

# SUB-SAHARAN AFRICA



*The recovery in Sub-Saharan Africa continues, albeit at a softer pace. Growth in the region is estimated at 2.7 percent in 2018, significantly slower than expected, partly due to weaknesses in Angola, Nigeria, and South Africa. Growth is foreseen to rise to 3.4 percent in 2019 and 3.7 percent in 2020-21, as reduced policy uncertainty helps support a cyclical rebound in these large economies. However, per capita income growth will remain modest, and progress in poverty reduction limited. Risks to the outlook are tilted to the downside. Key external risks include an unexpectedly sharp decline in commodity prices, an abrupt tightening of global financial conditions, and escalating trade tensions involving major economies. Domestic risks pertain to fiscal slippage, political uncertainty, domestic conflicts, and adverse weather conditions.*

## Recent developments

The recovery in Sub-Saharan Africa (SSA) continued in 2018, but activity lost momentum in several countries. Growth in the region is estimated to have risen marginally from 2.6 percent in 2017 to 2.7 percent in 2018, slower than expected and still below potential. This reflected a sluggish expansion in the region's three largest economies—Angola, Nigeria, and South Africa (Figure 2.6.1). The region faced a more difficult external environment last year as global trade growth moderated, financing conditions tightened, and the U.S. dollar strengthened. Commodity prices diverged, with metals and agriculture prices dampened by weakening global demand, while oil prices were higher in most of 2018, mainly due to supply factors.

In Nigeria, oil production fell, partly owing to pipeline closures in mid-2018, while non-oil activity was dampened by lackluster consumer demand, as well as conflicts over land between farmers and herders that disrupted crop production. In Angola—the region's second largest oil exporter—stagnant non-oil activity was aggravated by a contraction in oil production,

which fell sharply due to underinvestment and to key oil fields reaching maturity. South Africa's economy emerged from a technical recession in the second half of 2018, in part due to improved activity in the agricultural and manufacturing sectors. However, growth remains subdued, as challenges in the mining sector and weak construction activity are compounded by policy uncertainty and low business confidence. Against this backdrop, the South African government announced measures to support the economy through reprioritized spending and structural reforms to improve the business environment and infrastructure delivery.

Growth in the rest of the region was broadly steady, although performance varied between country groups. While growth among metals exporters was subdued in 2018, activity in several oil exporters rebounded. In the Central African Economic and Monetary Community (CEMAC), growth benefitted from an increase in oil production and higher oil prices. Economic activity in non-resource-intensive countries remained robust, supported by agricultural production and services on the production side, and household consumption and public investment on the demand side. Several countries in the West African Economic and Monetary Union (WAEMU) grew at 6 percent or more, including Benin, Burkina Faso, Côte d'Ivoire, and

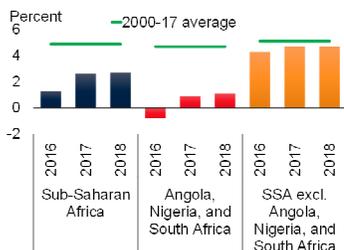
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Note: This section was prepared by Gerard Kambou and Rudi Steinbach. Research assistance was provided by Mengyi Li.

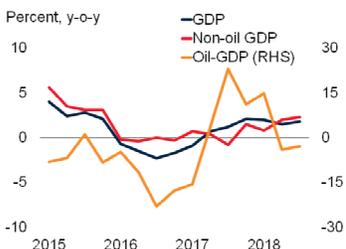
## FIGURE 2.6.1 SSA: Recent developments

The recovery in Sub-Saharan Africa has continued. However, growth remains well below its long-term average due to a sluggish expansion in Angola, Nigeria, and South Africa—the region’s largest economies. The current account deficit has narrowed in oil exporters but deteriorated among metals exporters due to weaker export growth. Fiscal deficits have narrowed, mainly reflecting consolidation measures in some oil exporters. Public debt remains elevated, especially among non-resource-intensive countries due to their continued reliance on public investment to boost growth.

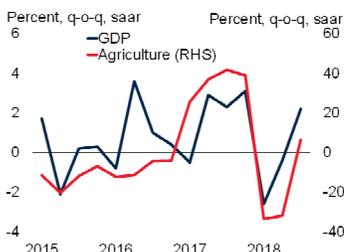
### A. GDP growth



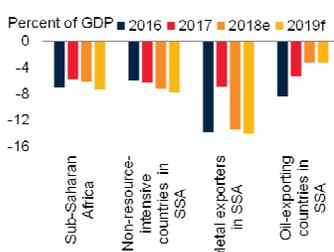
### B. Nigeria



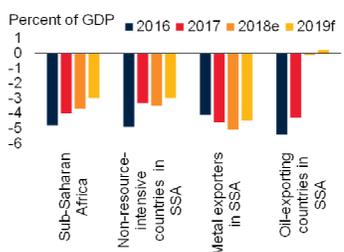
### C. South Africa



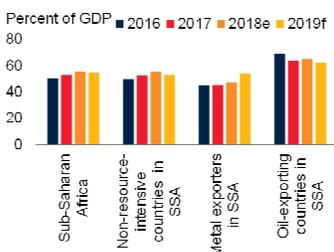
### D. Current account balance



### E. Fiscal balance



### F. Public debt



Source: Haver Analytics; International Monetary Fund, *World Economic Outlook*; National Bureau of Statistics (Nigeria); Statistics South Africa; World Bank.

A. Aggregate growth rates calculated using constant 2010 U.S. dollar weights.

D-F. Median of groups. Non-resource-intensive countries include agricultural exporters and commodity importers.

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Senegal. A strong rebound in agriculture in Kenya, Rwanda, and Uganda, following prior droughts, underpinned the pickup in activity in East Africa.

The median current account deficit is estimated to have widened from 5.8 percent of GDP in 2017 to 6.1 percent in 2018, but sizable differences persist

across countries. For large oil exporters (e.g., Angola, Nigeria), external balances improved, driven by higher oil prices and soft import demand. The current account deficit also narrowed significantly in CEMAC, underpinned by strong fiscal adjustments. By contrast, external balances in metals exporters deteriorated amid weaker exports in some countries and higher imports in others. In non-resource-intensive countries, current account deficits remained elevated due to high fuel imports and capital goods imports related to public infrastructure projects. Across the region, balance of payments financing became more difficult against the backdrop of rising external borrowing costs and weakening capital inflows. Eurobond issuance slowed markedly in the second half of the year, while FDI inflows remained subdued (UNCTAD 2018).

Currencies in the region depreciated in effective terms amid a broad-based strengthening of the U.S. dollar and weaker investor sentiment toward emerging markets. Investors’ renewed focus on country-specific vulnerabilities contributed to a rapid sell-off of the South African rand and the Zambian kwacha since mid-2018. Elsewhere in the region, the pace of currency depreciation has been more modest.

Inflationary pressures persist in the region. Despite steep declines, inflation in Angola and Nigeria remained in double digits, partly due to continued exchange rate depreciation (Angola) and elevated food price inflation (Nigeria). In South Africa, inflation stayed within the 3 to 6 percent target range. Among non-resource-intensive countries, inflation rose sharply in Ethiopia and Sudan, due to a rapid expansion in credit and currency depreciation (Ethiopia) and the monetization of a large fiscal deficit (Sudan).

The median fiscal deficit for the region is estimated to have narrowed from 4 percent of GDP in 2017 to 3.7 percent in 2018. The fiscal balance improved sharply among many oil exporters. The narrower deficit in Angola partly stemmed from higher oil prices. CEMAC countries substantially reduced their fiscal deficits through revenue mobilization efforts and cuts in capital expenditures. By contrast, the fiscal deficit

remained elevated in Nigeria, due to low tax revenue collection.

In metals exporters, the median fiscal deficit is estimated to have deteriorated sharply, as spending levels remain elevated in some countries, while revenues are suppressed. In non-resource-intensive countries, the median fiscal deficit is estimated to have widened modestly, reflecting continued public investment supported by enhanced revenue mobilization efforts.

In all, vulnerabilities remain: government debt-to-GDP ratios are estimated to have risen in more than half of the countries in 2018 and were above 60 percent in one-third (World Bank 2018w). Exchange rate depreciations (e.g., Zambia), negative growth (e.g., Equatorial Guinea, Republic of Congo), and the reporting of previously undisclosed debt (e.g., Mozambique, Republic of Congo) contributed to the deterioration.

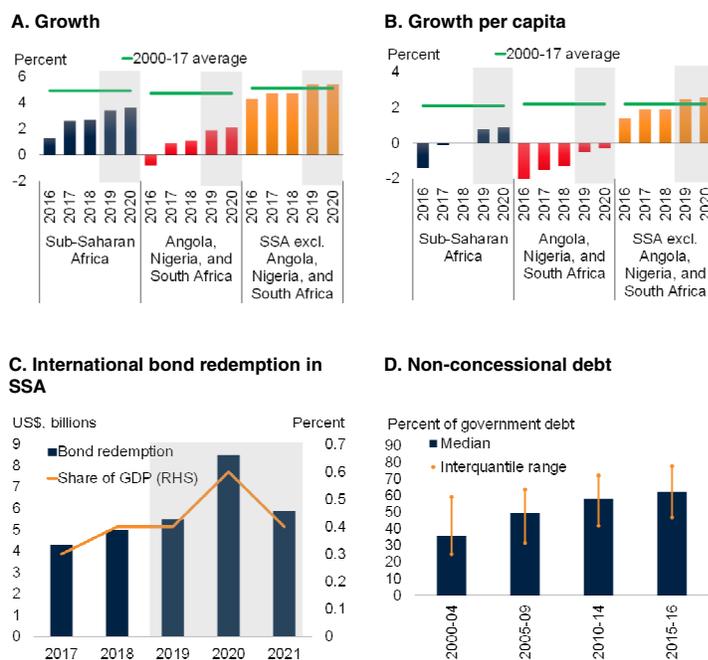
In addition to the rise in debt ratios, changes in the composition of debt have made many countries more vulnerable to sharp movements in financing conditions (Chapter 4). As countries have gained access to international capital markets, and non-resident participation in domestic debt markets expanded, non-concessional debt has increased. Non-concessional financing accounted for more than half of total public debt in many countries (e.g., Cote d'Ivoire, Ghana, Republic of Congo, Sudan, Zambia, Zimbabwe).

## Outlook

Growth in Sub-Saharan Africa is expected to pick up to 3.4 percent in 2019, rising to an average of 3.7 percent in 2020-21 (Figure 2.6.2). This is predicated on diminished policy uncertainty and improved investment in large economies, together with continued robust growth in non-resource-intensive countries. However, external headwinds have intensified, as growth among main trading partners moderates, global financial conditions tighten, and trade policy uncertainty persists (Chapter 1). Per capita income growth is predicted to remain well below its long-term average in many countries, yielding little progress in poverty reduction, and highlighting the need

**FIGURE 2.6.2 SSA: Outlook and risks**

A gradual recovery is expected, as an increase in oil production supports a modest growth pickup in Angola and Nigeria, and easing drought conditions boosts agricultural production. A rise in investment, as policy uncertainty gradually recedes, should further boost growth in the large economies. Activity in the rest of the region is expected to expand at a solid pace. Nevertheless, sluggish per capita growth implies continued slow progress in poverty reduction. A significant amount of international bonds are maturing, posing refinancing risks. Rising non-concessional debt is making countries more vulnerable to changes in international financial conditions.



Source: Dealogic, World Bank.  
 A.B. Aggregate growth rates calculated using constant 2010 U.S. dollar weights. Shaded areas represent forecasts.  
 C. Data reflects the principal amount at date of maturity, and excludes any interest payments.  
 D. Excludes Equatorial Guinea, Eswatini, Namibia, Seychelles, Somalia, and South Sudan due to data limitations.  
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for policy measures to raise potential output while raising the productive capacity of the poor (World Bank 2018x).

Growth in Nigeria is projected to rebound to 2.2 percent in 2019 and 2.4 percent in 2020-21. These forecasts are unchanged from June and assume that oil production will recover, but peak below government targets, while a slow improvement in private demand will constrain growth in the non-oil industrial sector. In Angola, the growth forecast has been upgraded to 2.9 percent in 2019, moderating to an average of 2.7 percent in 2020-21. A recovery in the oil sector, as new oil fields come on stream, is expected to boost

growth, along with a pickup in activity in the non-oil sector as reforms bolster the business environment.

Growth in South Africa is projected to recover more slowly than previously expected, to 1.3 percent in 2019, before rising to 1.7 percent in 2020-21. High unemployment and slow growth in household credit extension are expected to constrain domestic demand in 2019, while fiscal consolidation limits government spending. Higher growth in 2020 reflects the expectation that the government's structural reform agenda will gradually gather speed, helping to boost investment growth, as policy uncertainty recedes and investor sentiment improves.

Excluding Angola, Nigeria, and South Africa, growth in the rest of Sub-Saharan Africa is expected to remain relatively solid, but with significant variation between country groups. Economic activity in CEMAC should benefit from higher oil production and an increase in domestic demand as fiscal tightening eases.

Growth is expected to rise moderately among metals exporters, supported in part by stronger mining activity. However, non-mining activity remains subdued owing to weak business confidence, accelerating inflation in some countries, and sluggish credit growth.

Among non-resource-intensive countries, economic activity is expected to remain robust in fast-growing countries, such as Cote d'Ivoire, Kenya, and Tanzania, boosted by public investment and strong agricultural production, and in smaller economies, such as Madagascar, on the back of solid export performance. While growth in Ethiopia is expected to remain strong, it will be weighed down by fiscal consolidation efforts to stabilize public debt.

Inflation is expected to pick up across the region in 2019, reflecting the pass-through of currency depreciations during 2018 and domestic price pressures among metals exporters and non-resource-intensive countries. Notably, inflation is envisioned to continue to recede in Angola and Nigeria. However, it may rise temporarily in Angola if the anticipated increases in utility tariffs and fuel prices are implemented. In addition,

price pressures are likely to intensify in Kenya, Tanzania, and Uganda.

Fiscal balances are expected to improve further, reflecting fiscal consolidation efforts among the large oil exporters and continued adjustment in CEMAC. Policy tightening is likely to yield smaller fiscal deficits in metals exporters, while fiscal deficits in non-resource-intensive countries should also continue to narrow as public investment spending slows to stabilize public debt.

## Risks

Risks to the regional outlook are tilted to the downside. On the external front, slower-than-projected growth in China and the Euro Area, which have strong trade and investment links with Sub-Saharan Africa, would adversely affect the region through lower export demand and investment. Moreover, Sub-Saharan African metals producers would likely be among the hardest hit by escalating trade tensions between China and the United States, as metals prices would fall faster than other commodity prices as a result of weakening demand from China (World Bank 2018y). Furthermore, a faster-than-expected normalization of advanced-economy monetary policy could result in sharp reductions in capital inflows, higher financing costs, and disorderly exchange rate depreciations, especially in countries with weaker fundamentals or higher political risks (Arteta et al. 2015; IMF 2018c). Sharp currency declines would make the servicing of foreign-currency-denominated debt, already a rising concern in the region, more challenging.

The increased reliance on foreign currency borrowing has heightened refinancing and interest rate risk in debtor countries (Chapter 4). Furthermore, the rise in non-resident participation in domestic debt markets has exposed some countries to the risk of sudden capital outflows. In some countries, sizable loans to state-owned enterprises, backed by commodity exports, have increased the risk that a negative commodity price shock could trigger financial crises.

Domestic risks, in particular, remain elevated. Political uncertainty and a concurrent weakening

of economic reforms could continue to weigh on the economic outlook in many countries. In countries holding elections in 2019 (e.g., Malawi, Mozambique, Nigeria, South Africa), domestic political considerations could undermine the commitment needed to rein in fiscal deficits or

implement structural reforms, especially where public debt levels are high and rising. Insurgencies and armed conflicts, with their adverse effects on economic activity, remain an important risk in several countries. Adverse weather shocks and rising financial sector stress are additional risks.

**TABLE 2.6.1 Sub-Saharan Africa forecast summary**

(Real GDP growth at market prices in percent, unless indicated otherwise)

Percentage point differences from June 2018 projections

	2016	2017	2018e	2019f	2020f	2021f	2018e	2019f	2020f
<b>EMDE SSA, GDP<sup>1</sup></b>	<b>1.3</b>	<b>2.6</b>	<b>2.7</b>	<b>3.4</b>	<b>3.6</b>	<b>3.7</b>	<b>-0.4</b>	<b>-0.1</b>	<b>-0.1</b>
(Average including countries with full national accounts and balance of payments data only) <sup>2</sup>									
EMDE SSA, GDP <sup>2,3</sup>	1.3	2.6	2.7	3.4	3.6	3.7	-0.4	-0.1	-0.1
GDP per capita (U.S. dollars)	-1.4	-0.1	0.0	0.8	0.9	1.0	-0.4	0.0	-0.1
PPP GDP	1.6	2.8	3.0	3.7	3.8	3.9	-0.4	0.0	-0.1
Private consumption	0.5	1.8	2.5	2.8	2.9	2.5	-0.1	0.0	0.0
Public consumption	1.3	2.8	2.6	2.9	3.0	2.8	0.1	0.0	0.0
Fixed investment	1.5	4.5	5.2	6.9	7.0	7.5	-1.6	-0.5	-0.6
Exports, GNFS <sup>4</sup>	2.4	3.6	2.4	3.1	3.4	3.1	-0.8	-0.4	-0.4
Imports, GNFS <sup>4</sup>	-0.4	3.1	3.2	3.5	3.6	3.8	0.2	0.2	0.2
Net exports, contribution to growth	0.8	0.2	-0.2	-0.1	-0.1	-0.3	-0.3	-0.2	-0.3
<b>Memo items: GDP</b>									
SSA excluding Nigeria, South Africa, and Angola	4.3	4.7	4.7	5.4	5.4	5.4	-0.2	0.1	-0.1
Oil exporters <sup>5</sup>	-0.7	1.4	1.7	2.9	2.8	2.8	-0.6	0.3	0.0
CFA countries <sup>6</sup>	2.9	3.3	3.8	4.9	4.7	4.6	-0.3	0.4	-0.2
CEMAC	-0.8	-0.2	1.0	3.0	2.6	2.3	-0.4	0.7	-0.4
WAEMU	6.5	6.6	6.3	6.4	6.4	6.3	-0.1	0.1	0.0
SSA3	-0.8	0.9	1.1	1.9	2.1	2.1	-0.6	-0.1	-0.1
Nigeria	-1.6	0.8	1.9	2.2	2.4	2.4	-0.2	0.0	0.0
South Africa	0.6	1.3	0.9	1.3	1.7	1.8	-0.5	-0.5	-0.2
Angola	-2.6	-0.1	-1.8	2.9	2.6	2.8	-3.5	0.7	0.2

Source: World Bank.

Note: e = estimate; f = forecast. EMDE = emerging market and developing economy. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time.

1. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars. Excludes Central African Republic, São Tomé and Príncipe, Somalia, and South Sudan.

2. Sub-region aggregate excludes Central African Republic, São Tomé and Príncipe, Somalia, and South Sudan, for which data limitations prevent the forecasting of GDP components.

3. Sub-region historical growth rates may differ from the most recent edition of *Africa's Pulse* (<https://www.worldbank.org/en/region/aftr/publication/africas-pulse>) due to data revisions and the inclusion of the Central African Republic and São Tomé and Príncipe in the sub-region aggregate of that publication.

4. Exports and imports of goods and non-factor services (GNFS).

5. Includes Angola, Cameroon, Chad, Republic of Congo, Gabon, Ghana, Nigeria, and Sudan.

6. Includes Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Mali, Niger, Senegal, and Togo.

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**TABLE 2.6.2 Sub-Saharan Africa country forecasts<sup>1</sup>**

(Real GDP growth at market prices in percent, unless indicated otherwise)

Percentage point differences  
from June 2018 projections

	2016	2017	2018e	2019f	2020f	2021f	2018e	2019f	2020f
Angola	-2.6	-0.1	-1.8	2.9	2.6	2.8	-3.5	0.7	0.2
Benin	4.0	5.8	6.0	6.2	6.5	6.6	0.0	0.1	0.2
Botswana <sup>2</sup>	4.3	2.4	4.4	3.9	4.1	4.1	1.4	0.6	0.3
Burkina Faso	5.9	6.3	6.0	6.0	6.0	6.0	0.0	0.0	0.0
Burundi	-0.6	0.5	1.9	2.3	2.5	2.8	0.0	0.0	0.0
Cabo Verde	4.7	4.0	4.5	4.7	4.9	4.9	0.3	0.7	0.9
Cameroon	4.6	3.5	3.8	4.2	4.5	4.5	-0.1	0.1	0.2
Chad	-6.3	-3.0	3.1	4.6	6.1	4.9	0.5	2.1	0.3
Comoros	2.2	2.7	2.7	3.1	3.1	3.1	-0.2	0.1	0.1
Congo, Dem. Rep.	2.4	3.4	4.1	4.6	5.5	5.9	0.3	0.5	1.1
Congo, Rep.	-2.8	-3.1	1.0	3.2	-0.1	-1.5	0.3	-1.4	1.1
Côte d'Ivoire	8.0	7.7	7.5	7.3	7.4	6.8	0.1	0.1	0.2
Equatorial Guinea	-8.5	-4.9	-8.8	-2.1	-5.8	-5.8	-2.4	4.9	-5.3
Eswatini <sup>3</sup>	3.2	1.9	-0.6	1.7	1.8	1.8	-1.7	0.0	0.0
Ethiopia <sup>2</sup>	8.0	10.1	7.7	8.8	8.9	8.9	-1.9	-0.9	-1.0
Gabon	2.1	0.5	2.0	3.0	3.7	3.7	-0.6	-0.7	-0.2
Gambia, The	0.4	4.6	5.3	5.4	5.2	5.2	-0.1	0.2	0.3
Ghana <sup>4</sup>	3.7	8.5	6.5	7.3	6.0	6.0	-0.4	0.6	0.6
Guinea	10.5	8.2	5.8	5.9	6.0	6.0	-0.2	0.0	0.0
Guinea-Bissau	5.8	5.9	3.9	4.2	4.4	4.5	-1.2	-1.0	-1.0
Kenya	5.9	4.9	5.7	5.8	6.0	6.0	0.2	-0.1	-0.1
Lesotho	3.1	-1.7	1.2	1.2	0.2	1.8	-0.6	-1.4	-2.6
Liberia	-1.6	2.5	3.0	4.5	4.8	4.8	-0.2	-0.2	0.0
Madagascar	4.2	4.2	5.2	5.4	5.3	5.3	0.1	-0.2	0.0
Malawi	2.5	4.0	3.5	4.3	5.3	5.5	-0.2	0.2	0.4
Mali	5.8	5.4	4.9	5.0	4.9	4.8	-0.1	0.3	0.2
Mauritania	2.0	3.5	3.0	4.9	6.9	6.9	-0.6	0.3	1.7
Mauritius	3.8	3.9	3.9	4.0	3.6	3.6	-0.1	-0.1	-0.2
Mozambique	3.8	3.7	3.3	3.5	4.1	4.1	0.0	0.1	0.5
Namibia	0.6	-0.9	0.7	1.8	2.1	2.1	-0.8	-0.5	-0.9
Niger	4.9	4.9	5.2	6.5	6.0	5.6	-0.1	1.1	0.2
Nigeria	-1.6	0.8	1.9	2.2	2.4	2.4	-0.2	0.0	0.0
Rwanda	6.0	6.1	7.2	7.8	8.0	8.0	0.4	0.7	0.5
Senegal	6.2	7.2	6.6	6.6	6.8	6.9	-0.2	-0.2	-0.2
Seychelles	4.5	5.3	3.6	3.4	3.3	2.9	-0.4	-0.4	-0.2
Sierra Leone	6.3	3.7	3.7	5.1	6.3	6.3	-1.4	-0.6	-0.2
South Africa	0.6	1.3	0.9	1.3	1.7	1.8	-0.5	-0.5	-0.2
Sudan	4.7	4.3	3.1	3.6	3.8	3.8	0.5	0.5	0.3
Tanzania	7.0	7.1	6.6	6.8	7.0	7.0	0.0	0.0	0.0
Togo	5.1	4.4	4.5	4.8	5.1	5.1	-0.3	-0.2	0.1
Uganda <sup>2</sup>	4.8	3.9	6.1	6.0	6.4	6.5	0.6	0.0	-0.1
Zambia	3.8	3.5	3.3	3.6	3.8	3.8	-0.8	-0.9	-1.0
Zimbabwe	0.6	3.2	3.0	3.7	4.0	4.0	0.3	-0.1	0.0

Source: World Bank.

Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

1. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars. Excludes Central African Republic, São Tomé and Príncipe, Somalia, and South Sudan.

2. Fiscal-year-based numbers.

3. Formerly known as Swaziland.

4. Growth rates reflect GDP data prior to recent rebasing.

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### BOX 2.6.1 Informality in Sub-Saharan Africa

*Sub-Saharan Africa has high levels of informality, especially in West and East Africa, low-income countries, fragile states, and commodity exporters. Policies to increase human capital and foster productivity, improve access to resources, reduce regulatory burdens, and strengthen governance have been associated with a decline in informality, which in turn has been associated with better macroeconomic and social outcomes. However, for these policies to be effective, they need to be tailored to the specific nature of informality and types of informal firms.*

#### Introduction

Despite a decline over the past three decades, employment informality in Sub-Saharan Africa (SSA) remains among the highest in emerging market and developing economies (EMDEs), with nine out of ten workers informally employed (of which six are self-employed). Output informality (around 40 percent of official GDP) and perceptions of informality are also high compared to other regions. Yet, there is considerable heterogeneity within the region—informality is higher in West and East Africa, low-income countries, fragile states, and commodity exporters. Pervasive informality contributes to lower government tax revenues, which limits the fiscal resources available for much-needed public investment and social programs.

Against this backdrop, this box examines the following questions:

- How has informality evolved?
- What are the macroeconomic and social correlates of informality?
- What are the policy options to address challenges associated with informality?

#### Evolution of informality

**High average informality.** On average in 2010-16, the informal economy in SSA countries amounted to 36-40 percent of official GDP, informal employment made up 90 percent of employment and, more narrowly, self-employment accounted for 58 percent of total employment (ILO 2018a; Figure 2.6.1.1).<sup>1</sup> Alternative measures of informality, such as the share of the labor force without pension coverage and perceptions of informal activity, were also high compared with other EMDE regions.

**Heterogeneity.** There is wide cross-country heterogeneity. West and East Africa had much higher average shares of

self-employed workers in total employment during 2010-16, at 80 percent and 68 percent, respectively. In contrast, the shares of self-employed workers in Central and Southern Africa were 48 and 43 percent respectively, only slightly above the EMDE average. Self-employment made up more than 85 percent of employment in Benin, Burundi, Madagascar, and Uganda whereas it was less than 20 percent in South Africa and Mauritius.

**Evolution of informality in SSA.** Informality in SSA has declined gradually over the past three decades, broadly in line with the EMDE trend. Some countries, however, have made significant progress in lowering the shares of informal output and employment, such as Botswana, Ethiopia, Ghana, Malawi, Rwanda, and Tanzania.

#### Correlates of informality

High informality in SSA reflects wide-ranging economic and development challenges in the region. It also reflects economic structures and a dearth of skilled labor.

**Weak growth and conflict.** SSA hosts all but seven of the world's 34 low-income countries and nearly half of the world's 36 fragile states (World Bank 2018z, 2018aa). In general, informality is higher in low-income SSA countries and, especially, fragile states. Economic disruptions during conflict and violence have forced people to earn their livelihoods in the informal economy (Heintz and Valodia 2008). Employment losses during recessions or shocks to crop production have also been associated with increases in informal labor supply (Calvés and Schoumaker 2004; Daniels 2003; Otsuka and Yamano 2006).

**Economic structure.** In commodity-exporting countries, the capital-intensive mining sector creates few formal employment opportunities, and economies in most countries in SSA have large agricultural sectors that have high rates of informal self-employment. In the non-agricultural sector, there is also considerable self-employment in labor-intensive services such as street vendors, craftsmen, and home-based activities (Fox and Sohnesen 2012). Rural-urban migration and increased labor force participation, especially among women, was mostly absorbed by the informal sector (Kessides 2005). In some societies, informal businesses are hereditary in

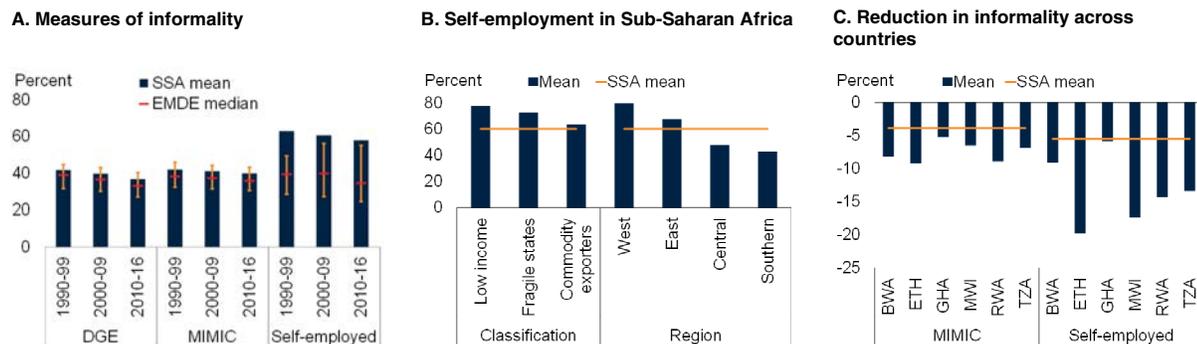
Note: This box was prepared by Wee Chian Koh with research assistance from Jinxin Wu.

<sup>1</sup>A recent enterprise census in Senegal finds that 97 percent of firms are informal (ANSD 2017).

### BOX 2.6.1 Informality in Sub-Saharan Africa (continued)

#### FIGURE 2.6.1.1 Informality in Sub-Saharan Africa

Informality has declined in Sub-Saharan Africa, but remains among the highest in the world. Informality is higher in West and East Africa, low-income countries, fragile states, and commodity exporters.



Source: Elgin et al. (forthcoming), International Labor Organization, World Development Indicators.

Note: A. Orange lines are the inter-quartile ranges for EMDEs.

A. DGE = dynamic general equilibrium model. MIMIC = multiple indicators multiple causes model. The DGE model estimates the size of the informal sector as a percent of official GDP (see Elgin and Oztunali 2012). The MIMIC model is a structural equations model that considers multiple causes of informal activity and captures multiple outcome indicators of informal activity (see Schneider, Buehn, and Montenegro 2010). It also estimates the informal output as a percent of official GDP. Self-employed is the share of self-employment in total employment.

B. World Bank classifications. Data for the period 1990-2016.

C. BWA = Botswana, ETH = Ethiopia, GHA = Ghana, MWI = Malawi, RWA = Rwanda, TZA = Tanzania. Percent change between 1990-2009 and 2010-16.

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nature, where businesses are passed down to the next generation (Chen 2012). In others, social norms restrict the mobility of women, compelling them to be informally employed (ILO 2009).

**Low human capital.** The average years of schooling in SSA are well below those in any other EMDE regions (Figure 2.6.1.2). Informal workers in SSA tend to be lower skilled and less educated than formal workers (Adams, de Silva, and Razmara 2013). This limits opportunities for wage employment in the formal economy. Self-employed workers with low human capital, and hence low productivity, have an incentive to operate in the informal economy to avoid paying taxes and incurring other administrative costs (Oviedo, Thomas, and Karakurum-Özdemir 2009). Informal firms often have lower managerial ability and tend to produce low-quality inexpensive products with little demand from the formal sector (La Porta and Shleifer 2016). The HIV/AIDS pandemic has also taken a large toll on human capital and forced workers into less secure informal employment where discrimination is sometimes less pronounced (ILO 2009).

**Limited access to resources and markets.** Informality is associated with restricted access to electricity, finance, and

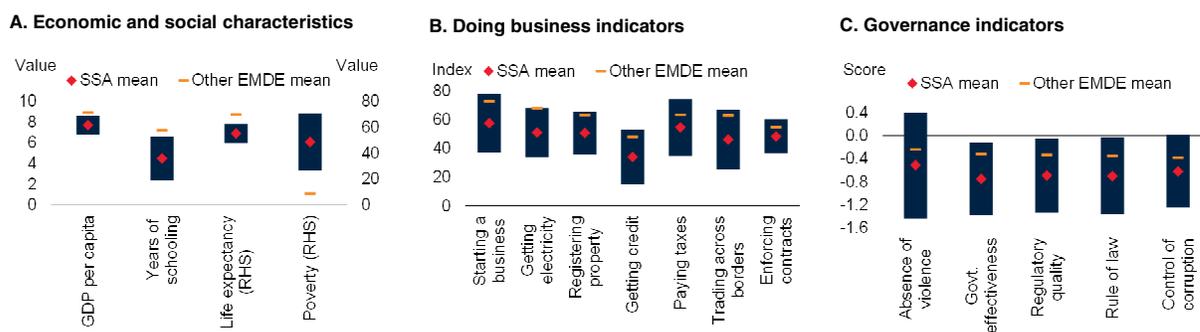
land (Ingram, Ramachandran, and Desai 2007). Limited availability of resources curtails informal firms' growth and productivity improvements (Steel and Snodgrass 2008). There are also obstacles to market access, such as lack of telecommunications or transport infrastructure, which is particularly important for firms that need to frequently interact with suppliers and customers. Access to public space and urban amenities are also important (Heintz and Valodia 2008).

**High regulatory burden.** Compared with other EMDEs, SSA has considerably higher regulatory burdens. Burdensome regulations such as lengthy processes in registering a business, complicated procedures in filing taxes, high costs of export and import documentary compliance, strict labor regulations, and high tax burdens can make it prohibitively expensive to operate in the formal economy (Mbaye and Benjamin 2015).

**Weak governance.** Compared with other EMDEs, SSA has considerably weaker governance and institutions. Poor governance and institutions may result in failures in enforcing regulations and containing corruption. This creates an environment for informal enterprises to easily conceal their activities and evade taxes (Mbaye and Benjamin 2015).

**BOX 2.6.1 Informality in Sub-Saharan Africa (continued)****FIGURE 2.6.1.2 Economic and institutional indicators in Sub-Saharan Africa**

*Low human capital, limited access to resources, heavy regulatory burden, and weak governance are potentially important drivers of informality.*



Source: Barro and Lee (2013), World Bank (Doing Business, World Development Indicators, Worldwide Governance Indicators).

Note: A.-C. Blue bars are +/- one standard deviation of SSA mean. Other EMDE refers to all EMDEs except SSA countries.

A. GDP per capita is based on 2011 PPP in thousand dollars, expressed in logarithm. Life expectancy at birth is in years. Poverty is the headcount at \$1.90 a day (2011 PPP) in percent of population.

B. The index represents the distance to the frontier (100) in the World Bank's Doing Business database. A higher index represents better performance. Data for the period 2004-16.

C. The score is based on Worldwide Governance Indicators. It ranges from -2.5 to 2.5. A higher score represents better performance. Data for the period 1996-2016.

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**Low productivity.** Productivity differentials between the formal and informal sectors are large: value added per worker of informal firms is only 14 percent that of formal firms in the median SSA country, lower than the median in other EMDEs (La Porta and Shleifer 2014). Competition from informal firms, which do not shoulder the cost of compliances with taxes and regulations, also weigh on the profitability and investment of formal firms (Oosthuizen et al. 2016; Box 3.3). Although practices of competitors in the informal sector is only the third biggest reported obstacle in SSA, after electricity and access to finance, it is more problematic in SSA compared to other EMDEs (Dinh, Mavridis, and Nguyen 2010; La Porta and Shleifer 2016). In addition, since informal firms do not pay taxes, governments' ability to provide quality public services is constrained.

**Poverty and social outcomes.** While the informal economy can provide important opportunities for employment, the majority of those engaged in informal activities lack income security, employment benefits, and social protection. Moreover, higher informality in SSA is associated with lower life expectancy and worse poverty outcomes (Figure 2.6.1.3). Gender inequality is also prevalent in the informal economy in SSA: women are often placed in the most hazardous jobs with no access to occupational health and safety measures (ILO 2009).

## Policy challenges

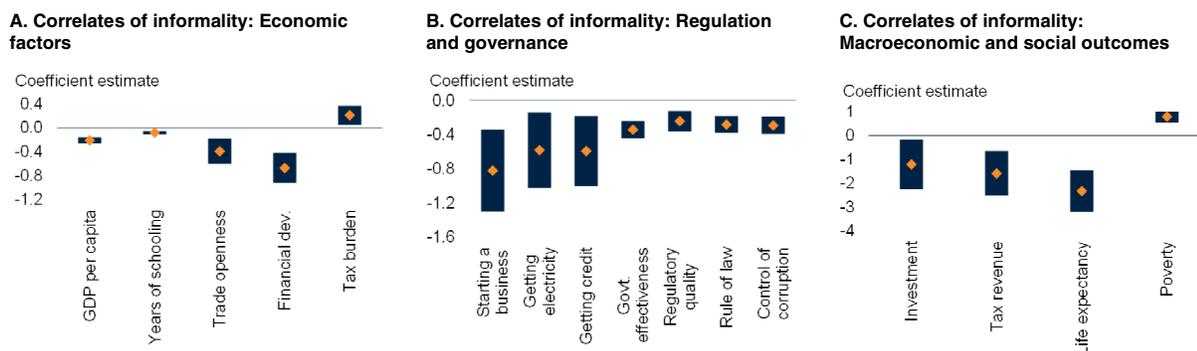
**Unlocking the potential of the informal economy.** While informality is more pervasive in SSA than in other EMDE regions, the move from informality to formality is more dynamic: more SSA formal firms started out as informal and the duration of informality is shorter than in other EMDEs (Figure 2.6.1.4). SSA also possesses a more positive attitude toward business opportunities than other EMDE regions, despite a higher proportion of people who became entrepreneurs out of necessity. Two-thirds (65 percent) of survey respondents believe they have the required skills and knowledge to start a business, 59 percent indicate they see good opportunities to start a firm, and 42 percent intend to start a business within three years. This intrinsic entrepreneurial spirit, despite high regulatory burdens and a weak entrepreneurship ecosystem, could render the informal sector a reservoir of untapped economic potential (De Soto 1989; Grimm, Knorringa, and Lay 2012).

To unlock this potential, both broad-based policy tools—such as increasing human capital—and policy tools targeted at specific parts of the informal sector are available. In Kenya, for example, improved managerial skills and new marketing channels induced by competition helped metalwork enterprises in the Kariobangi Light

### BOX 2.6.1 Informality in Sub-Saharan Africa (continued)

#### FIGURE 2.6.1.3 Correlates of informality in Sub-Saharan Africa

Improvements in economic and institutional factors are associated with a reduction in informality. High informality is associated with worse macroeconomic and social outcomes. Years of schooling and primary school learning assessment scores in Sub-Saharan Africa are among the lowest in the world. Investing in human capital is critical to improve labor skills.



Source: Barro and Lee (2013), Elgin et al. (forthcoming), World Bank (Doing Business, World Development Indicators, Worldwide Governance Indicators).

Note: The orange diamonds are the coefficient estimates and the blue bars denote the 90 percent confidence intervals. OLS estimators are applied, with country means over the sample period used for both the dependent and independent variables. The share of self-employed in total employment is the measure of informality. Informality is the dependent variable in A.-B., and it is the independent variable in C. 37 SSA countries are included in the regressions. The coefficient estimate measures the effect on the dependent variable of a unit change in the independent variable. For example, in A., a 1 percent increase in the tax rate is associated with a 0.2 percent increase in informality. In C., a 1 percent increase in informality is associated with a 1.6 percent decline in government tax revenue.

A. GDP per capita is based on 2011 PPP in thousand dollars, expressed in logarithm. Trade openness is total trade (exports + imports) as a share of GDP. Financial development is proxied by private credit as a percentage of GDP. Tax burden is the total tax rate using data from Doing Business. Data for the period 1990-2016.

B. The correlates are the distance to the frontier in Doing Business (data for the period 2004-16) and the scores based on Worldwide Governance Indicators (data for the period 1996-2016).

C. Investment is gross fixed capital formation as a percentage of GDP. Tax revenue is expressed as a share of GDP. Life expectancy at birth is in years. Poverty is the headcount at \$1.90 a day (2011 PPP) in percent of population.

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Industries grow and transition to the formal economy (Sonobe, Akoten, and Otsuka 2011). The local government provided little support other than designating an area for these artisans to operate, but that proved to be sufficient.<sup>2</sup>

**Investing in human capital.** Policies should be prioritized toward increasing human capital. Less than 20 percent of primary school students in Sub-Saharan Africa—typically from poor households—pass a minimum proficiency threshold in learning assessment, which is the lowest among EMDEs (World Bank 2018n). Teachers are also often absent from classrooms. These learning deficiencies amplify over time and eventually show up as weak labor skills. Although technically and politically difficult, serious efforts must be made to improve learning outcomes.

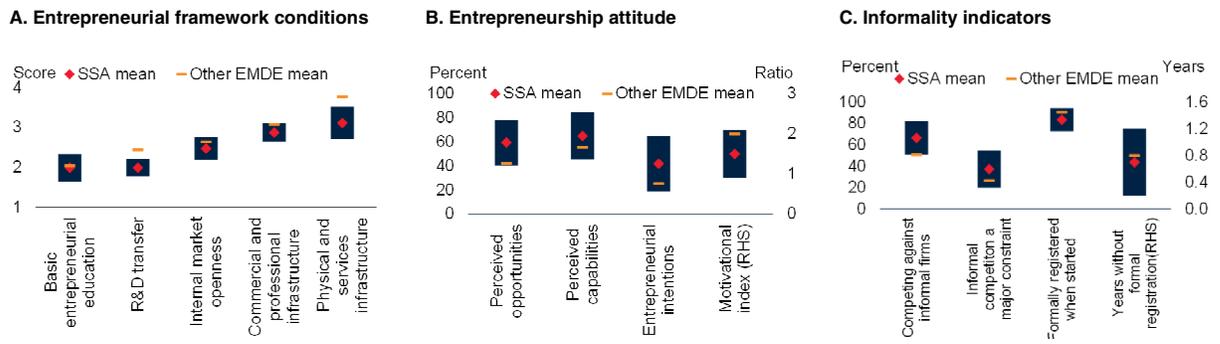
<sup>2</sup> Also in Kenya, the M-Pesa mobile money transfer system, combined with affordable ICT services, increased microenterprises' profitability (Mbogo 2010). Improving the survival chances of these microenterprises is one pathway toward growing the formal economy. David et al. (2012) provide other examples of successes at the local government level.

**Increasing firm productivity.** Small informal firms, lacking in human capital, would not sharply increase their productivity by merely registering (La Porta and Shleifer 2016). In contrast, large informal firms resemble formal firms much more than their small informal counterparts: productivity differentials of large informal firms relative to formal firms are minor (Benjamin and Mbaye 2012). In West Africa, the largest and fastest growing sectors are, in fact, dominated by large informal firms. This argues for policies to encourage small firms to grow into more productive formal firms, through skills upgrading and better access to inputs and resources such as business development services, transport and communications connectivity, financial services, health services, land and property rights, infrastructure, technology, and product markets (Oosthuizen et al. 2016). As these firms become more productive and produce higher quality products, they may be able to participate in supply chains in the formal sector (La Porta and Shleifer 2016). For large firms or those that voluntarily remain informal to evade taxes or avoid labor codes, incentives to encourage formal

**BOX 2.6.1 Informality in Sub-Saharan Africa (continued)**

**FIGURE 2.6.1.4 Entrepreneurial conditions, entrepreneurship attitude, and informality indicators in Sub-Saharan Africa**

Despite a higher proportion of necessity-driven informal entrepreneurs, Sub-Saharan Africa benefits from more dynamic entrepreneurial attitudes. More formal firms in Sub-Saharan Africa than in other EMDE regions started out as informal firms. However, small informal firms often lack managerial skills and resources. Skills upgrading and improving access to resources can help informal firms become more productive and therefore compete in the formal sector.



Source: Global Entrepreneurship Monitor, World Bank Enterprise Surveys.  
 Note: Blue bars are +/- one standard deviation of SSA mean. Other EMDE refers to all EMDEs except SSA countries.  
 A. The score is based on National Expert Survey of the Global Entrepreneurship Monitor. It ranges from 1 to 9. A higher score represents better perceived condition.  
 B. Data from the Adult Population Survey of the Global Entrepreneurship Monitor for the period 2001-16. Motivation index is the percentage of those who have recently started a business that are improvement-driven opportunity motivated divided by the percentage that is necessity-motivated. A lower ratio indicates a higher proportion that is necessity-driven.  
 C. Data from the World Bank Enterprise Surveys for the period 2006-16.  
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registration can be combined with tighter enforcement (Mbaye and Benjamin 2015).

**Building institutions.** Regulatory and institutional reforms to build public trust can strengthen incentives for firms to operate formally (Mbaye and Benjamin 2015). This includes improving the business environment by removing unnecessary regulatory barriers, strengthening monitoring and enforcement capabilities, and upholding legal and judicial systems. These policies apply equally to formal firms as an enabling environment is critical for investment and employment generation. Improving macroeconomic stability with sound fiscal and monetary policy frameworks is also essential.

**Stakeholder engagement.** Governments can actively engage with the informal community to encourage a shift towards greater formality (ILO 2009). This can involve educating informal firms on the benefits of formal registration, providing information on the procedures, participating in social dialogues to understand pressing issues for informal firms, customizing household surveys to better capture important aspects of informality, and collaborating with informal actors to design and implement effective development policies.

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