The informal economy is an important component of most economies in sub-Saharan Africa, contributing between 25 and 65 percent of GDP and between 30 and 90 percent of total non-agricultural employment. International experience suggests that the informal economy is likely to remain large for many years to come, presenting both opportunities and challenges for policymakers. A recent IMF study explores the drivers of informality and policies conducive to reducing it.

In 2010–14, Latin America and the Caribbean and sub-Saharan Africa were two regions of the world with the highest shares of informality—on average, 40 and 38 percent of GDP, respectively. Informality tends to fall with the level of income; however, income is not the only determining factor. Countries with similar per capita GDP can have significantly different informality levels depending on the evolution of other drivers of informality, such as trade openness, the tax burden, labor market regulations, and institutions.

Informal activity serves as a safety net, providing employment and income to the large and growing working-age population that may otherwise be unemployed in the absence of sufficient opportunities in the formal sector. At the same time, productivity in the informal sector tends to be much lower than in the formal sector. Thus, a balanced approach is needed through policies to facilitate the formalization of the informal sector—for example, by focusing on increasing the productivity of the sector—while working on supporting the expansion of formal sector firms.

The study finds that policies designed to create an economic environment supporting the expansion of the formal sector also raise the productivity of the informal sector, reinforcing their impact on growth. Improving access to finance is a key contributor to broadening the scope of the formal sector. Fostering market efficiency can also play a role. For example, reducing the cost of enforcing contracts and the cost of exports are important, as is access to electricity.
Weak Economic Outlook for Sub-Saharan Africa

The sub-Saharan African economic outlook remains clouded. The April 2017 Regional Economic Outlook for sub-Saharan Africa reported a sharp slowdown in growth, which fell to 1.4 percent in 2016, the lowest in two decades. A modest recovery is expected in 2017, but it comes with significant uncertainties and downside risks. External financial conditions in the region have loosened from the peaks reached in early 2016, but remain tighter than in emerging markets. Even the recent increase in commodity prices is not expected to provide much relief, as oil prices are still far below their average level in 2011–13 and are not expected to recover much further. The overall weak outlook partly reflects delayed and still limited policy adjustment, which is creating uncertainty and holding back investment, especially in resource intensive countries. Vulnerabilities are also emerging in many non-resource-intensive countries, which have maintained elevated fiscal deficits for several years. In those countries growth rates remained high, but fiscal and external buffers are being depleted and public debt is on the rise. Sub-Saharan Africa remains a region with tremendous growth potential, but to reap this potential, strong and sound domestic policy measures are needed to restart the growth engine.

Conference on Managing Capital Flows: Challenges for Developing Countries

A high-level conference bringing together policy makers and senior officials from both LIDCs and EMEs was held in Livingstone, Zambia on May 5, 2017. Questions about how to manage capital account liberalization going forward, and how to better manage capital flow volatility were actively debated. The conference was opened by the IMF First Deputy Managing Director and the Minister of Finance of Zambia, and the keynote address was delivered by Nobel laureate Paul Krugman. The discussion highlighted a tension between the conviction that broader access to external finance was an essential part of the development process, and the reality that investors were driven mainly by a search for yield, which might account for the weaker evidence of growth and risk-sharing benefits from non-FDI flows. Some officials argued that their experience with liberalization had been problematic. In his keynote address, Krugman compared the effects of trade integration and financial integration and contended that, while trade had done a lot of good for growth and welfare, the same could not be said about international financial integration.

Brookings Event on Low-Income Developing Countries

IMF’s Deputy Managing Director Tao Zhang presented the main findings of the Fund’s report on Macroeconomic Developments and Prospects in Low-Income Developing Countries—2016 at the Brookings Institution. Mr. Zhang highlighted the differential impact of the commodity price shock on various LIDCs, the incomplete nature of adjustment in many of those that have suffered a terms-of-trade deterioration, and the importance of improving infrastructure to generate strong, sustained and inclusive growth—and how to do it in a way that preserves fiscal sustainability. In the subsequent discussion, CSO and think tank representatives expressed concern about debt accumulation and other implications of incomplete policy adjustment to adverse shocks and emphasized the importance of maintaining focus on LIDCs.

Compact with Africa

The G20 has launched the Compact with Africa (CwA) initiative aimed at boosting private investment on the continent. Central to the initiative is the concept of investment compacts to be agreed between individual African nations, the G20 and other partner countries, and international organizations, identifying the actions each party will take to boost investment flows. The analysis of key obstacles to private investment by the IMF, the World Bank Group and the African Development Bank will inform the content of the country-specific compacts, with the first wave including Côte d’Ivoire, Morocco, Rwanda, Senegal, and Tunisia.

Conference on Gender and Macroeconomics

The IMF-DFID project hosted a Conference on Gender and Macroeconomics on March 23–24, 2017, with approximately 200 attendees. The conference provided a forum for discussing innovative empirical and theoretical research on gender and macroeconomics and policy implications, with specific application to the challenges of low-income and developing countries. Topics included female labor force participation, financial inclusion, trade diversification, firm performance, intra-household choices, public investment, and macroeconomic outcomes. Some of the researchers took part in a day-long workshop with IMF staff.
Macroeconomic Developments and Prospects in LIDCs

Notwithstanding a slow recovery, commodity process are still well below the 2014 levels and constrain growth in several commodity exporters.

Growth slowed markedly in 2015 and 2016, especially in commodity exporters, but is expected to recover gradually stronger starting this year.

Commodity prices
(Index: 2005=100)

Borrowing costs decreased in the last 12 months, even though bond spreads in LIDCs are still higher than in emerging markets.

Selected Macroeconomic Indicators
(PPP-GDP weighted averages)

IMF’s financial commitments to LIDCs have increased sharply since 2014, and have reached SDR 4.3 billion.

Sovereign Bond Spreads in Frontier Markets
(Basis points)

IMF Lending Commitments to LIDCs, 2014-17
(Millions of SDRs, as of May 16, 2017, projections thereafter)

Sources: World Economic Outlook, April 2017; JP Morgan; FRED; IMF FIN database; and IMF staff estimates.
Notes: The sample of frontier market LIDCs comprises Bolivia, Mongolia, Mozambique, Nigeria, and Zambia (commodity exporters), Côte d’Ivoire, Ghana, Kenya, Senegal, Tanzania, and Vietnam (diversified exporters). Classification of LIDCs by export product can be found in IMF (2016).
Management Speeches on LIDC Issues

- "Belt and Road Initiative: Proven Policies and New Economic Links," by Christine Lagarde
- "Belt and Road Initiative: Strengthening Financial Connectivity," by Christine Lagarde
- "Central Bankers and Inclusive Growth: Building a Framework for Financial Inclusion," by David Lipton
- "Building a More Resilient and Inclusive Global Economy," by Christine Lagarde
- "Building Economic Progress in Bangladesh," by Misuhiro Furusawa
- "Financial Stability and Pan-African Banking," by Christine Lagarde
- "Becoming the Champion: Uganda's Development Challenge," by Christine Lagarde
- "Standing with the Central African Republic," by Christine Lagarde

Finance & Development Magazine

Theme of March Issue: Growth Conundrum

Featured Articles

- Stuck in a Rut
- Can Money Buy Happiness?
- Unburnable Wealth of Nations
- Girl Power

IMF Survey

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- Six Things to Know About the Economic Outlook for the Caucasus and Central Asia
- Investment, Diversification Key to Growth – African Ministers
- Six Things to Know about Somalia's Economy
- For Djibouti, Infrastructure Investment Paves Way to Regional Hub
- Return of Afghan Refugees to Afghanistan Surges as Country Copes to Rebuild

IMF Staff Blog on LIDC Issues

- A New Twist in the Link Between Inequality and Economic Development
- Chart of the Week: Conflict's Legacy for Growth
- Five Keys to a Smart Fiscal Policy
- Emerging Markets and Developing Economies: Sustaining Growth in a Less Supportive External Environment
- Services Exports Open a New Path to Prosperity
- Making Women a Priority
- Invest in Africa
- School, Skills, and Economic Growth
- Public Spending on Health Care under IMF-supported Programs
- Revisiting the Paradox of Capital: The Reversal of Uphill Flows
- The IMF’s Work on Inequality: Bridging Research and Reality
- Chart of the Week: Access to Banking Services
- Chart of the Week: Growth and Inequality
- Taxing Oil, Gas, and Minerals Across Borders Poses Challenges for Developing Nations
- Helping Feed the World's Fast-Growing Population

World Economic and Financial Surveys

Regional Economic Reports

- Asia and Pacific
- Sub-Saharan Africa
- Western Hemisphere
- Middle East and Central Asia

World Economic Outlook

- Roads Less Traveled: Growth in Emerging Market and Developing Economies in a Complicated External Environment

Books

- Women, Work, and Economic Growth: Leveling the Playing Field

Working Papers

- Debt Sustainability in Low-Income Countries: Policies, Institutions, or Shocks?; Y. Bal Gunduz
- Can They Do It All? Fiscal Space in Low-Income Countries; Mihesuma et al.
- Evaluating the Impact of Non-Financial IMF Programs Using the Synthetic Control Method; M. Newiak and T. Willems
- Farm, Fertiliser, and Financial Frictions: Yields from a DSGE Model; S. Walker
- Long-Run Biological Interest Rate for Pay-As-You-Go Pensions in Advanced and Developing Countries; M. Nozaki
- Understanding the Use of Long-term Finance in Developing Economies; M. Martinez Peria and S. Schmukler
- Tax Administration and Firm Performance: New Data and Evidence for Emerging Markets and Developing Economies; Cleary et al.
- Growth Inclusiveness in Djibouti; A. Kryeiy
- Tax Administration Reforms in the Caribbean: Challenges, Achievements, and Next Steps; S. Schlötterbeck
- Inequality Overhang; A. Robles and F. Grigoli
- Macropolicies Policy, Incomplete Information and Inequality: The Case of Low-income and Developing Countries; F. Unsai and M. Rubio
- Bank Ownership: Trends and Implications; Verrier et al.
- Understanding Inflation in Malawi: A Quantitative Investigation; D. Wu
- The Impact of Natural Resource Discoveries in Latin America and the Caribbean: A Closer Look at the Case of Bolivia; F. Toscani
- Collect More, Spend Better: Public Investment in Asian Frontier Markets; Jonas et al.
- How Buoyant is the Tax System? New Evidence from a Large Heterogeneous Panel; J. Jalles and P. Dudine

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