**Box 2.6.1 Labor productivity in Sub-Saharan Africa: Trends and drivers**

Since 2013, Sub-Saharan Africa has experienced a broad-based slowdown in labor productivity growth. Productivity growth has all but stalled amid falling commodity prices, weakening external demand, and growing domestic fragilities. In the decade prior to the global financial crisis, productivity growth benefited from strengthening institutions, stronger investment, infrastructure development, improving human capital, and better macroeconomic policy frameworks, but the pace of improvement has stagnated. Productivity in the region is still only one-half of that in EMDEs and roughly one-tenth of that in advanced economies. Ambitious policy efforts will be needed to generate the productivity growth required for per capita incomes in Sub-Saharan Africa to reach those of its EMDE peers, let alone those of advanced economies. To stimulate labor productivity growth, the region needs to implement policies that boost agricultural productivity, increase resilience to climate change, broaden economic diversification, and continue human capital development.

**Introduction**

In one of the steepest declines of any emerging market and developing economy (EMDE) region, labor productivity growth has slowed sharply in Sub-Saharan Africa (SSA) since the global financial crisis, from about 2.9 percent during the pre-crisis period of 2003-2008 to 0.5 percent during 2013-18 (Figure 2.6.1.1.A). The slowdown was particularly sharp among industrial commodity exporters—exporters of oil and metals account for roughly 80 percent of the region’s GDP—whereas productivity growth continued to accelerate among several agricultural commodity exporters. This deceleration returns productivity growth to near its 1990s average (-0.4 percent) and ends a period of solid growth of 2-3 percent throughout the pre-crisis period, when it was supported by a favorable external environment, strengthening institutions, improving human capital, and better macroeconomic policy frameworks.

SSA’s productivity levels are low, at around one-half of the EMDE average and 11 percent of the advanced-economy average in 2018 (Figure 2.6.1.1.B). However, if a few high-productivity countries are excluded, SSA’s productivity levels are far lower, at a mere 3 percent of the advanced-economy average. At near-nil productivity growth, SSA’s productivity levels have now started to further diverge from advanced-economy averages. Among EMDE regions, only the Middle East and North Africa has a slower pace of convergence, but starting from productivity levels that are far lower, at a mere 3 percent of the advanced-economy average. SSA’s productivity levels are low, at around one-half of the EMDE average and 11 percent of the advanced-economy average in 2018 (Figure 2.6.1.1.B). However, if a few high-productivity countries are excluded, SSA’s productivity levels are far lower, at a mere 3 percent of the advanced-economy average. At near-nil productivity growth, SSA’s productivity levels have now started to further diverge from advanced-economy averages. Among EMDE regions, only the Middle East and North Africa has a slower pace of convergence, but starting from productivity levels that average about four times those of Sub-Saharan Africa. Absent major policy efforts to lift productivity growth, its stagnation offers dim prospects for the nearly 60 percent of the global extreme poor that currently reside in SSA.

Against this backdrop, this box addresses the following questions:

1. How has productivity evolved in the region?
2. What are the factors associated with productivity growth in the region?
3. What policy options are available to boost productivity growth?

This box defines productivity as labor productivity, represented by real GDP per person employed (at 2010 prices and exchange rates). Growth in labor productivity is decomposed into the contributions made by changes in the standard factor inputs (human and physical capital per worker) and the effective use of these inputs, as captured by total factor productivity, assuming a Cobb-Douglas production function. Cross-country comparisons of labor productivity use market exchange rates in 2010 to convert national currency units into U.S. dollars. Data are available for 44 EMDEs in SSA, of which 21 are oil or metals exporters, 19 are exporters of agricultural commodities, and 5 are commodity importers.

**Evolution of regional productivity**

**Robust pre-crisis productivity growth.** Productivity growth in SSA started improving in the mid-1990s, as the region recovered from some of the adverse factors that had weighed heavily on activity in the 1980s and early 1990s. Prior to the crisis, productivity growth rose sharply, to 2.9 percent in 2003-08. This period was characterized by robust pre-crisis productivity growth. Productivity growth in SSA started improving in the mid-1990s, as the region recovered from some of the adverse factors that had weighed heavily on activity in the 1980s and early 1990s. Prior to the crisis, productivity growth rose sharply, to 2.9 percent in 2003-08. This period was characterized by a combination of favorable external conditions, including high commodity prices, strong investment, and stable macroeconomic policy frameworks. However, this period was also characterized by political instability in several countries (Calderón and Boreux 2016; Reinhart and Rogoff 2009; Straus 2012).

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Note: This box was prepared by Rudi Steinbach, with contributions from Sinem Kilic Celik, and builds upon analysis in Chapter 3. Research assistance was provided by Jankeesh Sandhu and Shijie Shi.

1. An economy is defined as a commodity exporter when, on average in 2012-14, either (1) total commodities exports accounted for 30 percent or more of total goods exports or (2) exports of any single commodity accounted for 20 percent or more of total goods exports. Economies for which these thresholds are met as a result of reexports are excluded. Commodity importers are economies not classified as commodity exporters.

2. One country, Chad, is classified as both an oil and an agricultural-commodity exporter.

3. Adverse developments in the 1980s and early 1990s included a multitude of sovereign debt, banking, and currency crises, debt overhang, low commodity prices, weak investment, and severe conflicts and political instability in several countries (Calderón and Boreux 2016; Reinhart and Rogoff 2009; Straus 2012).
BOX 2.6.1 Labor productivity in Sub-Saharan Africa: Trends and drivers (continued)

percent, on average during 2003-08. Growth was supported by a favorable external environment, including a commodity price boom between 2001-11 that fueled an inflow of foreign capital and unprecedented investment and benefited many of the region’s low-income countries (Figure 2.6.1.2.A; Khan et al. 2016; Steinbach 2019; World Bank 2019a). Faster productivity growth was also supported by improvements in education, health care, infrastructure, financial access, and trade openness (Calderón and Servén 2010; Cole and Neumayer 2006; Shiferaw et al. 2015; World Bank 2018k, 2019z).

In the 2000s, productivity growth in the region’s industrial commodity-exporting countries picked up sooner and more sharply than in agricultural commodity exporters and commodity importers. In addition to the higher export revenues brought about by rising commodity prices, oil and metal exporting countries benefited from substantial investments in commodity production and exploration (Khan et al. 2016; Schodde 2013). The productivity growth pick-up in industrial-commodity exporters was also driven by country-specific developments. In South Africa—the region’s largest metal exporter—productivity growth accelerated sharply after the country’s transition to democracy in 1994, thanks in part to improving policy frameworks, increased trade openness and foreign capital inflows (Arora 2005; Du Plessis and Smit 2007). By the mid-2000s, the more than 20 percent decline in productivity during the final decade of Apartheid had been fully reversed.

Stalling post-crisis productivity. Since the global financial crisis, productivity growth has fallen sharply in SSA, to near-nil (0.5 percent) on average during the post-crisis period (2013-18). Productivity growth slowed in a broad range of economies, with post-crisis productivity growth falling below its pre-crisis average in over 60 percent of countries. Oil- and metal-exporting countries experienced the steepest slowdowns amid the commodity price slump of 2014-16, as productivity growth fell to 0 percent in the post-crisis period, from 3.2 percent growth pre-crisis.

Post-crisis productivity growth in agricultural commodity-exporters and commodity importers was more resilient, particularly among the former for whom it strengthened to 2.3 percent. Despite the sharp fall in agricultural commodity prices during the commodity price slump—albeit less severe than the drop in industrial commodity prices—sustained productivity growth was supported by improving macroeconomic policy frameworks, investment in infrastructure, and continuous efforts to improve business environments. Doing Business rankings improved
by three positions in the median agricultural commodity-exporter between the pre- and post-crisis periods, compared to a median deterioration of seven positions among industrial commodity exporters. Several country-specific reasons also helped lift productivity among agricultural commodity exporters. In Rwanda, productivity growth was boosted by continued reforms to strengthen institutions and governance, upgrade infrastructure, increase access to education, and improve the business environment, to attract private investment (World Bank 2019w). In 2018, the country led SSA in its ease of doing business, ranking 29th globally. In Côte d’Ivoire, a return to stability following the end of decade-long civil strife in 2011 has since enabled a sharp rise in productivity, amid increased public investment, recovering foreign direct investment (FDI) inflows, an improving business environment and rising export activity (Klapper, Richmond, and Tran 2013; World Bank 2015c).
Low productivity levels. Productivity in SSA is the second-lowest of all EMDE regions, after South Asia. However, if the five most productive economies are excluded (Equatorial Guinea, Gabon, Mauritius, Seychelles, South Africa), SSA has the lowest productivity of all EMDE regions, at 3 percent of the advanced-economy average in 2018 (Figure 2.6.1.2.B). Higher productivity levels in these five economies—at 24 percent of the advanced-economy average—is roughly one-quarter above the EMDE average. It exceeds productivity in other SSA economies, in part due to significant oil wealth (Equatorial Guinea, Gabon), dominant tourism sectors in island states (Mauritius, Seychelles), and a considerably higher capital stock combined with mineral wealth (South Africa). The post-crisis slowdown in productivity growth has dimmed prospects for SSA’s continued convergence with advanced economies and other EMDEs. If recent rates of productivity growth persist, less than 5 percent of economies in SSA are on course to halve their productivity gap with advanced economies over the next 40 years.

Post-crisis total factor productivity decline. The post-crisis slowdown in SSA’s productivity growth reflected less effective use of factor inputs, as captured by total factor productivity (TFP; Figure 2.6.1.2.C).4 TFP growth, which accounted for the majority (three-fifths) of productivity growth pre-crisis, plunged from 1.4 percent pre-crisis to -0.9 percent post-crisis in the sharpest deterioration of any EMDE region. Rapid pre-crisis TFP growth, especially in industrial commodity exporters, reflected heavy resource investment and exploration during the commodity boom, large FDI inflows, communication infrastructure improvements (including the increased use of mobile phones), expanded access to finance, and better business climates (Figure 2.6.1.2.D; Aker and Mbiti 2010; Goedhuys, Janz, and Mohnen 2008; Keefer and Knack 2007; Wamboye, Tochkov, and Sergi 2015). The sharp post-crisis decline in TFP was most pronounced in industrial commodity exporters, following the commodity price collapse of 2014-16 and the accompanying collapse in investment, FDI inflows, and exports, compounded by somewhat weaker business environments.5 In Liberia and Sierra Leone, the post-crisis fall in TFP was exacerbated by the devastating Ebola outbreak of 2014-16 (World Bank 2019z).

In contrast, TFP has remained resilient, or even strengthened, among some exporters of agricultural commodities and commodity importers (Côte d’Ivoire, Kenya, Mauritius, Togo). Agricultural commodity prices fell less steeply, on average, than industrial commodity prices during the 2011-16 commodity price slump, and beneficial terms of trade supported activity among commodity importers. Faster TFP growth in these economies was also underpinned by sustained public investment in infrastructure, continued efforts to improve business environments, and more robust macroeconomic policy frameworks.

Post-crisis acceleration of capital deepening. The contraction in TFP growth offset the post-crisis boost to productivity growth generated from capital deepening. Labor productivity in agricultural commodity exporters benefited from heavy public investment.6 In Nigeria, investment was fueled by large FDI inflows into the energy, banking, manufacturing, and telecommunications sectors (although investment slowed sharply after 2014 as oil prices collapsed; Figure 2.6.1.2.E; World Bank 2019y). In contrast, investment has fallen sharply in other industrial commodity exporters in SSA—by 7 percentage points of GDP in the median economy—following the 2014-16 commodity price slump, compounding the already slowing TFP growth.

Impact of natural resource extraction on productivity measurement. Natural capital accounts for an economy’s natural resources, such as oil, metals, and agricultural land, and is particularly relevant given SSA’s commodity reliance. Standard productivity decompositions fold the extraction of natural capital into total factor productivity and, to a lesser extent, physical capital, biasing their estimated contributions to productivity growth (Brandt, Schreyer and Zipperer 2017; Calderón and Cantu 2019; World Bank 2019z). During the pre-crisis commodity price boom, countries such as Botswana, Mozambique, and South Africa benefitted from heavy public investment.7 In contrast, TFP declines have been most severe in oil-exporting Angola, Nigeria, and Chad, as well as in metal-exporting countries such as Botswana, Mozambique, Sierra Leone and South Africa.

Greater fiscal space, partly due to the Multilateral Debt Relief Initiative (MDRI) and Heavily-Indebted Poor Countries (HIPC) initiative, supported increased investment in infrastructure and human capital which resulted in an 18-percentage-point rise in average secondary school enrollment rates from 33 percent in 2000 to 51 percent in 2014.
price boom and the accompanying boom in resource exploration and development, the increased extraction of natural capital lifted productivity growth in SSA (Figure 2.6.1.2.F; Khan et al. 2016). However, as the boom ended and commodity prices began to fall, natural capital extraction declined accordingly, and its contribution detracted from overall productivity growth. Data for natural capital is available until 2014, the year the commodity price slide intensified, but well before prices reached their early-2016 troughs. Even during these early years (2013-14), it appears that the post-crisis fall in TFP was likely less severe than the standard decomposition suggests, as the decline in natural capital potentially accounted for a large share of the slowdown in TFP growth from pre-crisis years.\(^7\)

Sources of regional productivity growth

Productivity growth through sectoral reallocation. The

\[^7\]Direct comparisons between the standard decomposition and that including natural capital are complicated by the smaller country sample in the natural capital decomposition, as it includes 22 countries (72 percent of SSA GDP) compared to 26 countries (83 percent of SSA GDP) in the standard decomposition. Furthermore, the decline in natural capital may capture a lower valuation of the stock of natural capital.

\[^8\]Sectoral productivity data are available for only about half the SSA economies with data for aggregate productivity.

\[^9\]The sample includes 19 SSA economies at the nine-sector level.
controls—a widespread practice across particularly low-income countries in the region—often distort the allocation of resources and inputs in agricultural sectors and weigh further on productivity by adversely affecting incentives to invest in human capital or adopt modern technologies and production methods (Special Focus 1; Chen 2017; Chen and Restuccia 2018; World Bank 2019a). The agricultural sector’s significant contribution to value added, combined with the disproportionate share of employment devoted to the sector, helps explain SSA’s low aggregate productivity relative to other EMDE regions.

Pre-crisis, sectoral reallocation accounted for more than half of aggregate productivity growth as labor moved from agriculture to services sectors and, to a lesser extent, manufacturing (Chapter 3; Enache, Ghanì, and O’Connell 2016; Haile 2018; Rodrik 2016b). This process was facilitated by rapid urbanization as the urban share of population rose by 5 percentage points, to 39 percent, between 2000 and 2010. Since the crisis, however, the sectoral reallocation of labor to more productive sectors has slowed. As growth in commodity-exporting economies fell sharply during the commodity price slump of 2014-16, construction stalled, consumption eased, and credit contracted. Real-income losses in industrial sectors spilled over to weaker demand in the broader economy. As a result, services sectors were no longer able to absorb as much labor as they did pre-crisis.

Other drivers of productivity growth. Rapid improvements in the key drivers of productivity during the pre-crisis period supported productivity growth until the global financial crisis; however, the pace of improvement has since lost momentum. Productivity drivers with particularly prominent slowdowns in improvements include innovation, gender equality, education, health, trade openness, institutional quality, and investment (Figure 2.6.1.4.A and 2.6.1.4.B). Moreover, SSA continues to lag well behind other EMDEs in most drivers of productivity (Figure 2.6.1.4.C).

Institutional quality and the business environment. Although various aspects of governance and institutional quality improved in the region from the late 1990s into the pre-crisis period, this progress has mostly stalled, and even deteriorated in some instances. On average, business climates have also regressed during the post-crisis period; today, almost two-thirds of SSA countries still rank in the lowest quartile of countries by business climates, and one-half do so for poor governance (Figure 2.6.1.4.D). Poor business climates and governance, as well as distortions caused by price controls, have not only constrained productivity by distorting the efficient allocation of resources, but have also deterred private sector investment (Cirera, Fattal Jaff, and Maemir 2017; World Bank 2019a).

Integration with the global economy. Between the mid-1990s and 2008, the region’s openness to trade—that is, the sum of imports and exports relative to the size of the economy—rose 16 percentage points to 81 percent of GDP, helping to boost productivity. However, alongside falling commodity prices and slowing external demand, particularly from China and the Euro Area (the region’s two largest trading partners), trade integration has partially unwound in the post-crisis period, with openness falling to 74 percent of GDP by 2017. The region’s heavy dependence on commodity extraction sectors manifests in a smaller share of exporting firms compared to the EMDE average (Figure 2.6.1.4.E). Although the share of foreign-owned firms—which are generally more productive than their domestically owned counterparts—is high, such firms tend to cluster in extractives sectors with limited links to other sectors (Figure 2.6.1.4.F; Liu and Steenbergen 2019; World Bank 2018a). SSA’s participation in global value chains is mostly limited to exports of raw agricultural commodities and natural resources used as inputs in other countries’ exports (World Bank 2019a). Greater manufacturing sector participation in international trade and global value chains has been constrained by the sector’s relative lack of international competitiveness, in part due to high productivity-adjusted labor costs (Gelb et al. 2017) and an array of non-tariff barriers, including the region’s disadvantageous geography (Christ and Ferrantino 2011; Raballand et al. 2012).

Prospects for productivity growth slowdown. Although wide sectoral productivity differentials offer ample productivity growth potential through sectoral reallocation away from the agriculture sector, headwinds to productivity growth are substantial and expected to persist.

- **Weather-related shocks.** Given agriculture’s prominence in economic activity in SSA, climate change presents severe challenges to productivity growth prospects in agricultural sectors as mean temperatures continue to rise and extreme weather events occur more frequently (IPCC 2014; Steinbach 2019; World Bank 2019a, 2019f).
- **Constraints to public investment.** Government indebtedness in SSA has increased sharply since 2013, rising by 20 percentage points, on average, to 60...
BOX 2.6.1 Labor productivity in Sub-Saharan Africa: Trends and drivers (continued)

FIGURE 2.6.1.4 Drivers of productivity growth in SSA

Despite significant improvements, key productivity drivers remain significantly below those of advanced economies and EMDEs. Moreover, their pace of improvement has slowed in recent years. On average, business environments in Sub-Saharan Africa are more challenging than in other countries. While the region boasts the largest share of higher-productivity foreign-owned firms, its firms export less than their counterparts in other EMDEs.

A. Index of productivity growth drivers

B. Share of SSA economies with slower improvements in drivers 2013-18 relative to 2003-08

C. Levels of drivers across regions, 2018

D. Obstacles to doing business

E. Share of exporting firms

F. Ownership status

Source: Penn World Table; United Nations (2015); World Bank (Enterprise Surveys, Wealth Accounting, and World Development Indicators).

A. For each country, index is a weighted average (the normalized coefficients appearing in Annex 3.3) of the normalized value of each driver of productivity. Drivers include the International Country Risk Guide rule of law index, patents per capita, share of non-tropical area, investment as a percent of GDP, ratio of female average years of education to male average years, share of population in urban areas, Economic Complexity Index, years of schooling, share of working-age population, and inflation. See Chapter 3 (Annex 3.3) for details. Regional and EMDE indexes are GDP-weighted averages. Samples include 54 EMDEs and 11 economies in SSA.

B. Blue bars represent share of 48 economies in Sub-Saharan African economies where improvements in each driver of productivity were lower during 2008-17 than in the pre-crisis period 1998-2007, or changes in 2008-17 were below zero. Orange diamond is the corresponding values for 152 EMDE countries. Variables are defined as: Institutions = Government effectiveness; Innovation = patents per capita; Investment = Investment to GDP ratio; Income equality = (-1) * Gini; Urbanization = urban population percentage; Economic complexity = Hidalgo and Hausmann (2009)’s Economic Complexity Index; Education = years of schooling; Demography = share of working-age population; and Gender equality = female average years of education divided by male average years. Samples include 26-48 SSA economies, depending on the driver, and 98-151 EMDEs.

C. Unweighted average levels of drivers, normalized as average of advanced economies as 100. Blue bar represents average within SSA. Orange lines represent range of the average drivers for six regions in 2017. Variables corresponding to the concepts are follows: Education = years of education; Urbanization = share of population living in urban area; Investment = share of investment to GDP; Institution = Government Effectiveness; Economic Complexity = Economic Complexity Index; Geography = share of land area which are outside of tropical region; Gender Equality = Share of the year of schooling for female to male; Demography = share of population under 14; Innovation = Log patent per capita; Trade = Exports + Imports/GDP; and Price stability = (-1) inflation rate.

D. Unweighted averages. Variables corresponding to the concepts are follows: Corruption = percent of firms identifying corruption as a major constraint; Electricity = Percent of firms identifying electricity as a major constraint; Financial access = percent of firms identifying access to finance as a major constraint; Informal sector competition = percent of firms identifying practices of competitors in the informal sector as a major constraint; Tax system = the average of tax rates (percent of firms identifying tax rates as a major constraint) and tax administration (percent of firms identifying tax administration as a major constraint); Trade regulations = percent of firms identifying customs and trade regulations as a major constraint; Crime = percent of firms identifying crime, theft and disorder as a major constraint.

E. Share of exporting firms. Firms classified as high, medium, and low export more than 75 percent, between 50 and 75, and up to 25 percent of their sales, respectively.

F. Share of firms with foreign ownership.

Click here to download data and charts.
percent of GDP in 2019. Reduced fiscal space could weigh on future productivity growth as it will likely constrain investment in productivity-enhancing infrastructure, health, and education as well as research and development. It can also make countries more vulnerable to financial crises (Box 3.4).

- **Commodity-reliance.** Growth prospects for commodity sectors that could encourage capital deepening are dim. Long-term commodity demand growth is expected to moderate as growth in China—the largest source of commodity demand—slows and shifts toward less resource-intensive sectors (World Bank 2018o).

- **High informality.** High informality in the region—around 40 percent of official GDP and 90 percent of total employment—may inhibit faster aggregate productivity growth, as productivity among informal firms are only one-seventh of that in their formal counterparts (La Porta and Shleifer 2014; World Bank 2019f). In addition, much-needed productivity-enhancing government spending is constrained because informal firms do not pay taxes.

**Policy options**

Coordinated policy efforts are required to achieve stronger productivity growth, notable reductions in extreme poverty, and a narrowing of the significant income gap with the rest of the world. There are four strands of policy options that emerge from the findings of this box.

**Improving factors of production**

**Boosting human capital and leveraging demographic dividends.** Improving human capital has been an important source of productivity growth in SSA. Continued investment and increased spending on health care, including greater provision of treatment for highly prevalent conditions such as malaria and HIV/AIDS, could raise productivity of the labor force and life expectancy in general (Figure 2.6.1.5.A; Asiki et al. 2016; Barofsky, Anekwe and Chase 2015; Ferreira, Pessôa and Dos Santos 2011). Increased life expectancy due to improved health care also generates incentives to invest in education (Cervellati and Sunde 2011). In Ethiopia, a rapid decline in fertility rates between 1995-2015, rising incomes, and falling poverty rates reflected an approach combining improvements in education and health, family planning, and increased economic opportunity (World Bank 2019aa). Harnessing the region’s potential demographic dividend from declining fertility rates and falling dependency ratios requires policies that support female empowerment, including education, health care, and greater labor market access for women (Figure 2.6.1.5.B; Bloom, Kuhn and Prettner 2017; Groth and May 2017; Kalemli-Ozcan 2003). As the ratio of the young dependent population to the working-age population declines in SSA, resources could be freed up to invest in the health and education of the young, boosting the productivity of the future labor force and spurring per capita growth (Ashraf, Weil and Wilde 2013).

**Narrowing the gender gap.** Despite some improvements, gender gaps remain large in SSA (World Bank 2012). Although the gender gap in labor force participation has been narrowing, on average, significant gaps in earnings of women relative to men persist. This reflects gender disparity in secondary and tertiary education, differing occupations, and greater time devoted by women to housework and childcare (World Bank 2019aa). Moreover, improvements in the ratio of average years of education of females to males have been slowing in the post-crisis period. This is reflected by lower productivity of females in agriculture, as well as female entrepreneurs—crops tended by women yield one-third less per hectare than those of men, and a similar margin applies to profits earned by female entrepreneurs (Figure 2.6.1.5.C; O’Sullivan et al. 2014; Campos et al. 2019). Policies to empower women and boost their productivity include those promoting skills building beyond traditional training programs, such as a greater focus on developing an entrepreneurial mindset; this approach has been found to lift sales and profits in Togo (Campos et al. 2017, World Bank 2019aa). Other policies include relieving capital constraints faced by females due to lower asset holdings offering limited collateral; and addressing social norms that constrain women’s economic opportunities and earnings, such as perceptions about the type of work that is suitable to men or women.

**Closing infrastructure gaps.** Although capital deepening has continued apace among the region’s agricultural commodity exporters and commodity importers, it has slowed considerably among most industrial commodity exporters, and severe infrastructure deficiencies remain throughout the region. Meeting the infrastructure-related Sustainable Development Goals in 2030 will require additional investment spending between 2015-30 of roughly 7 percent of GDP per year in SSA (excluding maintenance spending)—the highest of all EMDE regions (Figure 2.6.1.5.D; Rozenberg and Fay 2019). Stronger productivity growth—through both capital-deepening investment and improved TFP—is contingent on
infrastructure deficiencies being addressed. Access to electricity is a critical obstacle to achieving development goals in SSA, and reforms to improve access in a sustainable manner need to strike a balance between affordable provision for consumers, particularly the poor, and cost recovery for utilities (Blimpo and Cosgrove-Davies 2019; Vorisek and Yu (forthcoming). In addition to closing infrastructure gaps, improvements to the resilience of existing infrastructure are needed to limit frequent disruptions, particularly in power, water and sanitation, transport, and telecommunications (World Bank 2019ab). To ensure public investment is efficient in boosting growth and productivity, it should be supported by adequate public investment management frameworks that encompass strong cash management and procurement processes.
BOX 2.6.1 Labor productivity in Sub-Saharan Africa: Trends and drivers (continued)

Boosting firm productivity

Boosting productivity in agriculture. Given the large share of activity and employment accounted for by agriculture, measures to raise agricultural productivity at the farm level—especially in staple crops—can yield significant development gains (Beegle and Christiaensen 2019). These include ensuring secure land tenures, better access to markets and finance, better crop choices, more effective and increased use of fertilizers, improved irrigation, diffusion and adoption of new technologies, as well as targeted trainings to help small farmers reap the benefits of cutting-edge knowledge and practices specific to the area and product (Chen 2017; Fuglie et al. 2019; Sinha and Xi 2018; World Bank 2019aa). For example, text messages providing advice and reminders to sugarcane farmers in Kenya helped boost fertilizer use and crop yields (Casaburi et al. 2014; Fuglie et al. 2019). Ensuring gender equality in access to resources could further boost agricultural productivity: giving women in Malawi and Ghana the same access to fertilizers and other inputs as men could boost maize yields by one-sixth (World Bank 2012). Gains from faster productivity growth in agriculture will free up workers to transition to other, more productive, sectors.

Addressing informality. Although informality is higher in SSA than in other EMDE regions, informal firms often brim with potential—more formal firms in SSA started as informal firms, and this period of transition is found to be shorter than in other EMDEs (World Bank 2019f). Policies to unlock informal firms’ potential include upgrading skills of workers, ensuring better access to inputs and resources like financial services, transport and communications connectivity, health services, land and property rights, and product markets (Oosthuizen et al. 2016). Removing barriers to enter the formal sector can further accelerate the transition out of informality: lowering registration costs by half could double the share of formal enterprises through formalization of informal firms and new entrants (Nguimkeu 2015; World Bank 2019aa). Regulatory and institutional reforms to build public trust can strengthen incentives for firms to operate formally. Policies aimed directly at the youth can bolster the prospects of the future workforce and help alleviate youth unemployment. In Rwanda, entrepreneurship has been introduced as a secondary school subject to help prepare the youth to be successful entrepreneurs or to compete in the formal labor market (Choi, Dutz, and Usman 2019).

Leveraging digital technologies. Firm productivity in SSA could also benefit significantly from the proliferation of digital technologies—more so than other regions (Choi, Dutz, and Usman 2019; Hjort and Poulsen 2019). SSA’s comparatively low levels of human capital and high degree of informality are ideally suited for the adoption and development of productivity-enhancing, low-skill-biased digital technologies in the agriculture, manufacturing and services sectors. In some countries, the use of digital technologies has been found to boost firm productivity by facilitating process and product innovation (Democratic Republic of Congo, Tanzania; Cirera, Lage, and Sabetti 2016). Digital technologies can also help in banking the unbanked and transform lending in SSA. Kenya’s mobile money service, M-Pesa, boosted the financial savings of female-headed households and enabled women to move out of agriculture into more productive sectors (Suri and Jack 2016). Digital loans offered through mobile money platforms are also growing in popularity and may grant financial inclusion to individuals without credit scores or sufficient collateral, as digital loan providers use alternative credit scores based on telecommunications data (Cook and McKay 2015; Francis, Blumenstock, and Robinson 2017; World Bank 2019aa). However, the use of digital credit has so far been largely concentrated in urban areas, at short maturities, and not as investment loans by the rural poor (Björkegren and Grissen 2018).

Accelerating trade openness and global integration. The African Continental Free Trade Area (AfCFTA) has the potential to boost regional trade and bolster firm productivity by facilitating investment, international competitiveness, the transfer of technology and new innovations, and participation in regional and global value chains (Berg and Krueger 2003; Calderon and Cantú 2019; Del Prete, Giovannetti, and Marvasi 2017; Laget et al. 2018; World Bank 2019d). To maximize the potential productivity gains from the free trade area, infrastructure needs to be expanded—particularly transport networks—and business climates improved. In addition, gains from AfCFTA depend on the implementation of trade facilitation measures and addressing of significant non-tariff barriers to trade—trade costs in SSA, such as border and documentary compliance costs, are roughly one-half higher than those of other EMDE regions (Figure 2.6.1.5.E; World Bank 2019d). Currently, most regional trade in SSA takes place among countries within existing regional economic communities, as high tariffs and non-tariff barriers limit trade between countries of different groupings.

Encouraging sectoral reallocation

Enabling factor mobility. Productivity gains from sectoral
reallocation of labor in the region—a major driver of pre-crisis productivity growth—can be rekindled by policies aimed at reducing the barriers to factor mobility. These barriers include low human capital of the labor force, weak infrastructure (such as inadequate transport systems in urban areas), low access to finance, and disadvantageous trade policies. In Nigeria, tariff structures have been shown to reduce incentives for sectoral reallocation to higher-productivity sectors, as the tariffs systematically boosted profitability of the least productive sectors but not that of higher-productivity sectors (World Bank 2017g).

Diversification. Countries with highly diversified economic activity across a broad range of sectors tend to have higher productivity levels (Chapter 3). SSA, however, remains heavily dependent on extractives sectors, particularly for export and fiscal revenues, with the latter dependence often a cause of procyclical fiscal policies. Policy measures aimed at broadening the production base toward a wider and more complex array of export goods, across a range of manufacturing and services sectors, will enable greater participation in value chains and help insulate economic activity from the destabilizing effects of large international commodity price swings. In Côte d’Ivoire—the world’s largest supplier of cocoa beans—diversification along the cocoa value chain through the expansion of domestic grinding and processing facilities has allowed the country to also produce a diverse array of value-added cocoa products and to overtake the Netherlands as the world’s leading cocoa-processing country (World Bank 2016h). AfCFTA could contribute to economic diversification if it leads to the establishment of regional value chains. However, successful economic diversification requires several supporting measures, including improved human capital, better infrastructure, stronger governance, and deeper financial markets with increased access to credit (Fosu and Abass 2019).

Creating a growth-friendly environment

Protection from climate change. Some of the adverse effects of climate change can be mitigated through appropriate land-use planning and investment in climate-smart infrastructure (Collier, Conway and Venables 2008; World Bank 2019a). Effective social protection policies, possibly financed with energy taxes or the removal of fuel subsidies, could provide resources to support livelihoods during extreme events (Hallegatte et al 2015). Climate adaptation policies can be strengthened by building capacity in policy implementation, boosting access to adaptation financing, and raising public awareness of climate change (Adenle et al. 2017; World Bank 2019ac).

Stability. SSA has historically witnessed many conflicts, particularly between the 1970s and early 2000s, that not only took heavy human tolls, but also shook the stability of the affected countries by weakening institutions and severely damaging or destroying infrastructure. Conflicts in Burundi, the Democratic Republic of Congo, Liberia, Rwanda, and Sierra Leone inflicted losses of human life equivalent to between 1 and 10 percent of their populations (Steinbach 2019; World Bank 2019a). More recently, rising incidence of conflict—particularly acts of violence against civilians—has increasingly weighed on activity in several countries and forcibly displaced large populations (Figure 2.6.1.5.F). Efforts to achieve lasting peace can strengthen economic activity and boost productivity through stronger investment and increased TFP (Chen, Loayza, and Reynal-Querol 2008).

Strengthening institutional quality and business environments. Business environments stand to benefit from improved infrastructure; limited access to reliable electricity and poor transport infrastructure are often cited as key constraints to business in SSA. In addition, high non-infrastructure-related costs, such as high prices to transport goods within countries and across borders, tend to exacerbate the burden of weak infrastructure. In many instances, high road-transport costs reflect excessive market power of trucking companies. Competition-enhancing deregulation can help alleviate this business constraint and boost productivity. For example, in landlocked Rwanda, deregulation in the transport sector led to an abrupt fall in transport costs (Barrett et al. 2017). Business environment deficiencies can further be addressed by increasing access to finance, simplifying tax systems, reducing regulatory burdens and compliance requirements, improving judicial systems to address corruption and strengthen enforcement, and liberalizing labor and product markets (Bah and Fang 2015; World Bank 2019f). Strengthening institutional quality by improving judicial systems can help address corruption—a leading obstacle to doing business—and strengthen contract enforcement. Such structural reforms can bolster firm productivity (Kouamé and Tapsoba 2018). Reforms aimed at improving the business environment can also help lower the size of the informal sector, which tends to have lower productivity than the formal economy.