

THE CRISIS OF EXTREME INEQUALITY IN SADC

Fighting austerity
and the COVID-19
pandemic

Overview



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1 INEQUALITY AND THE COVID-19 PANDEMIC IN SADC

Oxfam, Norwegian Church Aid (NCA) and Development Finance International (DFI) have produced this report to encourage member governments of the Southern African Development Community (SADC)¹ to scale up their efforts to reduce inequality.

This chapter assesses how the COVID-19 pandemic is exacerbating existing high inequalities in SADC, and how the region's governments have responded. It also considers the impact of the pandemic on debt levels, and the advice of the IMF and World Bank.

1.1 INEQUALITY IN SADC BEFORE COVID-19

Southern Africa is the most unequal region in Africa. **Figures 1 and 2** show, respectively, the two most common ways of measuring inequality: the Gini coefficient, a number between 1 (total inequality) and 0 (total equality) based on income distribution,² and the Palma ratio, which compares the incomes of the top 10% and bottom 40%.³ SADC countries perform similarly on both indicators, with South Africa, Namibia and Zambia being the most unequal, and Mauritius, Tanzania and Democratic Republic of Congo (DRC) the least.

SADC contains the world's three most unequal countries (South Africa, Namibia and Zambia), and another 3 of the 10 most unequal (Eswatini, Mozambique and Botswana). All SADC member states, except Tanzania and Mauritius, are in the top 50 most unequal countries. Though SADC countries have seen impressive economic growth in the past two decades, and significant reductions in poverty in 11 countries, at least half have seen a widening gap between the richest and the poorest people.⁴

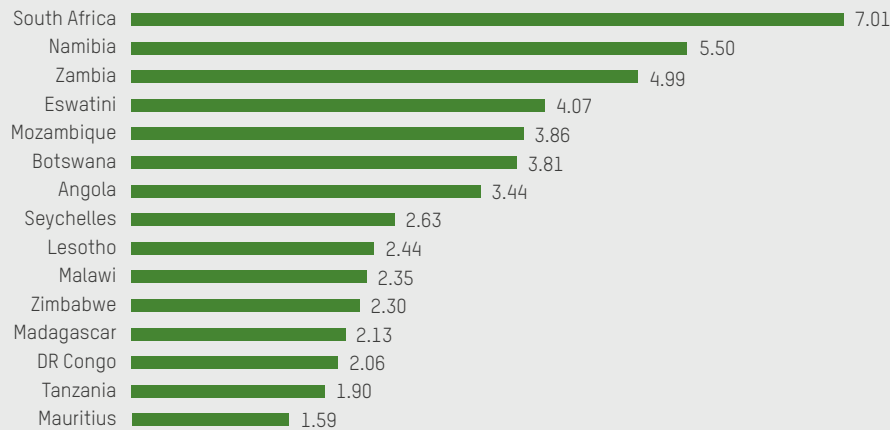
Such inequality reduces economic growth,⁵ and worsens health and other outcomes for populations.⁶ **Figure 1** also shows that the Gini coefficient in all the countries exceeds 0.27, the level at which the IMF estimates that inequality undermines growth.⁷



FIGURE 1: SADC INCOME GINI COEFFICIENTS



FIGURE 2: SADC INCOME PALMA RATIOS

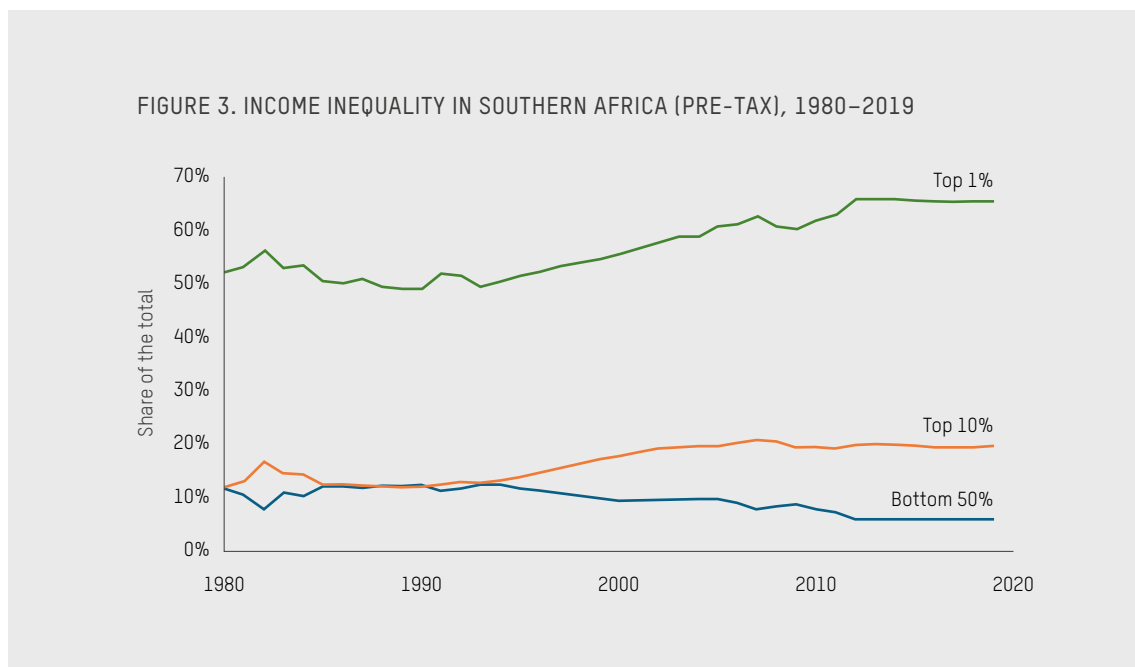


Source for both graphs: UNDP (n.d.) Human Development Reports country database.⁸ Years for data vary by country and are from the latest household surveys conducted by each government.

In some countries, the concentration of wealth has led to a small but growing group of fantastically rich people, and a majority struggling to meet their most basic needs, such as quality education, healthcare and decent jobs. The richest 10% earn around or above 60% of national income in eight countries, and 50% in the other seven. In all SADC countries, the top 1% earn more than 14% of national income, rising to 25% in Angola, Malawi and Mozambique.⁹

Income inequality has been on the rise in southern Africa (excluding Tanzania and DRC) for the past 30 years. As **Figure 3** shows, between 1990 and 2019, the pre-tax income share of the top 10% of earners grew by a third, from 49% to a staggering high of 65%. In contrast, the pre-tax income share of the bottom 50% fell by more than 50%, from 12.2% to a dismal 5.9% – the sharpest decline in any region of Africa.¹⁰ In Tanzania, inequality has also risen sharply, with the income share of the top 1% rising by more than half to 18%, while that of the bottom 50% fell by a fifth to only 13%. On the other hand, inequality remained stable (though from a very high starting point) in DRC.

In South Africa, while the racial income gap has narrowed since the end of apartheid in 1994, income inequality has grown. Between 1993 and 2019, the top 10% of earners saw their pre-tax income share increase from 46% to 65%.¹¹ The pre-tax income of the top 1% grew by 82%, while that of the poorest 50% fell by more than 45%.¹² The economic might of the country’s super-wealthy individuals has also reached extreme levels. For example, South Africa’s richest person, Nicky Oppenheimer, could afford to support more than 3 million workers at the national minimum wage from the income he receives each year on his wealth.¹³



Source: World Inequality Database

1.2 THE IMPACT OF COVID-19 ON POVERTY AND INEQUALITY

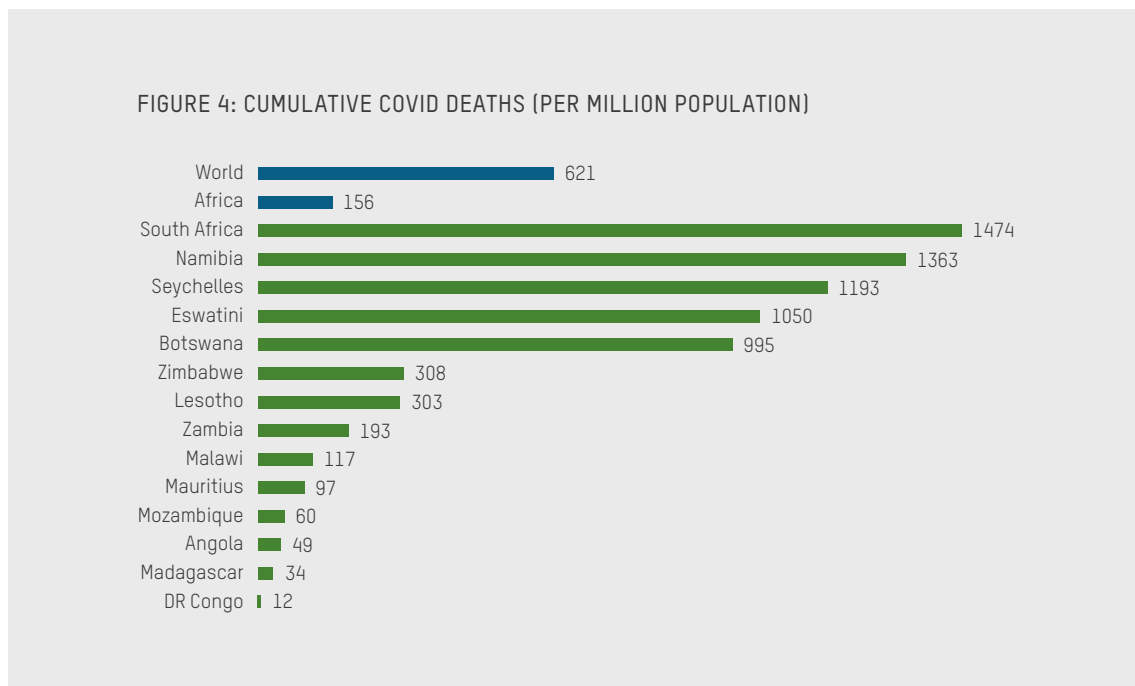
The IMF,¹⁴ UN¹⁵ and World Bank¹⁶ have all expressed alarm that the pandemic will sharply increase inequality and poverty.¹⁷ The World Bank estimates that the pandemic could drive 51 million people in sub-Saharan Africa into extreme poverty, raising the total to 491 million (42.1% of the population) by the end of 2021.¹⁸ As the African Development Bank (AfDB) has indicated,¹⁹ most of the people falling into extreme poverty have lower levels of education and fewer assets; are in vulnerable employment, informal or low-skilled jobs; or were already in precarious situations (e.g. affected by locust invasions or drought). These groups are more exposed to COVID-19 because they often work in contact-intensive sectors such as retail, or in labour-intensive manufacturing activities with fewer opportunities to socially distance or work from home. Women and female-headed households will represent a large proportion of these newly poor people.

The AfDB has pointed to a set of secondary consequences of the pandemic that could worsen poverty and inequality even further over the longer term. These include:

- protracted school closures, exacerbating learning inequalities and school dropout rates (especially for the poorest people and for girls);
- disruptions in non-pandemic healthcare services and reduced ability to pay for healthcare, undermining treatments for other diseases; and
- disproportionately high job and income losses among women that will degrade human capital through lowered investment in children’s health, nutrition and education.

On the other hand, global stock market booms saw billionaires’ wealth increase by \$5.5tn between 18 March 2020 and the end of July 2021.²⁰ The IMF has therefore suggested that COVID-19 could increase inequality in lower-income countries (a group which includes all the countries in this report), as measured by the average Gini coefficient, by more than 6%.²¹ The World Bank has indicated that the increase in poverty due to COVID could take more than a decade to reverse, erasing all hope of countries meeting their national development plan targets to reduce poverty and inequality by 2030. However, if countries act decisively against inequality, the impact of the crisis could be reversed in just three years.²²

As **Figure 4** shows, several SADC member countries (South Africa, Namibia, Eswatini, Botswana and the Seychelles) have been hard hit by the pandemic (with death rates well above the global average), but deaths in the other countries have been much lower.



Source: Our World in Data (2022, 30 March).²³

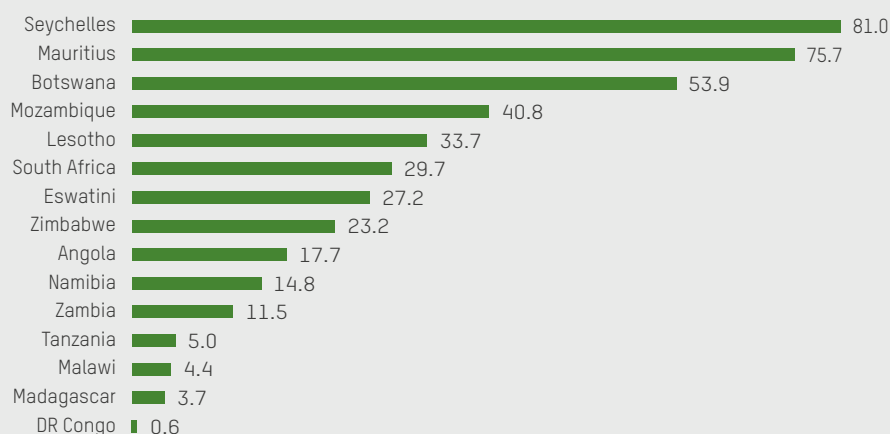
SADC member states have also suffered massive economic fallout from the pandemic. We estimate the economic loss from lower-than-expected growth in the region to have been \$80bn in 2020, which is equivalent to around \$220 for every SADC citizen.²⁴ The IMF estimates that SADC has been the hardest hit region in Africa, with a 4.7% decline in real GDP in 2020. Only Tanzania and, marginally, Malawi managed to maintain positive growth in 2020, with Mauritius (-14.9%), the Seychelles (-12.9%), Botswana (-8.5%), Zimbabwe (-4.1%), Namibia (-8%) and South Africa (-6.4%) hardest hit.²⁵

The economic shock resulting from the pandemic is not reflected only in economic indicators such as GDP. It is being felt in the day-to-day lives of citizens across SADC, and will be for years to come. For example, a survey by Gallup in late 2020 and early 2021 showed that, on average, more than 60% of citizens in six SADC countries (Mauritius, Namibia, South Africa, Tanzania, Zambia and Zimbabwe) reported lost income and work, among the highest impact on work and earnings seen globally.²⁶ In another survey of four SADC countries, 30% of citizens reported losing their jobs or businesses entirely.²⁷ A study of the impact of COVID-19 on employment showed that as many as 35.5 million people in SADC countries lost jobs in 2020 due to COVID-19, equivalent to 26% of 2019 employment numbers.²⁸ DRC, Madagascar and Tanzania were the hardest hit, with over five million lost jobs in each country.

The loss of jobs and income has pushed millions into poverty. In some countries, the pandemic will leave major increases in poverty if current policies are not drastically changed. For example, the UN estimates that the pandemic will result in 11 million more people living in poverty in DRC by 2030 and nearly 3 million in Angola.²⁹ The region’s prospect of achieving its agenda 2030 and Agenda 2063 seem significantly unattainable as the current pace of progress is inadequate due the pandemic.

Lower growth continued in 2021, and may do so into 2022, though its severity will depend largely on the global rollout of COVID-19 vaccines, which has been shockingly slow in most SADC countries.³⁰ As **Figure 5** shows, only the Seychelles, Mauritius and Botswana have vaccinated more than 50% of their population, with four countries having vaccinated under 10%.³¹ Partly as a result, the IMF projected that SADC GDP would grow by only 2.7% in 2021.³²

FIGURE 5: FULLY VACCINATED PEOPLE (% OF POPULATION)



Source: Our World in Data (30 March, 2022). <https://ourworldindata.org/covid-vaccinations>

While the majority of SADC citizens have suffered from the pandemic and its effects, the story is different for the region's wealthiest people. The five wealthiest men in SADC – three in South Africa and one each in Tanzania and Zimbabwe – saw their wealth expand from \$13.5bn in March 2020 to \$16.7bn by September 2021. This increase is more than enough to fund a full vaccine programme for more than 60% of the SADC's 363 million people.³³

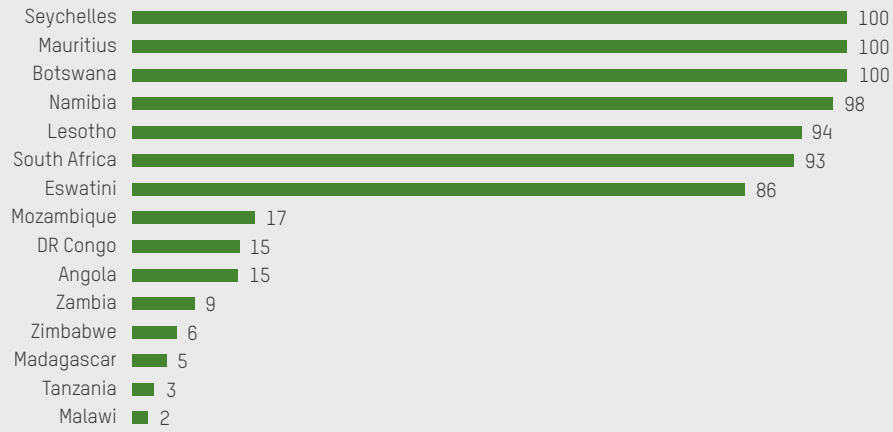
1.3 SADC COUNTRIES WERE UNPREPARED FOR THE CRISIS

COVID-19 has exposed how woefully unprepared for a pandemic around half of SADC member states were. As **Figures 6 to 9** show, many countries had:

- limited access to essential health services, reaching under 50% of the population in seven countries, and forcing 5.4% of people to spend catastrophic proportions (i.e. more than 10%) of their income on healthcare across the region. These poor indicators reflected low commitments to healthcare spending, with this accounting for under 10% of government budgets in Zambia, Mozambique, Malawi, Madagascar and Tanzania;
- very variable access to social protection benefits (using pension coverage as a proxy), with eight countries covering under 20% of their populations.³⁴ Social protection spending accounted for only 12.8% of government budgets on average, and under 10% in Eswatini, Madagascar, Botswana, Malawi, Mozambique and DRC; and
- low proportions of workers with formal contracts and rights (and therefore access to sick pay, job protection, etc.), with fewer than 40% having such rights in Malawi, Zimbabwe, Angola, DRC, Zambia, Tanzania, Mozambique and Madagascar.
- Worsening food security compounded by high staple food price hikes across all SADC countries.

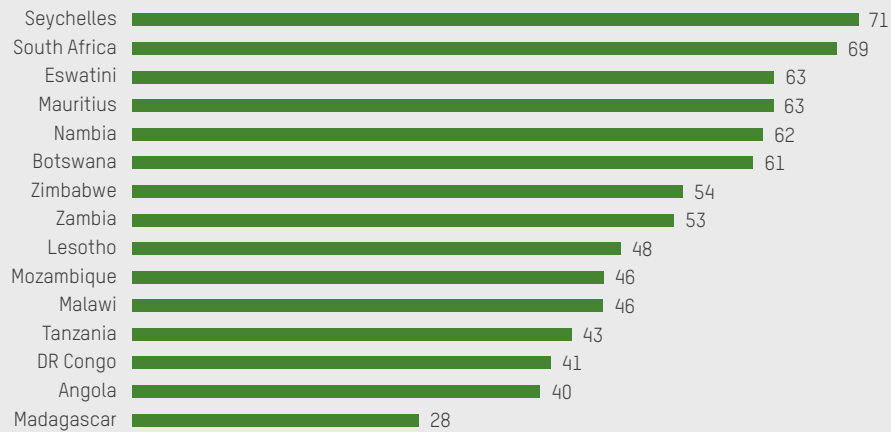
In short, when COVID-19 hit, citizens in half of SADC countries had inadequate access to healthcare, and lacked the social protection and labour rights to cope.

FIGURE 6: PENSION COVERAGE (% POPULATION, 2019)



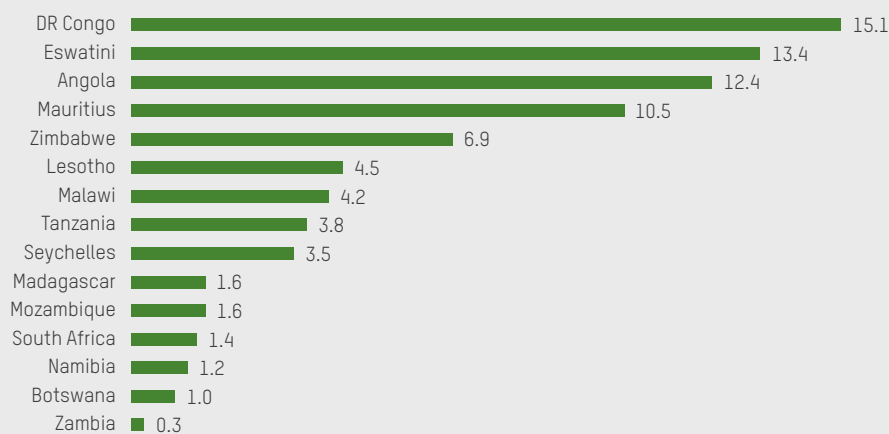
Source: Based on CRI 2020 database.

FIGURE 7: HEALTH COVERAGE (% POPULATION, 2019)



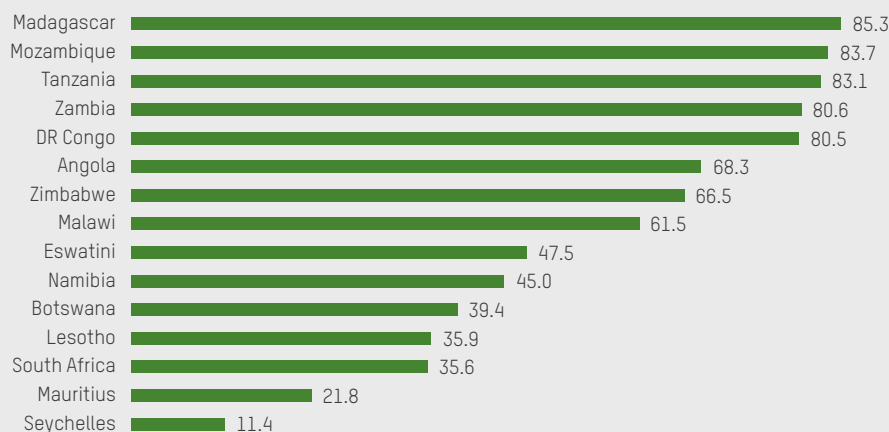
Source: Based on CRI 2020 database.

FIGURE 8: CATASTROPHIC OUT-OF-POCKET HEALTH PAYMENTS (% POPULATION, 2019)



Source: Based on CRI 2020 database.

FIGURE 9: WORKERS WITH NO FORMAL LABOUR RIGHTS (% LABOUR FORCE, 2019)

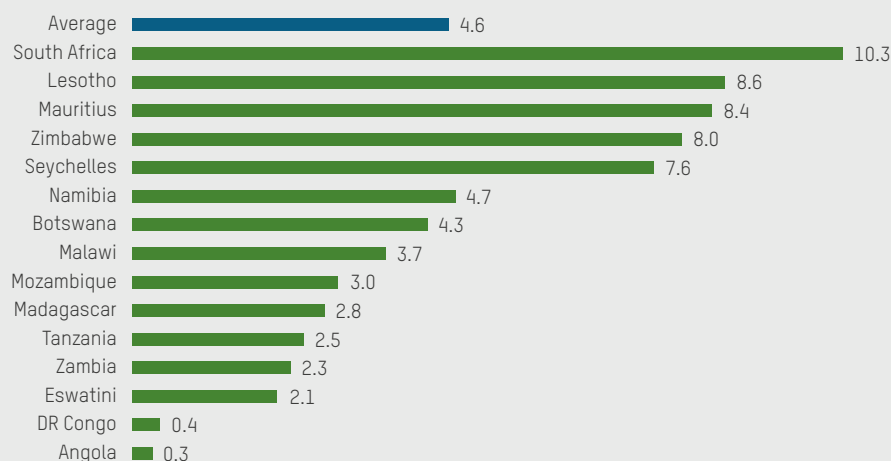


Source: Based on CRI 2020 database.

1.4 GOVERNMENTS' PANDEMIC RESPONSES

SADC members have responded to COVID-19 with fiscal support packages of very varied sizes. They average 4.6% of GDP, twice as high as West Africa, but 75% less than advanced economies (17.3% of GDP), due to many countries' limited ability to borrow additional funds.³⁵ Figure 10 shows the scale of states' responses, ranging from well below 1% in Angola and DRC (reflecting pre-COVID economic crises and very limited fiscal space) to 10.3% in South Africa. It is important to note that at least six countries funded part of their COVID-19 response by cutting other spending (Angola, DRC, Lesotho, Namibia, the Seychelles and South Africa).³⁶

FIGURE 10: COVID-19 RESPONSE SPENDING (% GDP)



Source: IMF country programme documents (2020–21).³⁷

The nature of the responses has varied between countries. All have spent on health measures to fight the pandemic, but none designed plans to invest much more in health systems and preparedness beyond 2021. All countries have also increased social protection spending, but some (DRC and Zambia) have done so only marginally due to budget constraints. In most countries, more than half of the COVID-19 response spending has been used to boost the private sector and the economy, including wage subsidies.

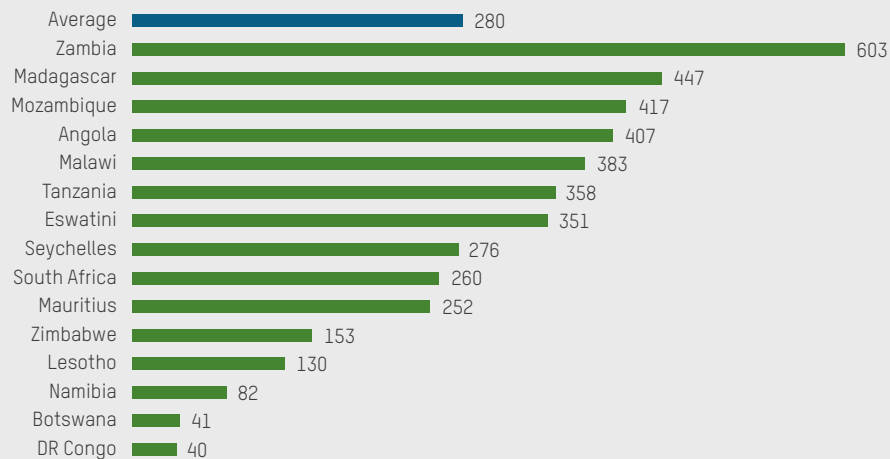
According to the World Bank, around half of SADC members have used a combination of cash transfers, food provision, and utility bill waivers or reductions to supplement their citizens' income. Some countries have used fewer tools (only cash transfers and utility reductions in DRC, Mauritius and Namibia; food and utilities in Botswana and Eswatini; and cash transfers in South Africa and Tanzania). Madagascar and Zimbabwe have provided public works employment. Most of the wealthier SADC states with better developed social protection systems have enhanced unemployment pay, health insurance and/or pension payments, as well as waiving or subsidizing social security contributions. A similar group (apart from Eswatini) have subsidized wages for enterprises. Angola, DRC, Madagascar and Zimbabwe have increased the number of people receiving cash transfers by more than 1000% (albeit from extremely low levels), with Lesotho doing so by 168% and South Africa by 40%.³⁸

In spite of dramatic increases in the scale of social protection in some countries, in most cases these are from a very small base, and are also designed to be temporary, reducing their impact on inequality. In addition, citizens seem to be very unsatisfied with the support. Afrobarometer found that four-fifths of those surveyed in Mauritius, South Africa, Zambia and Zimbabwe said they had not received any government support during the pandemic, with the rate being highest in Zimbabwe (90%) and Zambia (93%), and on average, half of citizens believed that support has been unfairly distributed.³⁹ These polls are a worrying indication that governments' temporary support mechanisms in the region have failed to benefit those most in need nor have they contributed to the countries social economic resilience.

1.5 THE IMPACT OF THE DEBT CRISIS ON INEQUALITY

Many governments are having to use an increasing share of their budget to service growing debts, rather than investing in their populations. Even before COVID-19, debt servicing was at astronomical levels in many SADC countries, draining revenues away from public spending to reduce inequality. **Figure 11** shows that in 2019, on average, SADC countries spent three times as much on domestic and external debt service as on health, with Zambia spending six times as much. Only DRC, Botswana and Namibia spent more on health than on debt service.

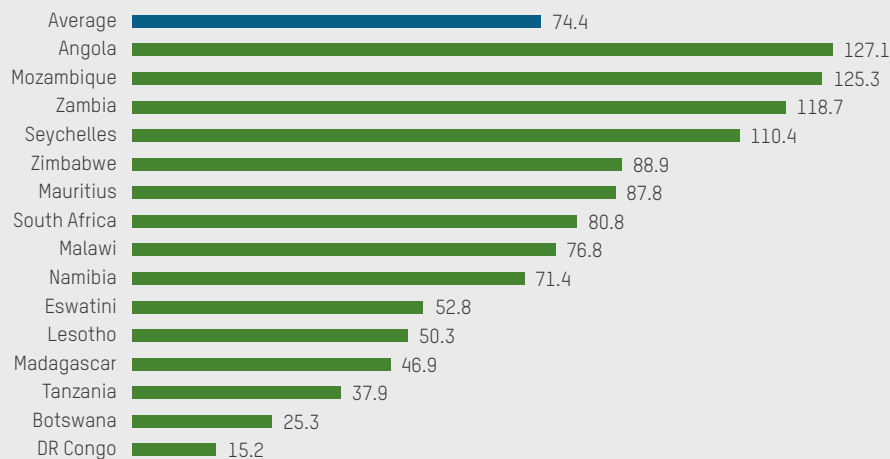
FIGURE 11: DEBT SERVICE COMPARED TO HEALTH SPENDING (% , 2019)



Source: Health spending from CRI data; debt servicing from IMF/World Bank Debt Sustainability Analyses 2020–21,⁴⁰ IMF country documents and national budgets 2019–20.

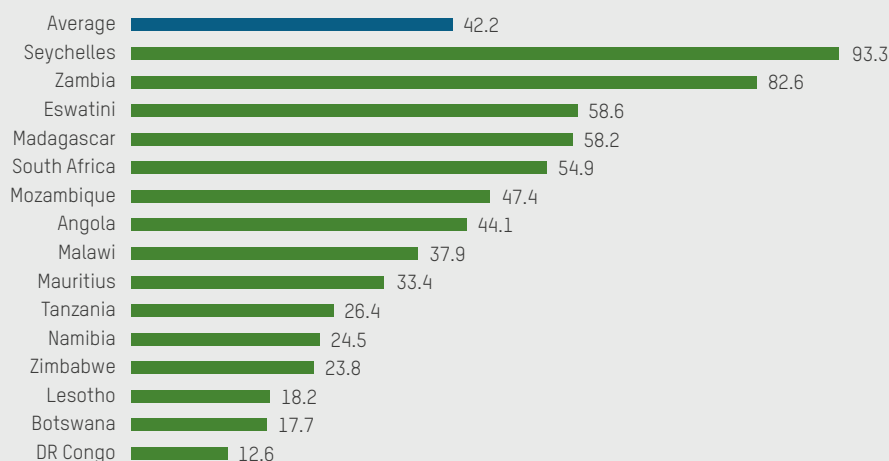
Many countries have had to borrow to fund their pandemic responses, at the same time as their GDP has fallen and budget revenues have collapsed. **Figures 12 and 13** show debt as a proportion of GDP, and debt servicing as a proportion of revenues, averaging 74% and 42% respectively by 2020–21.⁴¹ The highest debt service costs are for the Seychelles, Eswatini, Zambia, Madagascar and South Africa, all of which are spending more than half their tax revenues on debt.

FIGURE 12: PUBLIC DEBT COMPARED TO GDP (% , 2020–21)



Source: IMF (2021b).⁴²

FIGURE 13: DEBT SERVICE COMPARED TO TAX REVENUES (% , 2020–21)



Sources: IMF/World Bank (n.d.) Debt Sustainability Analyses 2020–21, IMF country programme documents and national budgets, 2020/22.

To date, the global response in terms of debt relief has been limited to:

- the cancellation of debt servicing to the IMF for 25 countries during 2020–21 (including DRC, Madagascar, Malawi, Mozambique and Tanzania in SADC);⁴³ and
- a postponement of payments to G20 governments during the same period through a debt service suspension initiative (DSSI), for which eight SADC countries have applied.⁴⁴ However, this does not provide genuine long-term relief, as creditors will continue to add interest to debts during the suspension period.

The G20 has also established a new Common Framework to try to improve coordination among creditors.⁴⁵ However, most countries must continue to pay their debt service, especially to commercial creditors (such as bondholders), and multilateral creditors other than the IMF, which show no signs of participating in the DSSI or providing relief under the new G20 framework, though the initiators have called on these creditors to join the scheme on similar terms. As a result, countries still accessing global bond markets, such as Botswana, Mauritius, Namibia, the Seychelles and South Africa, would not apply for relief, because to do so would mean facing major credit rating downgrades or losing their market access. In addition, nothing is being done to reduce domestic debt levels, the servicing of which accounts for a large share of the burden in most SADC countries due to high domestic interest rates.

It is now clear that the economic impact of the pandemic will be felt well into the future in most low- and lower-middle-income countries. To allow maximum space for recovery, the DSSI should be extended to the end of 2022, given the delay in global vaccinations, transformed into a cancellation, and include all multilateral and commercial creditors. However, this alone will not stop debt levels crowding out social spending and undermining progress towards the Sustainable Development Goals (SDGs) over the longer term. Many countries will need comprehensive debt cancellation and reductions to ensure that their debts are sustainable, so that they can invest to tackle inequality and build resilience against future pandemics through education, health, social protection and food security measures.⁴⁶

1.6 THE IMF AND WORLD BANK RESPONSE

The IMF and World Bank are mandated by the UN and the G20 to mobilize financing to fight the pandemic. However, they should also be continuing to play their longer-term roles in putting countries back on track for the SDGs and reducing inequality.⁴⁷

To a considerable degree, they are already helping countries with financing to respond to COVID-19. All of the SADC countries have received extra emergency financial assistance from the IMF and the World Bank.⁴⁸ Such financing, combined with enhanced flows from the AfDB, the UN and bilateral partners, has been vital to fund pandemic response packages – but it is much less than wealthier countries’ borrowing on commercial markets to fight COVID-19 (see **Section 1.4**).

This multilateral support was scaled up in the third quarter of 2021. In early August 2021 the IMF approved an issuance of \$650bn worth of Special Drawing Rights (SDRs), which could be used to support spending or pay down domestic debts.⁴⁹ SADC countries received \$11.3bn⁵⁰ worth of SDRs, a little less than the planned budget cuts for 2021. Wealthier countries that do not need their \$400bn share of these SDRs are being encouraged to reallocate them to low- and lower-middle-income countries who need the resources more. However, as currently planned, these resources will be channelled as loans rather than as grants, and will come attached to conditionality-based IMF programmes, unlike normal SDRs which have no conditionality.⁵¹ In addition, even with this reallocation, the amount received by developing countries will be much less than is needed: many analysts and advocates⁵² have estimated that an issuance of SDR \$3tn would be desirable.⁵³ Given their currently very low cost (an interest rate of 0.05% at the time of publication and with no repayment of principal necessary), it is worth considering regular large issuances of SDRs and their transfer to lower-income countries, which could be an effective way to fund global development over the next decade.

In terms of policy prescriptions, the responses of the IMF and World Bank have been largely limited to immediate short-term actions through extra health, social protection and economic stimulus spending, rather than looking to stop inequality from soaring during the crisis.

None of the current IMF programme documents in the region contain any significant analysis of inequality.⁵⁴ This is reflective of the IMF’s general country-specific operations, where there is no systematic treatment of equality as being macro-critical, that is, vital to future growth and stability (which it is, given that inequality levels are above those assessed by the IMF as pulling down GDP), and therefore central to the analysis underpinning country programmes in Article IV consultation and lending programme documents.

The lack of inequality-specific analysis was perhaps understandable in the IMF’s emergency COVID-19 response programmes, which aimed to fill emergency financing gaps without conducting much detailed analysis and without heavy conditionalities. However, even in these programmes, the IMF could have avoided pushing for fiscal consolidation, and instead supported key policies needed to build fiscal space and fight inequality, including increases in progressive taxation, anti-inequality spending and labour rights. The IMF fiscal affairs department has suggested ‘solidarity’-based increases in progressive taxes to fund COVID-19 responses and recovery,⁵⁵ but there is no sign yet that such recommendations are feeding into IMF programming in SADC countries.

The only significant planned tax rate changes described in IMF documents have been a regressive increase of 2% in value-added tax (VAT) in Botswana, and a new progressive ‘social contribution levy’ in Mauritius to fund pension increases. Most of the remaining tax plans rely on reducing tax exemptions (Angola, DRC, Madagascar and the Seychelles), enhancing measures against tax haven status and tax avoidance (Mauritius and the Seychelles) and more effective collection, especially of VAT. Mauritius does not have an IMF programme, so the only IMF progressive suggestion is a rise in property taxes in DRC to fund social protection.⁵⁶

While the initial pandemic-related health and social protection spending may have helped to mitigate some of the pandemic-induced inequality, in most countries (except Angola and Mauritius) these programmes are being wound down in future years. In a context of budget austerity in almost all countries (see **Section 1.7**), it will be extremely hard to protect such spending, let alone to increase it dramatically to fight inequality and reach the SDGs.

The World Bank’s Systematic Country Diagnoses of SADC countries have contained a great deal of analysis of poverty, but considerably less of inequality. They include only limited measures to increase spending on education (with a focus on early childhood development and skills training) and targeted social protection programmes helping only a small percentage of people living in poverty. They contain virtually none of the policy recommendations needed to fight income inequality more successfully, and do not clearly show how countries will achieve the SDGs for universal health care or universal social protection floors by 2030.⁵⁷

The World Bank and the IMF have analysed the impact of taxes and spending on poverty and inequality in seven SADC countries.⁵⁸ However, neither has followed up such analysis with recommendations for country-specific reforms that would make their systems more progressive. There has also been no effort to reverse earlier anti-union and labour rights policies inspired by the now discontinued World Bank's Doing Business Index, which has been widely criticized for encouraging deregulation and corporate tax cuts.⁵⁹ Indeed, a recent IMF working paper on labour policy for South Africa suggested lower minimum wages especially for youth, and decentralizing collective bargaining to the firm level.⁶⁰

The emergency loans provided by the World Bank in the health sector have been found to be inadequate in their own analysis of poverty and inequality. Oxfam found in September 2020 that only 8 of out 71 World Bank COVID-19 health projects worldwide had included any measures to reduce financial barriers to accessing health services.⁶¹ The CRI has shown that this is a major issue in most SADC member countries, with such expenditures bankrupting millions of people each year and excluding them from treatment. In SADC countries, none of the three World Bank projects (in Eswatini, Lesotho and Malawi) included measures to increase the affordability of services in their design.⁶²

On social protection support, while there have been considerable increases in the reach of cash transfers in some SADC countries, the emphasis in World Bank loans has been on 'safety net' programmes narrowly targeting the poorest people, rather than comprehensive social protection floors providing citizens with security throughout their lives, as envisaged in the SDGs.⁶³ There has also been no analysis in World Bank loans of how such programmes can be made permanent or further expanded to achieve the goal of universal social protection coverage by 2030. This suggests that they could be reduced or abandoned once the impact of the pandemic subsides.

The leaders of both the IMF and the World Bank have given strong speeches on inequality.⁶⁴ Both institutions have conducted comprehensive analyses stressing the risk that the pandemic will increase inequality, as well as the need to prevent this. However, their responses in country operations have largely ignored inequality, and by omission as well as by explicit policy advice, are contributing to its increase. This tendency needs to be reversed in 2021–22, with both organizations turning speeches and analysis into strong anti-inequality policy recommendations at the country level.

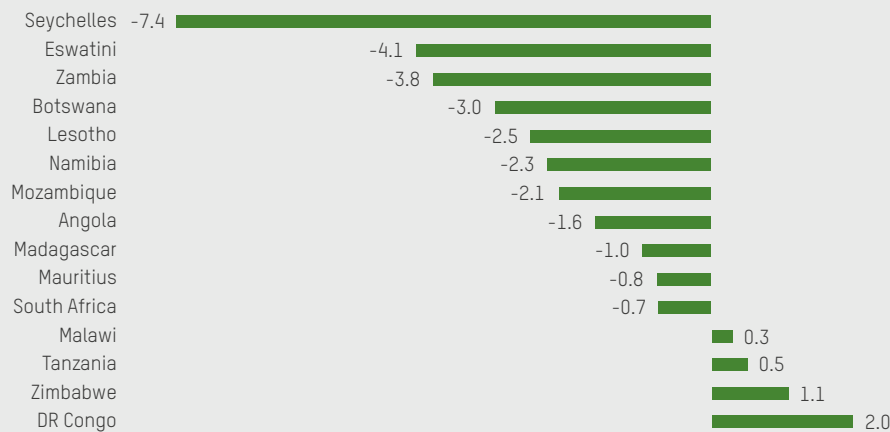
1.7 THE RETURN OF AUSTERITY

While SADC governments responded to the pandemic in 2020 with fiscal support packages, these are proving to be short-lived. IMF projections for the expenditure of the 15 SADC governments analysed in this report show that nine cut spending as a percentage of GDP in 2021. In total, spending was \$12.1bn lower,⁶⁵ well over twice the amount (\$5.1bn) it would cost to buy and deliver vaccinations for all SADC citizens.⁶⁶ This happened at a time when COVID-19 infections and deaths were at their highest in the region.

Even more concerning than the quick withdrawal of emergency spending are the long-term plans for austerity in southern Africa. **Figure 14** shows IMF projections for 15 SADC countries in 2022–26. They show that all but four countries will be further reducing government expenditure.⁶⁷ The combined cumulative reduction in government budgets in SADC by 2026 is expected to be \$30.2bn. This would be enough to increase government health expenditure by 28% on average for the five years to 2026, from the current per capita of \$177 to \$226.⁶⁸

For eight countries, the planned cuts exceed their annual health budgets; in three (Malawi, Mozambique and the Seychelles) they are twice as high, and in Zambia they are more than five times. Avoiding such austerity would allow these countries to make massive extra investments in health and social protection to protect their citizens against future pandemics.

FIGURE 14: AVERAGE ANNUAL GOVERNMENT EXPENDITURE CUTS IN SADC COUNTRIES (2022–26, % GDP)



Source: IMF (2021a).⁶⁹ Cuts are calculated in current prices, using 2021 expenditure (% of GDP) as the baseline.

Austerity is being encouraged in IMF policy assessments and programmes, by providing advice to reduce overall spending during or immediately after the pandemic in order to achieve smaller deficits and reduce debt levels, rather than sharply increasing spending on health, education, social protection and food security to fight inequality.⁷⁰ Within these cuts, efforts are being made within IMF programmes to protect core social spending, especially in some lower-income countries, but this is defined differently across countries and in many does not include social protection. If SADC governments carry out the planned austerity, the result is likely to be catastrophic for poverty and inequality, especially in the aftermath of a pandemic: the IMF’s own research shows that countries that implemented austerity during and after recent epidemics saw their income inequality increase three times as much as countries that did not.⁷¹ As the World Bank and others have shown, whether and to what extent countries manage to keep inequality in check following the pandemic will be crucial to lifting millions of people out of poverty again.⁷²

Extractive Industry and Inequality

The extractive industry is an economic bedrock in the resource-rich countries of Southern Africa. The mining sector accounts for about 10% of the SADC’s GDP, 25% of its regional exports, about 7% of its direct employment and 20% of national government revenues.⁷³ In Zambia, copper accounts for over 80% of export earnings, while diamonds account for 20% of Botswana’s GDP and over 90% of its exports.⁷⁴ In Mozambique, extractives account for 30% of total exports, equivalent to 3.5% of GDP or 20.6% of total government revenue.⁷⁵

If harnessed well, the industry can play a meaningful role in poverty reduction, inclusive growth and social development.⁷⁶ Unfortunately, poverty and inequality are worsening in the region despite the abundance of resource wealth. The sector has failed to ensure that benefits accruing from resource endowments create new opportunities and positive multiplier effects for citizens. This stems from limited mechanisms to promote public participation along the extractive industries value chain, from contract negotiation/licensing; to free, prior and informed community participation; mineral production; fiscal and revenue management; and combatting illicit financial flows.

The capture of the extractive industries by politics and corruption is the main cause of the poor contribution of the sector to development of the region’s people and rising inequality.⁷⁷ In Angola, for over 20 years, former President Dos Santos and his family conducted what may prove to be a masterclass in corruption all along the natural resource value chain – a pattern uncovered in 2020 by the International Consortium of Investigative Journalists in its “Luanda Leaks”.⁷⁸

Unfair taxation is denying Southern Africans their rightful share of the proceeds from extractives. SADC countries have generally failed to put in place tax regulatory regimes that ensure an equitable share of the rents, particularly windfall rents.⁷⁹ This is due either to a lack of state capacity, or the subversion of that capacity with the aim of producing overly investor-friendly outcomes. In 2021, the government of Zimbabwe granted a five-year tax holiday to Great Dyke Investments, a platinum mining operation,⁸⁰ at a time of a tight fiscal space made worse by the pandemic.⁸¹

Illicit financial flows (IFF) are another major challenge for many resource-rich countries including those in SADC. Zambia's government estimates that it has been losing as much as US\$2 billion annually because of tax avoidance and profit shifting by multinationals.⁸² Smuggling is especially rife in the artisanal mining particularly of gold and diamonds given how most SADC countries have not formalized it. More than \$1.5 billion of gold is estimated to be smuggled out of Zimbabwe every year, depriving the cash-strapped economy of crucial foreign-exchange revenues.⁸³ Commendably, South Africa has developed the Draft Artisanal and Small -Scale Mining Policy 2021.

Fairness and inequality issues are increasingly being raised in relation to the allocation of benefits paid directly by the extractive industries to the communities where operations take place to ensure that local- and national-level concerns and interests are balanced. There is a demand for revenue-sharing mechanisms between the central government and host communities, as the current way of operating has left resource-rich communities beset by under-development in the essential areas of health, education, water, sanitation and transport.

Extractives are contributing to rising public debt. Governments in the region have resorted to taking out loans to gap-fill budget deficits. Some of these loans are pegged to extractives and are known as resource-backed loans (RBLs). These are loans provided to a government or a state-owned company in which the repayment is made in the form of natural resources.⁸⁴ Currently, 11 sub-Saharan African countries have taken out RBLs, including Zimbabwe, Angola and DRC.⁸⁵ However, commodity prices not only fluctuate to extremes, but can do so unpredictably. Price crashes can mean that a country needs to produce more resources to repay the loan, thereby thwarting any benefits to communities and citizens in general.

The exponential increase in exploration and extraction of natural resources on the continent brings a major risk of human rights violations.⁸⁶ Some of these violations include dispossession of land and displacement of communities; weak or minimally beneficial terms of concession; environmental degradation; and poor labour rights protection.

In the beginning of the 2010s, Africa's largest natural gas deposits were discovered off the coast of northern Mozambique in the remote Cabo Delgado province, putting Mozambique on the map of oil and gas geography. The development of the gas fields was accompanied by displacement, evictions and the destruction of livelihoods, exacerbating and deepening inequalities between a lucky few and the many disempowered citizens. Since 2017, an Islamist militia widely known to locals as al-Shabaab ("the youth") has waged a sophisticated and violent campaign against the Mozambican government throughout Cabo Delgado.⁸⁷ At least 2,700 people have been killed and an additional 700,000 forced to flee their homes. This conflict is a source of growing and staggering inequality.

Box 1: Racial inequality in South Africa

Black South Africans suffered dispossession during colonialism, which stripped them of their assets such as land, livestock and access to critical natural resources including water, forestry, fishing rights and minerals. In the 1940s, structured apartheid policies kicked in, leading to further marginalization of the Black majority due to restrictive economic and social policies. The Black population was dispossessed of land for farming and grazing their livestock which was fertile and had water resources. They were forced to move to land far away from the main economic centres of the time. To survive, a great number of men sought work on title deed farmlands as labour tenants.⁸⁸ While the post-1994 democratic dispensation put land reform policies in place that were meant to reverse this trend and allocate land to Black South African women and men, these policies have been largely unsuccessful.

It is for this reason that when mining companies want land, they have been able to obtain it without respecting the relevant provisions in South African law – including the need to ensure that the White landowners selling or leasing their land to mining companies do so with full respect for the **Free, Prior and Informed Consent (FPIC)** rights of labour tenants. The Interim Protection of Informal Land Rights Act 31 of 1996, which provides for the temporary protection of certain rights to and interests in land which are not otherwise adequately protected by law, is routinely disregarded with impunity.

As a result, in post-apartheid South Africa, labour tenants and citizens in communal land rights settings have suffered further dispossession of grazing lands, land for growing crops for sustenance, and the destruction of their homes. In 2018, five families on Kliprand Farm near Newcastle were left homeless when their homes were destroyed to make way for mining.⁸⁹ To date, these historic injustices of colonialism and apartheid without redress remain the main drivers of race-based economic inequality in South Africa.

Despite these issues being rife, regional bodies and national governments still lack the capacity to monitor extractive projects, ensure that they do not adversely affect the environment and lives of local communities, and enable redress for human rights abuses. In some instances, these human rights violations and the failure to ensure the public participation have fueled conflict in the region.

Government in the region can harness extractives for the common good of their citizens, not just the very few. Labour rights and job security are threatened in many African countries, and public services are under strain, especially because of the pandemic. Women are particularly affected in their roles as primary caregivers for children and the elderly, as key users of health services, and as most of the workforce in artisanal and small-scale mining.

The extractives industry could play a huge role in raising the necessary revenue for spending in pro-poor sectors such as health, education and social protection, and in environmental mitigation and adaptation. To end human rights violations in the industry, national governments and the SADC should come up with practical solutions such as meaningful public engagement. Corruption and state capture should be dismantled, while tax loopholes should be sealed, and unnecessary tax breaks scrapped to ensure the extractive industry contributes to the well-being of the local communities and the nation at large. The benefits of the industry must be shared equitably through national budget financing of essential service delivery, the dire state of which has been exposed by the COVID-19 pandemic.

NOTES

All links last accessed November 2021, except where specified.

- 1 Throughout this report, 'SADC' refers to 15 of the 16 SADC member states – Angola, Botswana, Democratic Republic of Congo (DRC), Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Tanzania, Zambia and Zimbabwe. Comoros is not included in the CRI or in this report due to lack of data.
- 2 Sources for all data are the UNDP Human Development Report country database at <http://hdr.undp.org/en/countries>
- 3 If the Palma ratio is 1, it means that the richest 10% and the poorest 40% receive the same amount of income; if it is 2, it implies that the richest 10% receive twice as much income as the poorest 40%, and so on. Sources for all data are the UNDP Human Development Report country database at <http://hdr.undp.org/en/countries>
- 4 Data from <http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx>
- 5 See J.D. Ostry, A. Berg and C.G. Tsangarides. (2014). *Redistribution, Inequality, and Growth*. IMF Staff Discussion Note. <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2016/12/31/Redistribution-Inequality-and-Growth-41291>; A. Berg and J.D. Ostry. (2011). *Inequality and Unsustainable Growth: Two Sides of the Same Coin?* IMF Staff Discussion Note. <https://www.imf.org/external/pubs/ft/sdn/2011/sdn1108.pdf>
- 6 R. Wilkinson and K. Pickett. (2010). *The Spirit Level: Why Equality is Better for Everyone*. Second edition. London: Penguin.
- 7 F. Grigoli and A. Robles. (2017). *Inequality Overhang*. IMF Working Paper. <https://www.imf.org/en/Publications/WP/Issues/2017/03/28/Inequality-Overhang-44774>
- 8 UNDP. (n.d.) Human Development Reports country database. <http://hdr.undp.org/en/countries>.
- 9 Data in this and the following paragraphs are from country surveys compiled by the World Inequality Lab. <https://wid.world/world>
- 10 Data from the World Inequality Database. <https://wid.world/data>
- 11 Data from [the World Inequality Database](https://wid.world/world). See also The Economist. (2021, 25 September). *Unpicking Inequality in South Africa*. <https://www.economist.com/middle-east-and-africa/2021/09/23/unpicking-inequality-in-south-africa>
- 12 Data from the World Inequality Database.
- 13 Oxfam South Africa. (2020). *Reclaiming Power: Women's Work and Income Inequality in South Africa*. <https://www.oxfam.org.za/wp-content/uploads/2020/11/oxfam-sa-inequality-in-south-africa-report-2020.pdf>
- 14 K. Georgieva. (2020, 29 September). *No Lost Generation: Can Poor Countries Avoid the Covid Trap?* *The Guardian*. <https://www.theguardian.com/business/2020/sep/29/covid-pandemic-imf-kristalina-georgieva>
- 15 A. Guterres. (2020, 18 July). *Tackling the Inequality Pandemic: A New Social Contract for a New Era*. UN Nelson Mandela Lecture at <https://www.un.org/sg/en/content/sg/statement/2020-07-18/secretary-generals-nelson-mandela-lecture-%E2%80%9Ctackling-the-inequality-pandemic-new-social-contract-for-new-era%E2%80%9D-delivered>
- 16 D. Malpass. (2020, 8 October). *Reversing the Inequality Pandemic: Speech by World Bank Group President David Malpass*. Speech at Frankfurt School of Finance and Management. <https://n14worldbank.org/2020/10/08/reversing-the-inequality-pandemic-speech-by-world-bank-group-president-david-malpass>
- 17 For more details on the global impact on inequality, see Chapter 2 of the global CRI report: M. Martin, M. Lawson, J. Walker and N. Abdo. (2020). *Fighting Inequality in the Time of COVID-19: The Commitment to Reducing Inequality Index 2020*. Oxford: Oxfam and DfI. <https://policy-practice.oxfam.org/resources/fighting-inequality-in-the-time-of-covid-19-the-commitment-to-reducing-inequality-621061>
See also E. Berkhout, N. Galasso, M. Lawson, P.A. Rivero Morales, A. Taneja and D.A. Vázquez Pimentel. (2021). *The Inequality Virus: Bringing Together a World Torn Apart by Coronavirus Through a Fair, Just and Sustainable Economy*. Oxfam. <https://www.oxfam.org/en/research/inequality-virus>
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- 19 See Chapter 1 of African Development Bank (AfDB). (2021). *African Economic Outlook 2021: From Debt Resolution to Growth: The Road Ahead for Africa*. <https://www.afdb.org/en/knowledge/publications/african-economic-outlook>
- 20 Oxfam. (2021, 12 August). *One-off Emergency Tax on Billionaires' Pandemic Windfalls Could Fund COVID-19 Jobs for Entire World*. <https://www.oxfam.org/en/press-releases/one-emergency-tax-billionaires-pandemic-windfalls-could-fund-covid-19-jobs-entire-world>
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See also: G. Cugat and F. Narita. (2020, 29 October). *How COVID-19 Will Increase Inequality in Emerging Markets and Developing Economies*. IMF blog. <https://blogs.imf.org/2020/10/29/how-covid-19-will-increase-inequality-in-emerging-markets-and-developing-economies/>
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- 23 Our World in Data. (2022, 30 March). *Coronavirus (COVID-19) Deaths*. <https://ourworldindata.org/covid-deaths>. Tanzania is omitted from the figure because the government banned reporting of COVID-related deaths between May 2020 and August 2021 so no reliable data are available.
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- 33 This is based on analysis of Forbes data for 18 March 2020 to 30 September 2021 for five billionaires who are on both lists: Koos Bekker, Nicky Oppenheimer and family, and Patrice Motsepe, all from South Africa, and Mohammed Dewji and Strive Masiyiwa from Tanzania and Zimbabwe, respectively. Newcomers or individuals who exited the Forbes billionaires list between the two periods are not included.
- 34 Pension coverage is used as a proxy because data on overall social protection coverage are not available for all countries.
- 35 Data for spending by West African countries taken from DFI/Oxfam. (2021). *The West Africa Inequality Crisis: Fighting Austerity and the Pandemic: October 2021*. <https://www.inequalityindex.org/#/>. Data for advanced economies taken from IMF (2021c) *COVID-19 Fiscal Response Database: October 2021*. <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>
- 36 Data for SADC country spending is taken from IMF programme or Article IV documents for each country during 2020–21, as well as 2020 and 2021 national budget documents, and supplemented where necessary by IMF. (2021e). *Policy Responses to COVID-19*. <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#U>.
- 37 IMF. (n.d.). *IMF Country Information*. <https://www.imf.org/en/Countries>. For more detailed sources, see the country profiles accompanying this report.
- 38 See U. Gentilini, M. Almenfi, I. Orton and P. Dale. (2020). *Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures – December 11 Update*. World Bank. <https://openknowledge.worldbank.org/handle/10986/33635>
- 39 Data from Round 8 surveys conducted by Afrobarometer, available at https://afrobarometer.org/publications?field_author_val-ue=&field_publication_type_tid=437&field_publication_country_nid=All&field_language_tid=All. The four countries were South Africa, Zimbabwe, Zambia and Mauritius.
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- 41 Data sources are the latest debt sustainability analyses conducted by the IMF and World Bank, see <https://www.worldbank.org/en/programs/debt-toolkit/dsa> or <https://www.imf.org/external/pubs/ft/dsa/lic.aspx>. For Botswana, Eswatini, Lesotho, Mauritius, Namibia, the Seychelles and South Africa these were supplemented by analysis of 2019, 2020 and 2021 budget documents.
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- 43 For more details, see IMF. (2021f). *COVID-19 Financial Assistance and Debt Service Relief*. <https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker>
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- 52 Latindadd. (2021, 12 February). *Civil Society Organizations Call for Quick Special Drawing Rights Allocation*. <https://www.latindadd.org/2021/02/12/civil-society-organizations-call-for-quick-special-drawing-rights-allocation>
- 53 Various global bodies have called for urgent issuance of up to \$3tn in SDRs, including: E. Macron, A. Merkel, M. Sall, A. Guterres, C. Michel and U. von der Leyen. (2021, 3 February). *Multilateral Cooperation for Global Recovery*. Project Syndicate. <https://www.project-syndicate.org/commentary/multilateralism-for-the-masses-by-emmanuel-macron-et-al-2020-02>; Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development. (2020, 13 October). Unnamed communiqué. <https://www.g24.org/wp-content/uploads/2020/10/G-24-Communique-Final-Annual-Meetings-2020.pdf>; UN Conference on Trade and Development (UNCTAD). (2020). *Trade and Development Report 2020: From Global Pandemic to Prosperity for All: Avoiding Another Lost Decade*. <https://unctad.org/webflyer/trade-and-development-report-2020>
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- 58 Botswana, Eswatini, Lesotho, Namibia, South Africa, Tanzania and Zambia. These analyses have been conducted jointly with the Commitment to Equity Institute at Tulane University. The country analyses are available at <https://commitmenttoequity.org>
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- 65 This is calculated from IMF projections of general government expenditure as a percent of GDP, comparing the figures for 2020 with 2021, and converted into dollar amounts by comparing to GDP in current prices. Data from IMF. (2021a). *World Economic Outlook Database: October 2021*.
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For further information on the issues raised in this paper please email advocacy@oxfaminternational.org

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Photos

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.

Page 3: Francisca, in DRC, uses the kit she received from Oxfam to wash her hands. 'Water is a problem in the commune of Kinshasa', she says. 'Thanks to this can, I can reserve a large quantity to prepare my squash and the soap helps me wash my hands to avoid Covid and do the housework.' Photo: Anastasie Langu/Oxfam.

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