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REPOA Brief

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Finance and African development—pursuit for inclusivity[1]

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Key messages

Parties	**Least Developed Countries—32 African countries classified by the UN as LDCs.**
	The rest are classified as either **Lower Middle-Income Countries or Middle-Income Countries.**
Inclusivity	Policy thrust of ensuring that no one is left behind nor by the way side—amounting to simultaneous reduction of poverty and inequality.
	Inclusivity gained traction overtime—into the UN's 2030 inclusive agenda of SDGs, and the 2063 Africa Union's inclusive agenda.
	Indicators of Africa's commitment to reduce inequality (CRI) show only North Africa with 0.53 and the rest of the four Africa's regions ranging between 0.30 to 0.36.
Demographic Dividends	The demographic dividend played a role in the "economic miracles" of the East Asian Tigers, accounts for between one fourth and two fifths of the "miracle".
	Africa has been unique demographically because fertility rates have remained relatively high, even as significant progress has been made in decreasing the mortality rates.
	Realizing demographic dividends requires multiple investments—building the capabilities of people and ensuring their rights and freedoms to achieve their potential.
Financing	In pursuit for transparent inclusivity and graduation from the LDC status, many African countries need significant financing to close the development gaps, meet the SDGs, enhance inclusivity and sustain the demographic dividends.
Prospects/Going Forward	Demographic dividends will be constrained without simultaneous investments in decent job creation, good governance, infrastructure and a functioning business climate, and other key elements of inclusivity and better human development outcomes.

Pursuit for Inclusive Growth

Economic growth is inclusive if there is a simultaneous reduction of POVERTY AND INEQUALITY across all segments of the population. Inclusive economic growth is literally defined as a broad-based growth that allows its income to be shared by every member of the society, in turn, it reduces income inequality and improves the welfare of the public.

Policy Thrust

•*"Ensuring that no one is left behind nor* by the wayside" across all segments of the respective countries' population.

At independence, Tanganyika (and then Tanzania) under Mwalimu Nyerere developed a very clear vision of its inclusive development. This was later on crystallised through policies such as socialism and self-help (Ujamaa na Kujitegemea). By 1967 the Arusha Declaration was adopted. The Declaration emphasised the egalitarianism inherent in the socialist society by leveraging ownership of major means of economy from the few to the masses. Inclusivity was at the core aimed at increasing the ability of the people to collectively determine their destiny as a country. It was determined that the tide of development should leave no one behind. The Arusha Declaration pointed to four prerequisites of development: people, land, good policies and quality leadership.[2]

By 2015 this policy thrust had gained traction across the world

•the "Sustainable Development Goals (SDGs)", the UN's 2030 inclusivity Agenda
•Agenda 2063 of the African Union that also aspires socio-economic transformation and inclusive growth.

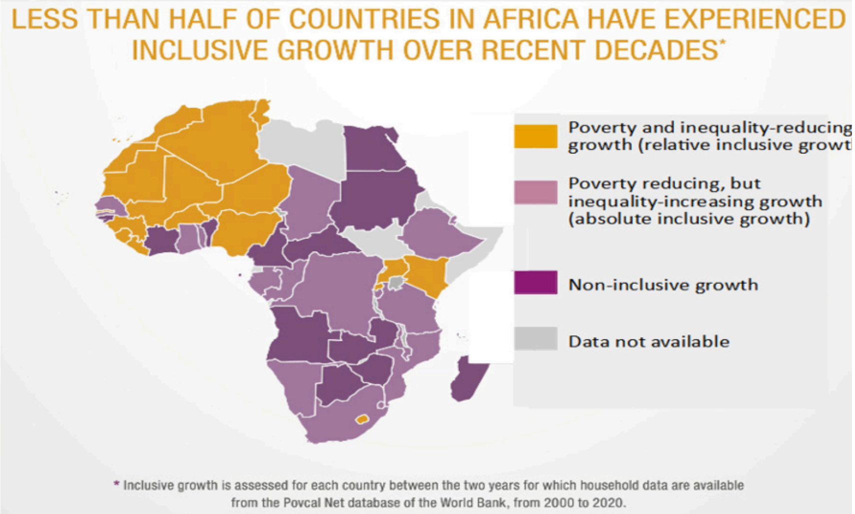
For the African Union's Agenda 2063, it was envisaged that both the economic and population growth, the latter including the youth bulge, would translate into a sustainable demographic dividend in the respective African States.

1 The original article—"Finance and African Development"—was presented and discussed at the "Mwalimu Nyerere Centennial Intellectual Festivals", University of Dar es Salaam, on 8th June 2022.
2 See also Kamata (2010) Mwalimu Nyerere's Ideas on Land, in Chachage, Chambi and Cassam, Annar (eds) Africa's Liberation: The Legacy of Nyerere. Cape Town: Pambazuka Press.

Figure1: AU's Agenda 2063 and it's Inclusive Growth

Source: UNCTAD – Economic Development in Africa Report 2021

Figure2: African Countries & Inclusive Growth



Source: UNCTAD – Economic Development in Africa Report 2021

Table 1: Indicators of Africa's Commitment to Reduce Inequality (CRI), Regionwide 2022

Region	Overall Score	Africa Ranking
North Africa	0.53	1
SADC	0.36	2
West Africa	0.33	3
East Africa	0.32	4
Central Africa	0.30	5

Moreover, the resource-rich Tanzania has managed to maintain robust economic growth rates along with favorable macroeconomic stability although inequality is increasing. Despite the country's endowment of natural resources such as mineral deposits and the natural gas resources, its growth is still inequality-increasing albeit poverty reducing commonly regarded as "pro-poor growth". It is, therefore, concerning that Tanzania's overall commitment to fighting inequality needs more effort. It currently ranks 130th of 158 countries globally, and 12th of 15 in SADC[3].

There is also a significant hill to climb on public spending to reduce inequality; government expenditure on education, health and agriculture falls short of internationally agreed targets, at 14%, 5.3% and 1.3% respectively. As a result, the vast majority of citizens (86%) are not covered by a single social protection benefit, and 57% of Tanzanians lack access to health services.

In the period 2010–2018, poverty decreased in Africa, as measured by the poverty line and headcount rates, with variations across RECs. The proportion of households with an income or consumption level at below $1.9 per day fell from 40.2 per cent in 2010 to 34.4 per cent in 2018; at $3.2 per day fell from 63.2 to 59.1 per cent; and at $5.5 per day fell from 82.5 to 80.2 per cent . The covid-19 pandemic has, however, led to increased poverty.

3 LEAVING NO ONE BEHIND: Tanzania Commitment to Reduce Inequality Index country profile—OXFAM, 2022; World Bank (2019)— Tanzania's Path to Poverty Reduction and Pro-Poor Growth. https://www.worldbank.org/en/country/tanzania/publication/tanzanias-path-to-poverty-reduction-and-pro-poor-growth.

With regard to inequality, UNCTAD estimates for countries in Africa based on the Povcal Net database of the World Bank show that the Gini index ranges from 27.6 per cent (Algeria) to 63.3 per cent (South Africa). Countries with the lowest indices are mainly part of the Arab Maghreb Union and the Economic Community of West African States (Algeria, Guinea, Mali, Mauritania and Tunisia) and the countries with the highest indices are mainly in the Economic Community of Central African States and the Southern African Development Community, including the Central African Republic, Eswatini, Namibia, Sao Tome and Principe, South Africa and Zambia—consistent with the indicators in Figure 2 above.

Demographic Dividends

East Asia provides some of the most compelling evidence to date of the demographic dividend. The demographic transition in East Asia occurred over 5–15 years during the 1950s and 1960s, a shorter time period than anywhere previously. During this time, East Asian countries invested in their youth and expanded access to family planning allowing people to start families later and have fewer children. **More resources began to become available, investment in infrastructure began and productive investments were made as fertility rates fell resulting in unprecedented economic growth.** The United Nations Population Fund (UNFPA) stated that:

The demographic dividend played a role in the "economic miracles" of the East Asian Tigers;

It accounts for between one fourth and two fifths of the “miracle";

The Republic of Korea, saw its per-capita gross domestic product grow about 2,200 per cent between 1950 and 2008;

Thailand’s GDP grew 970 per cent between 1950 and 2008.

Africa, on the other hand, has been unique demographically because fertility rates have remained relatively high, even as significant progress has been made in decreasing the mortality rates. This has led to a continuing population explosion rather than a population boom and has contributed to the economic stagnation in much of Sub-Saharan Africa[5]. The magnitude of the demographic dividend appears to be dependent on the ability of the economy to absorb and productively employ the extra workers,[6] rather than be a pure demographic gift. According to the UNFPA, “If sub-Saharan African countries are able to repeat the East Asian experience, the region could realize a demographic dividend amounting to as much as $500 billion a year for 30 years.”

However, the region’s growth performance is less stellar when accounting for population growth. Real GDP per capita grew at an annual average rate of 1.95 percent from 1996 through 2014. Amid the “Africa Rising” euphoria after 2000—given the persistence of the region’s rapid economic growth—the poverty rate in Sub-Saharan Africa decreased (from 54.3 percent in 1990 to 40.1 percent in 2018), albeit more slowly than in East Asia (from 61.6 percent in 1990 to 2.3 percent in 2018) and South Asia (from 47.3 percent in 1990 to 12.4 percent in 2018).[7]

Realizing a demographic dividend requires multiple investments. The most essential investments are building the capabilities of people and ensuring their rights and freedoms to achieve their potential. Young people need the chance to gain the education and experience to succeed in a competitive global workplace, which demands more skills, education and technical expertise than ever before.

5 ibid
6 ibid
7 World Bank – World Development Report, April 2022—Finance for an Equitable Recovery.

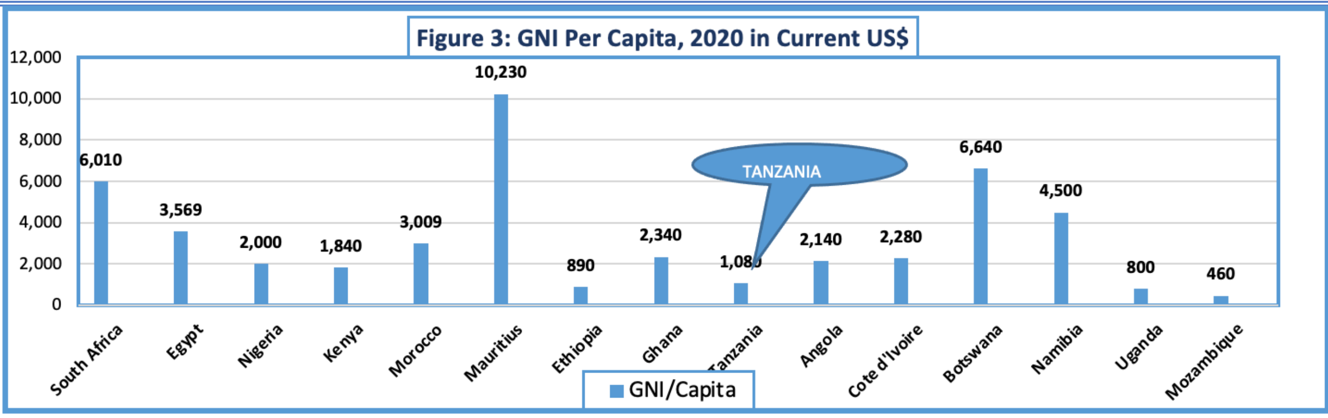


Figure 3: GNI Per Capita, 2020 in Current US$

Source: World Bank—GNI per Capita, Atlas Method—SSA

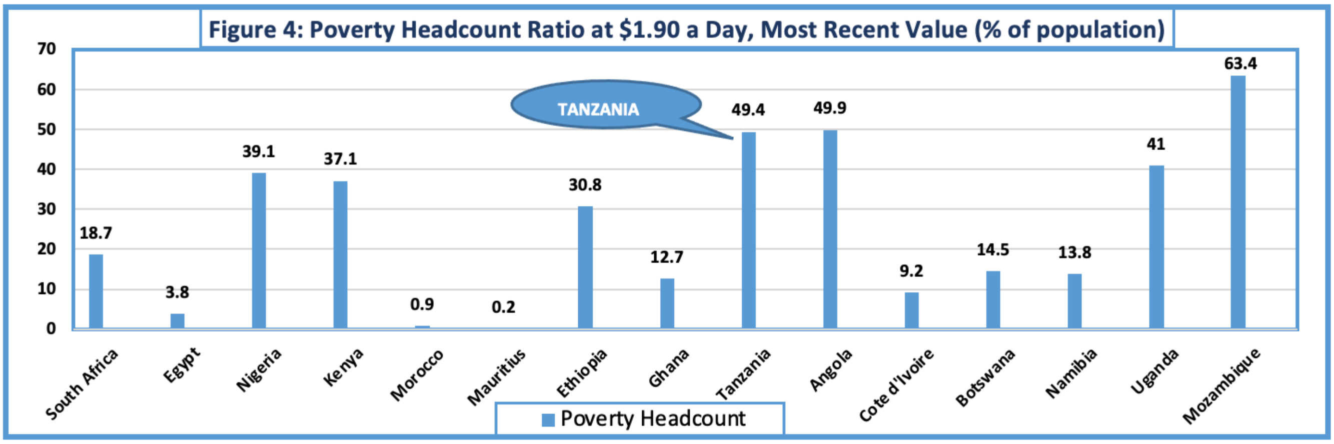


Figure 4: Poverty Headcount Ratio at $1.90 a Day, Most Recent Value (% of population)

Source: World Bank Data*—South Africa (2019), Egypt (2018), Nigeria (2018), Kenya (2015), Morocco (2013), Mauritius (2017), Ethiopia (2015), Ghana (2016), Tanzania (2018), Angola (2018), Cote d'Ivoire (2018), Botswana (2015), Namibia (2015), Uganda (2019), Mozambique (2014).*

number of millionaires. The exception of this trend can be found in Mauritius, South Africa, and Botswana, although the last two are still below world average of around $10,000. Figure 4 shows the enduring high levels of poverty in African countries, particularly those in SSA. Overall, poverty rates have fallen in Africa, but reducing inequality remains a challenge.

Demographic dividends will be constrained without simultaneous investments in decent job creation, good governance, infrastructure and a functioning and condusive business climate. Going forward, and by the middle of this century, the population of the LDCs will have doubled in size, adding 14 million young people to the working-age population each year. Creating conditions for decent livelihoods will be an enormous task, especially given that, currently, about 80 per cent of the people who work in these countries are unemployed, underemployed or irregularly employed. **Additionally, the shortage of financial resources will make it difficult to maintain, let alone increase, spending on health, education and nutrition and other key elements of inclusivity and better human development outcomes.**

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