Gabisile Mabizela, a jumper at the Alexandra Trampoline Club, in Alexandra township, Johannesburg, South Africa. Photo: Zed Nelson.

STARTING WITH PEOPLE

A human economy approach to inclusive growth in Africa

High levels of inequality across Africa have prevented much of the benefits of recent growth from reaching the continent's poorest people. To combat inequality in Africa, political and business leaders have to shape a profoundly different type of economy. It must start with the needs of Africa's women and young people for good quality sustainable jobs, rather than the needs of the richest and of foreign investors. Leaders must use economic policy, taxation policy and social spending to build a human economy for Africa.

EXECUTIVE SUMMARY

The issue of 'inclusive growth' will dominate discussions as leaders gather at the World Economic Forum (WEF) on Africa this month. This is a double challenge. The IMF forecasts for sub-Saharan African growth are at their lowest level for 20 years.[1] However, even when GDP was rising at impressive levels across the continent, it was far from inclusive.

Despite decades of unprecedented growth, the proportion of populations living in poverty declined more slowly in Africa than in any other region. A growing population meant that there were 50 million more people living in extreme poverty in sub-Saharan Africa in 2012 than there were in 1990.[2]

At the same time, for the lucky few, these decades were boom years. Oxfam found in January that just three billionaires in South Africa have the same wealth as the bottom 50 percent of the population, while South Africa's richest one percent owns 42 percent of the country's total wealth.[3]

New data from Brookings reinforces the picture of extreme economic inequality across Africa. Seven of the 20 most unequal countries in the world are African: Swaziland is the world's most unequal, now closely followed by Nigeria.[4]

If African leaders use this meeting to take stock and forge a different path, this could be an opportunity to shape fundamentally more equal economies. With youthful workforces that are increasingly educated and healthy, a long-term trend towards more democratic and stable governance, and room for vastly increased productivity in areas such as agriculture, there is much reason for hope.

But to deliver for Africa's poorest people, attendees at WEF need to think beyond 'inclusive growth'. Instead of focusing solely on GDP and hoping to tweak it to make it more inclusive, leaders should focus directly on reducing inequality and eliminating poverty, in ways that lead to economic prosperity for all. These aims should be placed above GDP growth – not because growth is unimportant, but because poverty and inequality represent the most significant barriers in Africa to achieving sustainable and inclusive growth.

WOMEN AND YOUNG PEOPLE

The shape of many of the continent's economies – characterized by an overreliance on the extractive sector, inadequate investment in agriculture and large informal sectors[5] – has meant that the consequences of inequality have mostly been felt by the young and by women. Despite being recognized as the future of Africa's economic success, it is women and young people who work predominantly in the informal sector and agriculture, or are last in line for quality jobs, investment and training.[6] Around 70 percent of Africa's young workforce can be classified as being in in-work poverty.[7]

Furthermore, it is women and young people who suffer most when governments make questionable spending choices. Oxfam's forthcoming Commitment to Reducing Inequality index (see **Box 1** in the full report) will measure government action on policies shown to reduce inequality, such as spending on health and education, progressive taxation and strengthening labour rights. Nigeria and Swaziland, the most unequal countries in Africa, are found to have a very poor mix of policies, which have serious consequences: for example, over ten million children do not go to school in Nigeria and one in ten do not reach their fifth birthday.[8] In contrast, Namibia has made major investments in strategically important areas such as education, and has therefore been reducing inequality since 1993.[9]

This paper argues that, despite the undoubted legacy of colonialism and structural adjustment policies in increasing inequality in Africa, current African leaders have choices and tools available to them to reduce poverty and inequality levels – something they must urgently do by prioritizing a human economy approach to inclusive growth in Africa.

WHAT IS A 'HUMAN ECONOMY'?

This approach would recognize the limits of measuring growth solely by GDP – regardless of how few benefit – and would focus on what works for the majority of African people.

In terms of economic strategy, that means investment in smallholder agriculture. Over half of Africa's total labour force works in agriculture, and rural poverty rates are around double those in urban areas.[10] However, governments should avoid solely focusing on large-scale projects that support the industrialization of agriculture, and instead prioritize investment in agriculture that will better boost incomes and security for the poorest people, women in particular.

A human economy requires nurturing a private sector that is structured to be more inclusive. African governments could leapfrog the corporate models used in some developed countries – which primarily serve investors – in favour of human economy business models that serve a much wider range of stakeholders. There are examples to build on. Nearly half of all Kenyans directly or indirectly derive their livelihood from the co-operative movement, in which enterprises directly benefit their producer-owners.[11]

Governments also have a duty to shepherd the adoption of new technologies, and to make decisions based on the real needs of their people, not tech companies' profits. The threat to human jobs and the digital divide that will be created by the fourth industrial revolution could increase inequality, something that requires a public policy response. And governments should not look to skip the development of essential and widely beneficial infrastructure in the drive for new technology. We should not overplay the benefits of the fourth industrial revolution in a continent where many are still waiting for the second.

FAIR TAXATION

With international aid budgets under threat, and with the risk that government debt will become unsustainable in many countries, domestic taxation will be the most important source of revenue to fund public investments. Increasing the capacity of tax authorities, ensuring tax systems are progressive and clamping down on illicit financial flows could all yield significant amounts. But governments also need to work together to resist the global race to the bottom on corporate tax rates and the rise of tax incentives.[12] ActionAid estimated that, in 2012, Tanzania, Kenya, Rwanda and Uganda collectively lost up to $2.8bn through the use of tax holidays and incentives offered to companies. For Rwanda, at the time, losses would have been enough to more than double spending on health.[13]

INVESTING FOR A HUMAN ECONOMY

Public spending on health and education should be seen as vital strategic investments, and a fundamental duty of governments. This requires governments to meet their spending commitments and to make sure this spending reaches the poorest people. No African country has yet met its health financing target for example.[14] It also means resisting the shortsighted temptation to use financing models that push poor people further into poverty due to school or healthcare fees, or privatizing or outsourcing services that are the fundamental right of citizens.

RECOMMENDATIONS

Oxfam urges the political and economic leaders gathering at WEF Africa to:

Actively reduce inequality.

- Make explicit plans to reduce inequality and eliminate poverty in line with Sustainable Development Goals (SDG) targets, including concrete measurable targets and spending commitments.
- Promote the economic equality of women by investing in physical and social infrastructure needed to recognize, reduce and redistribute unpaid care work; challenging companies to be transparent in the salaries they pay women and men; and overturning the social norms that lie behind violence against women and the latter’s lack of economic power.

- Prioritize action to formalize sections of the economy, in part through investment in job creation, and create quality jobs for Africa's young people.
- Protect the space for civil society groups, particularly those working on labour rights, women's rights and free media.
- Develop public strategies and policy frameworks on the adoption of new technologies that explicitly take into account the impact on jobs and inequality.

Invest in a new deal for rural Africa.

- Undertake direct investment to tackle the needs of small-scale agricultural producers. This should include a target-based timeline and monitoring mechanism to meet and then exceed the Maputo Declaration for governments to spend 10 percent of their national budgets on agriculture. Prioritize investments in research and development, extension services, infrastructure, subsidies and fair prices for food.
- Ensure that women working in agriculture or other informal sectors receive the training, investment, land rights and social protection they need to be economically successful.
- Develop a new set of guidelines for all large-scale private sector engagement in African agriculture. WEF-sponsored agricultural initiatives, such as GROW Africa, require urgent revision to improve their inclusivity, accountability and effectiveness. This revision should include meaningful participation from farmers' groups in decision making; setting guidelines on 'inclusive' agricultural business models; and ensuring the application and monitoring of the highest available standards and international agreements on land, gender, labour rights and business and human rights.

Promote human economy business models.

- Governments should enforce duties agreed under frameworks such as the UN Guiding Principles on Business and Human Rights – to ensure company adherence with human rights standards, labour standards and environmental standards.
- Support the development of small- and medium-sized enterprises (SMEs), as well as policies – such as well-designed tax incentives and governance reforms – which ensure that SMEs adopt positive societal values and structures to maintain these values as they grow.
- Provide favourable trade access, tax treatment and government procurement contracts for businesses that are structured to support a human economy.
- Encourage global businesses to source from businesses that support the human economy and establish aid programmes that provide such businesses with access to finance (e.g. credit guarantee schemes). Private equity funds and development finance institutions should finance conversion to employee-ownership models.

Prioritize fiscal justice.

- African governments should aim to quickly increase their tax-to-GDP ratios to at least one-quarter. Importantly, this increase should be done in ways that are progressive and do not increase poverty or inequality. This includes enhancing capacity to collect taxes from highly paid individuals and large firms. Tax policies should be gender-equalizing.
- African governments should prioritize the eradication of tax evasion and avoidance, by setting up national and regional action plans, coordinated with strategies to combat the use of tax havens.
- African governments should commit to strengthening tax cooperation, and try to play a more active and decisive role in the global tax reform agenda. This involves working with other governments and international institutions to end the race to the bottom on corporate tax rates and tax incentives.

Invest in a human economy.

- Governments should increase the proportion of their spending on essential services to fight inequality. Governments must meet their commitment made in 2015 in Incheon in Korea to spend 20 percent of the national budget on education, and meet their Abuja commitments to spend 15 percent of national budgets on health.
- Governments should resist the process of privatizing education, focusing instead on improving the quality of public schools and bolstering the number of qualified, well-trained teachers. They should recommit to school fee abolition, including addressing informal fees, to ensure equity and prevent impoverishment.
- Universal health coverage should be achieved with an emphasis on both public financing and delivery that prioritizes comprehensive primary healthcare. Governments should move urgently to remove formal and informal fees to protect the healthcare and income of the poorest people.

NOTES

All links last accessed April 2017, unless otherwise specified.

1 IMF. (2016). *Regional Economic Outlook, Sub-Saharan Africa: Multispeed Growth*. http://www.imf.org/external/pubs/ft/reo/2016/afr/eng/pdf/sreo1016.pdf

2 World Bank. (2016). *Poverty in a Rising Africa.* https://www.worldbank.org/en/region/afr/publication/poverty-rising-africa-poverty-report

3 Calculation from Oxfam based on Credit Suisse. (2016). *Global Wealth Databook 2016.* http://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=AD6F2B43-B17B-345E-E20A1A254A3E24A5 And Forbes Billionaires List, accessed November 2016 https://www.forbes.com/billionaires/#2bde944251c7

4 L. Chandy and B. Seidel. (2017). *How much do we really know about inequality within countries around the world? Adjusting Gini coefficients for missing top incomes*' from Brookings blog, accessed on 30 March 2016, https://www.brookings.edu/opinions/how-much-do-we-really-know-about-inequality-within-countries-around-the-world/

5 Though as we discuss in the main report, the current economics rests on a legacy of colonialism and of neoliberal policies packaged as structural adjustment.

6 UN Women. (2015). *Progress of the World's Women: Transforming Economies, Realizing Rights.* http://progress.unwomen.org/en/2015/pdf/UNW_progressreport.pdf

7 ILO. (2016). *World Employment and Social Outlook 2016: Trends for Youth*. http://www.ilo.org/global/research/global-reports/youth/2016/lang--en/index.htm page 5.

8 Oxfam. (Forthcoming, 2017) *Commitment to Reducing Inequality Index*.

9 Ibid.

10 African Development Bank. (2016). *African Development Report 2015. Growth, Poverty and Inequality Nexus: Overcoming Barriers to Sustainable Development*. https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/ADR15_UK.pdf

11 International Co-operative Alliance. Retrieved from http://ica.coop/en/co-op-facts-and-stats.

12 E. Berkhout. (2016). *Tax Battles: The dangerous global race to the bottom on corporate tax*. Oxfam. http://policy-practice.oxfam.org.uk/publications/tax-battles-the-dangerous-global-race-to-the-bottom-on-corporate-tax-620159

13 ActionAid. (2016). *Still racing toward the bottom? Corporate tax incentives in East Africa.* http://www.actionaid.org/publications/still-racing-toward-bottom-corporate-tax-incentives-east-africa

14 (The Abuja target of spending 15 percent of budgets on health) Oxfam. (Forthcoming, 2017). *Commitment to Reducing Inequality Index.*

This paper was written by Katy Wright. Oxfam acknowledges the assistance of Erinch Sahan, Deborah Hardoon, Max Lawson, Deepak Xavier and Selam Abraha in its production. It is part of a series of papers written to inform public debate on development and humanitarian policy issues.

For further information on the issues raised in this paper please email advocacy@oxfaminternational.org

Published by Oxfam GB for Oxfam International under
ISBN 978-0-85598-963-7 in May 2017.
Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

DOI: 10.21201/2017.9644

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