

International Financial Institutions’ policies that exacerbate debt and inequality in Africa: Pushing for Common Civil Society Perspectives.

**WEBINAR CONCEPT NOTE - Advocacy Moments: Fight Inequality Week and G77 Summit**

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**Introduction - Debt and Inequality in Africa**

The Global South remains especially vulnerable when it comes to issues of both financial and economic inequality. [The World Bank’s Gini index](https://data.worldbank.org/indicator/SI.POV.GINI?locations=ZF&start=2000) highlights that Africa’s wealth inequality level is the highest after the Asia-Pacific Region at 89.2. This indicator measures the level of deviation of distribution of income among households in an economy from distribution from a perfectly equal distribution. [The score ranges between 0 and 100](https://databank.worldbank.org/metadataglossary/gender-statistics/series/SI.POV.GINI), and the higher the score, the higher the level of inequality. This alarming level of inequality is multi-faceted and is affected by various interconnected factors. [Research](https://www.tandfonline.com/doi/full/10.1080/09638199.2023.2274854) based on a mix of low-income, lower-middle and upper-middle-income countries in Africa including Botswana, Ghana, Kenya, Lesotho, Malawi, Nigeria, Rwanda, South Africa, Tanzania, Uganda and Zambia, demonstrates that there exists a causal relationship between debt and inequality. An unsustainable debt burden results in debt repayment constraints and directing of revenues away from social protection measures which are crucial to cushion lower income groups. Further, costly debt servicing inhibits domestic resource mobilisation as revenues are used to repay debts, which also becomes a cause for decrease in social spending. This is delved into in the subsequent paragraph. Further literature focused on the African continent postulates that a 1% increase in public debt leads to a rise in inequality by 0.17% but these effects double when the public debt ratio exceeds 57.47%. Additionally, [the country’s tax burden](https://www.tandfonline.com/doi/full/10.1080/09638199.2023.2274854) exacerbates the effect of public debt and impacts inequality.

Increasing public debt levels are accompanied by costly debt servicing obligations and crowding out of social expenditure. Subdued economic growth rates due to shocks including the COVID-19 pandemic and the Russia-Ukraine War have further weakened the African continent’s fiscal muscle. In the Southern African region, [a study by the African Forum and Network on Debt and Development (AFRODAD)](https://afrodad.org/wp-content/uploads/2021/11/Nexus-between-Debt-tax-and-inequality-1.pdf) highlighted that subdued economic growth rates have previously compromised – and continue to compromise – the tax capacity and debt carrying capacity of the countries in the region. The resultant impact is lower revenues, debt repayment constraints or settling of debts at unrealistically high levels at the expense of social protection. Social protection programs enable the redistribution of income from high-income groups to low-income groups. Decreased investment in social protection disproportionately impacts lower-income and vulnerable groups due to their reliance on social service provision. This therefore becomes a breeding ground for weak capacity and increased vulnerability of the common citizenry, particularly those in low- and middle-income groups. [The study](https://afrodad.org/wp-content/uploads/2021/11/Nexus-between-Debt-tax-and-inequality-1.pdf) further noted that about 55% of total income in SADC countries is held by the top 20% and 35% by the highest 10%, with the bottom 20% possessing only an average of 6% of income. This wealth disparity remains prevalent not only in the Southern African region, but also across the entire continent. [The African Development Bank (AfDB) has highlighted](https://www.afdb.org/en/documents/document/african-development-report-2015-growth-poverty-and-inequality-nexus-overcoming-barriers-to-sustainable-development-89715) Africa’s high inequality as a result of a series of historical events and similarly reports that Gini co-efficients demonstrate high but relatively stable inequality for the continent. [A 2021 study by the AfDB](https://www.afdb.org/sites/default/files/documents/publications/wps_no_353_inequality_and_the_role_of_macroeconomic_and_institutional_forces_in_africa_f.pdf) points out that between 1980 and 2017, overall inequality was around 44% - during this time, around 67% of total income was held by the top 10% of the population while about 2.3% was held by the boom 10% of the population.

In light of the foregoing, it is imperative for African countries to take steps to boost the tax and debt carrying capacity to finance social protection schemes for reducing inequality. The measures that can assist African countries in attaining this objective include: introducing wealth taxes, reducing tax exemptions for Value Added Tax (VAT) and tax holidays for foreign companies, increasing the depth and coverage of taxes on electronic transactions in light of the growing digital economy, ensuring that tax systems remain progressive and increasing the progressivity of this tax structure, expanding the level and coverage of social expenditure accompanied by appropriate labour policies that favour personnel in remote and poor households, and improving institutions through transparency around fiscal matters.

The complexities of the debt and inequality phenomenon do not end here given the grave consequences of Illicit Financial Flows (IFFs) on domestic resource mobilisation in African countries. The continent loses a minimum of an estimated 88.6 billion US dollars in IFFs annually. These outflows are detrimental to domestic resource mobilisation as they result in loss of tax revenue which imposes constraints on governments in provision of public services and social welfare for the citizenry. To bridge this financing gap, governments resort to borrowing to which raises the debt burden. Costly debt servicing expenditure in turn negatively impacts domestic resource mobilisation, which leads to further reliance on debt. It is noteworthy that [IFFs exceed expenditure requirements for health and education](https://afrodad.org/wp-content/uploads/2021/04/IFFS-in-Africa_-Trends-and-Patterns.pdf) in most African countries, which has a disproportionate impact on the most vulnerable groups due to their reliance on these public services. Further, the loss of redvenues through IFFs inhibits the achievement of Africa’s goals under the African Union (AU) Agenda 2063. [The Report of the High-Level Panel on Illicit Financial Flows](https://repository.uneca.org/bitstream/handle/10855/22695/b11524868.pdf?sequence=3&isAllowed=y) from Africa (dubbed the ‘Mbeki Report’) has set out detailed recommendations to curb IFFs that have been adopted by Members States of the AU. Implementation of these recommendations remains critical towards curbing IFFs in Africa to boost domestic resource mobilisation efforts which impact both debt and inequality levels. It is worth noting at this juncture that the mining sector has failed to escape the IFFs net, [with outflows increasing through mineral resources smuggling and corruption,](https://afrodad.org/portfolio/unpacking-the-linkage-between-debt-extractives-sector-inequality-and-illicit-financial-flows-a-case-study-from-zimbabwe/) including through Resource-Backed Loans (RBLs).While the extractives sector is significant in reducing debt and inequality, it is vulnerable to not only IFFs but also poor resource governance which creates a financing gap by draining resources. The resultant impact is weakened domestic resource mobilisation and an increased reliance on borrowing, resulting in unsustainable debt burdens and increased inequality as highlighted above. This is particularly alarming in resource rich African countries which are plagued by the resource curse or the paradox of the plenty as well as RBLs, due to which benefits from the extractives sector often fail to trickle down to the poor and vulnerable sectors of society, further widening wealth disparity. RBLs are one aspect of poor mineral resource governance – the manner in which they are negotiated, entered to, implemented and repaid minimises their potential to contribute to domestic resource mobilisation, leading to increased borrowing and heavy debt burdens which often aggravate inequalities. It is therefore vital to take necessary measures to maximise benefits from this sector. One such measure is embedding tax justice, through for instance abolishing of tax incentives, to prevent perpetuating inequalities through resource leakages through incentives as these resources can be directed toward decreasing debt levels and increasing social spending. Additionally, the situation calls for increased transparency and accountability, implementation of Extractive Industry Transparency Initiative (EITI) standards, progressive tax reforms and formulation of loan spending plans. On RBLs in particular, the following recommendations serve as potential solutions: reforming national legal frameworks to specifically provide for RBLs, strengthening countries’ negotiation skills in RBL deals, compliance with public finance management and procurement laws, and targeting concessional rather than commercial financiers in RBLs.

 **Debt Management policies of IFIs and Multilateral Groups’, amid Inequality and multiple crises**

Public debt has increased significantly for African countries regardless of their income levels in the last several decades. The increase in public debt level has raised concerns over the debt management policies of the key international finance institutions and other multilateral groups, and their professed contribution to managing Africa’s burgeoning debt. Likewise, Africa’s rising unsustainable debt level has drawn attention to the quality of public debt management and the efficiency of domestic debt markets in lowering financial vulnerability.

However, international community, mainly the World Bank’s Development Committee and the G20 Finance did put forward two initiatives, the Debt Service Suspension Initiative (DSSI) in April 2020, and the Common Framework in November 2020 for countries with unsustainable debt. The Debt Service Suspension Initiative has been able to relieve some countries of making debt service payments on bilateral loans particularly loans owed to the G20 countries, until the end of 2021. Common Framework offered severely indebted countries the opportunity to reschedule the debt owed to bilateral creditors, however, there have been calls to overhaul the Common Framework to enhance effectiveness, set clear timelines and ensure transparency.

Despite the several IFIs and multilateral groups’ debt management initiatives for Africa economies, the debt challenges are more pronounced today than two decades ago, exhibited by worsening debt stress risks and deteriorating credit rating. Consequently, about [34%](https://www.afdb.org/en/documents/gender-poverty-and-environmental-indicators-african-countries-2023) of employed youth (15-24) lives below $1.90 which is the international poverty line while for the 25-64 age group [26%](https://www.afdb.org/en/documents/gender-poverty-and-environmental-indicators-african-countries-2023) of the employed live below international poverty line. In all African countries, the richest capture the largest share of income. When measured by the share of income that goes to the poorest, inequalities are striking, and accompanied by geographic disparities between urban and rural areas where the poor are concentrated. South Africa had the highest [Gini coefficient](https://www.datapandas.org/ranking/gini-coefficient-by-country) at 63.0%, suggesting extreme income and wealth disparity within the nation. Namibia, Suriname, Zambia, and Sao Tome and Principe followed closely with percentages over 56%.

The outcomes from the use of the different management policies of the multilateral groups have not stopped the re-emergence of Africa debt crisis at yet still low levels of development and in fighting economic inequality. Since the first large-scale debt restructuring process (HIPC and MDRI), public debt in African countries has escalated, [reaching $1.13 trillion in 2023](https://moderndiplomacy.eu/2023/07/12/africas-external-debt-hits-1-13-trillion-on-expensive-loans/) compared to $233bn in 2010. The policies of IFI are poorly oriented to the nature of the problem of recurrent indebtedness as a result of the international financial architecture that is designed to drain rather than fairly distribute wealth for the Global North and South.

Poverty is stubbornly high across the region; according to the World Bank’s latest data, [41% of people in Sub-Saharan Africa](https://blogs.worldbank.org/opendata/number-poor-people-continues-rise-sub-saharan-africa-despite-slow-decline-poverty-rate#:~:text=The%20latest%20estimates%20show%20that%20the%20regional%20poverty,for%20two-thirds%20of%20the%20global%20extreme%20poor%20population.) live in absolute destitution, below the $1.90 poverty line. At the same time, it is estimated that 87% of the global poor will be concentrated in sub-Saharan Africa by 2030 if current economic trends continue under the current IFIs and multilateral debt policies. AFRODAD has always pushed for alternative approaches to these fragmented policies including resolution to initiate processes towards a reformed global financial architecture as highlighted in the [Harare Declaration.](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjNn7HSquGDAxWMWUEAHT8tC38QFnoECBQQAQ&url=https%3A%2F%2Fafrodad.org%2Fwp-content%2Fuploads%2F2021%2F09%2FThe-Harare-Declaration-2021.pdf&usg=AOvVaw1bnIBB9VI5iYB2P5bR9dxw&opi=89978449) On inequality, we recommends strengthening of the debt governance in order to enhance greater transparency and accountability with a political will that promotes implementation of debt policy propositions as enshrined in the [African Borrowing Charter.](https://www.bing.com/ck/a?!&&p=4cadad5a56735413JmltdHM9MTcwNTI3NjgwMCZpZ3VpZD0yZmMyYjJjYy03OWIwLTY0NzktMDY1Mi1hMTIxNzgwNTY1OWMmaW5zaWQ9NTE4MA&ptn=3&ver=2&hsh=3&fclid=2fc2b2cc-79b0-6479-0652-a1217805659c&psq=african+borrowing+charter+.pdf&u=a1aHR0cHM6Ly9hZnJvZGFkLm9yZy93cC1jb250ZW50L3VwbG9hZHMvMjAyMS8wNC9UaGUtQWZyaWNhbi1Cb3Jyb3dpbmctQ2hhcnRlci1FbmdsaXNoLnBkZg&ntb=1) Finally here is a fundamental need for developing economies and the global economy to work closely with the CSOs in order to support advocacy towards a reformed global architecture that will enhanced debt policies towards an Africa We want. These initiatives will also help in advancing the need for G-77 anticipation resolutions and the fight inequality process in the Global South.

**Objectives**

Against the above background, this webinar seeks to primarily provide a platform to delve into the nuances between debt and inequality in Africa and to re-examine the role, policies and place of IFIs and multilateral groups in addressing these issues the amidst unfolding multiple challenges and to find common civil society positions to advocate for adequate policies that can provide permanent solutions to Africa’s mounting debt problems amidst widening inequality in the continent. Specifically, the webinar will;

1. Discuss the debt and inequality nexus, in light of factors such as IFFs and domestic resource mobilisation;
2. Explore the nexus between IFIs and Multilateral Group’s Debt Management Policies and Inequality in Africa and Global South as a whole;
3. Examine the efficacy of the solutions highlighted in addressing the multi-faceted problem;
4. Explore African solutions from a fiscal lens, particularly from a debt and domestic resource mobilisation perspective to Africa's inequality conundrum.
5. Build common advocacy positions to advocate for a fair and transparent mechanisms for dealing with Africa’s recurrent indebtedness and inequality

**Expected Outcome**

1. Scrutinization of the effect of the debt management policies used by IFIs and Multilateral groups, before, during, and after the crisis in enhancing inequality in Africa
2. A common Global South CSOs, particularly an African position on the effect of IFIs and Multilateral groups in fighting inequality in Africa and in the Global South
3. Alternative (s) recommendations that explores fiscal lens, particularly from a debt and domestic resource mobilisation perspective to Africa's inequality conundrum.