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## Population boom in Africa: a dividend or a liability?

Economic Comment  
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Recent UN data indicate that Sub-Saharan Africa (SSA) could, in the long term, benefit from the so called demographic dividend. But for this economic potential to be fulfilled certain conditions have to be met.

### Projections point to population boom in Africa

On 11 July 2014, World Population Day, the United Nations Population Division (UNPD) published the third revision of its population projections. According to the data, SSA will experience the highest population growth in the world, from 0.8bn in 2010 to 2bn by 2050 and 3.8bn by 2100. Consequently, SSA's share of the world population will increase from 12% in 2010 to 22% in 2050 and 35% in 2100.

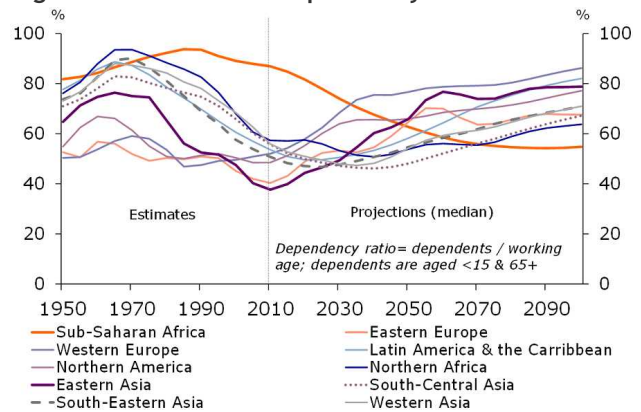
### The demographic dividend

In the past decade, SSA has enjoyed one of the highest economic growth rates in the world. Other regions that grew quickly in the past often benefitted from the “demographic dividend” and it is sometimes suggested that SSA could benefit from it as well (The Economist, 2013; IMF, 2014).

So what is the demographic dividend? As they were getting richer, most countries underwent a demographic transition, whereby a fall in mortality rates was later followed by a fall in fertility rates. As a result, the share of the population that was in the productive working age grew, while the share of dependents (children and elderly) dropped in the course of time (Bloom et al, 2003). East Asia is often used as an example, as it is estimated the demographic dividend accounted for one third of its economic growth between 1965 and 1990 (Bloom et al. 2013).

According to the data from the UNPD, the dependency ratio is particularly high in SSA (figure 1). This is currently an economic burden, but the projected fall provides SSA the opportunity to reap the benefits of the demographic dividend in the long run. Mortality rates have been falling and are forecast to reach the global average around 2030. Fertility rates are projected to fall slowly and converge to the world average by the end of this century. Therefore, while the West is ageing and other emerging markets have already experienced a significant fall in the dependency rate, SSA is the region where the biggest fall in the dependency rate is expected in the coming decades.

**Figure 1: Evolution of dependency ratio**

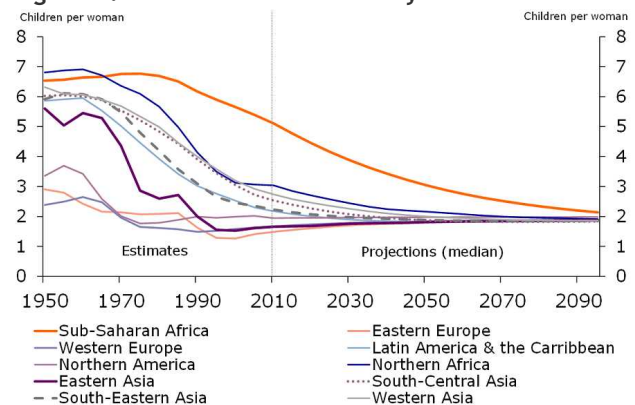


Source: UNPD

## The challenges

However, the demographic dividend is a “window of opportunity”, not a given. Will SSA manage to benefit from its demographic dividend? Two factors play an essential role here. First, recent data indicate that SSA is an outlier with respect to the decline in fertility rates, which has been much lower in SSA than in other regions (figure 2). The UNPD data is based on past population dynamics in other regions. So, if the actual fertility rate in SSA will fall less than anticipated, the region will miss out on the demographic dividend, because the dependency rate fall will be lower than it was in other regions.

**Figure 2: Evolution of the fertility rate**



Source: UNPD

Second, institutional strength is particularly important for allowing the young to become productive. What turns the low dependency ratio into a potential economic benefit is the fact that, per capita, more resources are available for investments and education. However, if institutional weakness hampers such investments, countries are simply confronted with a growing number of unemployed young people, which can lead to higher crime rates and social unrest. North Africa is an illustrative example. While the region enjoyed the highest drop in dependency ratio amongst all regions, the low living standards and the large number of unemployed youth led the Arab Spring. From that perspective, it is worrying that despite brisk economic growth in the past decade, unemployment in SSA has remained persistently high. Data on unemployment for the region are scarce. Still, available IMF data show that unemployment rose in Nigeria, from 13% in 2000 to 24% in 2011, while remaining persistently high in South Africa, where it ranged between 23% and 25% between 2000 and 2013.

Moreover, the window of opportunity created by the demographic dividend is not endless. The lower mortality rate leads to an increasing number of elderly, which will eventually lead to an increase in the dependency ratio. Thus, if countries fail to exploit the available bulge of labour supply, they will have missed out on the economic benefits of the demographic dividend and turn old before they turn rich.

All in all, SSA could reap the benefits of a potential demographic dividend in the long term. However, that is still uncertain and, without proper policies and institutions in place, SSA’s rapid population growth might just turn into a liability.

# Literature

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