THE CRISIS OF EXTREME INEQUALITY IN SADC

Fighting austerity and the COVID-19 pandemic

Executive Summary

Development Finance International

NORWEGIAN CHURCH AID
actalliance

OXFAM

EXECUTIVE SUMMARY

In 2018, Development Finance International (DFI) and Oxfam warned that southern Africa was the most unequal region in Africa, while highlighting that some of its governments had realized the need to take stronger measures to reduce inequality.[1] In 2022, using their Commitment to Reducing Inequality Index (CRI) framework, this report by DFI, Norwegian Church Aid (NCA) and Oxfam finds that many Southern African Development Community (SADC) member governments[2] are showing considerable commitment to fighting inequality – but still nowhere near enough to offset the huge inequality produced by the market and exacerbated by the COVID-19 pandemic.

Although the extractive industry contributes about 10% of SADC's GDP, 25% of regional exports, about 7% of direct employment and 20% of national government revenues,[3] the industry has often exacerbated inequality and poverty. This is in large due to limited mechanisms to promote public participation along the extractive industries value chain, from contract negotiation/licensing and free prior informed community participation leading to conflict and evictions, corruption and state capture, unfair taxation, illicit financial flows and smuggling.

Before the pandemic, SADC member states were on average lagging 33% behind their North African counterparts in their CRI scores, and were doing less than half as well as the best performers globally. SADC governments performed relatively well on progressive taxation, but this did not translate into public services reaching people living in poverty, and labour rights remained inadequate. Several SADC member countries (South Africa, Namibia, Eswatini, Botswana and the Seychelles) have been hard hit by the pandemic (with death rates in the top 64 in the world), and infection and death rates throughout the region rose sharply between April and mid-August 2021. It is also increasingly becoming clear that the pandemic is the region's worst economic crisis in decades, pushing millions into poverty and exacerbating inequality. The crisis continues due to the obscene global vaccine inequality, which means that only 14% of SADC citizens had been fully vaccinated as of end of March 2022.[4]

The immediate economic impact of the pandemic was staggering, with SADC losing $80bn in GDP[5] and 35.5 million jobs (26% of end-2019 jobs), according to one study.[6] Surveys from six countries showed that more than 60% of citizens lost income or work due to COVID-19.[7]

Across the region, austerity is being introduced in many countries at the exact time that COVID-19 infections are increasing. Due to limited fiscal space, nine governments scaled back spending in 2021. Across SADC as a whole, budgets were cut by $12.1bn,[8] well over twice the amount ($5.1bn) it would cost to buy and deliver vaccinations for all SADC citizens.[9] Data for 2022–26 show plans to reduce public spending by $30.2bn, equivalent to an annual cut of $6bn for each of the five years, compared to 2021.[10] This would be enough money for governments to raise health expenditure by 28%, from the present average of $177 per capita to $226 per capita, and keep it at that level until 2026.[11]

For some of the worst-affected countries, the scale of austerity is daunting. For example, the cuts planned by the government of Zambia in 2022–26 are equivalent to five times its annual health budget; in Malawi, Mozambique and the Seychelles, they are twice their health budgets.[12] Reducing public budgets on this scale will almost certainly fail to reverse the pandemic-driven increase in inequality and will prevent the large rises in social spending needed to meet the Sustainable Development Goals (SDGs) by 2030.

The danger of austerity is compounded by another effect of the pandemic: the rapid rise in debt. Governments have had to constrain social spending due to increasing debt service payments. Even before the pandemic, debt servicing was reaching astronomical levels in most SADC countries, with governments spending on average almost three times as much on domestic and external debt service as on health. In 2020–21, debt servicing took 42.2% of government revenues on average in SADC. The debt suspension initiatives enacted by the G20 countries in 2020–21 have proven to be woefully inadequate.

The combination of budget cuts, rising debt and a slow recovery due to global vaccine inequity risks raising the SADC inequality crisis to new heights.

However, it does not have to be this way. Increasing tax revenues holds enormous potential for funding government programmes to reduce inequality. If SADC governments were to increase their tax revenues by just 1% of GDP for the next five years (2022–26), they would raise an additional $44.3bn or an average of $8.9bn per year. This would be enough to provide quality education to nearly 15 million primary school children each year.[13]

Governments can raise this revenue in progressive ways that help fight inequality, by increasing income tax rates and collection, and reinforcing wealth taxes. This would also offset the massive gains in income and wealth by southern Africa's richest people during the pandemic. For example, the five richest men in the region saw their wealth increase by $3.2bn in the first 19 months of the pandemic, which is more than the funds it would take to fully vaccinate 60% of SADC citizens.[14] Surveys from eight SADC countries show that more than three-quarters of citizens think it is fair to tax the rich more in order to fund programmes that benefit people living in poverty.[15] The extractives industry could play a huge role in raising the necessary revenue for spending in the pro-poor sectors. Southern Africa needs a "developmental state" that moves from being a provider of favourable conditions for (largely foreign) investors towards being a regulator and an economic player that can affect redistribution and facilitate the achievement of equality.

It is also vitally important that tax revenues are spent transparently on the public services that reduce inequality the most (education, health, social protection and smallholder food-producing agriculture). However, most SADC member states are falling far short of the spending needed to reach the SDGs for universal coverage of education, health and social protection, and Comprehensive Africa Agriculture Development Programme (CAADP) targets for agriculture spending.

There is a limit to what government budgets can do to reduce the extremely high inequality produced by labour markets. Many SADC countries are among those that have the world's highest wage inequality, and high levels of unemployment, informal and vulnerable employment which deprive workers (especially women) of labour rights. Governments will need to work harder to extend and enforce labour rights, and to tackle the structural causes of inequality, notably in access to assets such as land and financial services.

Statistical comparisons with global governance indexes (the Corruption Perception Index and Open Budget Index) show strong correlations between low corruption, transparent budgets and high commitment to tackling inequality, especially in SADC, so anti-inequality policies need to be accompanied by anti-corruption and budget transparency measures in order to succeed.

Regional bodies such as SADC, and the broader international community, can also help steer countries away from the destructive path of austerity, towards an inclusive and broad-based recovery. The IMF and World Bank in particular need to encourage progressive tax increases, measures to combat tax dodging, higher funding for public services, and improved labour rights and social protection. To prevent austerity and free up money for social spending, the international community needs to deliver much more funding, through urgent and ambitious debt relief and more aid. It is also worth considering regular issuances of IMF Special Drawing Rights over the coming decade.

SADC governments' efforts to reduce poverty and inequality have been thrown off course by the COVID-19 pandemic, and post-pandemic austerity would make this much worse. It is not yet too late to change direction. By increasing taxes on those who can best afford them, and receiving urgent debt relief and external funding, SADC countries can spend more on public services and enhance workers' rights. Additionally, the benefits of the extractive industry must be shared equitably through national budgets financing towards essential service delivery whose dire state have been exposed by the COVID-19 pandemic, and productive sectors like agriculture that host most of the population in the region. This will allow them to beat austerity, and protect their populations better against future pandemics: but it will happen only if governments, regional institutions and the global community drastically increase their commitments to reduce inequality by 2030.

NOTES

All links last accessed November 2021, except where specified.

1 See M. Lawson and M. Martin. (2018). *The Commitment to Reducing Inequality Index 2018: A Global Ranking of Governments Based on What They are Doing to Tackle the Gap Between Rich and Poor*. https://policy-practice.oxfam.org/resources/the-commitment-to-reducing-inequality-index-2018-a-global-ranking-of-government-620553

2 This report analyses 15 of the 16 SADC member governments. Comoros is excluded due to lack of sufficient public data for it to be included in the Commitment to reducing Inequality Index.

3 I. Ramdoo. (2020). *The Impact of COVID-19 on Employment in Mining*. IGF. The International Institute for Sustainable Development. Available at https://www.iisd.org/publications/brief/impact-covid-19-employment-mining

4 Data from Our World in Data. (2022). *Coronavirus (COVID-19) Vaccinations*. See also WHO (2021, 2 September). *Eight in 10 African Countries to Miss Crucial Covid-19 Vaccination Goal*. According to data from Airfinity, just 33% of the over 1.45bn doses of vaccine given globally under COVAX have gone to Africa.

5 This is estimated by comparing the IMF's forecasted real GDP growth for 2020 prior to the COVID-19 crisis (from October 2019) with the region's actual real GDP growth figures for 2020 from October 2021. The difference is taken to represent the economic loss to the region. Projections from 2019 are from IMF. (2019). *Sub-Saharan Africa Regional Economic Outlook: Navigating Uncertainty*. https://www.imf.org/en/Publications/REO/SSA/Issues/2019/10/01/sreo1019 . Actual GDP growth for 2020 is taken from IMF. (2021a). *World Economic Outlook Database: October 2021*. https://www.imf.org/en/Publications/WEO/weo-database/2021/October

6 I. Strauss, G. Isaacs, and J. Rosenberg. (2021), '*The Effect of Shocks to GDP on Employment in SADC Member States During COVID-19 Using a Bayesian Hierarchical Model', African Development Review, 33, S221–S237.*

7 J. Ray. (2021, 3 May). *COVID-19 Put More Than 1 Billion Out of Work*. Gallup. https://news.gallup.com/poll/348722/covid-put-billion-work.aspx

8 This is calculated from IMF projections of general government expenditure as a percentage of GDP, comparing the figures for 2020 with 2021, and converting into dollar amounts by comparing to GDP in current prices. Data from IMF. (2021a). *World Economic Outlook Database: October 2021*.

9 This is based on a two-dose programme with an estimated cost of $7 for each dose for the 418.2 million citizens in the region. The estimated vaccine delivery cost is based on a WHO estimate, see: Reuters. (2021, 28 April). *Donate $7 for a COVID-19 Vaccine to Help End Pandemic, WHO Urges*. https://www.reuters.com/article/health-coronavirus-who-donation/donate-7-for-a-covid-19-vaccine-to-help-end-pandemic-who-urges-idUSL8N2MK5MD
Population data is from World Bank. (2021). *Population, Total*. https://data.worldbank.org/indicator/SP.POP.TOTL

10 This is calculated from IMF projections of general government expenditure as a percentage of GDP, comparing the figures for 2022–26 with expenditure levels in 2021, and converted into dollar amounts by comparing to GDP in current prices. Data from IMF. (2021). *World Economic Outlook Database: October 2021*.

11 The projected new per capita government health expenditure is based on sum of current per capital health expenditure and the average annual expenditure cut for the five years between 2022 to 2026. Per capita general government expenditure from WHO Global Health Expenditure Database has been used to arrive at the general government health expenditure (nominal US$ at current prices).

12 This is based on comparing the cuts planned for 2022–26 as percentage of GDP with data from the CRI database on government health expenditures for the latest available year.

13 This is calculated using the general government revenue (% of GDP) for 2021 and converting this to dollars by comparing to GDP under current prices and calculating how much one more percentage point would correspond to. Calculated this way, expanding revenue by 1% of GDP in 2021 would yield an additional $8.9bn on average each year for the five years to 2026, which would come to approximately $44.3bn over five years. Data on general government revenue are from IMF. (2021a). *World Economic Outlook Database*: *October 2021*. The average annual cost of providing quality primary education for the five years between 2022 to 2026 is estimated at $596 using the figures from the UNESCO and adopting them for lower-middle-income countries which better capture SADC countries. See UNESCO. (2015). *Pricing the Right to Education: The Cost of Reaching New Targets by 2030*. https://en.unesco.org/gem-report/node/819

14 This is based on analysis of Forbes data for 18 March 2020 to 30 September 2021 for five billionaires: Koos Bekker, Nicky Oppenheimer and family, and Patrice Motsepe, all from South Africa, and Mohammed Dewji and Strive Masiyiwa from Tanzania and Zimbabwe, respectively.

15 This is based on Round 8 surveys by Afrobarometer in eight SADC countries: South Africa, Zimbabwe, Zambia, Mauritius, Malawi, Lesotho, Namibia, and Botswana. https://afrobarometer.org/publications?field_author_value=&title=round+8&field_publication_type_tid=437&field_publication_country_nid=All&field_language_tid=All.

This Executive Summary was written by Matthew Martin. Oxfam, DFI and Norwegian Church Aid acknowledge the assistance of Anthony Kamande, Romao Xavier, Dailes Judges, Daud Kayisi, Mathias Kafuda, Helen Bunting, Helen Wishart and Max Lawson from Oxfam and Kjetil Abildsnes, Silje Margrete Ander, Felix Ngosa and Nelson Joao from Norwegian Church Aid in its production.

Norwegian Church Aid is an ecumenical diaconal organisation for global justice working with partners in more than 22 countries. We work to help the poorest and those in need, regardless of their creed, race, political or religious affiliation. https://www.kirkensnodhjelp.no/en/

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

The information in this publication is correct at the time of going to press.

Published by Oxfam GB for Oxfam International under ISBN 978-1-78748-886-1 in May 2022.
DOI: 10.21201/2022.8793

Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

Development Finance International

Development Finance International is a non-profit capacity-building, advocacy, advisory and research group which works with more than 50 governments, international institutions and civil society organisations worldwide to help development financing fight poverty and inequality. For more details see www.development-finance.org and www.governmentspendingwatch.org

Cover Photo

Martha stands with her baby in her small plot of farmland in Phalombe, Malawi. At the time this photo was taken, Martha's family had been severely affected by the drought in their community and they were facing food shortages as a result of a poor harvest. Photo: Aurelie Marrier d'Unienville/Oxfam AUS.

Oxfam

Oxfam is an international confederation of 21 organizations, working with its partners and allies, reaching out to millions of people around the world. Together, we tackle inequalities to end poverty and injustice, now and in the long term – for an equal future. Please write to any of the agencies for further information or visit www.oxfam.org

Oxfam America (www.oxfamamerica.org)
Oxfam Aotearoa (www.oxfam.org.nz)
Oxfam Australia (www.oxfam.org.au)
Oxfam-in-Belgium (www.oxfamsol.be)
Oxfam Brasil (www.oxfam.org.br)
Oxfam Canada (www.oxfam.ca)
Oxfam Colombia (lac.oxfam.org/countries/colombia)
Oxfam France (www.oxfamfrance.org)
Oxfam Germany (www.oxfam.de)
Oxfam GB (www.oxfam.org.uk)
Oxfam Hong Kong (www.oxfam.org.hk)
Oxfam IBIS (Denmark) (www.oxfamibis.dk)
Oxfam India (www.oxfamindia.org)
Oxfam Intermón (Spain) (www.oxfamintermon.org)
Oxfam Ireland (www.oxfamireland.org)
Oxfam Italy (www.oxfamitalia.org)
Oxfam Mexico (www.oxfammexico.org)
Oxfam Novib (Netherlands) (www.oxfamnovib.nl)
Oxfam Québec (www.oxfam.qc.ca)
Oxfam South Africa (www.oxfam.org.za)
KEDV (www.kedv.org.tr)

Development Finance International

NORWEGIAN CHURCH AID
actalliance

OXFAM