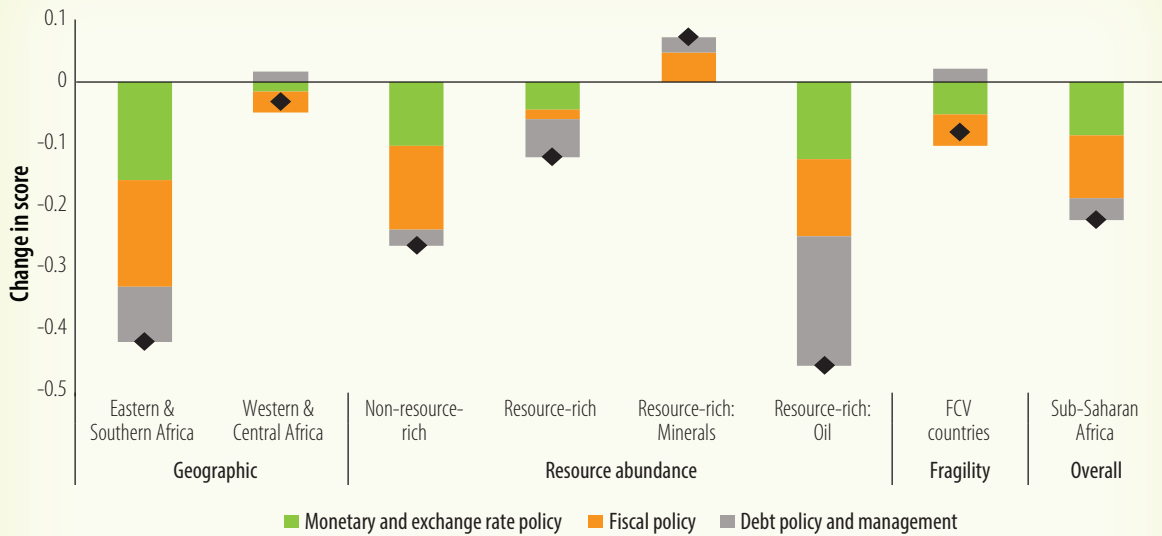
Note: The CPIA rating scores take values from 1 to 6. Higher values indicate greater quality of policies and institutions. CPIA = Country Policy and Institutional Assessment; FCV = fragility, conflict, and violence.

countries that are abundant in minerals and metals. On average, the score for the International Development Association (IDA)–eligible countries in the region dropped from 3.38 in 2010 to 3.16 in 2022. The decline in the score might be attributed to countries in the region failing in robustly rebuilding liquidity and policy buffers after the global financial crisis and the shrinking macroeconomic space—particularly in the fiscal arena—that limited their ability to respond appropriately to the plunge in commodity prices in the mid-2010s and the poly-crisis at the start of the 2020s. The largest decline in the quality of macroeconomic management was experienced by oil abundant countries, with a deterioration in the quality of monetary, fiscal, and debt policies. This finding was expected as a corollary of the Dutch disease suggests that natural resource abundant countries tend to have policies of poorer quality.

A deterioration in the quality of fiscal policy is the main driver of the deterioration in the quality of macroeconomic policies across all country groups in the region—although to different degrees (figure 1.22). The lower quality of fiscal policies could be attributed to, among other things, the inadequacy of the tools utilized, the limited amount of own resources (already widening fiscal deficits and elevated costs of debt), and the restricted access to global capital markets amid tightening global financial conditions and a strong dollar. Other countries implemented fiscal policies that limited the disinflationary efforts of monetary policy actions such as fiscal dominance (monetary financing of the fiscal deficit) as well as inadequate and untargeted subsidies. Finally, higher costs of debt service as well as rising risk of debt distress among IDA-eligible countries can help explain the deterioration of the quality of debt policies over the past decade.¹⁶

¹⁶ A look at the structural policies cluster shows that its deterioration over the past decade was primarily driven by fiscal sector policies and regulation. This might reflect the inadequate risk management role of the financial sector across many countries in the region. Underdeveloped financial markets are unable to provide the tools to households and enterprises to hedge themselves against shocks.

FIGURE 1.22: Factors Driving the Change in the CPIA Economic Management Rating in 2010–22



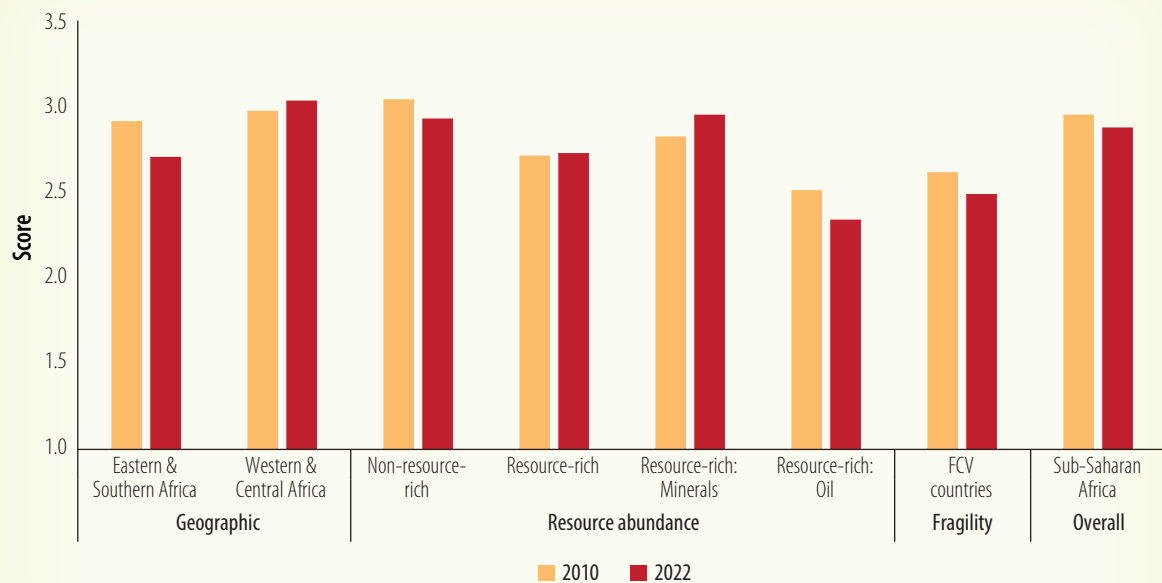
Source: World Bank CPIA Africa (<https://www.worldbank.org/en/data/datatopics/cpia>).

Note: The CPIA rating scores take values from 1 to 6. Higher values indicate greater quality of policies and institutions. CPIA = Country Policy and Institutional Assessment; FCV = fragility, conflict, and violence.

Weaker public sector management and institutions

The quality of public sector management and institutions in Sub-Saharan Africa dropped over the past decade for most country groups, with the exception of AFW countries and those that are abundant in minerals and metals (figure 1.23). The rating for the region as a whole in this cluster went from 2.97 in 2010 to 2.89 in 2022, and this decline was mostly due to lower scores in the quality of budgetary and financial management as well as in the efficiency of revenue mobilization (figure 1.24). The largest declines in the quality of public sector management and

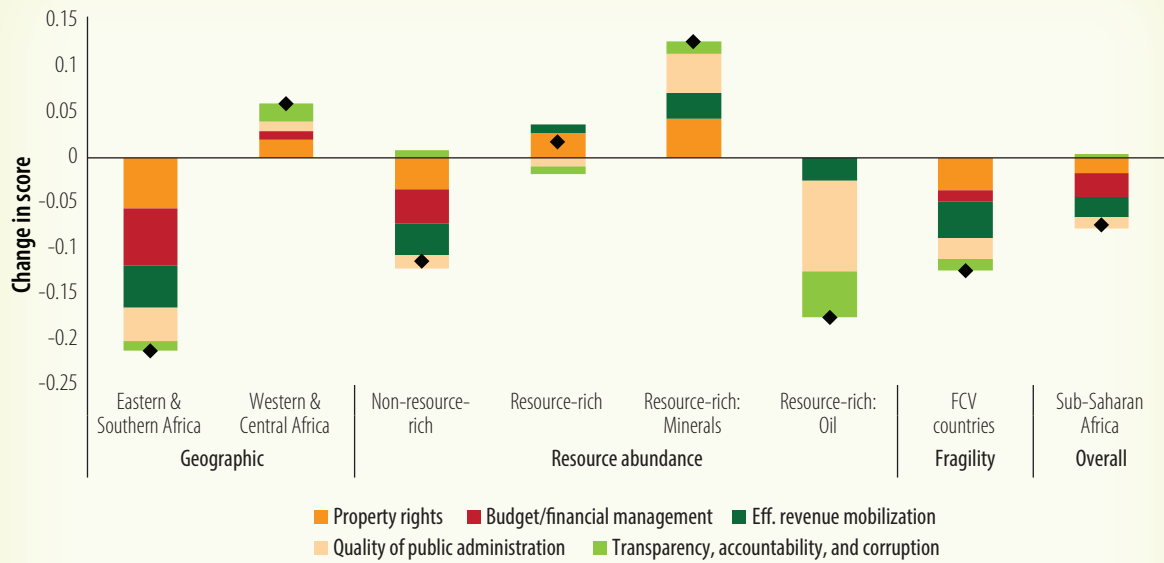
FIGURE 1.23: CPIA Public Sector Management and Institutions Scores for Sub-Saharan Africa, 2010–22



Source: World Bank CPIA Africa (<https://www.worldbank.org/en/data/datatopics/cpia>).

Note: The CPIA rating scores take values from 1 to 6. Higher values indicate greater quality of policies and institutions. CPIA = Country Policy and Institutional Assessment; FCV = fragility, conflict, and violence.

FIGURE 1.24: Factors Driving Change in the CPIA Public Sector Management and Institutions Scores, 2010–22



Source: World Bank CPIA Africa (<https://www.worldbank.org/en/data/datatopics/cpia>).

Note: The CPIA rating scores take values from 1 to 6. Higher values indicate greater quality of policies and institutions. CPIA = Country Policy and Institutional Assessment; FCV = fragility, conflict, and violence.

institutions were experienced by AFE countries, oil abundant countries, and fragile countries. In AFE, there was a broad-based decline in scores along all dimensions of this cluster—particularly in property rights and rule-based governance as well as the quality of budgetary and financial management. For oil abundant countries, it was the quality of public administration as well as transparency, accountability, and corruption.

Enhancing institutional quality is essential to support an increase in investments (in human and physical capital), foster a more efficient allocation of factors across economic activity, and improve growth prospects. That would require, among other things, the coordination of monetary and fiscal policies to bring about and maintain stability. In other words, macroeconomic policies need to reduce and stabilize inflation, as well as rebuild fiscal buffers to finance growth-enhancing spending or stave off future shocks. A push toward greater transparency in fiscal and debt policies—including rules and procedures—would help to make these policies more predictable to economic agents. A more sustainable fiscal position as well as a push for reforms to develop local financial markets might also have the collateral effect of reducing the cost of external borrowing (for instance, by reducing spreads and providing a hedge to currency risks). Current efforts toward fiscal consolidation in the region are emphasizing mobilizing resources more efficiently. The success of these actions will involve an improvement in public administration by ensuring greater quality in the implementation of policies and a regulatory framework that puts a premium on transparency, innovation, and competition.

Inflationary pressures are still present in the region along with high food prices and weaker currencies

After reaching a 14-year high of 9.3 percent in 2022, the median rate of inflation in the region is expected to be 7.3 percent in 2023 (figure 1.25). Slower global demand, easing of global supply constraints, lower commodity prices, and the impact of tighter monetary policy across countries in the region

have contributed to the drop in the rate of inflation.

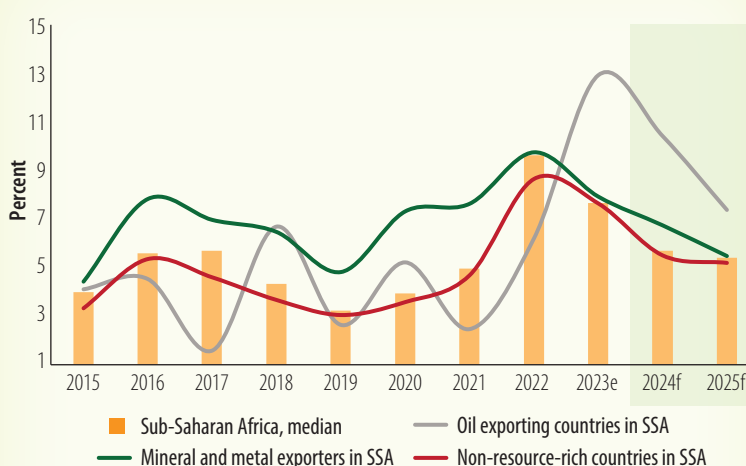
Disinflation efforts will continue and are expected to ease inflation to 5.3 and five percent in 2024 and 2025, respectively.

The number of countries with two-digit (or more) average annual rates of inflation for the year is set to decline slightly from 19 countries in 2022 to 18 countries in 2023.¹⁷ By 2025, the number of countries with two-digit inflation is expected to decline to nine.

There has been progress in the fight against inflation in several countries in the region—with some of them having already reduced inflation to near or within the central bank target band (for example, Kenya, South Africa, and Uganda). In other countries, inflation still remains above target (and has been for a prolonged period of time) and/or shows no sign of having peaked (Ghana, Nigeria, and Sierra Leone).

Inflationary pressures in the region are still dominated by high food and fuel price inflation and the weakening of domestic currencies—particularly in Burundi, Ethiopia, Ghana, Nigeria, Sudan, and Zimbabwe (figures 1.26 and 1.27).¹⁸ So far this year, the Nigerian naira and the Angolan kwanza are among the worst performing currencies in the region: these currencies have posted a year-to-date depreciation of nearly 40 percent. The weakening of the naira was triggered by the central bank's decision to remove trading restrictions on the official market. For the kwanza, it was the decision of the central bank to stop defending the currency as a result of low oil prices and greater debt payments. Other currencies with significant losses so far in 2023 are those of South Sudan (33 percent), Burundi (27 percent), the Democratic Republic of Congo (18 percent), Kenya (16 percent), Zambia (12 percent), Ghana (12 percent), and Rwanda (11 percent).¹⁹ Parallel exchange market premia compounds inflationary problems for some countries in the region (See box 1.2).

FIGURE 1.25: Median Inflation in Sub-Saharan Africa, 2018–2025f



Source: World Bank staff projections.

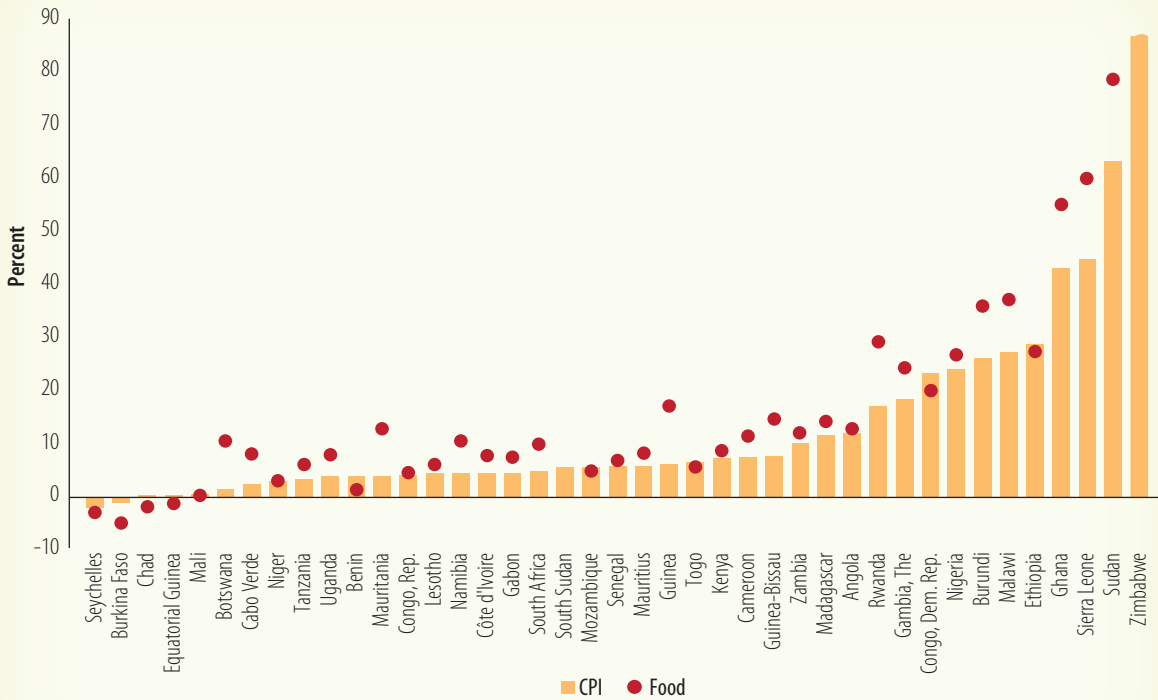
Note: Inflation is measured by the percentage change in the Consumer Price Index using the World Bank Macro-Fiscal Model database. e = estimate; f = forecast; SSA = Sub-Saharan Africa.

¹⁷ The net decrease of one country is masked by the transition of five countries to single-digit inflation in 2023 (Burkina Faso, Botswana, Guinea, Mauritius, and Rwanda), which is partly offset by four countries that joined the group with two-digit inflation rates (Chad, the Democratic Republic of Congo, Liberia, and Madagascar).

¹⁸ Uncoordinated policy interventions—such as the monetary financing of fiscal deficits and the presence of foreign exchange controls—are also fueling inflation in some Sub-Saharan African countries (for instance, Ethiopia, Nigeria, and Zimbabwe).

¹⁹ The changes in the exchange rate presented in figure 1.27 were calculated from December 31, 2022, to September 15, 2023, and the exchange rate is expressed in US dollars per unit of local currency. Hence, a decline implies a depreciation.

FIGURE 1.26: Headline and Food Inflation across Sub-Saharan African Countries, July 2023

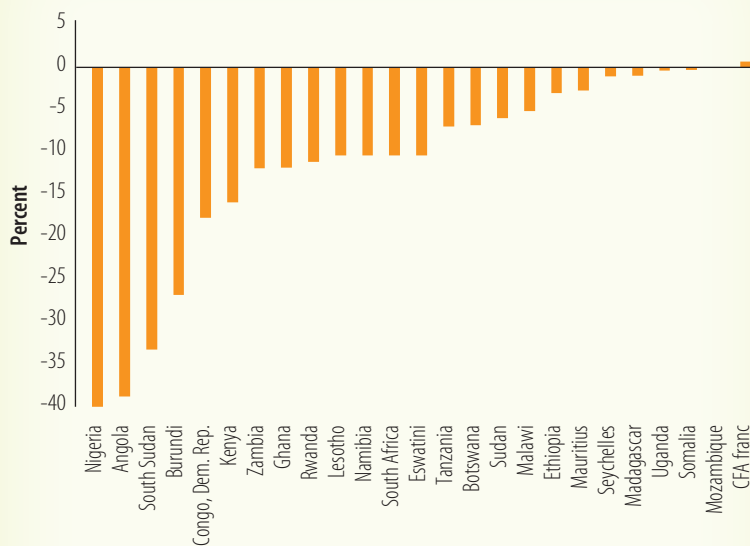


Sources: Haver Analytics; Bloomberg.

Note: This figure depicts the year-over-year headline inflation (bars) and food inflation (dots) in July 2023. Zimbabwe has rates of headline and food inflation that exceed 100 percent. CPI = Consumer Price Index.

Food and energy prices are still contributing to driving headline inflation. By July 2023, nearly half of the countries in the region with monthly available information on food prices (20 of 41 countries) had double-digit YoY rates of food inflation, with the fastest increases experienced

FIGURE 1.27: Cumulative Variation in Exchange Rates in Selected Countries (%)



Sources: Haver Analytics; Bloomberg.

Note: This figure presents the cumulative variation in the exchange rates of selected Sub-Saharan African and world currencies from December 31, 2022, to September 15, 2023. A negative (positive) cumulative variation represents a depreciation (appreciation).

in Burundi, Ghana, Malawi, Sierra Leone, Sudan, and Zimbabwe (figure 1.26). International food prices have declined from their peaks in the second quarter of 2022, although they are still higher than in the pre-pandemic period. Domestic food inflation has been receding, although at a slower pace than international food prices. Extreme weather events that disrupt the food supply (such as the droughts in the Horn of Africa), high costs of food imports due to weaker currencies, and

elevated input costs (high prices of oil and natural gas that affected transport and refrigeration as well as fertilizers) are the main contributors. A monetary policy that anchors inflation expectations coupled with food security measures should support households' incomes and reduce the likelihood of social unrest and conflict.

The rate of inflation appears to have peaked for most countries in the region in 2023. Average annual inflation forecasts suggest that about 55 percent of Sub-Saharan African countries are expected to have a lower inflation rate in 2023 compared to that in 2022. The median inflation for this group of countries declined from 9.5 percent in 2022 to six percent in 2023. The countries with the largest expected declines in inflation in 2023 are Angola, Botswana, Burkina Faso, Mali, Rwanda, and São Tomé and Príncipe. The number of countries with single-digit inflation increased to 33 in 2023, from 29 in 2022. Despite the disinflation trend exhibited by some countries in the region, the rates of consumer price growth are still high, above target, and above pre-pandemic levels for others.²⁰ In contrast, the rate of inflation in four countries in the region is expected to accelerate by more than 10 percentage points in 2023 from last year, namely, the Democratic Republic of Congo, Ghana, Sudan, and Zimbabwe.

Country differences in the tightness of monetary and fiscal policies as well as efforts to reduce debt levels and associated vulnerabilities also tend to characterize the wide range of inflation rates. Inflation is expected to have accelerated among oil abundant countries, where fiscal and external deficits as a result of lower international prices, production capacity problems, and inadequate levels of investment are putting pressure on the domestic currencies. The median rate of inflation in oil abundant countries in the region has accelerated to 12.6 percent in 2023, although it is expected to edge down to 10.1 and seven percent in 2024 and 2025, respectively (figure 1.25). In contrast, inflation among non-resource-rich countries is set to ease at 7.3 percent in 2023, down from 8.3 percent in 2022, and to stabilize at 4.8 percent in 2025.

BOX 1.2: The Perils of Parallel Exchange Rates

Theoretical analyses of multiple exchange rate systems argue that they provide transitory relief to balance of payments problems.^a In the medium term, countries that adopted multiple rate systems will eventually select an exchange rate regime that facilitates internal and external sustainability for the overall economy. Adopting a floating exchange rate system or a crawling peg system rather than a fixed regime is critical to achieve a sustainable balance of payments equilibrium in the long run.^b

Theoretically, a dual system is transitorily more effective than a single pegged or managed rate for preventing foreign exchange market (FX) shortages from surges in capital outflows that can lead to a depreciation of the parallel rate rather than to a loss in reserves, and to stabilize domestic prices.^c Ideally, a dual system can shield the macroeconomy from transitory disturbances in the capital account as long as the country can maintain a moderate premium. However, the parallel rate might signal what the market-determined exchange rate should be whenever the premium becomes sizable. In reality, a single rate is desirable in economies facing many distortions. A large and persistent parallel premium leads to distortions.^d Therefore, parallel exchange rate markets could induce distortions in the economy. For instance, large and persistent premiums in parallel exchange rates lead to lower capital accumulation and stagnation in the economy, and hence

²⁰ Annual inflation forecasts for 2023 point to 18 countries in the region with two-digit inflation rates.

BOX 1.2 *continued*

slower economic growth.^e For example, if a country loses control of monetary growth, then the parallel rate depreciates, which fuels domestic inflation. The resulting overvaluation will increase pressure on the balance of payments.^f

This situation currently applies to some Sub-Saharan African countries. Amid the poly-crisis (COVID-19, climate shocks, and conflict), many countries in the region have experienced increased rates of inflation and further intensified their debt burden. Some countries have faced foreign exchange shortages (that is, scarcity of US dollars). Many of them are recording a depreciation of their local currency vis-à-vis the US dollar. Therefore, their imports have become more expensive, inflation is higher, and their incomes have been eroded. This leads to an economic downturn.

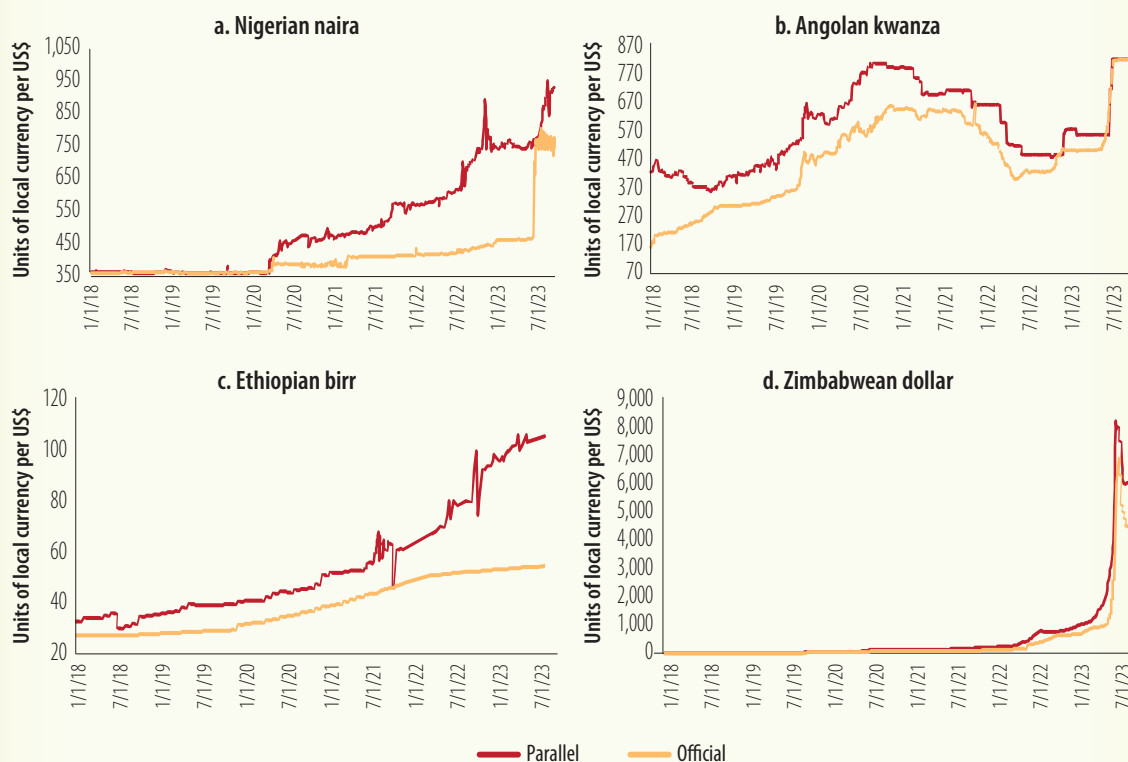
Ethiopia. The birr has been overvalued for a prolonged time (figure B1.2.1). Its parallel premium had widened by almost 90 percent as of July 2023. The National Bank of Ethiopia has implemented import and exchange rate restrictions as a part of its foreign reserve management. Consequently, remittance transactions were moved to the black market. Further restrictions by the Ministry of Finance included closing credit lines for nonessential imports to restrict foreign exchange use to essential food, medicine, and industrial imports, and hence those transactions are moving to the parallel market. The premium between the parallel and official exchange rates continues to widen, while foreign exchange reserves are decreasing and inflationary pressures are intensifying.

Nigeria. The premium between the parallel exchange rate and the official rate widened from March 2020 until June 2023 (figure B1.2.1). Despite changing the official exchange rate to better reflect market conditions in 2021—Nigeria operated multiple currency practices—the parallel rate premium continued to increase to 80 percent in November 2022 and then to about 60 percent in June 2023, as the Central Bank's interventions to restrict foreign exchange demand and keep the exchange rate artificially low were met with declining FX supply from oil revenues. The prioritization of strategic sectors and the imposed price ceilings and trade restrictions pushed transactions to the parallel market, which started to account for a large share of the foreign exchange transactions in the country, including for remittances, tourism, and exports of non-oil products. After the unification and liberalization of the exchange rates in June 2023, the NAFEX rate converged to the parallel one, closing the gap. However, resistance toward the increasing pressure on the Nigerian naira coupled with limited supply of FX at the official window has led to the reemergence of the parallel market premium.

Zimbabwe. Zimbabwe restored the multiple currency system in March 2020, and then the Reserve Bank of Zimbabwe introduced a foreign exchange auction trading system that led to a relative improvement in transparency in the foreign currency market and facilitated a market-based exchange rate (figure B1.2.1). Consequently, the country's inflation rate dropped dramatically in 2021. However, its exchange rate premium between the parallel and official rates has diverged further. In June 2023, the Reserve Bank modified its foreign-currency auction system by selling foreign currency to banks only at market determined rates. Still, its premium continues to widen, and the local currency is weakening sharply against the US dollar.

BOX 1.2 continued

FIGURE B1.2.1: Official and Parallel Exchange Rates for Selected Currencies



Sources: Bloomberg Analytics; national sources.

Note: The vertical axis has been inverted to depict the weakening of the currencies.

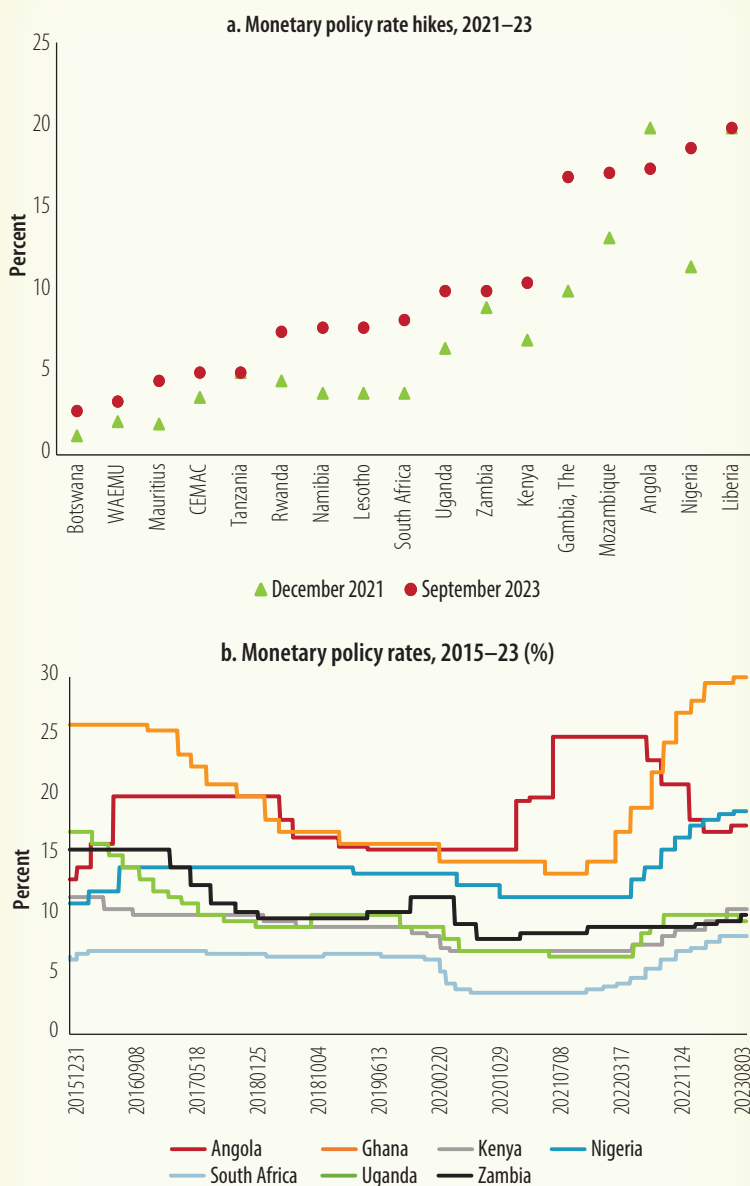
Angola. The parallel premium had narrowed sharply to an average of 17 percent by 2022 since Angola liberalized the foreign exchange market in 2017. The Central Bank of Angola experienced a reduction in FX reserves as oil production declined. This production accounts for 60 percent of the country’s fiscal account and 95 percent of exports. The Central Bank massively intervened to stabilize the kwanza in 2022 (figure B1.2.1). The Central Bank further intervened by selling US\$400 million in the first week of June, and then the level of reserves declined. Larger foreign debt obligations reduced the supply of foreign currency in the first half of 2023. The Central Bank cut its policy rate by 100 basis points, and its currency faced downward pressure. In May 2023, the Central Bank could not defend the value of the kwanza from a massive depreciation that resulted from lower oil production and international prices. In the end, the parallel and official exchange rates followed together. The slump in domestic currency started to fuel inflation again; therefore, the Central Bank may have to tighten monetary policy.

- a. Dornbusch (1986a, 1986b); Lizondo (1987a, 1987b).
- b. Lizondo (1987b, 1991); Kiguel and Lizondo (1990); Donbusch and Kuenzler (1993).
- c. Kiguel and O’Connell (1995).
- d. Dornbusch and Kuenzler (1993).
- e. Edwards (1989); Barro and Lee (1993); Easterly (1994); Fischer (1993).
- f. Kiguel et al. (1995).

Central bank policies still need to anchor inflationary expectations

In response to the high rates of inflation recorded in 2022 across Sub-Saharan African countries, central banks raised interest rates swiftly and aggressively (figure 1.28). In recent months, some central banks in the region have put a pause on their hiking cycles as a result of inflation falling to near or within their target rates. For instance, after raising its benchmark rate by a cumulative

FIGURE 1.28: Monetary Policy Rates across Sub-Saharan Africa (%)



Source: Haver Analytics.

Note: CEMAC = Economic and Monetary Community of Central Africa; WAEMU = West African Economic and Monetary Union.

450 basis points since the end of 2021, the SARB paused its hiking cycle in the July Monetary Policy Committee meeting as the rate of inflation fell within the SARB's target range. The Central Bank of West African States has held its main lending rate constant as inflation rates in some of its member countries are already near or within their target range (Burkina Faso, Mali, and Niger). Monetary authorities in these countries still need to finetune their monetary policies to support aggregate demand (and avoid unnecessary job losses) while guaranteeing that the goal of reducing inflation to their target range is not jeopardized.

For countries in the region with two-digit inflation—particularly where there is still an uptick in the rate of price growth—monetary policy will continue to be restrictive—for instance, Ethiopia, Ghana, Malawi, Sierra Leone, and Zimbabwe, among others.

Ghana and Nigeria raised their policy rates to records of 30 and 18.75 percent, respectively, in July 2023, and inflation has failed to recede. Policy actions that might support fiscal and external sustainability in the medium term—such as the removal of fuel subsidies and the unification of

exchange rates in Nigeria—may have contributed to the increase of inflation in the near term. Central banks need to coordinate policy actions more tightly with the fiscal authorities to bring down inflation. Monetary hiking will be ineffective if fiscal deficits are still financed with money creation (Ethiopia and Nigeria), foreign exchange distortions contribute to a wider parallel premium, and the government continues providing untargeted subsidies.

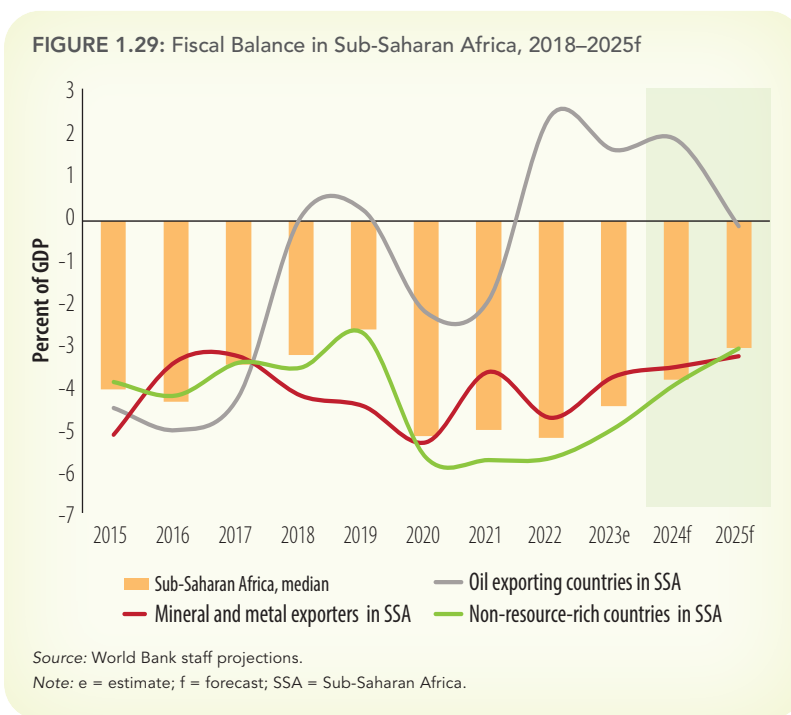
Achieving price stability remains critical for bolstering the income of the population and reducing the effects of uncertainty on the consumption and investment plans of households and enterprises. Although headline inflation in some countries in the region has been approaching or is already within the target band, the central bank needs to continue monitoring monetary policy to keep inflation low and stable while preventing an unnecessary contraction and greater unemployment. Underlying inflationary pressures in the United States and the euro area are still lurking as indexes of core inflation remain sticky and above target—thus, signaling further monetary policy hikes this year and/or having high interest rates for a longer period.

Fiscal deficits are narrowing thanks to revenue measures and elimination of exemptions

Fiscal consolidation in Sub-Saharan Africa continues as countries in the region are making efforts to rebuild fiscal space to engineer a more sustained and inclusive recovery from the poly-crisis. Amid a significant drop in official development assistance in recent years,²¹ and restricted access to external borrowing (particularly for those countries with debt distress), some governments in the region are taking steps toward increasing revenues—through improved tax administration and tax reforms—and streamlining fiscal incentives (including the reduction or removal

of subsidies and tax expenditures). The (median) fiscal deficit in Sub-Saharan Africa is projected to have narrowed from 5.1 percent in 2022 to 4.3 percent in 2023. It is expected to continue shrinking to 3.7 percent in 2024 and to three percent in 2025 (figure 1.29).

The narrowing of the fiscal deficit in 2023 is broad-based, as the median fiscal balance has improved among resource-rich and non-resource-rich countries



²¹ Preliminary data show that net bilateral official development assistance flows from Development Assistance Committee countries to Sub-Saharan Africa were US\$29 billion in 2022—a decline of 7.8 percent in real terms compared to 2021.

this year.²² The region's fiscal deficit of mineral and metal exporters narrowed from 4.6 percent in 2022 to 3.7 percent in 2023. For example, Liberia and Sierra Leone were among the metal and mineral exporters in the region that experienced a reduction in their fiscal deficits of more than 2.5 percentage points in 2023. In Liberia, revenues are expected to rise in 2023, mainly due to measures to enhance tax administration and increased royalties earned under the Mineral Development Agreement with ArcelorMittal. Higher expenditure before the October election might be partly offset by lower subsidy costs, particularly the phasing out of rice subsidies. Rising mineral exports in Sierra Leone contribute to greater fiscal revenues through increased mineral royalties and excise tax receipts. The digitalization of tax collection also enhances revenue mobilization. The fiscal consolidation process is expected to resume throughout the forecast horizon (2023–25). Fiscal balances will remain in surplus among oil exporting countries, while deficits retreat for mineral and metal exporters and non-resource-rich countries, to averages of 3.2 and three percent of GDP, respectively, in 2025.

In 2023, the only six countries in the region that recorded an overall fiscal surplus were oil exporters. Although their fiscal surpluses are expected to narrow this year, government revenues in Chad and the Republic of Congo are expected to exceed expenditures by more than three percent of GDP. By 2025, the surplus settles at 3.8 percent for the Republic of Congo, and at 2.1 percent for Chad. Fiscal consolidation in the Republic of Congo under the IMF's extended credit facility through revenue measures (simplification of tax laws, tax reforms, administration, digitalization of public finances, scaling down exemptions, and collecting tax arrears) is contributing to an improvement in fiscal outcomes. Oil revenues are expected to decline this year as the uptick in production is offset by declining international prices. In Chad, revenue reforms and the resumption of financial inflows from international partners underpin the surplus in 2023. Other countries that are expected to post a fiscal surplus in 2023 are Angola, Equatorial Guinea, and Gabon. In contrast, the fiscal deficit exceeds 7 percent of GDP in Ghana, Guinea-Bissau, Malawi, and Zambia.

The deficit in Ghana will remain elevated in 2023–25, although it is expected to decline from 11 percent of GDP in 2022 to 7.5 percent of GDP in 2023. Government revenues will improve at a slower pace as growth in economic activity remains subdued and despite a series of revenue measures implemented by the government, such as the 2.5 percentage point increase in the value-added tax and an increase in excise duties. An acceleration of growth will reduce the fiscal deficit further to 6.7 percent of GDP in 2025. Finally, pressures for higher government spending in South Africa (in particular, social spending and an increase in the wage bill), weaker domestic growth, and a decline in the country's commodity export prices are weighing on the budget deficit this year. The fiscal deficit is expected to rise to 4.8 percent of GDP in 2023. Fiscal risks include the relief of the heavy debt burden of state power utility Eskom and increasing debt service costs. The fiscal deficit is expected to narrow slightly to 4.6 percent by 2025.

²² More than half of the countries in the region (26 of 47) recorded an improvement in their fiscal balance in 2023 when compared to 2022. The median improvement in the fiscal balance for those 26 countries was approximately 1.5 percent of GDP.

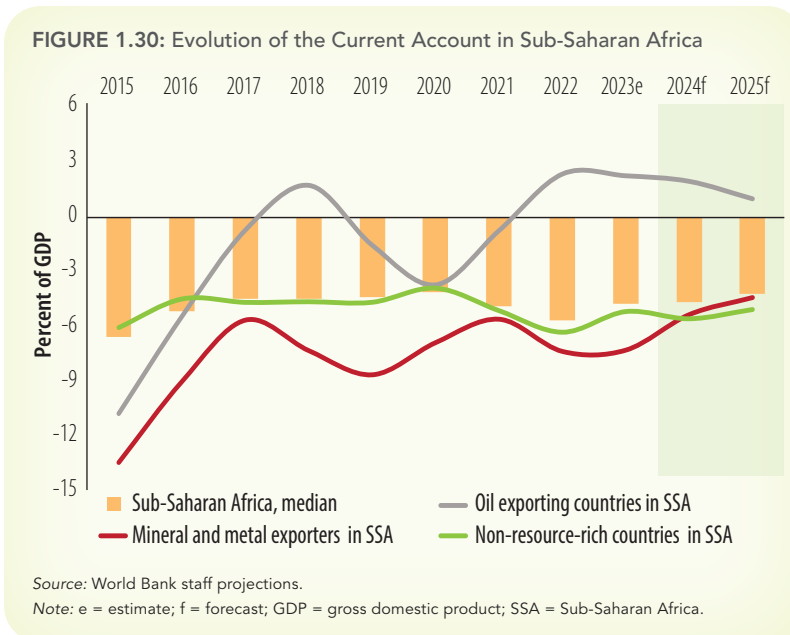
Current account deficits in the region are projected to narrow slightly over the next three years

The (median) regional current account deficit is projected to narrow to 4.7 percent of GDP in 2023, down from a deficit of 5.6 percent in the previous year. The deficit is then projected to shrink steadily to 4.2 percent in 2025 (figure 1.30). Despite the softening of energy prices (crude petroleum, natural gas, and coal) since the start of the second half of 2022, they remain above pre-pandemic levels, which will help oil exporting countries to record a surplus of 2.2 percent in 2023 amid lower oil output due to capacity issues and lower investments (Angola, Equatorial Guinea, and Nigeria, among others). The current account surplus of these countries is set to narrow even further to one percent in 2025, reflecting a likely drop in forecast energy prices.

Country forecasts reveal a mixed picture of the trajectory of the current account deficit across oil-exporting nations. For instance, Angola, Gabon,

Nigeria, and the Republic of Congo are expected to post a current account surplus in 2023 and to maintain a surplus over the forecasting horizon. While the current account surplus expands in Gabon (to 7.1 percent of GDP), it is set to narrow in Angola and the Republic of Congo (to 6.7 and 6.4 percent of GDP, respectively). In Nigeria, the current account is expected to increase slightly from 0.2 percent of GDP in 2022 to 0.6 percent of GDP in 2023. Lower export revenues are expected to be more than offset by import compression due to the devaluation of the naira and a boost in domestic refining capacity.

Metal and mineral exporters in the region slightly reduce their current account deficits from 7.3 percent of GDP in 2022 to 7.2 percent in 2023. Metal and mining exports were unable to offset the increase in the import bill due to still high food and fuel prices, and to structural investments in other countries. An improvement in global economic activity and lower energy prices will support metal and mineral prices: the (median) current account deficit in metal and mineral exporters in Sub-Saharan Africa is projected to narrow gradually to 5.3 percent of GDP in 2024 and 4.4 percent in 2025. Three mineral and metal exporting countries posted double-digit current account deficits, namely, Liberia (22.5 percent of GDP), Niger (12.7 percent of GDP), and Mauritania (11.9 percent of GDP). Liberia is expected to record the widest current account deficit in the region in 2023, with export receipts (particularly from gold and rubber) offset



by increased capital goods imports associated with the ArcelorMittal project and rising food imports (due to lower global prices). The large current account deficit in Niger reflects high agricultural imports (including food and agricultural inputs). Increased imports of capital goods associated with ongoing infrastructure projects (for instance, the work on the hydroelectric plant in Kandadji) also contribute to the large trade imbalances. In the Democratic Republic of Congo, the current account deficit is reduced to 4.7 percent of GDP in 2023 from a deficit of 5.3 percent of GDP in 2022. Exports are supported by capacity increases in mining and the restart of exports from CMOC's Tenke Fungurume mine. Although global fuel and food prices have declined, the import bill remains high due to the inflationary effects of the rapid depreciation of the Congolese franc. While many metal and mineral exporting countries experienced double-digit current account deficits in 2023, a few of these countries, including Zambia and Botswana, recorded current account surpluses. In Zambia, the current account surplus is expected to expand slightly from 3.6 percent of GDP in 2022 to 3.8 percent in 2023 as copper production improves supported by new investment and the expected resolution of operational challenges at two notable mines. Falling global diamond prices may explain the contraction of the current account surplus in Botswana from 2.9 percent of GDP in 2022 to one percent in 2023. External purchases of equipment for mining projects will drive the increase in the import bill.

Finally, declining energy and food prices may have contributed to the reduction in the current account deficit for non-resource-rich countries. The median current account deficit for these countries narrowed from 6.3 percent of GDP in 2022 to a deficit of 5.1 percent of GDP in 2023—a current account imbalance that is lower than that of mineral and metal exporters. Of the 10 countries in the region posting a double-digit current account deficit, seven of them are non-resource-rich countries; the remaining are metal and mineral exporters. São Tomé and Príncipe and Burundi are expected to have high current account deficits of about 19.3 and 17.6 percent of their respective GDP in 2023. In Mozambique, the current account deficit is expected to remain high (at 15.9 percent of GDP in 2023). Export revenues are expected to rise in 2023 as production from the Coral South floating liquefied natural gas terminal reaches full capacity and outputs of coal and aluminum increase. The import bill will continue to rise due to the resumption of construction at the Offshore Area 1 project and the still elevated food and fuel prices.

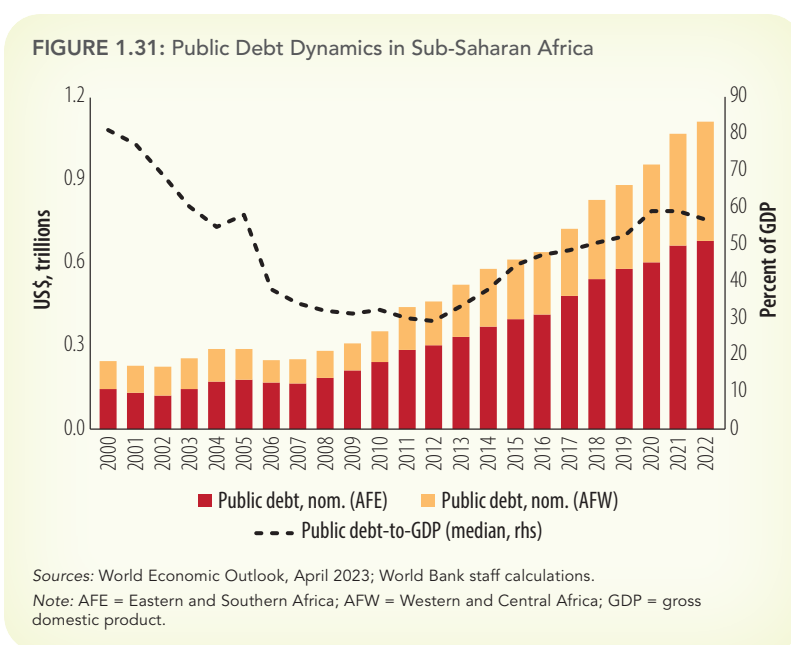
Government debt positions remain high and vulnerable, but there has been progress in debt restructuring

Public debt in Sub-Saharan Africa has been on an increasing trend since long before the onset of the COVID-19 crisis. The median public debt-to-GDP ratio in Sub-Saharan Africa increased from 29 percent in 2012 to 52 percent in 2019, reached 59 percent during 2020–21, and decreased slightly to 57 percent in 2022.²³ Over the past two decades, public debt in the region grew at the fastest pace during 2010–11, 2013–14, and 2017–18—all pre-pandemic years (figure 1.31).²⁴ In 2022, the median debt-to-GDP ratio for low-income-countries (LICs) in Sub-Saharan Africa reached 55 percent, while it reached 58 percent for middle-income-countries in the region—in both cases,

²³ The average public debt-to-GDP ratio in Sub-Saharan Africa increased from 35 percent in 2005 to 58 percent in 2019, reached 66 percent during 2020–21, and decreased slightly to 63 percent in 2022.

²⁴ The narrative for public debt in Sub-Saharan Africa relies on data from the World Economic Outlook as of April 2023, which includes 48 countries in the region. It excludes Somalia and Sudan. Sudan reached the Heavily Indebted Poor Countries (HIPC) Initiative decision point in 2021 and is expected to receive debt relief over the upcoming years. Somalia, also part of the HIPC, is expected to reach a completion point by the end of 2023.

there was an increase in the debt ratio of around 27 percentage points since 2012. Debt relief and strong growth contributed to the decline in the median public debt-to-GDP ratio from 58 percent in 2005 to 29 percent in 2012. Since then, the public debt-to-GDP ratio has risen on a broad basis, driven by persistent fiscal deficits and slowing growth. In 2013 accommodative global financial conditions and search for yield facilitated



larger volumes of financing to countries in Sub-Saharan Africa. The 2014–16 collapse in oil prices and wider primary deficits in oil-rich countries led to exchange rate depreciations and wider primary deficits that pushed public debt upward. In addition, many countries in the region also shifted their borrowing away from traditional concessional financing instruments to market-based and non-Paris Club sources, facilitated by loose global financial conditions and ample financing from China. The composition of public debt gradually shifted toward domestic debt over the past decade. Estimates suggest that the median domestic debt-to-GDP ratio has more than doubled.²⁵ Following the COVID-19 crisis, persistent global inflation and tighter monetary policies have led to higher borrowing costs for Sub-Saharan African countries and placed pressure on exchange rates, and the region's economic recovery has decelerated.

Public and publicly-guaranteed (PPG) external debt more than doubled between 2012 and 2021. The median PPG external debt as a percent of GDP for Sub-Saharan African countries in the LIC Debt Sustainability Analysis (DSA) database went from 20 percent in 2012 to 39 percent in 2022.²⁶ AFE recorded higher PPG external debt than AFW and a faster increase during the years previous to the pandemic (figure 1.31).²⁷ The median PPG external debt-to-GDP in AFE increased by roughly 20 percentage points between 2012 and 2022, reaching 40 percent of GDP, compared to an 18 percentage point increase in AFW over the same time, reaching 38 percent of GDP. Higher debt ratios in AFE compared to AFW are explained by some countries with large levels of debt, such as Sudan, Zambia, Zimbabwe, and Mozambique.

²⁵ The median domestic debt-to-GDP ratio in Sub-Saharan African IDA countries with an available Low-Income Country Debt Sustainability Analysis almost doubled between 2012 and 2019 (up from 8.5 to 15 percent of GDP). Estimates for 2022 point to an increasing reliance on domestic debt, reaching 20.2 percent of GDP.

²⁶ The LIC DSA database includes 38 countries in Sub-Saharan Africa with a current DSA as of end-June 2023.

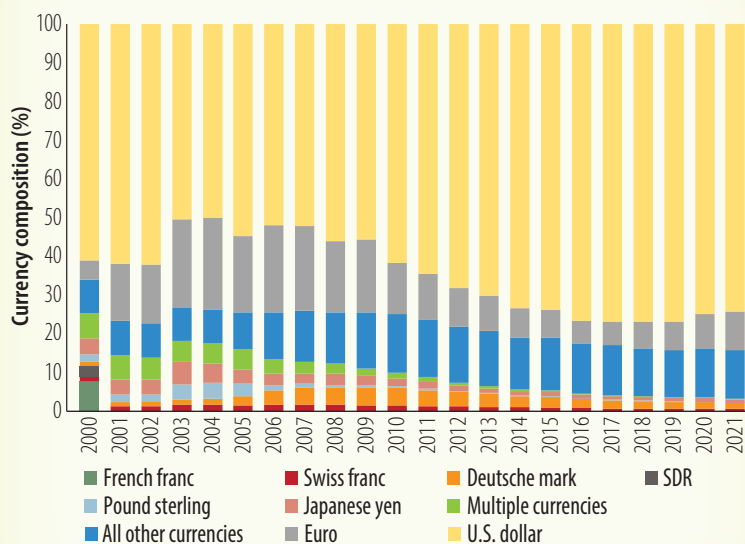
²⁷ AFE includes the following 26 countries: Angola, Botswana, Burundi, the Comoros, the Democratic Republic of Congo, Eritrea, Eswatini, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, São Tomé and Príncipe, the Seychelles, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe. AFW includes the following 22 countries: Benin, Burkina Faso, Cabo Verde, Cameroon, the Central African Republic, Chad, Côte d'Ivoire, Equatorial Guinea, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, the Republic of Congo, Senegal, Sierra Leone, and Togo.

The US dollar remains the predominant currency for PPG external debt in Sub-Saharan Africa. As most non-concessional debt and debt from China is denominated in US dollars, the share of that currency has continued to increase over time. More broadly, the currency composition of PPG external debt in Sub-Saharan Africa has increased its reliance on the US dollar since 2010, while the reliance on euros, special drawing rights, and the Japanese yen has declined. Since 2012 reliance on the US dollar has remained above 68 percent. As of 2021, the US dollar had

a share of 74.3 percent in the PPG external debt in Sub-Saharan Africa; euros, 9.9 percent; and other currencies, 12.6 percent (figure 1.32).

Fiscal deficits have been the main driver of debt accumulation in all LICs in Sub-Saharan Africa. On average, the public debt-to-GDP ratio increased significantly, from 55 percent in 2015 to 69 percent in 2019. In 2020 it increased to 78.2 percent and in 2021 and 2022 it decreased slightly to 77.4 and 77.1 percent,

FIGURE 1.32: External PPG Debt and Currency Composition in Sub-Saharan Africa, 2000–21

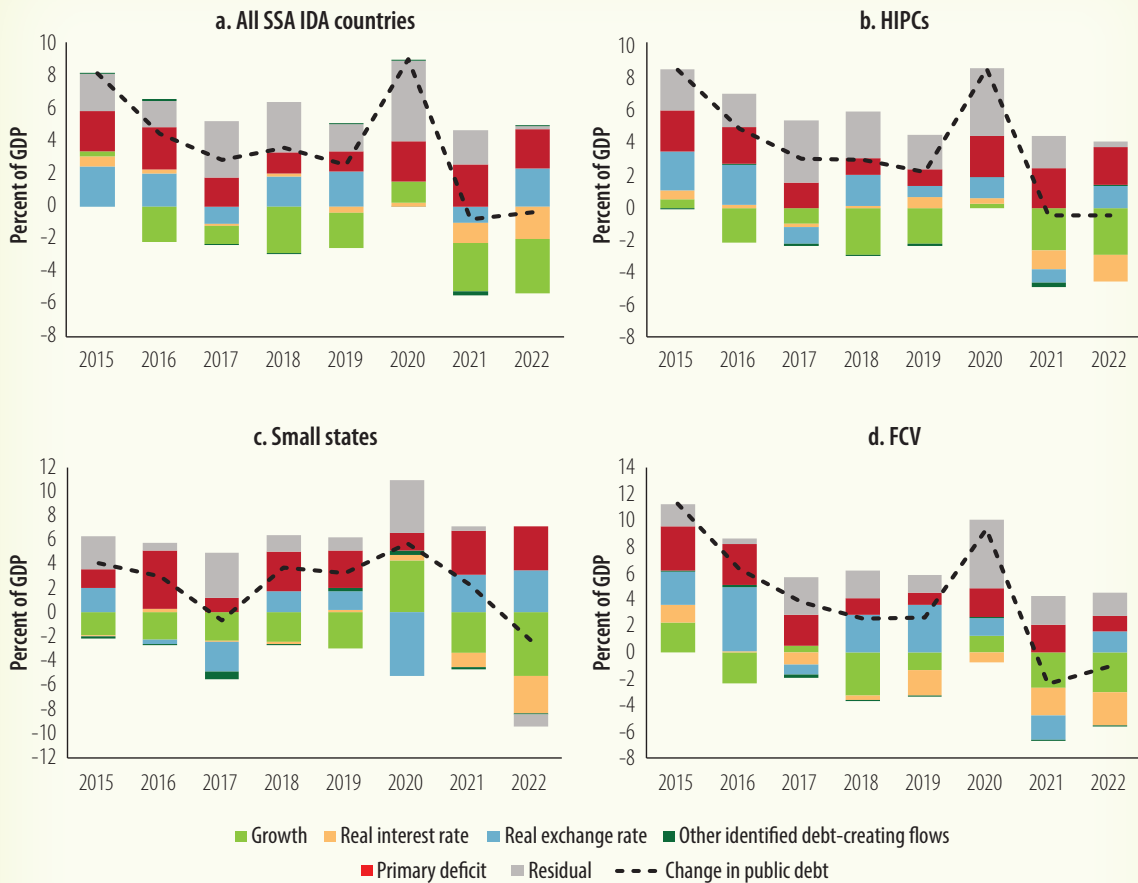


Source: World Bank, International Debt Statistics.
 Note: PPG = public and publicly guaranteed; SDR = Special Drawing Rights.

respectively. Figure 1.33 shows how the 2014–16 collapse in oil prices led to exchange rate depreciations and wider primary deficits that pushed public debt upward. Between 2017 and 2019, the pace of debt accumulation slowed, helped by gradual improvement in oil prices that led to real exchange rate appreciation and fiscal adjustments. However, in 2020 public debt accumulated rapidly in response to the COVID-19 crisis. The underlying debt dynamics show that primary deficits have increased the public debt-to-GDP ratio by nearly 17 percentage points of GDP since 2015. The real exchange rate depreciation contributed to increasing the public debt burden indicator by 9 percentage points of GDP since 2015, with more significant contributions in 2015–16, 2018–19, and 2022. Real GDP growth was the main contributor that helped to contain public debt, with a cumulative fall of 13 percentage points of GDP on average since 2015. Small states had the largest contribution of primary deficits, accounting for a cumulative increase in the public debt ratio of 23 percentage points in 2015–22 (figure 1.33). The residual, which summarizes unobserved factors, drove the average public debt by almost 19 percentage points of GDP.²⁸

²⁸ The residual includes unobserved debt drivers, such as the materialization of contingent liabilities or increases in debt coverage. It also includes exceptional financing (changes in arrears and debt relief), changes in gross foreign assets, and valuation adjustments.

FIGURE 1.33: Public Sector Debt Drivers



Source: Low-Income Country Debt Sustainability Analysis database as of end-June 2023.

Note: FCV = countries in situations of fragility, conflict, and violence; HIPCs = Heavily Indebted Poor Countries; IDA = International Development Association; SSA = Sub-Saharan Africa.

Debt distress risks in Sub-Saharan Africa have seen a significant increase since 2015, on the back of rising debt levels and increased non-concessional borrowing, and they have been exacerbated since the COVID-19 pandemic. The share of Sub-Saharan African countries at high risk in the Low-Income Country Debt Sustainability Framework (LIC-DSF) expanded from 19 percent in 2015 to 32 percent in 2023 (as of end-June 2023), and the share of countries in debt distress increased from eight to 24 percent. In this context, since 2021, no Sub-Saharan African countries that are part of the LIC-DSF have been classified as low-risk, and while the share of countries classified as moderate risk has been increasing since 2021 (from 39 percent in 2021 to 42 percent in 2022 and to 45 percent as of June 2023), still more than half of them remain classified as high risk or in debt distress (figure 1.34).

FIGURE 1.34: Evolution of External Debt Distress (percent of total)

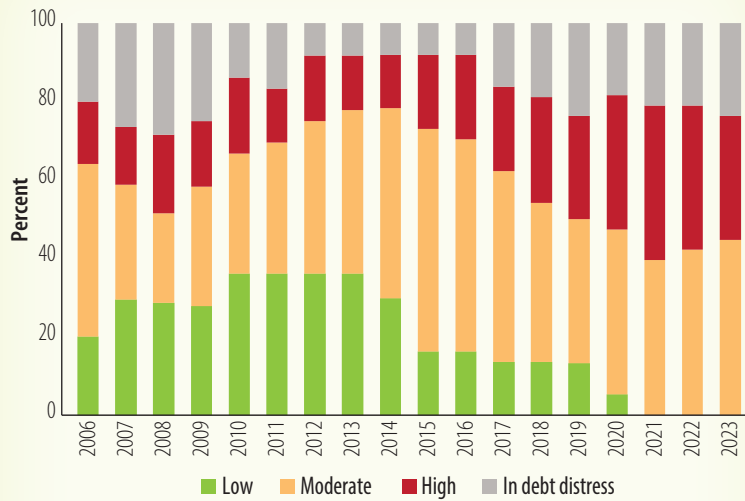
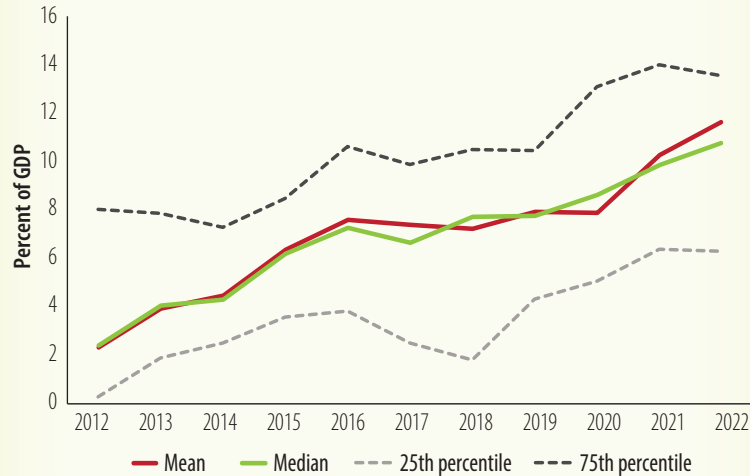


FIGURE 1.35: Evolution of Gross Financing Needs



Sources: World Bank–International Monetary Fund Low-Income Country Debt Sustainability Analysis database as of end-June 2023; World Bank staff calculations.

Note: GDP = gross domestic product.

Public gross financing needs (GFN), including primary deficits and debt service, remain higher than historical averages. GFN in the region increased from a median of 2.4 percent of GDP in 2012 to 11 percent in 2022 (figure 1.35).²⁹ The median GFN for 2023 is projected to be 10 percent of GDP. Total debt service in the Sub-Saharan Africa region increased from US\$59 billion in 2012 to US\$116 billion in 2021, but it decreased during the last year to US\$109 billion. This trend signals that other components are causing the GFN to remain high, such as primary deficits, which remain persistent.

The shift in the composition of Sub-Saharan Africa’s debt, due to non-concessional borrowing, has increased interest burdens, the overall debt service burden, and vulnerability to shocks.

The region’s debt service levels have steadily increased since 2000, adversely affecting fiscal space and increasing vulnerability to shocks, especially for countries that have gained access to international bond markets and other non-concessional financing sources. Debt service increased by US\$50 billion between 2012 and 2022, with the highest increase among AFE countries, for which the increase was US\$37 billion (figure 1.36). The ratios of total debt service to exports and debt service to revenue in Sub-Saharan Africa were 21 and 31 percent, respectively, in 2022.

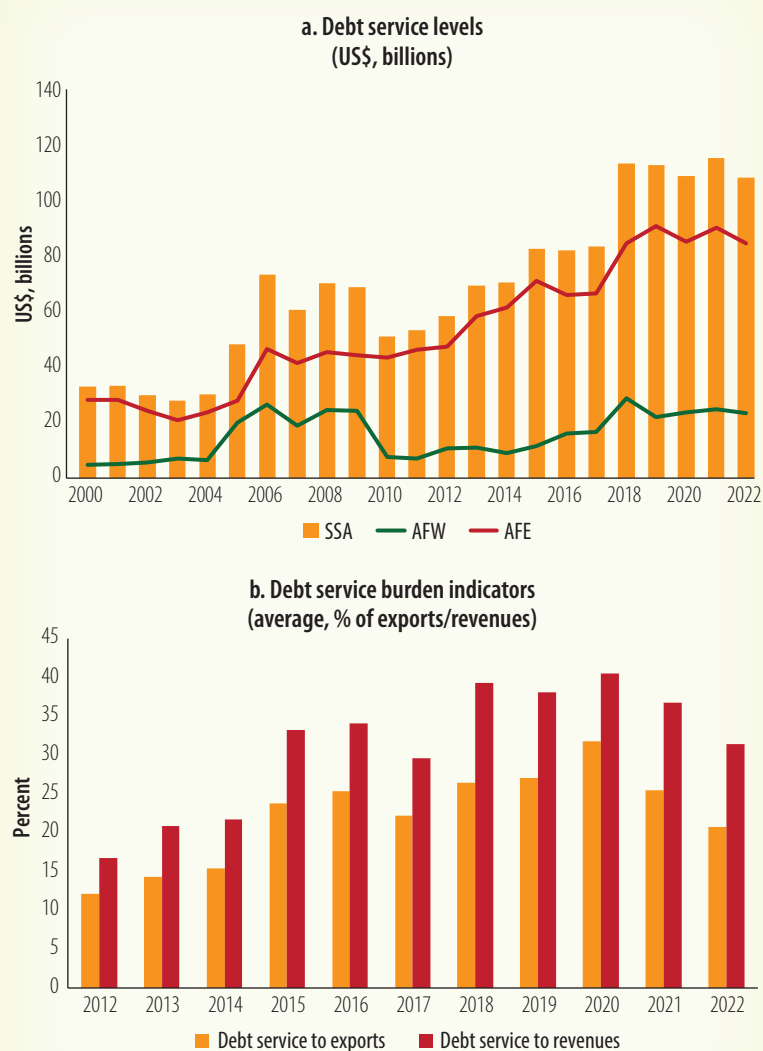
Nearly two-thirds of Sub-Saharan African Market-Access Countries (MACs) and around one-third of LICs³⁰ have tapped international markets over the past decade. By now, however, the

²⁹ Public GFN data were obtained from internal IMF–World Bank LIC DSF. The data for total debt services, exports, and revenues are from the World Economic Outlook, updated as of April 2023.

³⁰ LICs refer to countries using the Low-Income Country Debt Sustainability Framework (LIC DSF); MACs refer to countries using the Market Access Country Debt Sustainability Framework (MAC DSF). MACs exclude high-income countries.

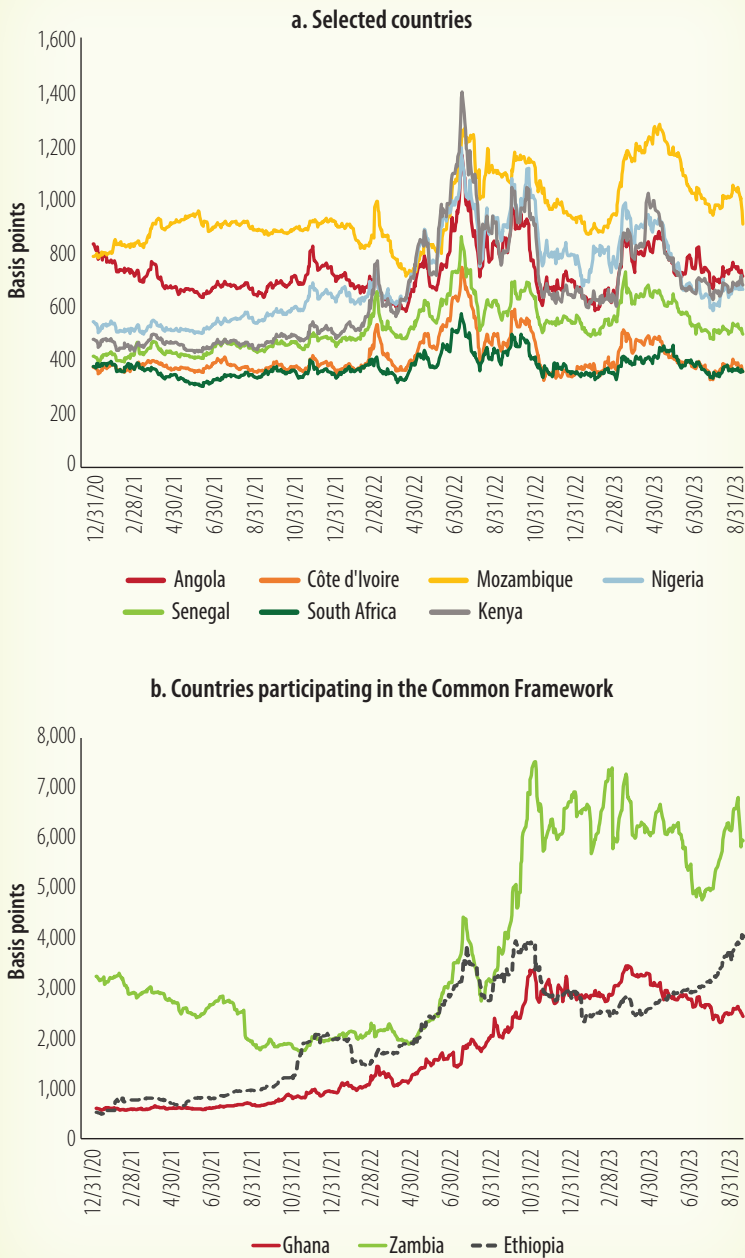
sell-off of developing countries' Eurobonds and increasing investor fears about the global outlook amplify the risks for Sub-Saharan African countries facing large Eurobond redemptions. Angola and South Africa are the largest issuers among the Sub-Saharan African MACs, which also include Côte d'Ivoire, Ghana, and Nigeria. For Sub-Saharan African international bond issuances, 2018 and 2019 were record years, with around US\$30 billion issued. Sovereign credit ratings, on average, deteriorated after 2018, and Sub-Saharan African countries tapped international markets amid worsening creditworthiness. Furthermore, countries lengthened the maturities of new bond issuances at marginally higher costs. Senegal was the first LIC in the region to issue an international bond with an original maturity of 30 years in 2018, followed since then by Côte d'Ivoire, Kenya, Ghana, and Nigeria. International bond issuances stopped in 2020 on account of the COVID-19 crisis but picked up again in 2021, with total issuances of nearly US\$10 billion. Several countries (including Angola, Benin, Ghana, Kenya, and Nigeria) issued Eurobonds in 2021 and early 2022, and Mauritius and South Africa issued Eurobonds during 2022 and 2023. By now, however, the spreads have increased substantially and narrowed the number of countries that maintained market access (figure 1.37). Bond redemptions will increase starting in 2024 and remain at elevated levels, posing refinancing risk for countries with large bullet redemptions, including Ethiopia (US\$1 billion in 2024), Kenya (US\$2 billion in 2024), and Angola (around US\$1.7 billion in 2025).

FIGURE 1.36: Debt Service Levels and Burden Indicators



Sources: World Economic Outlook April 2023; World Bank staff calculations.
 Note: AFE = Eastern and Southern Africa; AFW = Western and Central Africa; SSA = Sub-Saharan Africa.

FIGURE 1.37: Bond Spreads in Selected Sub-Saharan African Countries



Several countries have reverted to debt restructurings to resolve sustainability issues and rebuild fiscal space. Chad, Ethiopia, Ghana, and Zambia applied for external debt treatments under the Common Framework. Progress has been slower than desired, as only Chad has so far reached an agreement with its main creditors (bilateral and the largest private one), in November 2022. For Zambia, the Official Creditor Committee provided financing assurances, which paved the way for the IMF’s approval of an Extended Credit Facility–supported program in August 2022. A memorandum of understanding with the exact parameters of the treatment with the bilateral creditors is currently being finalized, more than two years after the request for debt treatment, while negotiations with bondholders are ongoing. Ghana submitted a request for debt treatment under

the Common Framework in December 2022. An Official Creditor Committee was formed, and financing assurances were provided in May 2023, allowing the IMF to approve a program in the same month. Finally, Ethiopia requested treatment under the Common Framework in February 2021, and an Official Creditor Committee was formed in September of that year. However, the process was delayed by political and security issues and has only recently resumed.

1.4 Outlook

Growth in Sub-Saharan Africa is projected to remain modest, at 2.5 percent in 2023—a downward revision from the 3.1 percent forecast in the April 2023 *Africa's Pulse*. The downgrade reflects the heightening of domestic headwinds, including tighter monetary and fiscal policies to control still high inflation in the region, heightened debt vulnerabilities, extreme weather events, as well as rising conflict and violence. This is exacerbated by an uncertain global environment characterized by the lingering effects of the poly-crisis, a slowdown in the global economy, and tight global financial conditions.

Growth in the region appears to be bottoming out in 2023 as economic activity is projected to pick up to 3.7 and 4.1 percent in 2024 and 2025, respectively. From the expenditure side, growth in 2024–25 is supported by a recovery of private consumption and gross fixed investment (a higher contribution than in 2023). This reflects the impact of receding inflation, a recovery in global trade and output, and easing of global financial conditions. The contribution of government consumption continues to be subdued as the commitment to restore fiscal sustainability holds. Exports are expected to increase at the same pace as imports in 2024–25, leading to a small contribution of net exports (figure 1.38). On the production side, the service sector will account for 60 percent of the higher growth in 2024–25. This will be complemented by modest contributions from agriculture and industry along the forecasting horizon (figure 1.39).

The growth forecast differs across subgroups. For instance, growth in the

FIGURE 1.38: Contribution to GDP Growth, Demand Side

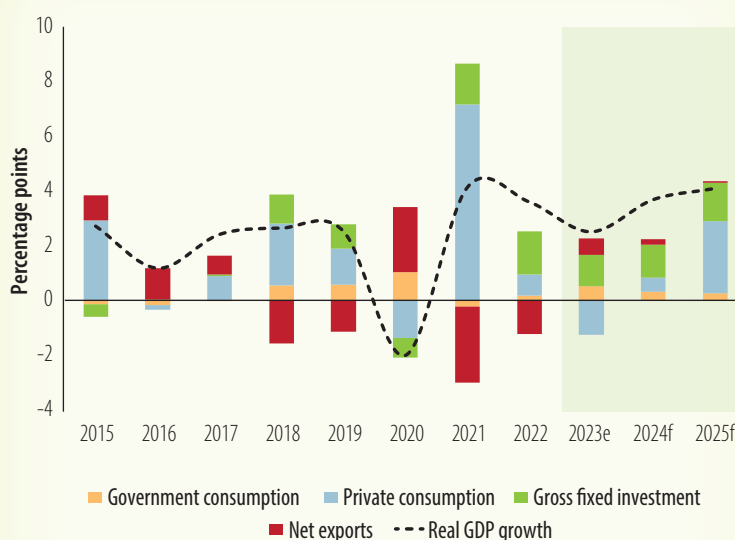
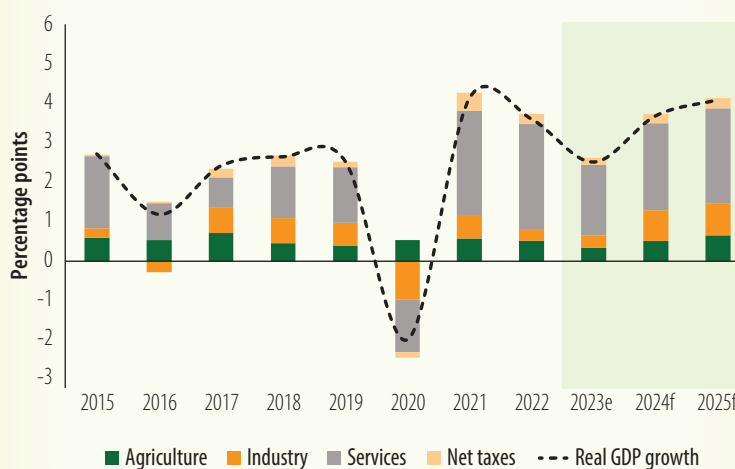


FIGURE 1.39: Contribution to GDP Growth, Production Side



Source: World Bank staff projections.

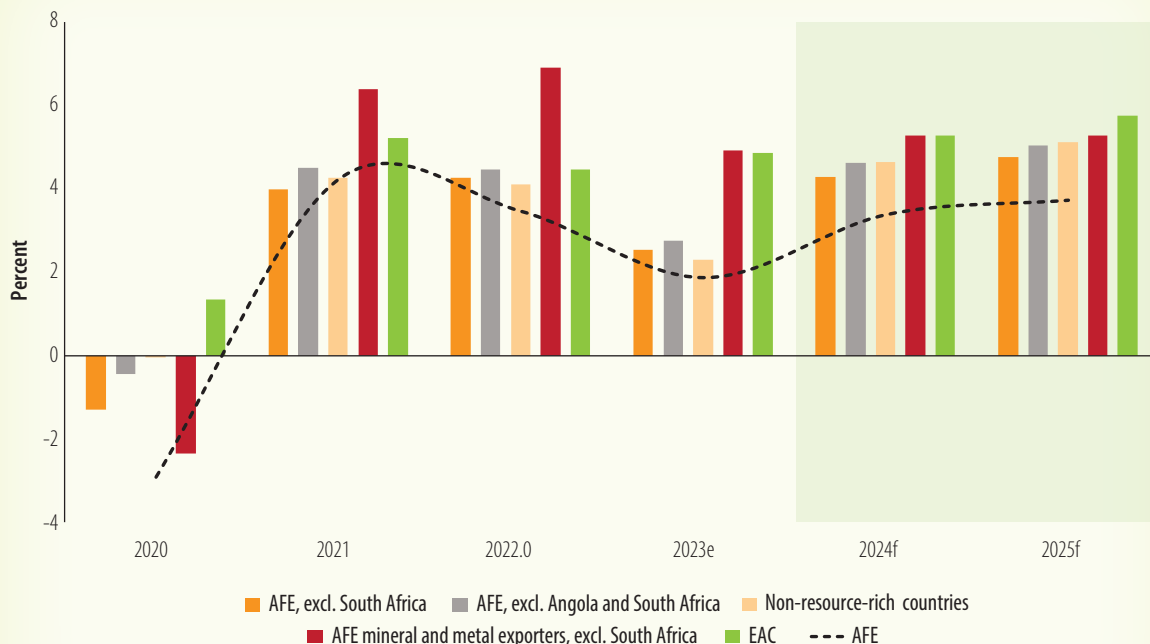
Note: Change in inventories and statistical discrepancy are not displayed. e = estimate; f = forecast; GDP = gross domestic product.

region excluding large countries, such as Angola, Nigeria, and South Africa, is projected at 3.1 percent in 2023, and set to expand to 4.7 and 5.2 percent in 2024 and 2025, respectively. Non-resource-rich countries are projected to grow 3 percent in 2023 and to pick up to 4.8 and 5.3 percent in 2024 and 2025, respectively. The stronger performance of non-resource-rich countries can be attributed to gains enjoyed from an expansion in services, a recovery in consumption as inflation recedes, as well as lower import bills. Real GDP growth in resource-rich countries will remain subdued, at 2.2 percent in 2023, but it will rebound slightly to 3.0 and 3.3 percent in 2024 and 2025, respectively—still below the growth rate of 3.7 percent in 2021. Growth for this group of countries is dragged down by lower commodity prices, pointing to strong dependence on the extractive sector.

Growth is projected to bottom out in 2023, and the strength of the recovery will differ across subregions

Growth of the region as a whole hides significant heterogeneity in the performance of the subregions, as well as individual countries. In the AFE subregion, growth of economic activity is expected to accelerate from a trough of 1.9 percent in 2023 to 3.4 and 3.7 percent in 2024 and 2025, respectively (figure 1.40). The growth performance of the AFE subregion is dragged down by the severe contraction in economic activity recorded by Sudan in 2023. Excluding Sudan, the subregion is expected to grow at 2.8 percent in 2023 and accelerate to 3.7 and 4.0 percent in 2024 and 2025, respectively.

FIGURE 1.40: GDP Growth Forecasts for Eastern and Southern Africa



Source: World Bank staff projections.

Note: AFE = Eastern and Southern Africa; e = estimate; EAC = East African Community; f = forecast; GDP = gross domestic product.

After weakening due to structural constraints—in particular, acute power outages and transportation-related bottlenecks—economic activity in South Africa is set to rebound to 1.5 percent in 2024 and 1.6 percent in 2025. The projected recovery in the forecast horizon is still insufficient to address problems of high unemployment and entrenched inequality in the nation. As inflation recedes and financial conditions begin to ease, private consumption is expected to recover from growth of 0.2 percent in 2023 to an average of 1.7 percent in 2024–25. Investment growth will accelerate sharply from 1.3 percent in 2023 to an average of 4.5 percent in 2024–25. Greater macroeconomic stability is expected to boost investment confidence. Infrastructure investments in the energy sector are also expected to support increased investment growth. Fiscal consolidation is expected to reduce government consumption growth from 1.3 percent in 2023 to 0.7 percent in 2024–25. On the supply side, agriculture and services will support the acceleration of growth in 2024–25. Growth of agriculture and services will more than double in 2024–25 at 2 and 1.8 percent, respectively (up from 0.9 and 0.7 percent in 2023). Growth of industrial activities will remain subdued at 0.8 percent in 2024–25—although recovering from a contraction of 1.6 percent in 2023.

Growth in Angola is expected to accelerate from 1.3 percent in 2023 to an average rate of 2.7 percent during 2024–25. Oil production will remain below the OPEC+ quota and activity in the sector is expected to grow about 1 percent in the forecast horizon because of field depletion and lack of investments. As inflationary pressures are expected to ease starting in 2024, household consumption is expected to pick up. The current account surplus will narrow from 6.7 percent in 2023 to 1.0 percent in 2025, on the back of lower oil export proceeds. On the production side, the agriculture and service sectors will remain robust over the forecast horizon.

Excluding South Africa and Angola, the AFE subregion is expected to grow at 2.8 percent in 2023, and it is set to speed up to 4.6 and 5.0 percent in 2024 and 2025, respectively (figure 1.40). The performance is above the subregion's growth. Kenya is expected to accelerate slightly from 5 percent in 2023 to 5.2 and 5.3 percent in 2024 and 2025, respectively. The slight increase in economic activity will be supported by higher consumption expenditure as tighter monetary policy manages to bring inflation within the target band of the central bank. Household consumption growth is expected to increase from 4.5 percent in 2023 to an average of 5.3 percent in 2024–25. Lower inflation and commitment to fiscal consolidation will boost business confidence, thus leading to higher investment levels. Gross fixed investment is set to expand at 9.3 percent in 2024–25, from 7.7 percent in 2023. On the production side, growth in Kenya will reflect strong increases in activity across all sectors during 2024–25—with growth accelerating to 4.2 percent in agriculture and 5.2 percent in industry. Growth in services will remain resilient, at 5.6 percent in 2024–25, although down from 6.7 percent in 2022.

In Ethiopia, real GDP growth is set to accelerate from 5.8 percent in 2023 to 6.4 and seven percent in 2024 and 2025, respectively. After the peace agreement with the regional administration in Tigray, the recovery will be driven by robust growth in gross fixed capital investment (with average growth of 7.2 percent in 2024–25) and a strong recovery in government consumption (from a contraction of 13.5 percent in 2023 to an expansion of 12.7 percent in 2025). From the production perspective, growth will be supported by an acceleration

of growth in services and industrial activities. Zambia is set to grow by 4.7 percent during 2024–25, from 3.1 percent in 2023. This growth acceleration is attributed to a rebound in manufacturing and mining activities, and a robust performance in services.

In the AFW subregion, economic activity is expected to grow at an annual average rate of 4.2 percent in 2024–25, up from 3.3 percent in 2023 (figure 1.41). The economic performance of the AFW subregion will be held back by the underperformance of Nigeria in 2024–25 (at growth rates lower than the subregional average). The Nigerian economy is expected to grow from 2.9 percent in 2023 to an average rate of 3.7 percent in 2024–25. This translates into growth per capita of 1.3 percent in 2024–25, which is insufficient to reduce extreme poverty in the country. Growth will continue to be driven by services, trade, construction, manufacturing, and agriculture. Oil production is projected to recover in 2024–25, but it will continue to be below the OPEC+ quota. Imports of fuel products are expected to decline as the new refinery ramps up production.

FIGURE 1.41: GDP Growth Forecasts for Western and Central Africa



Source: World Bank staff projections.

Note: AFW = Western and Central Africa; CEMAC = Economic and Monetary Community of Central Africa; e = estimate; f = forecast; GDP = gross domestic product; WAEMU = Western African Economic and Monetary Union.

Economic activity in the AFW subregion excluding Nigeria, is expected to grow 3.8 percent in 2023, rising to 4.9 percent in 2024 and 5.4 percent in 2025 (figure 1.41). Growth in 2023 is predicted to be 0.5 percentage point lower than the April 2023 forecast, while 2025 will remain unchanged. The downward revision is accounted for by the still high rates of inflation, tightening monetary and fiscal policies, continued conflict in the Sahel region, and slowdown of the global economy. The expansion of the AFW subregion in 2024–25 (4.2 percent) is higher than that of its counterpart, AFE (3.6 percent).

Growth of WAEMU countries is expected at 6.5 percent during 2024–25, up from 5.1 percent in 2023. The WAEMU countries will reap the benefits of declining food and fuel inflation, expansionary (or neutral at best) monetary policy, as well as investment in infrastructure. Economic activity in Côte d'Ivoire is projected to accelerate slightly to 6.5 percent in 2024–25, from 6.3 percent in 2023. Investment growth due to pro-competitive market reforms will support this acceleration. Business environment reforms under the National Development Plan will boost investments and activity in the agriculture, manufacturing, and telecommunications sectors. In Senegal, growth is expected to accelerate from 4.7 percent in 2023 to 9.9 percent in 2024. Higher private and infrastructure investment (especially in power generation, transport, and information technology) will support growth in the forecast horizon. Agriculture and tourism will also contribute to robust growth.

Unlike the WAEMU, economic performance is expected to remain weak among countries in the CEMAC. Growth is expected to accelerate slightly from 2.8 percent in 2023 to 2.9 percent in 2025. Lower global prices of crude petroleum—the main export commodity for most of the CEMAC countries—along with below quota production of oil will weigh on economic activity. Economic activity in Cameroon will increase slightly to 4.3 percent during 2024–25, from 4 percent in 2023. Gross fixed investment will support growth thanks to the ongoing expansion of mining and gas facilities and infrastructure development. On the production side, all sectors will contribute to growth. Economic growth in Chad will decrease slightly from three percent in 2023 to an average annual rate of 2.7 percent during 2024–25. Modest growth will be supported by an expansion of agricultural output—especially cotton—and mining activities.

1.5 Risks to the Outlook

Risks to the region's growth outlook are still tilted to the downside. Externally, tighter global financial conditions as global inflation reemerges, a greater-than-expected slowdown of economic activity in China, and intensification of geoeconomic tensions will affect global trade, commodity prices, and global output. These developments might weigh on the external demand for African exports. Financial conditions will remain tight if inflationary pressures remain persistent. The monetary policy hiking cycle among advanced countries would then resume or continue—thus increasing the region's external cost of borrowing. Food prices may remain elevated if the conflict in Ukraine is intensified. Russia's decision to withdraw from the Black Sea Grain Initiative and the ban on food exports (mainly rice from India) will put upward pressure on the international price of food—particularly cereals. Internal risks include the increasing risks of debt distress if consolidation efforts and debt management and resolution mechanisms are not improved. Extreme weather conditions arising from the El Niño phenomenon may also weigh on agricultural output and prices. Finally, the possibility of achieving a soft landing is the only upside risk scenario. A faster-than-expected decline in core inflation, a reduction in job vacancies, and (unspent) excess savings may lead to positive surprises in domestic demand and economic activity.

External risks

Global inflationary pressures. Global inflation has been declining more markedly in recent months; however, core inflation has slowed down at a much slower pace and remains stubbornly above central bank target bands. Tight labor markets and a higher pass-through from currency depreciations might increase inflation, thus increasing risks of de-anchoring of inflation expectations in many countries. Wage formation in some countries could also intensify inflationary pressures on wages. On the back of this scenario, monetary policy tightening would continue, and interest rates are likely to remain higher for a longer period. Inflationary pressures from commodity prices might arise if more extreme temperature increases than expected are brought by El Niño in the second half of this year. Russia's decision to suspend participation in the Black Sea Grain Initiative could again create supply disruptions and increase grain prices. Higher commodity prices and supply disruptions would deteriorate food security in the region even further—particularly in the Horn of Africa and the Sahel—with greater risk of malnutrition and social unrest.

Greater debt distress among EMDEs. The likelihood of high interest rates—as inflation remains at rates above central bank bands—or even a resumption of the hiking cycle in advanced countries—in the event of an inflation uptick—would tighten global financial conditions. External borrowing costs for EMDEs will remain high. The ensuing inflationary and exchange rate effects will increase the debt burden among EMDEs—thus raising the risk of debt distress. It also leaves a smaller margin for priority spending (social programs and public investments). This impact is more pronounced among EMDEs with lower credit ratings, where risk premia have sharply increased and recorded greater currency weakening.

Underperformance of the Chinese economy. In contrast to the growth impetus from China in late 2022 and the start of 2023, its economy is currently grappling with slowing growth and uncomfortably low inflation. The Chinese growth outlook faces a series of challenges, including softer manufacturing and services activity in recent months, youth unemployment, deflationary pressures, and a prolonged and structural downturn in the property sector. GDP growth was below market expectations in the second quarter of this year. Manufacturing activity contracted for a fourth straight month, and services activity slowed further in July.³¹ Youth unemployment in urban areas reached 21.3 percent in June and has increased every month this year. In July, consumer prices declined by 0.3 percent YoY, while producer prices recorded their tenth consecutive month of decline. Property developer Country Garden's missing bond payments at the start of August and Evergrande's filing for US bankruptcy protection (Chapter 15) are additional signs of the ongoing housing market slump. Risks of inadequate policy support to aggregate demand or failure to put a financial firewall around the financial system amid the property sector problems would render a deeper-than-expected deceleration in China. This would have negative potential implications for trading partners in the region—particularly commodity exporters.

Deepening of geoeconomic fragmentation. In recent years, the global economy has grappled with rising trade barriers that have leveled off global trade integration. A prolonged war in Ukraine as well as increases in other geoeconomic tensions, such as greater trade restrictions—particularly in strategic goods like semiconductors and critical minerals—and international movement of factors of production (including migration), among others, would increase the probability of a deeper disruption of global trade, international investments, and payments, as well as a severe fragmentation of the global economy into blocs. Recent research suggests that trade fragmentation can have an economically important impact on prices, trade flows, and incomes. Global output would decline between 0.3 and 2.3 percent depending on the degree of disruption—that is, moving from decoupling to fragmentation—although the impacts would differ across countries.³² Output losses would be even higher for LICs (more than four percent of GDP) and they would heighten the risks of economic crises along with food insecurity and social unrest. Countries in the region are most at risk from geoeconomic fragmentation as they will have more restricted access to markets where they can sell their products or source inputs. Other estimations point to a greater output cost from reshaping global value chains. Friend-shoring, designed as an insurance mechanism against trade disruptions and to provide a secure supply of critical inputs, can lead to real output losses of 4.7 percent in some economies.³³ Such developments could contribute to inefficient global production, high global inflation, and commodity price volatility and hinder multilateral cooperation in the provision of global public goods. Strengthening international cooperation as well as institutions that govern cross-border policies (for example, the World Trade Organization) would help to limit the risks associated with geoeconomic tensions.

³¹ The official manufacturing sector PMI came in at 49.3, while the non-manufacturing PMI, which includes sectors such as construction and agriculture, was 51.5.

³² Bolhuis, Chen, and Kett (2023).

³³ Javorcik et al. (2022).

Internal risks

Debt and fiscal risks. Fiscal consolidations in some countries in the region have seen a sluggish improvement in primary balances and a moderation in the increase of government debt. However, debt levels are still high, and the existing fiscal space is still insufficient to meet the rising financing needs of African countries. Resorting to domestic debt to fund the government budget is an option that countries are adopting—especially those that have lost access to global capital markets and those countries that are at high risk of or already in debt distress. As global financial conditions remain tighter for a longer period, governments may continue to rely on domestic sources of financing. This would lead to greater competition for domestic resources among economic players and put upward pressure on domestic interest rates. In this context, higher interest rates sought by investors may lead to low subscription rates of bond issuances—as was the case of issuances of the Central Bank of West African States and the Bank of Central African States’ regional markets during the first months of this year. To overcome the government funding risks, the international community needs to find ways to expand concessional lending and accelerate debt restructuring negotiations. The current resolution mechanisms need to be strengthened so that they can effectively address a potential debt crisis.

Climate shocks. Extreme weather conditions continue to hold back economic activity in the Horn of Africa and the Sahel, aggravating the humanitarian situation. Across countries in the Horn of Africa, the long-awaited rains arrived in March, providing relief from one of the worst droughts in 40 years. However, homes, farmland, and livestock were affected by flash-flooding, thus leading to the closure of schools and health facilities. These developments have led to a rising number of reported outbreaks of disease in the greater Horn of Africa. In addition, global forecasts are already indicating the presence of El Niño weather patterns in the region, and they will strengthen in the second half of this year. It could bring above-average rains during the rainy season from October to December across countries in the eastern part of the region, including Kenya, the Somali region of Ethiopia, and Somalia.

Conflict and violence. Violence and civil insecurity are flaring up throughout the region. Greater instability as a result of armed conflicts in Mozambique, the Democratic Republic of Congo, and the Sahel is intensifying humanitarian needs and political crises. The backslide of democratic governments continues in Sub-Saharan Africa. Insurgencies, lack of security, and weak governance have led to seven military coups since 2020. In addition, there have been no signs of democratic transitions this year in any of the countries where military coups took place in 2022—namely, Burkina Faso, Mali, Guinea, Chad, and Sudan. Fragility issues on the continent are amplified by vulnerabilities to climate shocks and risks arising from macroeconomic instability. Weaker currencies and rising fuel prices from the removal of subsidies in Angola, Kenya, and Nigeria have led to protests against government policies. Food insecurity is a growing problem—particularly in the Horn of Africa. Nearly 60 million people in this part of the region are estimated to be in dire need of help while about 5 million children under age 5 are estimated to face acute malnutrition this year.³⁴ These multiple risks of conflict and violence as well as the lack of resilience to shocks affecting economic activity may lead to entrenched poverty and food insecurity—thus increasing the likelihood of social unrest.

³⁴ See UN News, June 26, 2023, <https://news.un.org/en/story/2023/06/1138087>.

1.6 Policies

Amid an uncertain global environment and financial conditions that will remain tight for a longer period, African economies are struggling to regain their growth momentum and create (wage and stable) jobs for the 10 million to 12 million youth who join the workforce each year. On the domestic front, Sub-Saharan African countries still face inflationary pressures—although to different degrees—and lack the fiscal ammunition to support the recovery adequately. Efforts to mobilize resources domestically and address debt vulnerabilities are contributing to creating fiscal space in some countries. In others, conflict and political instability are holding back investment and growth and contributing to greater economic instability—particularly in the Sahel region.

Against this background, African policy makers need to design an inclusive growth strategy around four pillars. First, macroeconomic stability is critical for sustained and inclusive growth. Reducing inflation to target levels while monitoring its impact on economic activity and employment is essential for central banks. Coordination with fiscal policy is crucial to avoid unintended consequences of monetary policy decisions. Hence, policy actions that rebuild fiscal buffers and reduce debt vulnerabilities may contribute to inflation stabilization and the sustainability of fiscal and debt positions.

Second, investments in human capital are essential for a productive workforce. One in three working age people will be African by 2075. Investing in health, nutrition, and education as well as working with the private sector for the creation of more and better job opportunities will enable Africa's youth to power sustained and inclusive growth.³⁵

Third, the region must promote well-functioning markets and regional integration. Only one-sixth of working age individuals across low-income and lower-middle-income countries have a wage job, while misallocation of capital and labor to less efficient firms limits productivity and employment growth. Addressing the distortionary effects of well-intended policies and building technical capacity around promoting market access and competition are urgently required. As the African Continental Free Trade Area (AfCFTA) is implemented, technical capacity around implementation, including subsequent agreements and coordination of regulations, will be needed.

Fourth, building or strengthening an institutional framework that supports the market economy will improve state capacity and boost regional integration. Regulatory frameworks that foster transparency, competition, and innovation are essential to make markets work. Having a supporting administrative structure that enforces norms, policies, and regulations as well as delivering services can boost the effectiveness of these institutional frameworks. Commitment to greater regional cooperation and integration will be underpinned by stronger national and supranational institutions.

³⁵ Hassan, Kwakwa, and Murthi (2023).

Macroeconomic stability for inclusive growth

Consolidating the disinflation process will help to achieve price stability. After peaking in 2022, inflation has been receding in the majority of Sub-Saharan African countries—although at different speeds. Curbing inflation still remains a challenge for monetary authorities in the region, particularly for countries with underdeveloped financial systems, a large informal sector, and lack of monetary-fiscal policy coordination. For those countries where inflation is within striking distance or already inside the central bank’s target band (for instance, South Africa, Kenya, and Uganda), fine-tuning monetary policy to get inflation under control without causing unnecessary hardship and job losses is essential. In contrast, countries with rates of inflation that are high (two-digit rates) or have not peaked yet (for example, Ethiopia, Ghana, and Nigeria) need to avoid unorthodox interventions that might render their monetary policies ineffective—such as monetarization of the fiscal deficit, direct lending interventions, untargeted subsidy programs, or foreign exchange controls. If monetary and fiscal actions are not adequately coordinated to bring down inflation, the risk of de-anchoring inflation expectations would fuel further inflation, accelerate interest rate increases, and exacerbate the deceleration of economic activity.³⁶ For these countries, independent central banks with a clear mandate, transparent decision making, and accountable authorities are essential to curb inflation. Fiscal policies should be coordinated with monetary measures to achieve inflation targets and ensure the sustainability of public finances.

Rebuilding fiscal space is essential to curb inflation and support economic activity. Domestic resource mobilization and greater spending efficiency are critical to mitigate fiscal and debt sustainability risks and bring down inflation. Fiscal consolidation efforts in the region are reflected in revenue reforms (for instance, in Kenya and Ghana) and the elimination of fuel subsidies (Angola and Nigeria). Successful revenue reforms in Sub-Saharan Africa share the following features:³⁷ (1) tax administration measures and tax policy reforms designed as a package, (2) reforms of indirect taxes, raising efficiency of underused taxes, and streamlining tax expenditures, (3) boosting tax compliance through strengthening taxpayer segmentation and automation, (4) fuel subsidy reforms with mitigating actions such as targeted cash transfers for the most vulnerable population, and (5) high-level political commitment and buy-in from key stakeholders.

Fiscal policies also play a role in shaping inclusive growth in the short run and the long run. In the presence of aggregate shocks and uncertainty, these policies can be geared to foster economic stability while mitigating the deleterious consequences for inclusive growth. For instance, there is evidence of the scarring effects of recessions on unemployment, human capital formation, and health conditions, as well as their impact on income inequality.³⁸ In this context, countercyclical fiscal policies should be at the top of an inclusive growth strategy—as these policies have economywide impacts. Procyclical fiscal policies tend to exacerbate the impact on economic activity of external shocks,³⁹ and are associated with poor social outcomes such as increased poverty and income inequality as well as higher unemployment

³⁶ Reis (2021).

³⁷ Jung (2023) identifies four episodes of successful revenue reforms: Mauritania (2010–14), Rwanda (2010–15), The Gambia (2010–15), and Uganda (2012–17). A successful episode is defined as a minimum but sustained increase in tax revenues of 2.5 percentage points of GDP over a five-year period, and no substantial decline after that five-year window.

³⁸ Suphaphipahat and Shi (2022) document the economic scarring of different types of crises, and Schady et al. (2023) examine the deterioration of human capital (health, knowledge, and skills) in the aftermath of the COVID-19 pandemic.

³⁹ Brueckner and Carneiro (2017).

rates.⁴⁰ Restricted access to credit markets during downswings, political pressures in the face of revenue windfalls, high levels of public debt, and social polarization contribute to the inability of countries to conduct countercyclical policies.⁴¹ In this context, strengthening institutions and reconstituting fiscal space in good times could enable countries to escape from their procyclical bias and implement fiscal policies that mitigate economic volatility and support sustained and inclusive growth.⁴²

Better debt management and speedier debt restructuring are critical to reduce the risk of distress. Addressing debt vulnerabilities and distress in the region is critical for the sustainability of the public sector. Reducing the debt burden would create fiscal space for priority development spending. In 2023, more than half of the IDA-eligible countries in the region are at high risk of or already in debt distress. Four countries are participating in the Common Framework, with Chad reaching an agreement with its creditors (although without debt forgiveness). Ghana has secured financial assurances from its Official Creditor Committee to participate in an IMF-supported program and unlock external financing. Zambia struck a deal to reschedule its debt with official creditors over more than 20 years with a three-year grace period where only interest payments are due.

Addressing sovereign debt distress in Africa would require a comprehensive approach that incorporates all relevant stockholders given its economic, financial, social, and political implications in the borrowing country. National debt management policies should be strengthened and conformed to the principles of good governance, which include transparency, participation, accountability, coherent decision making, and effective institutional arrangements. Debt transparency is the foundation to reform debt management. Evidence shows that debt transparency contributes to higher credit ratings, lower borrowing costs, and foreign direct investment inflows.⁴³ Countries in the region need to continue adopting comprehensive debt data disclosure requirements and borrowing procedures that are transparent and participatory. This will hold decision makers accountable.⁴⁴ When incurring new borrowing, governments should follow publicly disclosed, predictable, and binding legal procedures—including the amount and contractual terms of the loans. This information should be available to creditors and multilateral financial institutions, and publicly available through domestic platforms. Finally, comparability of treatment during restructuring processes is essential to facilitate the debtor's efforts to reach agreement with all its creditors. Restructuring processes should consider coordinated and simultaneous negotiations across creditors—given the changing landscape of creditors for Sub-Saharan African economies—and the use of net present value reduction based on commodity discount rates as the measure of comparability of treatment.⁴⁵

40 Végh et al. (2019); Ouedraogo (2015).

41 Aizenmann et al. (2019); Frankel et al. (2013); Woo (2011).

42 Davoodi et al. (2021).

43 Pazarbasioglu (2019); Kubota and Zeufack (2020); Rivetti (2021).

44 Burkina Faso partnered with the Debt Management Facility (DMF) to boost transparency under a broader World Bank Development Policy Operation. From December 2020 to March 2021, the DMF assisted the country in building the debt management office's capacity for debt reporting. The goal was to improve the quality of the debt data and publish the Statistical Debt Bulletin in line with best international practices. In March 2021, Burkina Faso published its first comprehensive Statistical Debt Bulletin, which included loan information with detailed data on terms and conditions, loan guarantees associated with state-owned enterprises, and public-private partnership contracts. The timely publication of this bulletin provides information within three months from the data cut-off date. According to the World Bank's Debt Reporting Heat Map, Burkina Faso has achieved full disclosure in coverage and timeliness of information.

45 Rivetti (2022).

Investments in human capital to constitute a productive workforce

Increased investments in people are much needed in the region to enhance productivity and ensure a prosperous future for the region. People are the greatest asset of the African continent. Investments in education, health, women and girls, as well as digital technologies can contribute to boosting the region's human capital potential.⁴⁶ To start, children are not learning at their grade level. Interventions that improve learning in school are more cost-effective than interventions that increase school attendance alone.⁴⁷ This includes supporting multifaceted interventions—for instance, targeting teachers by teaching instruction at the learning level rather than the grade level has been shown to be cost-effective. Interventions that only support inputs (for example, laptops and textbooks) alone are less cost-effective. Moreover, health interventions such as deworming, malaria, and sanitation interventions have also been shown to be cost-effective. These interventions are much less onerous than multifaceted programs, thus resulting in much lower gains but delivering a relatively high return per dollar.

Successful interventions in Sub-Saharan Africa have included a variety of different types of programs, and it is important to recognize that their cost-effectiveness is also due to their meeting a context-specific need. Examples of multifaceted successful interventions include Tusome in Kenya, which provides textbooks, teacher coaching, and teacher training; and CAMFED in Tanzania, which targets girls' education through a combination of scholarships and mentorship, school materials, and training for teachers and parents.⁴⁸

Early school dropout is also a critical issue that educational interventions aim to prevent, and the reasons for dropping out of school vary by gender. Enhancing access to free education through removing school fees or providing scholarships has proven to be effective in raising female educational attainment and reducing dropout rates in Sub-Saharan Africa. In Uganda, a free primary education program resulted in an increase of nearly one year of education for girls, with positive impacts across all grade levels through the end of secondary school. Similarly, in Benin, waiving public junior high school fees led to increased enrollment and reduced dropout rates for girls. Interventions that deliver social and emotional skills training to adolescents have been shown to be promising to increase primary school completion and secondary school enrollment. The provision of free school uniforms or sanitary pads has been found to reduce school dropout rates and absenteeism. Evidence also shows that enhancing girls' human capital and opportunities is a compelling pathway to delaying marriage. Removing financial barriers to education can also lead to later marriage and childbearing. Malawi's conditional cash transfers curbed pregnancies for out-of-school girls, with similar results through unconditional transfers for in-school girls. The provision of free school uniforms in Kenya decreased dropouts and lowered teenage pregnancy within marriages.⁴⁹ Dropping out is also prevalent among boys. Many children are also not in training or any productive activity when dropping out of school. Forms of vocational training can be a means to encourage children who have dropped out of school to stay engaged in productive activities and acquire skills for the labor market, but evidence on the benefits and forms of effective training is still narrow.

⁴⁶ Bakilana and Belay (2023).

⁴⁷ Angrist et al. (2020).

⁴⁸ Sabates et al. (2021); Piper et al. (2018).

⁴⁹ Costa et al. (2023).

Health also contributes to being a productive member of the workforce. Six in 12 of the “doable dozen” cost-effective interventions to reach the Sustainable Development Goals are in health, and several of them are in areas where Sub-Saharan Africa lags behind other regions. Cost-effective interventions in child health include child immunization, institutional deliveries, and addressing infant and maternal undernutrition and micronutrient deficiencies to prevent child stunting. In addition, the prevention and treatment of malaria and tuberculosis are cost-effective. While noncommunicable illnesses still constitute a relatively low share of the disease burden in Sub-Saharan Africa, prevention and treatment of chronic diseases such as cancer and heart disease, which are becoming increasingly important in developing countries, can also be cost-effective.⁵⁰

Promotion of well-functioning markets and regional integration

Supporting firm entry and firm growth requires careful attention to market constraints and nimble regulation. The requirements for successful entrepreneurial ecosystems can be multifaceted, with any single limitation binding on the overall performance of the market. Size-independent policies and enforcement, access to infrastructure and finance, stable macroeconomic conditions and liquidity, and access to markets are all necessary conditions for encouraging new firms to enter the market.

Political will to support institutions enforcing market competition is essential. Establishing clear competition guidelines and building technical competence around enforcement are necessary for properly establishing a competitive landscape. This includes political safeguards for regulatory independence. Moreover, prioritizing market access and competition in other regulatory processes can address anticompetitive practices in government procurement, access to subsidies and government programs, licensing, and certification.

Given the distribution of firm size focused on owner-operators and micro-sized firms, there may be significant limitations from size-dependent policies in the region. Such size dependency can have severe limiting effects on economic growth and productivity, as it implicitly subsidizes the least productive firms and taxes the most productive ones.⁵¹ While differentiated tax rates and regulatory thresholds in licensing can create threshold effects for passing specific numbers of employees, other distortions can include higher enforcement as firms increase in size.⁵² Indonesia has experienced positive results from creating a separate tax office for large firms, with smaller firms having special treatment in which enforcement is more evenly distributed across different sized firms.⁵³

Infrastructure costs and poor quality represent a significant barrier to entry for many potential firms. Telecommunications and transport services, which are characterized by natural monopolies and network effects (in some market segments) and markets that depend on the existence of scarce resources (for instance, forests, fish banks, and tourist attractions) are susceptible to generating dominant players, which are then able to abuse their dominance

⁵⁰ The “doable dozen” is a set of cost-effective interventions to reach the Sustainable Development Goals as outlined by the Copenhagen Consensus, 2023.

⁵¹ Bachas, Fattal Jaef, and Jensen (2019).

⁵² Asatryan and Peichl (2017); Brockmeyer and Hernandez (2016).

⁵³ Basri et al. (2021).

and prevent entry of other players. In some cases, rules to combat abuse of dominance can also address these issues, while ex ante regulation can protect consumers and ensure proper provision of services.

Promoting competitive behavior goes beyond the enforcement of competition policies. African countries need a more comprehensive policy to integrate competition principles into sectoral and economywide regulation. In addition to more effective competition law enforcement, attention should be focused on reforming private sector regulations that reinforce dominance, facilitate collusion, or favor certain players. More effective implementation demands a strategy to prioritize actions that are more impactful and can create a culture of competition, in addition to more financial and human resources for competition agencies. In addition to preventing and sanctioning anticompetitive practices, competition authorities provide great value as advocates for regulation that ensures entry into markets, including for new and smaller players, thereby creating job opportunities, as well as integrating the analysis of effects on competition and markets as part of privatization design, public procurement tender design, and sectoral regulation to boost private investment. Market intelligence to detect and prevent collusive behavior and effective anticartel enforcement can be particularly effective to ensure access to key production inputs and better selling conditions for outputs.

Similarly, active promotion of market access can counteract social barriers. Encouraging women entrepreneurs to enter profitable male-dominated sectors advances gender equality. Policies and programs should encourage spousal support, facilitate connections to mentors and role models, and offer early exposure to and training in male-dominated sectors. Evidence from Sub-Saharan Africa shows that women perform worst when their husbands ignore their entrepreneurial efforts. This evidence suggests that engaging men and fostering cooperation between spouses are critical. A gender transformation and joint training intervention in Côte d'Ivoire showed that male export crop farmers who filled out a two-year action plan with their wives shared more agricultural decisions and enabled women to manage more cash crop tasks.⁵⁴ Furthermore, educating people about profitable industries, strengthening networks, and providing more funding options help to overcome challenges and support women's growth.⁵⁵ Along the same line, enhancing women's socioemotional, cognitive, and technical skills and access to information on male-dominated sectors is crucial for their crossover.⁵⁶

Strengthening institutions that support the market economy

Sustained and inclusive growth requires the support of institutions that operate through the different dimensions of the business environment—namely, competition, inputs and relationships between firms, employment, and financing. Making markets work in this context implies the implementation of regulatory frameworks that foster transparency, competition, and innovation. Strengthening the investment climate is also essential—including securing property rights, protecting investors (particularly minority shareholders), and guaranteeing contract enforcement. Well-functioning markets will benefit from shoring up institutions that enforce competition laws—including independent competition agencies and sound procurement systems.

⁵⁴ World Bank (2022a).

⁵⁵ Alibhai et al. (2017).

⁵⁶ World Bank (2022a).

African policy makers also need to build up the state's capacity to deliver public goods such as citizen security, social and physical infrastructure, as well as management of investments in human capital—particularly medical and health care as well as education. High state capacity is fundamental for the consolidation of democracies in the region—thus raising trust in government officials and the functioning of political participation mechanisms. It is also associated with robust domestic resource mobilization—that is, a state with a high tax-to-GDP ratio that spends the proceeds to provide security and public goods for its people.⁵⁷ Lack of state capacity, a feature of many fragile states, can be conducive to lackluster economic growth and low income, as well as greater incidence of conflict and civil war.⁵⁸ In this context, improving state capacity is critical to create an environment in which security and markets can function.

Finally, strengthening national and supranational institutions that support regional cooperation and integration is key for exploiting economies of scale and agglomeration that enable technology adoption, innovation, and greater competition on the continent. Effective implementation of the AfCFTA has the potential to deliver such promise. Empowering the AfCFTA Secretariat is essential to align and coordinate the concerted efforts of regional economic communities and member states. This supranational institution can assist member states in the administration of the trade agreement—including by serving as a venue for committees, working groups, and political decision-making bodies following up on plans to comply with regional instruments and projects, and solving disputes related to the application or interpretation of the trade agreement. It can provide capacity-building services to officials of member states as well as to stakeholders from the private sector and civil society. It can also serve as a portal to manage and coordinate regional trade-related cooperation projects.⁵⁹

57 Babajide et al. (2021).

58 Besley and Persson.

59 Echandi et al. (2022) describe in more detail the services that can be provided by the AfCFTA Secretariat.

Section 2. Delivering Growth to People through Better Jobs

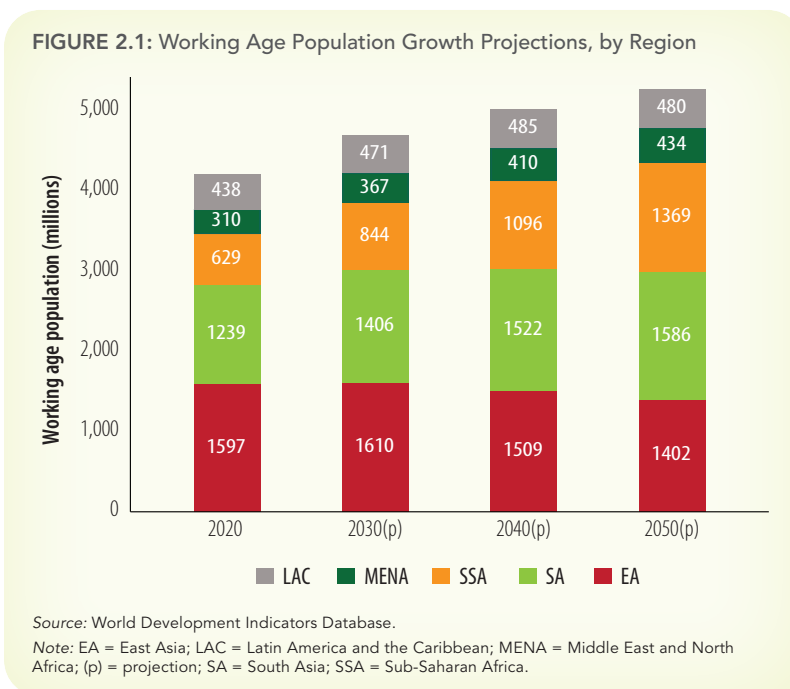
2.1 OVERVIEW

Jobs are at the core of development. A focus on jobs as economies grow ensures prioritization of the human side of development. While economic growth has the power to transform societies and boost incomes, it is through jobs that people reap these gains. Better jobs are people’s surest way out of poverty, and more secure and increasingly productive jobs offer households opportunities to diversify their spending patterns and invest in health and education.

In Sub-Saharan Africa, an urgent need arises for creating better jobs for more people to meet the needs of growing populations. Over the next three decades, the region will experience the fastest increase in the working age population of all regions, with a projected net increase of 740 million people by 2050 (figure 2.1). Between 8 million and 11 million youth will enter the labor market across the region every year in the coming decades, yet only about 3 million new formal wage jobs are currently created each year. Bringing the wage employment ratio up to par with the upper-middle-income country average of 36 percent will require annual wage employment growth of 8.3 percent in Sub-Saharan Africa, considerably higher than the rate of 5.4 percent achieved over the past two decades.¹

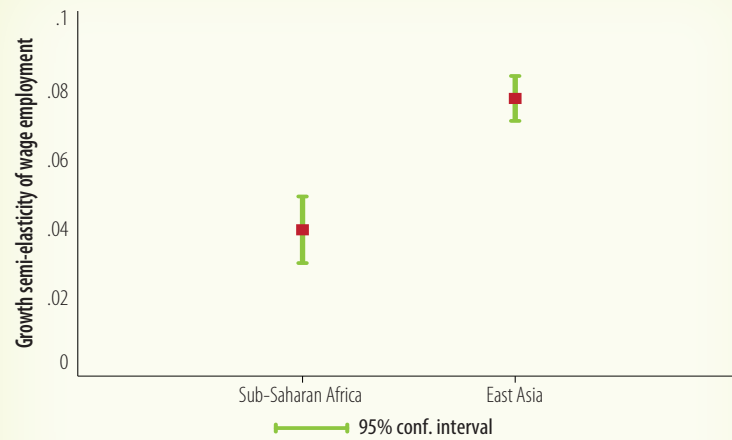
However, recent economic growth in the region has not contributed to the creation of jobs for more people. Gross domestic product (GDP) in Sub-Saharan Africa as a whole grew by a meagre 1.4

percent annually between 1991 and 2019, despite experiencing a growth spurt from 2000 until around 2014 during which annual rates accelerated to 2.8 percent. Even during this period of faster growth, the share of working age individuals with wage jobs increased only from 14 to 16 percent. For each 1 percentage point increase in growth generated by Sub-Saharan African countries, the proportion of workers with wage jobs increases by 0.04 percent on average. This disappointing translation of growth into jobs is specific to the region: countries in East Asia produce roughly twice the number of jobs for each 1 percentage point increase in growth (see figure 2.2).



¹ All estimates in the overview are based on calculations using data from ILOSTAT.

FIGURE 2.2: Growth Elasticity of Wage Employment



Source: World Bank Jobs Group Global Macro Indicators Database.
 Note: semi-elasticity measures the change in proportion of workers with wage jobs for each 1 percentage point increase in growth.

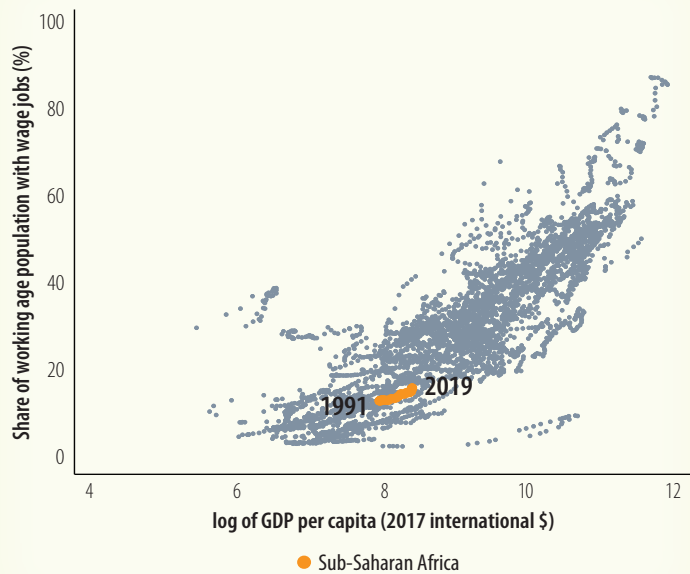
A lack of wage job creation translates to poor job quality, creating a need for “better” jobs. Labor is typically underutilized, with unstable employment, often harsh working conditions, inefficient use of skills, and a lack of adequate equipment to complement the work done by people. The consequences are depressed worker productivity, limiting on how much workers can earn for an hour’s use of

their skills, and thus a high prevalence of “bad” jobs. The lack of better jobs is reflected in high levels of involuntary self-employment and a prevalence of informality. Globally, Sub-Saharan Africa is the region with the highest rates of self-employment and unpaid family employment.

Low levels of wage employment suggest a lack of organization in the jobs that people do, with constraints to firm formation and growth limiting the prospects for stable wage employment. In Sub-Saharan Africa, only one in six workers has a wage job, compared to one in two in high-income countries. The forthcoming World Bank “Jobs for Development” flagship report

highlights that when few jobs are linked to firms, it becomes harder for workers to augment their skills with physical as well as intangible capital, to take advantage of skill complementarities with other workers, and to benefit from economies of scale.² Organizational change, as proxied by the prevalence of wage employment, is thus a key dimension of structural transformation, showing a strong positive association with development (figure 2.3).

FIGURE 2.3: Share of Wage Jobs versus GDP per Capita, by Country, 1991–2019



Source: World Bank Jobs Group Global Macro Indicators Database.
 Note: GDP = gross domestic product.

² This incorporates indirect linkages of jobs to firms through supply chains and out-grower schemes in addition to direct linkages through wage contracts.

Self-employment and unpaid family employment are particularly critical among women. Women are disproportionately engaged in vulnerable employment, with 80 percent of women compared to 67 percent of men being involved in family and own-account work.³ Entrepreneurship is pivotal for women's livelihoods, representing almost 50 percent of women's nonfarm labor force participation. Yet, women-owned businesses tend to be smaller and less profitable than those owned by men.⁴

Improvements in education and training are undermined by the lack of jobs in firms. Human capital levels have improved significantly in the region, but they have so far failed to accelerate transformation in work and offer people greater occupational choice in jobs. The accumulation of human capital allows economies to draw on an increasingly more skillful and healthier workforce. Hence, activities that are more skill intensive and require a steady supply of healthy labor (as opposed to seasonal activities such as agriculture) become relatively more feasible, opening new paths of transformation in work. At 4.7 years, workers in Sub-Saharan Africa have the lowest average years of schooling of any region in the world, and primary school completion rates continue to be very low (figure 2.4).⁵ It is thus unsurprising that in many parts of the subcontinent, new labor market entrants continue to be bound to the agriculture sector, with very limited occupational choice outside it. Yet even labor market entrants who have completed primary or even secondary education do not find jobs commensurate with their skill level, while the skill composition of jobs in Sub-Saharan Africa has hardly changed since the early 1990s, despite rising educational attainment in the population (figure 2.5). This may be due to

FIGURE 2.4: Average Years of Schooling, by Region, 1991–2019

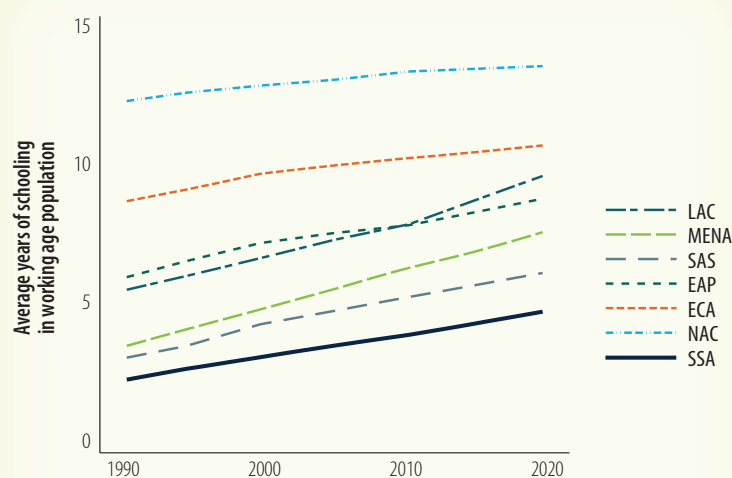
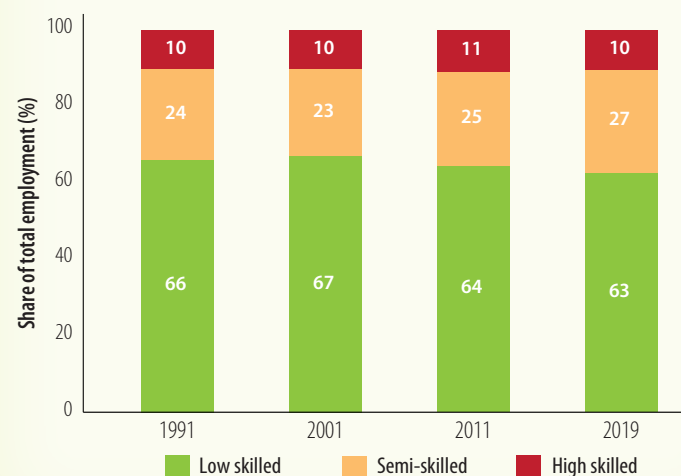


FIGURE 2.5: Share of Total Employment, by Skill Level



Source: World Bank Jobs Group Global Macro Indicators Database 2019 data.

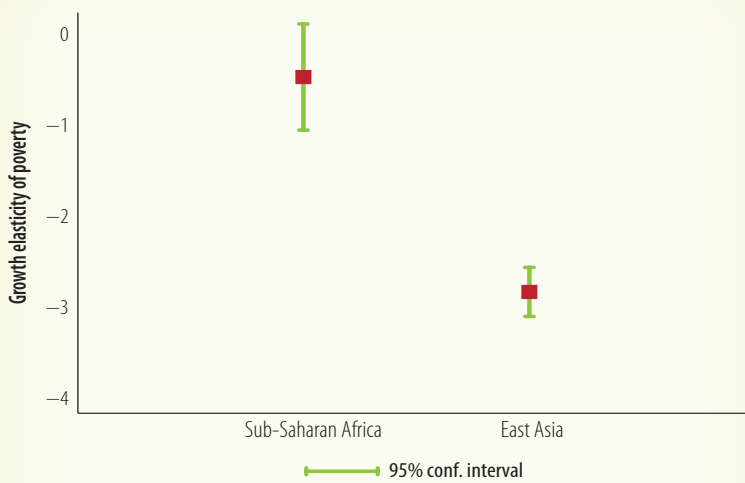
3 Costa et al. (2023).

4 Costa et al. (2023).

5 According to the United Nations Department of Economic and Social Affairs, the completion rate for primary education was 87 percent globally, but it was only 63 percent in Sub-Saharan Africa.

skill mismatch, with one poll showing 65 percent of employees in 10 African countries feeling mismatched between their education level and job.⁶ This mismatch creates a gap between the skilled labor entering the market and the demand for specific knowledge. This is closely linked with firm organization, as this mismatch is strongly correlated with employment outside firms, while firm growth is highly correlated with specialization of tasks.

FIGURE 2.6: Growth Elasticity of Poverty



Data source: World Bank Jobs Group Global Macro Indicators Database.

Note: Elasticity measures the percentage change in poverty for each 1 percent increase in GDP growth.

Growth that is jobs poor is less inclusive. Growth trajectories that allow people to transition to more productive and better paying jobs are more inclusive than when broad-based improvements in job outcomes fail to materialize. Although regionwide poverty rates have fallen, Sub-Saharan African countries have displayed a very low growth elasticity of poverty (figure 2.6). For each 1 percent of growth, countries in the region

reduced poverty by only 0.4 percent, which is six times less than the average country in East Asia. A low response of poverty to growth is symptomatic of a growth process that fails to create better jobs for more people.⁷

Lack of capital is undermining the structural transformation required for good quality jobs

The development of labor-intensive manufacturing sectors seems to be missing in Africa, with improvements in agricultural productivity leading to service sector growth in urban areas. In contrast, the export growth in extractive industries experienced by many resource-rich African countries has been accompanied by low levels of direct or indirect employment in the extractive sector.

A key challenge in Sub-Saharan Africa is that physical capital usage per worker is lower than in any other region of the world, severely limiting labor productivity. Sub-Saharan Africa owns only 2 percent of the global capital stock, yet the region contributes 12 percent of the global working age population. Moreover, Sub-Saharan Africa is the only region where capital per employed worker declined in real terms over the past or three decades (figure 2.7). In both high- and low-income settings, labor is often people's only asset. Yet, there are few jobs in which workers rely on their labor alone. Whether a worker is a farmer operating a tractor, an accountant typing on a computer, or a garment factory worker sitting behind a sewing

⁶ Morsy and Mukasa (2021).

⁷ World Bank (forthcoming); Wu et al. (2023).

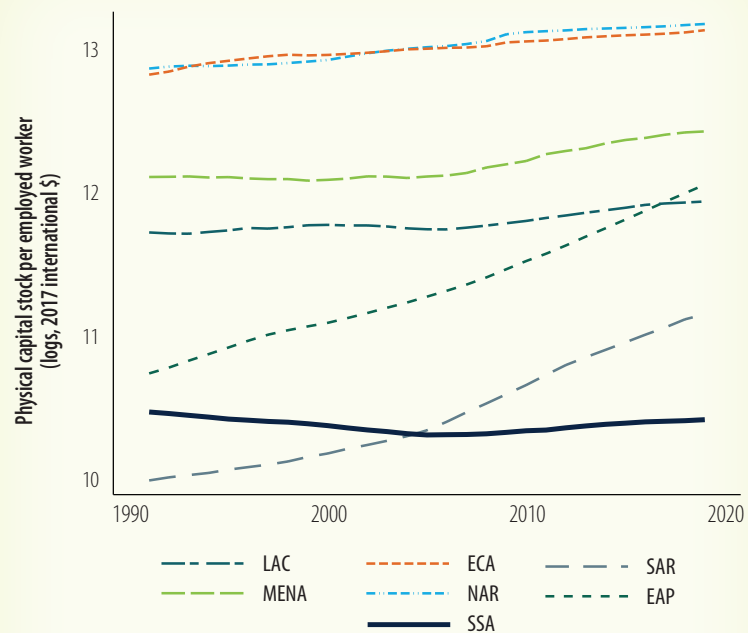
machine, in almost any job access to some form of equipment or machinery will greatly benefit the productivity of the worker.

The lack of capital deepening is a key challenge for jobs-rich growth because capital accumulation underpins the organizational change in poor countries that is needed for workers to be employed more productively. Economywide capital deepening is especially important at early stages of development, as it underpins the shift from personal enterprise to impersonal organization of firms, as highlighted by Simon Kuznets in his 1971 Nobel Prize lecture. Capital use per worker is strongly correlated with labor productivity, with the highest benefit for capital deepening for countries with labor productivity levels of less than 20 percent of the high-income country average (figure 2.8). Most Sub-Saharan African countries (33 of 41 for which data are available) are below this threshold.

Moreover, wage jobs in total employment (figure 2.9) follows a very similar nonlinear pattern of convergence in labor productivity as for capital deepening, as firms represent a key mechanism for providing labor-enhancing equipment to workers.

This lack of capital has led to very low productivity growth within sectors. While the agriculture sector has experienced the largest increase in

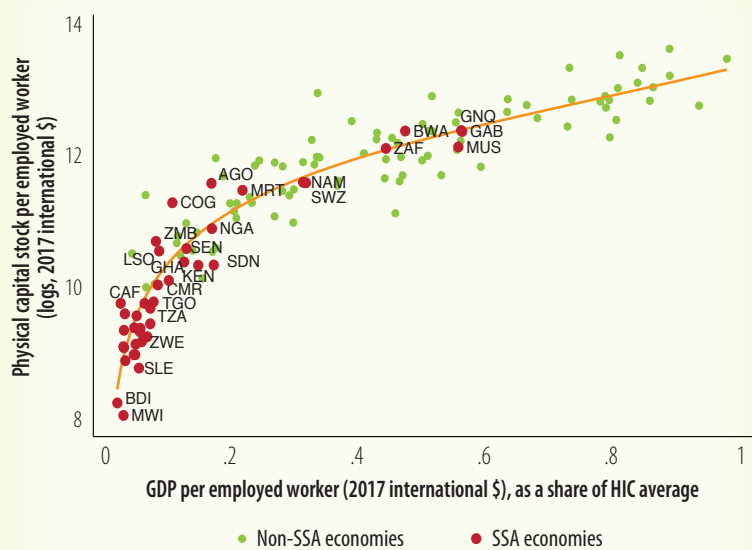
FIGURE 2.7: Physical Capital Stock per Worker, by Region, 1991–2019



Source: World Bank Jobs Group Global Macro Indicators Database.

Note: Elasticity measures the percentage change in poverty for each 1 percent increase in GDP growth. EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; NAC = North America; SAS = South Asia; SSA = Sub-Saharan Africa.

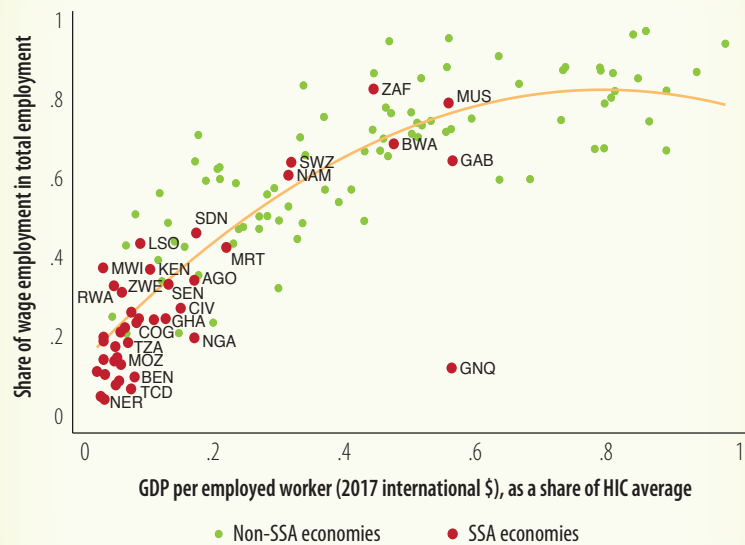
FIGURE 2.8: Physical Capital Stock per Worker versus GDP per Worker, 2017



Source: World Bank Jobs Group Global Macro Indicators Database.

Note: GDP = gross domestic product; HIC = high-income countries; SSA = Sub-Saharan Africa.

FIGURE 2.9: Share of Wage Employment versus GDP per Employed Worker, 2017



Data source: World Bank Jobs Group Global Macro Indicators Database.
 Note: GDP = gross domestic product; HIC = high-income countries; SSA = Sub-Saharan Africa.

labor productivity, this has been only half the rate achieved among the rest of the developing nations outside Sub-Saharan Africa.⁸ Moreover, in the non-agriculture sectors, labor productivity has been almost negligible and far below what non-Sub-Saharan African developing countries have achieved. The lagging productivity in non-commodity tradable sectors is particularly worrisome because it makes it more difficult for Sub-Saharan African products to compete

with foreign ones. This has further increased the region’s reliance on commodity trade—thus limiting the possibilities for diversifying production, which are backbone processes for the transformation of work.

Despite the rapidly expanding cities on the continent, urban jobs have hardly increased relative to the working age population. The share of workers with urban jobs tends to increase with growth, but this has not happened in Sub-Saharan Africa. The urban employment share in the total working age population has remained in the range of 22-23 percent over the past two decades. This contrasts with larger global correlations between urbanization and higher GDP per capita, as urban centers are conducive to agglomeration effects, specialized skills, and establishment of trade networks.⁹

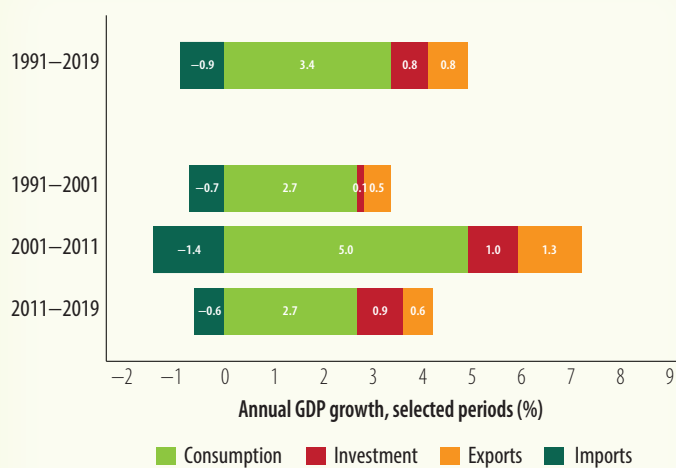
An absence of productivity-enhancing equipment has also led to consumption-based growth, with the emergence of “consumption cities” that are primarily dependent on non-tradable services, as opposed to “production cities” that are more dependent on manufacturing.¹⁰ An increase in consumption demand underpinned Sub-Saharan Africa’s growth path over the past three decades (figure 2.10). This demand was fueled by favorable terms of trade reflecting a super cycle of high commodity prices in global markets on account of the rising economies of China and India. However, investment remained subdued, in line with the lack of capital accumulation. High levels of urban congestion and high agricultural prices constrain urban labor demand from tradable sectors. In cities, demand booms can also lead to congestion and rising prices for basic amenities, which discourage rural-to-urban migration. Finally, rising agricultural prices imply that life in the cities has become relatively more expensive, further incentivizing people to stay on the

8 Based on weighted averages.
 9 Krugman and Venables (1996).
 10 Gollin et al (2016).

farm. Although agricultural employment has declined, it remains very high in many countries in the region for their stage in the development process.

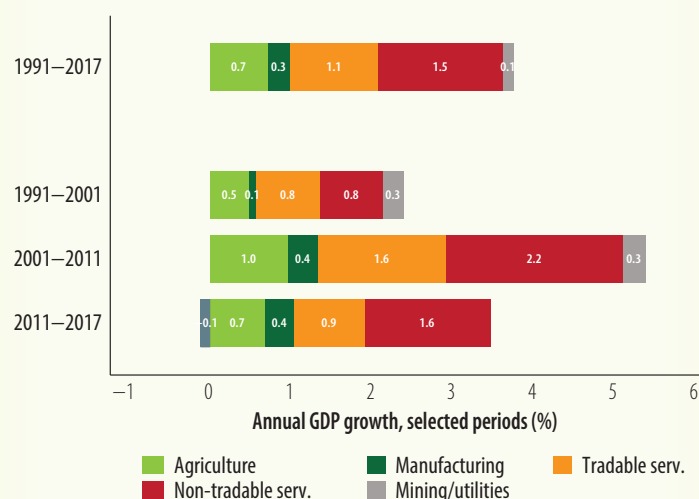
With a boom in demand, non-tradable services became the engine of growth. This was not conducive to better jobs. Most of the region's growth over the past three decades came from an expansion in the production of non-tradable services (figure 2.11). By the end of the 2010s, the non-tradable service sectors employed 36 percent of all working individuals in the region and contributed 38 percent to real GDP, compared to 24 and 35 percent, respectively, in the early 1990s, representing rapid employment growth with a net increase of 30 million new jobs (figures 2.12 and 2.13). Yet, non-tradable service jobs in Sub-Saharan Africa tend to be low value-added activities with a high prevalence of informality, self-employment, and low pay. By contrast, jobs in tradable services tend to be more productive. Despite growing substantially in terms of both value added and employment, however, their contribution to total job creation has been limited. A key reason for this is that value-added service sectors, such as financial or telecommunication services, require levels of education that many African workers do not have. These sectors thus offer jobs to only a small proportion of all employed workers (7 percent in 2019).

FIGURE 2.10: Expenditure Decomposition of GDP Growth, Sub-Saharan Africa



Source: World Bank Jobs Group Global Macro Indicators Database.
Note: GDP = gross domestic product.

FIGURE 2.11: Sectoral Composition of GDP Growth, Sub-Saharan Africa



Source: World Bank Jobs Group Global Macro Indicators Database.
Note: Tradable services include transport, communication, business, and financial services. Non-tradable services include construction, wholesale, retail, hospitality, public administration, and personal services. GDP = gross domestic product.

FIGURE 2.12: Value Added in Constant PPP, Share of Total

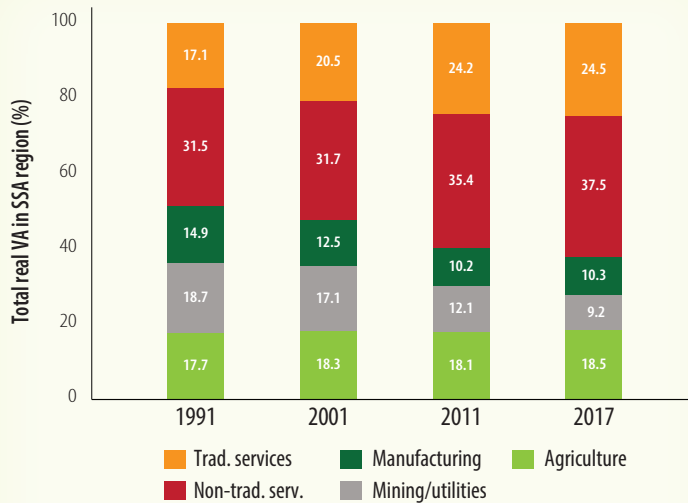
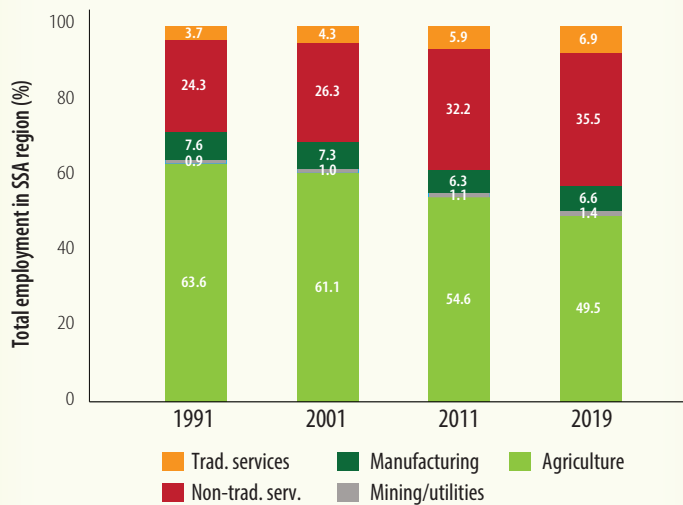


FIGURE 2.13: Employment, Share of Total



Source: World Bank Jobs Group Global Macro Indicators Database.

Note: Tradable services include transport, communication, business, and financial services. Non-tradable services include construction, wholesale, retail, hospitality, public administration, and personal services.

Meanwhile, Sub-Saharan Africa's manufacturing sector has experienced a premature decline (see box 2.1). Overall growth in the sector was low, resulting in a decline in its contribution to regionwide value added, from 14.9 to 10.3 percent in real terms between 1991 and 2017. The share of workers employed in the manufacturing sector fell from 5 to 4 percent over the same period. While not all countries de-industrialized, only one economy seems to be clearly industrializing. This poses a challenge for job creation in the region. The manufacturing sector has historically played a key role in countries' development trajectories. Much of East Asia's development success over the past decades was built on the rapid expansion of the manufacturing sector. However, it is not its contribution to direct job creation that made the manufacturing sector unique in East Asia. Since

the early 1990s, net job creation in East Asia's service sectors has been seven times higher than that in the manufacturing sector.

Manufacturing is a capital-intensive activity that creates fewer direct jobs. Instead, manufacturing allows developing countries to accelerate production, tap into non-commodity value chains, and capitalize on foreign sources of demand. This is important for jobs because of the strong demand and supply linkages the manufacturing sector creates with other sectors in the economy. A booming manufacturing sector therefore contributes to employment growth in other sectors, making it a key source for better jobs economywide.¹¹

11 McMillan and Zeufack (2022) also document that in those Sub-Saharan African countries that experienced some manufacturing sector dynamism, this was often driven by large increases in the number of small manufacturing firms, limited employment increases in large firms, and robust labor productivity growth in large firms.

BOX 2.1: Is Sub-Saharan Africa De-Industrializing?

Whether Sub-Saharan Africa is de-industrializing or not remains an unsettled question, due to different data sources with varying years of coverage.^a Moreover, countries' production structures evolve differently depending on the indicator used for the analysis. For instance, sectoral employment structures may not evolve in tandem with sectoral value-added shares if there are strong differences in labor productivity across sectors. Similarly, real and nominal value-added shares may go in different directions if countries experience changes in relative output prices across sectors.

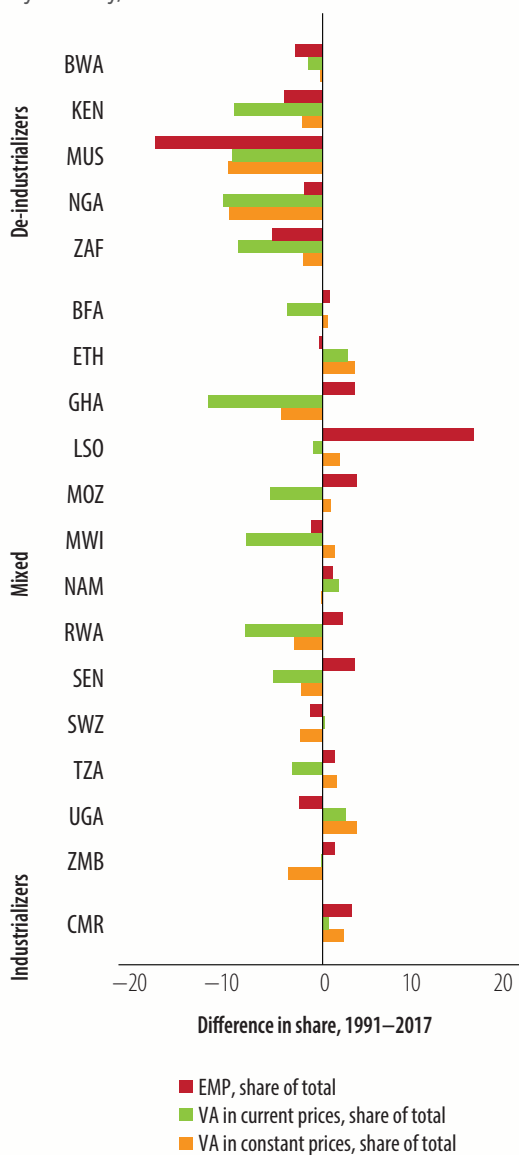
However, five countries, including the three largest economies on the subcontinent (South Africa, Nigeria, and Kenya), have displayed strong contractions in the industrial sector, while only one country's industry (Cameroon) seems to be expanding. Figure B2.1.1 classifies Sub-Saharan African countries into three groups:

- (i) Clear-cut de-industrializers: countries with declining manufacturing shares in total employment and total nominal and total real value added between 1991 and 2017.
- (ii) Clear-cut industrializers: countries with rising manufacturing shares in total employment and total nominal and total real value added between 1991 and 2017.
- (iii) Mixed cases: countries with manufacturing shares in terms of employment and total nominal and total real value added trending in opposing directions between 1991 and 2017.

This confirms that while the experience of de-industrialization is not universal across Sub-Saharan African economies, only very few economies are industrializing as they would be expected to, given their stage of development.

a. Based on a sample of 11 countries, Rodrik (2016) concludes that Sub-Saharan Africa was de-industrializing prematurely. Yet, Nguimkeu and Zeufack (2019) cast doubt on Rodrik's finding, documenting significant heterogeneity in countries' industrialization paths across the region.

FIGURE B2.1.1: Change in Industrial Share, by Country, 1991–2017



Note: EMP = employment; VA = value added.

2.2 ANTICIPATING PRESSURE FROM DEMOGRAPHIC AND DEVELOPMENT TRENDS ON LABOR SUPPLY

Action is required to leverage growth opportunities from an increase in the working age population share. Declining fertility rates are creating opportunities for a “demographic dividend,” which has led to growth in other regions that previously faced these trends. However, with job growth lagging the increase in the working age population, policy intervention will be needed. To maximize the contributions of the demographic dividend, the region would need to invest in the skills of labor market entrants and create jobs that will fully utilize these skills.

Supply-side interventions may be needed to ensure high-quality labor is developed and able to find its way to the most efficient uses. First, labor mobility and domestic migration may be necessary to reap the benefits of scale and trade that cities provide. This includes addressing the seasonality constraints of rural work that inefficiently keep people on farms. Second, investment in educating the young population will be crucial for reaping the benefits from a lower dependency ratio.

An expanding working age population will require jobs

An upward trend in population in Sub-Saharan Africa coincides with downward trends in most of the rest of the world. Between 2030 and 2050, Sub-Saharan Africa is expected to account for 90 percent of the growth in the global working-age population. More than one in five people in the working age population are expected to be in Sub-Saharan Africa in 2050, compared with less than one in 10 in 1990, and the working age population of Africa is projected to be larger than those of both India and China by 2050. This is in the context of projected population declines in much of the rest of the world. The populations of 61 countries or areas are projected to decrease by 1 percent or more between 2022 and 2050, while two-thirds of the global population lives in a country or area where fertility is below the level required for zero growth with low mortality.¹²

The region’s age structure is undergoing substantial change with an expanding share of the working age population. A relatively high and declining fertility rate leads to a reduction in the dependency ratio, as the children born under high fertility rates reach working age while the relatively low levels of older population and declining levels of young children reduce the non-working age population. With the fertility rate having declined from 6.8 to 4.6 births per woman between 1981 and 2021, this expansion of the share of the working age population started around the early 1990s in the region and is expected to continue well past the 2050s before reaching the peak (figure 2.14). This reflects the experience of most other regions, which started their transitions in the 1960s or 1970s, although the increase in working age population in Sub-Saharan Africa is expected to take longer partially due to the slower speed of the decline of the fertility rate.¹³ In addition, Sub-Saharan Africa starts this process with relatively high labor participation and low initial proportions of working age population (figure 2.15). Nevertheless, this delayed and prolonged demographic transition seems to have placed the region well for the future, preparing the region to grow impressively from a low base to the world’s most prominent harbor of a young and dynamic population.

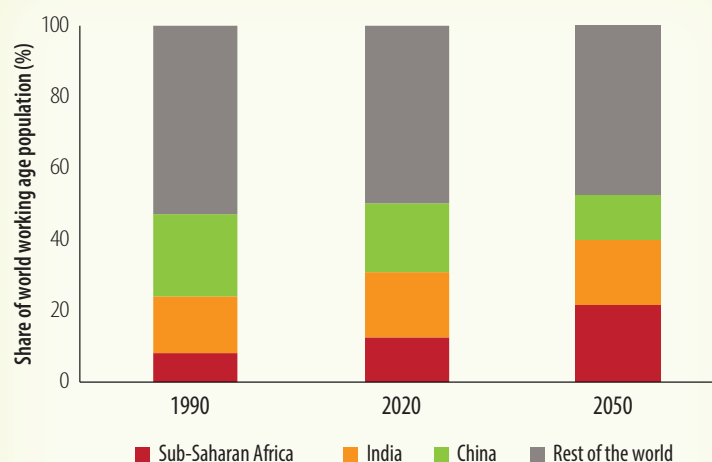
¹² United Nations (2022).

¹³ See Bloom and Sachs (1998); Drummond, Thakoor, and Yu (2014); Ahmed et al. (2016).

Such demographic transitions can have significant benefits for economic growth, leading to a “demographic dividend.” The decrease in the dependency ratio leads to a potential boost in GDP per capita, even without increases in labor productivity, as a higher proportion of the population contributes to domestic production.¹⁴ The demographic dividend in the region could account for between 11 and 15 percent of GDP volume growth by 2030 and 40 million to 60 million fewer poor individuals in 2030.¹⁵ At the per capita income levels experienced in the region, a 1 percentage point increase in the working age population increases real per capita GDP growth by 0.5 percentage point.¹⁶ Indeed, the total number of people employed in Sub-Saharan Africa has more than doubled since 1991, the fastest growth in the world (figure 2.16), although this has also been accompanied by underemployment and working poor populations.

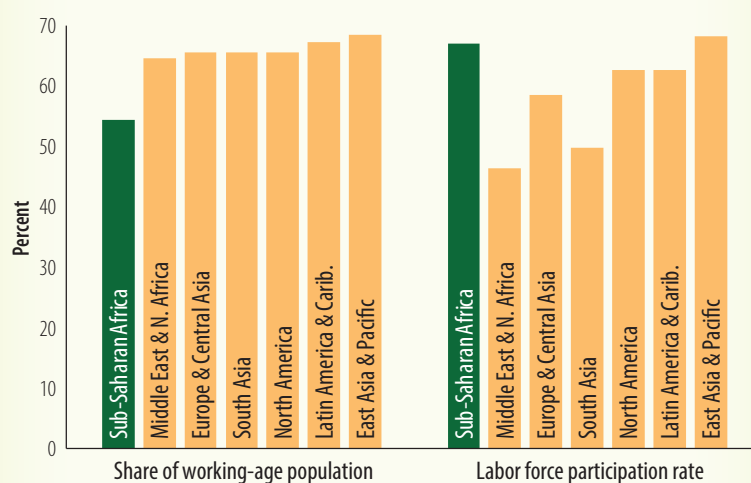
In addition to the economic gains from a boost in the labor supply, the dividend also potentially contributes to economic growth through savings. The working age population tends to save more, while the younger and elder generations mostly consume. The increased household savings could translate into higher capital accumulation for the country, providing the finance needed to boost growth for the future, which is estimated to have a stronger impact on growth

FIGURE 2.14: Global Share of Working Age Population



Source: World Development Indicators and UN World Population Prospects 2022.

FIGURE 2.15: Share of Working Age Population and Labor Force Participation, by Region, 2019



Source: Calculations using data for 2019 from the World Bank Jobs Group Global Macro Indicators Database.

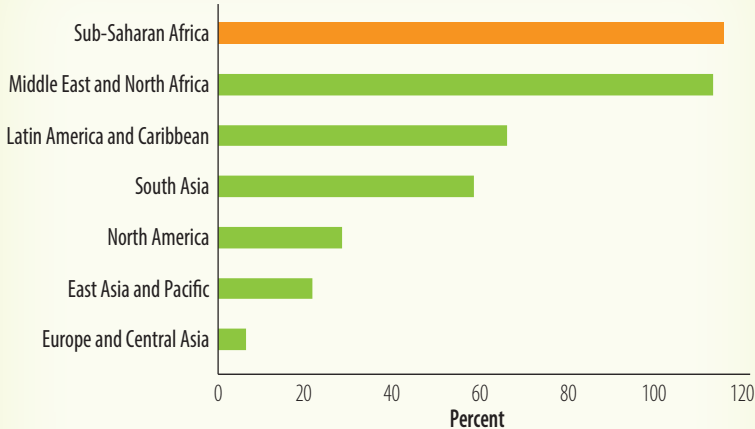
Note: The labor force participation rate is the number of people in the labor force (people working or looking for work) as a share of the working age population.

14 Bloom and Williamson (1998).

15 Ahmed et al. (2016).

16 Drummond, Thakoor, and Yu (2014).

FIGURE 2.16: Accumulated Growth of Employment, 1991–2018



Source: Calculations using data from the World Bank's Jobs Group Global Macro Indicators Database.
 Note: The values are the accumulated growth rates of the total number of people employed from 1991 to 2018.

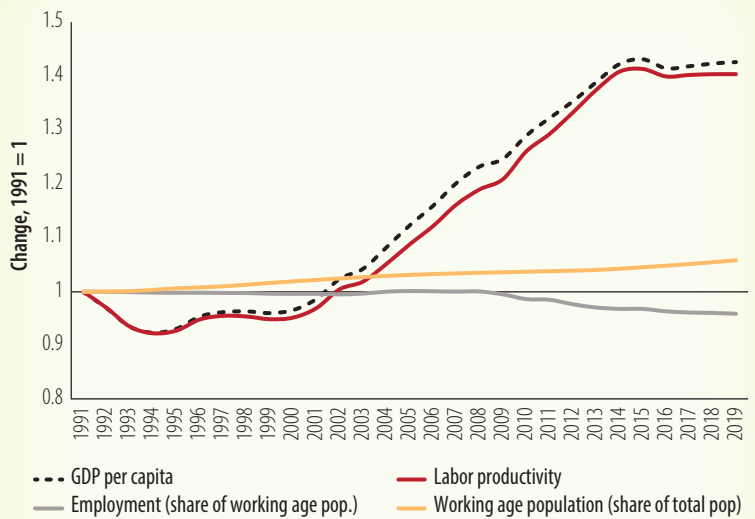
than via the labor supply channel as seen in East Asia.¹⁷ For Sub-Saharan Africa, the gross savings rate has climbed steadily in the recent years, from 17 percent of GDP in 2016 to 24 percent in 2021. This rate is still lower than the regional averages of East Asia and the Pacific (38 percent) and South Asia (27 percent), although higher than that of the United States (18 percent). However, this

has not translated into significant increases in levels of capital development, representing a lost opportunity. In East Asia, the capital accumulation from the demographic transition is estimated to contribute 1 percentage point of GDP per capita growth per year compared to 0.6 percentage point for labor input growth.¹⁸

A jobs-friendly development path is an integral ingredient for realizing the full potential of the demographic dividend. Institutional constraints or limitations of key resources can potentially undermine the benefits of such demographic trends. Indeed, Sub-Saharan Africa's fast growth of employment, averaging 2.6 percent per year, is outpaced by the even faster growth of the

working age population, averaging 3.0 percent growth since the late 2000s. Citing one example, Togo would need to create 1 million jobs per year to keep pace with the growth of the working age population, just to keep employment levels steady. This would require a growth rate of at least 4.6 percent per year. However, growth in GDP per capita for the region has mostly come from improved labor productivity, while the overall effect of

FIGURE 2.17: Accumulated Change in Labor Force Statistics Since 1991



Source: Calculations using data from the World Bank Jobs Group Global Macro Indicators Database.
 Note: GDP per capita is decomposed into labor productivity, employment rate, and share of working age population. GDP = gross domestic product.

¹⁷ Bloom, Canning, and Sevilla (2003); Canning, Raja, and Yazbeck (2015).
¹⁸ Bloom and Williamson (1998).

employment on GDP has been negative, partially offsetting the benefits from increases in the working age population (figure 2.17). In contrast, the fast growth of East Asia was facilitated by accommodating economic policies that emphasized a labor-intensive, export-led model in the initial stage, which later supported the transition into sectors with higher productivity.

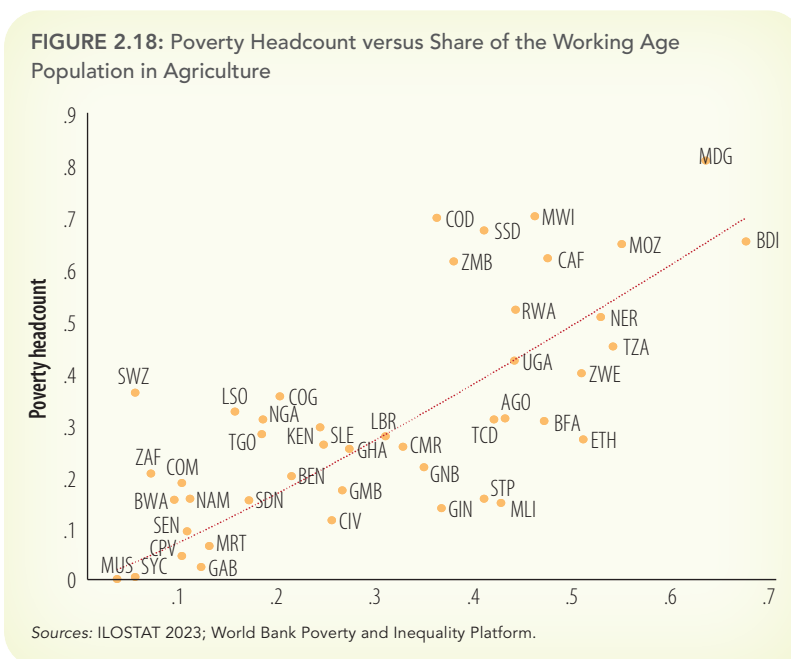
Where will the extra workers go?

Worker location and ties to lower productivity sectors may prevent expansion of the working age population from translating into a significant boost in potential workers for firms. Much of the population in the region remains rural and employed in agriculture, which has strong associations with poverty and inefficient labor allocations from high seasonality of demand. So far, increases in the share of working age populations in the region have not led to a marked increase in big-city urbanization. However, secondary cities may present significant opportunities for alleviating poverty, while the transformation in the agriculture sector that is currently underway can be a precursor to unlocking more transformational sectoral reallocation of labor.

Part of the reason Sub-Saharan Africa has not seen an increase in urban employment is that rural and urban population dynamics differ substantially on the subcontinent. The expansion of primary health care and the associated declines in infant mortality observed over the past decades have been particularly beneficial to populations in rural areas. Although several cities in Sub-Saharan Africa are among the fastest growing in the world, the large increase in rural populations has partly offset the effects of rural-to-urban migration.

Most of the poor in Africa (82 percent) live in rural areas, relying on farming as their main source of livelihood. Low agricultural productivity and factors impeding market access for both inputs as well as sales of agricultural products can keep farming households in poverty. Poverty in Africa takes both transient and chronic forms.¹⁹ Asset building can be an important pathway out of chronic poverty, and mechanisms to protect households against large asset losses and coping mechanisms against shocks can prevent transient poverty from becoming chronic.

Agricultural employment is strongly associated with poverty, both across and within countries. Figure 2.18 shows the relationship between the share of the working age population in agriculture relative to the poverty headcount



19 Christiaensen and Hill (2019).

rate. Countries with high poverty rates in general have a larger share of the labor force in agriculture. Similar correlations are found within countries. In Nigeria, for example, around 70 percent of the working age population in the lowest consumption decile works in agriculture, while in the highest decile, under 20 percent is engaged in agriculture as their primary source of employment. The richest decile is most likely to be engaged in services, and a significant fraction is working in industry.²⁰

Furthermore, agricultural work can be particularly distorting along the gender dimension. Women in agriculture encounter multiple challenges that collectively hinder their productivity and economic progress. In Sub-Saharan Africa, the choice of crops cultivated by women and men exhibits notable distinctions, with women being less inclined to engage in cash crops, a discrepancy contributing to gender disparities. Access to inputs, such as improved seed varieties, fertilizer, hired labor, and markets, is critical for the success of these crops. In addition, women's inclination toward crops with lower initial investment and minimal complementary input requirements further shapes their decisions.²¹ Women's crop choices tend to lean toward subsistence crops, whereas men predominantly cultivate high-value and cash crops. Women's low involvement in cash crop cultivation may be linked to preferences, access to inputs and credit, and prevailing norms, as women place higher value on crops for food security, whereas men favor income potential.²²

The seasonality of agricultural work, with high demand in peak seasons, may prevent agricultural workers from finding consistent employment elsewhere. Many rural households engage in off-farm activities for part of the year, with roughly a third reporting a diversified income portfolio. Among rural households, 9 percent specialize in nonagricultural self-employment or "household enterprises." These off-farm activities are usually specialized in low productive but easy to enter and exit activities such as sales and trade. Underemployment of agricultural labor explains much of the labor productivity gap between agricultural and nonagricultural workers in rural communities. Workers in agriculture work fewer hours than rural workers outside agriculture, with the difference being more pronounced in lower-middle-income countries. As a result, the agricultural labor productivity gap largely disappears when controlling for hours worked and worker heterogeneity across sectors.²³

This underemployment in agriculture is exacerbated by poor use of agricultural inputs. Agricultural input use has been too low or otherwise suboptimal, although large variation in input use between countries exists. While the intensity of the use of fertilizer and improved seeds varies across contexts, the low levels of mechanization, market access, and irrigation have been ubiquitous in Sub-Saharan Africa.²⁴ Moreover, intensification of inputs and mechanization in the region can lead to substantial increases in labor productivity, with greater market orientation, food security, and wage labor in agriculture.²⁵

20 World Bank (2022b).

21 World Bank and the ONE Campaign (2014).

22 Buehren (2023).

23 McCullough (2016).

24 Sheahan and Barrett (2017).

25 Aihounton and Christaiensen (2023).

However, rapid urbanization may not be the answer. Urban areas have specific labor market challenges that may constrict their benefit as outlets for increasing populations. Unpaid workers, representing 11 percent of urban workers in the region, are closely associated with urban environments. As youth (62 percent of urban populations) with limited education (80 percent of urban populations) move to urban areas, the potential for exploitation is high, with a large amount of inequality in urban areas.²⁶ Moreover, African urban environments are dominated by informal activity, with limited scope for handling shocks; thus, people may resort to negative coping mechanisms such as absence from school.²⁷ Despite the existence of high wages in urban environments, many in the urban informal sector cite inadequate wages as reasons not to engage in formal wage work, as 95 percent say they would earn more as a household enterprise than they would in a wage job.²⁸

Instead, secondary towns may provide a path out of poverty and into jobs. Urban agglomerations of less than 1 million make up 60 percent of Africa's urban population, spread across 7,543 urban centers. This growth in secondary cities is especially promising, as development of towns and secondary cities may also be better at reducing poverty than the development of big cities.²⁹ While agglomeration into mega cities is associated with faster growth, this growth is accompanied by higher income inequality and poverty, making secondary towns more attractive to workers moving from rural areas.³⁰ Moreover, at earlier stages of development, creation of new population centers can have greater impacts on rural poverty measures than increases in the size of existing centers.³¹

Boosting agricultural productivity in Sub-Saharan Africa would not only raise the incomes of farm households, which make up over half the region's population, it would also lower food costs for the nonfarm population and promote the development of agro-industry.³² That in turn would promote broader economic growth by stimulating demand for nonfarm goods and services. Higher productivity would also free up resources such as labor for the growth of other economic sectors. Through these mechanisms, improving agricultural productivity in the region remains an important strategy for reducing poverty and enhancing inclusive growth and structural transformation.

While labor productivity growth in the region has fallen short of global trends over the past three decades, agricultural productivity has shown the most progress. Overall, the region is falling behind global labor productivity growth (figure 2.19), with manufacturing showing the most extreme shortfalls in labor productivity growth. In the short term, this may imply a divergence between productivity in agriculture and manufacturing, furthering the comparative advantage in agriculture over manufacturing for the region. However, the relative increases in agricultural labor productivity may be a necessary precondition for expansion in other sectors, as higher agricultural output can allow for increased earnings in the sector comprising the largest share of poor households, while the resulting decreases in local food prices may lead to improved standards

26 Cunningham and Bodewig (2023).

27 Karlen (2023).

28 Goyal and Nash (2017).

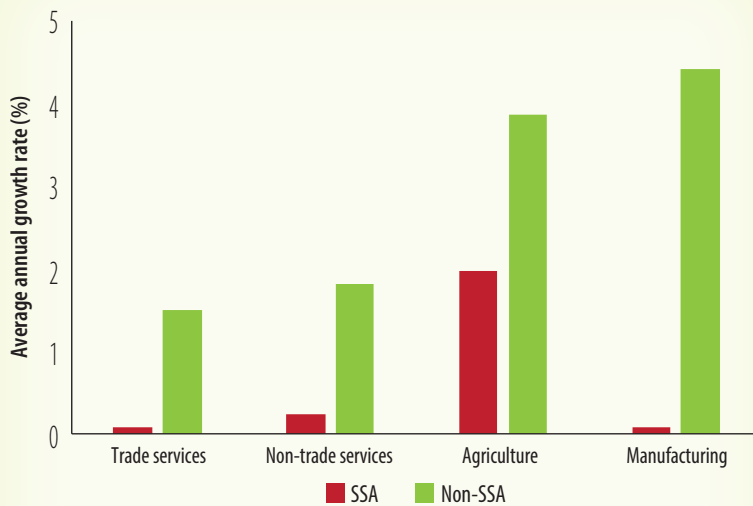
29 Christiaensen and Kanbur (2018); de Weerd, Christiaensen, and Kanbur (2021).

30 Christiaensen and Todo (2013).

31 Gibson et al. (2017).

32 Fuglie et al. (2020).

FIGURE 2.19: Labor Productivity Growth, 1990–2018



Source: Calculations using data from the World Bank Jobs Group Global Macro Indicators Database.
Note: The values represent growth in output per worker and do not incorporate any changes due to the number of hours worked. SSA = Sub-Saharan Africa.

of living and potential for savings and diversified consumption.

Integration into food value chains can present considerable opportunities for private sector growth without significant movement away from agriculture, through transformation from subsistence crops to fresh fruits and vegetables and other high-value crops. However, these crops can be highly perishable and can require

significant capital investment and technical knowledge to preserve and trade. Nevertheless, post-harvest handling can be labor intensive and lead to significant gains in employment in rural communities.³³ The exploitation of such high-value crops has increased in recent years, leading to increased employment growth in post-agricultural activities in rural communities. Moreover, such crops are preferable to typical agricultural commodity exports, such as coffee, cocoa, and tea, which are characterized by large price swings, concentration in downstream processing, and low value accruing to the farmer. Moreover, in some circumstances, the timing of high-value export crop demand, driven by demand in colder climates, coordinates well with local crop seasons, which are determined by local rainy seasons.³⁴ In addition, due to the quality of jobs in the processing sector, it tends to pay higher wages and provide more stable employment.³⁵

The “agricultural push” effect of structural transformation has been associated with industrialization episodes in the past, notably including the early transformation in Britain and the post–World War II experience of the United States. However, labor-substituting inputs can lead to increases in employment in agriculture if the scale of agricultural production enabled by such inputs can counterbalance the lower labor requirements per unit of output. This can even happen without an original increase in wages, especially in land abundant countries. It can also induce an increase in real agricultural wages and hired labor.³⁶

Despite the persistence of the agriculture sector in employment, agricultural and rural transformations may be underway, providing the necessary conditions for future sectoral transformation. In line with a “dual economy” view, in which excess labor in traditional agriculture moves to modern farms without significant changes in agricultural wages or shifts

³³ Van den Broeck and Maertens (2016).

³⁴ Van Hoyweghen and Maertens (2018).

³⁵ World Bank (2020).

³⁶ Adu-Baffour et al. (2019); Hassan and Kornher (2019).

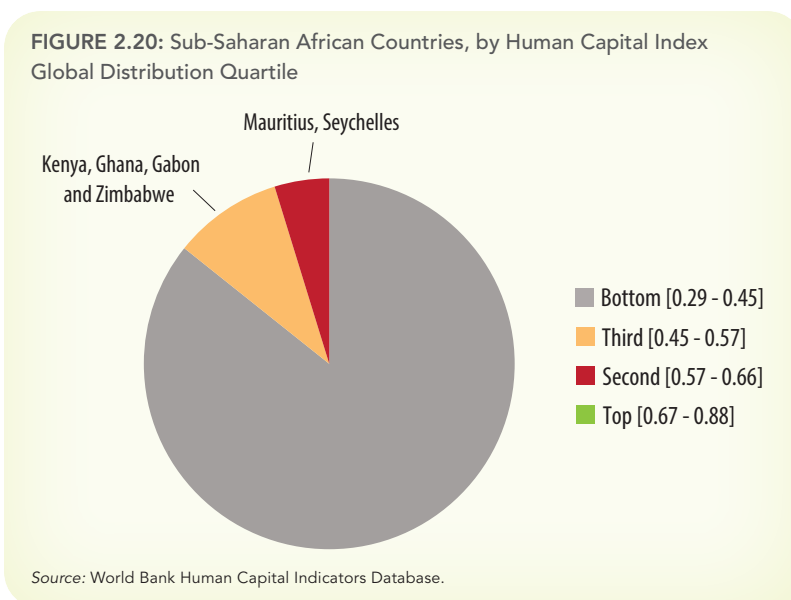
toward other sectors, low wage employment and the persistence of agriculture may not reflect the transformation within the agriculture sector itself. Indeed, the decrease in family work may be indicative of a shift from traditional or subsistence-based agriculture to a more commercially oriented agri-food system with higher levels of productivity, higher capital use, and vertical linkages to input and processing markets.³⁷ This view is also consistent with development happening within rural communities, leading to the increased importance of off-farm and nonfarm activities within communities, which then can be the basis for structural change and job growth in local population centers.³⁸

Reaping the benefits of the demographic dividend requires investing in skills

Human capital will be a key determinant of whether the window in demographic composition from declining fertility rates can lead to economic growth. The children who have already been born will soon enter the workforce. Investing in these children and youth is crucial so that they can become productive members of the workforce, and the benefits of human capital for economic growth can be reaped during this time of the demographic transition. Moreover, the demographic transition will likely increase demand for education, as the still expanding population will be more focused on smaller families with higher returns to investment from education due to longer life expectancy. The reduction in fertility rates can also lead to higher levels of female education, a key mechanism for economic gains from demographic change.³⁹

Middle-income countries in Sub-Saharan Africa have lower human capital than other countries with the same level of income.⁴⁰ Human capital increases labor productivity through skills acquired during schooling as well as after formal education is completed. Indeed, human capital is strongly associated with economic growth. However, countries in Sub-Saharan Africa often fall below the trend for

their respective levels of GDP, with the shortfall most pronounced in countries with relatively high levels of income for the region (figure 2.21). In only two countries—Mauritius, and the Seychelles—children born in 2020 will reach 50 percent of their full health and complete educational potential, as measured by the World Bank’s Human Capital Index (figure 2.20).⁴¹



37 Christiaensen and Maertens (2022).

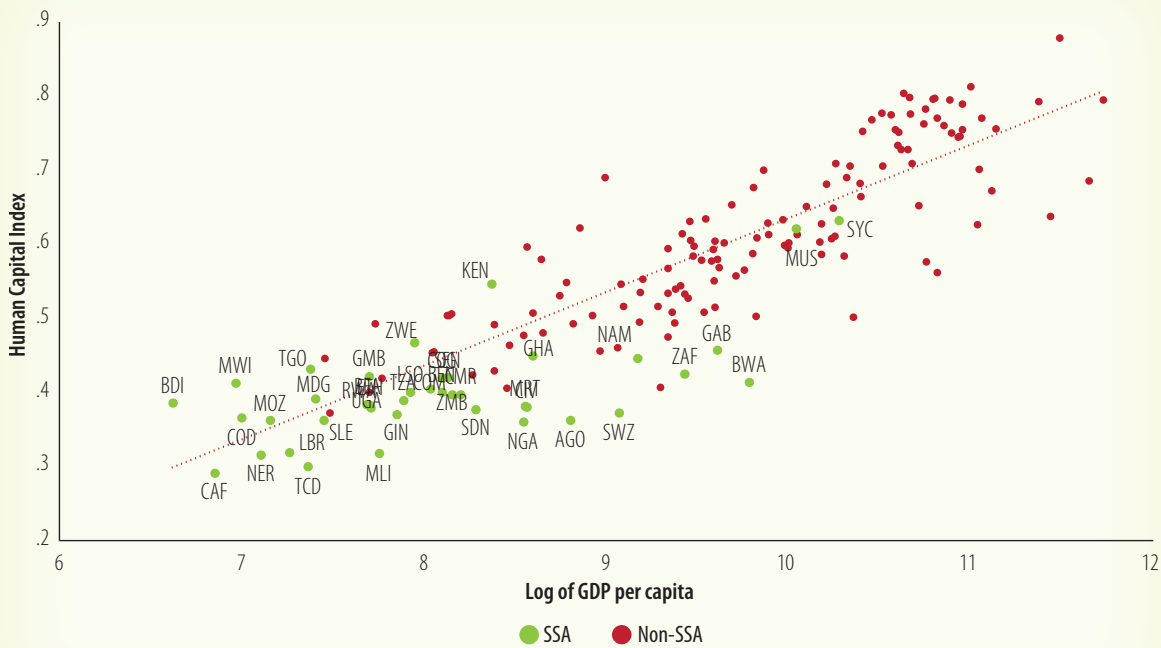
38 Djurfeldt (2015).

39 Bloom and Canning (2003).

40 Gatti et al. (2020).

41 Gatti et al. (2020).

FIGURE 2.21: Human Capital Index versus GDP per Capita



Source: World Bank Human Capital Indicators Database.
 Note: SSA = Sub-Saharan Africa.

In the majority of countries in the region measured (23 of 42 countries), children born in 2020 will reach somewhere between 30 and 40 percent of their potential labor productivity.

Returns to experience are strongly correlated with economic development such that in the developing world the returns have been about half of what they have been in rich countries. Skills are not only accumulated in schooling and education, but also at work. Globally, while returns to education are four times higher than returns to work experience, returns to experience have a more immediate impact on income.⁴² Skills that are relevant for specific occupations can be acquired on the job, in addition to education. However, the evidence on the impacts of formal technical and vocational training is mixed in low- and middle-income countries.⁴³ One of the main forms of informal learning on the job in Sub-Saharan Africa is apprenticeships, whereby a master craftsman imparts skills to an apprentice.⁴⁴ In West Africa, where a few rigorous studies of apprenticeship are available, traditional apprenticeships allow youth to find work and achieve greater earnings.⁴⁵ However, the returns to apprenticeships depend on the quality of the skills obtained and the ability of apprentices to start workshops of their own after the training period.

Early exit from schooling, particularly at the transition from primary to secondary education, hinders human capital development. While many countries in Sub-Saharan Africa have made tremendous progress in school attendance in the 2000s, there is large variation in the expected years of schooling within the region (figure 2.22). In the majority of countries, the expected

42 Jedwab et al. (2023).

43 McKenzie (2017).

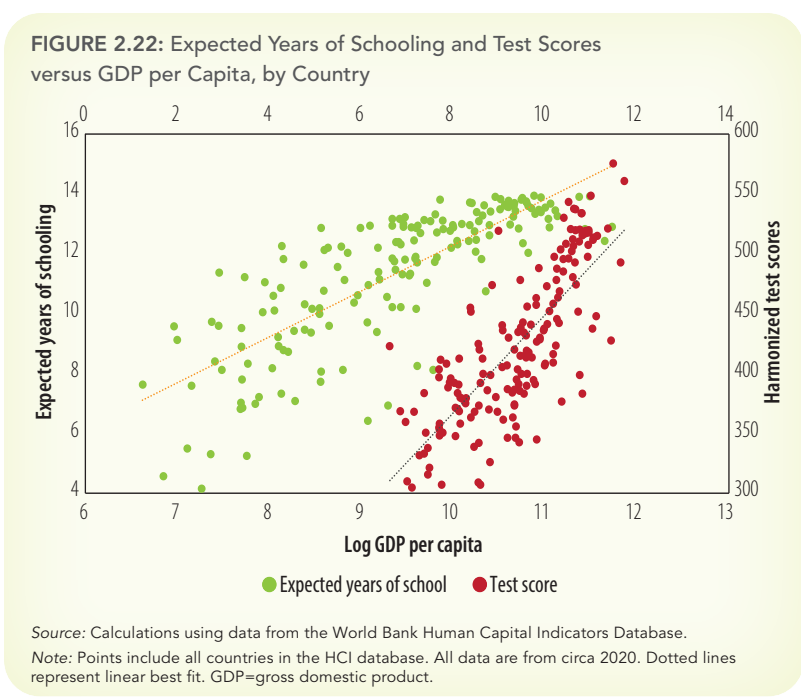
44 Filmer and Fox (2014); Adams et al. (2013).

45 Frazer (2006); Teal (2016); Aubery, Giles, and Sahn (2020); Hardy et al. (2019).

years of schooling falls somewhere between 6 and 12 years, thus indicating that dropping out is common during secondary education. This situation is considerably worse in fragile and conflict-affected situation countries, five of which report that the expected years of schooling for a child born in 2020 are fewer than six years, indicating that a child born in these countries is not expected, on average, to graduate from primary school. This low attainment

also implies that a high proportion of school-aged children are missing key development stages. Indeed, early dropout translates to 20 percent of girls and 19 percent of boys being out of school at the primary level. At the secondary level, the rates increase significantly, as does the gender gap: at the lower secondary level, 33 percent of girls and 31 percent of boys are out of school, and at the upper secondary level, as many as 48 percent of girls and 45 percent of boys are out of school (figure 2.24).⁴⁶ The rates at all levels of education are higher in Sub-Saharan Africa than in any other region. What is even more worrisome is that some children who drop out of school do not enter any productive activity: a large share of youth in Africa, 26 percent, was estimated to be not in education, employment, or training in 2022.⁴⁷

Moreover, shortfalls in the quality of schooling have a detrimental effect on marketable skills. Students in different countries who have completed the same number of years of school can have very different learning outcomes.⁴⁸ Different countries may require different levels of education for children to become literate, a basic necessary skill for the labor market. For example, in Nigeria, 19 percent of young adults who have completed only primary education are able to read, compared to 80 percent of Tanzanians.⁴⁹ In all but seven countries, children are expected to achieve less than six learning-adjusted years of schooling (figure 2.23).⁵⁰ That is, they are learning less than a child who has completed six years of primary school in the highest performing country. The quality and quantity of education do not necessarily go hand in hand: the countries where the expected years of school are highest do not always perform among the highest in standardized testing. Kenya ranks above Ghana in learning-adjusted years of schooling, despite the fact that the expected years of education are higher in Ghana.



46 UNESCO (2022).

47 ILOSTAT (2023).

48 Filmer et al. (2020).

49 Kaffenberger and Pritchett (2017).

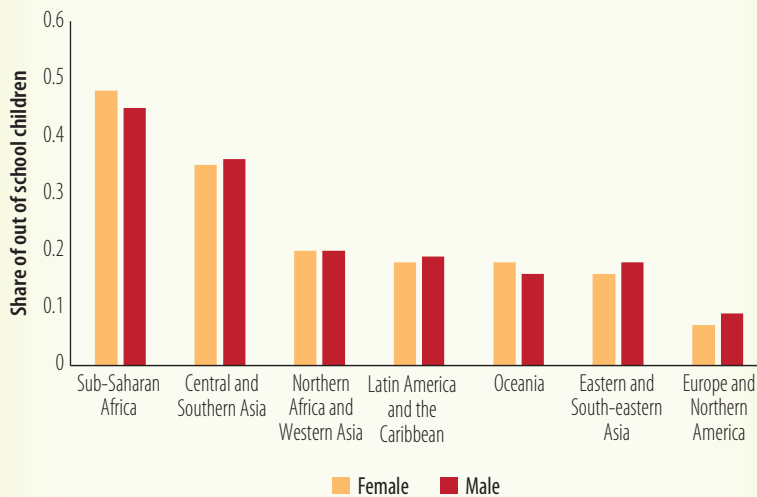
50 Learning-adjusted years of schooling are calculated by multiplying the estimates of expected years of school by the ratio of the most recent harmonized test scores, based on the methodology in Filmer et al. (2020).

FIGURE 2.23: Years of Schooling and Test Scores



Source: Calculations using data from the World Bank Human Capital Indicators Database.

FIGURE 2.24: Out-of-School Children at the Upper Secondary Level, by Region and Gender



Source: UNESCO.
Note: Values are estimates for 2023.

Women are central to the demographic dividend. A large growth opportunity is missed if girls and women do not participate in the labor market or if they make up a disproportionately lower share of the stock of human capital. Women are more likely to contribute to the workforce as family size declines. In addition, higher educated mothers are likely to have fewer children, and are more likely to make more informed choices on the nutrition and health of their children.⁵¹

Gender-based disparities in education and training opportunities are prevalent in Sub-Saharan Africa. Women are underrepresented in science, technology, engineering, and mathematics (STEM) degrees, and almost 20 percent of young, unemployed women are unable to follow their desired career paths due to inadequate education and training.⁵² Men also tend to have

51 Costa et al. (2023).

52 Sahay (2023).

greater opportunities to receive formal training through specialized providers or to be trained by a network member.⁵³ These gaps contribute to gender gaps in wage employment and self-employment. Despite a relatively high female labor force participation rate (63 percent), women are disproportionately engaged in vulnerable employment, with 80 percent of women compared to 67 percent of men being involved in family and own-account work.⁵⁴

Promoting gender equality in education can be protective against child marriage. Girls who are married before age 18 have higher odds of gender-based violence, higher school dropout rates, and lower psychological well-being, and they are economically less secure.⁵⁵ In Sub-Saharan Africa, girls are more likely to be out of school than boys, with the gender gap increasing in the transition from primary to upper secondary level—a phenomenon specific to Sub-Saharan Africa.⁵⁶ The levels of child marriage in the region are the highest in the world, comprising somewhere between 30 and 40 percent of girls.⁵⁷ Delaying marriage is one of the most effective ways to keep girls in school. On average, for every additional year a girl stays in secondary education, the probability of her marrying as a child decreases by 6 percentage points.⁵⁸ However, school-related, gender-based violence can also be a barrier to girls' education and well-being, with strong correlations between different forms of such violence and educational attendance and performance.⁵⁹ Among girls aged 15-19 years, 29 percent face physical and sexual violence whether they are enrolled in school or not.⁶⁰

53 Campos and Gassier (2017).

54 Costa et al. (2023).

55 Costa et al. (2023).

56 UNESCO (2023).

57 Costa et al. (2023).

58 Wodon et al. (2018).

59 Psaki et al. (2017); Smiley et al.

60 Evans et al. (2023). The analysis is based on data from Demographic and Health Surveys across 20 countries that together represent 80 percent of Sub-Saharan Africa's girls aged 15-19.

2.3 LABOR DEMAND FROM PRIVATE SECTOR GROWTH AND ORGANIZATIONAL TRANSFORMATION

The private sector landscape in Sub-Saharan Africa is dominated by poor job quality, with casual, piecemeal, and unstable working arrangements being the norm. Only one-sixth of working age individuals across low-income and lower-middle-income countries have a wage job, compared to half in high-income countries. Firms and other methods of organizing labor allow for opportunities around the division of labor, in addition to capital augmentation and the ability to access larger markets. Misallocation of resources remains a significant problem in the region, as the most efficient firms are prevented from growing and accessing markets to the same extent. This leads to direct underutilization of labor and capital, which manifests in the form of high levels of involuntary self-employment and the prevalence of informal work arrangements. Export diversification remains a significant issue, as Sub-Saharan Africa is the region with the highest proportion of exports focused on primary goods. Export growth is fundamental to increasing demand for domestic goods and services.

Boosting job growth will require political focus on regulatory capacity and oversight around business creation, infrastructure, competition, and trade. Entrepreneurial environments that foster the hiring of employees require a combination of factors in tandem, including operational capital, stable and competitive market environments, and access to inputs and buyers. Governments will need to engage actively with businesses to identify which of the many factors facing entrepreneurs are binding. For established firms wanting to grow, distortionary practices in which firms have higher compliance costs as they hire more employees can be especially cumbersome. In conjunction, the few large private sector operators in the region are able to capture markets in an environment where restrictions on anti-competitive behavior are poorly enforced. These factors contribute to an export landscape that is concentrated in primary exports to other regions, while the opportunities in economies of scale and servicing local demand through intraregional trade are undeveloped. While the African Continental Free Trade Area (AfCFTA) can potentially address these shortfalls, a considerable effort toward prioritizing reforms will be required to meet the opportunity from this agreement.

Need for firm creation and growth to boost job quality

Economic activity in the region is mostly in the form of unorganized, individual economic entities. While informality in the region is well-documented,⁶¹ the lack of organizational development extends beyond the question of business registration and employees' legal status. The establishment of firms and other organized behavior, such as associations, organizations, and online platforms, can reduce transaction costs, raise capital, absorb economic shocks, and organize activity around economies of scale and specialized labor. "Lower-tier" self-employment and informal, casual, and temporary work tend to exhibit lower earnings, worse working conditions, and less employment security than formalized wage employment.⁶²

Firm creation and growth are necessary conditions for the shift to wage work, as wage work means working for an organization. The transformation from self-employed work to wage work

⁶¹ See Bonnet et al. (2019) and Choi et al. (2020).

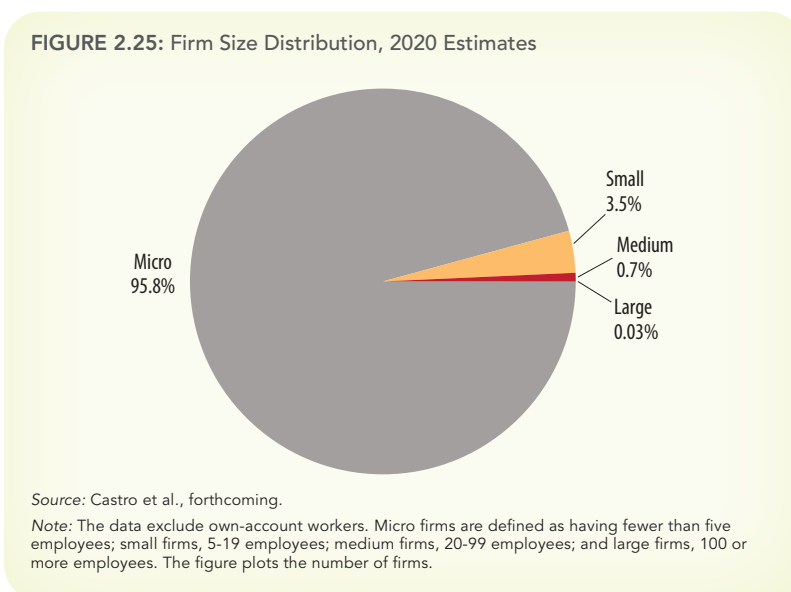
⁶² Fields et al. (2023).

represents a key market transformation which occurs after a significant shift from unpaid home production to more marketable activities. The relationship between the share of wage workers and log GDP grows slowly at first, then rapidly at middle levels of development, and then again converges slowly.⁶³ Given the recent reduction in home-based work, firm creation and growth should be a dominant attribute at this stage of development for the region.

The number of firms hiring employees in the region is disproportionately low, as most firms are single owner-operator arrangements. Such “own-account” workers comprise roughly 95 percent of firms, with an estimated 238 million own-account firms of 250 million total firms. Indeed, when excluding own-account firms, Sub-Saharan Africa shifts from having the highest density of firms per capita to the second lowest (after South Asia). These single-person businesses are disproportionately concentrated in low-value activities, especially in agriculture, and they are disproportionately informal with low labor productivity and low hourly earnings. Similarly, piece-rate pay and partial payments when short on cash are common among micro firms in the region, passing a significant amount of income insecurity to the worker. Moreover, even when excluding own-account workers, the distribution of firms in the region is heavily skewed toward firms with fewer than five employees (figure 2.25).⁶⁴

The concentration of firms in small enterprises leads to inconsistent pay, piecework, and casual employment. In Kenya, where such firms comprise roughly 98 percent of total firms, the number of jobs within these firms changes from month to month, with high turnover of employees and inconsistent pay. Moreover, the number of employees a firm recognizes differs significantly from the number of people paid each month, although this does not seem to correlate with specific seasonal trends. From the employees’ perspective, only half are paid eight months or more in a 10-month period, and a quarter work at the same firm for fewer than five months.⁶⁵

The contrast between the few companies that exhibit employment growth and the bulk of economic activity around small and micro organizations creates a “missing middle.”⁶⁶ Micro informal firms are less likely to expand the size of their workforce than formal firms, which tend to start with a slightly higher average number of employees.



63 Bandiera et al. (2022).

64 Castro et al. (forthcoming).

65 Kempis et al. (2023).

66 See Tybout (2000), Tybout (2014), and Hsieh and Olken (2014) for a description of the missing middle characteristics.

The lack of medium-size firms can be indicative of entry barriers and firm distortions that lead to misallocation of labor to less productive firms, ineffective competition policy, and captured markets.⁶⁷ Entry barriers can enable anti-competitive behavior as they limit competition from new entrants in a market and facilitate collusion. Moreover, idiosyncratic productivity distortions can indicate misallocation of inputs toward less productive firms within a sector, effectively signaling that labor and capital are being disproportionately used by less efficient firms that are able to thrive in an environment with limited competition. Removing such distortions is estimated to potentially improve productivity by between 30 and 195 percent, and these distortions have a noticeable measured impact on a firm's growth throughout its lifecycle.⁶⁸

The lack of medium-sized firms can constrain occupational diversity, limiting the potential benefits to labor productivity from specialization. A larger scale of production makes increasing the division of labor profitable and provides the economies of scale necessary for technical occupations and training for specialized activity. Increased specialization is also associated with adoption of new technologies.⁶⁹ While countries with higher GDP per capita levels tend to experience a higher variety of occupational choices, the larger number of occupations in rich countries is exclusively held by workers in wage work.⁷⁰

This specialization from firm growth can also significantly reduce skill mismatch, providing more clear incentives for formal training. At the country level, a clear correlation exists between the proportion of firms with five or more employees per 1,000 people and the share of labor force with a job matched to their skill level.⁷¹ This relation holds at the individual level, with the likelihood of being over-skilled decreasing with firm size.⁷²

Stability and liquidity remain pressing concerns for small businesses. When asked about their vision for their business, small firms in Kenya most commonly indicated that stability and growth were the two main goals. Although a low number claimed to desire access to credit, the most common desired investments were for expansion of working capital rather than making large purchases or expanding operations. Furthermore, such firms closely manage their monthly balance sheets, adopting accounting practices far more than other advanced business practices, and they are less likely to take any operating risk that may result in negative monthly cash flow.⁷³

These stability and liquidity constraints may be symptomatic of financial frictions impeding firm growth. Financial frictions in developing countries have a severe impact on the manufacturing sector. They result in a 36 percent decline in productivity, higher relative prices of manufactures compared to services, and a 15 percent decline in investment ratios.⁷⁴ This is a particularly acute problem in Sub-Saharan Africa, which has the lowest percentage of the population with an account in a financial institution, at 27 percent, compared to 34, 42, and 44 percent for the Middle East and North Africa, South Asia, and Latin America and the Caribbean, respectively.⁷⁵

67 See also Hopenhayn (2014).

68 Cirera, Fattal-Jaef, and Maemir (2020).

69 Begazo, Blimpo, and Dutz (2023, chapter 2).

70 Bandiera et al. (2022).

71 Castro et al. (forthcoming).

72 Morsy and Mukasa (2021). Results based on a logit regression controlling for age, marital status, sex, sector, urban/rural, education, industry, with country and year dummies.

73 Kempis et al. (2023).

74 Buera, Kaboski, and Shin (2011).

75 World Bank Global Findex Database (2021).

Access to quality infrastructure represents a key barrier to entry. The region lags comparators in access to almost every type of infrastructure—electricity, internet, roads, railways, and water. Even where available, the quality of supply is precarious, with significant impact on economic activity (box 2.2). For instance, despite more than 580 million people in Africa lacking access to electricity, even connected households and firms experience unreliable supply of electricity.⁷⁶ Power outages are commonplace in many African countries, exemplified by the ongoing power crisis in South Africa. Internet usage in the region is also low, with less than a quarter of the population using the internet in 2021, with the available supply characterized by high cost and low speed.⁷⁷ In transportation infrastructure, poor road connectivity and railway infrastructure result in high cost of passenger and freight transport within and across borders.⁷⁸ For instance, whereas it costs about \$2,000 to ship a container from China to Beira in Mozambique, shippers require an additional \$5,000 to transport it inland to Malawi. Intra-African air travel also has among the highest costs in the world, resulting in low patronage. The continent accounts for less than 2 percent of global air travel, despite being home to 18 percent of the world's population.

BOX 2.2: The Cost of Infrastructure Underprovision on Job Creation in Sub-Saharan Africa

There are at least three channels through which poor infrastructure provision affects job creation.

First, poor infrastructure influences firm entry and exit. Firms operating in regions with poor infrastructure incur high production and marketing costs. Such costs can deter prospective entrepreneurs and investors as well as induce existing firms to exit the market, thereby leading to job losses. Electricity outages reduce entry of both domestic and foreign firms: in Ethiopia, a 1 percentage point (p.p.) increase in outage intensity is associated with a 1.7 percent reduction in the number of firms operating. Similarly, a four-year nationwide power crisis in Ghana between 2012 and 2016 led to a 12.3 percent reduction in the number of foreign direct investment projects in non-energy sectors.^a In contrast, the arrival of high-speed internet in Africa via submarine fiber cables led to a significant increase in foreign direct investment to the region, with the finance, technology, retail, and health services subsectors as the main beneficiaries.

Second, poor infrastructure provision has a negative impact on productivity. For instance, frequent power outages affect firms' production schedules. To adapt to this, some firms invest in electricity self-generation via the use of generators at relatively high cost. These increase the cost of production and affect firms' ability to invest in other productive capital, thereby leading to productivity losses. Firms respond to these losses by reducing demand for labor.^b Overall, eliminating electricity outages could lead to increases in aggregate output per worker of 25 percent.^c

Third, poor infrastructure provision affects trade and the export competitiveness of firms. On the global level, comparative advantage from resource endowments and competitive labor costs can be outweighed by higher operational costs through poor access to electricity, information and communications technology connections, or logistical connectivity. In a competitive global market, any additional cost to the end product from poor transport infrastructure will be reflected

⁷⁶ Mensah (2023).

⁷⁷ Low uptake of internet usage may also be driven by factors other than availability, including affordability and digital literacy. See Begazo, Blimpo, and Dutz (2023) for a more detailed treatment.

⁷⁸ Lebrand (2022).

BOX 2.2 *continued*

directly through the potential price paid by the end user and will reduce profit margins. In addition, the effects of poor infrastructure provision in increasing the barriers to entry by firms negatively affect competition, preventing firms that could be competitive internationally from entering the marketplace.

These negative effects have been directly observed in the energy sector. Expanding access to electricity to rural communities in South Africa led to a 9 p.p. increase in female employment.^d In contrast, electricity outages reduced the probability of employment by 13.5 p.p. in Sub-Saharan Africa. Specifically, the *dumsor* power crisis in Ghana (2012–16) led to a significant decline in employment (figure B2.2.1).

Beyond electricity, access to digital infrastructure, including the internet, has also been shown to increase employment in Sub-Saharan Africa. Access to high-speed internet in Africa increases the probability of employment by between 6.9 and 13.2 percent,^e as well as increasing the growth of output per worker and reducing poverty.^f Access to mobile broadband internet is also associated with an increase in labor force participation as nonfarm self-employment increases by 3-8

p.p.^g Indeed, adoption of digital technology can boost job creation through a variety of channels, including matching firms to workers, productivity-enhancing activities, improved market access and sales, reduced informational frictions, and positive regional externalities.^h

Similar effects have been found in relation to transport infrastructure. Expansion of road access induces structural change by shifting employment out of agriculture and into services and manufacturing.ⁱ Additional evidence suggests that bundling investments into complementary infrastructure such as roads and electricity amplifies their impact on jobs, thus highlighting the role of complementarities in the impact of infrastructure on economic outcomes.^j

FIGURE B2.2.1: Effects of Outages on Employment in Ghana



a. Mensah (2023).

b. Mensah (2023).

c. Fried and Lagakos (forthcoming). The estimation was obtained through a calibrated model using data from five countries in Sub-Saharan Africa: Ethiopia, Ghana, Nigeria, Tanzania, and Uganda.

d. Dinkelman (2011).

e. Hjort and Poulsen (2019).

f. Calderón and Cantú (2021).

g. Bahia et al. (2023).

h. Begazo, Blimpo, and Dutz (2023).

i. <https://blogs.worldbank.org/ppps/how-does-infrastructure-investment-promote-economic-development-fragile-regions-africa>.

j. Abbasi et al. (2022).

Is limited competition to blame?

Weak competition may be a particular constraint to structural transformation in African countries, which can cascade into effects on job creation. Sub-Saharan Africa displays a relatively high proportion of sectors that are characterized by a limited number of players compared to other regions. For example, around 10 percent of Africa's population lives in countries where retail mobile telecommunications markets are monopolies or duopolies. One mobile operator captures over 50 percent of the market in almost two-thirds of countries, and over 65 percent in nine countries.⁷⁹

Competition, and the improvements in efficiency it creates, can have significant positive effects on jobs. Overall, reforms that increase competition in product markets tend to boost employment in the long term and on aggregate.⁸⁰ While the impact of competition reforms on jobs is often dependent on the size and characteristics of the firms affected, there tend to be positive effects on jobs in the longer term.⁸¹ Product market regulations that restrict competition limit market access for small and medium-sized firms, while real wages and employment levels can exhibit medium-term benefits from improvements in competition.⁸² In South Africa's manufacturing sector, firms that faced greater competition had higher wage growth, thus implying that product market competition would have a positive effect on wage growth.⁸³

Furthermore, competition in input sectors spurs productivity in sectors where the most vulnerable are engaged as producers, entrepreneurs, and employees. Lack of domestic competition in intermediate sectors can hinder the transmission of domestic and international price signals to producers, which would otherwise drive reallocation and diversification.⁸⁴ Moreover, workers in low-productivity sectors such as agriculture can be especially vulnerable to anti-competitive behavior in input markets. Globally, the existence of international cartels in the fertilizer sector raised prices of chemical fertilizers by 17 percent on average during 1990–2010.⁸⁵ Boosting competition in input markets by addressing restrictive regulations or anticompetitive practices allows for efficient use of inputs and potential for generating earnings, affecting growth of job-enhancing firms. In Zambia, the breakup of a fertilizer cartel played a part in the overall reduction of relative prices.⁸⁶ The breakup of anticompetitive behavior in input markets has led to measured savings in selected cases across the region, including independent bakeries and a cement cartel in South Africa, upstream manufacture of ice for fishers in Sierra Leone, and transportation in Mauritius.⁸⁷

These market characteristics that result in weak competition are likely to be partly due to poor policies. Specifically, the region is characterized by a lack of effective enforcement of competition rules and the existence of other regulations that increase business risks and impair competition based on merit. According to the Bertelsmann Stiftung's Transformation Index 2022, Sub-Saharan Africa ranks lowest globally in terms of the extent to which rules

79 World Bank (forthcoming).

80 A review of this evidence can be found in World Bank (2017).

81 Dauda (2020).

82 Scarpetta et al. (2002); and Hollweg et al. (2014).

83 Dauda et al. (2019).

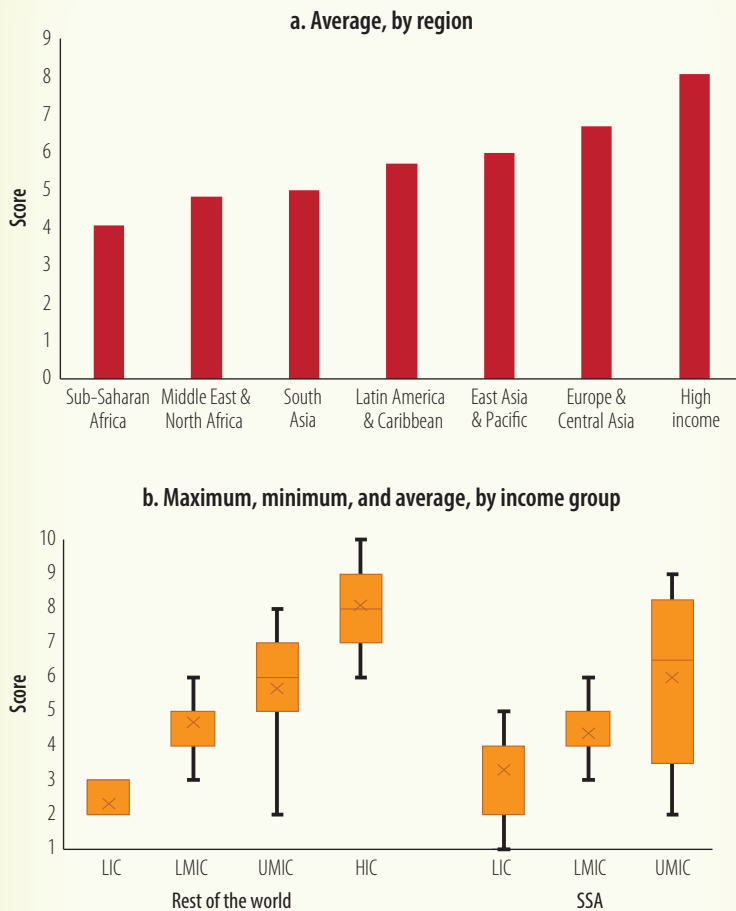
84 Edmond et al. (2015); De Loecker and Warzynski (2012); Arkolakis et al. (2019); Atkin and Donaldson (2015).

85 Connor (2012).

86 World Bank (2017).

87 World Bank Group Cartel Database; Purfield et al. (2016).

FIGURE 2.26: Market-Based Competition in Sub-Saharan Africa Compared to Other Regions and by Income Group



Source: Bertelsmann Stiftung's Transformation Index 2022.

Note: Competition is measured on scale of 1 to 10, where 10 denotes the best conditions for market-based competition. LIC=low-income countries, LMIC=lower-middle-income countries, UMIC=upper-middle-income countries, HIC=high-income countries.

enable a market-based economy (figure 2.26). Countries in Sub-Saharan Africa also present relatively high scores for the restrictiveness of product market regulation, for example in Côte d'Ivoire, Kenya, Rwanda, Senegal, and South Africa.⁸⁸ Key market regulations to enable entry and expansion of enterprises do not always integrate competition principles to level the playing field. For example, public-private partnership frameworks generally have weak provisions on unsolicited proposals or requirements on open competitive selection, and there is limited transparency in the granting of tax exemptions and subsidies. Investor perceptions of competition in Sub-Saharan Africa indicate that there

are significant business risks associated with weak competition, particularly excessive trade protection, unfair competition practices, and vested interests.⁸⁹ These risks are higher for low-income countries in Sub-Saharan Africa.

In addition to a business environment that enhances competition, more effective competition policies and enforcement agencies are needed. While rules and regulations that prevent economic monopolies and cartels exist in a majority of the Sub-Saharan African countries, they are not effectively enforced (figure 2.27). As of December 2022, 15 Sub-Saharan African countries did not have a national competition law and three had a law but the competition agency was not in place. Various countries are members of a regional agreement establishing antitrust regulations, but regional enforcers lack minimum resources for implementation.⁹⁰ Moreover, budgetary and staff constraints represent a significant hurdle to effective enforcement: the number of staff can be as low as four, and budgetary resources remain

⁸⁸ Dauda and Drozd (2020).

⁸⁹ Economist Intelligence Unit (2022).

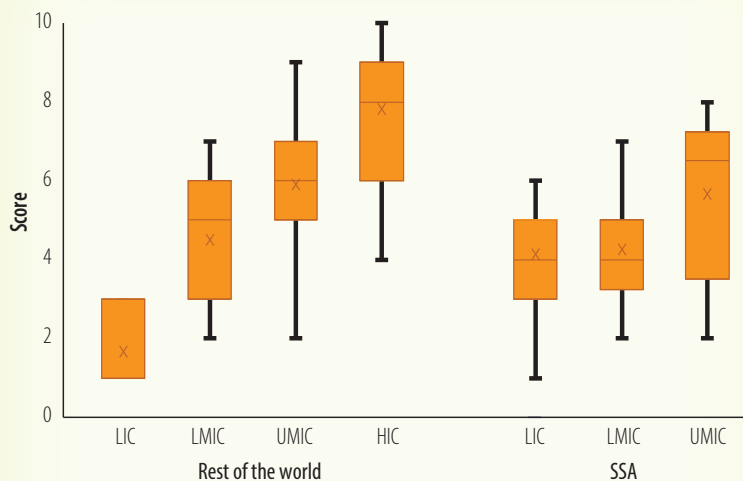
⁹⁰ The Common Market for Eastern and Southern Africa is the exception.

limited in a majority of the countries (figure 2.28).⁹¹

Furthermore, while the competition frameworks that are currently available in most jurisdictions provide the basis for tackling competition risks, there are still significant gaps in implementation. According to analysis conducted by the Africa Competition Forum and the World Bank, authorities can become overwhelmed with merger reviews, struggle to build robust cases to sanction cartels or abuses of dominance, and fail to use their advocacy powers. The institutional design is generally not fully conducive to independent and efficient management of resources. Common gaps are related to the lack of objective merger thresholds, team specialization, multi-phased procedures, prioritization strategies and screening procedures, use of settlements, performance indicators, and rules against conflicts of interest and undue influence of external stakeholders, including line ministries.⁹²

Nevertheless, some isolated instances of competition authority interventions have led to positive results. In Kenya, advocacy action by the authority helped to remove barriers to entry, which almost hindered the development of a new high-value export crop and increase in the returns to farmers. The Competition Authority of Kenya intervened with an

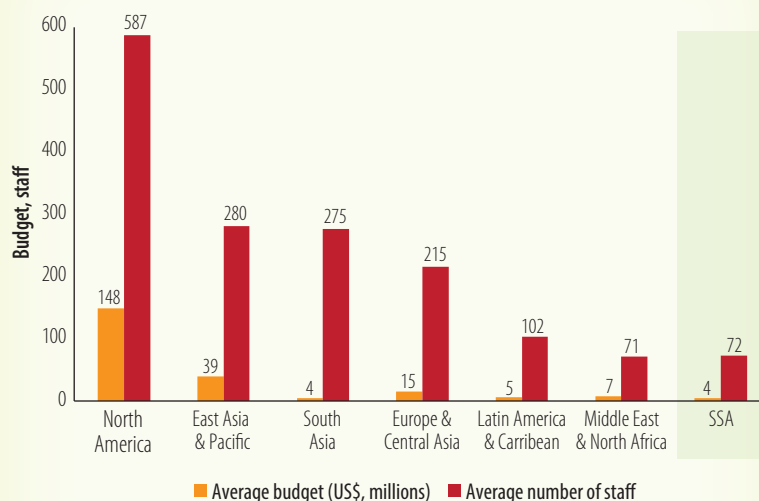
FIGURE 2.27: Competition Policy Effectiveness Score, 2022



Source: Bertelsmann Stiftung's Transformation Index 2022.

Note: The score is measured on scale of 1 to 10, where 10 denotes the best competition policy and enforcement. HIC = high-income countries; LIC = low-income countries; LMIC = lower-middle-income countries; UMIC = upper-middle-income countries; SSA = Sub-Saharan Africa.

FIGURE 2.28: Annual Budget, by Region, Controlling for GDP per Capita, Selected Competition Authorities, 2018



Sources: World Bank – Africa Competition Forum, Improving Institutions, not Just Laws: Revisiting Competition Policy in Africa, unpublished 2022; data from the Africa Competition Forum–World Bank Group–International Debt Report database; Global Competition Review database.

Note: GDP = gross domestic product; SSA = Sub-Saharan Africa.

91 For example, this was the case in Rwanda in 2022.

92 World Bank Africa Competition Forum (2022).

advisory opinion to the industry regulator on the contestability of the tea market. As a result, the investor subsequently established a tea factory, which is now exporting to firms in Japan and China. This entry allowed smallholder farmers who switched to the specialty tea to realize an increase in the price paid per kilo for their product. In Zambia, the Competition Commission recommended that ZAFFICO, the sole supplier of softwood, produce a competitive process for allocating softwood licenses to sawmill applicants after it had only renewed licenses for large saw-milling firms. The resulting entry of 500 small-scale saw millers created an estimated 5,000 direct jobs.

International competitiveness from a dynamic and diverse export base is severely limited by captured markets. There is ample empirical evidence of the link between the intensity of competition and incentives for efficiency-enhancing resource allocation. Higher competition intensity drives productivity levels within an industry by moving market shares to more efficient firms and by raising incentives for plants and firms to increase their efficiency (through cost reduction, innovation, or technology upgrades).⁹³ Measures of domestic competitive pressure, such as lower entry costs and higher product substitutability, are linked to process innovation and firms' incentive to invest in product quality.⁹⁴ Conversely, a lack of competition and barriers that protect firms may reduce incentives to provide higher quality goods and services.⁹⁵ In addition to increasing incentives for process innovation, promoting competition serves to encourage product innovation aimed at "escaping competition."⁹⁶ Such innovation is key for creating a dynamic domestic landscape to enhance productivity and create local production centers. In this respect, the competition protocol of the AfCFTA is a crucial ingredient for private sector expansion under the free trade area.

A shifting trade landscape highlights the need for intraregional focus

The shift in exports from Sub-Saharan Africa away from traditional trade partners to developing countries has stalled in recent years. Between 2000 and 2019, trade in the region shifted dramatically from advanced economies to developing economy partners, with emerging markets and developing countries in Asia driving the difference (figure 2.29). However, since 2019, the shift has lost pace in exports, with the share of exports to advanced economies slightly gaining ground to 40.0 percent since 2020, compared to 38.8 percent in the five years prior to the pandemic. However, imports have continued to shift to emerging markets and developing economies in Asia, reaching 30.2 percent of imports between 2020 and 2023, up from 27.3 percent between 2015 and 2019.⁹⁷

Moreover, the skill intensity of products exported to Asia has diminished as quantities have increased. The share of goods classified as "high skill" decreased from 55 percent in 2005 to 46 percent in 2015, although the levels have actually increased.⁹⁸ Indeed, exports to trading partners in Asia are still focused on natural resource exploitation, as mineral ores and metals are still the largest import category for China, India, Indonesia, Japan, and the Republic of Korea.

⁹³ Syverson (2011) provides an overview of studies on this finding.

⁹⁴ Beneito et al. (2015); Matsa (2011).

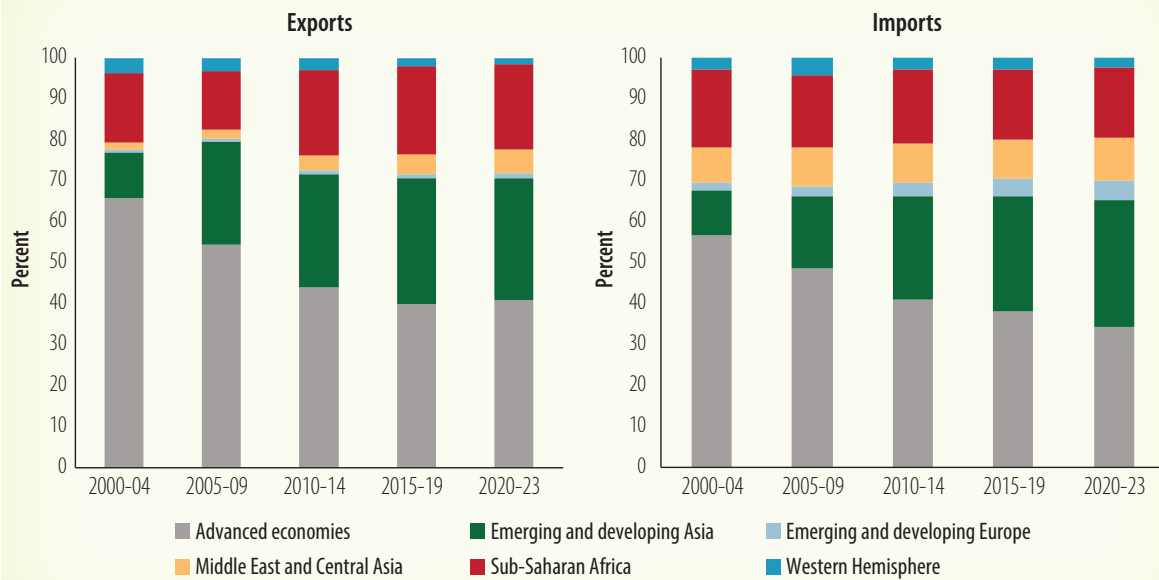
⁹⁵ Mazzeo (2003).

⁹⁶ Aghion et al. (2006).

⁹⁷ UN COMTRADE Database (2023).

⁹⁸ Coulibaly, Kassa, and Zeufack (2020). Measuring "high-skilled goods" by the share of workers with high school completion or above in the Chinese 4-digit manufacturing sectors between 2002 and 2004.

FIGURE 2.29: Composition of Sub-Saharan Africa's Trade, Exports, and Imports



Source: IMF Direction of Trade Statistics, 2023

Between 2005 and 2015, the share of exports in primary goods declined by only 1 percentage point to 55 percent, while the figure declined by 27 percentage points for trade with other regions. For this reason, interregional trade may not present the opportunities that intraregional trade offers. Market and institutional imperfections, concentration in extractive activities, and specializing away from technologically advanced sectors can curtail the gains from trade if asymmetries between the partners are too high.⁹⁹

The complexity of exports remains low and is moving in the wrong direction. The average Economic Complexity Index for the region in 2021 was -1.04, the lowest of all regions, having declined from -0.81 in 2011 (figure 2.30). In comparison, the next lowest region, Latin America and the Caribbean, had a score of -0.35.¹⁰⁰ This measure includes both the diversity of the export basket and the degree of exclusivity of those exports to a particular country. Countries that are able to sustain a diverse range of exports, including complex products that few other countries can make, are expected to have stronger, more robust export markets and higher competitiveness on the international market. Cross-country evidence shows that higher levels of export diversification may result in higher growth and lower output volatility.¹⁰¹

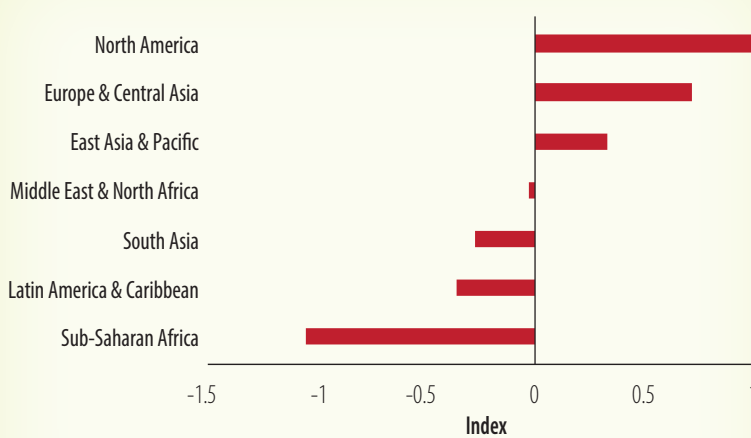
The complexity of exports can be aided through global value chain (GVC) participation, although the nature of such participation matters. Overall, participation in GVCs can lead to significant increases in overall employment, although the jobs directly linked to the GVCs themselves may not be extensive. Interdependence between domestic firms and foreign firms that share technology and knowledge with their buyers and suppliers intensifies in GVCs. Due to hyper-specialization, exporting firms can specialize in a few tasks rather than master the entire production process. Therefore, firms in developing countries participating in GVCs are

99 Chang, Kaltani, and Loayza (2009).

100 The Growth Lab at Harvard University (2019).

101 Lederman and Maloney (2007).

FIGURE 2.30: Economic Complexity Index, across Regions



Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity. <http://www.atlas.cid.harvard.edu>

typically more productive, and all the types of GVC participation are associated with higher output and productivity growth than standard trade.¹⁰² Moreover, the job growth arising from GVC participation is highest in the manufacturing sector, presenting an opportunity for expansion of manufacturing activity, although the focus on manufacturing may limit the immediate benefits in the short term due to

the sector's small size in the region. Similarly, much of the productivity and employment gains accrue from backward integration (shares of foreign value added embedded in a country's exports) and not forward integration (shares of a country's exported value that is further exported by the importing country). That is, the largest employment gains come from activities using other countries' inputs in a productive process, as the employment gains come not from exporting raw materials but from adding value regardless of the trading partner.

The share of intraregional trade in the region is significantly lower than in other regions. For instance, the average share of trade within Sub-Saharan Africa in total trade was 16 percent in 2013–17 (up from 10 percent in 2000–04).¹⁰³ The share of intraregional trade in Sub-Saharan Africa is substantially lower compared to that in North America (56 percent in 2013–17), Asia (60 percent), and Europe (68 percent) (figure 2.31). The low levels of intraregional trade suggest that there are significant barriers to trade across borders in Sub-Saharan Africa as well as a lack of depth in regional value chains.

Nevertheless, trade among countries in the region has exhibited protracted growth over the past two decades, except for the years 2009 and 2014–16. In the aftermath of the 2008–09 global financial crisis, intraregional trade flows in the region decreased by US\$9.9 billion in 2009 (as reflected by the US\$4 billion drop in exports and US\$5.9 billion drop in imports). The plunge in commodity prices was associated with the decline in trade within countries in the region during 2014–16. The cumulative drop in trade flows among countries in the region during this period amounted to US\$52.3 billion—of which the decreases in exports and imports totaled US\$25.3 billion and US\$27 billion, respectively.

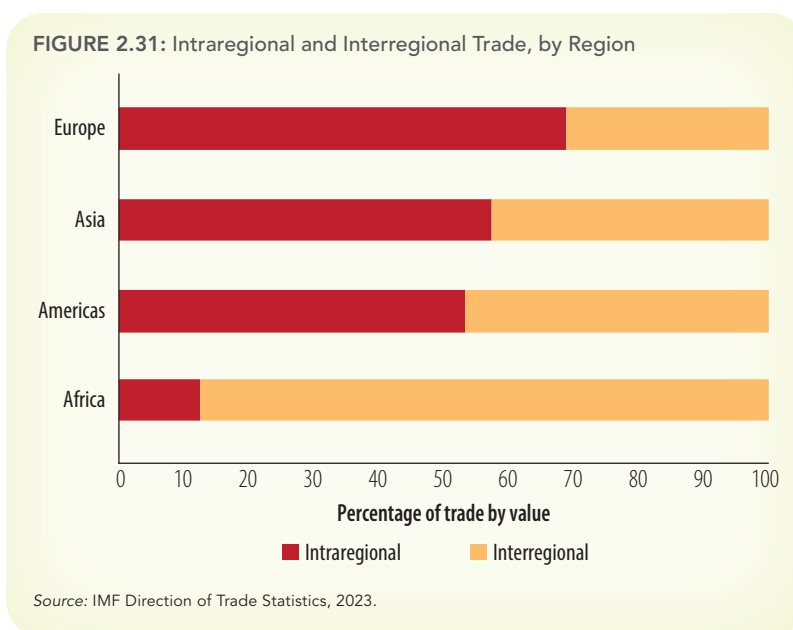
Intra-Africa trade is more diversified and has greater technological content than Africa's

¹⁰² World Bank (2020).

¹⁰³ UN COMTRADE data. The actual volume of trade across borders in Sub-Saharan Africa might be underestimated by up to 40 percent in certain cases as it does not account for informal (or unrecorded) trade (Nshimbi and Moyo 2017).

exports to the rest of the world. Intra-regional exports include higher value-added products: on average during 2007–17, manufactured goods accounted for about 40 percent of intra-regional trade, minerals for 44 percent, and agricultural products for 16 percent. In contrast, trade with other regions was heavily oriented toward natural resources, which accounted for about 75 percent of total exports as opposed

to 16 percent in the case of manufactured goods over the same period.¹⁰⁴ Of course, much of the value represented through manufactured goods traded internally in the continent may have been generated in other regions, but the lack of concentration on materials exports to other countries in the region points to a more favorable mix of comparative advantages for intra-regional trade, with the hope of stimulating local product markets as a result.



Potential from the African Continental Free Trade Area

Once it is completed, the AfCFTA will be the largest free trade area in the world in terms of membership. It will potentially cover a market of 1.3 billion people, with combined GDP valued at US\$3.4 trillion. The agreement poses significant opportunities for increased competition, foreign direct investment inflows, economies of scale, transfer of knowledge and technology, productivity, and economic diversification. As a part of the AfCFTA agreement, countries have committed to remove tariffs on 90 percent of goods in the first five-year phase, followed by subsequent elimination of tariffs on the remaining product groups as well as reduction of non-tariff barriers (NTBs). A more conservative estimate suggests that in the long run, full AfCFTA implementation (without exemptions of certain sensitive products from liberalization) will likely increase intra-Africa trade by 33 percent owing to the elimination of tariffs and cut Africa’s trade deficit by 51 percent.¹⁰⁵ By 2035, with full AfCFTA implementation, intra-Africa trade is estimated to increase by 81 percent compared to the baseline scenario without AfCFTA for the same year.

Gains in employment that result from sectoral relocation of workers follow the same pattern. The AfCFTA foreign direct investment deep scenario would help create up to 17.9 million new jobs, with up to 2.45 percent of labor shifting to expanding sectors on the continent by 2035. Job openings for workers moving from shrinking to expanding sectors represent 2.25 percent of total employment for the AfCFTA trade. Potential job expansion is highest in energy-intensive manufacturing, with an increase of 3.5 million jobs, leading to a significant

¹⁰⁴ IMF (2019).

¹⁰⁵ Saygılı, Peters, and Knebel (2018).

shift in the composition of sectoral employment in the region. Similarly, potential increases in employment from successful implementation of the agreement are higher in sectors with more skilled labor, creating a significant shift in the skill bias of labor demand, and women potentially benefit disproportionately from higher wages and employment. While other estimates vary in their predictions of the potential gains from the AfCFTA and the country composition of such increases in trade are likely to be highly heterogeneous, the predictions are generally in the range of an increase in intraregional trade of between 30 and 60 percent over the next decade.

In addition to reducing tariffs, realizing the full potential of the AfCFTA will require facilitation of international investment, deliberate competition oversight, trade facilitation, and reduction in NTBs. Although article 4 of the AfCFTA Agreement states that “The State Parties shall progressively eliminate tariffs and NTBs to trade in goods,” the removal of NTBs under the AfCFTA is likely to require significant effort in the implementation stages. The real income gains from tariff liberalization alone are small, at 0.22 percent by 2035. Including gains from effective reduction in NTBs by 50 percent and improvements in trade facilitation would lead to additional increases of 2.4 and 4.6 percent of GDP, respectively.¹⁰⁶ Currently, Sub-Saharan Africa has the lowest regional average score in the World Bank’s Logistics Performance Index, which assesses the ease of trading across borders for individual countries, with components including efficiency of customs and border management clearance systems, quality of trade and transport infrastructure, ease of arranging shipments, and quality of logistics services.

¹⁰⁶ AUC-WB (2020).

2.4 OPPORTUNITIES FROM AN INCLUSIVE LABOR MARKET

Even with strong improvements in demand for labor, providing a path to employment to the most vulnerable will be paramount for achieving the job growth promised by the demographic transition. To a large extent, the gender wage gap is a reflection of employment segregation, representing a loss in potential productivity from a misallocation of female labor. Similarly, poverty can lead to self-reinforcing cycles of joblessness and poor productivity through worse education, health, productivity-enhancing inputs, and access to customers. These cycles are especially cumbersome in fragile and conflict-affected countries, as internally displaced populations, refugees, and migrants are especially vulnerable and may have difficulty accessing local opportunities and resources.

Gender and labor market access

Addressing employment segregation is pivotal for diminishing the gender wage gap, enhancing job quality and earnings for women, and boosting female labor force engagement. Occupational segregation accounts for 10-50 percent of the gender wage gap. Similarly, a large part of the gender profit gap among entrepreneurs can be explained by sectoral segregation.¹⁰⁷ The effects of this segregation extend to broader economic growth, household well-being, firm performance, and intergenerational social mobility. By reducing this segregation, a positive cycle unfolds; higher female participation in lucrative roles fosters larger women's networks and reshapes social norms. As gender-balanced norms take root, it can drive girls and parents to invest in education, expanding the talent pool for businesses and helping to correct the discrimination and skills mismatch dynamics in the labor market.¹⁰⁸ Helping female entrepreneurs to engage in more profitable sectors and adopt better practices can also have a multiplier effect on the economy by bringing more women into the workforce. In Sub-Saharan Africa, female entrepreneurs are much more likely than male entrepreneurs to employ women. About 75 percent of the workers in female-owned enterprises are women (excluding the business owner), while in male-owned businesses, only 20 percent of employees are women. This difference stays this large even after controlling for the sector of operations.¹⁰⁹

Informational imbalances, the absence of role models, societal norms, and bias remain significant hurdles in the region. Insufficient information on the benefits of vocational training and entrenched societal beliefs about women's roles contribute to these disparities. These gender disparities connect with the psychosocial influences of cultural norms on women's capacities and roles.¹¹⁰ Barriers pushing female learners away from technical and vocational education, such as lack of gender-inclusive facilities and risks of gender-based violence and sexual harassment, are likely to be most severe in male-dominated fields and occupations.¹¹¹ Women also encounter greater difficulty accessing capital for business startups due to norms or

107 Sahay (2023); Goldstein et al. (2019).

108 Carranza et al. (2018).

109 World Bank (2019).

110 Levin et al. (2023).

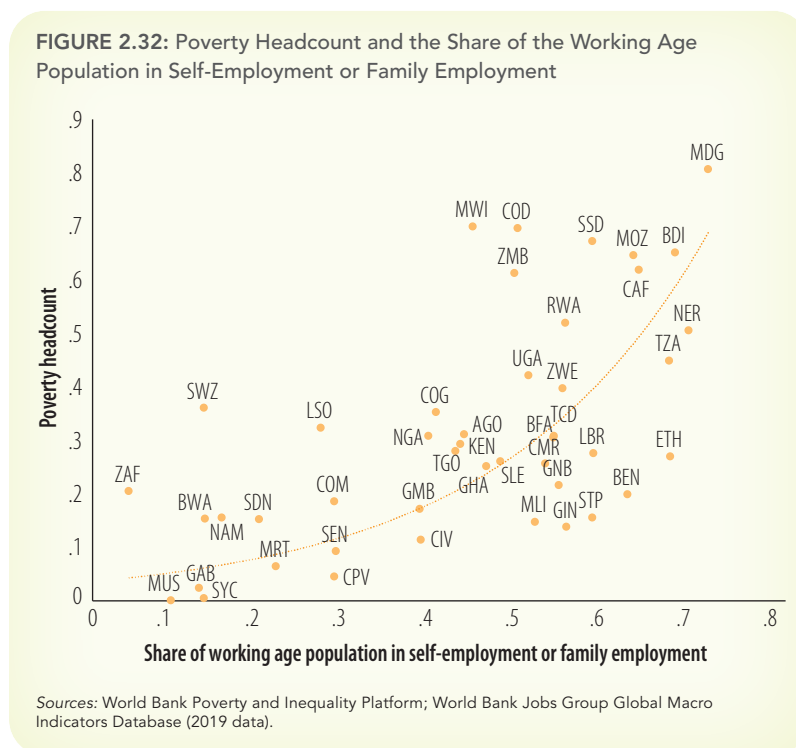
111 Levin et al. (2023).

laws limiting their asset ownership. This could steer them toward sectors characterized by lower startup costs, potentially fostering occupational segregation.¹¹² Enhancing girls' education, especially in STEM fields, can mitigate occupational segregation, offering better access to well-paying jobs.¹¹³

Overcoming barriers to entering male-dominated fields can yield strong benefits. In Uganda, women who transition into male-dominated sectors earn as much as men and three times more than women remaining in female-dominated fields.¹¹⁴ Further supporting this trend, an analysis of enterprise owners, managers, and employees across 97 countries and four continents shows that female-owned businesses in male-dominated sectors generate 66 percent more profit than those in traditionally female sectors.¹¹⁵ Evidence from Malawi, Northern Nigeria, and Uganda shows that women can achieve greater returns than men by embracing high-value agriculture.¹¹⁶

Jobs and livelihoods of the poor

In 2019, Sub-Saharan Africa was home to 60 percent of the global poor living below the US\$2.15 per day poverty line. Thirty-five percent of the population (391 million) in the region lived below



the international poverty line, with Nigeria, the Democratic Republic of Congo, and Ethiopia contributing 36 percent of all the poor in Sub-Saharan Africa.¹¹⁷

Being self-employed or being employed by one's own family is strongly associated with poverty. The exceptions that stand out from this pattern are the same countries where the poverty-agriculture link is also weaker (figure 2.32). The uniformity of these patterns speaks of a high share of agricultural labor being smallholder farming

on household operated plots. However, self-employment and family employment outside agriculture can also be an indication of the lack of industry and wage work in a country.

112 Chakravarty et al. (2017).

113 Diagona (2022).

114 Campos et al. (2015).

115 Goldstein et al. (2019); World Bank (2022).

116 World Bank and the ONE Campaign (2014).

117 World Bank Poverty and Inequality Platform (March 2023 update).

Current levels of the working poor indicate that employment does not ensure an escape from poverty, as productivity is not high enough to ensure a good wage. Among working age Nigerians, 67.7 percent from the bottom 40 percent of the consumption distribution were working in 2018/19, compared to 69.6 percent of working age Nigerians from the top 60 percent. Household poverty is also associated with being underemployed, or people working less than full-time each week: in Nigeria in 2018/19, less than 20 percent of those engaged in wage work worked less than 40 hours per week, compared to over 60 percent of workers in farming, which is dominated by own-account workers. Workers engaged in nonfarm enterprises and apprentices fall between these two values.¹¹⁸

Multiple deprivations associated with poverty and vulnerability constrain access to labor markets

Impediments to labor market access are also associated with access to infrastructure and public services. Access to energy, safe water, transportation, and information and communications technology can lead to household members having to adjust their daily activities to accommodate for the lack of these necessary services. For example, having to travel long distances for water or firewood creates an opportunity cost for time spent in productive activities. In 2019, Sub-Saharan Africa had lower access to electricity than any other region in the world, with an estimated 52 percent of the total population having access to electricity. Among the extremely poor, the share was lower, and the lowest globally, at just 31 percent.¹¹⁹ Mobile phone access has surpassed that of electricity, with 69 percent of the population and 51 percent of the extremely poor having access in Sub-Saharan Africa. Indeed, the lack of access to such infrastructure and public services contributes to low returns on land and labor among the poor. Outside agriculture, microenterprises are the main source of employment and income for the poor and those living close to the poverty line.¹²⁰

Access to labor markets and productive self-employment are also constrained by poor health. Health is an important part of human capital, which contributes to economic growth. Preventable illnesses can constrain livelihoods and productive participation in the labor market. Lack of infrastructure access plays a role in healthy livelihoods: bacterial contamination from inadequate sanitation and contaminated drinking water can lead to diarrhea in both adults and children, which when prolonged can result in stunted growth for small children.¹²¹ Health also has significant impacts on human capital development for children: stunted growth of children under 5 years of age can lead to long-term negative consequences all the way into the adulthood.¹²²

Agriculture can provide security against job losses

During the COVID-19 pandemic lockdowns, agricultural activities provided some safety for urban workers who suffered job losses. The pandemic reversed the course of poverty reduction in the 2000s, especially in low-income countries that did not have adequate safety nets in place to mitigate the impacts of the crisis. Such safety nets are especially important in their impact on asset accumulation and human capital accumulation, as vulnerable households often

118 World Bank (2022b).

119 World Bank (2022c).

120 Christiaensen, Demery, and Hill (2019).

121 Mansuri et al. (2018).

122 Dewey and Begum (2011); Black et al. (2013).

respond to shocks differently, with “asset smoothing” behavior leading to sacrifices in health and education of children, potentially harming future job prospects. This was the first time in more than two decades that extreme poverty increased.¹²³ At the household level, participation in agriculture increased from 76 percent pre-pandemic to 84 percent during the pandemic in Nigeria (with similar increases observed in other countries).¹²⁴

Constraints on improving incomes and consumption in rural areas have to do with limited nonagricultural labor markets in rural areas, as well as market access constraints that impede income growth from agricultural activities. One of the key impediments to increased agricultural productivity has been markets—both factor markets, that is, the markets for agricultural inputs, farm labor, and access to credit and land, and output markets, that is, the sale of surplus output. Market failures in agriculture in Africa are not limited to certain locations or household characteristics. While factor markets are existent, such that participation in labor and land markets is widespread, these markets often fail farmers.¹²⁵ Agricultural input use has been too low or otherwise suboptimal, although large variation in input use between countries exists.¹²⁶ The seasonal nature of rainfed agriculture leads to underemployment that is concentrated in the lean season, which, coupled with low productivity, can keep many agricultural laborers in poverty or close to the poverty line. While many productivity improvements can improve the livelihoods of farmers, technologies such as irrigation and multiple cropping can smooth labor patterns across agricultural seasons, thus allowing for differential timing of labor for planting and harvesting different crops.¹²⁷

Access to buyers is important, especially through productivity growth. While well-functioning output markets are important for efficiency in food markets for both buyers and sellers, agricultural commercialization is not a magical solution for escaping poverty for individual farmers. In Malawi, one of the poorest countries in Sub-Saharan Africa, the market participation rate is as high as 90 percent, although the ratio of food sold relative to that consumed can be low.¹²⁸ Similarly, in Nigeria in 2018/19, the market participation rate was over 80 percent, but only 36.5 percent of produced farm outputs were only or mainly for sale, indicating that a very large share of production was for own consumption.¹²⁹ Moreover, the lack of association between commercialization and improved nutritional status could indicate that the availability of certain food items at local markets is a more binding constraint on a diverse diet than a household’s ability to generate income through sales of agricultural outputs, which would allow diversification of diets to what is not produced inside the household.¹³⁰

123 World Bank (2022a).

124 Amankwah and Gourlay (2021). The analysis used data from high-frequency telephone surveys in Burkina Faso, Ethiopia, Malawi, Nigeria, and Uganda collected under the Living Standards Measurement Study–Integrated Surveys on Agriculture project.

125 Dillan and Barrett (2018).

126 Sheahan and Barrett (2017).

127 Christiaensen and Maertens (2022).

128 Carletto, Corral, and Guelfi (2018).

129 World Bank (2022b).

130 Carletto, Corral, and Guelfi (2018). The lack of association was found using Living Standards Measurement Study–Integrated Surveys on Agriculture data from Malawi, Tanzania, and Uganda.

Extreme vulnerability from fragility and conflict

Access to jobs is intrinsically linked to the extreme poverty concentrated in fragility and conflict settings (FCS). In the 2000s, poverty became highly concentrated in Sub-Saharan Africa and in fragile and conflict-affected economies, which did not experience the same poverty reduction as the rest of the region.¹³¹ In these contexts, access to productive livelihoods suffers, hampering the ability of the growing working age population to reach its potential, as displaced populations, refugees, and migrants have less access to active means of production, while technical qualifications are often not recognized and the transitory nature of living arrangements can make long-term engagement in jobs more difficult.

Fragility and conflict can impede job creation through multiple channels. Conflict has been shown to have harmful effects on human capital accumulation, with detrimental effects on schooling and health.¹³² Conflict can also disrupt markets and productive activities in many ways: for example, in Northern Uganda, just the risk of conflict prompted farmers to make changes in their agricultural portfolios during the conflict with the Lord's Resistance Army,¹³³ and in Nigeria, the Boko Haram conflict reduced agricultural output and hired labor on farms.¹³⁴

In addition, women in particular face low employment rates in FCS countries, with most engaged in agriculture, spanning protracted conflict and post-conflict nations. Women often work within family units, lacking legal protection and facing low wages and skills.¹³⁵ Moreover, the multifaceted challenges in FCS countries, including poverty, gender-based violence, and discriminatory norms, lead to education disruptions, limited job opportunities, and constrained market access.

131 Corral et al. (2020).

132 Verwimp, Justino, and Brück (2019).

133 Rockmore (2020).

134 Adelaja and George (2019).

135 Lopez-Avila and Buehren (2023); Quek (2019).

2.5 POLICY INTERVENTIONS FOR PROMOTING A FAIR AND EXPANDING JOBS ECOSYSTEM

The urgency of the jobs situation requires swift action and political prioritization of jobs-friendly reforms. The demographic trends that lead to the “demographic dividend” have already started, and ensuring the benefits will require significant improvements in educational attainment in the region. This will require reaching vulnerable communities that are especially at risk of falling behind in skill development. Moreover, the jobs required for such a transition necessitate a strong effort in capacity building around three main areas: eliminating market distortions caused by misguided policy, supporting enforcement of competition, and implementing the reforms needed to stimulate intraregional trade. This last priority will require a strong effort around NTBs, including improved regional transportation networks and harmonization of quality controls.

Overall, the policies required for a jobs-friendly growth strategy follow two main themes: investing in people and promoting markets to stimulate production. For the former, the concepts of skill development and education should be viewed clearly in the context of investment, as the costs incurred will reap benefits in the future with a high social return. However, as seen through the experience of capital development, investment in the region has been low, and competition for public funds is always strong. In this regard, the focus for promoting markets should be on better regulation and improving technical capacity, through relatively low-cost measures that can improve private sector growth substantially.

Determining policies specific to the African experience, tailored to the observations in this issue of *Africa's Pulse*, and that are specific to Sub-Saharan Africa encapsulates the idea of place-specific policies. Policies that are specific to the region will require careful attention to the lack of structural transformation, with high population growth and a persistently high rural population, accompanied by low firm growth, low capacity for ensuring competitive markets, and a lack of trade complexity.

Investing in people

Increased investments in people are needed to enhance productivity and ensure a prosperous future for the region. The economic benefits of the demographic boost in the working age population are conditional on having a well-trained and healthy workforce, and childhood education is more effective in the lower ends of the income distribution.

In an economic environment of tightening fiscal policy, improving the cost-effectiveness of education spending is critical for the sustained human capital improvements needed to meet the opportunities from the demographic transition. Interventions that improve learning in school in low- and middle-income countries are more cost-effective than interventions that increase school attendance alone.¹³⁶ Multifaceted interventions have been shown to be effective, while interventions that only support inputs (for example, laptops and textbooks, or even interventions just targeting class sizes) alone are among the less cost-effective. Finally, information campaigns on the benefits, costs, and quality of education, as well as health interventions, such as deworming, malaria, and sanitation interventions, have also

¹³⁶ Angrist et al. (2020).

been shown to be cost-effective. Interventions that target teachers through training are more costly in absolute terms than health and information interventions, thus resulting in an order of magnitude difference in learning outcomes. However, all are cost-effective, that is, delivering a relatively high return per dollar. From the point of view of learning, cash transfers are among the least cost-effective, as they only target participation. Cash transfers may of course be cost-effective in increasing household consumption or other direct outcomes that they target but should not be a priority of education policy.

Vocational education can be useful for addressing the underemployed and those who have missed education as children. Selecting technical and vocational students based on aptitude and motivation promises to improve completion rates and labor market outcomes. Yet, potential exclusion underscores the need for addressing access barriers, especially for women. Enhancing participation involves expanding outreach and using financial incentives. Moreover, occupational gender segregation, often stemming from women's choice of lower-paying fields, requires attention.¹³⁷

Early dropping out is also a critical issue that educational interventions aim to prevent, with particularly strong success with female-focused programs. Many children are not in training or any productive activity when they drop out of school. Improving the human capital and educational prospects of girls paves the way for improved employment opportunities among women. Whether conditional or unconditional, cash transfers have proven effective in increasing girls' school enrollment and attendance and have also been shown to be a promising intervention for curbing pregnancies among out-of-school girls and in-school girls. Enhancing access to free education through removing school fees or providing scholarships has proven to be effective in raising female educational attainment and reducing dropout rates in Sub-Saharan Africa. In Uganda, a free primary education program resulted in an increase of nearly one year of education for girls, with positive impacts across all grade levels through the end of secondary school. Similarly, in Benin, waiving public junior high school fees led to increased enrollment and reduced dropout rates for girls. The provision of free school uniforms or sanitary pads has been found to reduce school dropout rates and absenteeism.¹³⁸

Health interventions that can improve both child and adult health are also among the most cost-effective interventions for improving human capital for productive livelihoods.¹³⁹ Cost-effective interventions targeted specifically to improve child health include childhood immunizations and institutional deliveries in a safe environment. Cost-effective interventions to reduce child stunting include addressing undernutrition and micronutrient deficiencies in children during the first 1,000 days after conception, that is, interventions that target both infants as well as expectant mothers.¹⁴⁰ Cost-effective interventions that can directly improve the human capital outcomes of adults include interventions against malaria, ultimately aiming at eradicating it in Sub-Saharan Africa as has been done elsewhere, as well as interventions to target tuberculosis. Finally, addressing chronic diseases such as cancer and heart disease, which are becoming increasingly important in developing countries, can also be cost-effective.

¹³⁷ Levin et al. (2023).

¹³⁸ Costa et al. (2023); Malhotra and Elnakib (2021); Bergstrom and Ozler (2021).

¹³⁹ Copenhagen Consensus (2023). Of the "doable dozen," a set of cost-effective interventions to reach the Sustainable Development Goals, as many as six are in health. These are childhood immunization, maternal and newborn health, tuberculosis, nutrition (of children and expectant mothers), chronic diseases, and malaria.

¹⁴⁰ Larsen, Hoddinott, and Razvi (2023).

Promoting markets to stimulate production

Private sector reforms do not need to be expensive. Regulatory improvements and more strategic enforcement can lead to significant benefits without significant costs. Making tax enforcement more even across firm sizes can both reduce the effective distortion to firm growth and expand the tax base, while regulatory alignment with neighboring countries around sanitary measures and product quality can ease cross-border trade in the region. Moreover, while infrastructure can be expensive, better regulation of existing infrastructure can yield significant improvements in usage and economic viability for future investments. Finally, active promotion of private sector growth, through engagement with small businesses and encouragement to enter specific markets, can improve the competitive landscape of the local economy. However, while these initiatives may be relatively cost-effective, they may require political priority: issues such as tariff reform for utilities and regulatory alignment can be tricky subjects to negotiate, while promoting market competition and changing tax enforcement can challenge vested interests.

The regulatory environment needs to facilitate firm entry, competition, and growth. Given the distribution of firm size focused on owner-operators and micro firms, size-dependent policies may have significant limitations in the region. Size-dependent policies can have severe limiting effects on economic growth and productivity as they implicitly subsidize the least productive firms and tax the most productive ones.¹⁴¹ Although differentiated tax rates and regulatory thresholds in licensing can create threshold effects for hiring beyond specific numbers of employees, other distortions can include higher enforcement as firms increase in size.¹⁴² Indonesia has experienced positive results from creating a separate tax office for large firms, with smaller firms receiving special treatment in which enforcement is more evenly distributed across different sized firms.¹⁴³

Infrastructure costs and poor quality represent a significant barrier to entry for many potential firms. Network services like telecommunications, energy, and transport, which are characterized by natural monopolies and network effects (in some market segments), and markets that depend on the existence of scarce resources (for example, forests, fish banks, and tourist attractions) are susceptible to generating dominant players, which—if not properly regulated—are then able to abuse their dominance and prevent entry of other players. In some cases, rules to combat abuse of dominance can address these issues ex post, while ex ante regulation can protect consumers and ensure proper provision of services. However, private sector solutions for infrastructure can attract capital and lead to strong growth opportunities, especially in digital infrastructure.

Promoting competitive behavior goes beyond enforcement of competition policies. African countries need a more comprehensive policy to integrate competition principles into sectoral and economywide regulation. In addition to more effective competition law enforcement, attention should be focused on reforming private sector regulations that reinforce dominance, facilitate collusion, or favor certain players. More effective implementation demands a strategy

141 Bachas et al. (2019).

142 Asatryan and Peichl (2017); Brockmeyer and Hernandez (2016).

143 Basri et al. (2021).

to prioritize actions that are more impactful and can create a culture of competition, in addition to more financial and human resources for competition agencies. In addition to preventing and sanctioning anticompetitive practices, competition authorities provide great value as advocates for regulation that ensures entry to markets, including for new and smaller players, thereby creating job opportunities, as well as integrating the analysis of effects on competition and markets as part of privatization design, public procurement tender design, and sectoral regulation to boost private investment. Market intelligence to detect and prevent collusive behavior and effective anticartel enforcement can be particularly effective to ensure access to key production inputs and better selling conditions for outputs.

Similarly, active promotion of market access can counteract social barriers. Encouraging women entrepreneurs to enter profitable male-dominated sectors advances gender equality. Policies and programs should encourage spousal support, facilitate connections to mentors and role models, and offer early exposure to and training in male-dominated sectors. Evidence from Sub-Saharan Africa shows that women perform worst when their husbands ignore their entrepreneurial efforts. This evidence suggests that engaging men and fostering cooperation between spouses is critical. A gender transformation and joint training intervention in Côte d'Ivoire showed that male export crop farmers who filled out a two-year action plan with their wives shared more agricultural decisions and enabled women to manage more cash crop tasks.¹⁴⁴ Educating people about profitable industries, strengthening networks, and providing more funding options help to overcome challenges and support women's growth.¹⁴⁵ Along the same line, enhancing women's socioemotional, cognitive, and technical skills and access to information on male-dominated sectors is crucial for their crossover.¹⁴⁶

Finally, effective implementation of the AfCFTA has the potential to stimulate trade-driven growth through shifting trade patterns toward less resource-oriented exports. However, the track record for implementing trade agreements in the region is not strong, and significant regulatory inconsistencies and NTBs remain. In addition, trade facilitation should include expansion of technical capacity and institutional controls over government agencies responsible for monitoring and managing cross-border trade. Trade facilitation is especially important for supporting regional value chains, which can have disproportionate impacts on job creation and stability. Expansion of agricultural value chains around high-value products, such as fresh fruits and vegetables, is a source of substantial potential, with intervention to support both horizontal and vertical value chain integration exhibiting strong income improvements for smallholder farmers.¹⁴⁷ Significantly, aligning regulation around sanitation measures to allow for uniform adoption of best practices could ease intraregional trade, especially in the growing agri-business industry. Furthermore, expansion of technical capacity around border crossings can be effective for monitoring and managing cross-border trade. The use of automated monitoring technology at border points and online declarations can facilitate monitoring and data collection, while allowing for expedited processing for regular traders.

144 World Bank (2022a).

145 Alibhai et al. (2017).

146 World Bank (2022a).

147 Bellemare and Bloem (2018).

Appendix: Country Classifications

TABLE A.1: Western and Central Africa Country Classification

Resource-rich countries		Non-resource-rich countries	
Oil	Metals & minerals		
Chad	Guinea	Benin	Gambia, The
Equatorial Guinea	Liberia	Burkina Faso	Ghana
Gabon	Mauritania	Cabo Verde	Guinea-Bissau
Nigeria	Niger	Cameroon	Mali
Republic of Congo	Sierra Leone	Central African Republic	Senegal
		Côte d'Ivoire	Togo

Note: Since July 2020, for operational purposes, the World Bank Africa Region has been split into two subregions—Western and Central Africa and Eastern and Southern Africa. The analysis in this report reflects this setup. Resource-rich countries are those with rents from natural resources (excluding forests) that exceed 10 percent of gross domestic product.

TABLE A.2: Eastern and Southern Africa Country Classification

Resource-rich countries		Non-resource-rich countries	
Oil	Metals & minerals		
Angola	Botswana	Burundi	Mozambique
South Sudan	Democratic Republic of Congo	Comoros	Rwanda
	Namibia	Eritrea	São Tomé and Príncipe
	South Africa	Eswatini	Seychelles
	Zambia	Ethiopia	Somalia
		Kenya	Sudan
		Lesotho	Tanzania
		Madagascar	Uganda
		Malawi	Zimbabwe
		Mauritius	

Note: Since July 2020, for operational purposes, the World Bank Africa Region has been split into two subregions—Western and Central Africa and Eastern and Southern Africa. The analysis in this report reflects this setup. Resource-rich countries are those with rents from natural resources (excluding forests) that exceed 10 percent of gross domestic product.

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