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Allianz Research

Going together and going far

Powering Africa´s economic and social potential

Executive Summary

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The African continent is showing much greater resilience than expected, given the set of macro-financial conditions. Economic resilience and adaptability to prolonged political violence, events leading to business interruption and challenging financing conditions will set the stage for an acceleration in 2024-2025 as many growth enablers persist. Africa also retains lower growth volatility than other regions, with positive effects on investor penetration, market expansion and overall business sentiment. If the continent's GDP growth resumes the pace of 2000-2010, the economy will reach USD4.6trn by 2030, equivalent to a USD1.7trn increase.

Enhancing critical investment and liquidity conditions across Africa will be vital to redress balance of payment imbalances caused by the asymmetric commodity price shock and tackle periodic currency devaluations. Effective implementation of the African Continental Free-Trade Area may result in an average income increase of +7% among member countries by 2035, while increased trust and trade credit will free up to USD65bn or 2% of Africa's GDP to be reinvested into the real economy. Strengthening legal frameworks and deepening financial and technological infrastructure will be key to attract foreign direct investment and unleash economic growth. This will not only improve the countries' fiscal position but also lead to the development of a more efficient and inclusive financial system, benefiting both domestic and international investors.

Africa is also home to plenty of undervalued resources, including 24-92% of global reserves of critical raw materials such as platinum, cobalt, manganese, chromium and bauxite. It also possesses a long-term demographic dividend: The number of people aged between 15 and 64 will surpass that of Europe, Latin America and Oceania combined in 15 years. If we consider that in almost half of the African countries at least 50% of the population aged 25 and older have either an account at a financial institution or use a mobile money service, demography could be leveraged once legal frameworks are strengthened and financial and technological infrastructure deepen. This would create a more stable environment for investors and reinforce their confidence, with enhanced fiscal position, capillary logistics and wider financial inclusion as desirable outcomes.

Against a backdrop of geo-strategic challenges, investors, insurers and pension funds have a vital role to play to attract the financial means necessary for Africa to develop its economy further. A thriving insurance sector can close protection gaps and help to reduce the "African premium" for the cost of debt and foster a conducive environment for infrastructure development.

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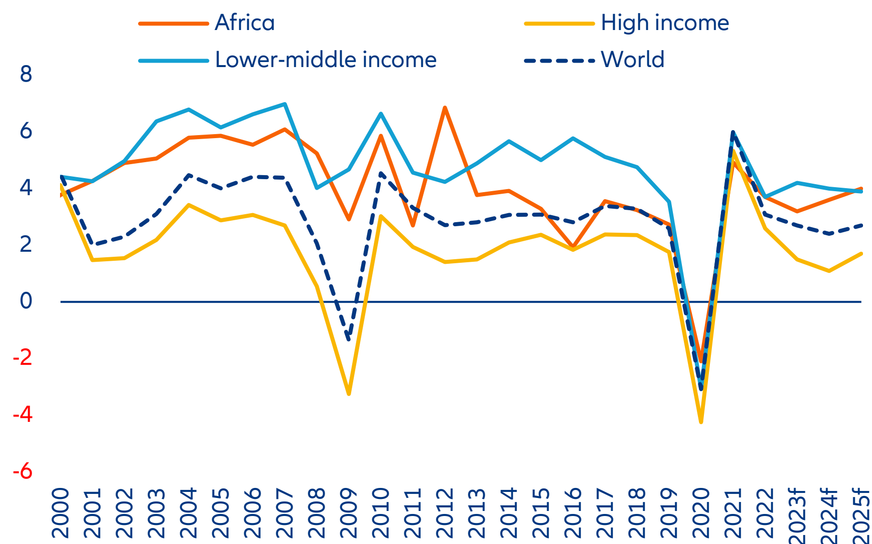
African growth enablers are resilient to economic cycles

Africa has achieved positive economic results even under challenging conditions. While Africa's "big three" economies – Nigeria, South Africa and Egypt – have decelerated in recent years, growth rates have proven to be solid in other African countries, demonstrating economic resilience and adaptability to prolonged political violence, events leading to business interruption and challenging financing conditions. In fact, the continent grew significantly between 2000 and 2014, breaking away from the global average at rates comparable to those of lower-middle-income countries, including many Asian economies (Figure 1). Almost half of the continent's population resides in countries that achieved annual GDP growth rates of more than +4.2% from 2010 to 2019 – the simple average for the continent since 2000 – driven by rising investment, exports and urbanization. If the continent's GDP growth resumed the pace of 2000-2010, the economy would reach USD4.6trn by 2030, equivalent to a USD1.7trn increase.

Figure 1: GDP growth, selected aggregates (%)



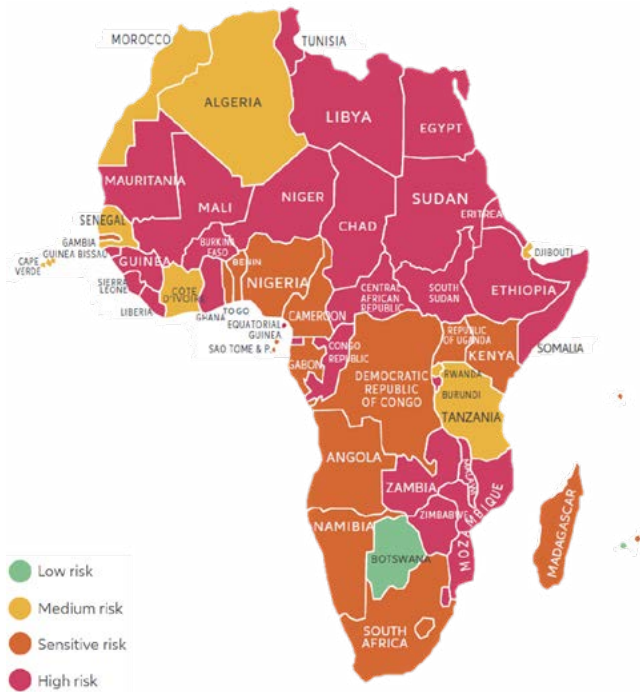
Sources: World Bank, Allianz Research forecasts

Figure 2: Macroeconomic forecasts

	GDP growth (pps)		Inflation (pps)	
	2023	2024	2023	2024
Africa	**3.2**	**3.6**	**15.9**	**11.8**
Algeria	2.4	1.8	9.0	4.8
Angola	2.6	3.5	12.0	10.5
Côte d'Ivoire	6.5	6.4	4.3	3.2
Egypt	2.8	3.5	40.0	32.0
Ghana	2.5	3.0	43.0	22.0
Kenya	4.4	5.2	7.5	5.5
Morocco	2.6	2.8	6.4	3.0
Mozambique	5.0	7.0	7.4	6.5
Nigeria	2.4	3.0	22.5	17.0
Senegal	5.5	8.0	8.0	4.0
South Africa	0.7	1.4	5.2	4.2
Tanzania	5.6	4.8	3.5	3.0
Tunisia	0.9	1.8	9.5	8.0

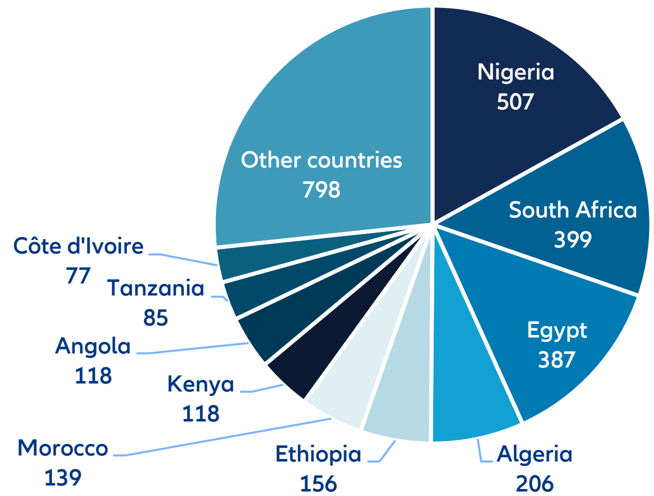
Source: Allianz Research

Figure 3: Country risk map, short-term indicators



Source: Allianz Research

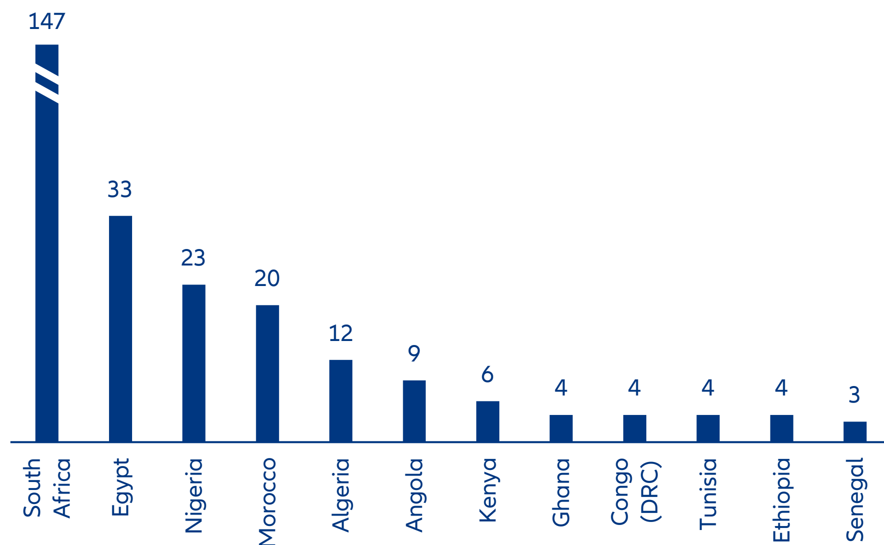
Figure 4: GDP of African countries in 2022 (USD bn)



Sources: IMF, Allianz Research

We expect an acceleration in 2024-2025 as many growth enablers persist: Africa has lower growth volatility than other regions, with positive effects on investor penetration, market expansion and overall business sentiment. At 24.5%, Africa's average gross domestic investment on GDP between 2017-2022 has been the highest among world regions, if we exclude China, and 10-year rolling GDP volatility is also the lowest globally (excl. China). African companies have also been scaling up, with almost 350 firms exceeding USD1bn of turnover. This indicates a favorable business environment and potential for industrial synergies. Almost 300 of the above firms are not state-owned and over 230 are homegrown[1]. This positive trend in economic growth and company upscaling can be attributed to various factors, such as improved governance, increased foreign direct investment and the implementation of sound economic policies. Additionally, the region's abundant natural resources and young, dynamic workforce contribute to its attractiveness for both domestic and international investors.

Figure 5: Companies with revenues of USD1bn or more by country



Sources: McKinsey, Allianz Research.

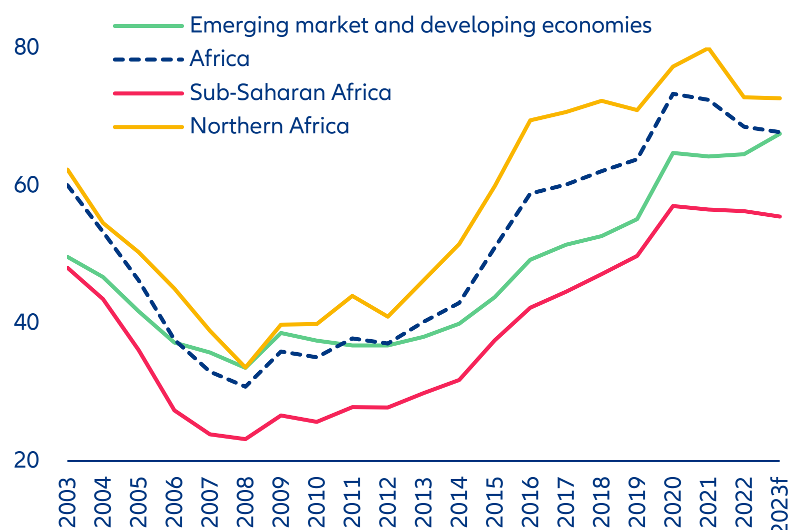
[1]Source: McKinsey Global Institute, Reimagining economic growth in Africa, June 2023

Limited public debt, although servicing costs remain high

Debt sustainability is related to liquidity constraints more than solvency. Public debt across the region has increased in recent years, but the average debt-to-GDP ratio of African countries remains within the average for emerging markets, indicating prudent debt management in many countries. The number of defaults in 2020–2023 has been lower than expected, given external macroeconomic conditions and structural imbalances. Notably, low tax revenues and the small size of national economies relative to the volume of investment and trade rather than solvency cause liquidity issues for African countries, especially those south of the Sahara. This is particularly true for over 20 African countries that this year face interest payments exceeding 10% of their revenue.

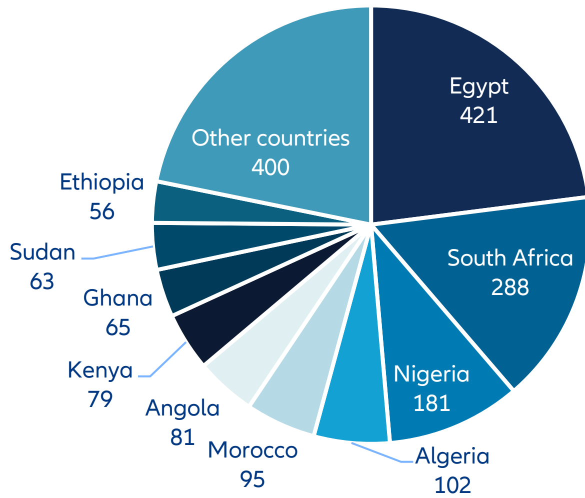
Historically, debt-to-GDP in Sub-Saharan Africa has remained below that of emerging markets and developing economies and almost 20pps lower than that of Northern African countries (Figure 6). Northern African countries represent around 40% of the region's public debt, while Sub-Saharan Africa retains an average debt level under 60% of GDP, which is seen as a threshold for sustainability.

Figure 6: Debt-to-GDP, selected regional and economic aggregates (%)



Sources: IMF, Allianz Research

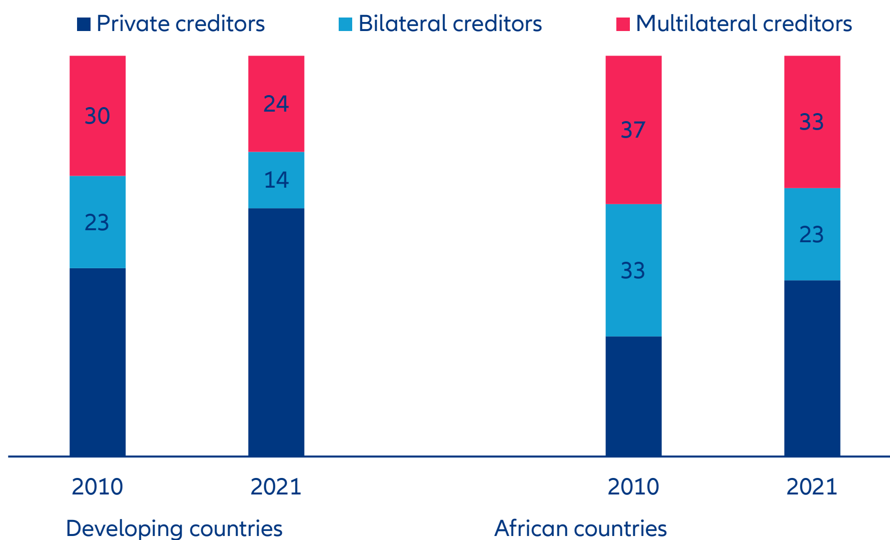
Figure 7: Public debt of African countries in 2022 (USD bn)



Sources: IMF, Allianz Research

Exposure to bilateral creditors is lower than that of developing countries, while private creditors have been increasing their share. Many concerns have been raised in recent years about the growing financial exposure of African governments to individual countries, chief among them China. Indeed, the debt incurred by many African economies from single and private creditors, including through the issuance of Eurobonds, has increased. Sometimes it has reached levels that make refinancing problematic. Debt restructurings have also revealed the fragility of these debts and the inadequacy of restructuring processes. These risks are reflected in Africa's high borrowing costs: The regional average cost of financing is around 12%, which is 8.5pps higher than the US benchmark. The caution adopted by several international organizations, such as the OECD, under the sustainable lending initiative has made it possible to maintain, on average, non-concessional indebtedness that is still lower than that of developing countries (Figure 8). Enhanced transparency and market-oriented reforms will bring African countries increased access to institutional investors and retail markets in the future.

Figure 8: Public debt of African countries in 2022 (USD bn)



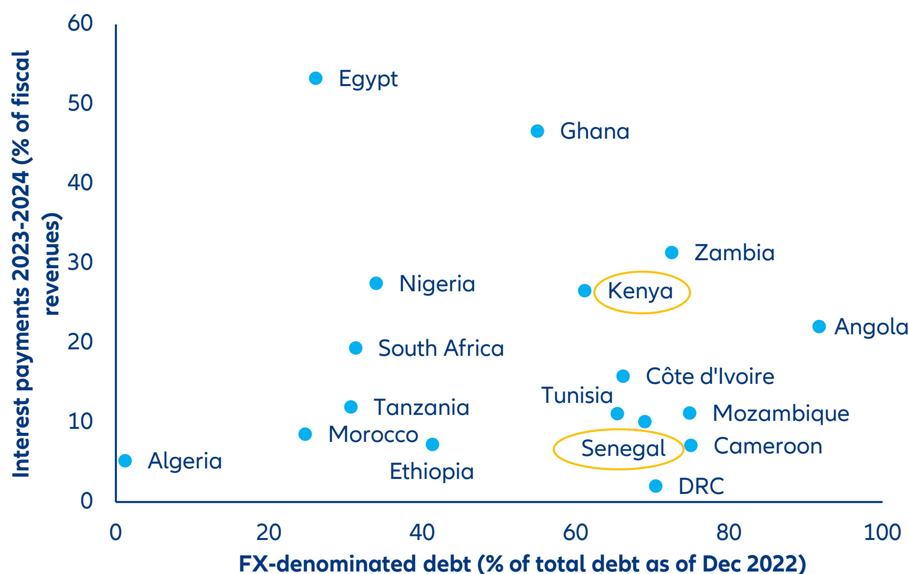
Sources: UNCTAD, World Bank, Allianz Research

Over 20 African countries face interest payments exceeding 10% of their revenues (Figure 9), a larger share than what they can allocate to education and health. However, there are some countries where foreign debt remains relatively high, demonstrating a relatively good appetite from international markets. These countries are also less exposed to interest payments as a share of respective fiscal revenues.

The cost of debt is a major concern: the "Africa premium" in access to liquidity is a spread of between 2.9% and 3.4% in sovereign bond rates , mostly associated with fiscal transparency, political volatility and exposure to capital flight. The regional cost of financing for sovereigns is around 12%. Conversely, location risk influences disparities in interest rates in a more pronounced way at the corporate and retail level compared to international peers.

Such a premium persists due to several key factors, including the transparency of the budget process, the significance of the informal sector, the level of financial development and the quality of public institutions. Misperceptions and biases hinder the harmonization of macroeconomic fundamentals with a suitable price-to-risk ratio, thereby prompting international investors to exhibit asymmetric and herding behavior, clustering African debt assets together as a single category. The informal sector, which has played a significant role in Africa's resilience over the past 18 months, is also exerting upward pressure on borrowing costs. This is due to its impact on the government's revenue-generation capabilities, which hinder its ability to effectively meet debt obligations. Similarly, investors are likely to charge countries whose financial markets are still underdeveloped with higher premia to buffer against the risk of bond illiquidity.

Figure 9: Interest payments on public debt and share of FX-denominated public debt, selected African countries

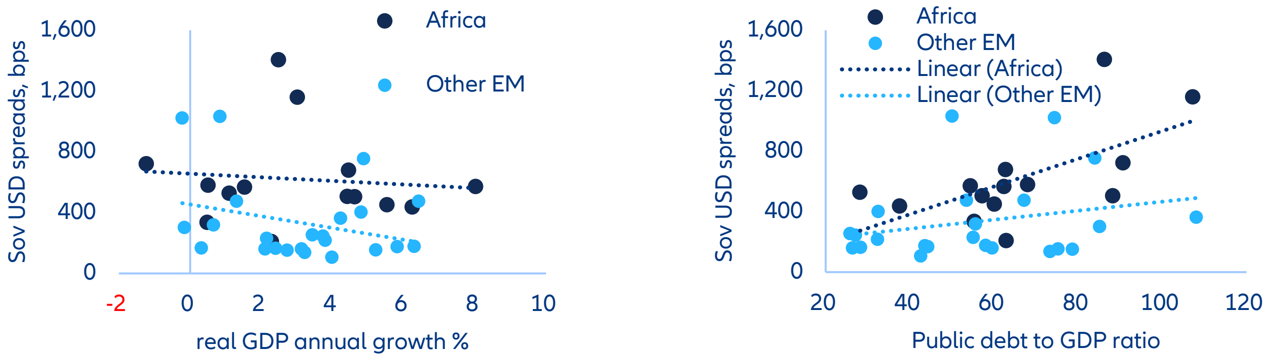


Sources: IMF, Refinitiv, Allianz Research

The cost of debt is a major concern: the "Africa premium" in access to liquidity is a spread of between 2.9% and 3.4% in sovereign bond rates[2], mostly associated with fiscal transparency, political volatility and exposure to capital flight. The regional cost of financing for sovereigns is around 12%. Conversely, location risk influences disparities in interest rates in a more pronounced way at the corporate and retail level compared to international peers. Such a premium persists due to several key factors, including the transparency of the budget process, the significance of the informal sector, the level of financial development and the quality of public institutions. Misperceptions and biases hinder the harmonization of macroeconomic fundamentals with a suitable price-to-risk ratio, thereby prompting international investors to exhibit asymmetric and herding behavior, clustering African debt assets together as a single category. The informal sector, which has played a significant role in Africa's resilience over the past 18 months, is also exerting upward pressure on borrowing costs. This is due to its impact on the government's revenue-generation capabilities, which hinder its ability to effectively meet debt obligations. Similarly, investors are likely to charge countries whose financial markets are still underdeveloped with higher premia to buffer against the risk of bond illiquidity.

[2] "Sub-Saharan Africa's Risk Perception Premium: In the Search of Missing Factors", IMF Working Paper, June 2023

Figure 10: Comparison of sovereign spreads of African and non-African countries with similar economic fundamentals that shows the existence of an "African premium", 2015-2021



Sources: Bloomberg, Allianz Research

There are several ways to reduce the "Africa premium", from self-financing through more effective taxation to the opening of the stock market and increased pension and social protection to mobilize long-term, sustainable investment. Efforts to improve debt transparency are ongoing, with some countries, including Nigeria – Africa's largest economy – implementing measures to enhance the reporting, disclosure and sustainability of the pension system. These efforts have helped African countries attract foreign investment and secure more favorable borrowing terms, as was the case for Morocco earlier this year, but also for Senegal, Ghana and Côte d'Ivoire. Collaboration with international lenders has fostered greater accountability and facilitated risk assessment and management of debt levels. However, challenges remain as some countries continue to struggle with high debt burdens, hindering their ability to invest in crucial development projects and meet the needs of their populations.

Photo by Rohan Reddy on Unsplash

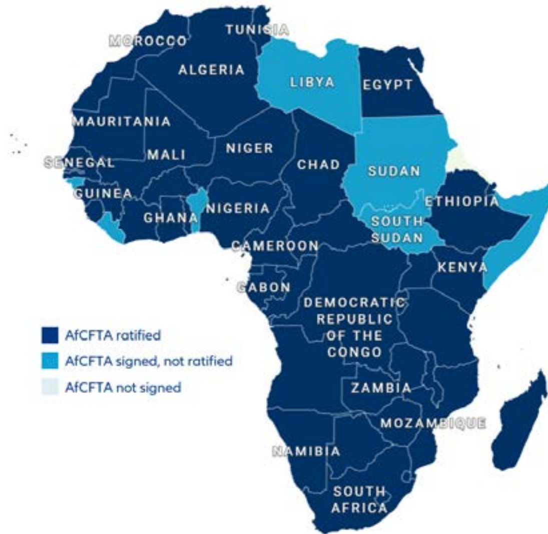
Intra-African trade is set to rise

Intra-African trade is set to expand as 47 out of 54 signatories of the African Continental Free-Trade Area (AfCFTA) have already ratified the agreement. The pact aims at phasing out tariffs on 90% of goods and unlocking the full potential of the Pan-African Payments and Settlement System. Already hailed as the largest active free-trade area in terms of members, population and geographical size, the free-trade area is up and operating. It covers more than 1.3bn people for an aggregate nominal GDP of around USD3trn.

There has been very little actual trade within the framework of the agreement since its entry into force in 2021, but the foundations are being laid and five more members, including Morocco and Mozambique, ratified the agreement after Russia invaded Ukraine in February 2022. Phase one, which is related to negotiations on goods, is nearly complete. For 90% of the items to be traded under the agreement, rules of origin are settled, which is critical to ensuring that only authentic African goods benefit from tariff discounts and trade under the favorable system. The remaining 10%, which mostly covers sensitive sectors like textiles and apparel, as well as the automotive industry, is still up for discussion.

With 47 of the 54 signatories having submitted tariff-reduction schedules, the objective to phase out tariffs on 90% of items by 2030 at the latest seems at hand, while members will have more time to eliminate tariffs on 7% of sensitive goods. Commitments to free trade in services have yet to be made for the five priority sectors for liberalization: business services, communications, financial services, transportation and logistics and tourism. Phase two covers intellectual property rights (IPRs), investment policy and competition policy, with an outline for the protocols that have also been agreed by ratifying countries. After phase two is completed, phase three will begin on protocols related to digital commerce and women and youth in trade, but there is no set schedule for when these conversations will begin or end.

Figure 11: African countries that have ratified the AfCFTA

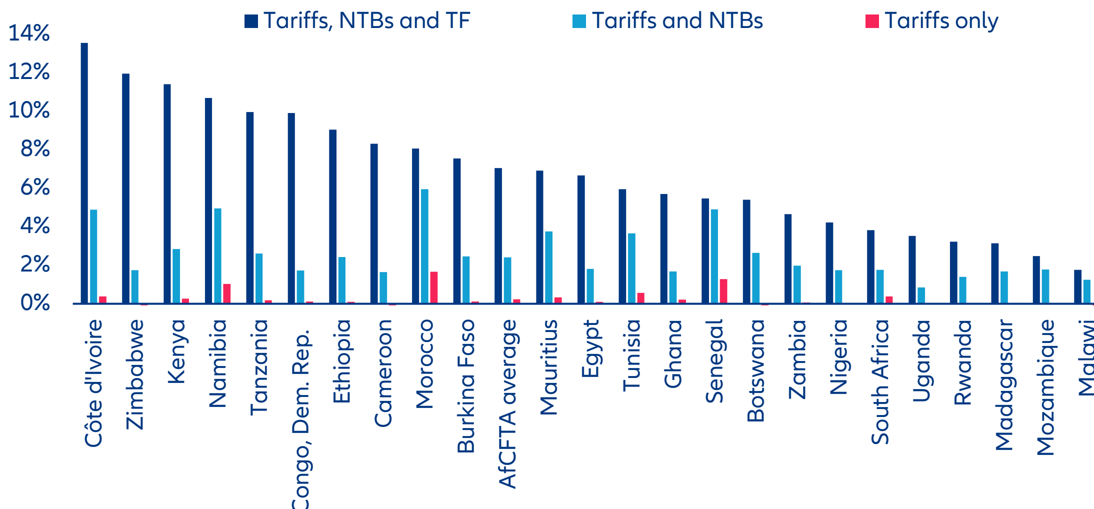


Sources: AfCFTA, Allianz Research.

Among the operational instruments of the AfCFTA, the Pan-African Payments and Settlement System (PAPSS) stands out as a single platform for making and receiving payments to and from regional partners. If we consider that approximately 42 distinct currencies are in use across Africa right now, the PAPSS would allow African businesses to trade among themselves using their own currency, speeding up payment and settlement for deals while cutting their expenses through a proprietary cloud-based digital platform. Settlements between two African currencies were previously settled in a third, external currency, typically USD or EUR, via correspondent banks based outside of Africa – some 48% of all bank payments involve foreign lenders. At a time when Africa's central banks need to look after foreign exchange and liquidity requirements carefully, it has been estimated that PAPSS will revolutionize intra-African trade by reducing transaction costs by USD5bn annually for African enterprises. No cryptocurrencies or central bank digital currencies will be accepted, at least for now.

Effective implementation of the agreement may result in an average income increase of 7% among member countries by 2035 compared to the baseline scenario, with peaks of 10% or more in Côte d'Ivoire, Zimbabwe, Kenya, Namibia, Tanzania and the Democratic Republic of Congo. This number includes the benefits of tariff and non-tariff barriers (NTBs) as well as those of trade facilitation (TF) tools.

Figure 12: African countries that have ratified the AfCFTA



Source: World Bank, Allianz Research

Improving liquidity will also help improve the ratios of banking systems, particularly in those countries where the nexus with the sovereign (i.e. the interdependence of the banking system as a lender in turn guaranteed more or less implicitly by the government) is more pronounced. A lower standing of banks and scarce liquidity is weighing on the ability to place commercial risk with instruments such as the letter of credit. As credit conditions tighten, a gradual adoption to trade credit solutions is likely to materialize, with credit risk progressively shifting from banks to buyers.

Figure 13: African banking sector heatmap, selected countries

	Economic risk	Trend of main sectors of exposure	Credit growth volatility	Operating profit	External funding conditions	Capital adequacy	NPLs	Sovereign risk	Government support	Exposure to state-owned entities
Nigeria										
Egypt										
South Africa										
Kenya										
Morocco										
Angola										
Tunisia										
Ghana										

Sources: National authorities, IMF, Fitch, Allianz Research

Photo by Rohan Reddy on Unsplash

Additional liquidity from trade credit

Giving buyers in Africa 30 more days in payment terms would free up the equivalent of 2% of the continent's GDP. Past and present bad payment experiences with buyers in African countries, whether linked to counterparty risks, non-transfer risks or political risks, are seriously harming the development of African companies, and thus Africa as a whole. Indeed, the lack of inter-company credit translates de facto into an increase in the working capital requirements of African companies, against which they mobilize financing capacities that could be more judiciously employed.

A closer look at international payment practices[3] reveals that payment terms are the exception rather than the rule for African buyers. In seven out of 10 African countries, payment terms consist of pre-payment or, failing that, documentary credits, the latter being (i) "at sight" or at best "30 days" and (ii) "irrevocable" and even "confirmed". And for three countries out of 10, payment deadlines are granted and can extend to 60 days, provided that the transaction is secure. SWIFT transfers are then guaranteed either by a stand-by letter of credit or by credit insurance. This constraint is in addition to the down payments negotiated by international sellers, which are "highly recommended" in eight African countries out of 10.

It is true that international sellers are reinforced in their demands by the level of risk of late payment. In practice, late payments with African buyers are generally judged to be either "very frequent" (two out of 10 countries), or "very frequent" or "frequent" in the absence of secure operations (seven out of 10). Most often, these delays are attributable to a lack of foreign currency (unavailable at the time of transfer), but they are also due either to a lack of cash flow or banking support for SMEs, or to administrative or customs clearance problems.

Whatever the case, the short payment terms granted to African companies are clearly damaging, firstly, at the microeconomic level, since each transaction carried out without a payment period increases the WCR of the African companies concerned and reduces their available cash flow. This is a double whammy: on the one hand, higher transaction costs, both administrative costs linked to documentary credits and other guarantees, and financing costs (since supplier credit is "free" compared to bank credit); on the other hand, financial resources that could be mobilized for more useful purposes – such as debt reduction or investment in production capacity, business development or R&D. There is also a macroeconomic impact that should not be overlooked. For Africa, which imports over USD800bn worth of goods and services every year, allowing 30 days payment on imports would free up around USD65bn in working capital. This is equivalent to over 2% of Africa's GDP or the GDP of the Democratic Republic of the Congo (DRC), Africa's 12th largest economy just behind Côte d'Ivoire.

[3] Based on information published by the Moniteur du Commerce International (2022 edition) for 32 African countries, which respectively account for 94% and 93% of Africa's GDP and imports.

Figure 14: Increase in working capital requirements by country with a trade credit extension of 30 days

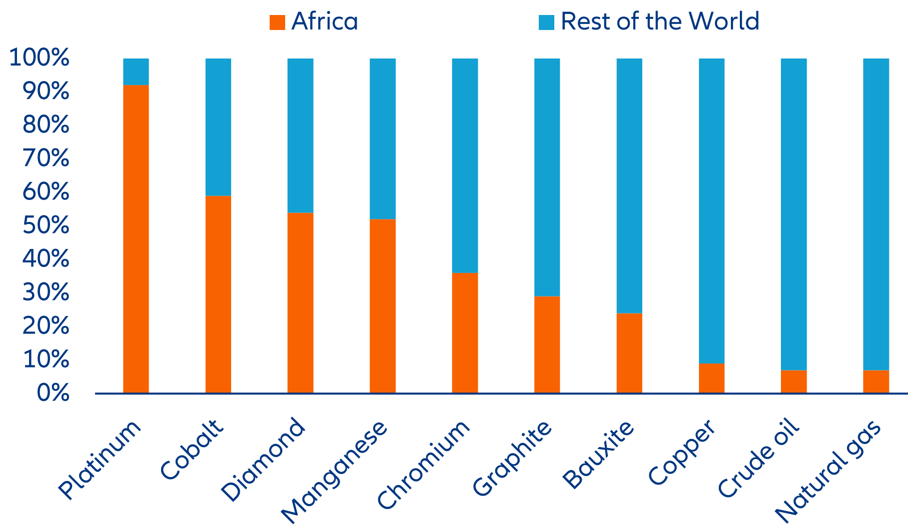
	2022 imports	Unleashed WCR with +30 days in DPO	
	USDbn	USDbn	% of GDP
Algeria	46.4	3.7	1.9%
Angola	28.3	2.3	1.9%
Benin	5.4	0.4	2.5%
Burkina Faso	6.7	0.5	2.8%
Cameroon	9.5	0.8	1.8%
Congo	3.3	0.3	2.1%
Côte d'Ivoire	19.1	1.5	2.2%
DRC	27.5	2.2	3.5%
Djibouti	5.8	0.5	12.9%
Egypt	95.3	7.7	1.6%
Eq. Guinea	2.6	0.2	1.3%
Ethiopia	24.2	1.9	1.6%
Gabon	4.8	0.4	1.8%
Ghana	24.9	2.0	2.8%
Guinea	5.7	0.5	2.3%
Kenya	23.6	1.9	1.6%
Libya	12.4	1.0	2.3%
Madagascar	4.6	0.4	2.5%
Mali	6.8	0.5	2.9%
Mauritania	6.0	0.5	4.7%
Mauritius	8.0	0.6	5.1%
Morocco	72.9	5.9	4.3%
Mozambique	15.8	1.3	7.1%
Niger	4.2	0.3	2.2%
Nigeria	76.7	6.2	1.3%
Rwanda	4.9	0.4	3.1%
Senegal	13.1	1.1	3.8%
South Africa	127.3	10.3	2.5%
Tanzania	16.6	1.3	1.7%
Togo	2.8	0.2	2.8%
Tunisia	28.7	2.3	5.0%
Uganda	11.1	0.9	1.8%
Selected countries (32)	745.3	60.0	2.2%
Other countries	57.5	4.6	2.7%
Total Africa	802.7	64.7	2.2%

Sources: IMF, WTO, LeMoci, Allianz Research

Critical raw materials and geo-diplomacy

In recent years, Africa has demonstrated remarkable strategic acumen in geo-diplomacy, transforming its economic landscape through infrastructure development, the management of critical raw materials and the cultivation of strategic partnerships. This prowess in geo-diplomacy is now converging with a burgeoning focus on next-generation commodities, such as natural gas, hydrogen and minerals, which are set to underpin Africa's economic prosperity for the long term. Furthermore, the evolving global financial landscape, particularly China turning inwards, is opening windows of opportunity for nearshoring and fostering collaboration, even among African countries.

Figure 15: Reserves of selected raw materials



Sources: USGS, BP, Allianz Research.

Africa's smart geo-diplomacy revolves around the art of forging strategic partnerships that bolster infrastructure development and resource management. Recent initiatives have seen Africa collaborating with diverse countries and organizations, from China to the US and the EU, to invest in critical infrastructure projects. These projects, including roads, railways and ports, serve as the bedrock of economic growth, connecting regions and facilitating the flow of goods, people and ideas. Moreover, Africa's strategic engagements with nations in the Middle East and Asia have opened doors to investments and technological exchanges, bolstering its development goals. This adaptable approach ensures that Africa benefits from these collaborations, showcasing its nuanced understanding of geo-diplomacy.

Africa's geo-diplomatic intelligence extends beyond partnership-building to skillful middle power diplomacy. The continent adeptly navigates the complex landscape of global politics, playing a role in multilateral forums with single countries and more recently with the African Union (AU) joining the G20 as a permanent member (adding up to South Africa). Within the AU, Africa champions peacekeeping missions, conflict resolution and sustainable development, solidifying its position as a responsible middle power. Negotiations around BRICS enlargement have also increased Africa's visibility and outreach.

Africa's resource management prowess extends to the strategic handling of critical raw materials, including minerals, oil and gas. The continent's vast reserves have made it a key player in global supply chains, and Africa is actively asserting control over resource extraction and distribution to ensure equitable benefits while mitigating exploitation risks. African nations are forming cooperative agreements, regulating mining and agricultural practices and emphasizing value addition within their borders. By controlling the supply chain, Africa can negotiate favorable terms with international partners and attract investment that promotes sustainable resource management.

On the other hand, the pursuit of next-generation commodities necessitates significant investments in infrastructure, technology and human capital. While traditional financing sources remain relevant, Africa is diversifying its options. China's increasing domestic focus is prompting African nations to explore new avenues for funding. Africa has exhibited growing disaffection towards Chinese lending practices and concerns over the lack of transparency in contracts involving Chinese firms, highlighting the need for more equitable and transparent partnerships. This shift presents windows of opportunity for nearshoring, both among African countries and with other regional powers. African nations can invest in local industries and value chains, fostering self-reliance and regional integration. Initiatives like the AfCFTA facilitate the movement of goods, services and investments, enhancing intra-continental collaboration.

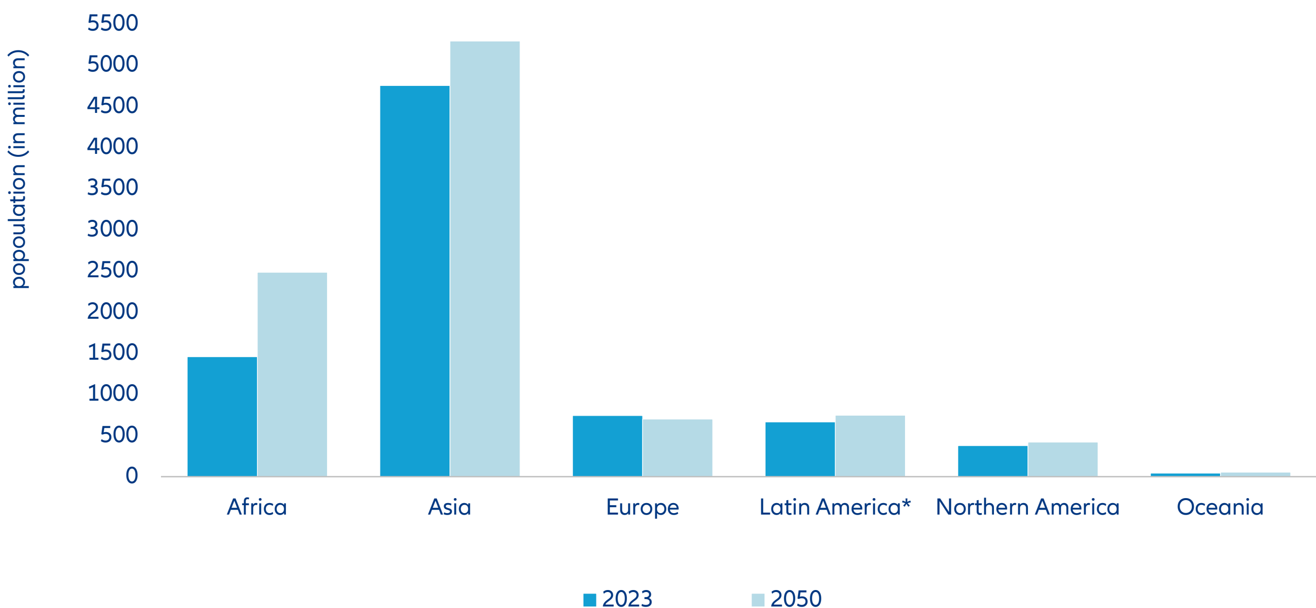
Africa's multifaceted approach to geo-diplomacy and its embrace of next-generation commodities position the continent for a prosperous and self-reliant future. By leveraging its strategic partnerships, middle power diplomacy and resource management expertise, Africa is poised to harness the potential of natural gas, hydrogen, minerals and other commodities. Diverse financing sources and nearshoring initiatives further reinforce Africa's trajectory toward economic prosperity and sustainability on the global stage.

Photo by Palesa on Unsplash

The youngest continent

Demographic developments are in favor of Africa. While in all other world regions population growth is set to slow down markedly or even turn negative as in Europe, Africa's population is expected to grow by around 1bn people, or 70%, from 1,460mn people today to 2,485mn in 2050, keeping its position as the second most populous continent behind Asia (Figure 16).

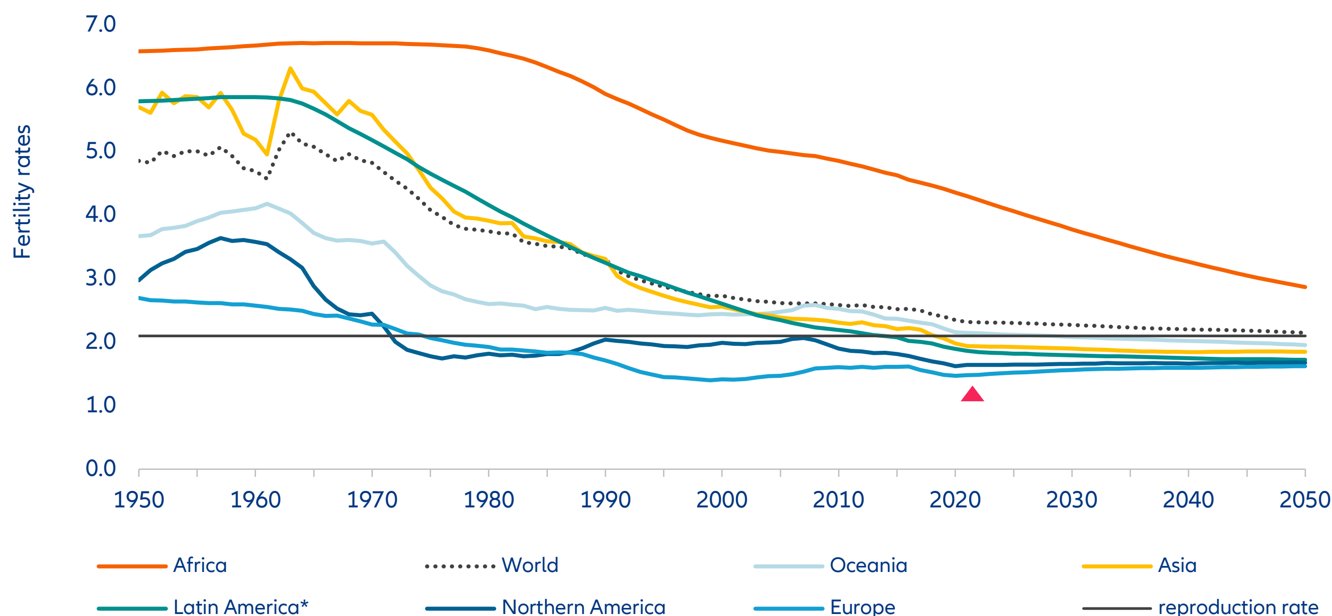
Figure 16: Population, by world region



*Latin America and the Caribbean
Sources: United Nations Population Division, Allianz Research

Africa is also set to remain the youngest world region in the long run due to the combination of high fertility rates on the one hand and a still comparatively low average life expectancy on the other, though these both reflect the still low development level of many African countries. Since the mid-1970s, fertility rates have fallen, but with 4.2 children in 2022 they are still well above the reproduction rate of 2.1 children. UN demographers expect this development to continue and assume a further decline to an average 2.9 children in 2050, while fertility rates in other world regions are expected to remain below the reproduction level (Figure 17).

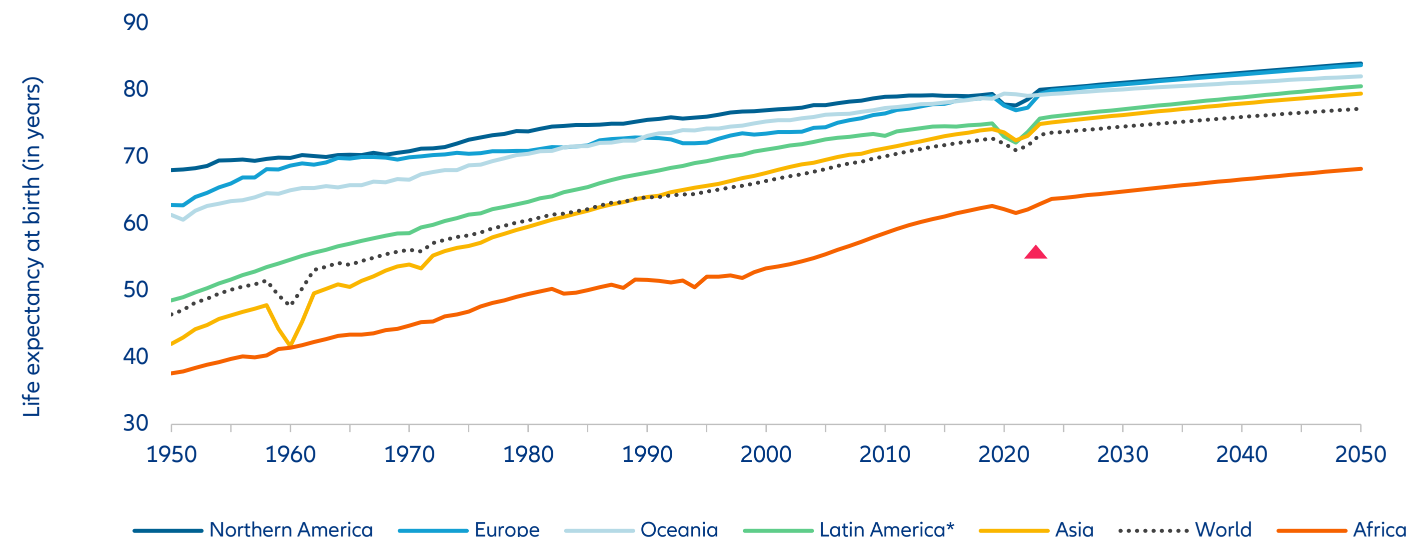
Figure 17: Development of fertility rates, by world region



*Latin America and the Caribbean
Sources: UN Population Division, Allianz Research

At the same time, Africa records the lowest life expectancy at birth of all world regions, lagging behind the development in other emerging regions. Since 1950, the average life expectancy of a newborn in Africa has increased from 37.6 years to 62.2 years in 2022. With 17 years, however, the gap to developed regions is still much higher than in Latin America and Asia (around five years). The UN expects the average life expectancy at birth in Africa to increase to 68.3 years in 2050, a value that had already been reached in Asia in 2001 and in Northern America in 1952 (Figure 18).

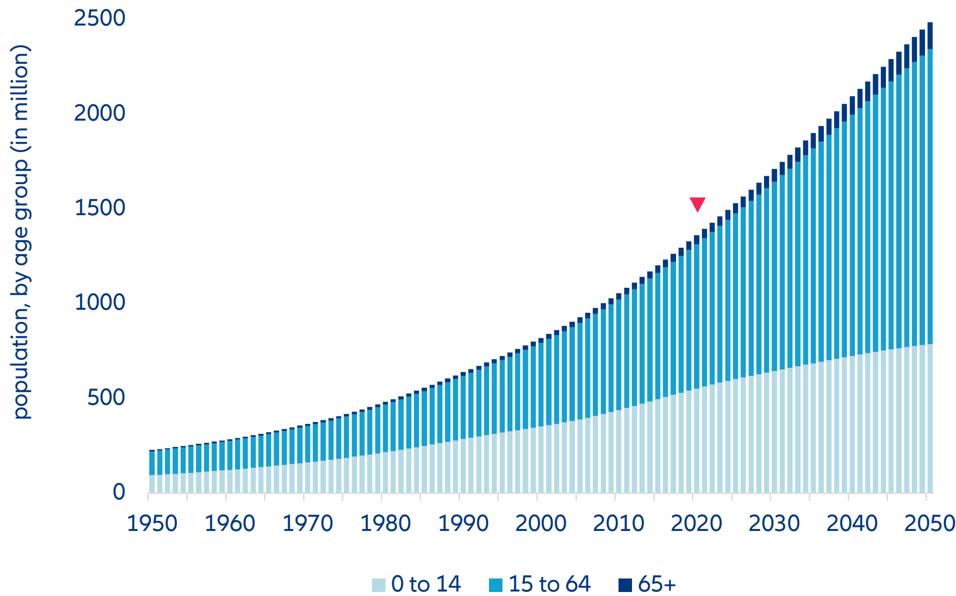
Figure 18: Development of the average life expectancy at birth, by world region



*Latin America and the Caribbean
Sources: UN Population Division, Allianz Research

From 2038, Africa will have more people aged between 15 and 64 than Europe, Latin America and Oceania combined. The number of people in the age group 15 to 64 is expected to increase by an average +2.3% per year, i.e. to almost double from 804.5mn to 1556.5mn in 2050. (Figure 19).

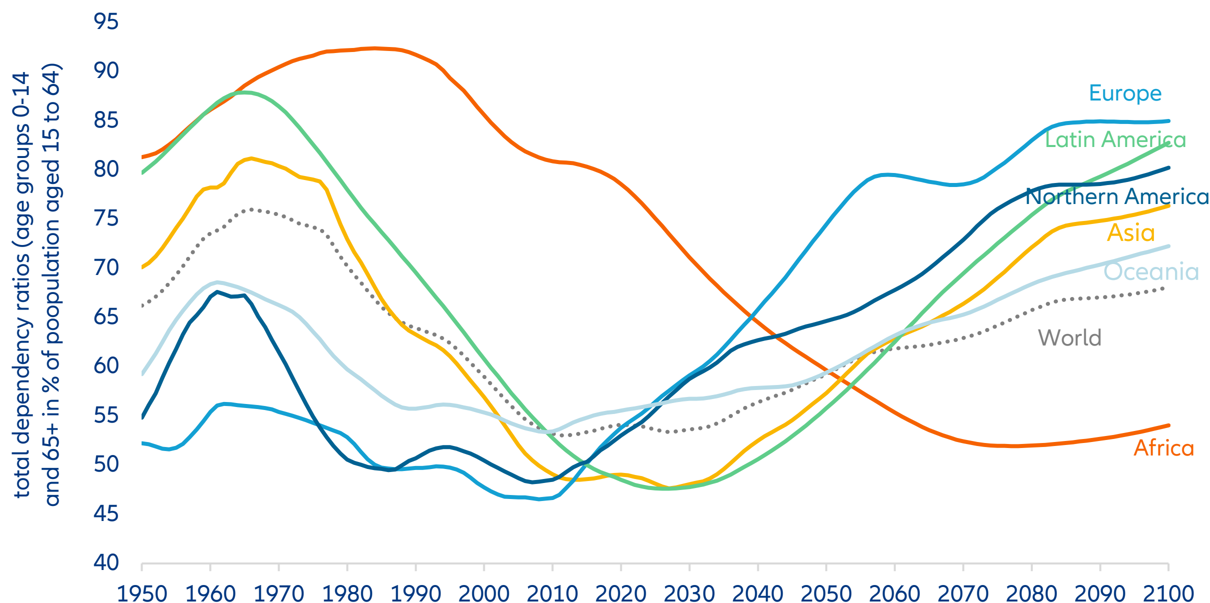
Figure 19: Population development, by age group (in million)



Sources: UN Population Division, Allianz Research

Given the growth rate of the number of people in working age between 15 and 64, Africa has the best demographic preconditions to become the future economic growth hub of this century. Especially since the total dependency ratio, which measures the number of economically dependent people aged between 0 and 14 and 65 and older per 100 people in working age between 15 and 64 years, is set to decline further from 77% today to 52% in 2077 before it is expected to slowly raise again from then onwards. With the majority of the population of working age, there is an opportunity to increase economic growth and overall living standards, invest in infrastructure, and build effective social security systems that are sustainable over the long term. Examples of countries which succeeded in turning this demographic transition phase into a demographic dividend are today's industrialized countries, including Japan and South Korea, but also China.

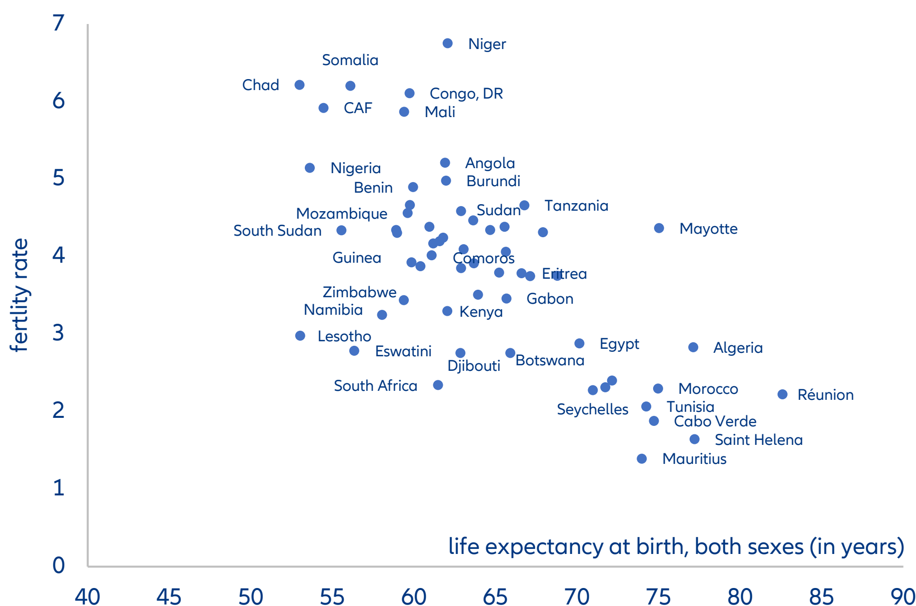
Figure 20: Total dependency ratios, by world region



*Latin America and the Caribbean
Sources: UN Population Division, Allianz Research

The timing of the demographic dividend also differs by country. Given the heterogeneity of the demographic and economic development of the African countries, time horizons until the demographic window of opportunity is going to close differs markedly. Since the average life expectancy is positively correlated to the overall living standard measured in GDP per capita, and the fertility rate negatively correlated, there are marked differences between the countries. In 2022, the average life expectancy at birth ranged from merely 53.0 years in Chad and Lesotho to 82.6 years in Réunion and the fertility rates between 6.7 in Niger and 1.3 in Mauritius (Figure 21).

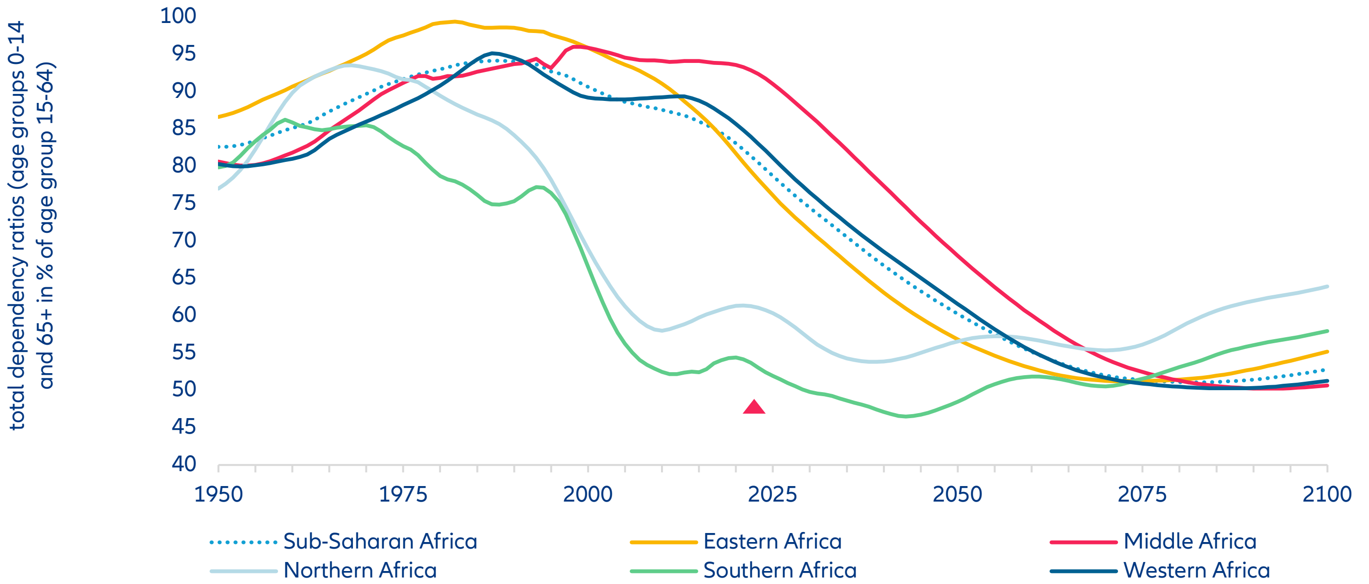
Figure 21: Fertility rates and life expectancy at birth



Sources: UN Population Division, Allianz Research.

Hence, in Northern and Southern Africa, the demographic dividend is set to fade out around 2040. In Eastern Africa the total dependency is expected to reach is turning point in the mid-2070s, while in Middle Africa and Western Africa it is not expected to increase before 2092 (Figure 22).

Figure 22: Total dependency ratios, by African region

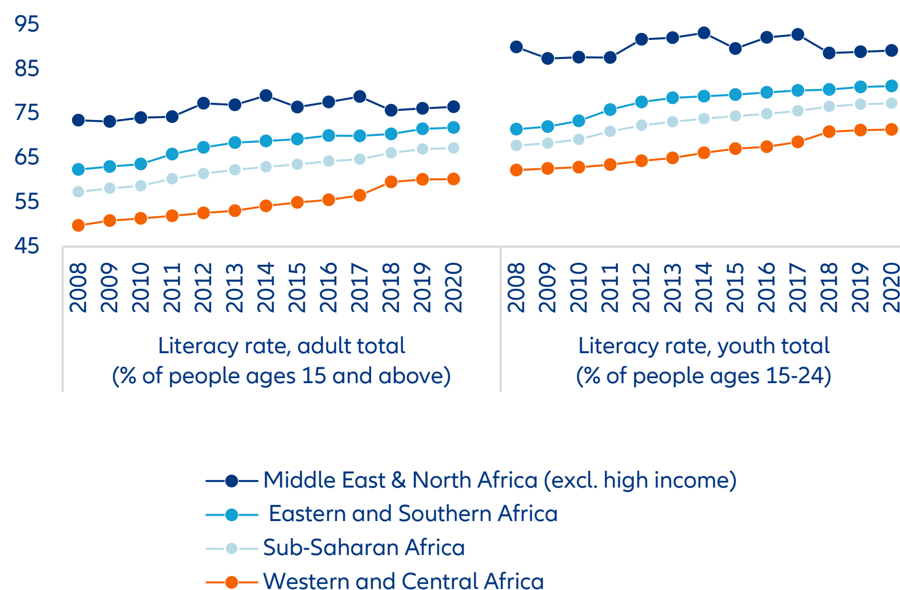


Sources: UN Population Division, Allianz Research

The demographic dividend is not a done deal

The education and qualification of the labor force are key to economic progress. This holds especially true in the case of Africa, where many countries still must build the basic preconditions by increasing the literacy rate among the population. In Middle East and Northern Africa, only 77% of the population aged 15 and older can read and write. In the Eastern and Southern Africa, this holds true for 72% and in Western and Central Africa only for 60% of the population. This compares to a global average of 87%. However, some progress has been made in increasing the youth literacy rate, reflected by the fact that in the age group 15 to 24 literacy rates are between 9-13pps higher than among the total population aged 15 and older. (Figure 23).

Figure 23: Development of literacy rates, by region



Sources: World Bank World Development Indicators, Allianz Research

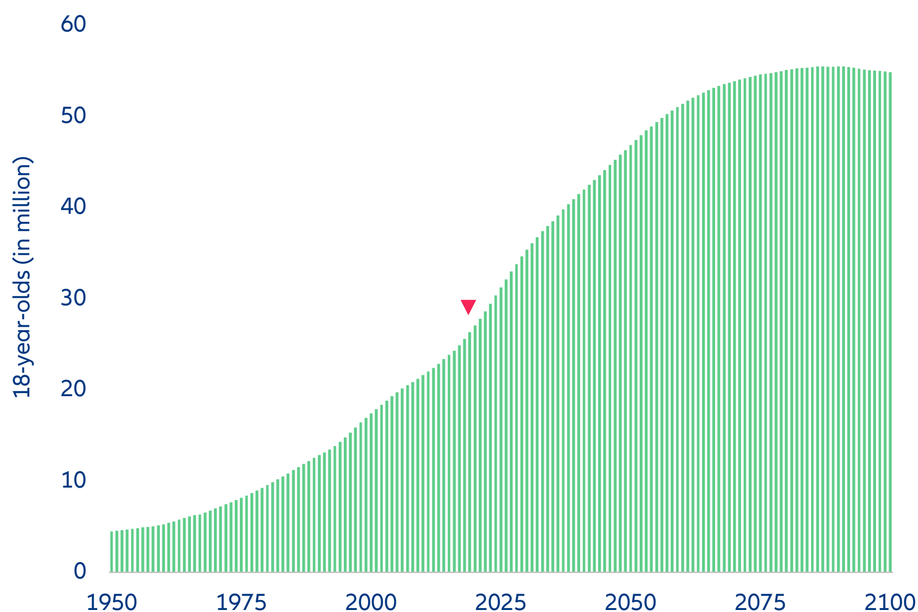
In most African countries, less than 80% of children complete primary school, compared to almost 100% in industrialized countries.

The completion rates of upper secondary education are also still markedly below the levels observed in other emerging markets or industrialized countries: only four countries (Egypt, Mauritius, Tunisia and South Africa) have rates of 60% and more; in the US, this share was 94.6% and in China 75.3%.

In this context, improving education systems and the access to education remains an important goal. However, in many countries, the lack of qualified teachers and large classes hinder educational success. According to the latest available UNESCO data, only 57.4% of children in South Africa had achieved at least a minimum proficiency level in reading at the end of primary education. As a consequence, many adolescents and adults, despite claiming to be literate, have only limited reading, writing and mathematical skills. New technologies that enable remote learning can help to ease the access to education and vocational training.[5] However, lacking basic infrastructure such as sufficient power supply could hamper their use. In fact, in most African countries, less than 50% of the population uses the internet.

Combating youth unemployment is also essential for harnessing the demographic dividend. 20% of Africa's population is aged between 15 and 24 and the number of young people entering the labor market each year is set to increase from 30mn today to more than 55mn until the end of the century. In this context, improving access to free education and training and the integration of young people into the labor market is not only crucial to prevent long-term unemployment and enhance social inclusion, but also to prevent social unrest (Figure 24).

Figure 24: Number of young people turning 18 (in mn)



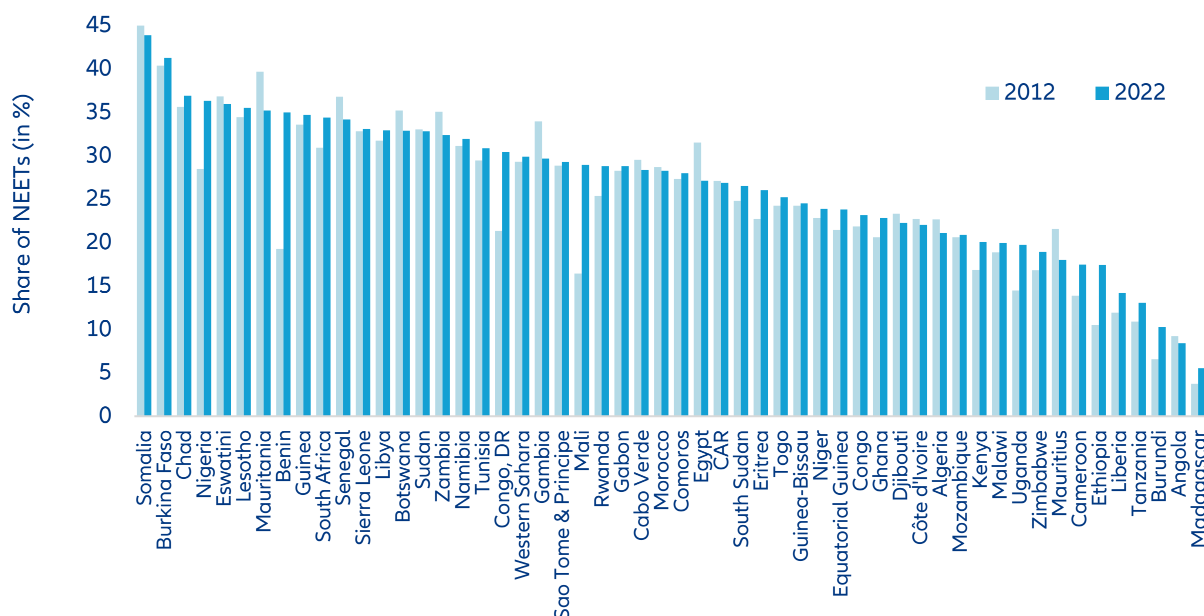
Sources: UN Population Division, Allianz Research

[5]See UNESCO, Annual Report 2022; Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ, 2017), Digital transformation in the informal economy. Opportunities and challenges for technical and vocational education and training in development cooperation.

Against this background, many African governments have already stepped up their efforts to improve vocational education and training (VET).[6] However, despite ongoing efforts the situation has hardly improved: In most African countries, the shares of youth that are not in employment, education or training were still markedly above 25%. Africa's most populous and biggest economies were found among the ten countries which reported the highest shares: In Nigeria, 36.3% of the adolescents were neither in employment, education or training. In South Africa, this held true for 34.4% of the youth.

However, not only the absolute shares of NEETs give reason for concern, but also the development in recent years: Though the good news is that most countries have managed to return to pre-Covid-19 levels, the situation of the youth has in most countries hardly improved within the last 10 years. In fact, in more than half of the African countries the share of youth not in employment, education or training is even higher than in 2012 (Figure 25).

Figure 25: Share of youth not in employment, education or training (NEET) (in %)

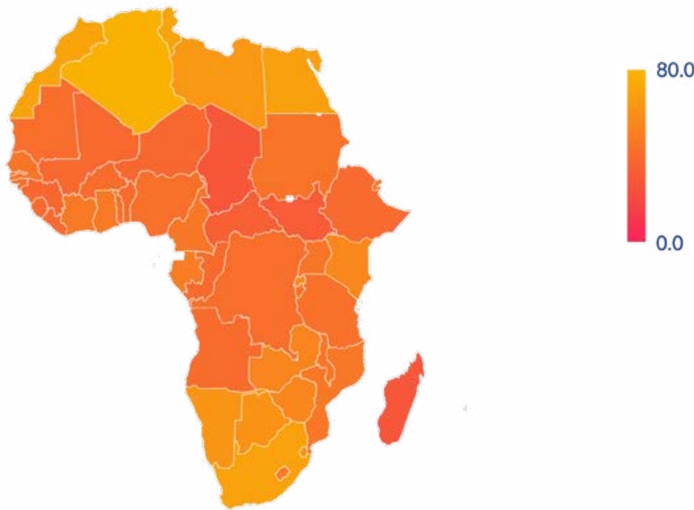


Sources: ILO, Allianz Research

[6] See for example Federal Republic of Nigeria (2021): Nigerian youth employment action plan 2021-2024.

The demographic transition phase with relatively low shares of an economically dependent population is also a window of opportunity for building sustainable social security systems. Today, in most African countries, the coverage of the public health and pension systems is still rather low. According to the International Labour Organization (ILO), the highest coverage rates of public health systems were reported in Northern and Southern African countries, with a coverage rate of 78% in Algeria and around 70% in Tunisia, Morocco, South Africa and Egypt. In contrast, in Chad and South Sudan, merely 28% of the population was covered by the health system. For comparison, in most industrialized countries, this coverage ratio is above 80% (Figure 26).

Figure 26: Effective coverage of health systems



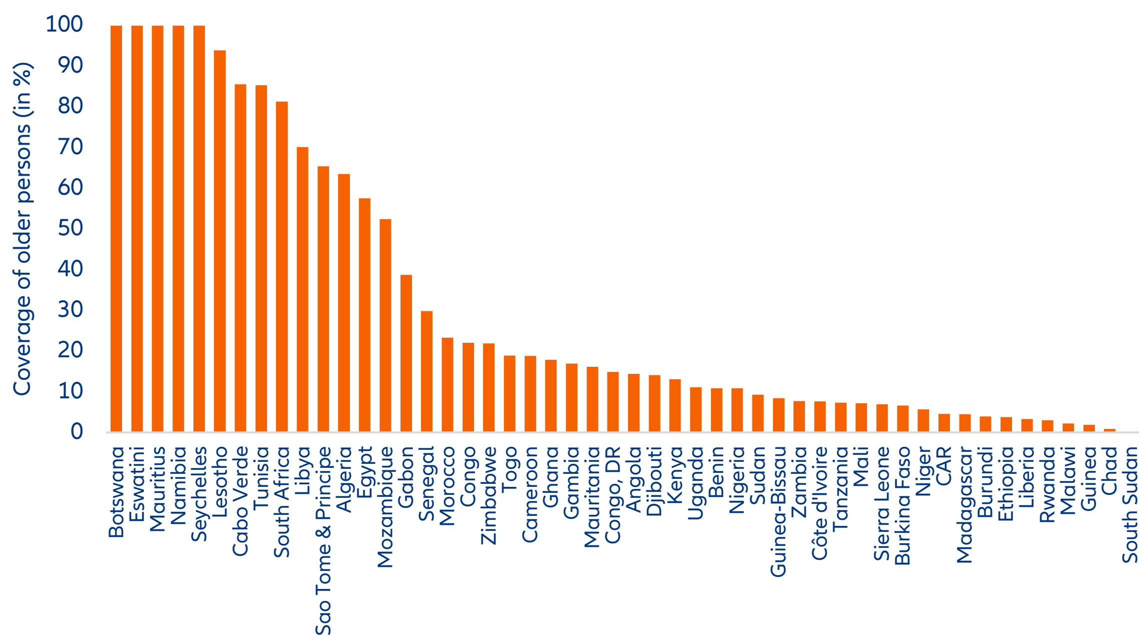
Source: ILO

The coverage of pension systems is also comparatively low. In most African countries, less than 20% of the population aged 65 and older receives a public pension, with only a few exceptions (Figure 27). Furthermore, in most countries, benefit levels are rather low and payments are often delayed.

The coverage of the working-age population does not point to an improvement of the situation in the short run. In most African countries, less than 15% of the workforce population are effectively covered by the pension system, i.e. paying into the pension system and building up future pension entitlements (Figure 28). The main reason is the high share of informal labor which exceeds 90% in many countries.[7]

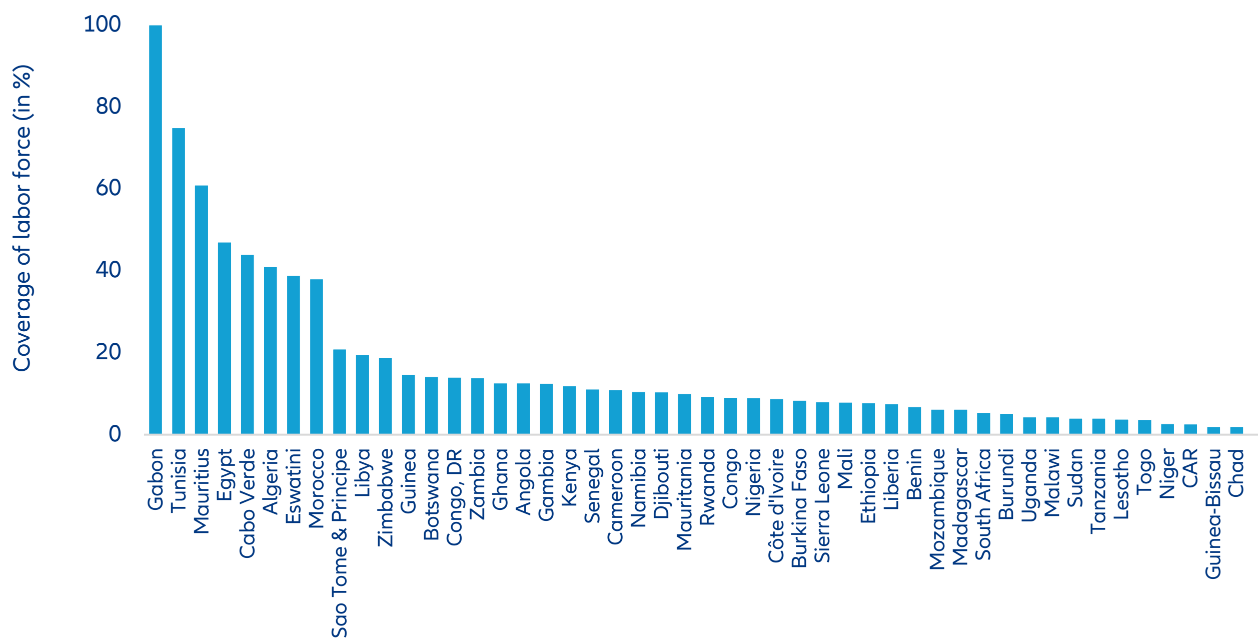
[7] See World Bank and National Bureau of Statistics Nigeria.

Figure 27: Pension system coverage of older persons



Source: ILO, Allianz Research

Figure 28: Labor force covered by the pension system (active contributors)

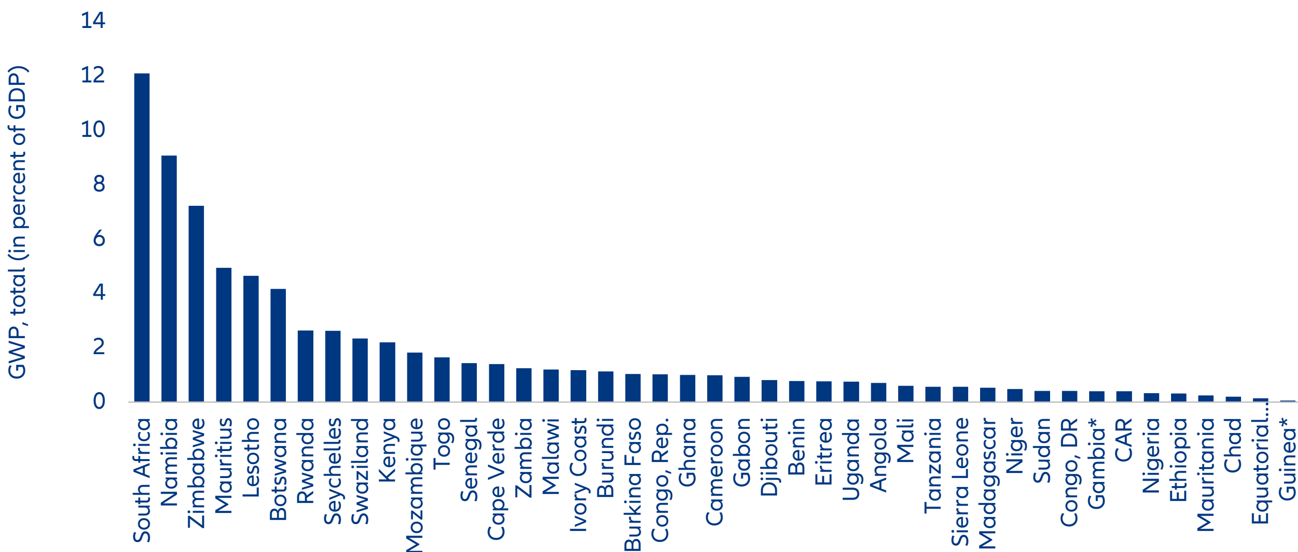


Source: ILO, Allianz Research

Private provision can help to reduce the public social security systems' protection gaps. However, a necessary precondition is the access to financial services. In fact, within the last decade, most African countries have made progress in this respect. In the meantime, in almost half of the African countries, at least 50% of the population aged 25 and older have either an account at a financial institution or at least use a mobile money service. In 2014, this was the case in merely eight countries.

However, private insurance coverage is still rather low, albeit with marked differences between the countries. The insurance penetration, i.e. premiums as a percentage of GDP, ranges from 0.2% in Chad to 12.1% in South Africa, where the market is dominated by the life insurance business, which accounts for almost 80% of total gross written premiums (Figure 29). In contrast, in most other African countries, the higher share of insurance premium income stems from the non-life sector, with motor insurance being the strongest business line. Increasing motorization – the number of cars in use has increased by 4% between 2015 and 2020 – and the fact that in many African countries, car insurance and third-party-liability insurance are still not compulsory should boost demand for motor insurance further.

Figure 29: Insurance penetration, total gross written premiums (percent of GDP)



*2016
Sources: Axco, Allianz Research

Despite the need for private provision, life insurance demand is still rather low, especially due to low income levels. Gross written premiums in all but the South African countries are still at or markedly below 1% of GDP. Occupational pension or saving schemes could help to close the protection gaps in old-age, which again emphasizes the need for a formalization of the labor markets. In fact, in the near term, life insurance demand is expected to be especially driven by large companies that start to offer occupational insurance schemes as an incentive to attract and retain top talent in a competitive market. In addition, strengthening capital-funded provision could also be a means to close long-standing gaps in infrastructure investment, since institutional investors, like insurance companies and pension funds[8], can provide the necessary capital and risk management tools to support these projects, ensuring their successful implementation and long-term sustainability.

[8] According to the latest OECD statistics, accumulated assets in asset-backed pension arrangements in Ghana, Kenya, Morocco, Namibia, Nigeria, Uganda, Zambia and Zimbabwe reached USD76.1bn in 2022. Corresponding to between 2.7% of GDP in Zambia and 11.3% in Kenya and Uganda. In Namibia, they accounted for 101.3% of GDP. For comparison, the average in OECD countries was 81.3%. See OECD (2023): Pension markets in focus. Preliminary 2022 data.

Conclusion and policy recommendations

Africa's remarkable economic resilience and adaptability have been on full display, with numerous countries maintaining solid growth rates despite challenging conditions. This resilience, coupled with the continent's lower growth volatility compared to other regions, offers an inviting landscape for investors. It not only encourages increased investor engagement but also promises expanded market opportunities and a generally positive business environment. Moreover, Africa's wealth of underutilized resources and its demographic dividend provide compelling prospects for long-term investments, provided the necessary foundational elements are put in place. In the face of complex geo-strategic challenges, investors, insurers, and pension funds hold a pivotal role in providing crucial financial support to nurture Africa's economic development and create a stable atmosphere conducive to growth.

One of the key drivers of Africa's economic transformation lies in the implementation of the African Continental Free-Trade Area, offering substantial income growth and increased trade credit potential. This initiative has the capacity to unlock billions of dollars for reinvestment in the real economy, leading to significant economic expansion by 2030 if GDP growth can regain the momentum of the 2000-2010 period.

However, to fully harness this potential, addressing critical investment and liquidity conditions is paramount. Strengthening legal frameworks and deepening financial and technological infrastructure are vital steps that will not only attract foreign direct investment but also foster a more efficient and inclusive financial system. These efforts hold the promise of improving fiscal positions and benefitting both domestic and international investors.

Harnessing the demographic dividend requires further actions by the governments, first and foremost to markedly increase spending on education, secure free access to educational institutions and reduce child labor. Efforts to improve vocational education and training (VET) have to be stepped up, too. Steps to reduce youth unemployment like the inauguration of a Technical Working Group (TWG) on Youth Employment and Skill Development in Nigeria are highly welcomed. Other countries should follow swiftly as high unemployment rates among the young threaten to turn into a source of social unrest. Essential for a thriving insurance sector to close protection gaps are open capital markets and transparent regulations to attract both domestic and foreign investors. This also helps reduce the "African premium" and foster a conducive environment for infrastructure development.

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