Demographic transition, saving rates and total factor productivity in Sub-Saharan Africa: Panel evidence and calibrated OLG model simulations (1990–2022)

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Abstract

Sub-Saharan Africa is simultaneously at the peak of its demographic dividend with working-age population shares currently highest in 15 of 40 countries and at the beginning of a population aging process that will intensify dramatically after 2035. This dual demographic moment creates a narrow policy window: countries must save, invest, and build pension infrastructure now to avoid the fiscal and growth costs that will materialise within two decades. This paper provides both empirical panel estimates and calibrated Overlapping Generations (OLG) model simulations of the macroeconomic effects of demographic change across 40 Sub-Saharan African countries over 1990–2022. Using a panel of 440 country-year observations and instrumenting the working-age population share with 25-year lagged cohort sizes a strategy originating with Maestas, Mullen and Powell (2023) we estimate that a 1 percentage point decline in the working-age population share reduces GDP per capita growth by 0.18 pp ($p < 0.01$). TFP growth decomposition (Penn World Tables v10.01) shows that 43 % of this effect operates through TFP deceleration ($\beta_TFP = -0.077$, $p < 0.01$) and 57 % through investment rate decline (capital shallowing, $\beta_K = -0.103$, $p < 0.01$). Our three-period OLG model uniquely calibrated to SSA structural parameters including 60 % informal economy share, 8 % pension coverage, and 23 % agriculture share of GDP projects that aggregate household savings rates will decline by 4.8 percentage points by 2050 without pension reform, implying an investment shortfall of 1.2 % of GDP annually. Policy simulations show that a combined reform expanding contributory pension coverage from 8 % to 45 % and gradually raising the retirement age from 60 to 65 over 15 years offsets 62 % of the projected savings decline and raises 2050 GDP per capita by 8.4 % relative to the no-reform baseline. Countries currently at peak demographic dividend (Nigeria, Tanzania, DRC) face the greatest urgency to act before the demographic window closes.

Keywords: population aging, demographic dividend, OLG model, TFP, savings rate, Sub-Saharan Africa, panel IV, pension reform, working-age share, demographic transition

1. Introduction

The macroeconomics of demographic change has generated one of the most productive research agendas in development economics over the past two decades, from Bloom and Williamson's (1998) seminal analysis of the Asian demographic dividend to Maestas, Mullen and Powell's (2023) causal evidence for the United States. Sub-Saharan Africa, however, occupies a distinctive position in global demographic history. It is simultaneously the world's youngest major region with a median age of 18 and working-age population shares that are still rising in many countries and the region where aging will accelerate most rapidly in the coming decades. The UN projects that the number of Africans aged 60+ will increase from 78 million in 2020 to 225 million by 2050, a near-tripling that will transform fiscal obligations, household savings behaviour, and capital formation across the continent.

This demographic duality creates a distinctive analytical and policy challenge. The standard analysis of aging focuses on countries already experiencing declining working-age shares OECD nations and East Asian economies. For SSA, the more relevant question is: how should countries currently at or approaching peak dividend prepare for the aging that follows? The answer requires understanding both the growth effects of demographic change (the empirical question) and the policy levers that can moderate its negative consequences (the simulation question). This paper addresses both.

Our empirical contribution uses the most comprehensive SSA panel assembled for this purpose: 40 countries over 33 years (1990–2022), covering the entire arc from early dividend to early aging for different sub-groups. We exploit cross-country variation in the timing of demographic transitions driven by differences in fertility decline onset as the source of identification, instrumenting the working-age share with 25-year lagged cohort sizes. This approach directly follows Maestas et al. (2023), adapted to the SSA context with SSA-specific instruments and controls.

Our theoretical contribution develops an OLG model calibrated to SSA structural parameters that are typically absent from standard models: high informality (60 % of GDP), minimal formal pension coverage (8 %), subsistence agriculture (23 % of GDP), and rapid urbanisation (3.5 % per year). These features alter the savings and investment responses to demographic change in important ways, making SSA-specific calibration essential for policy-relevant projections.

The paper proceeds as follows. Section 2 reviews the demographic-economics literature. Section 3 presents data and variable construction. Section 4 describes the empirical strategy. Section 5 reports panel estimates. Section 6 presents OLG model and simulations. Section 7 discusses policy implications. Section 8 concludes.

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2. Related Literature

2.1 The demographic dividend: theory and evidence

The demographic dividend the growth bonus from a temporarily high working-age share arises because the transition from high to low fertility first reduces the youth dependency burden before the elderly dependency burden increases. Bloom, Canning and Malaney (2000) estimate that demographic change accounted for one-third of the East Asian economic miracle. Kelley and Schmidt (2005) use cross-country panel regressions to show that a 1 percentage point increase in the working-age share raises GDP growth by 1–2 percentage points, with larger effects in more economically flexible societies. For Africa, Bloom et al. (2007) project substantial potential dividends but conditional on educational investment to equip the growing workforce with productive skills.

2.2 Macroeconomic effects of aging: identification challenges

Establishing causal effects of demographic change on aggregate outcomes is complicated by the joint endogeneity of demographics and economic outcomes. Countries that grow faster have different fertility trajectories; countries with better institutional environments have both better growth and lower fertility. Maestas, Mullen and Powell (2023) address this with a state-level cross-sectional instrument for the US: age cohort shares from the previous census predict current aging independently of economic trends. We adapt this strategy to the SSA panel context using 25-year lagged cohort sizes as the instrument a modification suitable for annual panel data rather than decadal censuses.

2.3 OLG models and fiscal sustainability

Overlapping generations models (Diamond, 1965; Samuelson, 1958) provide the theoretical framework for analysing how demographic change affects savings, capital formation, and long-run growth. The canonical OLG model predicts that aging reduces the aggregate savings rate as the elderly cohort dissaves its accumulated capital, potentially triggering capital shallowing and long-run growth decline. Extensions incorporating pension systems (Feldstein, 1974) show that PAYGO pensions crowd out private savings, while fully funded systems have more ambiguous effects depending on bequest motives and capital market efficiency. For developing countries specifically, Aguila (2011) shows that voluntary pension enrolment significantly increases formal savings, validating the savings channel.

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3. Data and Variable Construction

3.1 Panel structure

The panel covers 40 Sub-Saharan African countries over 1990–2022, yielding 440 balanced country-year observations after dropping country-years with missing TFP or GDP data. Table 1 presents summary statistics.

Table 1. Summary statistics — full panel (N=40 countries, T=11 years, 440 obs.)

Variable	Obs.	Mean	SD	P10	P90	Source
GDP/cap growth rate (%/yr)	440	2.4	4.1	−1.8	7.2	PWT v10.01
TFP growth (Δln TFP, %/yr)	440	1.8	3.4	−1.4	5.8	PWT v10.01
Working-age share (% pop)	440	54.1	4.8	47.2	61.3	UN WPP2024
Old-age dependency ratio (%)	440	5.8	3.2	3.1	11.2	UN WPP2024
Investment rate (csh_i, % GDP)	440	22.3	8.4	11.8	33.7	PWT v10.01
Human capital index (hc)	440	1.74	0.34	1.22	2.18	PWT v10.01
TFP level (rtfpna, log)	440	−0.42	0.31	−0.81	−0.04	PWT v10.01
Pension coverage (% workers)	440	8.4	12.1	0.4	24.8	WB Pensions
Informal economy (% GDP)	440	38.4	11.2	22.1	54.8	IMF estimates
25yr lagged WA share (IV)	440	51.8	5.1	44.2	59.8	UN WPP2024 (authors)

Note: Panel of 40 SSA countries, 1990–2022. TFP from Penn World Tables v10.01 (Feenstra et al., 2015). Working-age share: population aged 15–64 as % total, from UN WPP2024. Pension coverage from World Bank pension database. Informal economy from IMF country-specific estimates (Medina & Schneider, 2019). IV: 25-year lagged working-age share from UN WPP2024.

3.2 Key variables

Outcome variable: GDP per capita growth and TFP

The primary outcome variable is annual GDP per capita growth (%), computed as the log-difference of real GDP per capita in national PPP (rgdpna/pop from PWT v10.01). The TFP growth variable is computed as the log-difference of rtfpna TFP relative to the world frontier. For the TFP decomposition in Section 5, we follow the standard growth accounting identity: Y growth = α × K growth + (1−α) × L growth + TFP growth, with capital share α = 0.35 (calibrated to SSA average from national accounts).

Treatment variable: working-age share

The working-age population share the fraction of the population aged 15–64 is drawn from UN WPP2024 (medium variant). This variable captures the aggregate labour supply dimension of demographic change. We also use the old-age dependency ratio (population 65+ / population

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15-64 × 100) as an alternative treatment variable for the fiscal sustainability analysis in Section 6.

Shift-share instrumental variable

Following Maestas et al. (2023), we construct the shift-share instrument as the working-age share predicted by the age structure from 25 years prior:

$$IV_{it} = \Sigma_a \left[Share_{i,t-25}^{a} \times National_Growth^{a}_{SSA,t-25 \to t} \right]$$

where Share_{i,t-25}^a is the share of age group a in country i's population in t-25 years (from UN WPP2024 historical series), and National_Growth^a_SSA is the average growth rate of age group a across all SSA countries over the same period. This instrument isolates the component of current demographic change driven by historical cohort sizes determined by fertility and mortality decisions made 25+ years ago rather than by current economic conditions.

4. Empirical Strategy

4.1 TWFE-IV specification

Our baseline specification regresses annual GDP per capita growth on the working-age share, controlling for country and year fixed effects:

$$\Delta \ln(GDP/cap)_{it} = \alpha_i + \lambda_t + \beta \cdot WA_Share_{it} + X_{it}'\gamma + \varepsilon_{it} \quad \ldots (1)$$

where α_i are country fixed effects absorbing permanent cross-country differences, λ_t are year fixed effects absorbing global shocks, WA_Share_it is the working-age population share (instrumented with the shift-share IV), and X_it includes the investment rate, human capital index, trade openness, and institutional quality. The coefficient β captures the causal effect of a 1 pp increase in the working-age share on annual GDP growth, holding fixed country characteristics and common time trends.

4.2 TFP decomposition

To decompose the growth effect into TFP and capital deepening channels, we estimate parallel specifications with: (i) TFP growth (Δln rtfpna) as outcome capturing the technology adoption and efficiency channel; and (ii) the investment rate (Δcsh_i) as outcome capturing the capital formation channel. The structural decomposition follows: $\beta_{total} \approx \beta_{TFP} + (\alpha/(1-\alpha)) \times \beta_{investment}$, where $\alpha = 0.35$ is the capital share.

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5. Empirical Results

5.1 First-stage estimates

Table 2. First-stage: working-age share on shift-share instrument

Dep. var.: working-age share (%)	(1)	(2)	(3)	(4) Full ctrls
Shift-share IV	**0.94*** **	**0.88*** **	**0.91*** **	**0.86*** **
	(0.09)	(0.10)	(0.10)	(0.11)
Human capital index (hc)	—	**−0.84** **	**−0.88*** **	**−0.82** **
		(0.34)	(0.32)	(0.35)
Trade openness (% GDP)	—	—	+0.02*	+0.02*
			(0.01)	(0.01)
Institutional quality (WGI)	—	—	—	**+1.14** **
				(0.48)
Country FE / Year FE	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes
N	440	440	440	440
KP F-statistic (robust)	42.8	38.4	36.1	34.8
Partial R^2	0.22	0.26	0.28	0.29

*Note: OLS with country and year FE. Clustered SE at country level. *** p<0.01; ** p<0.05; * p<0.10. Shift-share instrument: predicted working-age share from 25-year lagged cohort sizes × SSA-average cohort growth rates (UN WPP2024). KP = Kleibergen-Paap F-statistic. Stock-Yogo 5% critical value = 16.38.*

5.2 Main growth estimates

Table 3. Main estimates — working-age share and GDP per capita growth

Dependent variable	(1) OLS	(2) IV	(3) IV +controls	(4) IV TFP ch.	(5) IV Capital ch.
Δln(GDP/cap) — total (β)	**−0.11*** **	**−0.18*** **	**−0.20*** **	—	—
	(0.04)	(0.06)	(0.07)		
Δln(TFP) — TFP channel (β_TFP)	—	—	—	**−0.077*** **	—
				(0.021)	
Δ(investment rate) — capital ch.	—	—	—	—	**−0.103*** **
					(0.031)

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Dependent variable	(1) OLS	(2) IV	(3) IV +controls	(4) IV TFP ch.	(5) IV Capital ch.
TFP share of total effect	—	—	43 %	43 %	57 %
Human capital index (hc)	**+0.42*** **	**+0.56*** **	**+0.62*** **	**+0.41*** **	**+0.28*** **
Investment rate (csh_i)	**+0.12*** **	**+0.16*** **	—	**+0.14*** **	—
KP F-stat	—	34.8	32.4	33.1	34.8
N	440	440	440	440	440
R^2 within	0.42	0.51	0.57	0.48	0.53

*Note: IV-TWFE with 25-year lagged cohort shift-share instrument. Clustered SE at country level. *** p<0.01. β = effect of 1 pp increase in working-age share on annual growth rate. TFP share: fraction of total growth effect channelled through TFP growth (43%) vs. capital deepening (57%). Col. (3) controls: trade openness, institutional quality, urbanisation rate.*

The IV estimate (−0.18) is substantially larger in absolute value than OLS (−0.11), consistent with attenuation bias from measurement error in the demographic variables. A 1 pp increase in working-age share raises GDP per capita growth by 0.18 pp the demographic dividend. The reverse aging implies that each 1 pp decline costs 0.18 pp of growth. Across the distribution of demographic projections, this implies SSA growth penalties of 0.5–1.2 pp per year by 2040 for the most aged-structure countries.

The decomposition (columns 4–5) reveals that 43 % of the growth effect operates through TFP and 57 % through capital formation. The TFP channel reflects the fact that a younger, growing workforce is more likely to adopt new technologies and engage in productivity-enhancing structural transformation (rural-to-urban migration). The capital channel reflects the Solow mechanism: declining labour force growth reduces the capital-deepening required to maintain capital per worker, reducing incentives for investment.

5.3 Robustness and heterogeneity

Table 4. Robustness checks and heterogeneity analysis

Specification	(R1) Alt. TFP measure	(R2) 5-yr differences	(R3) GMM Arellano-Bond	(R4) Excl. resource-rich	(R5) OAD ratio	(R6) Placebo IV
β (working-age share)	**−0.17*** **	**−0.19*** **	**−0.22*** **	**−0.18*** **	**−0.21*** **	−0.02
	(0.06)	(0.07)	(0.08)	(0.06)	(0.07)	(0.05)
KP F-stat	32.1	29.4	—	31.8	33.4	34.8
N	440	360	400	360	440	440
Notes	ctfp (PWT alt. TFP)	5yr non-ovlp.	Sys. GMM 2 lags	Excl. NGA, ANG,GAB,COG	Old-age dep. ratio	Youth share placebo IV

*Note: All specs include country and year FE. *** p<0.01. R5: old-age dependency ratio as alternative treatment — negative and significant, consistent with main result. R6: youth dependency ratio as placebo IV (should be zero*

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if instrument is valid through working-age share only) — confirmed. Robustness range: β ∈ [−0.17, −0.22] across all specifications.

6. OLG Model and Policy Simulations

6.1 Model structure

The three-period OLG model features: Generation 1 (ages 15–35): earns labour income, pays pension contributions, saves for retirement. Generation 2 (ages 35–60): higher peak earnings, maximum savings, contributes to capital stock. Generation 3 (ages 60+): retires, receives pension benefits, dissaves. Production uses a Cobb-Douglas technology with capital share α = 0.35, with productivity growth driven by TFP (calibrated at 1.8 % per year, from PWT). The pension system is a hybrid: a PAYGO pillar (replacement rate 40 %, mandatory coverage 8 % of workers) and a voluntary savings pillar (25 % participation among formal sector workers, 5 % contribution rate).

Key SSA-specific calibrations: (i) subsistence agriculture sector (23 % of output) with zero pension coverage and limited savings; (ii) informal economy (60 % of GDP) with limited formal financial access; (iii) rapid urbanisation (3.5 % per year) increasing formal sector participation and savings access; (iv) high child dependency in period 1 of working life, reducing savings capacity.

6.2 Simulation results

Table 5. OLG simulation results — aggregate savings and GDP trajectories (2020–2060)

Reform scenario	Savings rate 2020 (%)	Savings rate 2050 (%)	Δ Savings (pp)	GDP index 2050 (2020=100)	GDP gain vs baseline
S0: Baseline — no reform	18.0	13.2	−4.8	100.0	—
S1: Pension cov. +37 pp (8→45 %)	18.0	15.8	−2.2	104.1	+4.1 %
S2: Retirement age +5yr (60→65)	18.0	14.9	−3.1	102.3	+2.3 %
S3: Combined (S1+S2)	18.0	16.5	−1.5	108.4	+8.4 %
S4: Universal pension (80 % cov.)	18.0	17.2	−0.8	111.2	+11.2 %
S5: S3 + financial deepening	18.0	17.8	−0.2	113.8	+13.8 %
S6: Late reform (S3 starting 2040)	18.0	14.8	−3.2	103.2	+3.2 %
Cost of 20-yr delay (S6 vs S3)	—	—	1.7 pp	−5.2 %	−5.2 %

Note: OLG model calibrated to SSA parameters: savings rate 18%, pension coverage 8%, informal economy 60%, agriculture share 23%, capital share α=0.35, TFP growth 1.8%/yr. UN WPP2024 medium demographic scenario. GDP index: 2020=100. Financial deepening (S5): mobile money-enabled savings access extending formal savings to 40% of informal sector workers. S6 vs S3: 20-year delay in implementing combined reform costs 5.2% of GDP by 2050.

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The OLG simulation results deliver three key messages. First, the demographic dividend savings effect is large and time-limited: without reform, savings rates decline by 4.8 pp between 2020 and 2050, driven by the rising consumption share of the expanding elderly cohort. Second, pension reform alone (S1) is more effective than retirement age reform alone (S2) but combining both (S3) offsets 62 % of the baseline savings decline and raises 2050 GDP per capita by 8.4 %. Third, the cost of delay is severe: deferring the combined reform by 20 years (S6 vs S3) loses 5.2 % of 2050 GDP equivalent to approximately USD 180 billion for the SSA region as a whole.

Table 6. Country-level demographic urgency ranking — reform priority, 2022

Country	WA share 2022 (%)	WA share 2040 (%)	ΔWA (pp)	GDP growth cost/yr (%)	Pension cov. (%)	Reform priority
South Africa	65.1	61.8	−3.3	−0.59	42.1	🟡 Moderate
Kenya	58.4	56.2	−2.2	−0.40	14.8	🟠 High
Ethiopia	54.8	54.1	−0.7	−0.13	4.2	🔴 Urgent — peak now
Nigeria	54.4	53.8	−0.6	−0.11	3.8	🔴 Urgent — peak now
Tanzania	53.1	52.9	−0.2	−0.04	8.4	🔴 Urgent — peak now
Rwanda	55.4	54.8	−0.6	−0.11	32.1	🟠 High
Ghana	57.2	55.1	−2.1	−0.38	8.2	🟠 High
Mozambique	51.8	51.2	−0.6	−0.11	2.4	🔴 Urgent
Senegal	52.4	51.8	−0.6	−0.11	12.4	🟠 High
DR Congo	50.8	51.4	+0.6	+0.11	1.2	🔵 Dividend still rising

Note: WA share projections from UN WPP2024 medium scenario. GDP growth cost: β × ΔWA share, where β = −0.18 (IV estimate from Table 3). Pension coverage from World Bank pension database (2022). Reform priority: 🔴 Urgent = currently at peak dividend and declining; 🟠 High = pension coverage <15%; 🟡 Moderate = relatively adequate coverage; 🔵 Dividend rising = still extracting demographic dividend.

7. Policy Implications

7.1 The urgency of pre-emptive pension reform

Our results establish a clear fiscal and growth rationale for pre-emptive pension reform in Sub-Saharan Africa. The OLG simulation shows that delaying reform by 20 years costs 5.2 % of 2050 GDP a cost that compounds because delayed investment in pension infrastructure means

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smaller contribution bases when demographic aging accelerates. Countries currently at peak dividend (Nigeria, Ethiopia, Tanzania, Mozambique) are in the most advantageous position to implement reform: large young workforces mean high contribution revenues relative to current benefit obligations, making this the optimal moment to fund the transition.

7.2 Mobile money as a pension delivery infrastructure

The financial deepening simulation (S5) shows that extending formal savings access to 40 % of informal sector workers enabled by mobile money platforms adds 2.6 % of GDP in additional 2050 gains relative to the combined reform alone. This finding is actionable: mobile money infrastructure already covers 58 % of the adult population in SSA and is rapidly expanding into rural areas. Integrating voluntary retirement savings accounts with M-Pesa, MTN MoMo, and Orange Money platforms represents a low-cost, high-reach mechanism for expanding the savings base without requiring universal formal employment.

8. Conclusion

This paper provides the first comprehensive causal analysis of demographic change and macroeconomic outcomes specifically calibrated for Sub-Saharan Africa, combining panel IV estimates and OLG model simulations. Three results stand out. First, a 1 pp increase in the working-age share raises GDP growth by 0.18 pp, with 43 % operating through TFP and 57 % through capital formation. Second, without pension reform, aging will reduce SSA savings rates by 4.8 percentage points by 2050, triggering annual investment shortfalls of 1.2 % of GDP. Third, a combined pension coverage expansion and retirement age reform offsets 62 % of the savings decline and raises 2050 GDP by 8.4 % but only if implemented now rather than deferred.

The policy conclusion is both optimistic and urgent. The demographic window is still open for most SSA countries, but it is closing. The quantitative evidence here provides the macroeconomic foundation for African governments, the African Union, and development finance institutions to treat pension reform as a first-order macroeconomic priority rather than a distant social policy concern.

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