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AFRICA'S PULSE

AN ANALYSIS OF ISSUES SHAPING AFRICA'S ECONOMIC FUTURE



TACKLING INEQUALITY TO REVITALIZE GROWTH AND REDUCE POVERTY IN AFRICA

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Executive Summary

GROWTH IS SET TO BOUNCE BACK IN SUB-SAHARAN AFRICA, BUT THE RECOVERY IS STILL FRAGILE

- ▶ After bottoming out at 2.6 percent in 2023, economic growth in Sub-Saharan Africa is expected to reach 3.4 percent in 2024 and 3.8 percent in 2025. The recovery is primarily driven by greater private consumption growth as declining inflation boosts the purchasing power of household incomes. Investment growth will be subdued as interest rates are likely to remain high while fiscal consolidation constrains government consumption growth. The contribution of the global economy to Africa's growth will remain modest. Expectations of monetary policy rate cuts in large global economies may stimulate investment growth in 2025.

Lower inflation is supporting the economic rebound in the region

- ▶ Inflation is cooling in most Sub-Saharan African economies but remains high. The median inflation in the region is projected to fall from 7.1 percent in 2023 to 5.1 percent in 2024 and 5 percent in 2025–26. The normalization of global supply chains, steady decline of commodity prices, and impacts of monetary tightening and fiscal consolidation are contributing to a lower rate of inflation in the region.
- ▶ Although inflation is receding in most countries in 2024, it remains high compared to pre-pandemic levels: inflation is projected to decrease in about 80 percent of African countries compared with 2023, but it is still higher than pre-pandemic levels in 32 of 37 countries. Moreover, 14 countries in the region still exhibit persistently high levels of inflation (two or more digits) this year—with a median inflation rate that has dropped modestly from 25.9 percent in 2023 to 24.8 percent in 2024.
- ▶ This mixed picture requires different monetary policy responses. A pause in monetary policy tightening might be warranted in countries with declining inflation that are close to or within the target range, while a combination of monetary tightening and fiscal consolidation will be essential for those countries with elevated inflation. Fiscal prudence is particularly recommended to avoid a resurgence of inflation in the many Sub-Saharan African countries that are holding elections this year.

The contribution of global drivers of growth remains subdued and uncertain

- ▶ The global engine of growth is slowly reactivating. In the second half of 2023, global activity remained resilient as stronger private and government spending sustained aggregate demand despite tight financial conditions. Greater labor force participation, the normalization of supply chains, and falling energy and commodity prices contributed to global economic activity amid uncertainties arising from geopolitical tensions and geoeconomic fragmentation. Still, headwinds to growth in advanced economies lie ahead this year. Global policy rates remain elevated, leading to tight credit markets—which could dampen private investment. Moreover, continued growth of household consumption may be restricted by a gradual depletion of the stock of excess savings that accrued during the COVID-19 pandemic. In China, subdued consumer sentiment, the risk of entrenched deflation, and persistent strains in the property sector limit the prospects for a return to the growth levels of the early 2010s.

Fiscal balances are improving but at a moderate pace

- ▶ Fiscal balances continue to improve, thanks to the fiscal consolidation measures underway in several Sub-Saharan African countries (for instance, Ghana, Kenya, and Nigeria). Debt restructuring negotiations provide an additional incentive for prudent fiscal management in Ghana and Zambia. The median fiscal deficit in the region is projected to decline modestly from 3.8 percent of gross domestic product (GDP) in 2023 to 3.5 percent of GDP in 2024. Although the fiscal balance is expected to improve in most countries in the region (31 of 46), their deficits still remain large: the median fiscal deficit of these 31 countries is projected to narrow from 4.8 percent of GDP in 2023 to 3.8 percent of GDP in 2024. Furthermore, the number of countries with large deficits (exceeding 3 percent of GDP) has dropped modestly, from a peak of 34 in 2022 to 27 in 2024. The vulnerability of African governments' fiscal positions to global shocks remains a challenge. Transformative policy actions to build fiscal buffers are essential to prevent and/or cope with future shocks.

Growing debt service obligations are creating liquidity problems and crowding out development spending

- ▶ Public debt in Sub-Saharan Africa is expected to decline from 61 percent of GDP in 2023 to 57 percent of GDP in 2024. However, the risk of debt distress remains high. More than half of the African governments grapple with external liquidity problems, face unsustainable debt burdens, or are actively seeking to restructure or reprofile their debts. Public debt service obligations have surged as governments in the region are exposed to market financing and non-Paris Club government loans. External borrowing is more expensive than it was prior to the pandemic despite sovereign spreads gradually declining from their peak in May 2023. For instance, the coupon of the new Eurobond issued by Kenya this February is 9.75 percent, compared to the 6.875 percent of the Eurobond maturing in 2024.

Growth headwinds are compounded by escalating conflict and violence

- ▶ Increased conflict and violence in the region will continue to weigh on economic activity. Although confined to small economies so far, military coups and the risk of coup contagion significantly impact international investor sentiment and the perception of risk toward the entire region. Tensions in West Africa have escalated with the decisions of Burkina Faso, Mali, and Niger to leave the Economic Community of West African States and Senegal's decision to delay elections. In Sudan, the resolution of the conflict between the Sudanese Armed Forces and the Rapid Support Forces through mediation may prove difficult. In Ethiopia, security remains uncertain as bouts of violence continue in the Amhara and Oromia regions.
- ▶ Persistent conflict and organized violence may disrupt production and access to food staples in several countries (Burkina Faso, Mali, Niger, and Somalia, among others). Food security problems are amplified by climatic shocks—as frequent droughts and floods are lashing Eastern and Southern Africa (Ethiopia, Kenya, Mozambique, Somalia, and Zambia). Disruptions of rainfall patterns, along with the black pod disease, are threatening cocoa production and the livelihoods of farmers in Côte d'Ivoire and Ghana. Moreover, factors like soil degradation, pests, and market fluctuations exacerbate the difficulties faced by agricultural communities. With an estimated 105 million people in the region potentially experiencing severe food insecurity as of March 2024, urgent and comprehensive agricultural interventions and support are imperative.

Renewed urgency around revitalizing growth is critical

- ▶ The pace of economic expansion in the region remains slow and insufficient to have a significant effect on poverty reduction. Growth per capita in Sub-Saharan Africa is set to accelerate from a modest 0.1 percent in 2023 to 0.9 percent in 2024 and 1.3 percent in 2025. However, the projected boost in economic activity remains well below the long-term growth rate. Indeed, the region has remained stuck in a low-growth trap over the past decade: if the region's growth rate maintained the pace of 2000–14 over 2015–26, real output per capita would be about one-third higher than its level at current growth rates.

TACKLING STRUCTURAL INEQUALITY TO REVITALIZE GROWTH AND ACCELERATE POVERTY REDUCTION

- ▶ Most countries in the region have been unable to sustain growth over the long term. Over the past six decades, the evolution of real GDP per capita can be characterized by long-term swings. Moreover, growth is volatile and unstable compared to that in advanced economies and other developing countries—particularly non-African upper-middle-income countries. This variability is especially troublesome when measured against the region's low average growth rate. Overall, countries in the region are unable to sustain longer expansions. In fact, Sub-Saharan Africa has shorter and weaker expansions relative to the rest of the world. Existing evidence suggests that the more egalitarian societies tend to sustain growth for a longer period of time.
- ▶ Economic growth reduces poverty in Sub-Saharan Africa less than in other regions, as measured by the growth elasticity of poverty. Per capita GDP growth of 1 percent is associated with poverty reduction of only 1 percent in the region, compared to 2.5 percent in the rest of the world. The low growth elasticity of poverty prevails even after controlling for initial differences in poverty, income levels, and inequality. Meanwhile, the limited poverty reduction in Sub-Saharan Africa since 2000 has been driven primarily by growth as opposed to distributional changes in income, making the limited impact of growth on poverty reduction especially concerning.
- ▶ High inequality in the region is largely structural and not simply the result of differences in individual talents or effort. Structural differences lead to accumulating disparities at three distinct stages. First, these disparities arise when people build their productive capacities, including in access to schooling and other basic services (the *pre-market* stage). Second, when people engage in productive activities, poorly functioning markets, distortions, and frictions can systematically limit certain groups' access to productive income-generating opportunities (the *in-market* stage). This limits market competition, increases the misallocation of resources, and undermines structural transformation and firm growth. Third, disparities can be exacerbated or redressed through taxes, social transfers, and subsidies (the *post-market* stage). Importantly, these stages are interconnected, with spillovers occurring from one stage to the other. For example, inequality in access to quality education will be compounded by labor market distortions or lack of competition, which could then be exacerbated by regressive taxes.
- ▶ Access to basic services remains highly unequal despite significant improvements in coverage over recent decades. Critically, inequality in access to services is heavily influenced by the circumstances into which a child is born, suggesting that structural inequalities are prevalent early in the pre-market stage. On average, a child's location accounts for around half of the structural inequality at the pre-market stage, especially in resource rich countries. Such pre-market structural inequalities are strong drivers of limited intergenerational mobility.

- ▶ Market imperfections and institutional distortions have the power to limit productivity and earnings. Firms and farms face pervasive credit constraints, with only about one in 10 firms with fewer than 19 workers relying on bank financing. Instead, most own-account workers and household enterprises rely on their own resources, resources from family and friends, or informal sources to start up their businesses. Similarly, access to product markets is constrained, which prevents firms and farms from scaling up their production. In particular, the lack of connectivity and market integration means that markets are segmented, allowing firms or farms with market power to capture benefits, contributing to income inequality. For instance, trade costs, including costs of transportation, are four to five times higher in Ethiopia and Nigeria than in the United States. Finally, frictions in the labor market prevent workers from accessing productive opportunities.
- ▶ Although taxes, transfers, and subsidies reduce inequality, they may not reduce poverty. The combined effect of taxes, transfers, and subsidies leads to a greater reduction in inequality in Sub-Saharan Africa than in non-African countries with comparable levels of income. However, the level of inequality after this fiscal effort is still higher than the pre-fiscal level of inequality in other regions. The poor often pay more in taxes than they receive in benefits, even if taxes are higher for the rich. Taxation policy tends to increase poverty rates in most African countries for which fiscal incidence analysis is available. Poorly targeted subsidies and limited social assistance do not compensate poor African households for the indirect taxes they pay, even after accounting for the fact that low-income households largely purchase goods in informal markets.

POLICY RESPONSES

Domestic resource mobilization and support from the international community can play a role in alleviating the region's funding squeeze

- ▶ The ability of African countries to finance their development and reprofile their debt is constrained by limited access to costlier external funding. Amid high levels of external debt repayments, as a result of high debt levels and elevated borrowing costs, some countries in the region may face temporary external liquidity pressures in 2024 and 2025. Increased domestic resource mobilization is critical to win back the country's policy space, channeling resources toward pro-growth public spending and addressing debt rollover risks. Strengthening tax administration, broadening the tax base, and improving the efficiency of public spending are essential. The international community can also play a role by providing more concessional financing to facilitate the implementation of structural reforms and supporting external debt management.

Tackling structural inequalities to foster growth and poverty reduction

- ▶ Structural inequalities in Sub-Saharan Africa require multisectoral actions—particularly policies to create a level playing field and enhance the productive capacity of the disadvantaged. Investments in human capital (foundational learning and nutrition) and strengthened local capacity for service delivery to underserved populations and regions can build people’s capacity to seize market opportunities. Removing size-dependent distortions, improving justice service delivery, and boosting market access can support fairer and more thriving marketplaces. Implementing regional trade agreements, such as the African Continental Free Trade Area, and investing in more efficient and affordable transportation corridors present a unique opportunity to expand markets.
- ▶ Domestic revenue mobilization efforts can also be designed to protect the poor—through taxation of high-net-worth individuals via income and property taxes. Taxation of land and property can provide effective mechanisms to support local governments in the region. Digital technologies can help to broaden the coverage of property taxes. This would require digital record keeping that maximizes interoperability, facilitates updating of records, and allows regulatory oversight; transparency through public access to registry data; and integrated workflows to support record updating and tax enforcement. Eliminating value-added tax exemptions and reforming utilities (that is, addressing energy subsidies and reviewing water tariffs), which largely benefit high-income households, could also yield revenue—although they might be accompanied by mitigating measures to minimize the impact on the poor.
- ▶ Overall, the special focus of this issue of *Africa’s Pulse* suggests that fiscal policy alone is insufficient to revitalize growth and accelerate poverty reduction. Policies to build assets and use them efficiently are critical for fostering inclusive growth.

Section 1. Recent Developments and Outlook

1.1 GROWTH OUTLOOK IN SUB-SAHARAN AFRICA

Economic growth in Sub-Saharan Africa is expected to rebound to 3.4 percent in 2024 and 3.8 percent in 2025, after bottoming out at 2.6 percent in 2023. The rebound from 2023 can be attributed to receding inflationary pressures in the region, growth resilience in the United States and other large economies, recovery in global trade, as well as increased risk appetite and expected gradual easing of global financial conditions—particularly in the second half of this year.

In per capita terms, growth in the region is set to accelerate to 0.9 percent in 2024 and 1.3 percent in 2025—from a modest 0.1 percent in 2023. However, the projected growth in the region is still slower than what was registered in 2000–14 (2.4 percent per year). Regional forecasts suggest that Sub-Saharan Africa’s real output per capita will fail to grow over 2015–26 (figure 1.1). This would mark *a decade of futility* in economic performance. If the region’s growth rate maintained the pace of 2000–14 over 2015–26, real output per capita should be about one-third higher than its level at current growth rates (figure 1.2).

This issue of *Africa’s Pulse* suggests that the post-COVID-19 growth recovery in Sub-Saharan Africa remains fragile, and there is renewed urgency to revitalize economic growth. While some progress has been made, Africa still needs to overcome significant challenges regarding low and unstable growth, high levels of extreme poverty and inequality, and difficulty translating growth into poverty reduction. Policymakers must find ways to foster inclusive growth that is both longer and stronger while avoiding economic downturns. Structural inequalities are at the root of the weak transmission of growth, making it difficult to reduce poverty and achieve sustained growth in the region. Addressing the drivers of structural inequalities requires policy frameworks that account for interlinkages, complementarities, and trade-offs across three phases of the income generation process—building people’s productive capacities, addressing

FIGURE 1.1: Growth per Capita in Sub-Saharan Africa, 2015–2026f

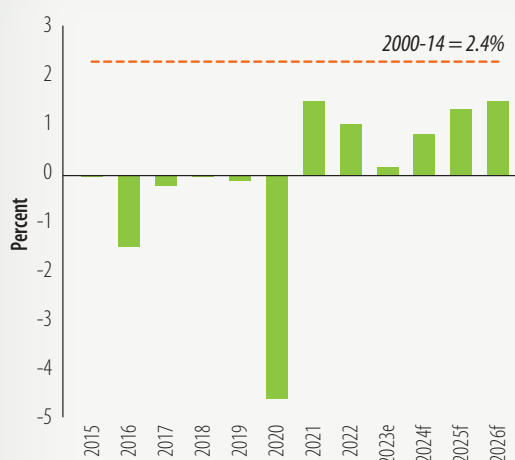
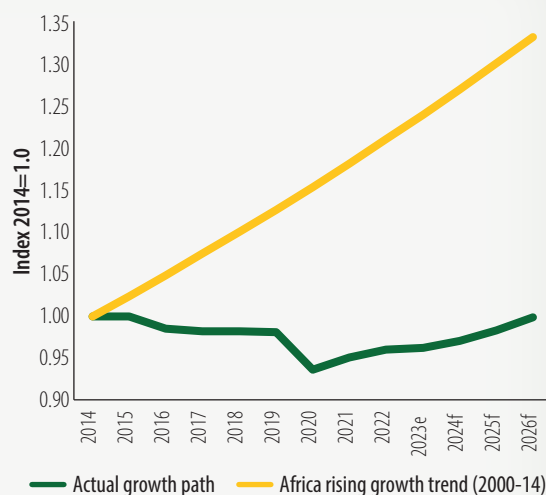


FIGURE 1.2: Real GDP per Capita in Sub-Saharan Africa under Different Scenarios



Source: World Bank staff projections.

Note: The actual growth path is the actual, estimated, and forecast growth rates over 2015–26. e = estimate; f = forecast; GDP = gross domestic product.

market and institutional distortions that limit people’s ability to use and benefit from those productive capacities, and ensuring fiscal progressivity. Section 3 of this issue provides a series of policy recommendations for tackling these structural inequalities, drawing on a forthcoming regional report.¹

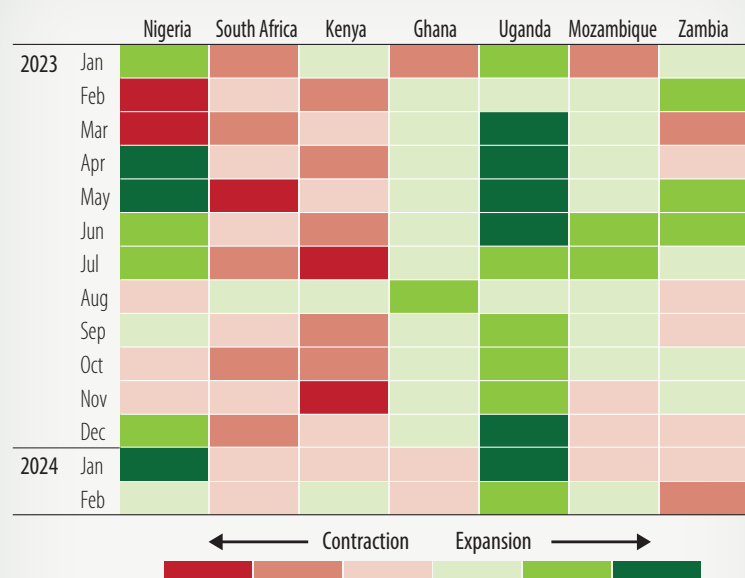
Economic growth in Sub-Saharan Africa bottomed out in 2023...

Growth in Sub-Saharan Africa slowed to 2.6 percent in 2023, down from 3.6 percent in 2022. More than half of the countries in the region experienced a decline in their gross domestic product (GDP) growth rate in 2023. The deceleration of growth was partly attributed to slower growth of consumption and investment. Elevated inflation rates, primarily driven by higher food and energy prices as well as weaker currencies, reduced the purchasing power of Sub-Saharan African households and, therefore, led to a growth slowdown of private consumption in the past year. Tighter (global and domestic) financial conditions, as a result of contractionary monetary policies aiming to dampen inflation, increased the cost of financing and reduced the availability of credit—thus holding back gross fixed investments. Country-specific challenges in the larger economies in the region also contributed to the slowdown, including energy outages and inadequate transportation logistics in South Africa, as well as lower prices and below quota production of oil in Nigeria and Angola.

... and it is set to rebound in 2024 and 2025, but the recovery remains fragile

High-frequency indicators show that aggregate activity has expanded in the largest countries in the region during the early months of 2024 (figure 1.3). In South Africa, the seasonally adjusted

FIGURE 1.3: Purchasing Managers’ Index in Sub-Saharan African Countries



Sources: Haver Analytics; Bloomberg.

Note: The figure plots the evolution of the S&P Global 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).

Absa Purchasing Managers’ Index (PMI) increased from 43.6 in January to 51.7 in February—thus recording the strongest expansion in factory activity since early 2023. Taking the PMIs of the first two months of the year together signals a subdued start to 2024, with expectations of an uptick in growth over the rest of the year as some of the constraints to economic activity ease. In Nigeria, the PMI fell from 54.5 in January to 51.1 in February—indicating some buoyancy in the private sector.² Inflationary pressures

1 Sinha, Inchauste, and Narayan (forthcoming).

2 The February 2024 PMI is still higher than the average in 2023.

pushed input and output costs in the private sector. In turn, output and new orders slowed significantly.

Growth in Sub-Saharan Africa is expected to accelerate to 3.4 percent in 2024 and further to an average rate of 3.9 percent in 2025–26. Surprising upside growth among large, advanced economies at the start of the year—particularly the United States—and a recovery in global trade and the gradual easing of financial conditions expected late this year partly explain the recovery in economic activity in Sub-Saharan Africa. Inflation cooling and policy commitment toward restoring macroeconomic stability will help to improve investor sentiment.

From the expenditure side, the recovery of private consumption

explains the bulk of the rebound in economic activity this year. As inflation recedes and the purchasing power of household incomes climbs back, private consumption growth is expected to accelerate by as many percentage points as overall activity. The contribution of investment remains subdued in 2024 as interest rates remain high. Expectations of a cut in monetary policy rates by the second half of the year in large, advanced economies and by late this year or early next year in African economies might explain an uptick in the contribution of investment to growth in 2025. Government consumption is expected to make a modest contribution to economic activity this year as fiscal authorities continue their commitment to restoring the sustainability of public finances (figure 1.4). From the sectoral output perspective, industry and services account for nearly three-quarters of the rebound of economic activity in 2024. As growth further firms in 2025–26, the service sector will account for more than half of the expansion along the forecast horizon, followed by modest contributions from agriculture and industry (figure 1.5).

FIGURE 1.4: Contribution to GDP Growth: Expenditure Approach

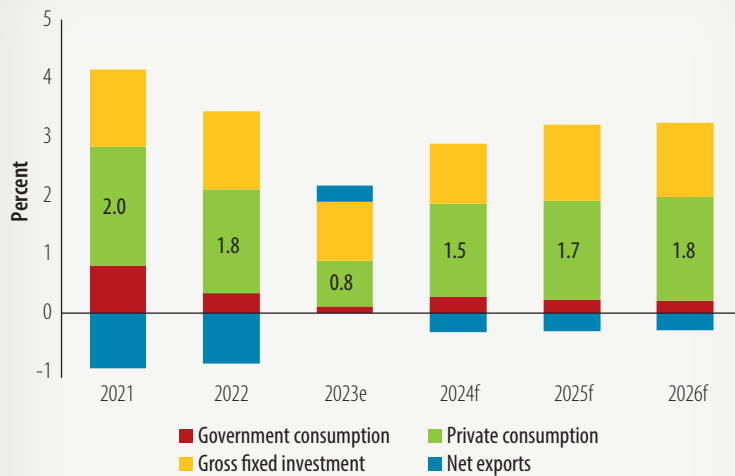
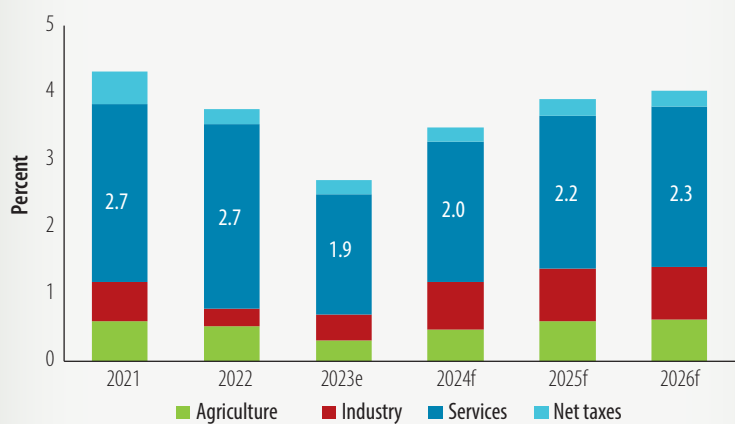


FIGURE 1.5: Contribution to GDP Growth: Sectoral Output Approach



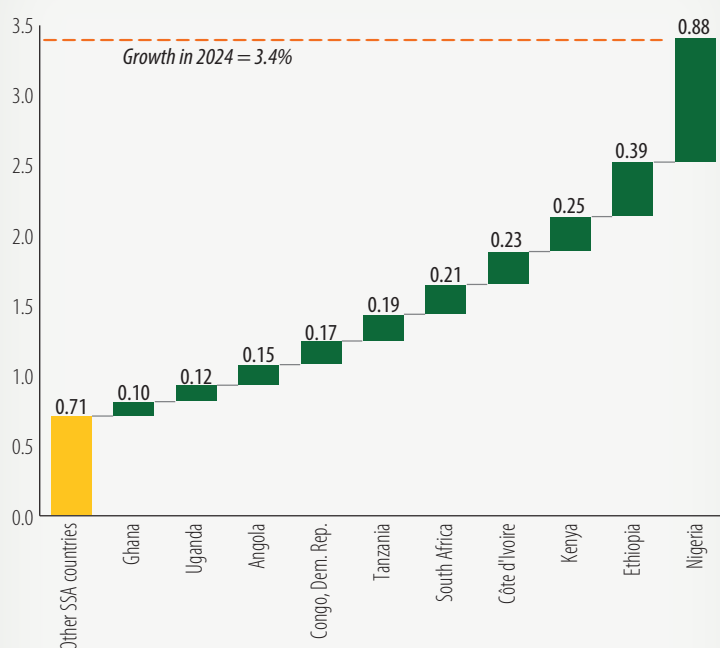
Source: World Bank staff projections (World Bank Macro-Fiscal Model).

Note: Change in inventories and statistical discrepancy are not displayed in figure 1.4. e = estimate; f = forecast; GDP = gross domestic product.

The pace of the recovery is expected to differ across subregions in 2024

Sub-Saharan Africa's rebound in 2024 is driven by large countries in the region recording growth rates that are lower than their performance over the first two decades of this century. In 2024, growth is expected to accelerate in nearly 70 percent of Sub-Saharan African countries (32 countries). However, growth rates are below their average growth in 2000–19 in about half of them (17 countries). The expansion of economic activity in the 10 largest countries in the region explains about 80 percent of the regional growth in 2024. Growth in Côte d'Ivoire, Ethiopia, Kenya, and Nigeria, which comprise about 40 percent of the region's GDP, is projected to account for half of the regional growth this year

FIGURE 1.6: Contribution to Regional GDP Growth by the Largest Economies in the Region (percent)



Source: World Bank staff projections (World Bank Macro-Fiscal Model).

Note: Growth in the region is the weighted average across countries. GDP = gross domestic product; SSA = Sub-Saharan Africa.

to account for half of the regional growth this year (figure 1.6). Among the 10 largest economies in the region, only three are growing at rates that are higher than their long-term average—namely, Côte d'Ivoire, the Democratic Republic of Congo, and Kenya.

In the Eastern and Southern Africa (AFE) subregion, growth of economic activity is expected to accelerate from a trough of 2.2 percent in 2023 to 3.2 percent in 2024 and firm further to 3.6 percent in 2025–26. The growth performance of the AFE subregion is dragged down

by lower-than-average growth in Angola and South Africa. Excluding these two countries, economic activity in the AFE subregion is expected to increase by 4.3 percent in 2024 and 5 percent in 2025–26 (figure 1.7). Within the subregion, the East African Community is projected to grow at the fastest pace (5.3 and 5.8 percent in 2024 and 2025–26, respectively), thanks to robust growth in the Democratic Republic of Congo, Kenya, Rwanda, and Uganda.

Economic activity in South Africa is set to rebound from 0.6 percent in 2023 to 1.2 percent in 2024 and slightly accelerate to 1.4 percent in 2025–26. The gradual easing of structural constraints—in particular, electricity load shedding and logistics problems in freight rail and ports—and easing of cost-of-living pressures on households are contributing to this rebound. In Angola, growth is projected to accelerate from 0.8 percent in 2023 to 2.8 percent in 2024. Economic activity will be driven primarily by the non-oil sector, while oil production is set to decline by 2.5 percent in 2024 due to lack of investments and maturing fields. Inflationary pressures will remain in 2024, although they are expected to cool by the end of the year. Finally,

Kenya is expected to grow by 5 percent in 2024 and 5.2 percent in 2025–26. In the medium term, growth will be supported by increased investment predicated on restored access to international capital markets that will spur investor confidence and capital inflows, as well as more credit to the private sector through reduced domestic government borrowing. Other growth drivers include the recovery in agriculture and tourism as well as deeper regional integration.

Economic activity in the Western and Central Africa (AFW) subregion is set to increase from 3.2 percent in 2023 to 3.7 percent in 2024 and further accelerate to 4.2 percent in 2025–26. The subregion’s performance will be held back by the lower-than-average growth in Nigeria. Excluding this country, the AFW subregion is projected to grow by 4.4 percent in 2024 and 5 percent in 2025–26. Within the subregion, economic activity in the West African Economic and Monetary Union (WAEMU) is projected to increase by 5.9 percent in 2024 and 6.2 percent in 2025 due to the solid performances of Benin, Côte d’Ivoire, Niger, and Senegal (figure 1.8).

Growth in Nigeria is projected at 3.3 percent in 2024 and 3.6 percent in 2025–26 as macroeconomic and fiscal reforms gradually start to yield results. A more stable macroeconomic environment, as the reforms’ initial shock dissipates, will lead to sustained but still slow growth

FIGURE 1.7: Growth Forecasts for the AFE Subregion

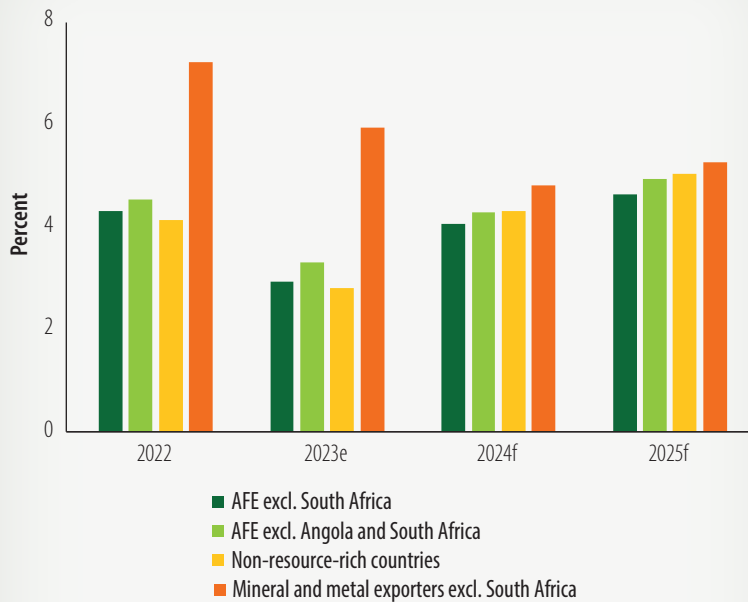
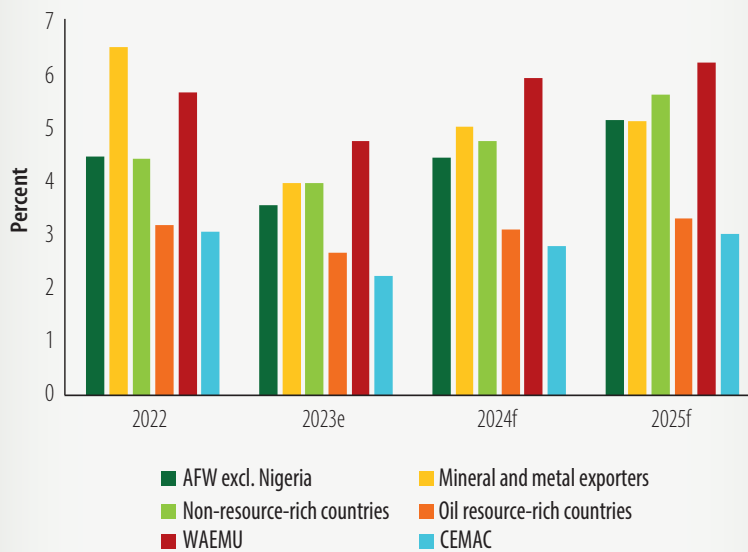


FIGURE 1.8: Growth Forecasts for the AFW Subregion



Source: World Bank staff projections (World Bank Macro-Fiscal Model).

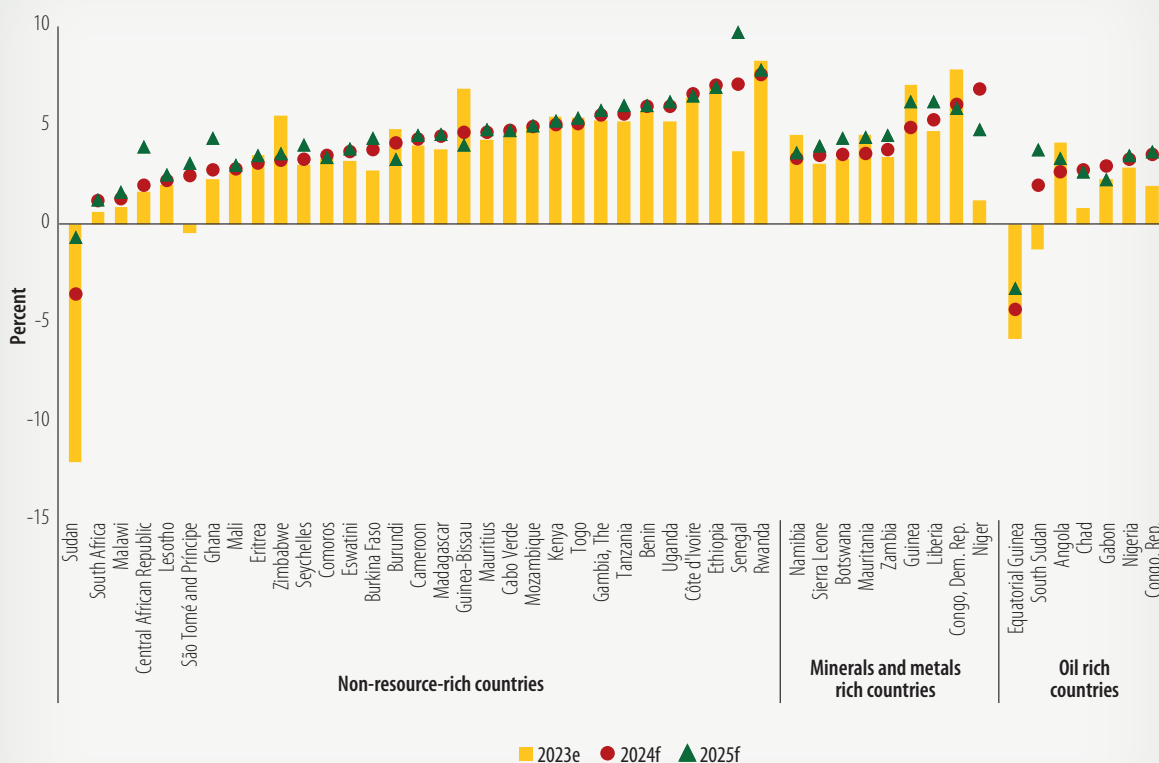
Note: AFE = Eastern and Southern Africa; AFW = Western and Central Africa; CEMAC = Economic and Monetary Community of Central Africa; e = estimate; f = forecast; WAEMU = West African Economic and Monetary Union.

of the non-oil economy. The oil sector is expected to stabilize with recovery in production and slightly lower prices. Structural reforms will be needed to foster higher growth. Average inflation will remain elevated at 24.8 percent in 2024, although it is expected to ease gradually to 15.1 percent by 2026 on the back of monetary policy tightening and exchange rate stabilization. In Côte d'Ivoire, economic activity is set to grow at 6.6 percent in 2024 and to stay firm at 6.5 percent in 2025–26. A more accommodative monetary policy by the Central Bank of West African States will support private consumption. In line with the development of the offshore Baleine oilfield, rising oil production and exports are expected to boost economic activity. Finally, investments in agriculture, manufacturing, and telecommunications are expected to increase as a result of reforms in the business environment.

More diversified economies in the region are projected to grow faster

There is wide heterogeneity in growth performance across the region: 32 of 47 countries in Sub-Saharan Africa are expected to experience a growth acceleration in 2024—with eight of these 32 countries posting a rate of growth greater than 5 percent this year (figure 1.9). The countries with the fastest rebound in 2024 include Niger (5.7 percentage points), Senegal (3.4 percentage points), São Tomé and Príncipe (2.9 percentage points), Angola (1.9 percentage points), and the Republic of Congo (1.6 percentage points). At the other end, 15 countries are expected to record a growth slowdown in 2024, with the sharpest decelerations in Guinea (2.2 percentage points), Zimbabwe (2.2 percentage points), Mauritius (2.2 percentage points), and the Democratic Republic of Congo (1.8 percentage points).

FIGURE 1.9: Growth across Sub-Saharan African Countries, 2023–25



Source: World Bank staff projections (World Bank Macro-Fiscal Model).

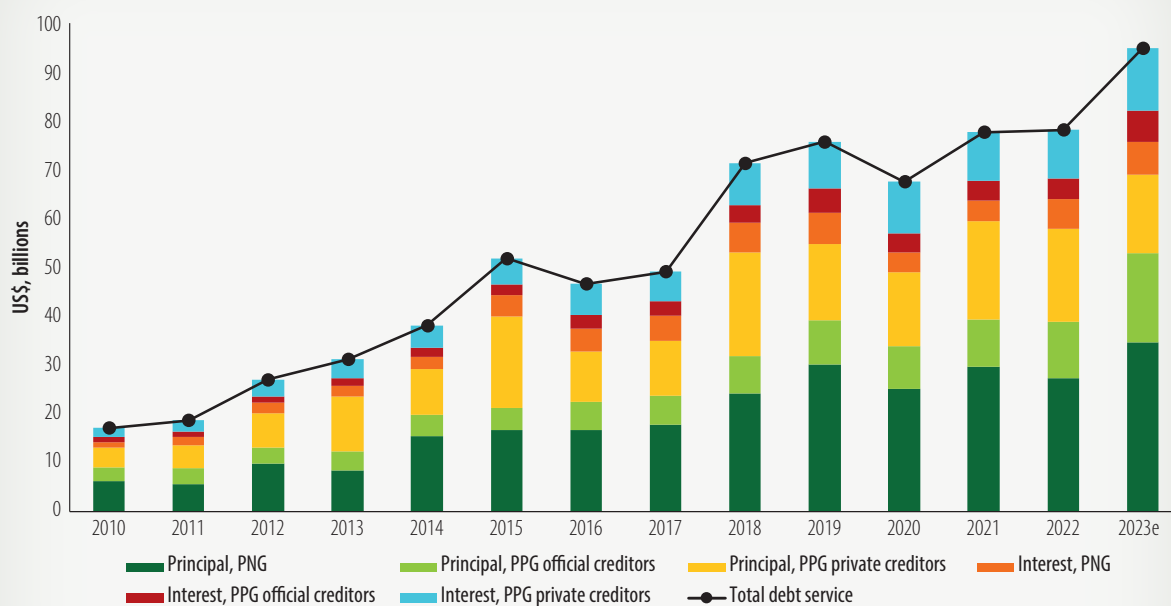
Note: e = estimate; f = forecast.

Furthermore, the growth divergence between non-resource abundant and resource abundant countries will continue increasing along the forecast horizon. For both groups of countries, growth will rebound in 2024 and continue to accelerate in 2025–26. Declining international commodity prices from their 2022 peaks are expected to weigh on exports for resource abundant countries. Still, this group of countries will grow from 2.2 percent in 2023 to 2.8 percent in 2024 as hydrocarbon projects resume or come online in Niger and Senegal and mining production kicks off in the Democratic Republic of Congo, Mali, and Sierra Leone. Growth in non-resource abundant countries is supported by gross fixed investment and private consumption, and these countries are expected to grow from 2.4 percent in 2023 to 3.4 percent in 2024, and further increase to 4 percent in 2025–26.

Limited access to external funds is crimping Sub-Saharan African countries' ability to finance their development

Many low-income and lower-middle-income countries in Sub-Saharan Africa have accumulated debt burdens—as reflected by their high levels of public debt and increased debt service. During the past decade, public debt increased rapidly, and the composition of public and publicly guaranteed (PPG) external debt shifted from bilateral creditors to private creditors and non-Paris Club governments.³ Consequently, the larger share of debt owed to private creditors and non-Paris Club governments has not only complicated debt restructuring negotiations, but also raised the debt service burden. High policy rates in advanced economies have recently further increased interest payments on debts. For instance, figure 1.10 illustrates the shift in the composition of debt service from official to private creditors. Interest payments owed by governments to private

FIGURE 1.10: External Debt Service in Sub-Saharan Africa, by Creditor



Source: International Debt Statistics, World Bank.

Note: e = estimate; GDP = gross domestic product; PNG = private nonguaranteed; PPG = public and publicly guaranteed.

3 See figure 1.28 in this issue and *Africa's Pulse*, No. 19 (World Bank 2019).

creditors account for almost 65 to 70 percent of total PPG external debt interest payments. The share of governments' principal repayments to private creditors also increased, from about 60 percent in 2010 to a peak of 80 percent in 2015, and then declined to 62 percent in 2022. The sharp rise in public debt service—and, particularly, servicing the costlier debt burden owed to private creditors—may raise the risk of external liquidity shortages in the region.

Shortages of liquidity have become an urgent issue in Sub-Saharan African countries with high levels of external debt repayments. Easing liquidity pressures will also reduce default risk—although some of these countries have already been facing a solvency problem.⁴

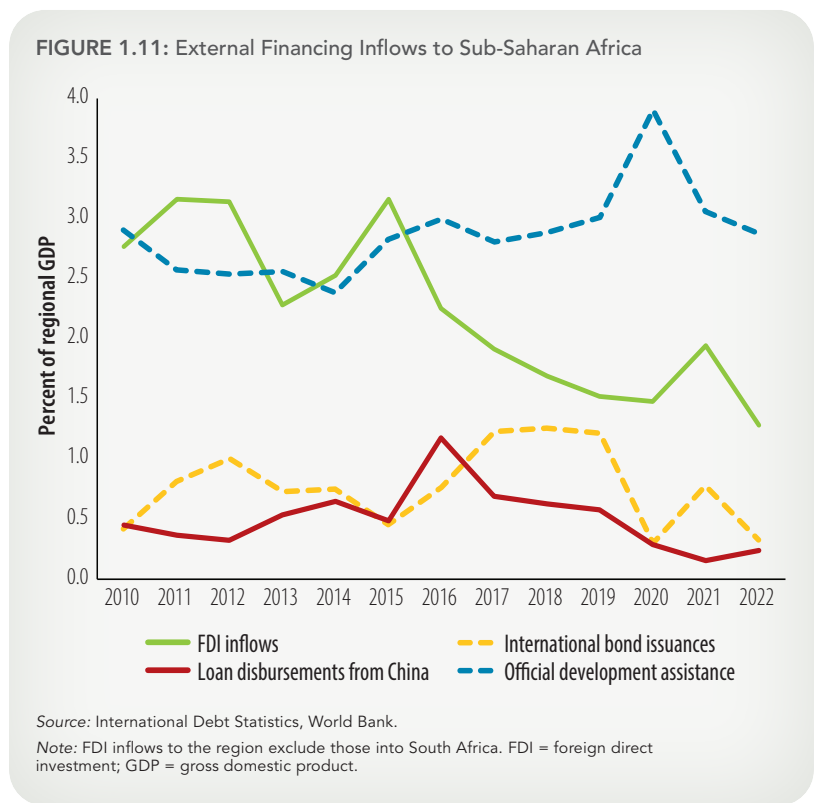


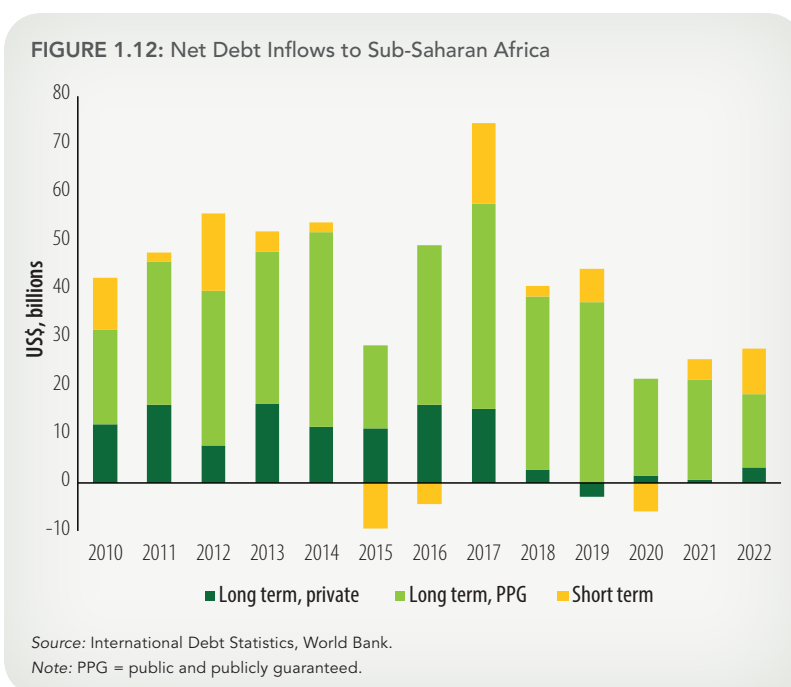
Figure 1.11 depicts the significant reduction in external financing inflows to region. For instance, financing flows such as foreign direct investment inflows, international bond issuances, and loan disbursements from China have decreased since 2015–16, while official development assistance has remained relatively steady over time. External liquidity shortages in the region can also be proxied by the evolution of net debt inflows to Sub-Saharan Africa (figure 1.12). Negative short-term debt inflows were experienced in 2015,

2016, and 2020, and similarly for long-term private debt inflows in 2019. Long-term private net debt inflows have dramatically declined since 2018, thus signaling that amortization (loan principal payments) for long-term private debts increased at a higher pace than disbursements. Consequently, some countries (Benin, Côte d'Ivoire, and Kenya) have returned to the international capital market to buy back and refinance Eurobonds and commercial loans falling due.⁵ For instance, Côte d'Ivoire placed US\$2.6 billion in Eurobonds in January 2024, which represents the first issuance for any Sub-Saharan African country since April 2022. The issuance consisted of US\$1.1 billion in nine-year bonds at 7.875 percent, and US\$1.5 billion in 13-year bonds at 8.5 percent. In February, Benin raised US\$750 million in 14-year bonds at 8.375 percent, and Kenya made a US\$1.5 billion issuance at a higher yield and coupon rate (10.375 and 9.75 percent, respectively).

⁴ Chad, Ethiopia, Ghana, and Zambia have already requested debt restructuring under the Common Framework.

⁵ Benin's decision to access external markets was also driven by the tightening of financial conditions in the West African Economic and Monetary Union regional financial market and other factors, including foreign reserves management.

External debt restructuring is still in progress under the Common Framework in Ethiopia, Ghana, and Zambia. The presence of multiple creditors—particularly private creditors and non-Paris Club governments—makes debt restructuring negotiations complex. For instance, Chad and Ghana have relatively lower exposure to loans from China. The share of PPG external debt owed to China accounted for 7 percent in Ghana and 11 percent in Chad in 2022.



The lower exposure to multiple creditors has enabled these countries to reach or be close to reaching agreements.⁶ In January 2024, the Official Creditor Committee (OCC) reached an agreement in principle with the Government of Ghana on the terms of the treatment of official bilateral debt.⁷ Debt restructuring negotiations allowed the International Monetary Fund to conclude financing programs and the World Bank to provide large positive net flows at highly concessional or grant terms. In contrast, Zambia and Ethiopia have greater exposure to China. The share of PPG external debt owed to China amounts to 36 percent in Zambia and 25 percent in Ethiopia. These high shares pose challenges for debt restructuring. For instance, the OCC requested Zambia to provide comparability of treatment among bondholders and other private creditors. Ethiopia’s agreement is delayed due to the policy mix of reforms.

6 Only Chad has so far reached an agreement with its main creditors (bilateral and the largest private one) in November 2022.

7 In 2023, Ghana also concluded a domestic debt exchange that achieved 95 percent participation and critically helped reduce refinancing needs.

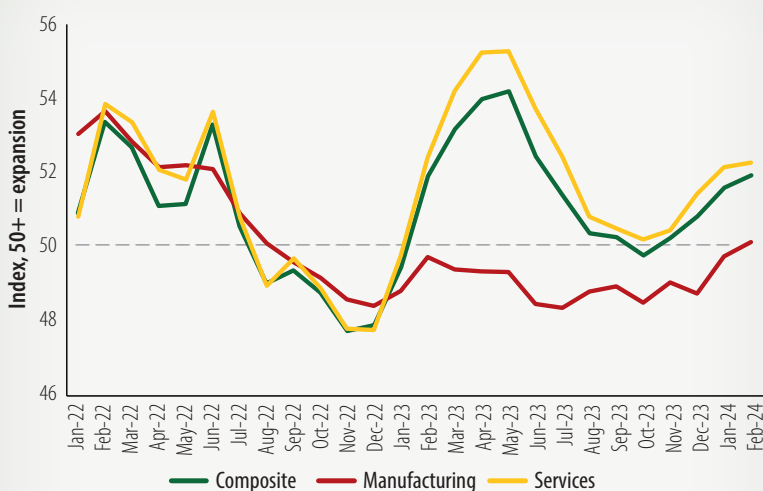
1.2 THE GLOBAL ENVIRONMENT

Modest growth in major economies and improving conditions in emerging markets

Global economic growth is expected to slow to 2.4 percent in 2024—the third consecutive year of deceleration—reflecting the lagged and ongoing effects of tight monetary policies to rein in decades-high inflation, restrictive credit conditions, and anemic global trade and investment. Near-term prospects are diverging, with subdued growth in major economies alongside improving conditions in some emerging markets and developing economies (EMDEs).

Growth in advanced economies is forecast to slow from 1.5 percent in 2023 to 1.2 percent in 2024, as domestic demand decelerates—particularly private consumption, due to a gradual depletion of the stock of excess savings. Investment growth should remain subdued as sustained high real interest rates and restrictive credit conditions dampen business investment. Most of the projected slowdown in growth in advanced economies in 2024 is due to a deceleration in the United States.

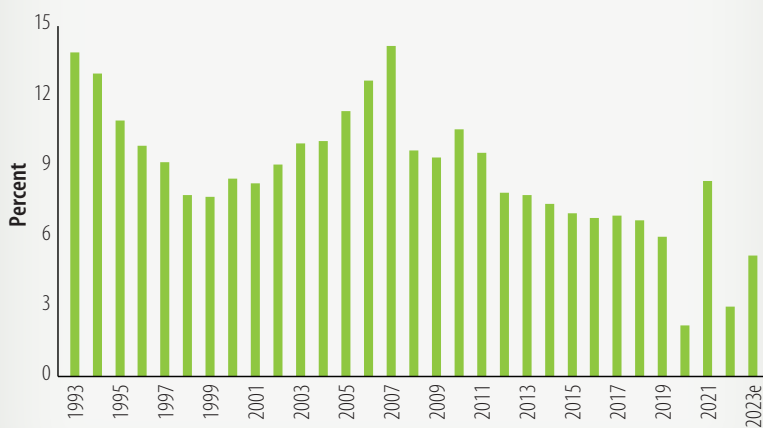
FIGURE 1.13: Global Purchasing Managers' Index



This deceleration follows stronger-than-expected US growth in 2023 that supported global economic activity (figure 1.13).

In EMDEs excluding China, growth is projected to increase from 3.2 percent in 2023 to 3.5 percent in 2024. This pickup reflects steady improvements in projected trade growth and expectations for solid domestic demand growth in several large economies as inflation continues to recede and interest rates decline. China's growth is forecast to slow from 5.2 percent in 2023 to 4.5 percent in 2024—the slowest expansion in over three decades outside the pandemic-affected years of 2020 and 2022 (figure 1.14). Subdued sentiment is expected to weigh on consumption in an environment where deflation is becoming entrenched.

FIGURE 1.14: Economic Growth in China



Source: Haver Analytics.

Note: Figure 1.14 shows year-on-year growth of real gross domestic product.

Persistent strains in the property sector will hold back investment. Soft construction starts in late 2023 signal further weakness in property activity as developers grapple with stressed balance sheets and lackluster demand. Although central government support should help to boost infrastructure spending, local governments have limited fiscal space for policy support.

Global trade growth is projected to pick up to 2.3 percent in 2024, from an estimated 0.2 percent in 2023, partly reflecting a recovery of demand for goods and, more broadly, advanced economy trade. This reflects a partial normalization of trade patterns following exceptional weakness last year. Goods trade is envisaged to start expanding again, while the contribution of services to total trade growth is expected to decrease. Although these shifts indicate movement closer to the trade composition patterns observed before the pandemic, the responsiveness of global trade to global output is expected to remain lower in the near term than it was before the pandemic, reflecting subdued investment growth.

Inflation remains above target in most advanced economies and many inflation-targeting emerging markets and developing economies (EMDEs). Global inflation is expected to retreat further in 2024 but stay above its 2015–19 levels (figure 1.15). Although monetary tightening in advanced economies is concluding, real policy interest rates are expected to remain elevated for some time as inflation returns to target rates only gradually. This will keep the stance of advanced economy monetary policies restrictive in the near term. Long-term yields on advanced economy government bonds were volatile in 2023, reflecting shifting expectations about the path of future interest rates and sizable movements in term premia. Although yields have retreated from their late October 2023 peaks, they remain high at levels last seen before the global financial crisis (figure 1.16). Monetary tightening’s drag on growth is expected to peak in 2024 in most major economies, assuming an orderly evolution of broader financial conditions.⁸

FIGURE 1.15: Global Inflation

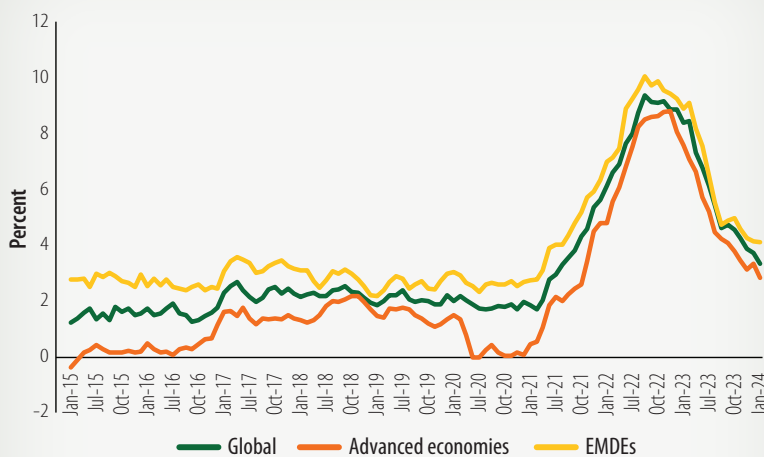
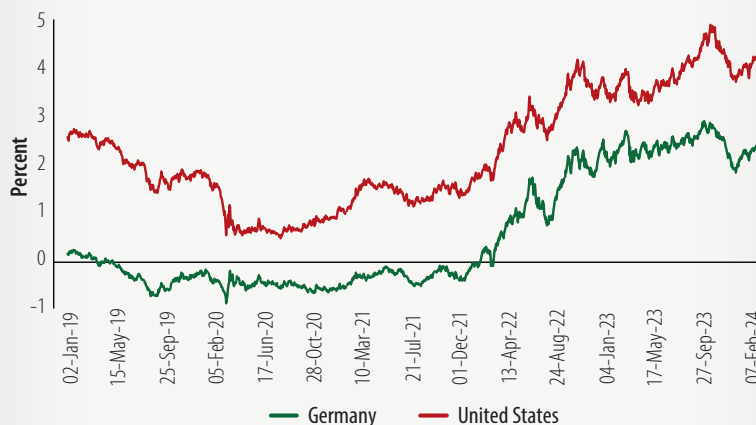


FIGURE 1.16: 10-Year Treasury Bond Yields



Sources: Haver Analytics; World Bank.

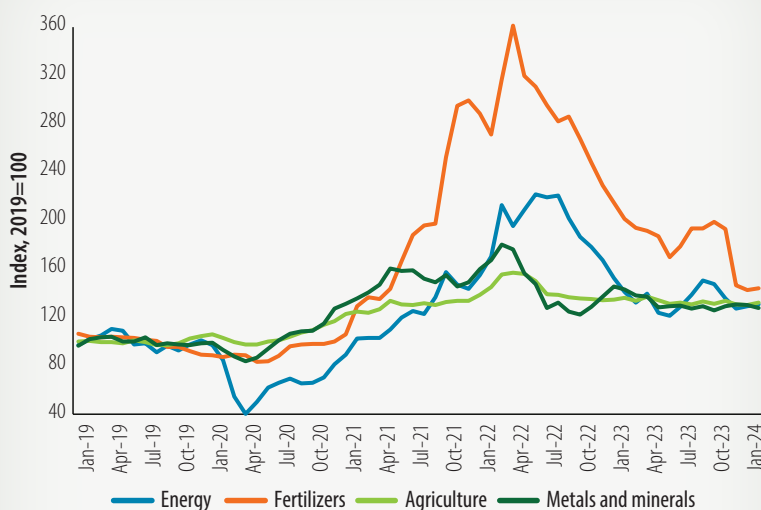
Note: Figure 1.15 shows the median for up to 135 economies in total (up to 35 AEs and 100 EMDEs). Figure 1.16 shows the mid yield in percent per year. The last observation is March 19, 2024. EMDEs = emerging markets and developing economies.

⁸ So far, headwinds to growth from elevated interest rates have been offset, to some degree,

Commodity prices are declining significantly from 2022 peaks but remain at relatively high levels

International commodity prices have continued to decline from their peaks in April/June 2022—as global supply chains have normalized. This has been particularly the case for energy, fertilizers, and food. The largest fall has been for fertilizers, with prices dropping almost 60 percent from their peaks in April 2022 to February 2024 (figure 1.17). Food prices have fallen by about 5 percent since October—and nearly 24 percent from the highs in May 2022. Energy prices dropped by 12 percent between October 2023 and February 2024. A deceleration in China, amid higher supplies from non–Organization of the Petroleum Exporting Countries Plus (OPEC+) countries (Brazil, Canada, Guyana, and the United States), exerted downward pressure on oil prices. Trade disruptions in the Red Sea and the broader geopolitical uncertainty related

FIGURE 1.17: World Bank Commodity Price Indexes



Sources: Bloomberg; World Bank; International Coffee Organization; International Cocoa Organization; International Tea Committee.

Note: Data is as of February 2024.

to the war in the Middle East, the ongoing voluntary cuts by OPEC+ members led by Saudi Arabia and the Russian Federation, weather-related production disruptions in the United States, and the Chinese economic stimulus led to an oil price uptick of 2.7 percent in the first two months of 2024.

Agricultural prices have been broadly stable, although their behaviors have differed across agricultural products. Price increases for cocoa (53 percent between October

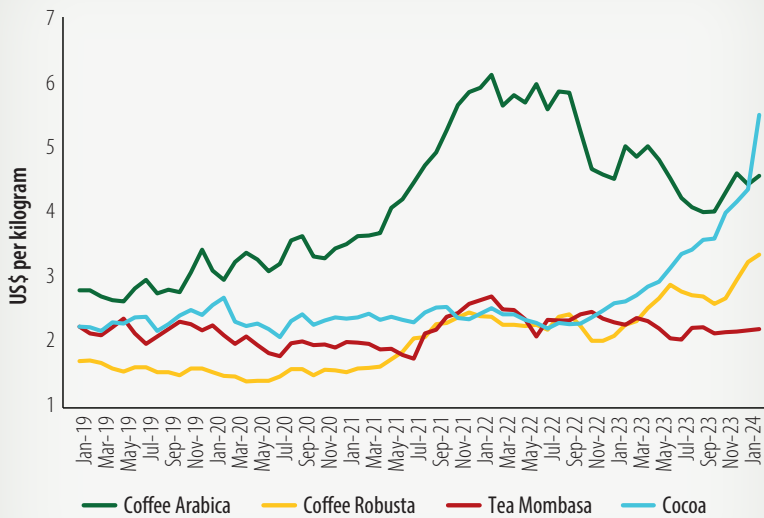
2023 and February 2024) as well as Robusta and Arabica coffee (29 and 14 percent, respectively) drove prices higher for beverages (figure 1.18). Adverse weather and black pod disease in major cocoa-growing regions in West Africa contributed to reduced cocoa supply and higher prices. Robusta coffee prices reached their highest level since 1995, supported by a poor Indonesian harvest and delays in Viet Nam’s harvest. Food prices continue their declining trend of 2023—as wheat, maize, and soybean prices declined to their lowest levels in two years as new crops arrived from the Southern Hemisphere. Rice remains the exception as El Niño–related production shortfalls and India’s ongoing restrictions increased prices.

by households and firms spending from their savings buffers, resilient risk appetite, and extended maturities on stocks of low-cost debt, as well as by expansionary fiscal policy in some cases, most notably the United States.

Metal and mineral prices have remained fairly stable, with a modest gain of 2 percent between October 2023 and February 2024 (figure 1.17). Price increases for iron ore and copper (5 percent) were partly offset by an 11 percent decline in the price of nickel. Iron ore prices rose due to multi-year low inventory levels in China as mills have been cautious about restocking amid the struggling property sector.⁹ The surge in nickel supplies from Indonesia resulted in

declining prices. Indonesian nickel production grew more than two and half times in three years as the country successfully attracted foreign investors to local nickel smelting after the permanent ban it put on nickel ore exports in 2020. Precious metal prices increased by 5 percent between October and February (particularly gold prices), reflecting geopolitical tensions and elevated global interest rates that motivate the use of precious metals as safe havens.

FIGURE 1.18: Average Monthly Prices of Cocoa, Coffee, and Tea



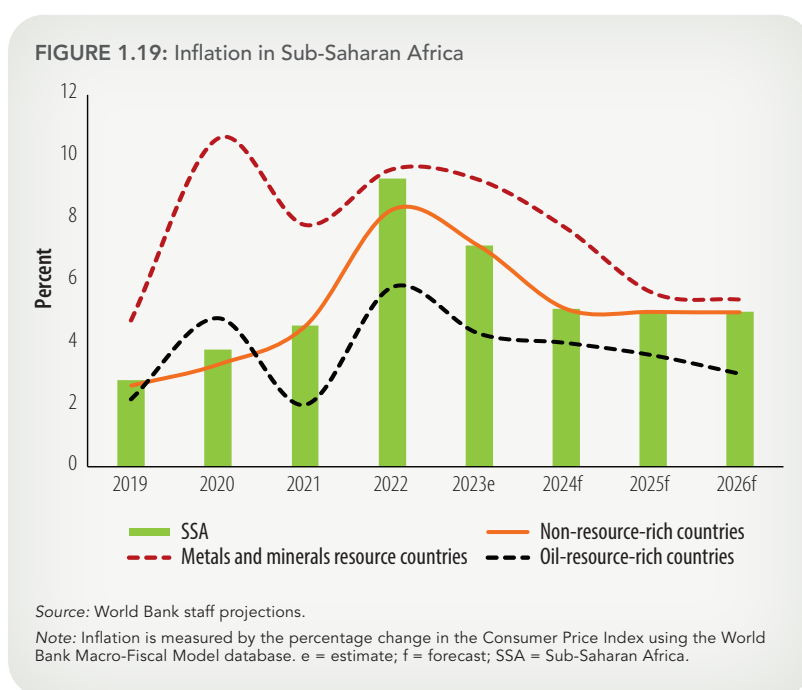
Sources: Bloomberg; World Bank; International Coffee Organization; International Cocoa Organization; International Tea Committee.

⁹ China accounts for 70 percent of the global demand for iron ore, and the property sector accounts for 40 percent of the country's demand for the metal.

1.3 MACROECONOMIC PERFORMANCE OF SUB-SAHARAN AFRICA

Inflation is cooling in Sub-Saharan Africa but remains elevated

The median rate of inflation in the region is expected to drop from 7.1 percent in 2023 to 5.1 percent in 2024 and 5 percent in 2025–26. The lower inflation in Sub-Saharan Africa could be attributed to the normalization of global supply chains, the steady decline in commodity prices, and the effects of monetary tightening and fiscal consolidation across countries in the region. Disinflation efforts are expected to continue although at differing paces across countries. There is risk of a slight acceleration of inflation among countries holding elections this year. However, the deceleration of inflation is broad-based: the pace of inflation reduction among



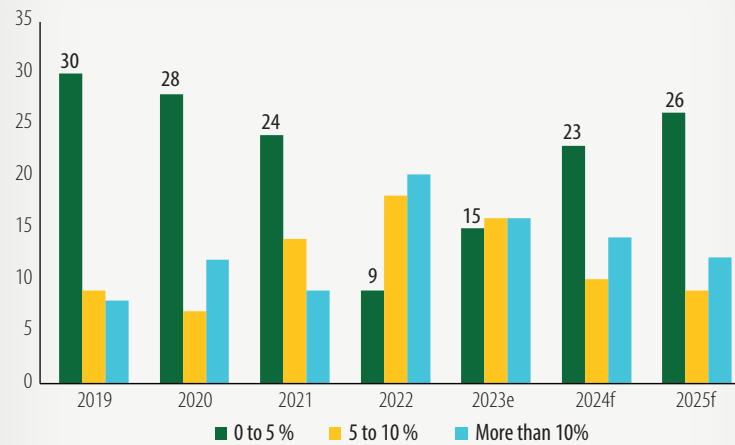
non-resource abundant countries is similar to that of the region as a whole. Inflation among metal exporting countries is expected to drop from 9.3 percent in 2023 to 7.7 percent in 2024, while that of oil exporting countries will decrease slightly from 4.3 percent in 2023 to 4 percent in 2024 (figure 1.19).

Inflation is cooling in most Sub-Saharan African countries but remains high. About 90 percent of the countries in the region (42 of 47) are projected to have

lower inflation in 2024 (relative to the previous year); however, the rate of inflation is expected to be lower than the pre-pandemic period for only seven countries. Additionally, a group of countries in the region still exhibit persistently high rates of inflation (above target) and, in some cases, these rates have not yet peaked—although this group is gradually becoming smaller. The number of countries with a two-digit (or more) average annual rate of inflation is set to decline to 13 this year (down from a peak of 19 countries in 2022). For those 13 countries, the median inflation rate has dropped modestly from 27 percent in 2023 to 22.5 percent in 2024. Still, a larger share of countries is converging toward lower rates of inflation. For instance, the number of countries with annual inflation lower than 5 percent is projected to increase from a trough of nine in 2022 to 23 countries in 2024 (figure 1.20).

Food inflation and the weakening of domestic currencies are still major drivers of inflation across countries in the region. By February 2024, about one-third of the Sub-Saharan African countries with monthly available food price information (14 of 40 countries) had double-digit year-on-year rates of food inflation, with the fastest increases experienced in Ethiopia, Malawi, Nigeria, Sierra Leone, and Zimbabwe (figure 1.21).

FIGURE 1.20: Distribution of SSA Countries, by Inflation Rates (number of countries)

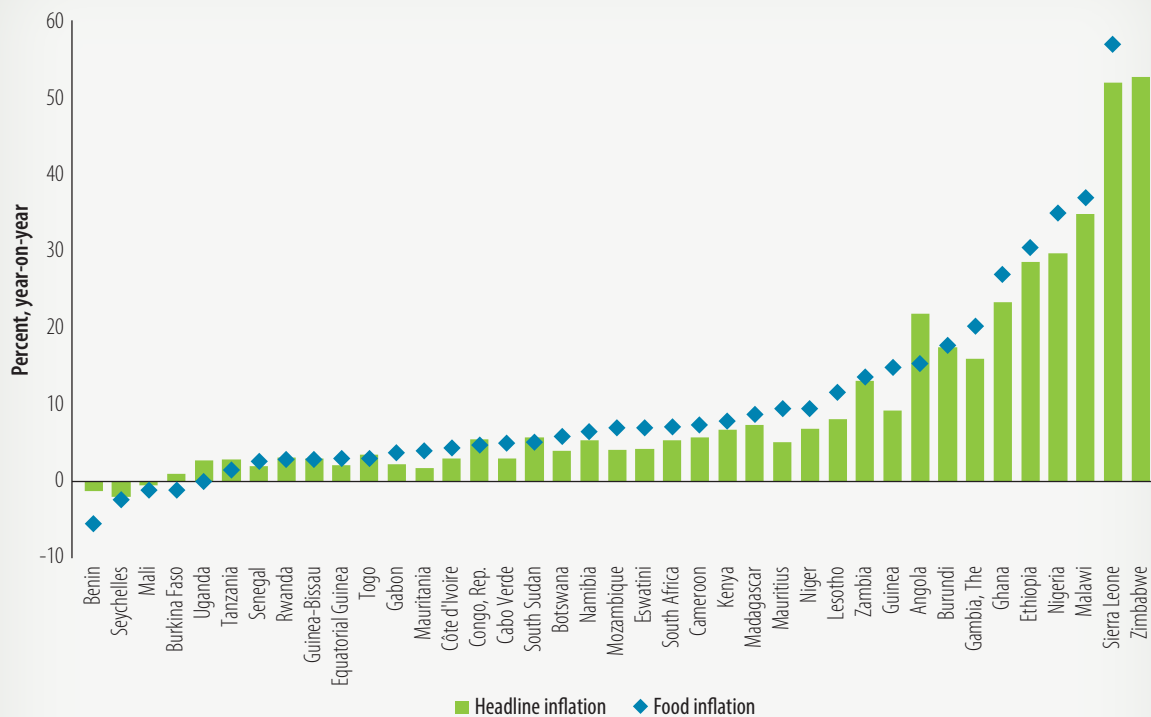


Source: World Bank staff projections.

Note: The figure depicts the country distribution across different ranges of inflation: between 0 and 5 percent, between 5 and 10 percent, and more than 10 percent. e = estimate; f = forecast; SSA = Sub-Saharan Africa.

International food prices have experienced a protracted decline from their peak in March 2022—although they are nearly 25 percent above their 2015–19 pre-pandemic average. By February 2024, the Food and Agriculture Organization’s food price index dropped by about 11

FIGURE 1.21: Headline and Food Inflation across Sub-Saharan African Countries, February 2024



Source: Haver Analytics, Bloomberg.

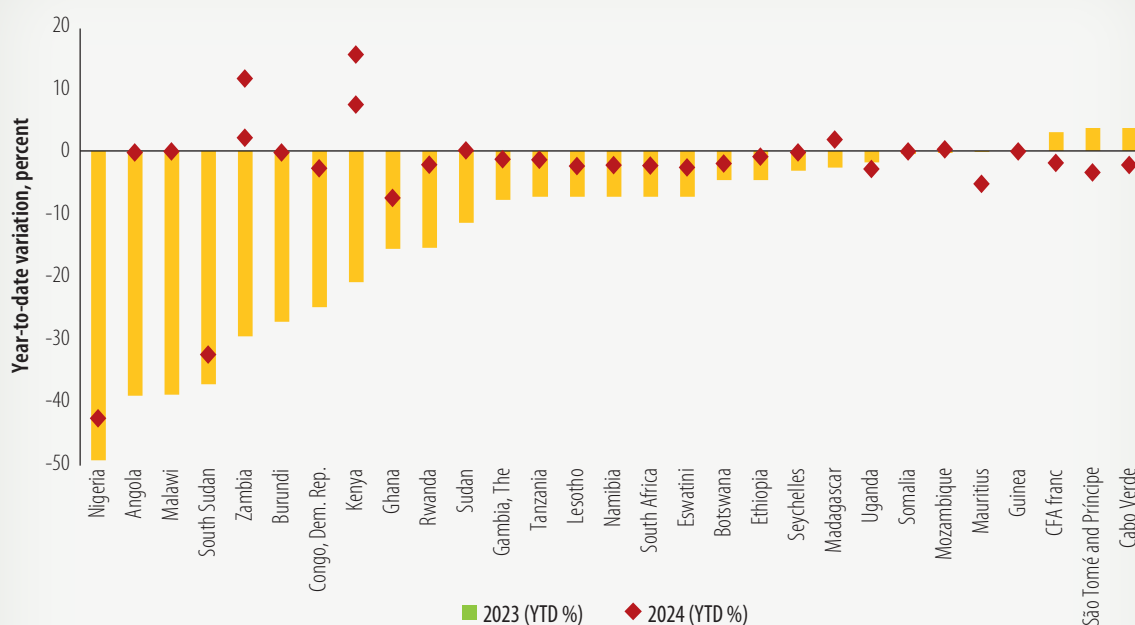
Note: This figure depicts the year-on-year headline inflation (bars) and food inflation (diamonds) in January 2024. Zimbabwe's year-on-year food inflation accelerated to 84.4 percent in February 2024.

percent year-on-year—thus registering its 15th consecutive month of year-on-year decline. Lower international food prices were mainly driven by declines in the prices of cereals (22 percent year-on-year in February 2024) and dairy products (13 percent). Domestic food inflation has also been on the retreat across countries, although at a slower pace than international food prices. For instance, the number of countries with two-digit food inflation (or more) declined from 30 in February 2023 to 14 in February 2024. For those 14 countries, the (median) food inflation remained stubbornly high—although it declined from 27.8 percent in 2023 to 21.7 percent in 2024.

Adverse weather events disrupting food supplies (for instance, floods in East Africa, droughts in Southern Africa, as well as hot and dry weather in West Africa), the high cost of food imports in local currencies (as a result of exchange rate depreciation), and elevated logistics costs abroad (higher shipping costs) and at home (high cost of transportation and elevated price of fertilizers) still explain the food inflation dynamics in this group of countries. Elevated food prices tend to have a more than proportional effect on the budgets of lower-income households.

Most currencies in Sub-Saharan Africa were weakened in 2023 as a result of tighter (global and domestic) financial conditions and a strong dollar. In 2023, the Nigerian naira, Angolan kwanza, Malawian kwacha, and South Sudanese pound were the worst performing currencies in the region: these currencies posted end-of-year depreciations that ranged from 37.3 percent (South Sudan) to 49.5 percent (Nigeria) in the past year (figure 1.22). The weakening of the naira has followed the progressive liberalization of the official exchange rate since June 2023. In Angola, the decision of the central bank to stop defending the currency amid low oil prices, low oil

FIGURE 1.22: Currencies in Sub-Saharan Africa



Source: Haver Analytics, Bloomberg.

Note: The YTD variation in the exchange rate for 2024 is computed as the cumulative percentage change in the exchange rate (in US\$ per local currency) from December 31, 2023, to March 15, 2024. YTD = year-to-date.

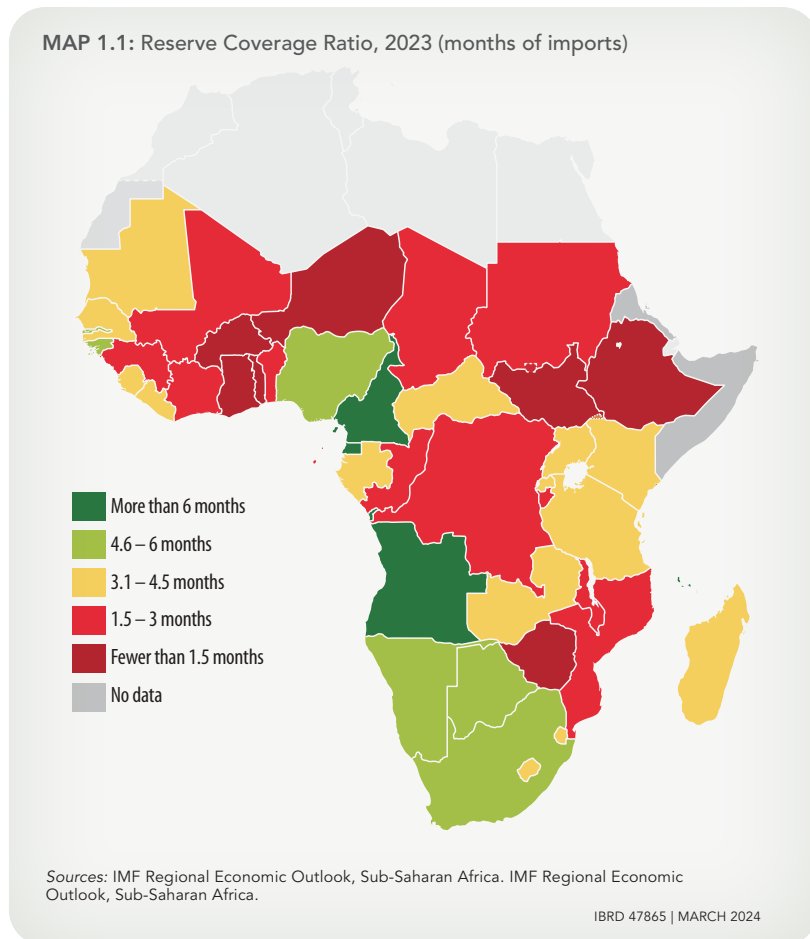
production, and rising debt repayments contributed to the currency depreciation.¹⁰ Finally, the depreciation of currencies in many African countries resulted from acute shortages of foreign exchange. Nearly 40 percent of the countries in the region had less than three months of imports in international reserves by the end of 2023 (map 1.1).¹¹

This year, the Nigerian naira has continued weakening, with a year-to-date depreciation of about 41 percent in the official market as of mid-March. The weakening of the naira resulted from a backlog of accumulated foreign exchange demand on the official market due partly to

limited dollar flows as foreign investments into the country and its crude oil export receipts have declined. In contrast, the Kenyan shilling is the best performing currency in the subcontinent—as it recorded an appreciation of 16 percent so far this year. After strengthening by 14 percent by mid-February, the Zambian kwacha has lost some ground and recorded a year-to-date appreciation of 2.4 percent as of mid-March (figure 1.22).¹² In both cases, the monetary authority hiked interest rates to defend their currencies. The Bank of Zambia additionally raised commercial banks’ reserve ratios. In Kenya, securing funds to repay its Eurobond falling due in June 2024 restored confidence and increased the demand for local currency.

Monetary policy responses may start to differ across African countries

In 2022, more than 80 percent of the countries in the region experienced an acceleration of their rate of inflation—with the (median) rate of inflation in Sub-Saharan Africa rising to 9.3 percent (nearly 5 percentage points higher than in the previous year). Hence, there was a synchronization of monetary policy actions to control inflation from 2022 to mid-2023. Most African central banks increased interest rates at a fast and aggressive pace as inflation surged rapidly—although there were some differences across countries in terms of the pace and magnitude of the interest rate hike.



¹⁰ The decline in oil revenues, which resulted from low international prices compounded by low production, limited the supply of foreign currency.

¹¹ Furthermore, the import coverage ratio in nearly two-thirds of countries in the region decreased from 2019 to 2023.

¹² However, these currencies have not recovered from their losses in 2023 yet.

Cross-country differences in the speed of disinflation have become more pronounced this year as 23 (of 47) countries in the region are expected to experience a deceleration of inflation toward rates below 5 percent, while inflation is projected to fall to rates between 5 and 10 percent in 10 countries. In contrast, the rate of inflation will remain stubbornly high (two-digits or more) among 14 countries in the region. Hence, the monetary policy stance will differ across countries in the region depending on the trajectory of their inflation rates (converging or diverging from target) and whether inflation expectations are well-anchored.

On the one hand, a pause in the monetary policy adjustment cycle is an option for countries with rates of inflation that are declining but still have not converged to their central bank's target. The central bank may want to keep interest rates higher for a longer period until inflation is securely on the path to reaching its target. An earlier-than-expected policy rate cut may fuel an inflationary comeback once the aggregate demand recovers. For instance, as of February 2024, South Africa has kept its monetary policy rate at 8.25 percent since May 2023. Other countries that have kept their policy rates constant for more than seven consecutive months include countries that are pegged to the South African rand (Lesotho and Namibia), the Bank of Central African States, and Mauritius, among others (figure 1.23).

FIGURE 1.23: Central Bank Policy Rates

Country	Current rate (%)	Months on hold	Last change (net)
Angola	19	0	▲ 1
Botswana	2.4	3	▼ -0.25
Eswatini	7.5	7	▼ -0.25
Gambia, The	17	6	▲ 2
Ghana	29	1	▼ -1
Kenya	13	1	▲ 0.5
Lesotho	7.75	9	▲ 0.25
Malawi	26	1	▲ 2
Mauritius	4.5	14	▲ 0.5
Mozambique	16.5	1	▼ -0.75
Namibia	7.75	8	▲ 0.5
Nigeria	22.75	0	▲ 4
Rwanda	7.5	6	▲ 0.5
South Africa	8.25	9	▲ 0.5
Tanzania	5.5	2	-
Uganda	10	0	▼ 0.5
Zambia	12.5	1	▲ 1.5
WAEMU	3.5	2	▲ 0.25
CEMAC	5	11	▲ 0.5

Sources: Central banks; cbrates.com; Office of the Chief Economist of the Africa region, World Bank.
 Note: Information as of March 15, 2024. The value for WAEMU refers to the minimum bid rate set by BCEAO. The value for CEMAC refers to the tender interest rate set by BEAC. BCEAO = Central Bank of West African States; BEAC = Bank of Central African States; CEMAC = Economic and Monetary Community of Central Africa; WAEMU = West African Economic and Monetary Union.

On the other hand, for countries with stubbornly high levels of inflation, the monetary policy stance should remain restrictive—particularly in countries like Ethiopia, Malawi, Nigeria, Sierra Leone, and Zimbabwe, among others. In February, the Reserve Bank of Malawi raised its policy rate by 200 basis points to 26 percent as inflation continued to accelerate. The year-on-year inflation rate in Malawi reached 35 percent in January 2024, up from 25.9 percent in the same month of the previous year.¹³ The Central Bank of Nigeria announced a larger-than-expected increase in its

policy rate of 400 basis points to 22.75 percent as inflation surged to 29.9 percent in January, and the currency lost about 70 percent of its value (as of mid-March 2024) since the start of 2023.

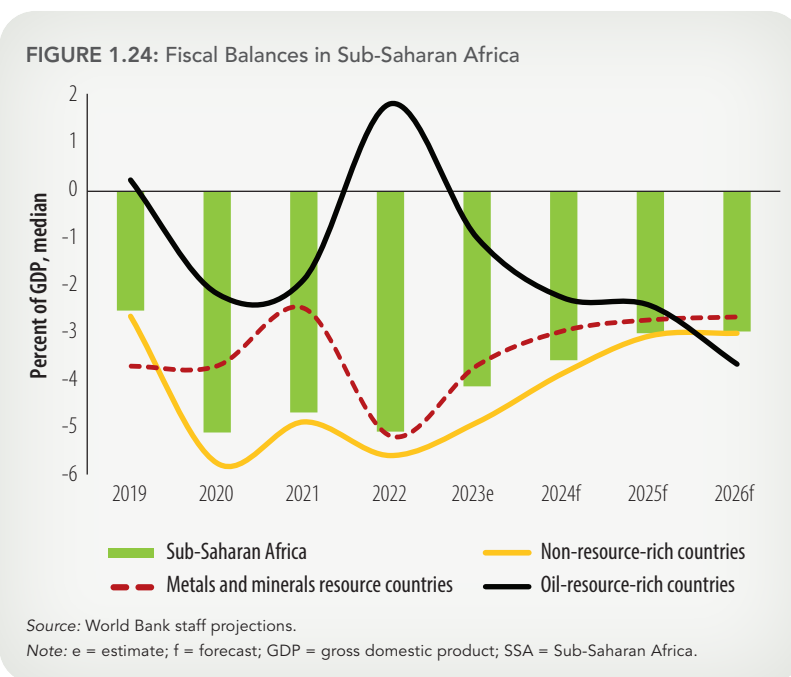
13 In February, year-on-year inflation decelerated to 33.5 percent in Malawi.

In conclusion, securing and maintaining the independence and credibility of central banks across the region are critical in the fight against inflation. The credibility gained by central banks, as reflected in their improved monetary, exchange rate, and financial policy frameworks, is being put to the test. Anchoring inflation expectations against future (local or global) shocks will require the implementation of a credible policy framework. This implies tighter coordination of monetary policy actions with the fiscal authorities to bring down inflation. Monetary adjustment is less likely to be effective if fiscal policies remain expansionary or the presence of foreign exchange distortions widens the parallel premium. Policies that might increase inflation in the short term (for instance, fuel subsidy reforms) need to be accompanied by mitigating measures that support the most affected (lower-income households) and reduce the likelihood of social unrest and conflict.

Fiscal balances are improving but at a sluggish pace

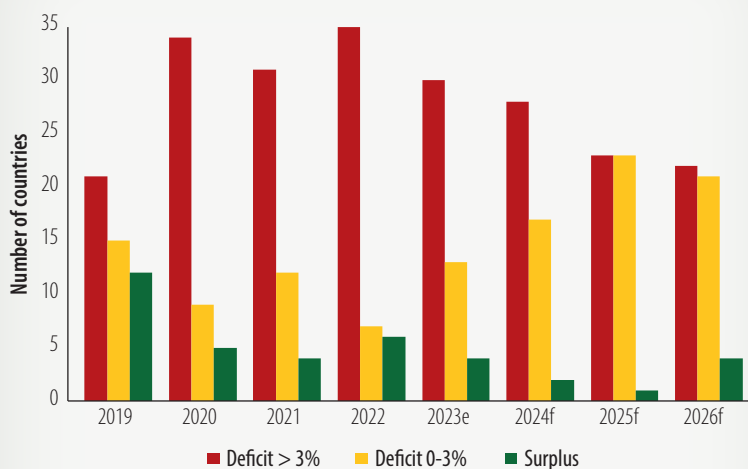
Fiscal balances continue to improve across countries in the region, although sluggishly, due to measures that are raising revenues and/or reining in spending—including tax administration and compliance measures, tax reforms, streamlining of tax expenditures, subsidy reforms, and repurposing of public expenditures toward growth-enhancing programs. Amid the current external financing squeeze faced by African countries, some governments in the region are taking steps to put the accounts on a more sustainable path.

The (median) fiscal deficit in Sub-Saharan Africa is projected to decline from 3.8 percent of GDP in 2023 to 3.5 percent of GDP in 2024. It is set to drop further to 2.9 percent of GDP in 2025–26. Fiscal deficits among non-resource abundant countries are expected to decrease by nearly 1 percentage point of GDP to 3.8 percent of GDP in 2024. Among resource abundant countries, the evolution of fiscal balances appears to have diverged since 2022. For instance, the fiscal deficit in oil abundant countries is projected to shift from a surplus of 1.3 percent of GDP in 2023 to a deficit of 1.4 percent of GDP in 2024—as international oil prices may edge down in 2024 as global growth weakens and oil production increases.¹⁴ In contrast, the fiscal deficit in metal exporting countries is expected to drop slightly from 3 percent of GDP in 2023 to 2.9 percent of GDP in 2024 (figure 1.24).



¹⁴ Oil prices are expected to decline from an average of US\$83 per barrel in 2023 to US\$81 per barrel in 2024 as global activity slows and China's economy continues to decelerate. This scenario assumes that the conflict in the Middle East does not escalate.

FIGURE 1.25: Distribution of SSA Countries, by Fiscal Balances



Source: World Bank staff projections.

Note: The legend indicates the country distribution of fiscal balances: deficits greater than 3 percent of GDP, deficits between 0 and 3 percent of GDP, and fiscal surpluses. e = estimate; f = forecast; SSA = Sub-Saharan Africa.

Most countries in the region (31 of 46) are expected to register improvement in their fiscal balances this year. Sixteen of the countries with improved fiscal accounts in 2024 will have a narrower deficit (below 3 percent of GDP) or shift into a surplus. For this group of countries, the (median) deficit is projected to narrow from 4.8 percent of GDP in 2023 to 3.8 percent of GDP in 2024. The remaining countries (15 of 46) will experience a

wider deficit or a narrower surplus this year. For these countries, the (median) deficit is expected to widen from 1.6 percent of GDP in 2023 to 2.8 percent of GDP in 2024. Overall, the reduction of fiscal imbalances is still sluggish as the number of countries with large deficits (exceeding 3 percentage points of GDP) has dropped modestly from a peak of 34 in 2022 to 27 in 2024 (figure 1.25).

Fiscal performance across African countries is expected to be heterogeneous this year. Among the group of countries with increasing imbalances, some countries are expected to widen their already high deficits (Malawi and Mauritius) and others to move from surplus to deficit (Lesotho). Oil resource abundant countries have also seen increases in their fiscal deficits (including Angola and Gabon) and others have started to run deficits this year (Chad) or reduce their surplus (Equatorial Guinea). The countries with the largest improvements in their fiscal balances this year (a decline of 2.5 percentage points of GDP or higher in 2024) are expected to narrow the large deficits registered in 2023 (Burundi, Guinea-Bissau, São Tomé and Príncipe, and Sierra Leone) (figure 1.26).

Among the countries with improved fiscal balances, government revenues increased in about 75 percent of them (22 of 31), while government spending decreased in more about 72 percent (21 of 31 countries). For only 14 countries in this group, the improvement in the fiscal balance was driven by both greater revenues and lower spending. Their (median) government revenues are expected to increase by 0.6 percent of GDP and their (median) government expenditure is projected to narrow by 0.5 percent of GDP this year. Finally, rising revenues contributed more than declining expenditures to the large narrowing of fiscal deficits for countries like Guinea-Bissau, Senegal, Sierra Leone, and Uganda (figure 1.27).

FIGURE 1.26: Fiscal Balances in Sub-Saharan Africa, 2023–24

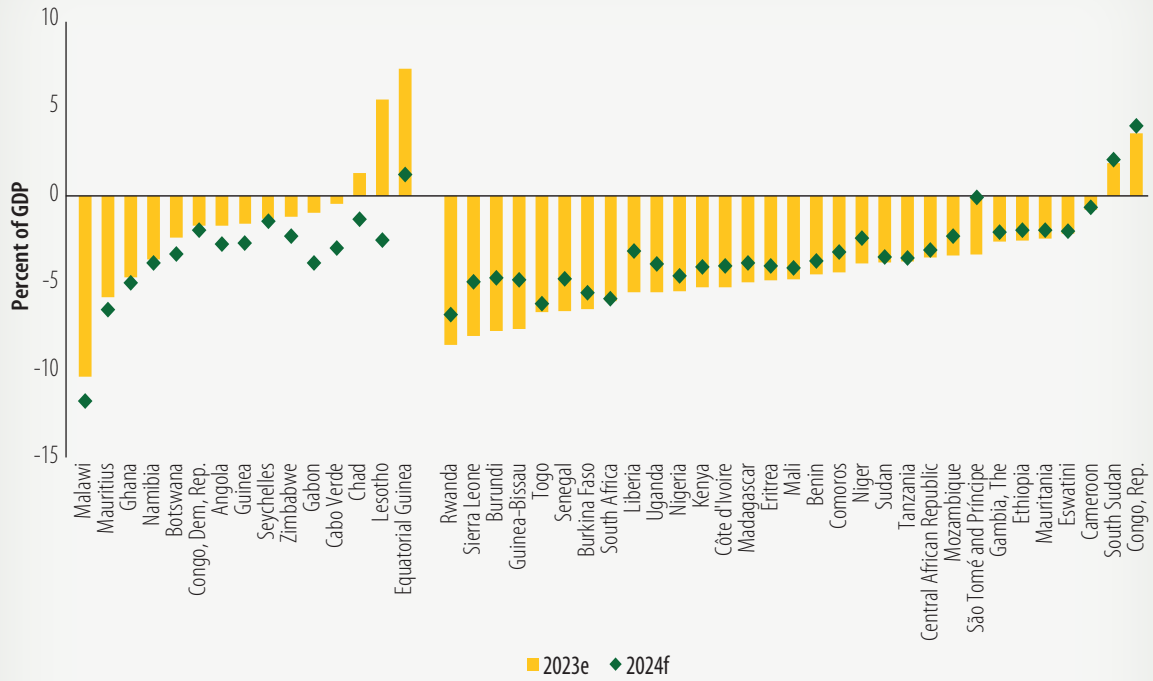
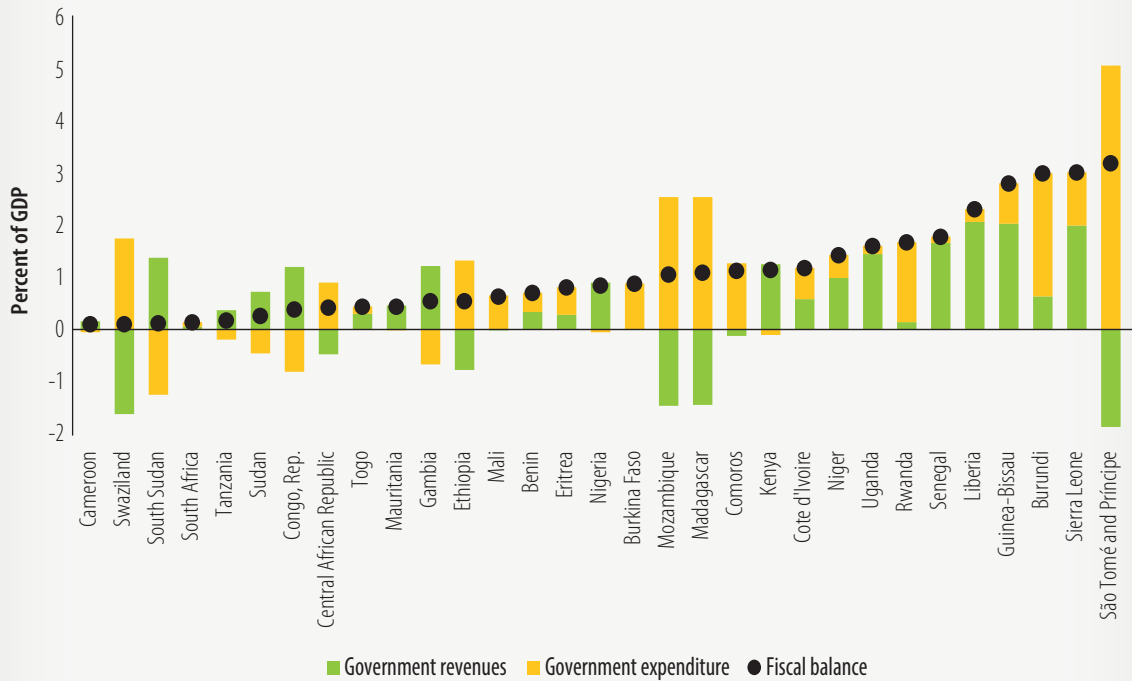


FIGURE 1.27: Sources of Changes in the Fiscal Balances of Sub-Saharan African Countries



Source: World Bank staff estimates.

Note: The figure depicts changes in the fiscal balance, government revenues, and government expenditure for countries improving their fiscal balance from 2023 to 2024. Positive (negative) values for the green columns indicate increases (decreases) in government revenues including grants. Positive (negative) values for the yellow columns indicate decreases (increases) in government expenditures. e = estimate; f = forecast; GDP = gross domestic product.

Sub-Saharan African governments are implementing measures to put public finances on a sustainable path

Governments in the region implemented a series of resource mobilization measures, including raising tax rates, albeit modestly, broadening the tax base, and improving tax compliance and administration (table 1.1). Many countries introduced new tax policy measures, including new taxes on hotels and financial services (Burundi), increased taxes on telecom (Mauritania) and tourism services (Cabo Verde), increased taxes on imported luxury goods (Cameroon), strengthening of the progressive scale in personal income tax regimes (Côte d'Ivoire and Rwanda), introduction of an excise tax on telecom services (Ethiopia and Madagascar), a set of new taxes on used goods and services (The Gambia), introduction of a turnover tax for informal businesses (Malawi), and an increase in the value-added tax rate to 15 percent (Zimbabwe). A few countries simplified or reduced corporate income taxes (the Democratic Republic of Congo, Kenya, and Rwanda). For example, in Kenya, the government phased out preferential corporate tax rates applicable to special economic zones and export processing zones and, at the same time, there is a proposal yet to be implemented to reduce the corporate income tax from 30 to 25 percent. Rwanda took similar actions. Other indirect tax measures were also implemented: an increase in stamp and registration fees, excise adjustments, the introduction of a social welfare levy on imports (Ethiopia), and the introduction of a minimum turnover tax (Sierra Leone).

TABLE 1.1: Revenue and Expenditure Measures Introduced in Selected African Countries, 2022–23

Revenue and expenditure measures introduced in 2022–23	Countries in Sub-Saharan Africa
Enhancing tax administration	Benin, Burkina Faso, Burundi, Central African Republic, Cabo Verde, Cameroon, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Guinea, Kenya, Mauritania, Mozambique, Niger, Senegal, Sierra Leone, Tanzania, Zambia, Zimbabwe
Tax policy measures	
Introducing new taxes, raising existing tax rates, or broadening the tax base	Benin, Burkina Faso, Burundi, Central African Republic, Cabo Verde, Cameroon, Côte d'Ivoire, Democratic Republic of Congo, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mauritania, Mozambique, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Tanzania, Zimbabwe
Streamlining tax exemptions to raise revenue	Benin, Cabo Verde, Cameroon, Comoros, Ethiopia, Ghana, Liberia, Malawi, Madagascar, Mozambique, Republic of Congo, Senegal, Sierra Leone, Tanzania, Zimbabwe
Expenditure measures	
Fuel subsidy reforms (to improve fiscal position)	Angola, Central African Republic, Cameroon, Côte d'Ivoire, Guinea, Nigeria, Senegal, Zambia
Food subsidy	Guinea

Source: World Bank.

Similarly, many countries streamlined tax exemptions to broaden the tax base. Several countries eliminated or reduced value-added tax exemptions (Mozambique and Senegal), goods and services tax exemptions (Sierra Leone), import duty exemptions (Cameroon, Malawi, and Sierra Leone), and sector-specific tax exemptions (Comoros). Tanzania decided to limit tax exemptions to under one percent of GDP. Liberia introduced duty waivers on high-yield and climate-resilient seeds and quality-verified solar products to benefit farmers and rural dwellers. Tax administration measures included the introduction of digital solutions, including data-matching platforms to detect tax fraud (Cabo Verde and Malawi), an electronic single window at border posts, compulsory use of the electronic platform for filing taxes for large and medium-size taxpayers (Burundi), measures to limit tax arrears (Mozambique), strengthened technical skills and capacity of tax officials (the Republic of Congo), and abolishment of the two-tier taxation system in the telecom sector (Zambia). Finally, several countries in the region implemented (full or partial) removal of fuel subsidies (Angola, Guinea, Kenya, and Nigeria). A roadmap for eliminating energy subsidies by 2025 was announced in Senegal. Measures to remove costly fuel subsidies might be complemented with other actions that mitigate their impact on the most vulnerable.

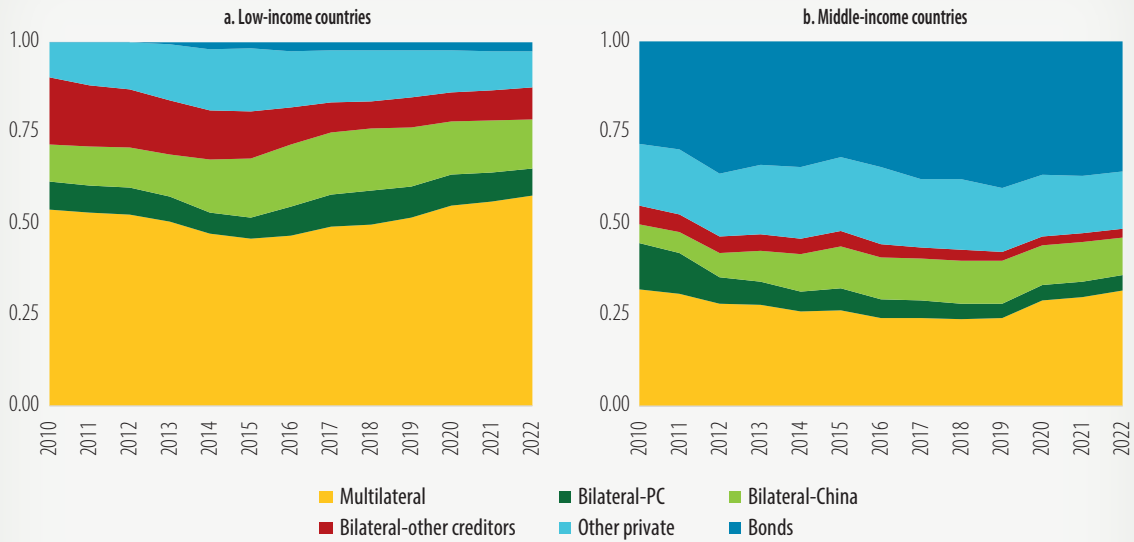
Government debt appears to be stabilizing although at high levels and risks remain

Total external PPG debt more than doubled in Sub-Saharan Africa between 2012 and 2022: it reached US\$462 billion in 2022, compared with US\$189 billion in 2012. As a percent of GDP, the median external PPG debt went from 17 percent in 2012 to 28 percent in 2022.¹⁵ The AFW subregion recorded higher external PPG debt than the AFE subregion, and PPG debt in AFW increased faster after the pandemic. Between 2012 and 2022, the median external PPG debt-to-GDP ratio in AFW increased by roughly 13 percentage points to 30 percent of GDP, while in AFE it increased by 9 percentage points and reached 25 percent of GDP.

Increases in external debt were accompanied by a shift toward nontraditional borrowing, including Eurobonds and bilateral lending from non-Paris Club creditors, especially China. At the end of 2022, bilateral creditors (excluding China) only accounted for 9 percent of total external PPG debt, compared with 20 percent in 2010. The share of Chinese bilateral lending increased from 7 to 11 percent during the same period. Bond issuances in international markets have also increased sharply, particularly among middle-income countries (MICs). From 2010 to 2022, the share of international bonds in external PPG debt rose from 0 to 3 percent in low-income countries (LICs) and from 28 to 35 percent in MICs. Overall, the share of multilateral debt in PPG external debt in 2022 increased slightly in LICs compared to 2010, reflecting the step-up of multilateral emergency financing during 2020–22 (figure 1.28).

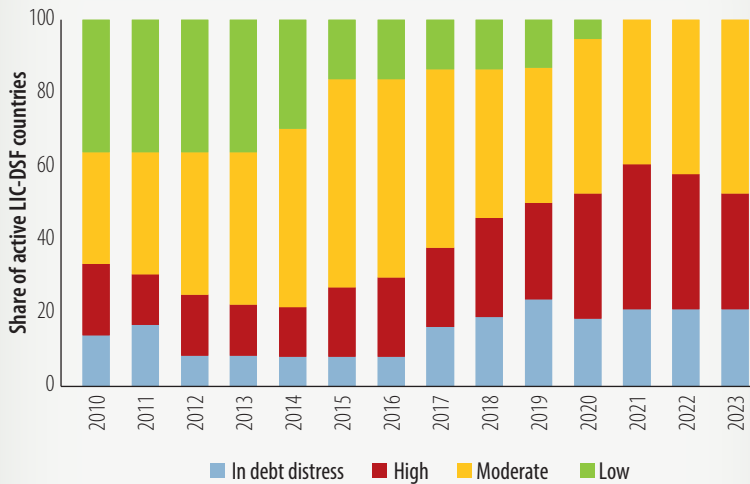
¹⁵ The analysis includes 46 countries in the region, excluding Somalia and Sudan. Sudan reached the Heavily Indebted Poor Countries (HIPC) Initiative decision point in 2021 and is expected to receive debt relief over the coming years. Somalia, also part of the HIPC, reached a completion point by the end of 2023.

FIGURE 1.28: External PPG Debt Composition in Sub-Saharan African Countries, by Creditor (percent)



Sources: International Debt Statistics, World Bank, December 2023; World Bank staff calculations.
 Note: PC = Paris Club; PPG = public and publicly guaranteed.

FIGURE 1.29: External Risk of Debt Distress in Sub-Saharan African Countries (percent)



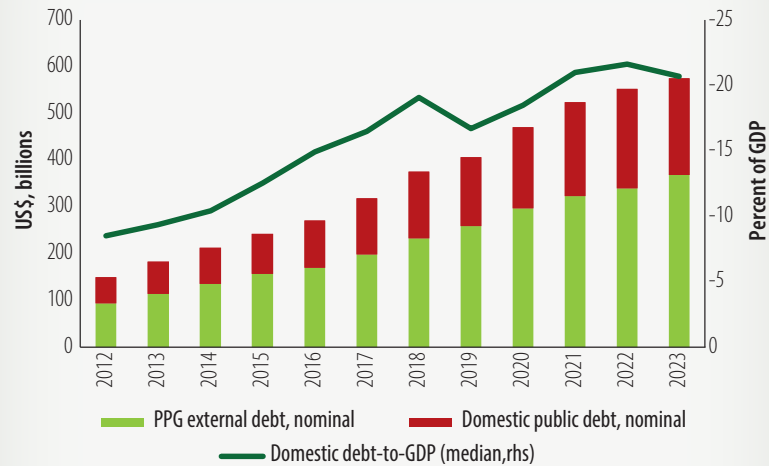
Sources: World Bank–International Monetary Fund LIC–DSF database as of end-December 2023; World Bank staff calculations.
 Note: LIC–DSF = Low-Income Country Debt Sustainability Framework.

The risk of external debt distress in Sub-Saharan Africa have increased significantly as a result of higher borrowing on less concessional terms. It has increased sharply, with the share of Low-Income Country Debt Sustainability Framework (LIC–DSF) countries in the region at high risk of or already in debt distress increasing from 27 percent in 2015 to 53 percent in 2023. No country in Sub-Saharan Africa has been classified as low risk since 2021 (figure 1.29). Over the past year,

the risk of debt distress improved in a few countries: Mauritania and Somalia were upgraded to “moderate” from “high” and “in debt distress,” respectively. Somalia reached the completion point under the Heavily Indebted Poor Countries Initiative in December 2023. In contrast, Ghana was downgraded to “in debt distress” in May 2023 in the context of the ongoing debt restructuring.

Reliance on domestic debt has increased over the past decade as domestic revenue mobilization has remained subdued and the development of domestic debt markets has allowed countries to finance larger deficits. Amid low tax collection in the region, Sub-Saharan African governments resorted to domestic debt to finance larger development needs.¹⁶ The median domestic debt-to-GDP ratio in Sub-Saharan African LIC-DSF countries increased from 8.5 percent in 2012 to 20.7 percent in 2023 (figure 1.30).¹⁷ Domestic debt to GDP expanded at a faster pace after the onset of the pandemic, given the need for funding and limited access to international markets. Domestic debt to GDP further increased to 21 percent of GDP in LICs and 17 percent of GDP in lower-middle-income countries in 2023.

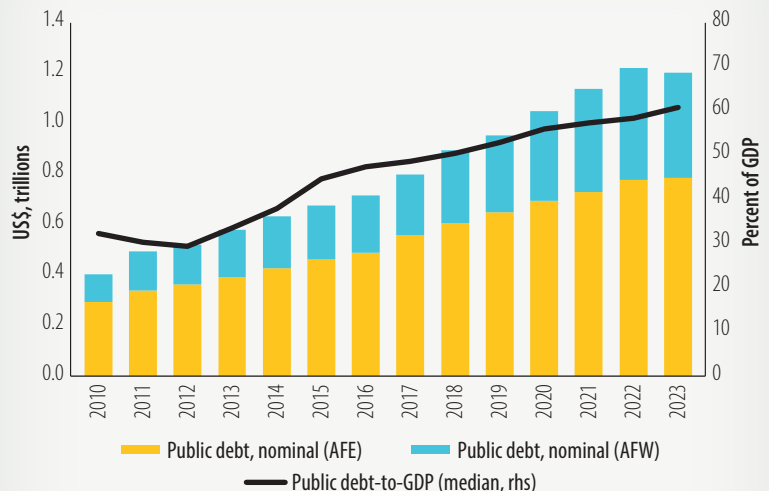
FIGURE 1.30: Debt Dynamics in LIC-DSF Sub-Saharan African Countries



Sources: World Bank–International Monetary Fund LIC–DSF database as of end-December 2023; World Bank staff calculations.
 Note: GDP = gross domestic product; LIC–DSF = Low-Income Country Debt Sustainability Framework; PPG = public and publicly guaranteed.

Higher domestic and external debt led to a tripling of overall public debt in Sub-Saharan Africa. The median public debt-to-GDP ratio in Sub-Saharan Africa increased from 29 percent in 2012 to 53 percent in 2019 (prior to the COVID-19 shock) and further increased to 61 percent in 2023 (figure 1.31).¹⁸ Within the region, the median debt-to-GDP ratio for LICs reached 60 percent, while it reached 61 percent for MICs in 2023. Since 2012, the public

FIGURE 1.31: Public Debt Dynamics in Sub-Saharan African Countries



Sources: World Economic Outlook, October 2023; World Bank staff calculations.
 Note: The figure includes data for 46 countries in the region. AFE = Eastern and Southern Africa; AFW = Western and Central Africa; GDP = gross domestic product.

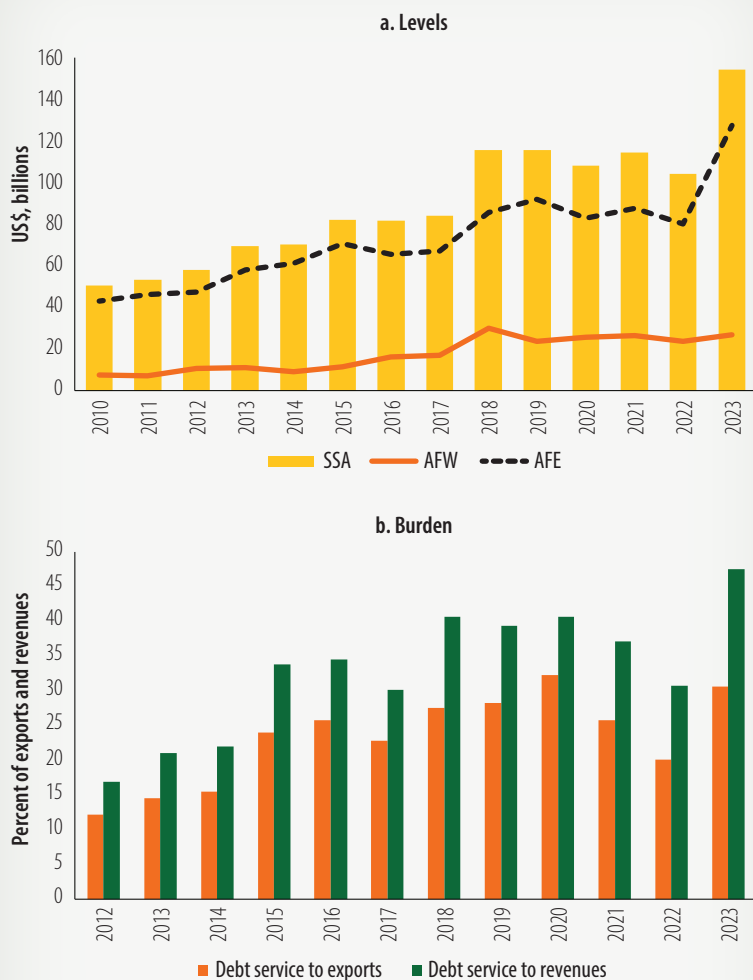
16 On average, 60 percent of Sub-Saharan African countries had a ratio of tax revenues to GDP below 15 percent during 2010–21.

17 In countries in AFE and AFW, the domestic debt-to-GDP ratio increased at a similar pace (11 percentage points) over 2012–23.

18 The narrative for public debt in Sub-Saharan Africa relies on data from the World Economic Outlook as of October 2023.

debt-to-GDP ratio has risen, driven by persistent fiscal deficits and slowing growth. After 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. At the same time, the economic recovery is decelerating due to specific factors affecting the economies in the region (high input prices for businesses in Nigeria and the energy crisis in South Africa) and general factors affecting the region, such as lower global metal prices, lower external demand, drought, internal conflicts, and tight domestic monetary policies.

FIGURE 1.32: Debt Service Obligations



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

The shift toward more expensive financing sources together with the increase in public debt levels have led to higher liquidity pressures. Sub-Saharan Africa's debt service levels have steadily increased since 2012, adversely affecting fiscal space and increasing vulnerability to shocks, especially for countries that have gained access to the international bond market and other non-concessional financing sources. Total debt service increased by US\$46.6 billion between 2012 and 2022. In addition, the expiration of the Debt Service Suspension Initiative at the end of 2021 resulted in a large increase in debt service of US\$50.6 billion in 2023, making a total cumulative increase of US\$97.2 billion (figure 1.32, panel a). During the same period, the largest increase

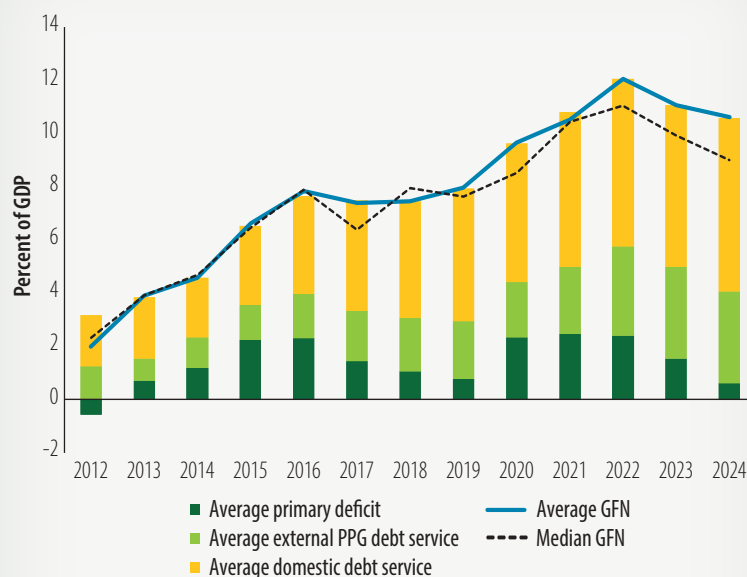
in debt service was among AFE countries (US\$81 billion), mostly South Africa (US\$57.2 billion). The ratios of total debt service to exports and debt service to revenues in Sub-Saharan Africa were 30.6 and 47.5 percent, respectively, in 2023 (figure 1.32, panel b).

Public gross financing needs (GFN) are expected to remain higher than historical averages. GFN in the region increased steadily from a median of 2 percent of GDP in 2012 to 11 percent in 2022 and decreased slightly to 10 percent of GDP in 2023. The median GFN for 2024 is projected

to decline to 9 percent of GDP, still above the pre-COVID-19 historical average (6 percent of GDP in 2012–19). High GFNs are due mainly to high debt service, including the refinancing of large domestic debt, which has a much shorter maturity than external debt (figure 1.33).¹⁹

A few countries in Sub-Saharan Africa have returned to the international capital market since the start of 2024, although at higher borrowing rates.²⁰ Still, many countries in the region are locked out of market financing. Hence, liquidity pressures remain elevated and bear close attention. In early 2024, Benin, Côte d’Ivoire, and Kenya issued international bonds in response to Eurobonds and commercial loans falling due. However, these issuances came at higher rates. For instance, the coupon of the new Eurobond issued by Kenya this year is 9.75 percent, which is above the 6.875 percent that the Eurobond maturing in 2024 offered. Since the onset of the pandemic, both benchmark rates and spreads have increased substantially, and countries with lower credit ratings have effectively lost market access. This trend is now reverting due to expectations that major central banks will be cutting rates later this year (figure 1.34).²¹ Finally,

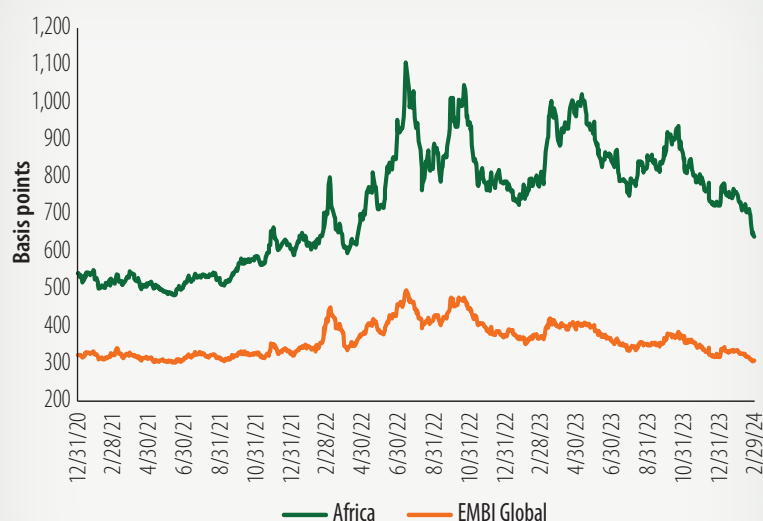
FIGURE 1.33: Gross Financing Needs: Evolution and Decomposition



Sources: World Bank–International Monetary Fund LIC–DSF database as of end-December 2023; World Bank staff calculations.

Note: GDP = gross domestic product; GFN = gross financing needs; PPG = public and publicly guaranteed.

FIGURE 1.34: Bond Spreads in Africa



Source: Bloomberg.

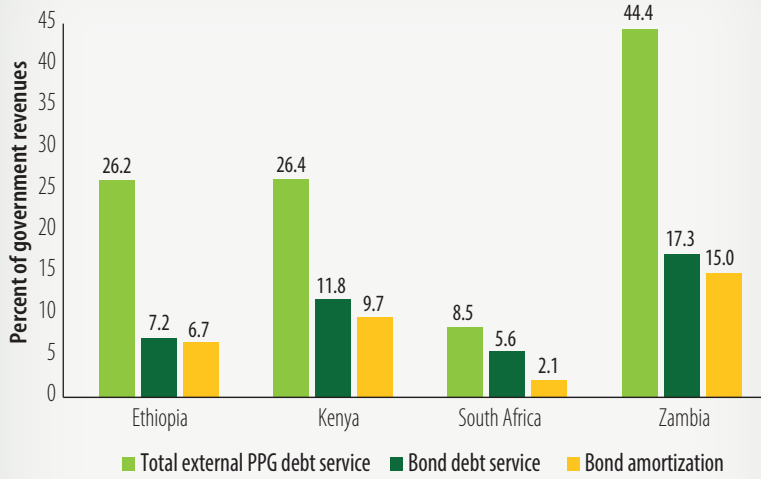
Note: Sovereign spread data are as of March 15, 2024. The EMBI spread for Africa includes 13 Sub-Saharan African countries and 3 North African countries. EMBI = emerging markets bond index.

¹⁹ Public GFN data were obtained from the International Monetary Fund–World Bank LIC–DSF database.

²⁰ International bond issuances stopped in 2020 following the COVID-19 crisis. Some issuances took place in 2021 and until April 2022, but only higher-income countries with market access, such as Mauritius and South Africa, issued international bonds later in 2022 and 2023.

²¹ As of the end of February 2024, hotter-than-market expected US inflation clouded the Federal Reserve’s path to rate cuts.

FIGURE 1.35: PPG External Debt Service in 2024



Sources: Bloomberg; International Debt Statistics, World Bank, December 2023; World Bank staff calculations.

Note: Sovereign spread data are as of March 15, 2024. PPG = public and publicly guaranteed.

bond amortizations are expected to increase steeply in the region in 2024–25, reflecting redemptions of Eurobonds. Such amortizations account for a significant share of government revenues in some Sub-Saharan African countries (figure 1.35).²² Amid low exports and elevated external debt repayments, countries in the region may face external liquidity pressures.

²² In 2023, total bond amortization reached US\$1.2 billion, and it will increase to US\$6.7 billion in 2024, mainly coming from South Africa (US\$2.3 billion), Kenya (US\$2 billion), Ethiopia (US\$1 billion), and Zambia (US\$1 billion). Both Zambia and Ethiopia requested debt restructuring under the Common Framework. Zambia defaulted on its international bonds in December 2020 and Ethiopia in December 2023.

1.4 RISKS TO THE OUTLOOK

Risks to the region's growth outlook are still tilted to the downside. Slower-than-expected global economic growth, subdued activity in Europe and China in recent months, conflicts in the Middle East and Ukraine, trade fragmentation, and climate-related disasters from El Niño could lead to weaker growth and exacerbate food security problems. Intensified conflict and political instability across the continent, particularly in West Africa, the Sahel, and Eastern Africa, could deteriorate investor sentiment and lead to an uptick in inflation, delaying the easing in the monetary policy cycle. However, recent strong economic activity in the United States and declining inflation indicate the possibility of more robust growth due to improved supply conditions.

External Risks

Underperformance of the Chinese economy. Structural weaknesses related to the property sector dominate the growth outlook in China. Without restructuring policies, real estate investment could slow down further and for a prolonged period. Lower consumer confidence and subdued aggregate demand could hold back household consumption. Furthermore, unplanned tightening of fiscal policy as a response to local government financing constraints could also weigh on economic activity. Under this scenario, the commodity export prices of many Sub-Saharan African countries—particularly for metals and minerals—could decline. The underperformance of the Chinese economy would hit harder those countries in the region that rely heavily on China as an export destination for their commodities.

Slower-than-expected return of global inflation to target levels. Headline and core inflation across major economies are retreating, but the return to target levels may take longer than expected—in particular, longer than expected by financial markets. Major central banks will then keep interest rates higher for longer. Renewed disruptions in global supply chains (due to geopolitical tensions) and persistent labor market tightness could increase inflation expectations—thus raising financial stability risks, strengthening the dollar, and further tightening global financial conditions. In Sub-Saharan African economies, this would again lead to capital outflows, weaker currencies, and increasing external borrowing costs. These effects are more severe for countries with weaker credit ratings, which already have higher debt levels and ballooning debt service costs and have been mostly locked out of international markets since the pandemic.²³

Rising geopolitical tensions. The ongoing war in Ukraine and the conflict in the Middle East continue to take a toll on cross-border economic interactions in the global economy. These tensions have intensified with the attacks of Houthi rebels on cargo ships sailing the waters connecting Asia to Europe and the United States (the Red Sea crisis).²⁴ These attacks in the Red Sea led to a decrease in container ship transits per week and a surge in average shipping container prices during the last week of December and the start of 2024.²⁵ As a result, disruptions in global oil supply could have potential knock-on effects on energy and other

²³ Kenworthy, Kose, and Peravalov (2024).

²⁴ The Red Sea is the conduit for about 12 to 15 percent of global trade (representing 30 percent of the world's container shipping).

²⁵ Sharp increases in daily shipping prices and insurance premiums have culminated in high overall shipping costs, as the re-routing of ships from the Suez and Panama Canals has extended delivery times and generated extra expenses (up to two additional weeks for shipping and more than US\$1 million in transportation costs). See UNCTAD (2024).

commodity prices. In a small disruption scenario, global oil supply would fall by 0.5 million to 2 million barrels per day, with oil prices ranging between US\$93 and US\$102 per barrel.²⁶ Higher shipping costs lead to sizable increases in import prices and producer prices and accelerate headline and core inflation—particularly in countries with large shares of imported final consumption.²⁷ For example, a 21.8 percentage point increase in global shipping costs leads to an increase in domestic headline inflation of 0.15 percentage point over 12 months.²⁸ Finally, these disruptions would harm the competitiveness of exporters that are dependent on disputed trade routes and exacerbate food security concerns in areas where countries rely on wheat imports from Europe and the Black Sea region—notably in East Africa, East Asia, South Asia, and Southeast Asia.²⁹

Massive electoral process throughout the world in 2024. About half of the population around the globe will head to the polls in at least 64 countries—including the United States, the European Union, and large emerging markets such as India, Indonesia, Mexico, and South Africa. These elections can potentially weigh on economic activity and the global order through various channels: (1) uncertainty and disputes around trade policy will reduce the efficiency of global value chains³⁰; (2) there will likely be delays in the consumption and investment decisions of larger economies until after the election, while increases in election-related spending are focused on domestic markets³¹; and (3) new commitments to international development assistance and crisis response are likely to be subdued, with domestic spending commitments taking priority prior to elections.

Growing geoeconomic fragmentation. Deeper geoeconomic fragmentation would make countries in the region more vulnerable to shocks and volatility and yield significant domestic and global output losses by restricting cross-border technological diffusion and hindering innovation, reducing productivity, raising prices, reducing employment opportunities from migration, and curtailing foreign trade and investment flows.³² These impacts would be more severe among low-income countries,³³ as they run the risk of greater poverty and inequality.³⁴ Geoeconomic alignment with major financing suppliers may alter the allocation of development aid and delay sovereign debt renegotiations. The macro-financial volatility arising from growing geopolitical tensions would undermine the stability of the global financial system.³⁵ Likewise, deeper geoeconomic fragmentation has the potential to undermine the effectiveness of policies to address environmental challenges, including the shift toward low-carbon economies.

26 The small disruption scenario assumes that the reduction in global oil supply is comparable to the supply change observed during the Libyan civil war in 2011 (nearly 2 percent decline in global supply at the time). Under this scenario, oil prices would initially increase by 3 to 13 percent (US\$3 to US\$12 per barrel) above the fourth quarter of 2023 baseline of US\$90 per barrel (World Bank 2023).

27 Carrière-Swallow et al. (2023).

28 More recent evidence shows that in the Organisation for Economic Co-operation and Development, the persistence of the recent 100 percent increase in shipping costs could raise annual import price inflation by close to 5 percentage points—or a 0.4 percentage point increase after about one year (OECD 2024).

29 Glauber and Mamun (2024).

30 Kleine and Minaudier (2019); Pervez (2015).

31 Ashraf and Shen (2019); Azzimonti (2018).

32 Góes and Bekkers (2022); World Bank (2024).

33 See, for instance, Bolhuis, Chen, and Kett (2023); Campos et al. (2023); IMF (2023a); WTO (2023).

34 WTO (2023).

35 IMF (2023b).

Domestic Risks

Intensified political instability in the region. Escalating conflict and violence will continue to weigh on economic activity—as a result of heightened geopolitical tensions within countries and subregions, weak institutions, and cost-of-living crises. Military coups, although confined to small economies in the region so far, and the risk of “contagion coups” are severely impacting international investor sentiment and risk perception toward the broader subcontinent. Nine coups have taken place in AFW since 2020, and the regional and international responses to restore democracy have been ineffective. Tensions have escalated even more with the decisions of Burkina Faso, Mali, and Niger to leave the Economic Community of West African States, as well as Senegal’s delayed elections. In Sudan, the conflict between the Sudanese Armed Forces and the Rapid Support Forces continues, and its resolution through mediation may prove difficult. In Ethiopia, security remains uncertain as bouts of violence in the Amhara and Oromia regions persist. Finally, continuous conflict and organized violence may disrupt production and access to food staples in several countries (Burkina Faso, Mali, Niger, Somalia, and Sudan, among others).

Slippages in fiscal consolidation during the election year. Fiscal consolidation efforts should be supported by credible medium-term plans, and the speed of adjustments should be tailored to country-specific circumstances. Policy makers need to strike the right balance of improving fiscal balance while protecting support to the vulnerable and priority investments. Fiscal slippages should then be avoided—particularly among countries in the region holding elections. Sub-Saharan Africa also has a busy election calendar this year, with 17 countries slated for presidential or general elections.³⁶ African governments tend to expand primary deficits, government expenditures, and government wage bills in election years—and these slippages tend to be stronger in countries with higher corruption perception scores.³⁷ Likewise, government wage bills, energy tariffs, and public social spending are already key constraints in the region and likely to exhibit significant political cyclicity.³⁸ Uncertainty around elections may hinder private sector investment plans, with fears of political instability having measurable consequences on a series of financial prices, including equity risk premia, stock volatility, price-earnings ratios, default spreads, and corporate bond rates.³⁹

Climatic shocks. Adverse climate and weather events can worsen fragility and hinder development prospects for rural populations in the region.⁴⁰ Rainfall anomalies induced by the El Niño phenomenon are leading to excessive dry conditions in Southern Africa and will likely result in below average harvests this year (including in surplus producing countries like South Africa and Zambia) and reduce the availability of food in the worst affected areas—particularly southern and western Zimbabwe, southern Malawi, southern and central Mozambique, and southern Madagascar. Floods in Eastern Africa are leading to loss of lives and livelihoods and displacement—thus magnifying food security problems (Ethiopia, Somalia, Tanzania, and Uganda) and leading to a surge in cases of vector- and water-borne diseases.⁴¹ Disruption of

36 Two-thirds of the elections in Sub-Saharan Africa are being held in the last quarter of the year.

37 Iddrisu (2023).

38 Gaspar, Gupta, and Mulas-Granados (2017); Abdallah, Coady, and Jirasavetakul (2023).

39 Dai and Zhang (2019).

40 Diallo and Tapsoba (2022); Di Falco et al. (2024).

41 In Kenya, the likelihood of heavy rainfall during March-May 2024 remains a risk that could create food security problems.

rainfall patterns, along with the black pod disease, are threatening cocoa production and the livelihoods of farmers in Côte d'Ivoire and Ghana. Climatic shocks tend to affect the poorer segments of the population more than proportionally. Recent data show that an estimated 105 million people across 34 countries in the region are facing severe food insecurity from September 2023 to May 2024.⁴² Some of the countries with greater levels of concern about hunger, according to the latest Famine Early Warning Systems Network update, include Burkina Faso, the Democratic Republic of Congo, Malawi, Mali, Mozambique, Nigeria, Somalia, South Sudan, and Sudan.

⁴² This figure represents the number of people in crisis, emergency, and catastrophic food security levels (IPC/CH Phase 3 or above) according to the Integrated Food Security Phase Classification (IPC 2024).

Section 2. Tackling inequality for inclusive growth and poverty reduction

2.1 INTRODUCTION

Sub-Saharan Africa encompasses countries with varying historical, demographic, and political characteristics that have major implications for economic growth, inequality, and poverty reduction. However, volatile growth and slow poverty reduction are common features among the countries in the region. This section focuses on the characteristics of growth across different country categories, and the role of inequality in limiting growth and slowing the transmission of the benefits of growth to the poor in Sub-Saharan Africa. This issue of *Africa's Pulse* concludes with policy recommendations for leveling the playing field, drawing on a forthcoming regional report.¹

Growth across countries in the region has displayed recurrent long-term swings between episodes of rapid and slow growth, which have in turn led to relative income per capita diverging considerably from that of upper- and lower-middle-income countries in other regions over the past three decades. Furthermore, in Sub-Saharan Africa, economic expansions are driven by factor accumulation—including natural capital—rather than total factor productivity (TFP), a feature that is less viable as a source of growth in the long term and less likely to be inclusive. Indeed, countries that are resource abundant and non-fragile tend to exhibit the greatest degrees of volatility in addition to having lower long-term growth. Fragility and conflict pose additional challenges to Africa's development progress.

The episodic nature of economic growth in Sub-Saharan Africa suggests that countries in the region are more likely to be exposed to shocks with long-lasting effects, such as conflict, climate, and commodity price shocks. In addition, they tend to have inadequate policy frameworks and fiscal space to address these shocks. On top of lacking strong expansionary episodes, recessions tend to be longer and more sizable, especially in resource abundant economies, thereby canceling out some of the benefits of growth. These challenges mean that the region runs the risk of losing another decade of growth.

The region also faces the triple challenges of high extreme poverty, high inequality, and low transmission of growth to poverty reduction. The speed of poverty reduction has decreased tremendously since 2014. The rate of reduction was 3.1 percent between 2010 and 2014, subsequently decreasing to 1.2 percent between 2014 and 2019. In contrast, the rest of the world reduced extreme poverty on average by 9.2 percent per year within the same time horizon, suggesting that the Africa region is falling further behind. In addition, there is substantial regional heterogeneity in where the poor are, with Nigeria and the Democratic Republic of Congo accounting for one in three of those living in extreme poverty.

The COVID-19 pandemic, the war in Ukraine, as well as various climate shocks have further diminished opportunities for accelerating poverty reduction in the region. Recovery has been very uneven, leaving more people in poverty than in the baseline scenario without these global shocks. Around 42 percent of the region's population is at risk of a climate-

¹ Sinha, Inchauste, and Narayan (forthcoming).

related shock, elevating the chances of more people falling below the poverty line. The region's high vulnerability is rooted in its strong reliance on agricultural production and low level of climate preparedness.

Sub-Saharan Africa exhibits high levels of income inequality, second only to the Latin America and the Caribbean region. Countries that start out with high levels of inequality tend to experience slower growth. More worryingly, high inequality means that fewer of the benefits of growth reach the poor. As growth slowed down between 2010 and 2019, the importance of addressing inequality as a means to reduce poverty rates across the region increased. In Sub-Saharan Africa, gross domestic product (GDP) growth of 1 percent per capita is associated with poverty reduction of only 1 percent. In the rest of the world, this number is as high as 2.5 percent. This weak transmission of growth to poverty reduction is an outcome of unequal distribution of incomes among people on the one hand and the quality of growth on the other, as reflected in limited structural transformation and low economic diversification.

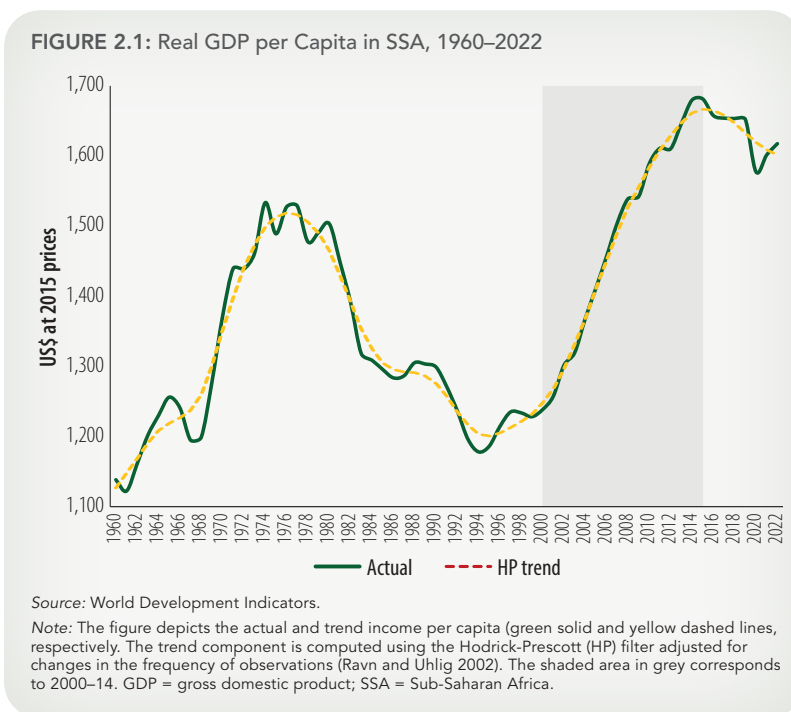
The region can accelerate growth and poverty reduction substantially by tackling inequality, specifically structural inequality. Structural inequality is the extent to which differences in incomes across individuals are driven by the circumstances into which people are born and are beyond their control, as well as the result of market and institutional distortions, as opposed to differences in individuals' talent or effort. The overall high levels of inequality in Africa are mostly structural in nature. These structural inequalities and their drivers affect people's ability to build productive capacity and use this productive capacity for income generation. Market failures, inequitable public investment, small market size, and high and uninsurable risks, among other structural challenges, also reduce the efficiency with which growth reaches those in the bottom of the income distribution. Fiscal capacity is limited and cannot match the need for redistribution in the absence of broad-based growth of people's productive and earning capacities. Policies that address economic growth as well as structural inequalities are therefore required. Examples include pro-competition policies, greater connectivity, and market integration policies. Rationalizing subsidies and increasing the coverage and benefit level of social assistance programs can better target resources to the poor and vulnerable, while domestic revenue mobilization efforts can be designed to protect the poor. Options include efforts to tax high net worth individuals through property taxes and to eliminate value-added tax exemptions, which mainly benefit high-income individuals. Most importantly, the policies must account for the interlinkages, complementarities, and trade-offs across the three stages of income generation (building productive capacity, efficient use of the productive capacity, and fiscal redistribution).

2.2 GROWTH IN SUB-SAHARAN AFRICA: LOW, VOLATILE, AND UNSTABLE²

A great deal of optimism has permeated much of Sub-Saharan Africa over the past two decades. Nearly half of the 25 fastest growing countries in the world were in Sub-Saharan Africa in 2000–14, with their GDP growth exceeding the annual average rate of 6.5 percent per year. The growth record of the region during this period has been attributed to both external and domestic factors. On the external front, the commodity supercycle, rising South-South trade (with China, India, and Southeast Asia as key partners), and increasing inflows of foreign capital helped to propel growth in the region. Domestically, improved macroeconomic management supported rising consumption and investment across resource-intensive sectors (extractives) and non-resource sectors (telecommunications, finance,³ retail, real estate, and transportation).³

Growth performance during the first decade and a half of the twenty-first century translated into progress in human development outcomes across the countries in Sub-Saharan Africa. Life expectancy rose from 51 years in 2000 to 59 years in 2014. Gross enrollment rates for primary schooling jumped from 80 percent in 2000 to 98 percent in 2014. Infant mortality rates dropped from 91.4 per 1,000 live births in 2000 to 59 in 2014, while fertility rates declined from 5.7 births per woman in 2000 to 5 in 2014. The incidence of malaria and HIV fell by 33 and 60 percent, respectively. Foreign direct investment in 2014 (US\$54.5 billion) was five times as large as that at the start of the century. Technology appeared to be spreading faster in the region—as mobile penetration soared from less than 1 mobile phone per 100 people in 2000 to nearly 13 per 100 people in 2014.

Despite these development gains, growth per capita in the region was neither impressive nor adequately inclusive. Instead, real income per capita grew at an annual average rate of 2.4 percent during 2000–14. This growth spurt lifted the region’s income per capita from a trough in the mid-1990s to levels exceeding its previous peak—taking Sub-Saharan Africa more than three decades to surmount its previous peak in living standards (figure 2.1).⁴

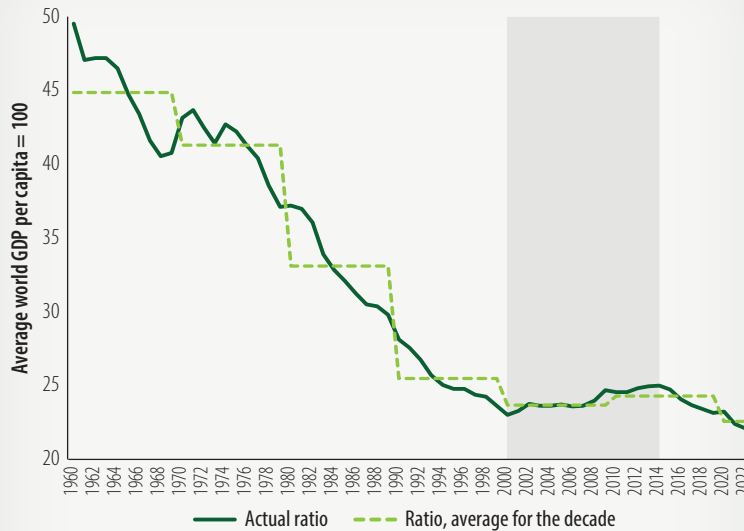


2 This subsection draws heavily from a study by Calderon, Dabalén, and Qu (2024).

3 There was hope that livelihoods would continue to improve at this remarkable rate in the years ahead. The surge in economic activity in Sub-Saharan Africa was broad-based: resource-rich nations rode the wave of commodity prices and had protracted periods of rapid GDP growth (for example, Chad, Equatorial Guinea, Mozambique, Nigeria, and Zambia), while non-resource-rich low-income countries experienced growth spurts supported by sound macroeconomic and structural policies (for example, Ethiopia, Rwanda, Tanzania, and Uganda).

4 In 2008, Sub-Saharan Africa’s GDP per capita (US\$1,539 in 2015 constant prices) finally exceeded its previous peak (US\$1,533 in 2015 constant prices) in 1974.

FIGURE 2.2: Relative Income per Capita in SSA, 1960–2022

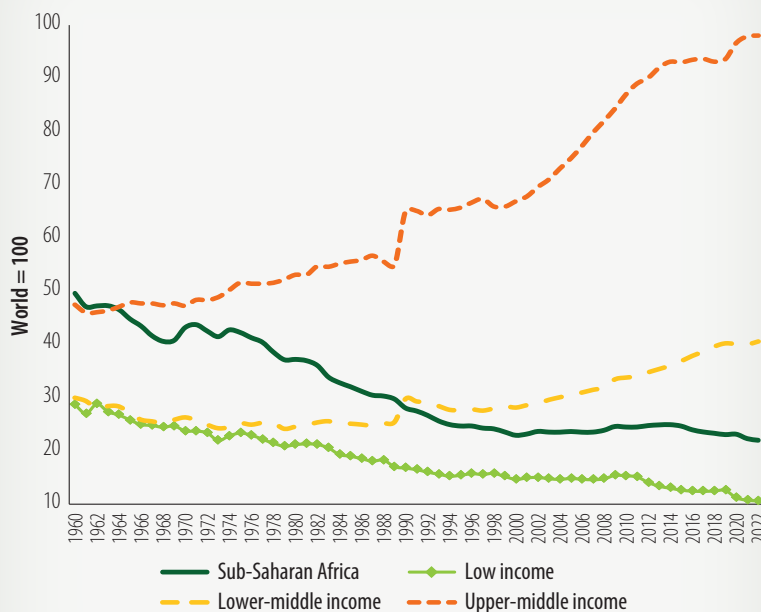


Source: Penn World Tables 10.01 (Feenstra, Inklaar, and Timmer 2015).

Note: The figure depicts the ratio of income per capita in Sub-Saharan Africa vis-à-vis the world (dark green line) and its average across decades (light green dotted line). The shaded area in grey corresponds to 2000–14; GDP = gross domestic product; SSA = Sub-Saharan Africa.

Over the past six decades, growth in the region has exhibited long-term swings from episodes of rapid growth to low growth, including growth spurts, stagnation, and collapses.⁵ This episodic nature of growth has taken different forms across the region. The multiplicity of growth topographies across countries reflects differences in the array of shocks hitting these economies as well as differences in their economic structures and policy frameworks. In other words, most countries in the region have been unable to sustain growth over the long term.

FIGURE 2.3: SSA Relative Income per Capita, 1960–2022: Comparison with Income Groups



Source: Penn World Tables 10.01 (Feenstra, Inklaar, and Timmer 2015).

Note: The figures depict the ratio of income per capita in Sub-Saharan Africa and other selected income and regional groups vis-à-vis the world. SSA = Sub-Saharan Africa.

The inability to sustain growth over longer horizons is especially stark compared to the relative prosperity experienced in other regions. Sub-Saharan Africa’s real GDP per capita has lost ground relative to the world over the past six decades: its relative income per capita dropped from less than half of the world’s in 1960 to less than one-quarter in 2000 (figure 2.2).⁶ It slightly increased during 2000–14 but has continued

its backslide relative to the world since 2015. In particular, Sub-Saharan Africa’s relative income per capita has diverged considerably from that of upper- and lower-middle-income countries

⁵ See Ndulu (2007) and Toh (2016).

⁶ Overall, annual average growth per capita in the region was 0.7 percent during 1960–2022, which was nearly one-fifth the growth recorded by developing countries in other regions (3.2 percent) and about one-third that recorded by industrial countries (2.2 percent).

over the past three decades (figure 2.3) as well as from East Asia and South Asia (figure 2.4).⁷

The short-lived episodes of rapid growth have prevented countries in the region from reducing extreme poverty. Policies that promote investments in human capital (such as boosting the quality of primary education and access to safe water and sanitation), structural transformation of African economies (by improving agricultural productivity and inducing the shift toward nonagricultural

jobs), and economic diversification (thus reducing the reliance on natural resources) would help to ensure that the benefits of growth are shared more equally across the population and have a larger impact on poverty.

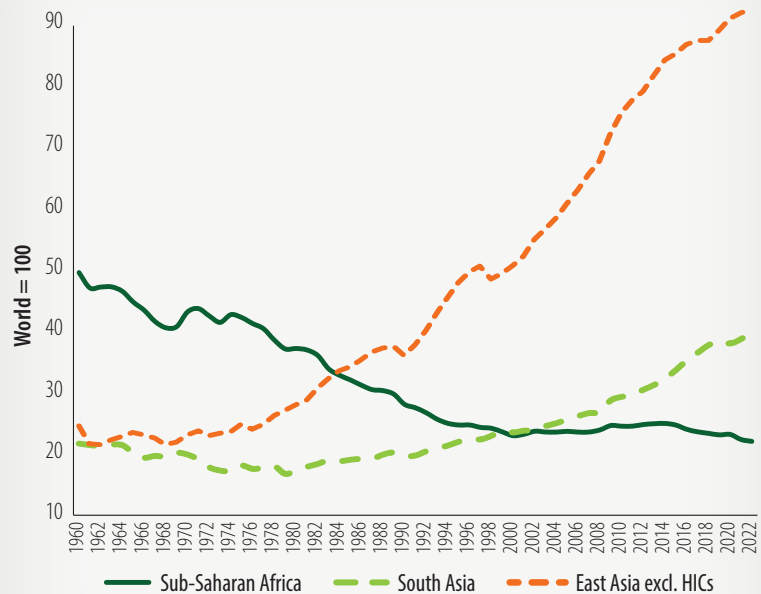
In what follows, the main features of growth in Sub-Saharan Africa are documented: (1) its instability and greater variability across countries, (2) the diversity of growth experiences across countries, (3) shorter and smaller expansions relative to other country groups, (4) slightly longer and larger recessions relative to other country groups, (5) the negligible contribution of TFP to long-term growth, and (6) growth driven by the use of natural capital rather than TFP.

Long-term growth exhibits great variability across countries and over time

The low, volatile, and unstable long-term growth described above masks the great variability of growth experiences across the region. For instance, only three countries in the region exhibited annual growth per capita over 3.5 percent in 1960–2022, while income per capita contracted in six countries during the same period. The average growth differential between these two groups of countries was 5 percent—a margin that can yield rapid movements in relative income per capita over time as well as rising divergence.⁸

At the same time, Sub-Saharan Africa experienced long-term fluctuations in economic activity over time during 1960–2022, shifting from periods of positive growth to negative growth and vice

FIGURE 2.4: SSA Relative Income per Capita, 1960–2022: Comparison with East and South Asia



Source: Penn World Tables 10.01 (Feenstra, Inklaar, and Timmer 2015).

Note: The figure depicts the ratio of income per capita in Sub-Saharan Africa and other selected income and regional groups vis-à-vis the world. HICs = high-income countries; SSA = Sub-Saharan Africa.

⁷ If Sub-Saharan Africa's growth per capita since 1990 had kept pace with other regional or income benchmarks, its level of income per capita in 2024 would be double the current level, and it would be 3.5 times the current level if the region had grown as fast as emerging East Asian economies.

⁸ The gap between the best and worst performers in the region changed across subperiods and was the largest during 1981–2000. The differential between these two groups amounted to 6.5 percent per year—with the worst performers (22 countries) experiencing an annual contraction of 1.4 percent and the best performers (five countries) recording growth per capita of 5.5 percent. Over the past two decades (2001–22), the gap between good and bad performers was still large but slightly smaller (5.2 percent)—and more than half of the countries in the region grew at rates of more than 2 percent per year.

versa. In contrast to advanced economies, the trajectory of real GDP per capita of Sub-Saharan African economies cannot be characterized by exponential trend growth with moderate cyclical fluctuations.⁹ Instead, the region has experienced episodic growth—as characterized by short-lived growth spurts followed by collapses, stagnation, and economic decline—over the past six decades. On average, a modest expansion in real output per capita in 1960–80 (1.1 percent per year) was followed by a contraction in 1981–2000 (–0.9 percent per year). The period of economic decline and stagnation can be attributed to many countries in the region fighting bouts of macroeconomic instability, failed structural reforms, external debt crises, violent conflict, and political instability—including civil wars, insurgencies, and coups.

Growth per capita in the region accelerated to 1.5 percent per year in 2001–22. Livelihoods were lifted over the past two decades thanks to a more favorable external environment (marked by stronger institutions supporting macroeconomic policy frameworks in advanced economies and the supercycle of commodity prices). Buoyant domestic demand supported growth: investment (private and public) grew in both resource-intensive sectors (oil and mining) and non-resource sectors (telecommunications, finance, transportation, real estate, and retail, among others).¹⁰ Still, African economies were growing at half the speed of other developing countries (3.4 percent).¹¹ Overall, these long swings over time suggest that the narrative of the region’s growth record is not one of persistently poor performance but a case of short-lived, unsustainable, or episodic growth (table 2.1).

TABLE 2.1: Long-Term Growth in Sub-Saharan Africa, 1960–2022: Basic Statistics (percent)

	Advanced economies	Developing countries excl. SSA	Sub-Saharan Africa				
			All countries	Resource-rich		Non-resource-rich	
				Fragile	Non-fragile	Fragile	Non-fragile
I. Average (weighted)							
1960–80	3.36	3.68	1.13	–0.92	1.49	1.68	1.45
1981–2000	2.24	2.59	–0.85	–3.80	–1.03	–0.24	–0.51
2001–22	1.02	3.40	1.74	1.65	2.05	1.89	1.58
II. Coefficient of variation							
1960–80	0.33	1.05	1.39	3.08	1.53	1.15	1.13
1981–2000	0.38	3.91	6.75	–1.44	5.38	–20.12	1.64
2001–22	0.67	0.83	0.71	0.89	0.62	1.14	0.50

Sources: Penn World Tables 10.01 (Feenstra, Inklaar, and Timmer 2015); World Development Indicators, World Bank.

Note: The coefficient of variation is defined as the ratio of the standard deviation to the (simple) average. Resource abundant countries are defined as those with natural resource rents exceeding 10 percent of gross domestic product over the past decade. Fragile countries are those with fragility and conflict-affected status at some point between 2006 and 2023. SSA = Sub-Saharan Africa.

Another feature of economic growth in Sub-Saharan Africa is its larger extent of volatility in relation to its (simple) average—particularly during the 1980–2000 period of stagnation and decline. During 1981–2000, the coefficient of variation of economic growth in African countries (6.8 percent) was significantly higher than that of other developing countries (3.9 percent). The

⁹ See Pritchett (2000).

¹⁰ See Calderon and Boreux (2016).

¹¹ The 2014–15 plunge in commodity prices as well as other global shocks—such as the COVID-19 pandemic and the war in Ukraine—weighed on economic activity in the region, and real GDP per capita again contracted at an annual rate of 0.3 percent per year during 2016–22.

ample volatility during this period might be attributed to the fact that countries in the region were highly exposed to real shocks (including commodity prices and natural disasters) and had policy frameworks that might amplify rather than mitigate such shocks.

During the first decade of the twenty-first century, the stable global environment during the Great Moderation and the strengthening of policy frameworks across many Sub-Saharan African countries led to lower growth volatility compared with its average for all country groups in the region in 1981–2000. The coefficient of variation was the lowest among non-fragile countries, regardless of their condition of resource abundance (table 2.1). During the expansionary period of the past two decades (2001–22), the coefficient of variation across African countries declined dramatically (0.71 percent) and was comparable to that of advanced economies (0.67 percent).

Idiosyncratic factors account for the diversity and uniqueness of country growth experiences in the region

The patterns of economic growth over time across countries in the region have been widely heterogeneous and to some extent unique. Differences in the incidence and exposure to shocks, economic structure, geographical features, and other idiosyncratic factors reveal a diverse landscape of growth patterns in the region.¹² Although some key dates may mark transitions in multiple countries, the start and stop dates of long-term swings were by no means widespread across the region. Moreover, global drivers such as commodity price swings, global liquidity levels, and political events have not been evenly impactful across the region.

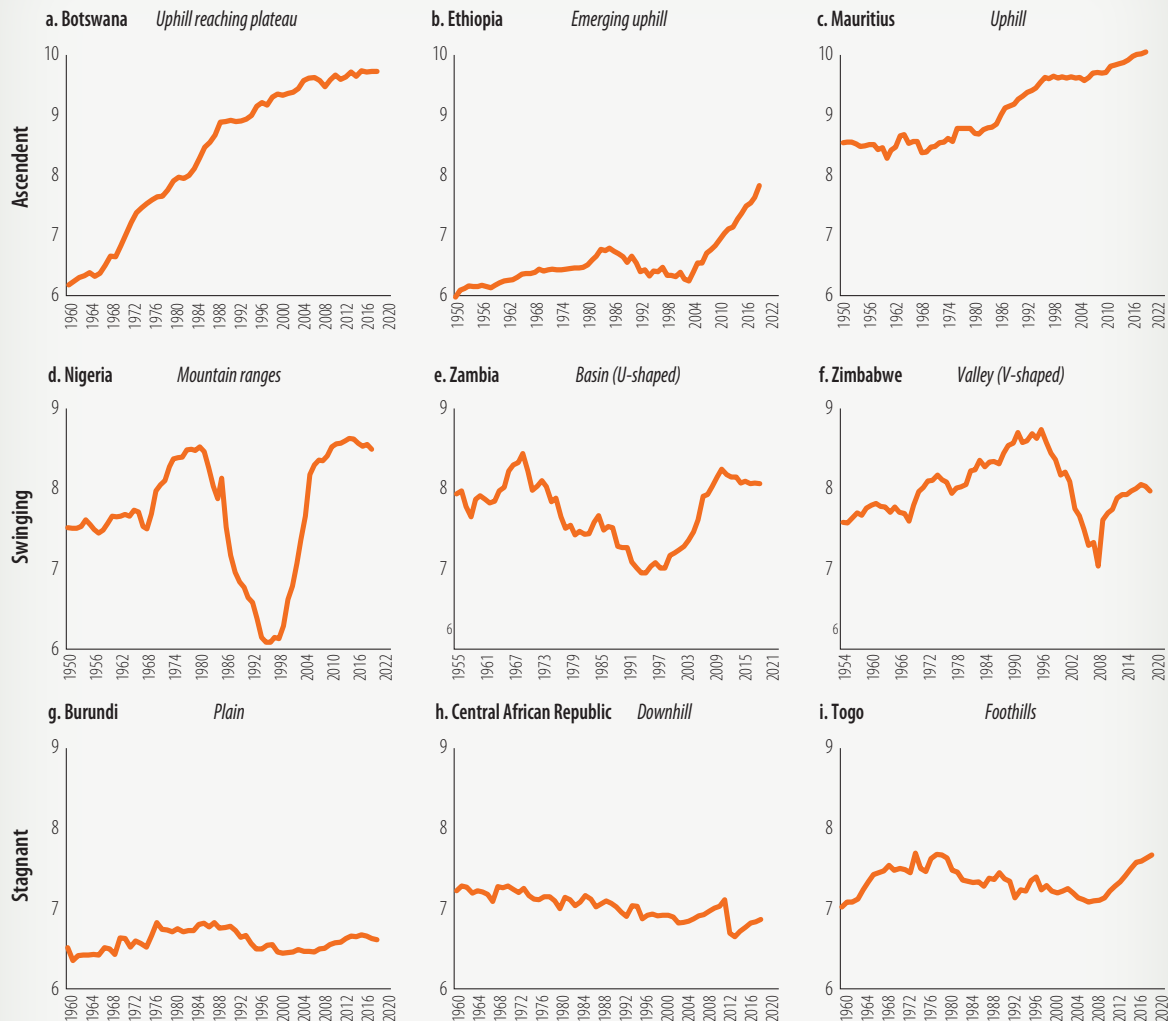
The trajectory of long-term growth across African economies is visually distinct when charted, with diverging characteristics (figure 2.5).¹³ Countries that have experienced fast growth over long periods (that is, those with an upward-sloping trend) appear to have grown steadily with intermittent recessions over the past six decades (Mauritius) or reached a plateau due to a marked growth deceleration in recent years (Botswana). Others have exhibited rapid growth over the past two decades after remaining stagnant for a prolonged period (Ethiopia). Similarly, countries with stagnant growth tend to have experienced a slow rise in income per capita although with differences in timing and pace. For example, Togo's relative recovery since the mid-2000s contrasts with the recent decline in Burundi and the sharp decrease in the Central African Republic in the early 2010s. Finally, some countries in the region have had large swings in output per capita, often as a result of idiosyncratic economic crises that left large footprints on economic prosperity. Nigeria in the 1980s and Zimbabwe in the late 2000s are pertinent examples. Perhaps one benefit of these diverging growth paths is the implied lack of contagion from such crises across countries in the region.

The instability and volatility of growth rates that render the different trajectories of output per capita across Sub-Saharan African countries imply that understanding growth behavior from the perspective of a representative country may be misleading. In other words, the uniqueness of country experiences across the countries implies that the diagnostics should focus on what triggers or halts growth spells, and what can sustain their duration and pace. Policy recommendations to sustain growth across African economies should be tailored to the country context.

12 Pritchett's (2000) growth analysis for 111 countries during 1960–92 found a wide array of growth topologies across developing countries, including countries with steady growth (hills and steep hills), rapid growth followed by stagnation (plateaus), rapid growth followed by decline (mountains) or catastrophic falls (cliffs), continuous stagnation (plains), and steady decline (valleys).

13 See Calderon, Dabalen, and Qu (2024) for details on the classification of the patterns of growth.

FIGURE 2.5: Different Growth Topologies across Sub-Saharan Africa



Source: Calderon, Dabalen, and Qu 2024.

Note: The figure depicts the natural log of gross domestic product at chained purchasing power parity per capita (2017 US\$) from Penn World Table 10.01 (Feenstra, Inklaar, and Timmer 2015).

Failure to sustain growth I: Expansions in the region are shorter and smaller in magnitude

Economic growth in Sub-Saharan Africa can be characterized by its inability to sustain longer and stronger expansions.¹⁴ This reflects the fact that countries in the region are more prone to shocks with persistent effects (for example, due to conflict or commodity prices) and have inadequate policy frameworks to address such shocks. The average duration of expansions in Sub-Saharan Africa tends to be significantly shorter (3.3 years) than in other developing countries (5.1 years) and industrial countries (6.7 years). The expansions tend to be even shorter among fragile countries (2.7 years) in the region regardless of their extent of resource

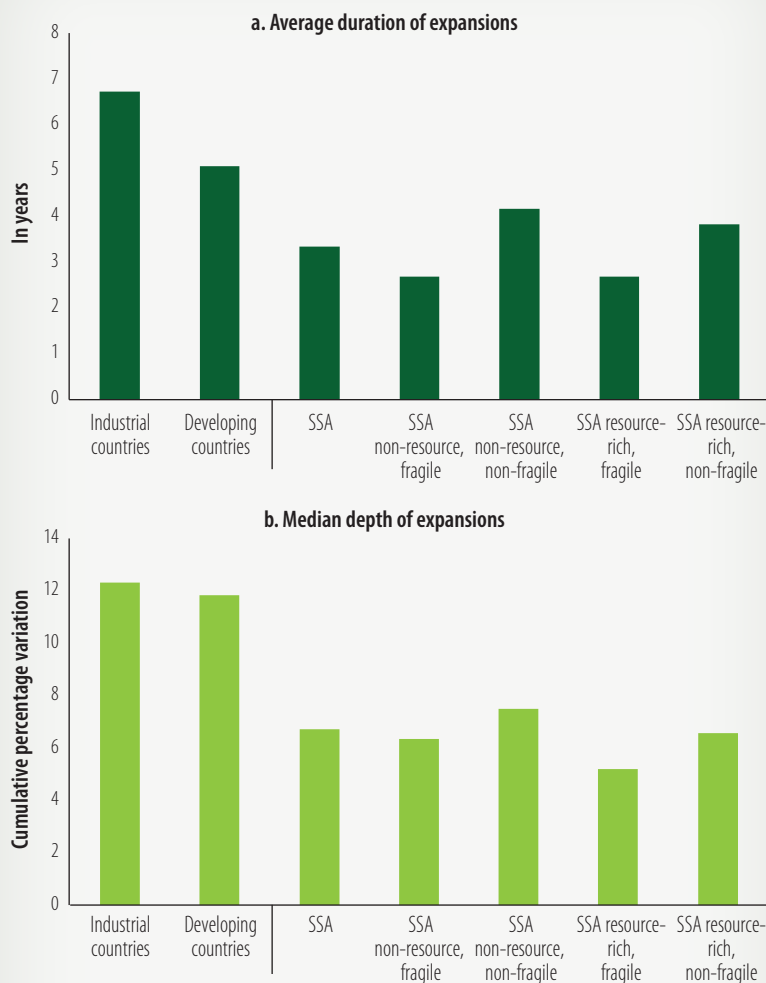
14 An examination of the episodic nature of economic growth involves estimating the main features of expansions and recessions, namely, their incidence, duration, and depth. The analysis is conducted on a sample of 23 advanced countries, 45 Sub-Saharan African countries, and 115 developing countries outside Sub-Saharan Africa over the past six decades (Calderon, Dabalen, and Qu 2024). The Bry-Boschan algorithm is used to identify turning points (peaks and troughs) in real GDP per capita—as implemented by Harding (2002) for long time series annual data. After computing these turning points, recessions or contractions are defined as episodes from peak to trough in GDP per capita, while expansions are episodes from trough to subsequent peak.

abundance.¹⁵ Expansions in non-resource abundant and non-fragile countries in the region (4.2 years) tend to be the longest in Sub-Saharan Africa (figure 2.6, panel a). The (median) cumulative increase in income per capita during expansions (“depth”) in Sub-Saharan Africa (6.7 percent) tends to be smaller than that of other developing countries (11.8 percent) and advanced economies (12.3 percent) (figure 2.6, panel b). Fragile countries exhibit shallower expansions—particularly fragile countries that are also natural resource abundant (5.2 percent). The depth of expansions among non-resource abundant and non-fragile countries (7.5 percent) is the largest within the region. Finally, the (median) pace of these expansions tends to be slower among Sub-Saharan African countries (3.1

percent per year) than other developing countries (3.7 percent) and slightly faster among non-fragile and non-resource abundant countries in the region (3.2 percent).

Existing evidence shows that the length of expansions in economic activity is sustained by sound macroeconomic policies (leading to lower inflation and reduced debt-to-GDP ratios), more outward-oriented trade policies, and higher investment ratios. Strong structural policies—resulting in reduced market distortions and improved institutional quality—can help to sustain growth.¹⁶ Furthermore, there is evidence that growth spells can be sustained for a longer period in more egalitarian societies. More specifically, a 1 percentage point reduction in the Gini coefficient is associated with an 11 to 15 percent longer duration of the growth episode.¹⁷

FIGURE 2.6: Main Features of Expansions in Sub-Saharan Africa, 1960–2021



Source: Calderon, Dabalen, and Qu 2024.

Note: Developing countries refers to the group of developing countries excluding countries in SSA. Duration is defined as the number of years from trough to the subsequent peak during expansions. Depth is computed as the maximum increase of gross domestic product from trough to peak during episodes of expansion. For instance, the amplitude of an expansion, AE , measures the log difference in real gross domestic product from peak (y_0) to trough (y_K), that is, $A_k = y_K - y_0$. SSA = Sub-Saharan Africa.

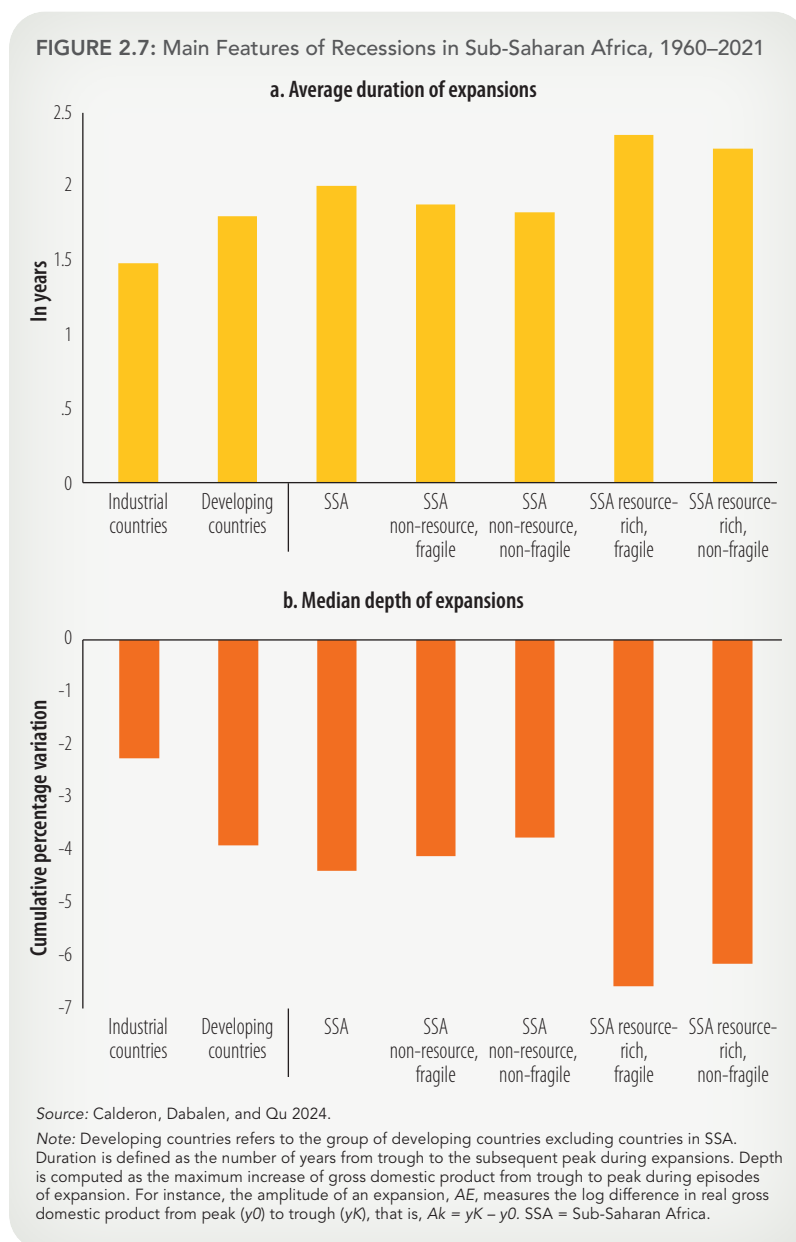
¹⁵ This finding is consistent with the fact that, on average, Sub-Saharan African countries tend to spend a smaller percentage of their time in expansions (63 percent) relative to other developing countries (76 percent) and industrial countries (84 percent). Within the region, resource abundant and fragile countries spend the least proportion of time in expansions (53 percent), while non-resource abundant and non-fragile countries spend the largest proportion of time (71 percent). See Calderon, Dabalen, and Qu (2024) for more details.

¹⁶ Arizala et al. (2017).

¹⁷ Berg, Ostry, and Zettelmeyer (2012).

Failure to sustain growth II: Recessions are longer and more sizable—particularly among resource abundant countries

There are no significant differences in the lengths of recessions across country groups worldwide. On average, the duration of recessions in Sub-Saharan Africa (2 years) is comparable, although slightly longer, than that of other developing countries (1.8 years) and advanced economies (1.5 years). Within the region, the duration of recessions among resource abundant countries (whether they are fragile or non-fragile) is longer than the regional average (figure 2.7, panel



a). However, recessions across Sub-Saharan African countries tend to be deeper (4.4 percent) than those of other developing countries (3.9 percent) and industrial countries (2.2 percent) (figure 2.7, panel b). Recessions tend to be significantly deeper among resource abundant countries, and especially among those that are also fragile (6.6 percent). Recessions among non-resource abundant and non-fragile countries in the region are the smallest in magnitude within the region (3.7 percent). In terms of the (median) pace of recessions, real output per capita contracted at an annual rate of 2.7 percent, and the magnitude of the downturn was larger among resource abundant countries.

Existing evidence suggests that recessions in economic activity tend to coincide with higher public expenditure, surges in debt

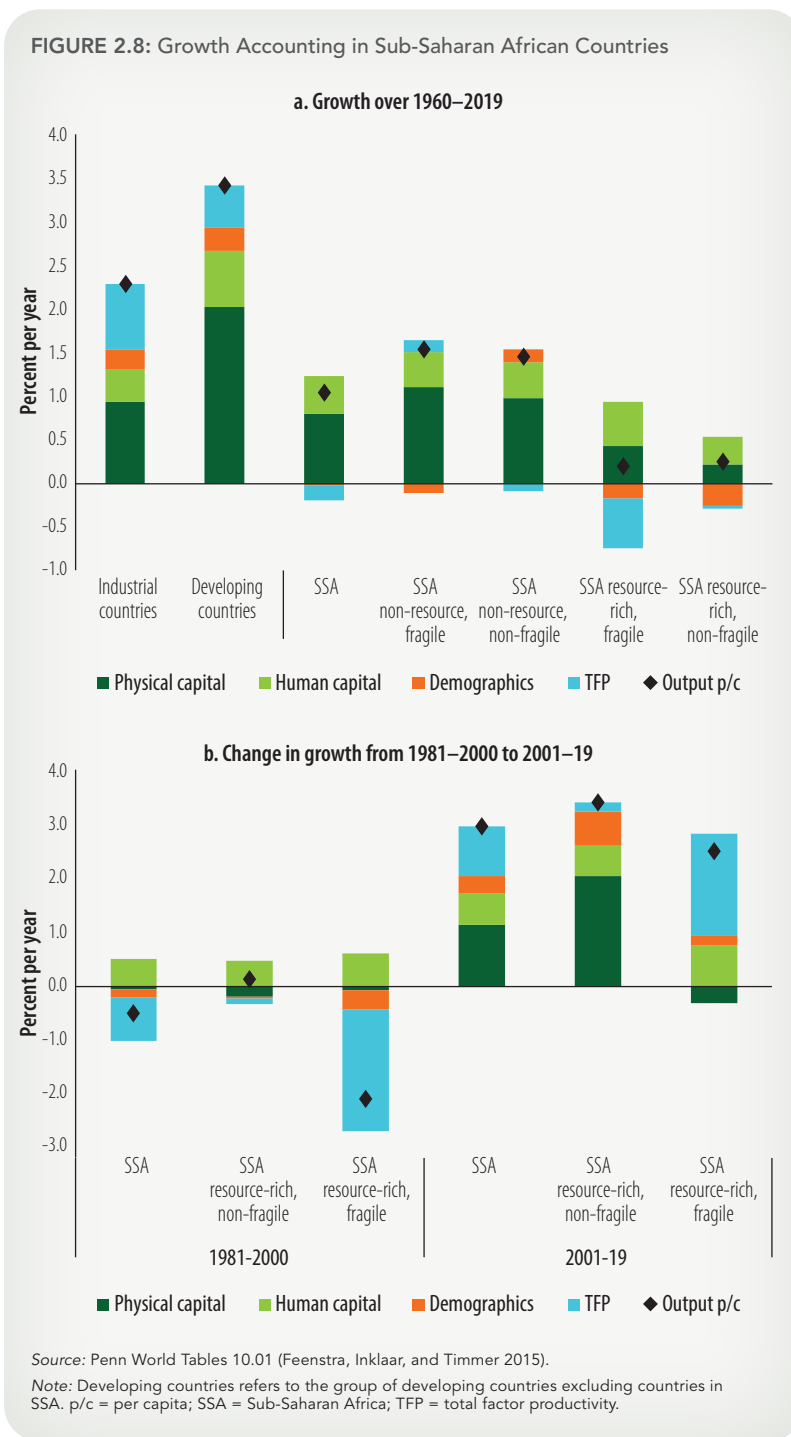
ratios, increased aid flows, and overvalued exchange rates. Collapses in private investment, market distortions (labor, land, and credit), and weak institutions contribute not only to shorten growth episodes, but also to reduce the likelihood of avoiding a hard landing.¹⁸

18 Arizala et al. (2017); Berg, Ostry, and Zettelmeyer (2012).

Failure to sustain growth III: The contribution of TFP growth to long-term growth is negligible

Factor accumulation explains the bulk of growth in Sub-Saharan Africa over the long term, and the contribution of TFP growth is negligible (figure 2.8, panel a).¹⁹ During 1960–2019, factors of production such as physical and human capital expanded at average annual rates of 1.7 and 0.8 percent, respectively, while TFP contracted at a rate of 0.2 percent. Hence, the contribution of physical capital accumulation to economic growth in the region accounted for nearly four-fifths, while that of TFP growth was negative but negligible (-0.13 percent). In contrast, TFP growth accounts for one-third of growth per capita among industrial countries and nearly one-sixth among developing countries. Over the past six decades, demographics made a modest contribution to the dynamics of GDP per capita in Sub-Saharan Africa.

Within the subcontinent, non-resource abundant countries outperform resource abundant countries regardless of their condition of fragility. For instance, non-resource, non-fragile countries outperform resource, non-fragile countries in terms of GDP per capita (1.5 and 0.3



¹⁹ The growth accounting exercise presented in this section estimates the contributions of the drivers of long-term growth in Sub-Saharan African economies, namely, factor accumulation (including demographics) and TFP growth. Demographics, as captured by the labor participation rate and the share of working age population, are included in the analysis following the Loayza and Pennings (2022) framework. The methodology used to examine the relative importance of factor accumulation and TFP growth in driving long-term growth per capita is described in Calderon, Dabalen, and Qu (2024).

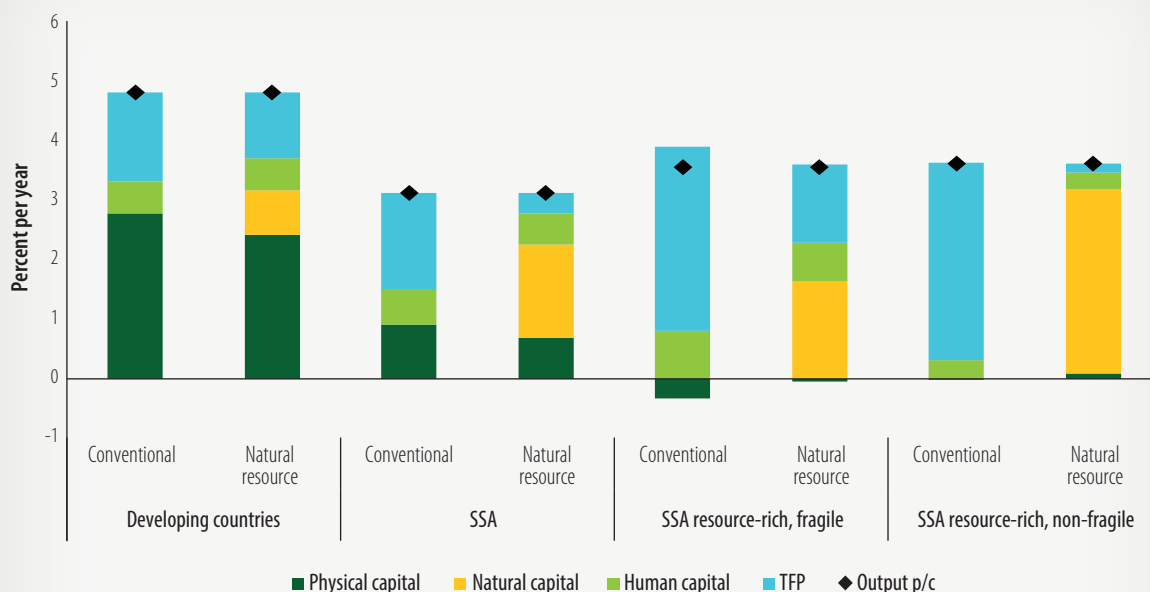
percent)—and this gap is primarily attributed to the more rapid expansion of physical capital (per capita) in non-resource, non-fragile countries (2 percent) relative to resource abundant, non-fragile countries (0.33 percent). Resource abundant and fragile countries exhibit the poorest performance over the long term. This might be attributed to inefficiencies in the use of factors of production—as signaled by the large negative contribution of TFP growth (figure 2.8, panel a).

Capital accumulation and TFP growth account for a large portion of the differences between the economic downturn in 1981–2000 and the expansion in 2001–19 (figure 2.8, panel b). The acceleration of growth since the start of this century has come along with a solid contribution of TFP growth over the past two decades. TFP growth accounted for 30 percent of growth per capita in Sub-Saharan Africa over during 2001–19—as opposed to the negative contribution registered during the contractionary period of 1981–2000.²⁰ The contribution of physical capital also improved over the past two decades: it explained about 40 percent of growth per capita. In other words, Africa shifted from a period of decline in capital deepening and allocative inefficiency (1981–2000) to a period of increase in the quantity and efficiency of the factors of production.

In 2000-14, growth was driven by the use of natural capital rather than TFP—particularly among resource abundant countries

The contribution of TFP to growth per worker across Sub-Saharan Africa tends to decline when the measure of growth accounts for the use of natural capital—particularly among resource abundant countries (figure 2.9). Natural capital—as measured by the stock of all extractable resources, such as geological resources, soils, air, water, and living organisms—

FIGURE 2.9: Growth Accounting for 2000–14: The Role of Natural Capital (percent)



Source: Penn World Tables 10.01 (Feenstra, Inklaar, and Timmer 2015).

Note: Developing countries refers to the group of developing countries excluding countries in SSA. Natural capital refers to the stock of all extractable resources such as geological resources, soils, air, water, and living organisms. The natural resource decomposition, unlike the conventional one, includes natural capital as an additional factor of production. See Calderon (2021) for details on the methodology for computing the output elasticity of physical and natural capital as well as the specification of technology. p/c = per capita; SSA = Sub-Saharan Africa; TFP = total factor productivity.

²⁰ These findings need to be taken with caution as the TFP in the traditional accounting exercise might not capture the increasing use of other factors of production—for instance, natural capital (such as energy, mineral, and metal commodities).

accounted for about half the region's growth per worker during 2000–14. The increased share of growth due to TFP in Sub-Saharan Africa using the “conventional” growth decomposition may conceal the contribution of natural capital in sectors such as energy (as in Gabon, Nigeria, and the Republic of Congo) and extractives (as in Botswana, the Democratic Republic of Congo, and Zambia). Accounting for the accumulation of natural capital (the “natural resource” growth decomposition) reduces the contribution of TFP to growth per worker by more than 1 percentage point per year. This decline is even larger for Sub-Saharan African countries that are resource abundant and non-fragile (figure 2.9). This finding is consistent with alternative evidence from studies that analyze natural resources as a “missing goods” problem in a standard productivity setting,²¹ or those that estimate a production frontier approach to growth accounting.²²

²¹ Freeman, Inklaar, and Diewert (2021).

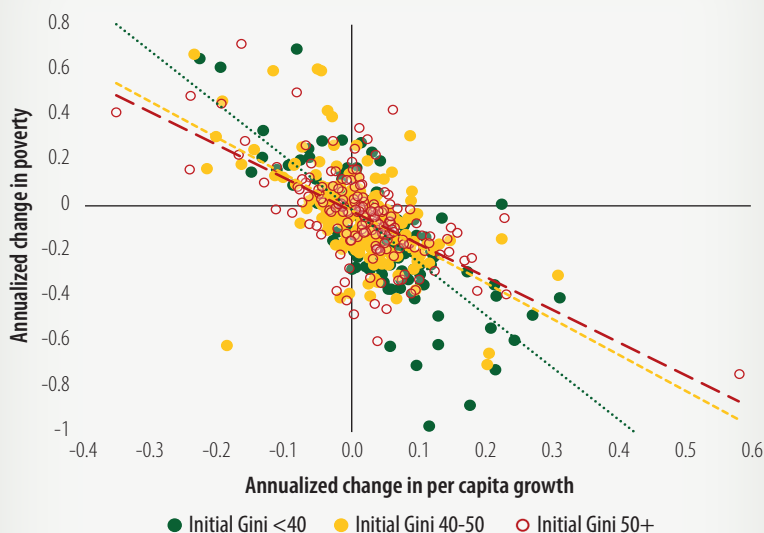
²² Merkina (2009).

2.3 POVERTY AND INEQUALITY IN SUB-SAHARAN AFRICA²³

While Sub-Saharan Africa has had recent episodes of growth, it has struggled to deepen and lengthen these episodes. Growth tends to be volatile, and when recessions arrive (with high frequency), they are deeper and longer than in other regions. This has had substantial impact on how broad-based growth of people’s consumption spending is in the region. Sub-Saharan Africa stands out globally as having the highest extreme poverty rate, high levels of inequality, and the weakest transmission of growth to poverty reduction. Of the 700 million people living in extreme poverty in 2019, 60 percent of them were in Sub-Saharan Africa. Along with pockets of high poverty across the region, almost a third of the extreme poor live in two countries—the Democratic Republic of Congo and Nigeria—and another third live in six countries: Ethiopia, Kenya, Madagascar, Mozambique, Tanzania, and Uganda.

At the same time, with an average Gini index of 41.5, Sub-Saharan Africa is the second most unequal region in the world.²⁴ The inequality in countries in the region is higher than that in countries in other regions at similar income levels. High levels of inequality have consequences for growth as countries that start out with high levels of inequality tend to experience slower growth.²⁵ Inequality also affects the distribution of growth among different income groups and therefore affects the transmission of growth to poverty reduction. The evidence across countries over the past 30 years shows that for a given increase in per capita growth, countries with higher initial levels of inequality have lower reductions in poverty than countries with low levels of inequality (figure 2.10). While the pace of reduction of monetary poverty in Sub-Saharan Africa has mirrored that of aggregate per capita growth, the rate of transmission of growth to

FIGURE 2.10: Growth Leads to Greater Poverty Reduction in Countries with Low Levels of Inequality (percentage points)



Source: Calculations based on data from the World Bank Poverty and Inequality Platform.

Note: Change in international poverty headcount based on the annualized change in the survey mean. The figure is based on 575 consecutive spells with both start- and end-year poverty rates of at least 2 percent. The Gini index is for the initial year of the time spell.

poverty reduction is among the lowest in the world, largely on account of high inequality in the region. Overall, economic growth in Sub-Saharan Africa has been less “efficient” in reducing poverty as reflected by its median growth elasticity of poverty being the lowest among all regions. This has been the case even during years of high growth. Moreover, the structural causes of the high levels of inequality have impacts on growth itself, as the productive potential of the population is not being fully utilized.

²³ This subsection draws heavily from a forthcoming study by Sinha, Inchauste, and Narayan (forthcoming).

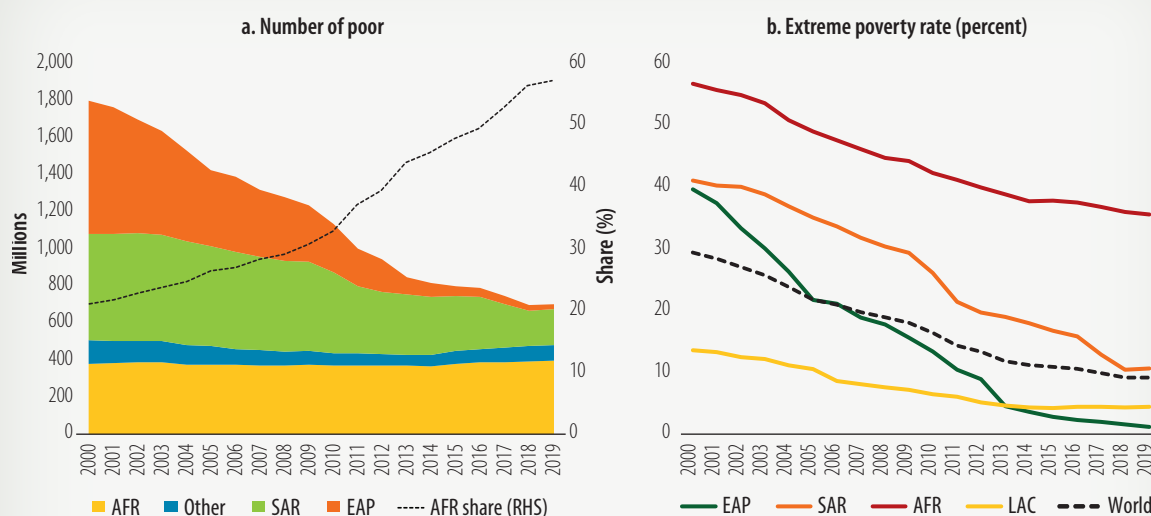
²⁴ The Gini index takes values between 0 and 100. Values close to 0 (100) correspond to low (high) inequality.

²⁵ Cerra et al. (2022) summarize the literature on the relationship between growth and inequality.

The pace of poverty reduction has declined since the mid-2010s in line with the slowdown in growth

Poverty reduction has been slow relative to the rest of the developing world since 1990. In line with the 2000–14 high-growth period, Sub-Saharan Africa’s extreme poverty rate fell from 56.5 percent in 2000 to 37.6 percent in 2014. However, rapid population growth resulted in the number of poor only falling by 10 million, from 379 million in 2000 to 369 million in 2014 (figure 2.11, panel a).

FIGURE 2.11: Extreme Poverty in the Africa Region Relative to the Rest of the World, 2000–19



Source: World Bank Poverty and Inequality Platform (October 2023).

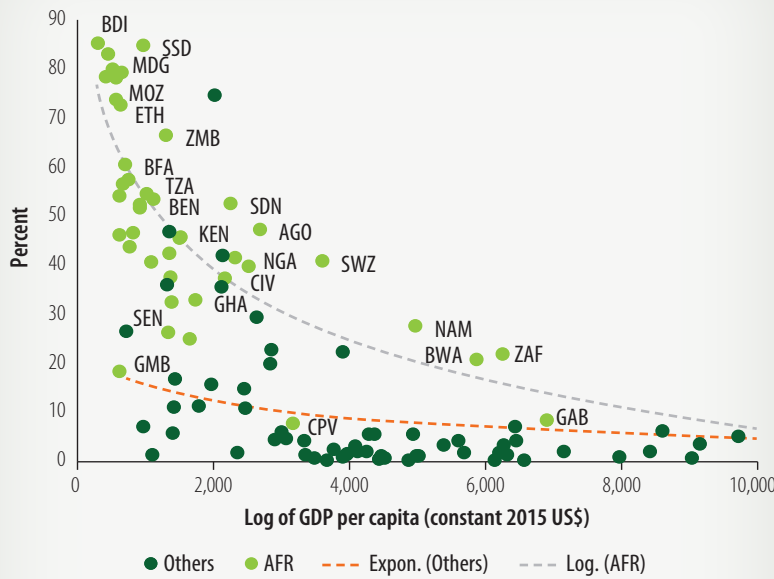
Note: Estimates are based on the poverty line of \$2.15/day (2017 purchasing power parity). AFR = Africa; EAP = East Asia and the Pacific; LAC = Latin America and the Caribbean; SAR = South Asia.

As the commodity boom ended and growth slowed, so did the pace of poverty reduction. While the rest of the world reduced extreme poverty on average by 9.2 percent per year between 2014 and 2019, the corresponding percentage for Sub-Saharan African countries was only 1.2 percent per year, which was significantly lower than the rate of reduction in the region between 2000 and 2009 (2.7 percent) and between 2010 and 2014 (3.1 percent) (figure 2.11, panel b). Thus, poverty reduction in Sub-Saharan Africa, which was already lagging the rest of the world, has fallen further behind since the mid-2010s. In 2019, Sub-Saharan Africa’s extreme poverty rate of 35 percent was the highest of all regions.

Multidimensional measures of poverty highlight the multifaceted face of poverty in Sub-Saharan Africa. Approximately 54 percent of Sub-Saharan Africa’s population lives in multidimensional poverty, a measure that captures nonmonetary components of poverty, such as access to educational and infrastructural services.²⁶ Even when accounting for GDP per capita

²⁶ This measure goes beyond counting households that are unable to afford a basic bundle of goods; it also counts households that experience substantial deprivations in access to crucial services for healthy and productive activities (water, education, sanitation, and electricity).

FIGURE 2.12: Multidimensional Poverty Rates, by GDP per Capita



Source: Calculations based on data from the World Bank Poverty and Inequality Platform.
 Note: The multidimensional poverty measure (MPM) analysis is limited to the subset of countries with sufficiently detailed surveys to estimate the MPM. AFR = Africa; GDP = gross domestic product. For a list of country codes, go to <https://www.iso.org/obp/ui/#search>.

levels, the Africa region exhibits higher levels of multidimensional poverty compared to other regions (figure 2.12).

These rates are particularly elevated in fragile countries, such as Niger and South Sudan. Deprivation in access to improved sanitation, an important input for human capital development, is particularly lagging in the region, with more than 90 percent of the population lacking access to improved sanitation in Burundi, Ethiopia, and Sudan. In contrast, education has

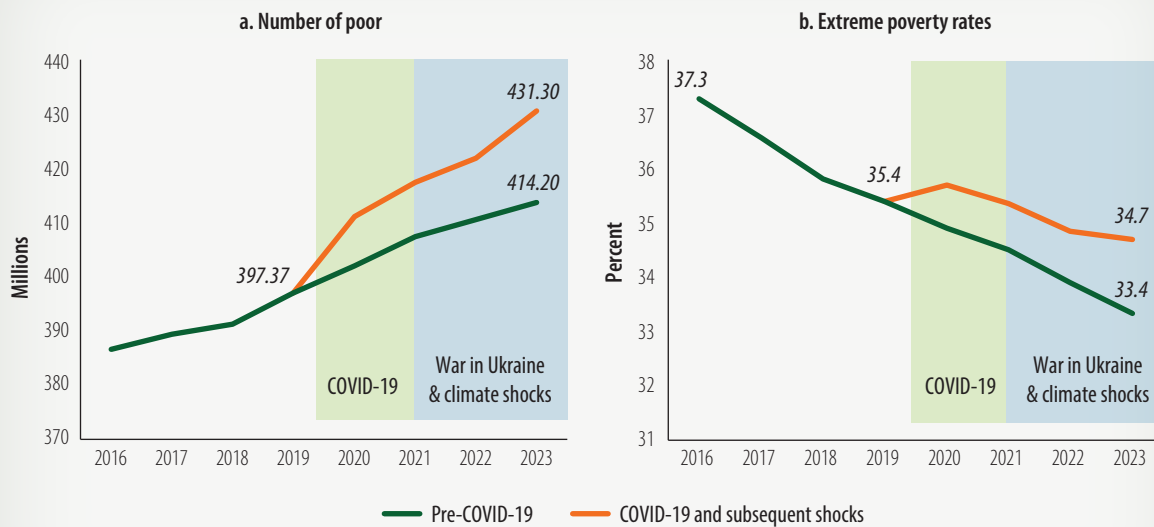
shown major improvements, with access to schooling provided to even the poorest fraction of the population. In general, the multidimensional poverty rate is positively correlated with the monetary poverty rate.

The COVID-19 pandemic and subsequent shocks have further dampened the pace of poverty reduction

Due to the sharp slowdown in economic activity during the pandemic, most estimates indicate that there was a significant one-year increase in extreme poverty in many countries in 2020. This was followed by a slow and uneven recovery, which has led to poverty remaining higher than would have been expected without these shocks. Figure 2.13 shows nowcasted estimates of poverty rates since 2019. The results suggest that 17.1 million more people in Sub-Saharan Africa lived in extreme poverty in 2023 compared to a scenario in which pre-pandemic trends would have prevailed. Similarly, extreme poverty rates decreased by a third of the amount by which they would have decreased in absence of this shock.

Furthermore, climate shocks have placed additional stress on the region’s development progress. The countries of Sub-Saharan Africa are overrepresented among the most vulnerable and least prepared for climate change shocks globally, including 13 of the 15 lowest ranked countries. An estimated 42 percent of the region’s population were at risk of a climate-related shock in 2019/2020—including flooding and worsening droughts. Reliance on agricultural livelihoods makes the region particularly vulnerable to climate shocks. In Sub-Saharan Africa, 16 percent of the population is both exposed to risks of climate shocks and living in poverty,

FIGURE 2.13: Extreme Poverty in Sub-Saharan Africa Since 2019



Sources: Calculations based on data from the World Bank Poverty and Inequality Platform (October 2023); Yonzan, Mahler, and Lakner 2023.
 Note: Nowcasting of the number of poor and the poverty rate is based on the poverty line of \$2.15/day (2017 purchasing power parity).

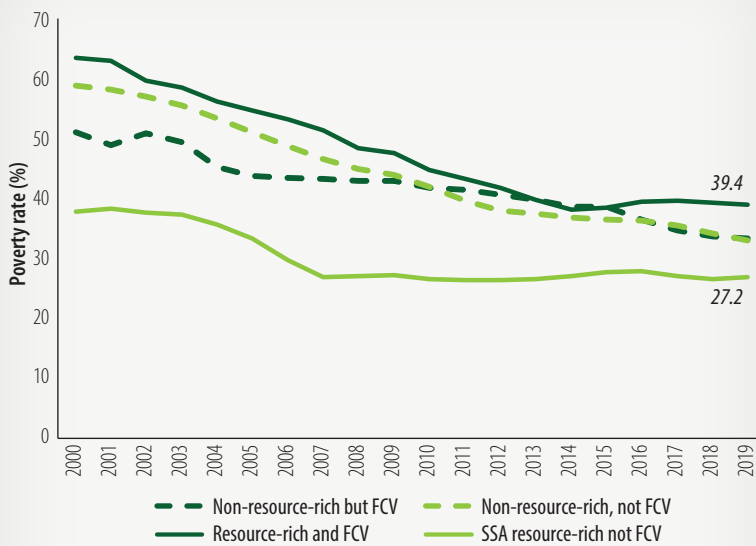
compared to 5 percent of the world’s population. This poor and at-risk population is less likely to have savings, access to credit, or insurance to compensate for their losses of incomes and assets. Furthermore, they are less likely to be able to switch their income-earning activities due to low levels of education, financial resources, and market access.

Fragility, conflict, and urbanization influence the pace of poverty reduction

Fragility and conflict share a large part of the responsibility for the slow poverty reduction in many of the countries in the region. Twenty of 39 countries affected by fragility, conflict, and violence (FCV) in 2023 were in the Africa region. Thirty countries in the region are or have been in FCV status at some point in time since 2006. They contain 74 percent of the region’s extreme poor and more than 70 percent of the region’s population. This combination increases the probability of these countries getting caught in a “fragility trap” in which they struggle to escape a slow growth–poor governance equilibrium. The trap is further amplified by political instability, violence, corruption, and insecure property rights, thereby hindering economic growth and development. Poverty is particularly pronounced in countries that are afflicted by fragility or conflict—including those with significant natural resource wealth—but this difference has narrowed since 2000 (figure 2.14).

Although there are regional differences in extreme poverty, urbanization constitutes a common theme for poverty reduction. Only 41 percent of Sub-Saharan Africa’s population lived in an urban area as of 2020, where poverty rates were less than half as high as in rural areas (figure 2.15, panel a). Due to its large share, rural poverty reduction drove overall total poverty reduction in the first decade of the 2000s. In contrast, poverty rates decreased marginally in rural and urban

FIGURE 2.14: Poverty Trends, by Fragility and Resource Wealth Status

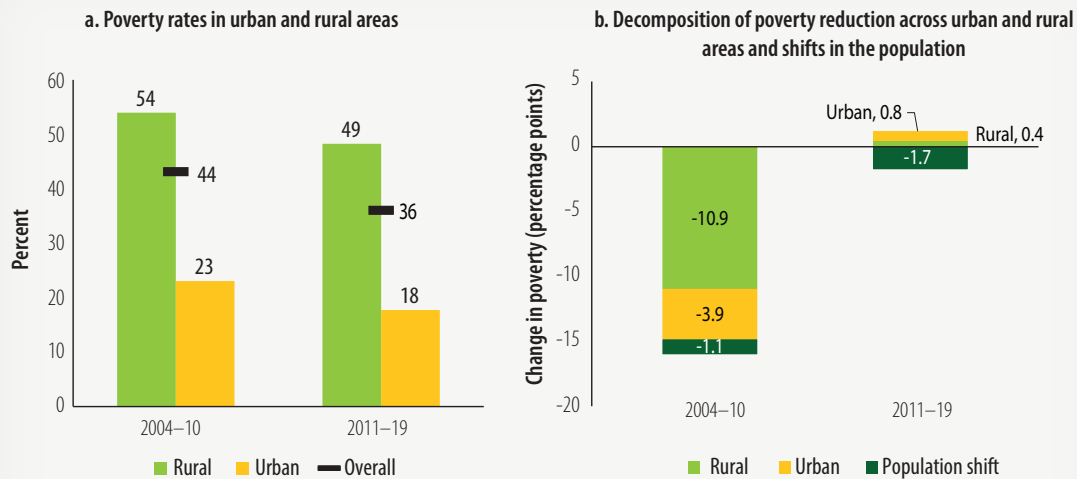


Source: World Bank Poverty and Inequality Platform.

Note: Estimates based on the \$2.15 poverty line (2017 purchasing power parity). FCV = fragility, conflict, and violence; SSA_RR_nofcv = resource rich non-FCV countries in Sub-Saharan Africa.

areas in the 2010s, leaving poverty reduction solely to continued urbanization (figure 2.15, panel b). This trend is likely to continue since Sub-Saharan Africa is the fastest urbanizing region in the world, with the urban population expected to overtake the rural population by 2035. While urbanization and connectivity of rural to urban areas will play a growing role, the extent of growth in rural areas will continue to be critical for poverty reduction.

FIGURE 2.15: Poverty in Urban and Rural Areas in the Africa Region



Source: World Bank Poverty and Inequality Platform (October 2023).

Note: The values in panel a were calculated using the international poverty line of \$2.15/day (2017 purchasing power parity). Due to data limitations, urban and rural poverty rates were extrapolated based on a subset of countries in the Africa region and adjusted to reflect the overall regional poverty rates. Panel b is based on a Huppi-Ravallion decomposition (Ravallion and Huppi 1991) using data from a subset of 17 countries with comparable poverty data for the relevant years of analysis (within three years of 2000, 2010, and 2019).

Growth has been low and inefficient at reducing poverty compared to other regions

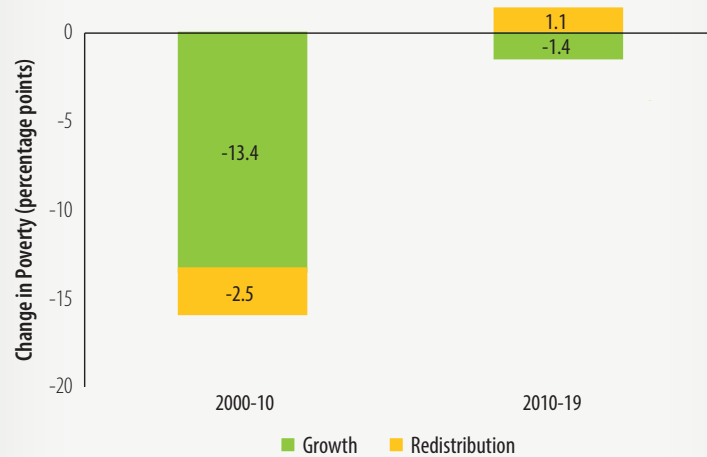
Most of the reduction in poverty occurred on account of the level growth rather than its distribution (“redistribution”) (figure 2.16). Growth accounted for 84 percent of the reduction in poverty between 2000 and 2010, whereas redistribution accounted for the remaining 16 percent. As growth slowed between 2010 and 2019, it remained responsible for all the poverty

reduction across the region, while increasing inequality levels limited the reduction of poverty. Two conclusions emerge from this analysis. First, stronger and more sustained growth is necessary for poverty reduction. Average growth needs to be around 3 percent simply to keep pace with the growing population. Second, there are large potential gains from tackling inequality to reduce poverty.

Beyond increasing the rate of economic growth, growth also must become more efficient at reducing poverty. A comprehensive analysis of the period between 1981 and 2021, based on a sample of 575 successive and comparable growth spells for countries across the world, reveals that economic growth in Sub-Saharan Africa has been less poverty reducing relative to other regions, measured by the growth elasticity of poverty. The low growth elasticity of poverty prevails even after controlling for initial differences in poverty, income levels, and inequality. GDP per capita growth of 1 percent is associated with poverty reduction of only 1 percent in the region, compared to 2.5 percent in the rest of the world (figure 2.17). This is worrisome as the limited poverty reduction in Sub-Saharan Africa since 2000 was driven primarily by growth as opposed to distributional changes in income. Moreover, these elasticities are even lower when considering FCV and resource-poor countries in the region.

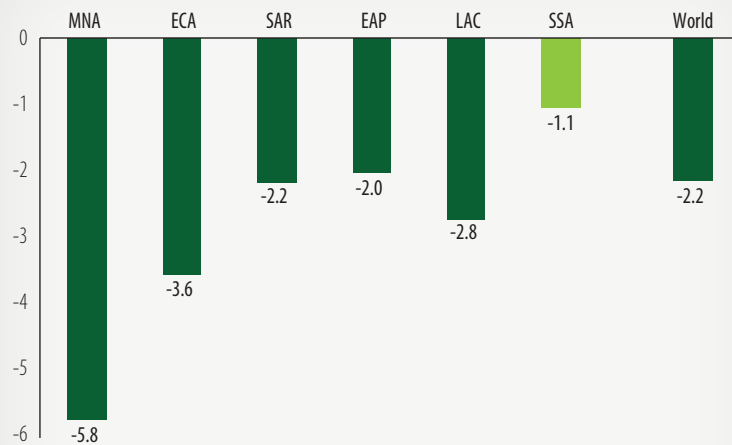
The weak transmission of growth to households' consumption is mediated by inequality. This weak transmission is also associated with the quality of growth as reflected in lower levels of human

FIGURE 2.16: Decomposition of Poverty Reduction through Income Growth versus Income Redistribution, 2000–19



Source: Calculations based on data from the World Bank Poverty and Inequality Platform (October 2023).
 Note: This figure is based on a Datt-Ravallion decomposition (Datt and Ravallion 1992) using data from a subset of 17 countries with comparable poverty data for the relevant years of analysis (within three years of 2000, 2010, and 2019).

FIGURE 2.17: Elasticity of Poverty Reduction to Growth, by Region



Source: Wu et al. 2024.
 Note: Values in the figure are based on the elasticity of poverty change to growth in household expenditure and per capita gross domestic product, across all nonoverlapping spells with available data for each country, between 1990 and 2019 (limited to cases with poverty rate > 2 percent and winsorizing to remove outliers). EAP = East Asia and the Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.

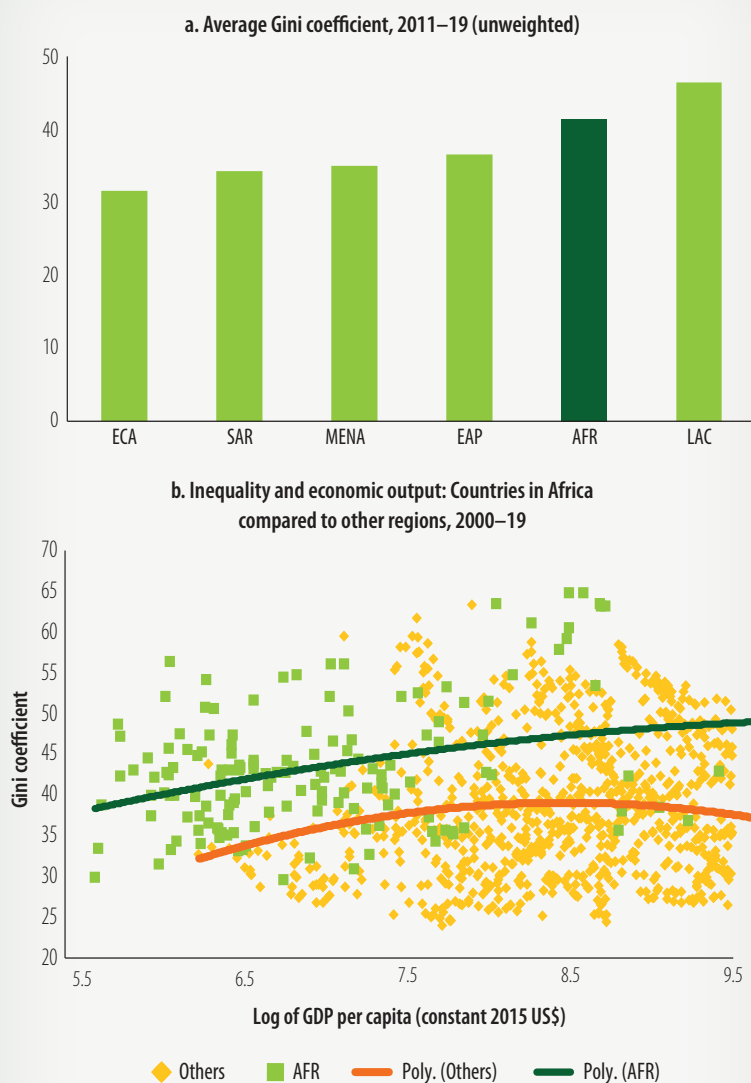
capital development, weak structural transformation, and low economic diversification. Higher net primary enrollment rates and youth literacy are associated with a stronger transmission from per capita GDP growth to change in poverty (Wu et al. 2024). Similarly, higher levels of electrification, safe drinking water, and basic sanitation amplify the effect of economic growth on poverty. In contrast, higher shares of employment in agriculture and greater natural resource dependence are associated with a weaker link between GDP growth and average household welfare. Structural change has occurred mainly from low-productivity jobs in agriculture to low-productivity jobs in services, whereas the majority of the population in Sub-Saharan Africa is still reliant on agriculture. Moreover, the structural shifts in employment that have occurred have not brought about the expected boost to labor productivity, as Africa's economic growth

is dominated by low-productivity services. Poverty reduction in the region requires higher and stable growth and a higher responsiveness of poverty to growth. Key to both objectives is leveling the playing field by tackling structural inequalities.

Inequality underpins both low economic growth and low responsiveness of poverty reduction to growth

Sub-Saharan Africa stands out for its high and persistent levels of income inequality, which are second only to those of the Latin America and the Caribbean region (figure 2.18, panel a). More than half of the countries in Sub-Saharan Africa with inequality data have a Gini index higher than 40. Moreover, countries in the region exhibit inequality that is 10 Gini points higher on average than other regions for a given level of

FIGURE 2.18: Inequality in Sub-Saharan Africa



Source: Calculations based on data from the World Bank Poverty and Inequality Platform (October 2023).
 Note: Panel b is a scatter plot of Gini coefficients and log of GDP per capita between 2000 and 2019. To focus on low- and middle-income countries, only observations with GDP per capita less than \$14,000 (2015 US\$) are included. The fitted lines reflect the best fitting polynomials of order 2 for the set of Africa region countries and for all other countries. AFR = Africa region; EAP = East Asia and the Pacific; ECA = Europe and Central Asia; GDP = gross domestic product; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; Poly = polynomial trendline; SAR = South Asia.

GDP (figure 2.18, panel b). This includes countries with the highest inequality levels in the world. In this high-inequality environment, the occurrence of major shocks can push households with limited access to markets, capital, and basic services into poverty traps.

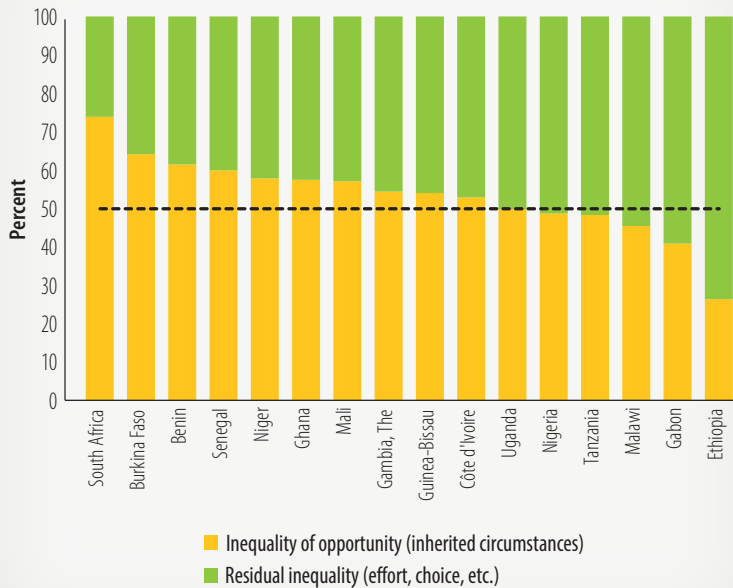
High inequality in the region is largely structural in the sense that it is not simply the result of differences in individual talents or effort. As such, structural inequality is detrimental to the pace of economic growth because it implies that people are not reaching their productive potential. This has important implications for economic growth, as there is an inefficient allocation of human resources. In addition, inequality prevents growth from reaching the bottom of the income distribution and, hence, it is less effective in reducing poverty. Reducing structural inequalities would lead to a higher responsiveness of poverty reduction to growth and increase growth itself. Growth alone will not be enough to increase the pace of poverty reduction, since that would require sustained growth of a magnitude that is unprecedented and nearly impossible for the region.

Income inequality is rooted in structural inequalities

Structural inequality is the extent to which differences in income across individuals are driven by circumstances beyond their control, including the results of market and institutional distortions, as opposed to differences in individual talent or effort. For instance, structural inequality includes what the literature often refers to as inequality of opportunity, which is differences between groups due to inherited characteristics over which an individual has no control, such as location of birth, ethnicity, gender, parent's education, and socioeconomic status. These differences lead to accumulating disparities in three distinct stages. First, these disparities arise when people are building their productive capacities (the pre-market stage). Their location of birth, gender, or other unalterable characteristics can determine whether a person has access to schooling and other basic services. Second, when people engage in productive activities, poorly functioning markets, distortions, and frictions can systematically limit certain groups' access to productive income-generating opportunities (the in-market stage). This leads to an unequal playing field, limiting structural transformation, and ultimately preventing people from reaching their full potential. Finally, disparities can be exacerbated or redressed through taxes and social transfers and subsidies (the post-market stage). Importantly, these stages are not separate from each other but interconnected, with spillovers occurring from one stage to the other. Inequality in access to quality education will be compounded by labor market distortions or lack of competition, which could then be exacerbated by regressive taxes. Similarly, tax incentives or subsidies in the post-market stage can lead to greater labor market distortions in the in-market stage.

Although measuring the extent of structural inequality is difficult, one method for doing so is to decompose the portion of inequality that can be statistically attributed to predetermined attributes outside the control of individuals. By that measure, at least half of the overall inequality in consumption can be explained by birth characteristics, such as place of birth, religion, ethnicity, and parental education and sector of employment, in Sub-Saharan African countries (figure 2.19). These shares are comparable to the numbers in Latin America and South Asia (Lebow et al. 2024). However, these estimates are a lower bound measure of structural inequality, as it is likely that there are other circumstances that are not included in the analysis.

FIGURE 2.19: Inequality of Opportunity (share of inequality explained by circumstances, percent)



Source: World Bank staff estimates based on household budget surveys.

Moreover, distortions, such as monopoly power, which affect the ability of individuals to participate in some markets or benefit from competitive prices, are not captured by this measure.

As such, the high levels of inequality observed in Africa are rooted in structural inequalities, which not only weaken the link between economic growth and poverty reduction, but also significantly undermine economic growth itself. Three channels

stand out as essential for understanding how structural inequality has undermined Africa's poverty reduction. First, structural inequality reduces the region's growth by constraining the productive capacity of households and narrowing the pathway of upward mobility across generations. Second, structural inequality arises from market and institutional distortions that affect the extent to which these productive capacities are utilized. To the extent that human resources are not efficiently allocated to their productive potential, structural inequality has direct implications for the composition of the region's growth itself—Africa's lack of economic transformation is partly attributable to structural inequality. Moreover, the lower levels of productive capacity of households and economic transformation also undermine the efficiency of growth in reducing poverty. Third, taxes and benefits can exacerbate or mitigate structural inequality and have an impact on poverty.

The experiences of countries such as Bangladesh and Viet Nam showcase how policies can successfully operate through these channels (box 2.1). While these countries still face challenges, they have been able to spur growth with poverty reduction, and without significantly driving up inequality. They are globally known for their innovations in financial inclusion (for example, microfinance in Bangladesh) and export orientation and participation in global value chains (Bangladesh and Viet Nam). In Africa, Kenya has experienced spells of relatively high growth and declining poverty and inequality particularly between 2005 and 2015.²⁷ This progress was supported by market-oriented reforms and progress in pre-market outcomes such as education and health.²⁸ Since 2015 the link between growth and the pace of poverty reduction has weakened due in large part to factors related to the performance of the labor market and households' resilience to frequent and multiple shocks (World Bank 2023).

²⁷ Driven by strong growth among the bottom 40 percent of rural households, the Gini index declined from 0.45 in 2005/06 to 0.40 in 2015/16.

²⁸ Kenya achieved the highest Human Capital Index (HCI) score in mainland Sub-Saharan Africa. The proportion of households with a primary school-aged child not attending school declined from 17 percent in 2005 to 5 percent in 2021, thanks to the Government's efforts to provide free primary education.

BOX 2.1: Country Experiences: Bangladesh and Viet Nam

Bangladesh and Viet Nam are among the fastest growing economies in their respective regions that have also experienced periods of falling inequality and poverty. Market-oriented reforms in each of these countries helped to boost growth. In Bangladesh, extreme poverty measured by the US\$2.15 a day poverty line fell from over 40 percent in 1991 to 5 percent in 2022, while the Gini index for consumption remained at about 33 (World Bank Poverty and Inequality Platform, 2024). Viet Nam eradicated extreme poverty as the international extreme poverty rate declined from 45 percent in 1993 to 1 percent in 2022. The country has not experienced major increases in income inequality, with its income Gini index (37 in 2020) remaining substantially lower than those of other high-growth countries.

The two countries' development trajectories have been characterized by policy attention to building productive capacities, particularly investments that equalized access to health and education services. In Bangladesh, nongovernmental organizations joined the government in promoting social services to communities, resulting in remarkable progress in the country's human development indicators. For example, the mortality rate of children under five dropped from 36 per 1,000 live births to 25 between 2017 and 2022. Between 2000 and 2016, the net primary enrollment rate increased from 72 to 93 percent, the fastest growth in the South Asia region. Improvements in schooling were broad-based and reduced inequalities between gender and socioeconomic groups. Viet Nam has delivered wide access to basic services, including broad access to primary education and health care, alongside infrastructure such as paved roads, electricity, piped water, and sanitation. There is also relatively little variation in students' performance scores by socioeconomic status. Viet Nam has also made great progress in reducing child mortality and child stunting. Among the contributing factors were a large expansion of health care facilities and workers and implementation of a series of measures, including special programs targeting women's and children's health, promotion of family planning, and targeted use of community health workers.

The countries have followed differing trajectories in creating opportunities for workers to use their productive capacities, but in all cases these opportunities were especially important for the bottom of the distribution. Bangladesh and Viet Nam have been successful in creating labor-intensive wage employment opportunities for workers in manufacturing by becoming an attractive destination for foreign direct investment in the aftermath of broad-based trade liberalization and domestic market reforms. Bangladesh's reforms in the 1990s enabled greater private sector participation in trade, finance, and land ownership. These reforms were accompanied by complementary reforms in agriculture (liberalization of agricultural input markets and seed sector reforms). Structural improvements between the early 1990s and mid-2000s provided strong impetus to the rapid expansion of export-oriented, labor-intensive readymade garment industries. Strong job creation was accompanied by a continuous shift of labor from agriculture to industry and services and from rural to urban areas. Female employment increased at a faster pace than male employment. This brought millions of women into the labor force and increased their economic empowerment. In Viet Nam, initial reforms included decentralized decision-making, price liberalization, and replacement of central planning with market-based resource allocation. Trade and foreign exchange controls were lifted, setting the stage for the country's reintegration into the global economy. The relatively equitable allocation of land rights provided the basis for broad-based growth and

a surge in poverty-reducing agricultural production during the 1990s (World Bank 2016). Private sector enterprises—both domestic and foreign—have sprung up since the early 1990s and especially after enactment of the Enterprise Law in 2000, which legalized the creation of private firms. As a result, inclusive growth continued with the rise of labor-intensive, export-driven manufacturing and expansion of employment opportunities in the service sectors in the 2000s. Viet Nam has become a major destination for inflows of foreign direct investment and a thriving export economy. Underpinned by decisive trade liberalization, today it is one of the most open economies in the world and strongly integrated into global value and production chains.

Source: Elaboration based on review of the literature.

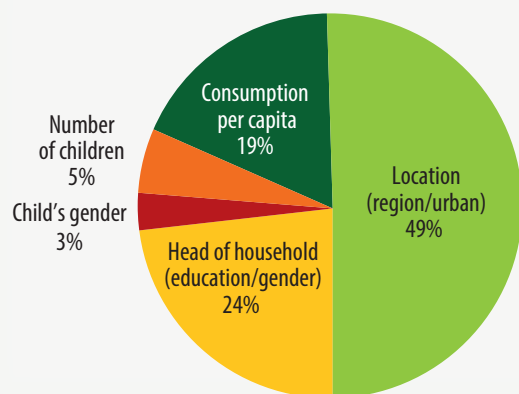
Structural inequalities in building productive capacity

Structural inequality in the pre-market phase reflects income inequality arising from disparities in building people’s productive capacities and can be measured in several ways. One approach is to focus on children and account for access to services using the Human Opportunity Index (HOI). This is a composite indicator combining two elements: (1) the level of coverage of basic opportunities for human development, such as access to education, clean water, sanitation, and electricity; and (2) the degree to which the distribution of those opportunities is conditional on children’s circumstances. The latter is measured by the dissimilarity index, which penalizes the HOI for unfairly distributed access to services. This penalty implies that if the HOI is below the coverage rate, then there are inequalities in access to services.

Although there have undoubtedly been improvements in the coverage of access to basic services in Sub-Saharan Africa over the past two decades, these remain highly unequal. For instance, coverage of educational opportunities is still below universal, especially in FCV countries. Access to education is limited, with an average of 46 percent of children finishing primary school on time. Moreover, it is unequal, as the average HOI is only 39 percent. Access to basic services is highest for water (HOI 66 percent), compared to electricity (HOI

36 percent), which is better than improved sanitation (HOI 27 percent). Critically, inequality in access to services is heavily influenced by the circumstances in which a child is born, suggesting that structural inequalities are prevalent early in the pre-market stage. Figure 2.20 decomposes the average contributions to the dissimilarity index, which is a measure of

FIGURE 2.20: Average Contributions of Circumstances to Inequality of Opportunities (percent)



Source: Calculations based on data from the World Bank Global Monitoring Database.

structural inequality at the pre-market stage, or inequality of opportunity. On average, a child's location accounts for around half of the dissimilarity index, especially in resource rich countries where regional disparities account for 54 percent of the dissimilarity index.

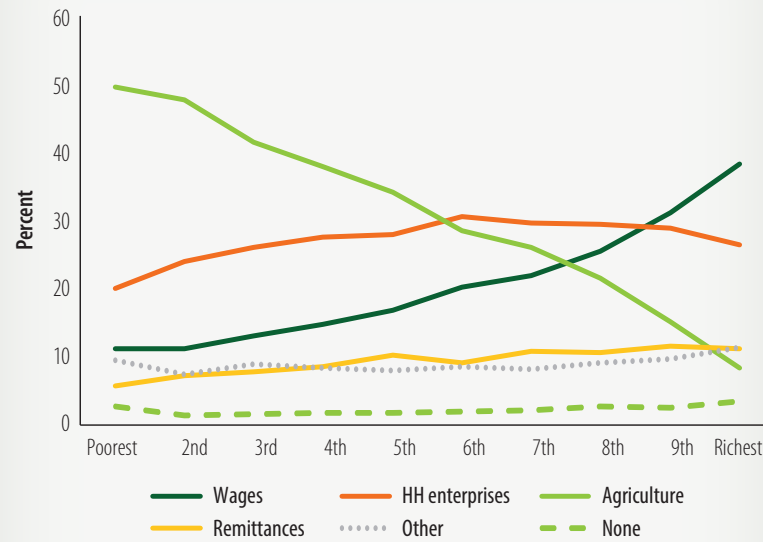
These results point to high levels of structural inequality, and evidence suggests that these are persistent enough to limit intergenerational mobility. For example, prior to the expansion of access to schooling, the probability that a child in Sub-Saharan Africa surpassed her parents' education was the lowest among all regions, and it was especially low in FCV countries. Moreover, while girls lagged boys until the 1980s, this gender gap largely closed around the world but remained significant in Sub-Saharan Africa. In addition, the correlation between the level of education of a child and that of her parent is high in Sub-Saharan Africa, second only to South Asia. This implies that structural inequalities today can worsen inequality tomorrow, in turn affecting growth and the elasticity of growth to poverty reduction. This can happen because inequality of opportunities in building human capital can have lifelong consequences for earnings and create persistence across generations.

Structural inequalities arising from the use of productive capacities

People utilize their productive capacities in firms or farms to earn income. Structural inequality is the income disparity that arises due to distortions that affect the performance of firms and farms. Market imperfections and institutional distortions have the power to limit the productivity and earnings of some workers, firms, and farms, leading to an uneven playing field where the most talented or most efficient is not necessarily the most profitable. Market frictions, weak enforcement, inadequate market regulation, and corruption decrease the efficiency of economic activity and shape the distribution of earnings. Market imperfections and institutional distortions not only shape how individual productive capacity is used and the returns to that productive capacity, but also the structure of the economy itself as evidenced by the type of sectoral structural transformation in the region. They also misallocate labor and capital across producers toward low-productivity activities, thus reducing aggregate output. Distortions also affect the size distributions of firms and farms. Correcting distortions can therefore reduce poverty and inequality, boost growth, and affect the size/scale of firms and farms.

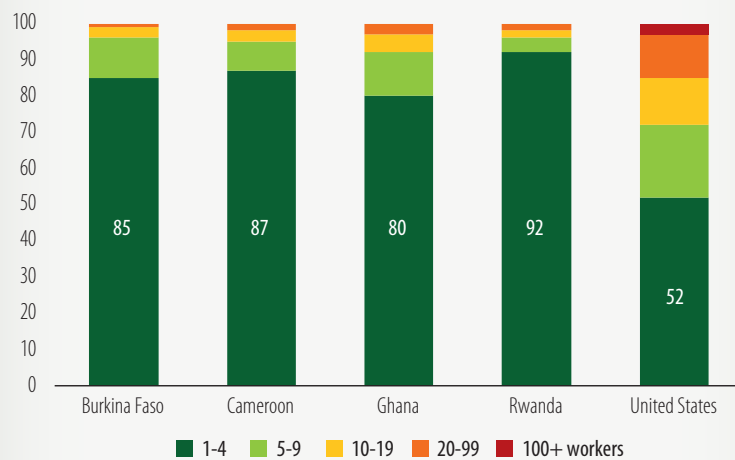
Sub-Saharan Africa exhibits one of the highest labor force participation rates, at 68 percent, but around half of all workers are engaged in family farms and nonfarm household enterprises, where opportunities are limited. Workers at the lower end of the distribution are engaged mostly in agriculture, while wage employment is most prevalent for the top decile (figure 2.21). Only a few workers are employed in large-scale establishments (figure 2.22), which are more likely to be productive and provide ample earning opportunities. The landscape of firms in Sub-Saharan Africa is dominated by many small-scale enterprises, thereby limiting the potential for economies of scale.

FIGURE 2.21: Share of Income from Agriculture, Household Enterprises, and Wage Jobs, by Consumption Deciles



Source: Calculations based on Living Standards Measurement Study surveys in Ethiopia, Ghana, Malawi, Nigeria, Tanzania, Uganda, and the West African Economic and Monetary Union.
 Note: Household enterprises include own-account workers. HH = households.

FIGURE 2.22: Firm Size and Employment Distributions in Sub-Saharan African Countries and the United States (percent)



Source: Abreha et al. 2023, based on establishment census data and United States Business Dynamics Statistics.

Note: The employment distributions for countries in Sub-Saharan Africa are based on census data covering both registered and unregistered business establishments, across all sectors in the economy. Year coverage: Burkina Faso (2015), Cameroon (2008), Ghana (2013), Rwanda (2013), and the United States (2013).

Market imperfections and institutional distortions mean that firms and farms face pervasive credit constraints. For instance, farmers in Kenya sell right after the harvest, when prices are lowest, to meet their immediate cash needs rather than waiting for prices to go up (during the lean season), due to lack of credit, thus considerably reducing farmers' incomes and contributing to large seasonal price variations (Burke, Bergquist, and Miguel 2019). Most own-account workers and household enterprises rely on their own resources, resources from family and friends, or informal sources to obtain the capital to start up their businesses. Only about one in 10 firms with fewer than 19 workers relies on bank financing. Credit market constraints could result in potentially high-return investments not being realized.

Similarly, access to product markets is constrained, which prevents firms and farms from scaling up their production. In particular, the

lack of connectivity and market integration means that markets are segmented, allowing firms or farms with market power to capture benefits, contributing to income inequality. Studies from the Africa region consistently find spatial differences in prices of imported goods (food and nonfood) as well as nontraded agricultural staples, indicating that markets are not well-integrated and the retail prices of products are affected by distance (Fackler and Goodwin 2001; Abdulai 2006). For instance, trade costs are four to five times higher in Ethiopia and Nigeria than in the United States, due to poor road infrastructure, low competition in the transportation sector, topography,

and insecurity (Atkin and Donaldson 2015). As a result, most African enterprises sell locally, mostly to nearby consumers, and few firms are exposed to global markets through exports (figure 2.23).

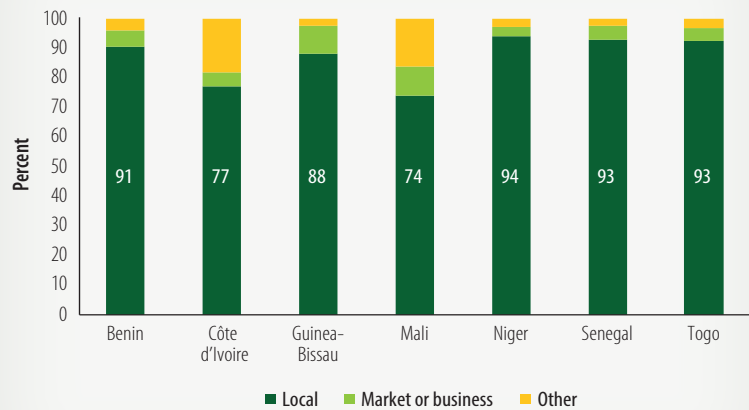
Costly job search, high transport costs, and lack of information together with costly screening of potential workers also create frictions in the labor market, which prevent workers

from accessing productive opportunities. Given the high rates of labor force participation, labor market frictions determine where people work—which sector, what type of contract, and what type of firm or farm. For instance, high commuting costs meant that workers who lived further from the center of Addis Ababa had less favorable employment opportunities compared to similar workers located close to the center (Franklin 2018). Small firms in Ghana that participated in an apprenticeship placement program grew their revenues and profits because the program reduced the firms’ cost of screening workers (Hardy and McCasland 2023).

At the macro level, low legal certainty, weak state capacity, and lack of competition have strong effects on the functioning of markets, with implications for inequality that are unrelated to individual effort or talent.

Global analysis of World Bank and Organisation for Economic Co-operation and Development indicators of product market regulations suggests that barriers to competition in product markets tend to be higher in African countries, due to a high degree of state involvement in markets, legal and administrative barriers to entrepreneurship, as well as barriers to trade and investment (figure 2.24). In this environment, it is comparatively easy to

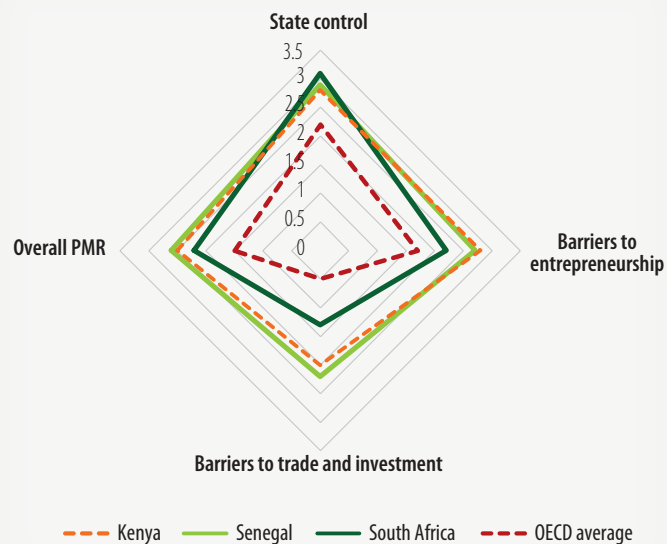
FIGURE 2.23: Main Customers for Own-Account Workers and Household Enterprises



Source: Calculations based on household surveys.

Note: Values are based on own-account workers and household enterprises.

FIGURE 2.24: Product Market Regulations in Sub-Saharan Africa (higher values indicate greater restrictions)



Source: World Bank and OECD indicators of product market regulations.

Note: The time period is the latest available year between 2013 and 2018. OECD = Organisation for Economic Co-operation and Development; PMR = product market regulations.

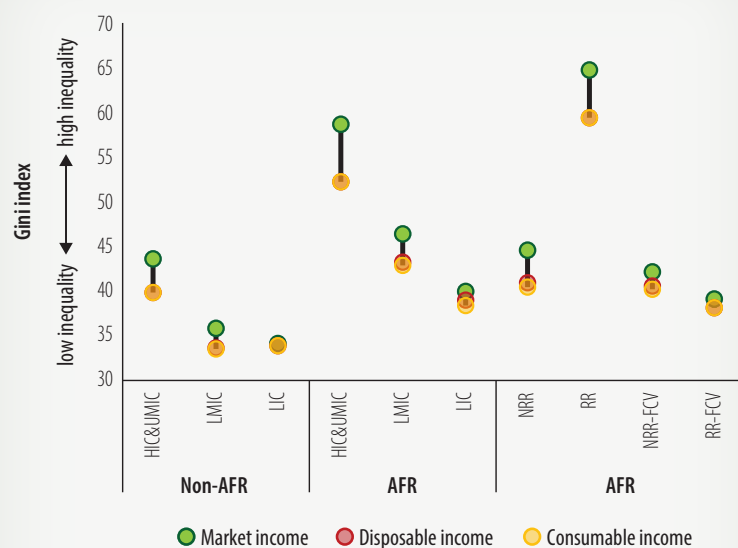
impose market power, which allows powerful firms to set prices above competitive levels and extract larger profits, with detrimental consequences for workers and consumers. Barriers to competition also limit innovation and the growth of firms, which in turn limits job opportunities and the growth process itself.

Tax and benefit policies affect structural inequalities

Inequality can be exacerbated or redressed through taxes and social transfers and subsidies. Although these fiscal instruments do not directly address the root causes of structural inequality, they can seek to mitigate the effects of unequal opportunities and market imperfections on the distribution of income. Moreover, to the extent that investments in human and physical capital for the next generation need to be financed, fiscal policy plays an important role in mobilizing tax revenue. To measure the extent of fiscal redistribution, country-level fiscal incidence analysis can be used to assess the level of inequality before taxes, transfers, and subsidies (referred to as market income inequality); after direct taxes and transfers (disposable income inequality); and once indirect taxes and subsidies are accounted for (consumable income inequality).

A first insight from fiscal incidence analysis across 20 countries in Sub-Saharan Africa is that market income inequality is higher in countries in the region than in countries in other regions with comparable levels of income (figure 2.25). This highlights the high levels of inequality in the pre- and in-market stages. A second insight from the analysis is that the combined effect of taxes, transfers, and subsidies leads to a reduction in inequality that is higher than in non-African countries with comparable levels of income. This is a testament to the redistributive efforts in the region, even though RR = lower income countries have relatively less to redistribute.

FIGURE 2.25: Fiscal Redistribution in Africa



Source: Estimates based on data from studies conducted by the World Bank and the Commitment to Equity Institute, Tulane University.

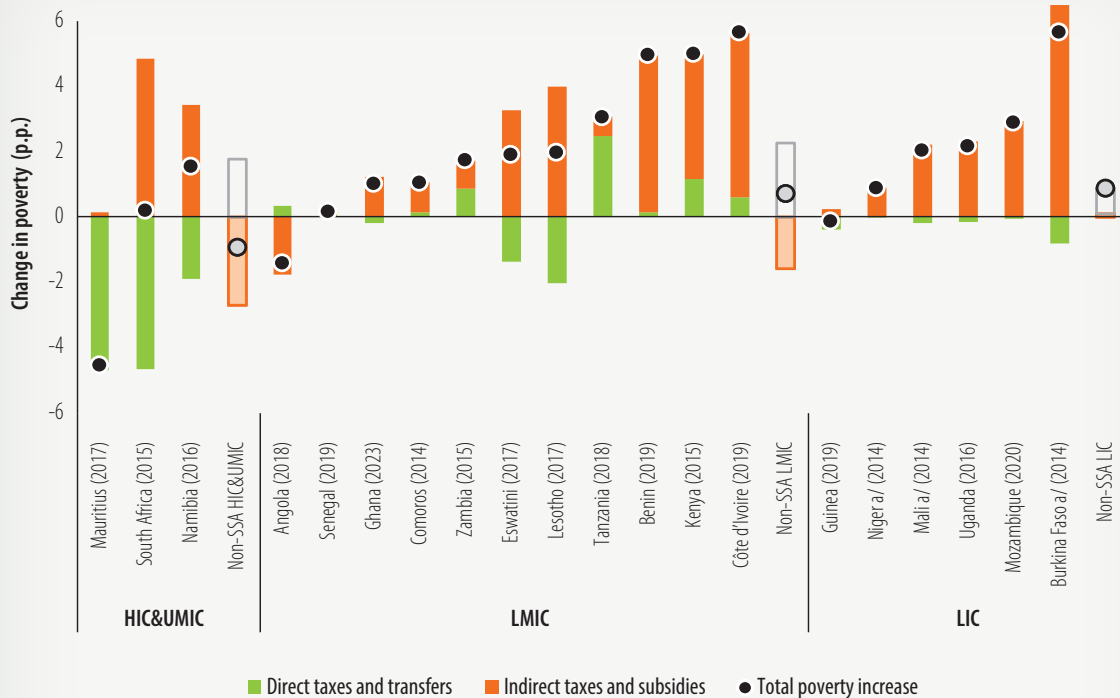
Note: AFR = Africa; FCV = countries affected by fragility, conflict, and violence; HIC&UMIC = high-income and upper-middle-income countries; LIC = low-income countries; LMIC = lower-middle-income countries; NRR = non-resource rich countries; RR = resource rich countries.

However, the level of inequality after this fiscal effort is still higher than the pre-fiscal level of inequality in other regions. Therefore, although more can be done to improve the progressivity of fiscal policy, that alone will be insufficient to tackle structural inequality in the region.

A third insight from the incidence analysis is that while taxes, transfers, and subsidies reduce inequality, they do not reduce poverty. This is because the poor can pay more in taxes than they receive in cash

benefits, even if taxes are higher for the rich. While the poor also receive in-kind benefits in the form of education, health, and other services, these benefits do not solve their immediate consumption needs. As a result, poverty rates are higher after taxes and benefits in most African countries for which fiscal incidence analysis is available (figure 2.26). Poorly targeted subsidies and limited social assistance are unable to compensate poor African households for the indirect taxes that they pay, even after accounting for the fact that low-income households largely purchase goods in informal markets. This highlights the fact that fiscal policy design can be improved to limit the impact on the poor, particularly in middle-income and resource rich countries. Although it would be unrealistic to expect the poorest countries to undertake more redistribution, given their very limited tax bases and high levels of poverty, the same is not true for middle-income countries and some resource rich countries. In these settings, it may be possible to raise domestic revenue with well-designed taxes on the nonpoor while at the same time protecting the poor through better targeted social assistance.

FIGURE 2.26: Impacts of Taxes and Transfers and Subsidies on Poverty



Source: Estimates based on data from studies conducted by the World Bank and the Commitment to Equity Institute, Tulane University.

Note: HIC&UMIC = high-income and upper-middle-income countries; LIC = low-income countries; LMIC = lower-middle-income countries; p.p. = percentage points; SSA = Sub-Saharan Africa.

a. Pensions are treated as government transfers.

Section 3. Policy Implications

Recent developments in Sub-Saharan Africa suggest that the post-pandemic recovery in the region remains fragile and there is an urgency to revive growth. Economic policies need to foster inclusive growth that is longer and stronger while avoiding hard landings. Historically, the inability of the region to sustain growth over longer horizons has resulted in Sub-Saharan Africa falling behind the rest of the global economy. Growth in the region has been unstable, with shorter and weaker expansions followed by slightly longer and larger recessions relative to other world regions. Economic expansions have been driven by factor accumulation—including natural capital—rather than total factor productivity, while economic contractions have been driven by inefficiencies in the allocation of factors of production. Moreover, fragility and conflict as well as reliance on natural resources have been significant challenges to sustaining growth and reducing poverty. Growth is weakly transmitted to household incomes, making it inefficient in reducing poverty in Sub-Saharan Africa compared to other regions.

This issue of *Africa's Pulse* argues that structural inequalities are at the root of the weak transmission of growth to poverty reduction and contribute to low growth. Structural inequalities in Sub-Saharan Africa are driven by wide-ranging factors, and addressing them requires multisectoral actions. The factors include market failures (such as in credit markets as well as lack of competition), inadequate and inequitable public investment (in education, health, and infrastructure, including roads and electricity), small market size (low population density and limited market integration), and high and uninsurable risks (including climate change and conflict). The scope for using fiscal redistribution policies to close welfare gaps is limited, given the scale of needs relative to the fiscal space that is available in most countries. Therefore, reducing inequality cannot simply rely on fiscal redistribution policies. It requires addressing both the structural drivers of inequality in people's ability to build their productive capacities, and market and institutional distortions that limit people's ability to use and benefit from those productive capacities.

Addressing structural inequality requires policies to create a level playing field and enhance the productive capacity of the disadvantaged. Identifying and prioritizing the policies that do so will promote equity and economic growth instead of trading off one for the other. It is impossible to imagine progress on poverty reduction without macroeconomic stability.²⁹ Adhering to monetary fiscal discipline and improving debt management and transparency can lead to lower borrowing costs and thus generate fiscal savings, which can then be used for development objectives. Independent central banks are important for politicians from boosting the economy artificially with stimulus spending prior to an election.³⁰ Political transparency through medium-term budget planning and publication of fiscal accounts can establish transparency and institutional credibility in economic management.³¹ Strong public debt transparency practices are closely related to improvements in the diversification of the investment base and result in the buildup of resilient debt portfolios.³² Reaping these benefits involves the adoption of sound

29 Evidence from the economic crises during the 1980s and 1990s shows that the number of people living in poverty increased by as much as 25 percent during large contractions in output (Farah-Yacoub et al. 2022).

30 Alpanda and Honig (2010); Hiroi (2009).

31 Vicente, Benito, and Bastida (2013).

32 Enhancing data transparency has a favorable effect on countries' financing conditions, as reflected by lower sovereign bond spreads (Kubota and Zeufack 2020). In contrast, lack of disclosure of debt data may lead to mispricing sovereign bonds and associated default risks (Horn, Reinhart, and Trebesch 2019).

practices in the operating framework of public debt management and its reporting, public disclosure of external audit reviews (conducted, for instance, by the General Auditor),³³ and setting up institutional arrangements based on transparency of the roles and instruments for public debt management.³⁴ Comprehensive, timely, and accurate reporting of the public debt portfolio could be supported by the development of a consolidated/updated database in a debt management information system.³⁵

Addressing the drivers of inequality in building productive assets and promoting intergenerational mobility includes investment in human capital, access to basic services, and expansion of land registration and secure property rights. Investments in health and education should focus on early childhood development, where the evidence is strongest. For instance, recent analysis for Sub-Saharan Africa finds that the combination of teacher training and ongoing teacher support and the provision of classroom learning materials for students is most effective in improving learning.³⁶ Increasing learning time, school feeding programs, and improvements in the process of hiring teachers are also important. For women and girls, investments in basic education and reproductive health have far-reaching impacts, influencing factors such as age at first marriage, fertility, and intergenerational poverty transmission. Similarly, targeting basic water, sanitation, and electricity investments toward underperforming populations and regions is likely to have strong returns.³⁷ Finally, expanding land registration and securing property rights are an essential part of pre-market interventions that have large impacts on ensuring that people can maximize their productive capacity. These actions require improvements in service delivery through strengthened local capacity.

Addressing the structural inequality in incomes arising from the use of productive assets requires pro-competition policies, greater connectivity and market integration policies, anti-discrimination legislation, as well as effective justice service delivery to facilitate market transactions. Proactively engaging with the private sector to encourage market access, public investment in connective infrastructure, particularly rural roads, can help to tackle weak market integration. When complemented with a competitive transport sector, these investments can yield high returns for rural farmers. In this context, the African Continental Free Trade Area presents a unique opportunity to expand market access for the private sector. Removing size-dependent distortions that target small firms could reduce talent misallocation, while improved justice service delivery can greatly facilitate market transactions between farmers and input providers or between small and medium-size enterprises and financial institutions. Finally, a modern yet transparent regulatory framework that is conducive to the establishment and growth of private firms can be a major step in creating a more inclusive private sector. Developing organizational structures such as corporations, cooperatives, and partnerships allows for crucial investment leading to formalized and stable work arrangements, but the legal frameworks supporting such entities are often cumbersome. Transparent schedules

33 World Bank (2021).

34 IMF and World Bank (2014).

35 IMF (2023c).

36 Gatti et al. (2021).

37 Foster et al. (2023).

for systematic policy reviews could improve the quality of the regulatory environment while limiting the extent of regulatory uncertainty. Coupling such reviews with technical consultations, stakeholder engagement, and studies of best practice could ensure that the regulatory framework minimizes distortions and properly incentivizes enterprising behavior.

Addressing structural inequalities through progressive taxation systems is essential. Fiscal policy can help by rationalizing subsidies and increasing the coverage and benefit level of social assistance programs, while domestic revenue mobilization efforts can be designed to protect the poor. Efforts to tax high net worth individuals, including through property taxes, can help. For instance, taxation of land and property can provide effective mechanisms to support local governments. Adopting low-cost technologies (for example, geographic information systems and digital maps) and using local para-surveyors can help broaden the tax base. Valuation methods need to match current or projected capacity to be effective.³⁸ Digital solutions to property ownership records, billing and payments, and dealing with appeals can eliminate opportunities for corruption and administrative discretion. Finally, linking taxes to public investment can help to improve tax compliance.³⁹ Moreover, eliminating value-added tax exemptions, which largely benefit high-income households, could also yield revenue with minimal impacts on the poor due to the high levels of informality. Boosting value-added tax collection may require broadening the tax base rather than increasing the rate.⁴⁰ A thorough review of nonstandard exemptions and zero rates might be required, as they tend to distort consumer and producer choices, discriminate against foreign trade, increase administrative complexity, and discourage tax compliance.

On the spending side, a measure that is critical for reducing poverty and inequality is targeted adaptive social assistance, which can significantly improve the redistributive impact of fiscal policies, while at the same time safeguard against shocks. A utility reform agenda that addresses energy subsidies and water tariffs, among other things, would improve efficiency, equity, and environmental sustainability, as these largely benefit higher income households at a very high fiscal cost, and in some cases with considerable sustainability consequences. For instance, reforms to boost the performance of energy utilities would require an independent and transparent setting of cost-recovery tariffs, subsidies to public service objectives (such as rural electrification), and transparent procurement of contracts with independent power producers.⁴¹ Finally, pursuing cooperation between governments in the region could assist with reducing tax evasion by multinational firms and extractive industries, minimizing the risk of a “race to the bottom” between countries.

38 In the absence of deep capital markets and adequate local resources, area-based tax value assessment constitutes the simplest form of standardized land/property assessment (for example, in Ethiopia and Mozambique). Other factors influencing property values (for instance, access to roads and schools) are considered in “points”-based valuation systems (Malawi and Sierra Leone).

39 Collier et al. (2018); Monkam and Moore (2015).

40 Current value-added taxes in Africa are plagued with exemptions, exclusions, and zero rates on domestically consumed goods and services.

41 Semikolenova, Driscoll, and Lee (2021).

Addressing the drivers of structural inequalities calls for country development policy frameworks that recognize interlinkages, complementarities, and trade-offs across the three phases of the income generation process. For instance, countries could succeed in improving the education of their youth, but if market and institutional distortions are not addressed, young graduates will have no viable work options that use their skills. Similarly, efforts to promote women's financial inclusion will be ineffective if women continue to face legal barriers to their ownership of land and assets that could serve as collateral. Moreover, greater trade integration without rural connectivity could risk isolating remote rural areas. Accelerating poverty reduction therefore requires multisectoral and integrated policy solutions. Although no country can afford to ignore the presence of inequality, and in particular, the presence of structural inequality that precludes progress toward poverty reduction, prioritizing policies certainly depends on the context. For instance, for countries affected by fragility, conflict, and violence, the priority should be on actions that can restore confidence by providing citizen security, jobs, and key basic services, particularly in the conflict-affected areas.

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. The words “resource-rich countries” and “resource-abundant countries” have been used interchangeably throughout the document.

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. The words “resource-rich countries” and “resource-abundant countries” have been used interchangeably throughout the document.

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