AFRICA HUMAN CAPITAL HEADS OF STATE SUMMIT

Africa Human Capital Technical Briefs Series

Putting People First

July 2023

Any measure of a country's success is incomplete if the wellbeing of the population is not central. The legitimacy of a government and the success of a nation is captured by measures that reflect the health and wellbeing of the population, the educational attainment of the economically active segments of the population, and the availability of safety nets to protect the population from vulnerabilities from labor shock, economic downturns, or family health shocks. Ensuring that the population, especially the most vulnerable within it, are healthy, educated, skilled, and insured against shocks, is a universally accepted set of national objectives.

Focusing on the wellbeing of the population as a national objective, while widely accepted and appreciated, takes a mostly passive view of the central role of putting people first. The last 30 years in understanding economic national development has seen a much more balanced view that retains the centrality of human wellbeing as a national objective but recognizes that we need to think of human capital (HC) as a driver of overall development and not only a passive outcome of development. In fact, the evidence is increasingly pointing to investments in HC and in people, impacting country development in 3 concrete ways. Investments in HC accelerates:

- economic growth;
- the building of resilient systems that can withstand shocks and address inequality;
- the strengthening of social cohesion especially around fragility and inequality.

AFRICA'S UNIQUE OPPORTUNITIES AND POTENTIAL RISKS IN THE CONTEXT OF EXTREME HETEROGENEITY

Before jumping into the exploration of the three accelerator functions for development through investments in HC, it is important to briefly look at the reasons the Africa region is uniquely situated to gain from investments in HC. Despite the continent's wealth in mineral resources which have driven economic growth in a majority of countries through the expansion of extractive industries, the unique feature of the countries of the continent is how they differ from the rest of the world in terms of population dynamics and demography. This unique demographic picture for the region offers amazing opportunities if important investments are made, but also exposes the region to substantial risks if the population dynamics are not addressed.

Sub-Saharan Africa (SSA) has the youngest and the fastest growing population when compared to all other regions of the world. In fact, SSA is the only region that has not completed the demographic transition, the inevitable decline in mortality and fertility over time. It is hard to overstate the opportunity and risk that this demographic fact presents to the countries of SSA. Countries have the opportunity to translate a fast demographic transition into substantial economic dividends, but also risk, with inaction, creating increased economic dependency, higher levels of inequality and instability, increased pressure on already struggling social services and sectors, and decreased ability to mitigate climate change. The difference between using the unique demography as an engine of growth or facing it as a source of social and systems risks is how government make choices about investments in HC.

While the demographic picture is unique for the region, there are substantial heterogeneity within the region. The countries of SSA differ on basic measure of HC on levels of national income, the availability of marketable national resources, conflict, and fragility, among other national variables. Each country has to take into account their starting point for investments and the different potential trajectories available to them. **What is common to all the countries, however, is that investing in the population and building HC will be central to accelerating the development of each country.**

HUMAN CAPITAL INVESTMENTS AS ACCELERATORS OF ECONOMIC GROWTH

It used to be thought that achievements in population education, health, and social protection were the byproducts of economic growth and development. In other words, as countries grew economically, they could afford to invest in social services and social programs. The experiences in some countries in East Asia, known as tiger nations for the amazing dual achievements in economic growth and in building HC, turned that narrative on its head by asking one simple question: **which came first?** We can see that, in fact, investments in health and education for tiger nations – like China, Malaysia, Singapore, South Korea, and Thailand – came long before the economies of these countries took off. Human capital came before rapid economic growth. If we take South Korea, for instance, charts 1 and 2, show that achievements in health – in this case lowering infant mortality – and outputs in education – in this case enrollments – took place long before economic growth accelerated.

Chart 1

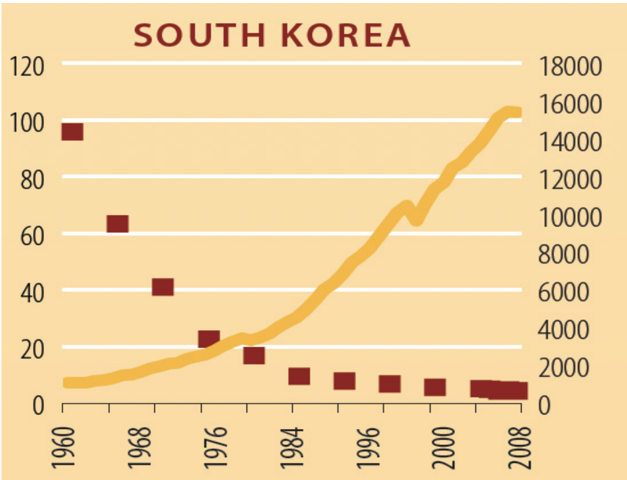
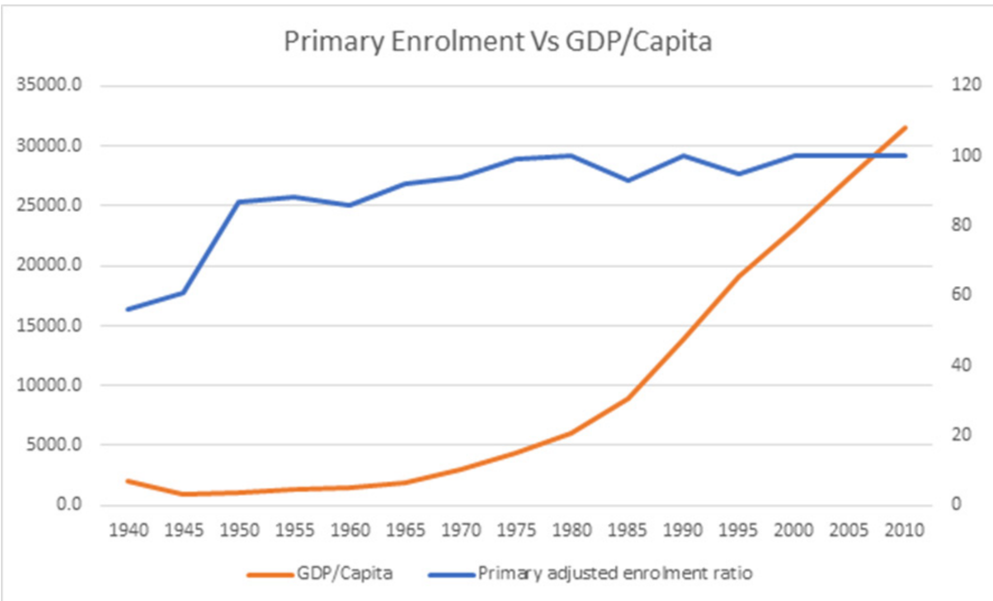


Chart 2



What the world learned from the tiger nations is that economic growth accelerated in large part because of investments in HC. Economists have estimated that between a half and a third of all economic growth in the East Asian tiger nations was due to the contributions of HC in the region which had accumulated in the years before the take off. It is now largely accepted that in order for countries to increase their economic performance, a combination of three actions are needed:

- Country-specific relevant physical investments (infrastructure).
- Region-relevant economic policies (e.g., trade, enterprise ownership, regional integration).
- Smart investments in HC.

The East Asia experience documented the steps related to HC investments that accelerated economic growth.

The most critical step in achieving a demographic dividend is the ability to quickly decrease fertility rates and this is done by investments in health. As infant and child mortality decline, families choose to have fewer children which creates a cohort effect that eventually drives growth. With families having fewer children, two important factors develop. First, with fewer children per family and in a country, both households and countries can now increase per capita investments in education for healthy children. Second, as women have fewer children, they have the ability to increase their own educational levels and to enter the labor market. **If the healthy cohort of educated and skilled children and mothers are put in an economic environment where well-paying jobs are available, the economy takes off.**

A second demographic dividend comes from savings, as families with smaller number of children and with better educated mothers and young entrants to the labor market, they can save more which can then be invested into the economy.

The potential for the two demographic dividends, however, are not guaranteed nor automatic. Failures to invest appropriately in HC could have the exact opposite effect. Large fertility rates lead to less healthy mothers and children, fewer resources to spend on education per capita, a larger dependency ratio, more inequalities, and more pressure on social systems. There is even growing evidence that the failure to act may lead to higher inequalities and, therefore, social and political instability. National actions to invest in HC are the main factors that determine whether a country achieved a demographic dividend or faces a demographic disaster.

HUMAN CAPITAL INVESTMENTS AS ACCELERATORS OF BUILDING RESILIENT SYSTEMS

While finding ways to increase the rate of economic development is a worthy objective in most countries in Africa and elsewhere, it is not the only objective. **An important national objective for any country is to build and sustain systems that are resilient in the face of shocks.** Shocks come in different forms, and the SSA has had to deal with more than its fair share. Resilient systems also mean that countries can tackle challenges like large inequalities across income and other social indicators, like educational attainment, regional, tribal, among others.

The last few years saw the whole world struggle to respond to the Covid-19 pandemic and the resulting economic downturn. Countries with robust systems for basic services, including health and education, were able to cope better than those with weak systems. Shocks due to health epidemics and pandemics are not new to Africa. The Ebola epidemic had devastating impacts on a few countries in SSA. Before that, HIV/AIDS had a substantial and long-term negative impact on all aspects of development, especially the devastating impact on HC in the region. Having resilient systems, therefore, is critical for the region.

But shocks come in different forms and are not always related to epidemics. Economic downturns can result from financial/banking system failures, commodity price fluctuations, political instability, among others. Another important topic that requires system resilience is the impact of climate change. SSA is especially vulnerable to climate change, especially given large and persistent inequalities along many socio-economic dimensions.

Regardless of the nature of a shock facing a country, they tend to test all government systems, as well as financing and country processes. As countries develop and grow economically, they can strengthen systems to be able to respond to challenges, including responding to shocks or tackling long-lasting challenges like poverty and inequality. Resilient systems are critical for the functioning of a country and important measures of the development of country. **HC plays a central role for system resilience.**

An important step in building and sustaining resilient systems are appropriate investments in HC and HC systems. This includes safety net systems, targeting assistance, social work and services programs, solid education systems, and effective public health systems. Shocks – be they economic, climate related, or health focused – increase population vulnerability. Shocks put households at risk economically which then requires a governmental response with systems that can withstand the originating shock and help stabilize the economy. A resilient public system allows a country to prepare for a shock, and then putting an appropriate response into action. The resilience of systems can also go beyond responses to short-term shocks, but to also address long-term constrains and challenges related to poverty and inequality.

Appropriate investments in human beings through HC creation are the accelerators to building resilient public systems. They can cushion against shocks, target resources and services to those in most need, and provide a platform for fast targeted responses. Conversely, having a well-trained and healthy labor force to staff resilient systems and social services platforms are results of HC investments.

HUMAN CAPITAL INVESTMENTS AS ACCELERATORS FOR STRENGTHENING SOCIAL COHESION

The third accelerator function for national development by investments in HC is the challenging issue of strengthening social cohesion. This function is especially important in the African context given the number of countries with vulnerabilities due to fragility, conflict, and/or post conflict conditions. Social cohesion is also negatively impacted with long standing challenges with socio-economic inequalities and large reservoirs of poverty. But even in the absence fragility, conflict, or structural inequalities, building and strengthening social cohesion is critical for government and governance legitimacy.

Social cohesion is the basic fabric of society, which, without appropriate investments, tears in this fabric can grow. Investments in HC and the service delivery systems can be at the heart of building governance legitimacy and accelerating the strengthening of social cohesion. Failures to invest in HC systems and delivery expose critical risks to society. Basic investments in services such as education and health, as well as platforms to address social needs, are at the heart of strengthening social cohesion.

For HC investments in education, health and social protection to accelerate the building and strengthening of social cohesion, service delivery designs and implementation can and should:

- respond to historic grievances;
- address persistent exclusions;
- help correct inequalities across many lines like income groups, ethnic, religious, and linguistic lines.

At an even more basic level, successfully providing a range of quality social services that address the needs of the population is an important step in building trust within the population in the role of government.

HUMAN CAPITAL AS AN INVESTMENT STRATEGY

Investments in HC are the ultimate win-win-win-win. An educated, healthy, and secured population is a true measure of development. Investments in HC and systems, however, are also active accelerators for 3 dimensions of national development and modernization, namely, economic growth, resilient systems, and social cohesion. Long gone are the days of treating the population as a passive recipient of services such as social assistance, education, or health. **An HC approach is a strategic investment in people, the sustainable agents of change and development.**

The extreme heterogeneity of the countries in Africa means that HC investment selections must be prioritized differently by each country in order to reflect starting points, national constraints and opportunities.

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