A TALE OF TWO CONTINENTS

FIGHTING INEQUALITY IN AFRICA

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Africa sits at the confluence of two related and mutually reinforcing developmental challenges – poverty and inequality – the solutions for which are a matter of policy choice. Despite the recent spate of economic growth, the continent remains afflicted by entrenched poverty and alarmingly high and rising inequality. The gap between rich and poor is greater than in any other region of the world apart from Latin America, and in many African countries this gap continues to grow. In this context, the prospects of achieving the Sustainable Development Goals and Agenda 2063 are severely diminished.

African political and business leaders face a clear choice. They can choose the path of ever-increasing inequality and poverty. Or they can choose another path, to a more prosperous, equal Africa built for the many, not the few, by promoting efficient and progressive tax systems, investing in free, quality and gender-responsive public services and social safety nets, and protecting the rights of workers to decent work and wages.
While the richest Africans get ever richer, extreme poverty in the continent is rising. Africa is the second most unequal continent in the world, and home to seven of the most unequal countries.

The richest 0.0001% own 40% of the wealth of the entire continent. Africa’s three richest billionaire men have more wealth than the bottom 50% of the population of Africa, approximately 650 million people. Meanwhile, Africa is rapidly becoming the epicentre of global extreme poverty. While massive reductions in the numbers living on less than $1.90 a day have been achieved in Asia, these numbers are rising in Africa. The World Bank estimates that 87% of the world’s extreme poor will be in Africa by 2030, if current trends continue.

African women and girls are most likely to be poor. Levels of gender inequality are among the highest in the world, combining with economic inequality to create a suffocating web of exclusion. For example, in Kenya, a boy from a rich family has a one-in-three chance of continuing his studies beyond secondary school. A girl from a poor family has a 1-in-250 chance of doing so. Women and girls are also responsible for the bulk of unpaid care and domestic work that contributes to their family, community and the economy. For example, in Malawi, women spend seven times the amount of time on unpaid care and domestic work than men.

Dangerous debts hurt social spending

The economic prospects for Africa are poor. The IMF predicts that 24 of the 45 sub-Saharan African countries, including South Africa and Nigeria, are not likely to see a strong economic recovery. Above all, unsustainable debt has returned to squeeze the populations of Africa. While there have been some exceptional individual cases, there is great risk of a continental crisis that will undermine development for the next decade, while population growth increases.

Reckless lending by European financial markets and Chinese banks, combined with reckless borrowing by a number of African governments, is already severely constricting spending on public services. In Uganda, debt repayments have reached historic highs, and the government has cut spending on education and health by 12%.

Yet the story is not uniformly bad. Many countries in Africa are taking positive steps to tackle inequality. The fact that they are doing so in the face of long odds and huge challenges is a tribute to them, and shows up the many countries that are simply failing to do what they should.
A new ranking of African countries on their commitment to reduce inequality

This paper uses the Reducing Inequality Index (CRI) developed by Oxfam and Development Finance to produce a ranking of African countries on their policies to reduce the gap between rich and poor, looking at taxation, social spending and labour rights. It paints an interesting picture. All countries in Africa are dealing with the same poisonous legacy: very high levels of inequality, a history of colonial expropriation and failed economic policies often imposed on them by the IMF and the World Bank. Yet the steps being taken to overcome this legacy and tackle the gap between rich and poor differ hugely from country to country. The CRI shows that it is possible for African governments to choose a path of more equitable growth.

The CRI shows that countries like Namibia and Ethiopia are taking exceptionally strong steps to tackle inequality. Namibia ranks second to the top in Africa, and has been recognized by economist Joseph Stiglitz for the government’s efforts to tackle economic inequality, which has been continuously reducing since 1993. It comes top in Africa for its commitment to social spending. Levels of investment are high, allowing the government to fund policies like free secondary education for all students, and recent increases in spending on social protection.

Box 1: Examples of positive and poor policy choices for reducing inequality in African countries

One of the best – Ethiopia

Ethiopia is one of the poorest countries in the world. However, it is the fifth-largest spender on education in the world as a proportion of its budget:

- It employs over 400,000 primary school teachers.2
- Between 2005 and 2015, it has brought an additional 15 million children into school, from 10 to 25 million, the majority of whom are girls.3

Ethiopia still faces serious challenges with learning outcomes and improving the quality of education,4 but the scale of their commitment and effort to educate their girls and boys is impressive.

One of the worst – Nigeria

Nigeria has the unenviable distinction of being at the bottom of the Africa ranking, as well as our global ranking for two years running. Social spending is stagnating at a very low level, and the consequences of underinvestment in health and education are painfully evident. One in 10 children dies before they reach their fifth birthday,5 and more than 10 million children do not go to school.6 Sixty % of these are girls.7 The CRI shows that there is significant potential for Nigeria to collect more tax and increase revenue that could be invested in redistributive policies.
The right polices: Progressive spending, taxation and decent work

Overwhelming global evidence shows that three policy areas are critical to reducing the gap between rich and poor:
• progressive spending on public services like education;
• progressive taxation to ensure the rich pay their fair share; and
• action to ensure a living wage and labour rights for all workers.

Spending on education, health and social protection can have a huge impact on reducing inequality. A European Commission study of sub-Saharan Africa highlighted the unequivocal power of education as a tool to reduce income inequality; they found that schooling raised the income share of the bottom 80%, mainly at the expense of the top 10%.\(^8\) In South Africa, everyone over 60 years old receives a pension, except the very richest. The majority of recipients are women, and it has a major impact on inequality, reducing it by 22%.\(^9\)

Progressive tax systems pay a double dividend in the fight against inequality; they directly reduce the gap between rich and poor by taking more money from those who can afford to pay, and they also raise revenue that can be invested in social spending. Oxfam’s research has found that, if low- and lower middle-income countries worldwide achieved a 2% increase in domestic resource mobilization by 2020, this would add $144bn to their budgets.

Decent work for Africans is key to reducing inequality. Informality, underemployment and the precarious nature of jobs affect almost all Africans of working age, and all affect women more than men. In Africa, the labour market is almost entirely informal, and most work is almost self-employment (80% in Africa overall). The African Development Bank has estimated, for example, that in Senegal only 3.8% of jobs are formal.\(^10\)

An international system rigged against Africa from the start

African countries cannot do it alone. They are operating in the face of a global financial system of falling aid, expensive debt and tax avoidance that is depriving them of billions of dollars in lost revenue each year. It is estimated that 75% of the wealth of African multi-millionaires and billionaires is held offshore,\(^11\) and that the continent is losing $14bn annually in uncollected tax revenues as a result.\(^12\)

To truly turn things around, global solidarity and action is required from governments and institutions around the world. However, African countries can individually take action to review, renegotiate or cancel tax treaties that expose them to profit-shifting and treaty shopping, and collectively pursue a minimum effective tax rate for the profits of multinationals in the OECD process. If multinationals will have to pay the
minimum rate, it becomes less attractive to allocate profits to low-tax jurisdictions.

Rich nations must end the theft of resources from Africa, and the rigging of the international financial system that facilitates this.

**African governments can choose to fight inequality**

Nonetheless, African governments can take concrete steps to do the right thing, even in the face of such global challenges. Africa’s largest, best educated generation is coming of age. By 2025, half of the continent’s population will be under 25. These young women and men are by far Africa’s best natural resource, more valuable than all the gold, copper, oil and gas that lies under African soil. Investing in them and building economies that can support them with decent jobs is paramount.

African leaders face a clear choice. They can choose the path of ever-increasing inequality and poverty. Or they can choose another path, to a more prosperous, equal Africa built for the many not the few.
1 INTRODUCTION

This briefing sets out the scale of inequality in Africa today, and offers some evidence-based recommendations for ensuring prosperity for all of its citizens. A low-growth, unequal future is far from inevitable; but without concerted action from governments and institutions, it remains a worrying possibility.

This month, hundreds of political and economic leaders gather in Cape Town, South Africa, for the 2019 World Economic Forum (WEF) on Africa. Not for the first time, their shared agenda is to ‘promote inclusive growth’. This is a matter of growing urgency for a region with stagnating growth and soaring economic inequality.

An unforgiving economic climate

Economic prosperity remains elusive for the vast majority of African citizens.

Poverty is stubbornly high across the region; according to the World Bank’s latest data, 41% of people in sub-Saharan Africa live in absolute destitution, below the $1.90 poverty line. The Bank also estimates that 87% of the global poor will be concentrated in sub-Saharan Africa by 2030 if current economic trends continue.

However, a tough economic climate threatens to impede progress even further. While the IMF has forecast some economic recovery, with medium-term GDP growth estimates of around 4% for sub-Saharan Africa, these aggregate figures mask a more difficult reality: 24 of the 45 sub-Saharan African countries are not predicted to see strong economic recovery. South Africa and Nigeria, home to more than two thirds of the region’s population, are among these. Thus, the majority of the continent is facing slow and stagnating growth, limiting poverty-reduction efforts and progress towards a more sustainable future.

A major debt crisis is also looming. Today, 16 sub-Saharan African countries are classified as either suffering or being at a high risk of debt distress. As Figure 1 shows, just over half of Africa’s low-income countries (LICs) are in this precarious situation, compared to less than a quarter in 2013. The drying up of credit, especially cheap credit, means that countries are facing higher debt repayments and fewer, more expensive, refinancing options. Even nations considered to be economically stable are coming under considerable pressure. For example, Kenya’s debt payments have trebled from 7% to 22% of its budget since 2016. While we are seeing individual exceptions, the risk is for a continental crisis that will undermine development for the next decade, while population growth increases.
Figure 1: Evolution of debt distress for LICs in sub-Saharan Africa

2 THE INEQUALITY EXPLOSION

It is widely evidenced that economic inequality poses a significant challenge to poverty reduction,\textsuperscript{17} as well as to achieving stable and sustainable growth.\textsuperscript{18} Over the last 50 years, economic inequality has reached extreme levels. In January 2019, Oxfam’s research found that 26 individuals own the same amount of wealth as the poorest half of humanity.\textsuperscript{19}

The world’s richest people are amassing more and more wealth as part of a long-term pervasive trend. The richest 1\% have received half of the global increase in wealth since the turn of the century, while the poorest half of the world has taken just 1\% of that increase.\textsuperscript{20}

AFRICA: A TALE OF TWO CONTINENTS

Africa is no exception. It is a continent of extremes: home to more than a half of the world’s extreme poor, with 413 million people living on less than $1.90 a day.\textsuperscript{21} Today, Africa is the second most unequal continent in the world, and some African nations rank among the most unequal on the planet. Africa’s three richest billionaire men have more wealth than the bottom 50\% of the population of Africa, approximately 650 million people.\textsuperscript{22}

Income inequality

As Figure 2 shows, seven of the 20 most unequal countries by income are African – including the four most unequal: Swaziland, Nigeria, South Africa and Namibia.\textsuperscript{23}

Most measures also agree that income inequality in sub-Saharan Africa has hardly budged over the last 25 years. Research by the European Commission found that, while the period of growth after 2000 did lift incomes across the board, the bottom 40\% saw no greater benefit than other income groups.\textsuperscript{24} Evidence from the World Bank highlights that the challenge will be even greater for some African countries; between 2000 and 2015, consumption actually decreased for the bottom 40\% in a third of the sub-Saharan countries surveyed in their 2018 \textit{Shared Prosperity} report.
There is little doubt that this economic divide stands stubbornly in the way of a brighter future for the continent. The European Commission concluded that unless sub-Saharan Africa experiences an acceleration of growth – and uses this to disproportionately boost the incomes of the poorest – then ‘failure to eliminate extreme poverty by 2030 is practically certain’.

**Wealth inequality**

Wealth inequality is also soaring in Africa. The richest 0.0001% own 40% of the continent’s entire wealth. While the richest Africans see their wealth grow thanks to healthy returns on their investments and capital, too many others struggle to earn a decent living from their labour.

Today, there are 20 billionaires in Africa, living alongside 413 million people in extreme poverty. South Africa is home to five of these billionaires, as well as 50,000 millionaires.
The most unequal country in the region, Swaziland, is home to one billionaire, Nathan Kirsh, who is estimated to have $4.9bn. If he worked in one of the restaurants that his wholesale company supplies on a worker’s minimum wage, it would take him 5.7 million years to earn his current level of wealth.

Nigeria is Africa’s biggest economy, yet the fruits of its economic growth are not shared equally. Poverty and destitution are stubbornly high: around 10 million children are out of school, a quarter of citizens lack access to safe drinking water, and half are living below the $1.90 poverty line. It is estimated that $24bn would be needed to end poverty in the country, which is less than the combined wealth of the richest five Nigerians. Their $29.9bn is more than the country’s entire 2017 budget.

Unequal land distribution

Unequal land distribution is one of the oldest forms of wealth inequality. It is of huge importance in countries where a large number of citizens, especially poorer citizens, rely on the land. In West Africa for example, agriculture is responsible for employing more than half of the region’s workforce, and is the main source of livelihoods for the poorest families.

Thus, access to land is critical. The enduring high levels of inequality in Africa are in large part a legacy of the land dispossession and widespread asset stripping of the masses, during the colonial period. These trends continue: communities are increasingly losing their rights and access to lands and forests to large multinational corporations acting in collaboration with national governments.

Agriculture in its current form is a poverty trap for many. It has continued to prosper only where it is based on large-scale, land-concentrated commercial farming models, with redistributive land reforms that have the potential to bring many economically excluded people into the economy either too slow or badly managed. At the same time, farmers, who make up the majority of the continent’s rural populace, remain stuck on small patches of unproductive holdings, farming mainly for family consumption and producing little surplus. Where farmers harvest enough to sell some produce, their participation in the market is confined to the lowest rungs of agricultural value chains. There is minimal local processing to capture and retain greater value, effectively turning farming, the fundamental livelihood activity for most, into a poverty trap.

In addition, climate change and its associated recurrent shocks have brought a whole new set of challenges that make the task of transforming agriculture into an engine for pro-poor growth and poverty reduction even more daunting. For example, a study in Malawi found that extreme droughts cause average GDP losses of 10.4% and increase poverty by 17%, which is equivalent to an additional 2.1 million people falling below the poverty line.
Gender inequality

Levels of gender inequality in Africa also rank among the highest in the world, and there is a strong connection between it and economic inequality. Economic and social policies are not only exacerbating inequality, but also entrenching discrimination against women and girls. African women and girls are more likely to be poor – and to lack the assets and opportunities needed to escape poverty. Three quarters of women are employed in agricultural, low-paid and/or informal sectors. In Nigeria, women represent between 60% and 79% of the rural labour force, and about 37% of active agriculture workers, but they are 10 times more likely not to own their own land than men. One third of African companies have no female director on their board, while 33.6% have only one. Women only comprise 23% of Africa’s parliamentarians.

Economic and social policies are not only exacerbating financial inequality, they are also entrenching gender inequality. A clear example is unpaid care and domestic work (UCDW) - the vital work of caring for children, the sick and elderly, and of maintaining households – which is essential for social wellbeing and economic growth. Gendered social norms in Africa mean that the vast majority of UCDW is carried out by women and girls. For instance, in Ethiopia, women are twice as likely to spend time collecting water and firewood as men; in Ghana, women do between two thirds and three quarters of domestic work and childcare; in Malawi, women spend seven times the amount of time on UCDW than men; while in South Africa, women with young children spend over 320 minutes per day on UCDW, compared to less than 100 minutes for men with young children.

This disproportionate responsibility for UCDW in the home not only restricts women from taking up paid work and taking part in schooling and skills training, it also limits women’s participation in public and political life and is a significant structural barrier to women's economic empowerment. In surveyed districts of Uganda and Zimbabwe, over a third of rural women reported injury or illness due to UCDW. Over half of these women said the harm was long lasting and resulted in lost days of work. The unequal distribution of UCDW between women and men is both a powerful driver of gender inequality and gendered economic inequality.

Girls in Africa are less likely to access or complete school than boys. For example, in Kenya, a boy from a rich family has a one-in-three chance of continuing his studies beyond secondary school. A girl from a poor family has a 1-in-250 chance of doing so; in Madagascar, almost half (47%) of the richest urban boys complete lower secondary education, while 0% of the poorest rural girls do.
THE ROOTS OF INEQUALITY IN AFRICA

The roots of inequality in Africa go a long way back, and include the exploitative practices and institutions forced on much of the continent by the colonial powers that concentrated political and economic power into the hands of the few. After the debt crises of the 80s and 90s, Africa was subjected to rapid market liberalization under structural adjustment programmes. Deregulation, public spending cuts, privatization, tax cuts for the rich and corporations, and a ‘race to the bottom’ on labour rights entrenched inequality further, and increased poverty and hunger in many countries. For example, between 1996 and 2001, the number of Zambians living below the poverty line rose from 69% to 86%; in Tanzania, inequality rose by 28%. By 2013, 50 million more people in Africa were undernourished compared to 1990–2.

Growth models focused on extractive industries, such as those in Nigeria and Zambia, have also been shown to lead to higher levels of poverty and inequality. In Zambia for instance, copper mining is a major contributor to GDP, but employs only around 1.6% of the labour force. The communities in rural mining areas remain poor.

Despite these historical and current challenges, we know that inequality is far from an intractable problem. Where there is political will to pursue progressive reforms, countries are able to reverse even stubborn inequality trends and build more equal societies.

Box 2: How policy choices make all the difference in Uganda and Ethiopia

Uganda and Ethiopia are landlocked East African countries with a history of conflict, but both have recorded strong growth over the last 25 years. Yet in terms of inequality, their trajectories have been dramatically different: since the 1990s, inequality has fallen by around 15% in Ethiopia and risen by almost a third in Uganda. It is government policy that has set these seemingly similar countries on different paths. Ethiopia has invested heavily in education, social protection and agriculture-led development that provides services and infrastructure that benefit the poorest rural communities. Uganda has maintained good levels of spending on health and education, but has not invested in social protection or agriculture in the same way, and has failed to tackle persistent inequalities in land ownership.
3 GOVERNMENT COMMITMENT TO REDUCING INEQUALITY

Many of the solutions to the inequality challenge are well-known:

• public spending on free public services and social safety nets;
• efficient and progressive tax systems; and
• decent work and wage policies.

While these policies have been proven to have strong equalizing effects, government action to implement them will be decisive for Africa’s future.

To this end, Oxfam and Development Finance International developed the Commitment to Reducing Inequality (CRI) Index, to measure government performance on tackling inequality through such proven measures.

In the October 2018 global CRI Index, Africa did not rank well. The bottom 10 features three African countries, and there were none in the top thirty.

RANKING AFRICAN COUNTRIES

Figure 3: The three CRI pillars of assessment for African governments

Source: CRI 2018
For this report, Oxfam has developed the first ranking of African nations by their commitment to tackle inequality (see Table 1). This reveals that some countries are taking important strides towards more equal societies, while others are lagging seriously behind.

Table 1: Ranking of governments’ commitment to reduce inequality in 45 African countries.61

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<th>Rank globally</th>
<th>Spending score</th>
<th>Tax score</th>
<th>Labour score</th>
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### South Africa

Top-ranking South Africa is in second place for social spending, with a strong record of investing in health, education and social protection. Their Africa ranking on labour rights and minimum wages is also reasonably high, coming in eighth. This may improve further if the government introduces a national minimum wage this year as planned, despite opposition. The most impressive indicator, however, is tax progressivity, where South Africa comes first among African countries, and third globally.

### Namibia

Namibia has been recognized by economist Joseph Stiglitz for the government’s efforts to tackle economic inequality, which has been continuously reducing since 1993. A new World Bank study has found that Namibia’s taxation and spending policies are reducing inequality significantly. It comes top in Africa for its commitment to social spending. Levels of investment are high, allowing the government to fund policies like free secondary education for all students, and recent increases in spending on social protection. The country comes ninth for tax progressivity. The country ranks sixth for work and wages, and has substantially increased the minimum wage. In October 2018, the minimum wage for domestic workers increased by 4.15%.

### Lesotho

Lower middle-income countries can also show strong commitment to reducing inequality. For example, Lesotho spends 14% of its national budget on education and 12% on health, has a progressive tax structure and progressive policies on trade unions and women’s labour rights. It ranks fifth in Africa for decent work and wages, and could improve further by implementing paid parental leave for all employees.
Nigeria

Nigeria has the unenviable distinction of being at the bottom of the Africa ranking, as well as our global ranking for two years running. In 2018, the IMF has advised the country on the importance of tackling inequality, referring to their CRI ranking. While President Muhammadu Buhari has spoken at the UN General Assembly about the importance of tackling inequality to avoid ‘spiralling instability’, the government’s action remains inadequate.

Social spending is stagnating at a shamefully low level, and the consequences of underinvestment in health and education are painfully evident. One in 10 children dies before they reach their fifth birthday, and more than 10 million children do not go to school. Sixty % of these are girls. The CRI shows that there is significant potential for Nigeria to collect more tax, and increase revenue that could be invested in redistributive policies. There is also room for improvement on tax progressivity, where they rank in the bottom third.

Nigeria also ranks middle of the table on work and wages, but in the past year has seen an increase in the number of labour rights violations. The minimum wage has not increased since 2011, but there is some hope of improvement here. In November 2018, the government agreed to enter into negotiations with labour unions on increasing the monthly minimum wage, from ₦18,000 ($50) to ₦30,000, amid threats of a nationwide strike.

Sierra Leone

Despite ranking third from the bottom of the Africa CRI, there is hope of improvement for Sierra Leone. The new president, Julius Maada, has taken some promising steps to tackle inequality, including increases to the minimum wage and personal income tax. Under his leadership the government has also taken steps taken to improve tax collection, including cracking down on unnecessary tax incentives. Last but not least, he has spearheaded education reforms that will make education free for all children from pre-primary to secondary level over the next five years. However, worrying signs that Sierra Leone might open the door to the privatization of education might jeopardize the government’s other inequality-fighting measures.
4 POLICIES TO FIGHT INEQUALITY

SOCIAL SPENDING

Social spending is a fundamental part of redistributive fiscal policy; it corrects inequality in market incomes through in-kind transfers like health and education, and cash transfers that comprise social protection.

There is strong evidence that government-funded public services mitigate the impact of a skewed income distribution and reduce income inequality. They have been shown to boost the overall incomes of the poorest households by as much as their regular earnings. A European Commission study of sub-Saharan Africa highlighted the unequivocal power of education as a tool to reduce income inequality; they found that schooling raised the income share of the bottom 80%, mainly at the expense of the top 10%. Cash transfer schemes also redistribute by using public money to provide direct income top-ups and safety nets such as pensions, unemployment benefits and sick pay.

Public spending on services and transfers is also key to reducing gender inequality. Educating girls gives them more control over their lives and boosts their life chances. They are likely to marry later, have healthier lives and children, and earn more. The World Bank has found that one additional school year can increase a woman's overall earnings by 10% to 20%. Social protection schemes can reduce the burden of care work that otherwise falls heavily on women and girls.

Kibera, the largest informal settlement in Africa, where an estimated 700,000 to 1 million people live. Many of the families live in a precarious situation with lack of access to basic social services, such as water, electricity and decent housing. Photo credit: Pablo Tosco/Oxfam
Africa’s commitment to social spending

Some governments show significant commitment to reducing inequality through social spending: Namibia, South Africa, Mauritius and Tunisia are the continent’s top performers. Senegal has increased spending on both health and education, making it the 13th highest-spending country in the world in these sectors, as a percentage of GDP. It also boasts one of the largest safety net programmes in Africa. Ethiopia’s commitment to social spending also stands out. It is a low-income country, but by 2008–09, it had raised education spending to 23.6% of the budget, which is the sixth highest proportion in the world. Their continued high investment has seen the numbers of children going to school increase dramatically. During this time primary enrolment had risen to 15.5 million – an increase of over 500%.

However, there’s still a long way to go before we see equality in social spending. Education and health budgets are often configured in a way that favours the wealthiest and most advantaged areas, or fails to remedy disadvantage. In Malawi, for instance, the top 10% of children from wealthiest families use 68% of all public resources on education. Between 2016 and 2017, Niger substantially increased health spending, while Guinea, Liberia and Cameroon significantly boosted their spending on education. Unfortunately, in Liberia, this has been linked to controversial and regressive moves to privatize primary education.

Box 3: Education privatization is a risky business

Privatization of education is a growing trend in Africa. The World Bank’s private sector lending arm (the International Finance Corporation) has significantly increased their investment in private education providers in developing countries, including a number in Africa. However, pursuing these risky and unproven private sector solutions is putting equality in jeopardy.

Research has found that in South Africa, Kenya and Uganda, private providers put profit before educational outcomes and access, by employing unqualified teachers and charging fees to keep costs down. Despite claims that low-fee private schools can expand education for the poorest people, evidence shows that even supposedly low fees prevent many such families sending their children to school.

Sierra Leone has made significant progress in education since the civil war ended in 2002, but today the government is considering privatizing education under a high-risk public–private partnership model, under which profits accrue to private investors while financial and other risks are borne by the state. Recent moves to privatize education in Ghana have met with significant opposition from citizens, though the possibility of such efforts resurfacing remains.
Some countries are rightly taking a stand against privatization. For example:

• Uganda moved to close all schools run by Bridge International Academies, the world’s largest chain of commercial private schools, due to their failure to respect basic education standards. A similar process is underway in some areas of Kenya.

• In June 2019, the African Commission on People’s and Human Rights expressed concerns about the current trend among bilateral donors and international institutions of ‘putting pressure on States Parties to privatize or facilitate access to private actors in their health and education sectors’.

Some African countries are seriously underinvesting in – and some even cutting – social spending. Nigeria, Congo, Chad and Democratic Republic of Congo (DRC) are among the African nations least committed. DRC stands out as a particular concern; it registered one of the biggest cuts in both education and health spending between 2016 and 2017.

Spending on the wrong things is also limiting the potential of public spending to tackle poverty and curb inequality. For example, research in 2016 by the Centre for Global Development found that Ethiopia, Mozambique, Tanzania and Uganda could all reduce their poverty gap by up to two thirds if they removed regressive fossil fuel subsidies and curbed ‘excessive’ military spending.

Finally, the growing debt crisis means that spiralling repayments are putting social spending at risk, as health, education and social protection are often the first to suffer when budgets come under this kind of pressure. For example, in 2018, debt payments in Angola, Ghana, Egypt, Cameroon and Mozambique were 57%, 56%, 30%, 20% and 25% of government revenue respectively. In the same countries, public spending was cut by 19%, 4%, 23%, 4% and 5% respectively between 2016 and 2018.

Recent cuts like these are not reflected in our 2019 Africa CRI, and may see some countries slipping down the social spending rankings in the near future.

PROGRESSIVE TAXATION

Evidence from the IMF has underlined that tax systems that redistribute wealth and enable spending on public services are one of the most effective ways for governments to reduce inequality and poverty while sustaining growth.

Progressive tax systems pay a double dividend in the fight against inequality; they directly reduce the gap between rich and poor by taking more money from those who can afford to pay, and they also raise revenue that can be invested in social spending. Oxfam’s research has found that, if low- and lower middle-income countries worldwide achieved
a 2% increase in domestic resource mobilization (DRM) by 2020, this would add $144bn to their budgets.99 As Christine Lagarde, managing director of the IMF, has declared, increasing DRM is ‘an imperative for those countries that are seeking to achieve the new Sustainable Development Goals’.100 However, this additional revenue must be raised in an equitable manner.101

Tax systems can also shape economies to keep market inequalities in check, for example, by reducing the incentives for high profits, shareholder returns and executive pay.

**Africa’s commitment to progressive taxation**

There are a number of significant deficiencies in countries across Africa, in terms of tax collection and progressivity. First, there is an over-reliance on regressive consumption taxes, which fall disproportionately on the poorest citizens, especially poor women. Value-added taxes (VAT) and excise duties make the biggest tax revenue contribution across the continent. Among the 26 countries assessed by the African Tax Administration Forum (ATAF) in 2018, largest contribution to revenue in 2016 was VAT at 34%.102 Women tend to be poorer, so indirect taxes like VAT eat up a larger portion of their income for the same purchase of a good/service.

At the same time, many governments fail to maximize their tax income from more progressive taxes, such as personal income tax (PIT) and corporate income tax (CIT). While personal income taxes-to-total tax revenue has been increasing, from an average of 17% in 2011 to 20% in 2016, CIT revenue has shown a decline in relative contribution to total revenue to 15% from 17% in 2011.103

Some countries are making positive steps to address this imbalance. For example, Burkina Faso and Senegal have made VAT exemptions more pro-poor.104 South Africa and Zambia increased their top rates of PIT in 2017, and Ghana did the same in 2018.105 However, Egypt and Congo cut their top rates. Burkina Faso and Mali are among the countries taking progressive steps by increasing CIT rates.106

**Tax incentives**

Corporate tax incentives and exemptions are a major issue for African countries, and have grown substantially in recent decades. Between 1980 and 2005, the number of sub-Saharan African countries offering tax holidays to companies doubled from 40% to 80%. In the same period, the number of countries with tax-free zones went from zero to half of all sub-Saharan African countries.107
These large tax giveaways, a form of corporate welfare, are often introduced by governments in the name of attracting investment. However, there is little evidence that such exemptions are necessary to achieve this. In a World Bank survey of investors in East Africa, for example, 93% said that they would have invested even if tax incentives had not been on offer.108

This practice results in substantial losses to African economies. West African governments miss out on an estimated $9.6bn each year as a result of corporate tax incentives. For example, it has been estimated that Uganda lost 15.7% of its potential revenue between 2010 and 2017 to tax incentives and exemptions.109 ActionAid International and Tax Justice Network Africa estimated in 2012 that, collectively, Tanzania, Kenya, Rwanda and Uganda were losing up to $2.8bn per year because of tax incentives. Losses in Rwanda at the time would have been enough to nearly double spending on education.110

**Tax collection**

Regressive policies, under-resourcing and a broken international tax system, mean Africa is underperforming on tax collection. The IMF calculates that tax revenues have risen from around 18% of GDP in the period 2000–4 to 21% in 2011–4, although this excludes Nigeria which brings the average down.111 While this upwards trend shows things are
moving in the right direction, African countries have a long way to go to maximize their income from tax.

Sub-Saharan African countries would need to employ more than 650,000 additional tax officials for the region to have the same ratio of tax officials to population as the OECD average.\textsuperscript{112} The average tax administration operating cost is also higher in Africa. For instance, ATAF estimates that its member states spend more than double the relative amount that OECD countries do on tax administration, at 2.1% and 0.9%, respectively.\textsuperscript{113}

One promising development was the Addis Tax Initiative (ATI), launched in 2015. Twenty of the world’s largest donors have committed to doubling their aid to DRM in developing countries by 2020. This includes investing in reforming tax administration and collection, and public financial management.\textsuperscript{114} Despite the commitment and enthusiasm around DRM, as of 2016 (latest available data), most donors were not on track to meet their quantitative commitments.\textsuperscript{115} The ATI has 15 African signatories, which have committed to 'enhance the mobilization and effective use of domestic resources and to improve the fairness, transparency, efficiency and effectiveness of their tax systems'.\textsuperscript{116}

Tax havens and capital flight

The leaky international tax system, which is open to exploitation by wealthy individuals and companies seeking to minimize their tax, is another major problem for Africa. The recent ‘Mauritius Leaks’ exposed how multinational corporations are cheating African countries out of vital revenues.\textsuperscript{117} Mauritius, a tax haven, has concluded aggressive tax treaties with many African countries allowing many multinational corporations to route their financial flows and shift profits out of African countries to Mauritius to take advantage of the reduced withholding taxes.

Research has demonstrated that almost 40% of global foreign direct investment (FDI) – close to $12tn – is completely artificial: it consists of financial investments passing through empty corporate shells in tax havens, with no real economic activity taking place.\textsuperscript{118} For example, close to 25% of FDI into Burkina Faso comes from Barbados (a tax haven), while only 7% comes from France.\textsuperscript{119}

Company loans from selected tax havens to African countries total over $80bn. This means that for every $6 of FDI in Africa, $1 was a company loan from a tax haven,\textsuperscript{120} allowing companies through tricky schemes – like unnecessary intra-group loans or transfer mispricing – to artificially shift the profits from African countries to tax havens where they pay little or no tax.

Offshore tax havens offering low tax rates and high levels of secrecy to companies and rich individuals are sucking immense amounts of wealth from the continent. It is estimated that 75% of the wealth of African multi-millionaires and billionaires is held offshore,\textsuperscript{121} and that the continent is losing $14bn annually in uncollected tax revenues as a result.\textsuperscript{122}
Capital flight poses an even greater financial threat to Africa. It is estimated that illicit financial flows (IFFs) cost Africa more than $50bn each year, with West and Southern Africa bearing the brunt of these losses. For Togo and Liberia alone, estimated losses from IFFs were equivalent to around 94% and 83%, respectively, of total trade between 2005 and 2014.

The extractive industries fuel capital flight further. While many African nations are rich in mineral wealth, the majority of this is syphoned off by foreign corporations, as well as a small local elite. For example, Oxfam found that, in 2015, Australian mining companies were responsible for annually shifting around A$1.1bn ($747m) out of Africa through treaty shopping and profit-shifting. This means that one foreign mining power was costing the continent around A$300m in lost tax revenue. This would be enough to fund malaria control — an essential part of health programmes in the nine sub-Saharan countries in which Australian mines operate, almost seven times over.

These international loopholes and corrupt practices not only hugely reduce the finances available to tackle inequality and poverty in Africa, but also pose significant administrative challenges for under-resourced tax authorities and political challenges that cross borders. To truly turn things around, global solidarity and action is required from governments and institutions around the world. African countries can individually take action to review, renegotiate or cancel tax treaties that expose them to profit-shifting and treaty shopping, and collectively pursue a minimum effective tax rate for the profits of multinationals through the OECD process (see Box 4). If multinationals will have to pay the minimum rate, it becomes less attractive to allocate profits to low-tax jurisdictions.
Box 4: The OECD process for the international corporate tax system

The international tax landscape has seen a multitude of reforms over the past five years. Despite a proliferation of initiatives, the reforms have been unable to fundamentally transform an almost century-old international tax system based on outdated rules and principles. As a result, multinational corporations are still paying less tax than before the 2008 financial crisis, and as much as 40% of their foreign profits are shifted to tax havens.

On 9 June 2019, G20 countries officially gave the greenlight to an OECD-led work programme to develop a consensus-based solution to reform our international corporate tax system, addressing the challenges of taxing multinational corporations in the digital era. Options go beyond how to tax digital giants by considering the broader challenges of an increasingly digital economy. The OECD process is a chance to reform the system, put a stop to corporate tax dodging and end the race to the bottom in corporate tax rates and incentives. The governments of developing countries in particular need to play an active role in negotiations to ensure the solutions will allow them to claim fairer amounts of tax from large companies; success depends on rebalancing taxing rights in favour of developing countries.

DECENT WORK AND WAGES

Decent work for Africans is key to reducing inequality. Informality, underemployment and the precarious nature of jobs affect almost all Africans of working age, and all affect women more than men. In Africa, the labour market is almost entirely informal, and most work is almost self-employment (80% in Africa overall). The African Development Bank has estimated, for example, that in Senegal only 3.8% of jobs are formal.

Informal workers are poorly paid, sometimes far below the poverty line. Wages in the formal sector are comparatively higher and tend to follow public sector wages, even though these are often barely above a living wage. Labour rights, both in law and in practice, have assumed a central role in discussions on inequality in Africa. The International Labour Organization (ILO) Declaration on Fundamental Principles of Rights at Work, adopted in 1998, entreated all member states to respect and promote principles and rights under four key categories:

1. freedom of association and the effective recognition of the right to collective bargaining;
2. the elimination of forced or compulsory labour;
3. the abolition of child labour; and
4. the elimination of discrimination in respect of employment and occupation.
Africa’s commitment to decent work and wages policies

There is no country in Africa that is without labour rights violations, in law and/or in practice. Even though freedom of association and collective bargaining are enshrined in law in most African countries, there are still concerns, particularly around the right of unions to operate without government interference and in some cases without prior government approval. Four of the seven countries in the world that ban trade unions completely are in Africa. In both Burkina Faso and Côte d’Ivoire, there are restrictions on the rights of young workers (16-year-old workers and apprentices) to establish and/or join trade unions. Many countries — including Burkina Faso, Côte d’Ivoire, the Gambia, Ghana and Mali — continue to deny civil servants and state employees, particularly those in the utility and security sub-sectors, the right to strike. There is also evidence of restrictions on private sector workers. For example, in Ghana, some employers in export-processing zones (EPZs) have persistently resisted unionization by their employees, despite protections provided by the 2003 Labour Act. For example, Blue Skies Products (GH) Ltd (a subsidiary of Blue Skies Holdings UK), an EPZ fruit processing company that employs over 1,000 workers, has consistently refused to recognize its workers’ union. The heavy-handedness of employers is not limited to EPZs; for instance, in response to them electing to form a union within the company, Ghanaian pharmaceutical giant Kinapharma Limited advertised hundreds of its workers’ positions as vacant in June 2019.

Djibouti and South Sudan do not have minimum wages, and in many other countries, minimum wages are not sufficient to guarantee a decent living for workers. The Central African Republic, Guinea-Bissau, São Tomé and Príncipe, Côte d’Ivoire, Namibia and the Seychelles have all taken progressive steps and increased their minimum wages recently. South Africa introduced its minimum wage from the beginning of 2019.
5 RECOMMENDATIONS

Achieving a prosperous Africa through inclusive growth and sustainable development as recognized in Aspiration 1 of Africa’s Agenda 2063 is not automatic. African governments have a choice. They can act to reverse the current economic growth models that have not sufficiently reduced poverty and have created excessive inequalities in the distribution of wealth and access to quality public services, or they can choose to pursue policies to make ‘The Africa We Want’ and SDGs unattainable. Africa is rising, but Africans are not, and this must be changed. Oxfam calls on all African governments and the African Union to act urgently.

Invest sufficiently in universal, high-quality and gender-responsive public services that reduce the gap between rich and poor:

- African governments should take urgent steps towards meeting their commitment of allocating a minimum of 20% and 15% of government budget to education and health, respectively. This will boost access to free and decent health and education, which are increasingly becoming a luxury on the continent that only the rich can afford.
- Resist the increasing privatization of education and health care, focusing instead on equipping public schools and hospitals.
- Invest in care-supporting infrastructure (such as improved water and sanitation and energy) and public services (such as childcare, eldercare and health care) that are accessible, affordable and of adequate quality as a key economic and social policy priority to reduce heavy and time-consuming UCDW for women and girls. Adequately fund social protection programmes that are targeted to the poorest populations.

Strengthen domestic resource mobilization by redistributing from the rich to the poor through progressive taxation:

- African governments should prioritize increasing their tax-to-GDP ratio by shifting more of the tax burden to high-income earners – focusing on expanding direct taxes paid by the rich, such as taxes on wealth and capital gains, as opposed to indirect taxes, which tend to penalize the poor more.
- Ensure that multinational corporations and rich elites pay their fair share of taxes by taking urgent steps to end corporate tax dodging and the ‘race to the bottom’ on tax rates through implementation of the recommendations of the High-Level Panel Report on Illicit Financial Flows.

Encourage an early debt restructuring solution that prevents a cascade of countries falling into default and economic depression:

- Negotiate for an orderly debt restructuring, under a mechanism that allows over-indebted African countries to negotiate with all parties, to avoid a significant imbalance in the negotiations.
• Open or subtle adjustment/austerity conditions must be avoided in case of bailouts, and poor people and social investments that they require must be protected.

Actively engage in global tax reform processes:

• Support a transformative international reform of corporate income tax that leads to an equitable rebalancing of taxing rights between developed and developing countries. The aim should be to find a solution for all economic sectors and not ring-fence digital companies, ensuring sufficient taxing rights for operations in consumer markets as well as manufacturing and natural resource operations. Redistribution of taxing rights should allocate profits based on corporations’ global activity and a combination of factors, such as considering where consumption, employment and production takes place.

• Adopt a minimum effective tax rate at a fair level. This should be set globally, applied on a country-by-country basis without carve-outs, and set at a high enough rate to effectively curb profit-shifting. It should generate additional revenues where economic activity takes place, even if low-tax jurisdictions were to raise their rates to the new minimum.

Protect the rights of workers to decent work and wages:

• Governments should strengthen the protection of labour rights by enacting laws and policies that guarantee a minimum living wage, collective bargaining rights and equal pay between men and women.

Strengthen and protect land rights for the poorest on the continent:

• Take steps to fully implement the African Union’s framework and guidelines on land policy in Africa\textsuperscript{142}, with a particular focus on ending agricultural land poverty, landlessness and insecurity in land use among the poorest people, particularly women.

• End the land-grabbing by large-scale investors and rich elites that is currently happening at the expense of small-scale farmers.\textsuperscript{143}

• Uphold Malabo declaration by increasing investments in agriculture to a minimum of 10% of national budgets, taking measures to ensure a large proportion of the additional investment goes to small-scale rural farmers.
NOTES

All links last accessed August 2019 unless otherwise specified.


4 Ibid.


8 R. Bluhm et al. (2016). Income Inequality and Poverty Reduction in Sub-Saharan Africa, p11

9 The older persons’ grant is ZAR 1690 ($117) per month. It is available to all South African citizens and permanent residents, including refugees, except those who earn over ZAR 78,120 ($5445). See the South African Government webpage on the Old Age pension: https://www.gov.za/services/social-benefits-retirement-and-old-age-old-age-pension. It is estimated to reduce the Gini coefficient from 0.77 to 0.60, a reduction of 22%.


16 These are: Burundi, Cameroon, Cabo Verde, Central African Republic, Chad, Ethiopia, Ghana, Sierra Leone, Zambia. Countries in debt distress: Congo, Eritrea, the Gambia, Mozambique, São Tomé and Príncipe, South Sudan and Zimbabwe. Ibid.


Ibid.


22 Oxfam calculation based on Credit Suisse Global Wealth Report and Forbes 2019 Billionaires List. Data for wealth of the bottom 50% is taken from Credit Suisse, and this is based on estimates using data that is poor for many countries in Africa. Wealth of the bottom 50% of the African population is 22.98 billion dollars. Wealth for the three richest billionaires in Africa is 28.8 billion dollars (Aliko Dangote 14.1 billion, Nicky Oppenheimer 7.7 billion and Johann Rupert 7 billion dollars according to Forbes 2019 billionaires list). African population estimated at 1.3 billion people in 2019.

Every year, Credit Suisse publishes their Global Wealth Report and an accompanying Global Wealth Databook. These contain estimates of the wealth holdings of households around the world since 2000. Estimates are provided for more than 200 countries in the world; however, as no country has a single comprehensive source of information on personal wealth, and some others have few records of any kind, different methods are employed to estimate wealth figures when missing. As a result, wealth estimates show different quality levels. Despite this shortcoming, Credit Suisse’s Global Wealth Data is the most comprehensive reference allowing for an in-depth, long-term overview on how household wealth is distributed within and across nations. In the latest edition, data are available from 2000 to 2018. As new data on wealth are made available each year, wealth estimates from previous years have been revised. This means that previous figures used and reported in the new Oxfam report may not match those published in previous years. Credit Suisse Global Wealth Report and Global Wealth Databook. Available at: https://www.credit-suisse.com/corporate/en/research/research-institute/global-wealthreport.htm


25 The calculation of the discrepancy between survey and national accounts uses household final consumption expenditure as the variable of interest from national accounts. It is considered as the most relevant counterpart to survey measures of both income and consumption, following the rationale presented by Deaton and Anand and Segui. An adjustment is only made for the missing top incomes where total income or consumption measured in surveys falls short of national accounts. No adjustment is made in the minority of country surveys where surveys exceed or exactly match national accounts. https://www.brookings.edu/opinions/how-much-do-we-really-know-about-inequality-within-countries-around-the-world/

26 R. Bluhm et al. (2016). Income Inequality and Poverty Reduction in Sub-Saharan Africa. p11


31 Nathan Kirsh’s wealth which is estimated to be $4.9bn divided by the annual minimum wage in Swaziland $848 (https://www.minimum-wage.org/international/swaziland), with no variation for skilled / unskilled


37 IMF. (2019). Regional Economic Outlook.


42 Ibid.


61 To read about the limitations of CRI, please see M. Lawson and M. Martin. (2018). The Commitment to Reducing Inequality Index 2018 pg 15-17


67 M. Lawson and M. Martin. (2018). The Commitment to Reducing Inequality Index 2018


69 'We must be mindful, and focus on the widening inequalities within societies, and the gap between the rich and the poor nations. These inequalities and gaps are part of the underlying root causes of competition for resources, frustration and anger leading to spiralling instability.' Statement delivered by Muhammadu Buhari, President of the Federal Republic of Nigeria at the General Debate of the 72nd Session of United Nations General Assembly in New York, 19 September 2017.


73 There has been some recent progress in increasing tax collection in Nigeria, but it has yet to impact on their very


78 Ibid.

79 R. Bluhm et al. (2016). Income Inequality and Poverty Reduction in Sub-Saharan Africa. p11


84 C. Hallum and K.W. Obeng. (2019). The West Africa Inequality Crisis


86 Ibid.


93 Ibid.


96 Jubilee Debt Campaign (2019). Crisis deepens as global South debt payments increase by 85%  

97 Ibid


99 The potential revenue increase calculation is based on 2015 revenue-to-GDP ratios (source: ICTD/UNU-WIDER  
Government Revenue Database 2017) and GDP (source: World Bank). Based on conservative GDP growth  
projections, Oxfam calculated two scenarios for revenue increases. In scenario 1, revenue-to-GDP ratios do  
not change and the extra 2 percentage points are added to 2015 revenue/GDP ratio (21.4% + 2% = 23.4%),  
domestic revenues increase from $1.37 trillion (2015) to $1.69 trillion (2020) – a difference of $313bn. In  
scenario 2, we added the extra two percentage points on top of projected improvements of revenue-to-GDP  
ratios in 2020 (24% + 2% = 26%), and results in revenue increase from $1.37 trillion (2015) to $1.88 trillion  
(2020). In both scenarios, the extra two percentage points translates to an additional $144bn that would have  
not been collected otherwise

Economies by IMF Managing Director Christine Lagarden. Speech given in Abu Dhabi.  

101 N. Coplin and A. Nwafor. (2019). It’s Not All About the Money: Domestic revenue mobilization, reducing  
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https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620754/bp-its-not-all-about-money-drm- 
090519-en.pdf


103 Ibid


105 Ibid.

106 Ibid.

https://policy-practice.oxfam.org.uk/publications/tax-battles-the-dangerous-global-race-to-the-bottom-on- 
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108 E. Mwachinga. (2013). Results of investor motivation survey conducted in EAC. World Bank presentation given  
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free deals. Available at https://kenya.actionaid.org/publications/give-us-break-how-big-companies-are-getting- 
tax-free-deals

109 M. Drozdková. (2016). Fair Tax Monitor: A unique evidence-based advocacy tool to identify the main  

110 ActionAid and Tax Justice Network Africa. (2016). Still racing toward the bottom? Corporate tax incentives in  


fair-taxation

tax-outlook/

https://www.addistaxinitiative.net/sites/default/files/resources/Addis-Tax-Initiative_Monitoring-
Report_2015_EN.pdf

116 African ATI signatories as of August 2019 are: Benin, Burkina Faso, Cameroon, Ethiopia, Ghana, Kenya, Liberia, Madagascar, Malawi, Namibia, Rwanda, Senegal, Sierra Leone, Tanzania and Uganda. Institutions that signed up as supporting organizations include ATAF and WATAF. See the Addis Tax Initiative website at https://www.addistaxinitiative.net


119 Oxfam calculation using IMF database.


130 Allocation of taxing rights between jurisdictions is a major international tax issue. The concern for states is how to tax their residents on their worldwide income and foreign residents on income generated from the source located in the territory of the state


132 Ibid.


134 These are Equatorial Guinea, Eritrea, Libya and Sudan.

135 See the ITUC Survey of Violations of Trade Union Rights for Ghana, accessible here: https://survey.ituc-csi.org/Ghana.html?lang=en#tabs-3

136 Ibid.

137 Ibid.


See the African Union’s Agenda 2063 webpages at: https://au.int/en/agenda2063


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Observer: KEDV (Oxfam Turkey)