AFRODAD

AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT

*CSO Press Release*
*Sub-Saharan African Regional Economic Outlook, April 2022*

28th April 2022, Harare (Zimbabwe) – **Multiplicity of crisis leaves African citizens on brink of social unrest according the IMF's Sub-Saharan African Regional Economic Outlook (AREO) launched today.** According to the report, several crises hitting the continent is placing enormous pressure on already squeezed policy makers and forcing very unpopular policy measures that will further increase the cost of living for Africans. The Covid-19 shocks are being compounded by the Ukraine-Russia conflict leaving African economies on the brink of a food and fuel price crisis, coupled with risks to domestic resource mobilisation, and subsequently increased debt to buffer from the multiple shocks. The socio-economic fallout from, especially the rise of food and fuel prices, is undermining of food security in the region, and raising poverty and inequality rates. Mr Ausi Kibowa from ISER-Uganda spoke of the Ukraine-Russia conflict "*pushed several African countries into a liquidity crisis. Many of these countries will now need additional financial support beyond the current measures."*

**Clear diagnosis but Architectural inadequacies, calls for a rethink**

The AERO's diagnosis for Sub-Sharan Africa (SSA) is bleak in the immediate to short term as growth projections are revised downwards, debt vulnerabilities revised upwards, and social unrest a significant possibility, African citizens bear the brunt of regressive policy measures aimed at stymying the multiple crises. The impacts of the global pandemic still very much at the regions' forefront, the Ukraine-Russia war will further slowdown the recovery efforts and most certainly deepen the socio-economic challenges in the regions. Covid-19 and the War notwithstanding, the regions' policy makers will need to get creative on how to balance unsustainable debt levels and increasing risk of debt distress with finding avenues for domestic revenue mobilisation while at the same time investing in social protection programmes to cushion the most vulnerable citizens.

**Covid-19 continues lurking in the background** in the region. Despite the lifting of restrictions across the continent and infection rates still relatively low, the SSA region still remains vulnerable to Covid-19 shocks. These emerging from new variants and potential associated lockdowns, as was observed with the Omicron variant. Secondly, very the slow vaccine rollout leaves many countries vulnerable to new COVID-19 waves and could favour the emergence of new variants. The AREO reports as at April, only 12 percent of the population is fully vaccinated across the region.[i] Furthermore, the pace of vaccination is still much slower than in the rest of the world. For example, advanced economies have already provided boosters to more than 45 percent of their populations, underscoring the ongoing disparity in global vaccination levels. According Mr Joab Okanda, Pan-Africa Senior Advisor at Christian Aid, "*the slow access to vaccines in Africa has less to do with African governments and more to do with the vaccine inequality and nationalism witnessed during the vaccine roll out programmes.*"

**Food and fuel price hikes will deepen inequalities as citizens bear the brunt** of the multi-layered crises affecting the region. Pre-Covid-19 and pre-Ukraine-Russia, African citizens were already beginning to experience economic and social hardships due to the ballooning debt in the region. Several SSA countries had started embarking on fiscal consolidation programmes that saw the de-investment in social sector investment in favour for debt servicing arrangements and investment in mega infrastructure projects. Similarly, the region saw the tightening of fiscal policy and expansion of regressive tax policies as strategies to the leverage more public debt in order to finance either debt repayments or development projects.

According to Mr Peter Kamalingin, Director at Oxfam Pan-Africa, "*the policy direction by many SSA governments are actually pushing Africans into deeper despair and poverty. The latest crisis in the Ukraine and Russia is just another knell in the coffin of rising poverty and inequality in region*."

**Domestic resource mobilisation in the region faces bumpy ride due to suppressed exports compounded by fiscal** leakages resulting from illicit financial flows, low economic diversification, and narrow tax base. The pressures on tax authorities in the region will come under increased pressure as according to AREO especially given majority of countries are net importers of food and fuel. The narrow tax base[ii] in the region is further pushing policymakers to broaden regressive taxes such as VAT, removal of fuel and energy subsidies, and so on all in a bid to expand the resource envelope. The AREO recommends that authorities should now renew their tax reform efforts, aiming to lift revenues at least back to pre-pandemic levels by looking for innovative approaches to old problems, for example, by leveraging the potential from digitalisation to broaden tax bases, enhance tax fairness and taxpayer compliance, and improve tax administration. Revenue mobilisation efforts should be complemented with measures to increase the efficiency of public spending and strengthen accountability. Ms Chenai Mukumba, Policy and Advocacy Manager at Tax Justice Network African noted "*Tax revenue[iii] burdens are being transferred to citizens and cash strapped economies while little movement is being made at the global level to strengthen accountability with regards to aggressive corporate behaviour of multinational companies that contribute to erosion of the regions' tax base; and on the global rules governing tax policy that invariably favour wealthier countries*."

**Debt unsustainability is pushing more countries in the region into high risk of debt distress** as the AERO report emphasises strengthening debt management capacity as debt relief programmes stall and falter leading to increased vulnerability of Africans and fragility of economies. The report explains that one-half of low-income countries in the region are in debt distress or at high risk of distress, and many have been left with little or no fiscal space at a time of elevated spending needs. Domestic government debt has increased from 15 percent of GDP in 2010 to 30 percent in 2020. Over the same period, external public debt held by private entities has increased from 4 percent of GDP to 11 percent. Debt vulnerabilities can be reduced effectively via credible medium-term debt strategies and proactive liability management, and by improving debt reporting, transparency, and communication. Mr Jason Rosario Braganza, Executive Director of The African Forum and Network on Debt and Development (AFRODAD) noted Africa's creditor landscape has changed considerably in the past two decades, with private creditors and non-Paris Club lenders dominating the debt to Africa. And while there are internal challenges to the regions' debt management, little has been done to regulate especially new/emerging lenders.[iv] Mr Braganza said "*The African Regional Economic Outlook does a good job of placing the responsibility squarely on borrowing countries while ignoring completely the failure in regulating the creditor market from irresponsible lending. It is once the debt horse has bolted from the stable when the international community is reacting with piecemeal initiatives such as the DSSI, and the Common Framework."*

**The African Peoples' Burden**

The storm is far from over for the region and its people. What is glaringly clear in the AREO for SSA is that citizens will be picking up the socio-economic bill for these multi-layered crises. Over the medium term, most countries will need to continue fiscal consolidation in order to reduce debt vulnerabilities and boost resilience while protecting development spending. Mr Kamalingin from Oxfam Pan-Africa concludes "***growing inequality is a result of political choices****. African* ***political and business*** *leaders and their development partners face a clear choice. They can choose the path of ever-increasing inequality and poverty and instability. Or they can choose another path, to a more prosperous, equal Africa built for the many, not the few*".

Furthermore, the jury is still out as it comes to the debt relief measures arising from the pandemic namely the special drawing rights issuance and rechannelling. Mr Ausis Kibowa from ISER-Uganda speaking on the potential of SDRs in cushioning SSA from the AREO analysis commented "*Faced with surging interest rates and global commodity prices, many African countries have now been pushed into a liquidity crisis. Moreover, planned support measures from debt relief to SDR-rechannelling have still not delivered. A new general SDR allocation therefore remains inescapable."*

Fiscal consolidation programmes are the order of the day, Mr Okanda commenting on this state of affairs said, *"The IMF has provided us with a good diagnosis of the triple crises that Africa faces today. What we need to see now is the IMF's act in manner that reflects the challenge ahead. It must immediately revise the stringent fiscal consolidation targets imposed on most of our countries in an IMF Programme, publicly support calls for another SDR allocation, provide much more support for progressive tax collection which is still sporadic in IMF country reports and expanding social security contributions and coverage."*

To get the region out of this quagmire, it is imperative to look at both national global reforms that accommodate an ever-integrated African continent on the international stage. In assessing the AERO, Mr Braganza concluded "*African Officials as far back as 2020 have been calling for a rethink of the debt architecture, a sentiment recently buttressed by the US Treasury Secretary in calling for an overhaul of the Bretton Woods Institutions."*

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This press release is issued in response to the April 2022 release of the International Monetary Fund's Sub-Saharan African Regional Economic Outlook. The messages herein are on behalf of African CSOs.

For further inquiries and interviews please contact the following comrades
Mr Jason Rosario Braganza, The African Forum and Network on Debt and Development on ED.intern@afrodad.org
Ms Chenai Mukumba, Tax Justice Network Africa on cmukumba@taxjusticeafrica.net
Mr Joab Okanda, Christian Aid, JOkanda@christian-aid.org
Mr Peter Kamalingin, Oxfam Pan-Africa, Peter.Kamalingin@oxfam.org
Mr Ausi Kibowa, Initiative for Social and Economic Rights (ISER), akibowa@iser-uganda.org

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[i] This falls well short of the 70 percent vaccination target for mid-2022 set in the IMF proposal (Agarwal and Gopinath 2021).

[ii] Enhance public investment management. During the last two years, many countries postponed investments to prioritise health and social spending. As investment programs resume, countries will need to use their limited resources carefully and effectively to support green and resilient infrastructure investment, which is found to be up to 12 times more cost-effective than frequent disaster relief (April 2020 Regional Economic Outlook: Sub-Saharan Africa, Chapter 2). Given large investment needs, it is critical that investment projects are managed effectively and transparently, with careful identification, preparation, prioritization, risk management, and integration into medium-term strategies and financing frameworks. In addition, steps taken during the pandemic to increase transparency in procurement (including beneficial ownership information) should continue in order to mitigate the risk of corruption.

[iii] To this end, revenue mobilisation is a key priority. The pandemic has derailed revenue mobilisation efforts, especially in resource-intensive countries (Figure 20). Authorities should now renew their tax reform efforts, aiming to lift revenues at least back to pre-pandemic levels. As authorities consider the best way forward, they should look for innovative approaches to old problems, for example, by leveraging the potential from digitalisation to broaden tax bases, enhance tax fairness and taxpayer compliance, and improve tax administration

[iv] For instance, public debt data in many countries continue to be incompletely reported or hidden through confidentiality clauses, limiting the effectiveness of debt management and complicating potential debt restructurings. Despite significant improvements in debt management in recent years, a recent report from the World Bank found that 40 percent of low-income countries have not published sovereign debt data for more than two years (World Bank 2021)