

THE INEQUALITY CRISIS IN EAST AFRICA

Fighting austerity and
the pandemic



Development
Finance
International



OXFAM

TABLE OF CONTENTS

INTRODUCTION	3
EXECUTIVE SUMMARY	4
1. INEQUALITY AND THE COVID-19 PANDEMIC IN EAST AFRICA	6
1.1. Inequality in East Africa before COVID-19	6
1.2. The impact of COVID-19 on poverty and inequality	7
1.3. East African countries were unprepared for the crisis	9
1.4. Governments' pandemic responses	11
1.5. The impact of the debt crisis on inequality	11
1.6. Failing to think about inequality: the IMF and World Bank response in East Africa	13
1.7. Compounding COVID-19 driven inequality: the IMF pushes for return of austerity in East Africa	16
2. THE COMMITMENT TO REDUCING INEQUALITY INDEX	17
3. EAST AFRICA'S OVERALL CRII PERFORMANCE	19
4. ARE EAST AFRICA'S PUBLIC SERVICES REDUCING INEQUALITY?	20
4.1 Education	21
4.2 Health	22
4.3 Social protection	23
4.4 Impact of public services on inequality	23
4.5 Agriculture spending on smallholders and food	24
5. ARE EAST AFRICA'S TAX SYSTEMS REDUCING INEQUALITY?	26
5.1 Progressivity of tax policies on paper	27
5.2 Tax collection	30
5.3 Impact of taxes on inequality	30
6. ARE EAST AFRICA'S LABOUR POLICIES REDUCING INEQUALITY?	32
6.1 Labour policies	32
6.2 Coverage of workers' rights	34
6.3 Impact on wage inequality	35
7. CONCLUSIONS AND RECOMMENDATIONS	38
7.1 The most urgent recommendations	38
7.2 Medium-term recommendations for governments	39
7.3 Recommendations for regional organizations	40
7.4 Recommendations for the international community	40
ANNEX 1: THE COMMITMENT TO REDUCING INEQUALITY INDEX 2020: RANKINGS OF AFRICAN COUNTRIES	41
NOTES	42

Navigating this document

To navigate from this contents to any page in the document, click on section desired. To return to this contents page, click on the blue tab, top left of the page.

INTRODUCTION

The COVID-19 pandemic has pushed millions into poverty in East Africa, and worsened inequality. The economic crisis continues, due to the obscene global vaccine inequality, which means that only 4% of East African citizens had been fully vaccinated against COVID-19, compared with 71% in high-income countries by mid-January 2022.¹

Many East African governments were already hamstrung by high debt and budget deficits before the pandemic, preventing from them responding with large recovery programmes. Other governments did increase spending, but five are now forecasting major budget cuts for 2022–26. These cuts will stop them combating the increases in poverty and inequality that have resulted from COVID-19.

However, building back during and after the pandemic offers East African governments a once-in-a-generation opportunity to do what their citizens want: make their economic systems fairer by increasing taxes on wealthy and large corporations, boost public spending (especially on healthcare, education and social protection), and improving workers' rights. With external support, including through comprehensive debt relief and more aid, they can reduce inequality drastically and eliminate extreme poverty by 2030.



EXECUTIVE SUMMARY

In 2018 and again in 2020, Development Finance International and Oxfam warned that East Africa² had high levels of inequality, and governments in the region showed low commitment to reducing it.³ In 2021, using the Commitment to Reducing Inequality Index (CRII) framework devised by DFI and Oxfam to focus on East Africa in more details, this report finds that this continues.

In this report, we analyse COVID-19's impact on growth, poverty and inequality, as well as the responses of governments, their creditors and the IMF and World Bank. We also assess whether governments were well-prepared to deal with a pandemic, based on their commitment to fighting inequality through public services, progressive taxation and workers' rights, and the role of governance in influencing this commitment.

Before the COVID-19 pandemic, East African countries on average were lagging 33% behind North Africa and 30% behind Southern Africa in their commitment to fighting inequality, and were doing only a third as well as the best performers globally. They performed relatively well on progressive taxation, but this was not translating into public services that reached people living in poverty. The poorest people also suffered from very weak or non-existent labour rights. Comparative analysis with global governance indices (the Corruptions Perception Index and Open Budget Index) shows high correlations, indicating that corruption and budget transparency have a strong relationship with commitment to anti-inequality policies.

Most countries in East Africa seemed to be less hard hit by the COVID-19 pandemic in 2020, but the first half of 2021 saw a surge in infection and death rates, forcing some countries to reintroduce containment measures. Health systems which were extremely weak before the pandemic have been stretched to the limits. Protracted school closures have affected millions of learners, especially the poorest who could not switch to online learning. While COVID-19 has since slowly abated, there is still the risk of another resurgence due to global vaccine inequality. By mid-January 2022 a paltry 4% of the region's population had been fully jabbed.⁴

In addition, it is clear that the pandemic is the region's worst economic crisis in decades, pushing millions into poverty and exacerbating inequality. The immediate economic impact of the pandemic was huge, with East Africa losing \$15.7bn in GDP in 2020 due to lower-than-expected growth,⁵ and losing working hours corresponding to 10 million jobs. Households were hit particularly hard, with surveys from four countries showing that more than 60% of citizens reported losing income or work due to COVID-19.⁶

The fiscal support programmes enacted by governments were limited by high levels of debt and budget deficits before COVID-19, and even these programmes will be rolled back in most countries by 2022. In addition, to reduce their budget deficits, five governments in the region are planning to introduce a daunting level of austerity in the next five years: on average, they will cut annual spending massively, by \$4.7bn compared with 2021.⁷ Oxfam's review of IMF COVID-19 loans to 85 countries between March 1 2020 and March 15 2021 showed that the IMF has encouraged 73 countries to pursue austerity policies during recovery, among them five East African countries.⁸ Restoring these cuts would be enough for these governments to quadruple their health expenditures and keep them at that higher level through to 2026.⁹ In South Sudan, a country of 13 million people with more military generals than doctors pre-COVID-19,¹⁰ health spending could rise by 13 times.

Spending cuts on this scale will dramatically narrow the fiscal space for social spending essential to attaining the Sustainable Development Goals, exacerbate COVID-19-induced vulnerability, and increase inequality and poverty. This will be especially true for women and girls, already especially hard hit by the pandemic, which has increased the burden on women at the frontline of health and social care, while slashing other earnings in the labour-intensive sectors dominated by women during lockdowns.¹¹

Debt servicing is another growing pressure on government budgets. Even before COVID-19, it was reaching astronomical levels in most East African countries, with governments spending on average five times as much on domestic and external debt service as on health.¹² In 2020–21, debt service accounted for 35.2% of government revenue in East Africa, a burden which the G20 Debt Service Suspension Initiative was woefully inadequate in reducing (see Section 1.5).

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

However, building back during and after the pandemic offers East African governments a once-in-a-generation opportunity to do what their citizens want: to avoid this austerity and make their economic systems fairer. Raising more revenue through progressive taxation could allow governments to increase the social sector spending needed to reduce inequality and poverty, without increasing the budget deficit. If they increase their tax revenues by just 1% of GDP, they would raise an additional \$4.9bn each year on average for the next five years, which is enough to raise health spending by an average 77% each year across the region.¹³

For most of the countries in the region, tax revenue has been chronically low for years. In 2019, average national tax revenue in the region was only 12.8% of GDP, with only Kenya over 16%.¹⁴ In addition, an average of 56% of tax revenue comes from indirect taxes on goods and services, which generally hit people living in poverty harder.¹⁵ Governments can do much more to raise this revenue in progressive ways that help fight inequality, by increasing income tax rates and collection, sealing tax loopholes, strengthening tax authorities, and reinforcing wealth taxes. Taxing the wealthy and corporations would give governments a way out of the crisis, and surveys from three of the nine countries show that more than 71% of citizens think it is fair to tax the rich more in order to fund programmes that benefit people living in poverty.¹⁶

It is also important that tax revenues are spent transparently on public services that reduce inequality the most. Currently most East African countries are falling far short of the spending targets set at African Union summits based on calculations of needs to reach the UN Sustainable Development Goals (SDGs) for universal coverage of education, health and social protection, and the Comprehensive Africa Agriculture Development Programme targets for agriculture spending.

However, there is a limit to what government spending alone can do to reduce the very high levels of inequality produced by the market in many East African countries. These have some of the world's highest levels of informal or vulnerable employment, which deprives workers of their labour rights. So governments will need to create and enforce legislation to improve labour rights (especially for women) and minimum wages. They will also need to work harder to tackle structural causes of inequality, notably unequal access to assets like land or financial services.

Regional and international organizations could also help steer countries away from the destructive path of austerity towards an inclusive and broad-based recovery. The East African Community could, for example, agree common minimum income tax rates and rules sharply reducing tax incentives in order to encourage faster progress towards regional convergence targets, as the West African Economic and Monetary Union has already done. The African Union could help by monitoring much more closely the social and agricultural spending commitments made at previous AU summits, and by advocating even more loudly for the debt relief and new financing measures needed to accelerate SDG progress. The IMF and World Bank need to encourage countries to increase progressive taxes and combat tax dodging to fund stronger public services. They should also push for improved labour rights and social protection. Urgent and ambitious debt relief is needed to prevent austerity and free up money for social spending. More aid is needed to end unacceptable vaccine inequality.

East Africa is at a crossroads. The pandemic has dramatically increased poverty and inequality in the region, and post-pandemic austerity will make this worse. It is not yet too late to change direction. By increasing taxation on those who can best afford it, and receiving more comprehensive debt relief and urgent external funding, East African countries can spend more on public services and enhance workers' rights. This will allow them to beat both austerity and the pandemic, and better protect themselves against future pandemics. But it will happen only if governments, regional institutions and the global community drastically increase their commitment to reduce inequality and eliminate poverty by 2030.

1. INEQUALITY AND THE COVID-19 PANDEMIC IN EAST AFRICA

Oxfam and Development Finance International (DFI) have produced this report to encourage East African governments¹⁷ to scale up their efforts to reduce inequality.

Chapter 1 assesses how the COVID-19 pandemic is exacerbating inequalities in East Africa, 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. **Chapter 2** introduces the Commitment to Reducing Inequality Index (CRII) 2020, which analyses and ranks 158 countries on their commitment to reducing inequality, both on paper and in practice.

Chapter 3 looks at the CRII for East Africa as a region, and **Chapters 4 to 6** analyse the focus countries on the three pillars of the CRII: public services, taxation and labour policies.

Chapter 7 provides recommendations on post-pandemic recovery: for East African governments to introduce strong anti-inequality policies to reduce the gap between rich and poor people, and for regional institutions and the international community to support them.

1.1 INEQUALITY IN EAST AFRICA BEFORE COVID-19

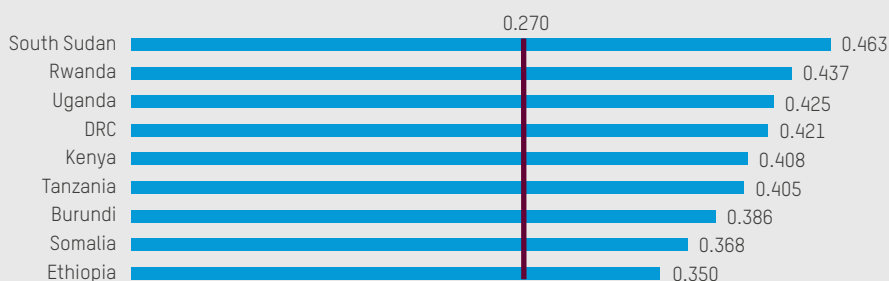
East Africa is a region high in inequality: it is less unequal than Southern Africa, but more unequal than West Africa. **Figures 1 and 2** respectively show the two most common ways of measuring inequality; namely the Gini coefficient, a number between 1 (total inequality) and 0 (total equality) based on income distributions,¹⁸ and the Palma ratio, which compares the incomes of the top 10% and the bottom 40%.¹⁹ East African countries perform similarly on both indicators, with South Sudan, Rwanda and Uganda being the most unequal, ranking among the world's 40 most unequal countries. Kenya, Tanzania, Burundi and Somalia are in the most unequal third of countries. Only Ethiopia has below-average inequality.

Though East African countries have seen impressive economic growth in the past two decades, and significant reductions in poverty in most of the countries, three (Burundi, Ethiopia and Tanzania) have seen a widening gap between the richest and poorest people, and there has been little progress in reducing inequality in the other countries.²⁰

Such inequality reduces economic growth,²¹ and worsens health and other outcomes for populations.²²

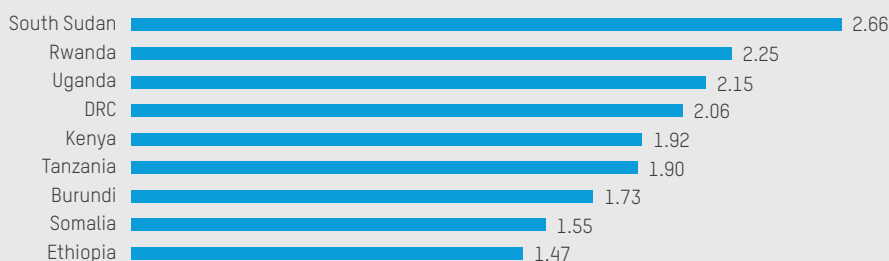
Figure 1 includes a line representing a Gini coefficient of 0.27, the level at which the IMF estimates that inequality undermines growth.²³

FIGURE 1: EAST AFRICAN INCOME GINI COEFFICIENTS



Source: UNDP Human Development Report country database at <http://hdr.undp.org/en/countries>. Years for data vary by country and are from the latest household surveys conducted by each government.

FIGURE 2: EAST AFRICAN INCOME PALMA RATIOS



Source: UNDP Human Development Report country database at <http://hdr.undp.org/en/countries>. Years for data vary by country and are from the latest household surveys conducted by each government.

Income is also increasingly concentrating in the hands of a tiny few, even as a majority are struggling to meet their most basic needs, such as education, healthcare and decent jobs. The richest 10% receive an average of 47% of pre-tax national income across the region. For the richest 1%, their average share of income across the region is 15.7%, 2.5 percentage points more than the poorest 50% of citizens earn. In Rwanda, the richest 1% of the population earns 20% of national income, nearly double the share held by the bottom 50%.²⁴

1.2 THE IMPACT OF COVID-19 ON POVERTY AND INEQUALITY

The COVID-19 pandemic will sharply increase poverty and inequality. The IMF, World Bank and UN have all sounded the alarm.²⁵ Recent estimates show that the bottom 40% of the world's citizens have seen a 5% fall in their income compared to pre-pandemic projections, and will see a further 5% fall in 2021 due to the lingering impact of COVID-19.²⁶ At the same time, the world's richest 20% will have recovered any income and wealth losses sustained during the pandemic by the end of 2021. Global stock market booms saw billionaires' wealth increase by \$5.5tn between 18 March 2020 and 31 July 2021.²⁷ The IMF has therefore suggested that COVID-19 could increase inequality in lower-income countries (a group which includes all countries in this report), as measured by the average Gini coefficient, by more than 6%.²⁸ The World Bank has indicated that this 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.²⁹

In sub-Saharan Africa, poverty is forecast to increase by 2.5% between 2019 and 2021, more than double pre-pandemic projections. In absolute terms, 52 million people in sub-Saharan Africa will be pushed into extreme poverty between 2019 and 2021, raising the number of people living in extreme poverty to 491 million (42.1% of the population).³⁰

With very few assets, lower education levels, precarious employment and low skills, most of the new extreme poor people were already just a shock away from extreme poverty. These groups (and especially women and female-headed households) 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.³¹

In East Africa, the situation has been further compounded by the locust infestations that swept across some countries in 2020, destroying food crops and livestock pastures.³² Erratic weather patterns including drought and flooding have not helped, bringing severe food insecurity especially for rural and nomadic communities. In Kenya, 2.1 million,³³ and 2.8 million people³⁴ in Somalia, are at risk of starvation due to raging drought.

The AfDB has pointed to a set of secondary consequences of the pandemic that could worsen poverty and inequality even further over the long 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.

Most countries in East Africa seemed to be less hard hit by the COVID-19 pandemic in 2020, but the first half of 2021 saw a surge in infection and death rates, forcing some countries to reintroduce containment measures. Health systems which were extremely weak before the pandemic have been stretched to the limits. Protracted school closures have affected millions of learners, especially the poorest who could not switch to online learning. While COVID-19 has since slowly abated in all Africa's regions, there is still a strong risk of another resurgence due to global vaccine inequality (see below).

East African countries have also suffered major economic fallout from the pandemic. We estimate the economic loss from lower-than-expected growth in the region to have been \$15.7bn in 2020.³⁵ Data from the IMF show that on average, East African countries have seen GDP fall by 2.7% in 2020. Only Ethiopia³⁶ (6.1%), Tanzania (4.8%) and Democratic Republic of Congo (1.7%) managed to maintain positive growth in 2020. All other countries saw negative growth, with the worst being in South Sudan (-6.6%) and Rwanda (-3.4%).³⁷

The economic shock from the pandemic is reflected not just in economic indicators such as GDP: it is being felt in the day-to-day lives of citizens across East Africa, and will be felt 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 four East African countries reported losing income and work (see **Table 1**), among the highest impact on work and earnings seen globally. In Kenya, more than 70% of workers lost income or hours, and 64% of workers lost their job or business entirely. Across East Africa, the International Labour Organization (ILO) estimates that COVID-19 resulted in the loss of 7.2% working hours in 2020 compared with 2019, which is the equivalent of 10 million full-time jobs.³⁸ The loss of jobs and income has pushed millions into poverty. For example, the UN estimates that the pandemic will result in 11 million more people living in poverty in the Democratic Republic of Congo (DRC), as well as 6 million in Tanzania and 2.4 million in Uganda.³⁹ The World Bank estimates that 900,000 Rwandans (7% of the population) will have fallen into poverty in 2020–21.⁴⁰

TABLE 1: THE IMPACT OF COVID-19 ON INCOME AND WORK IN OUR EAST AFRICA COUNTRIES

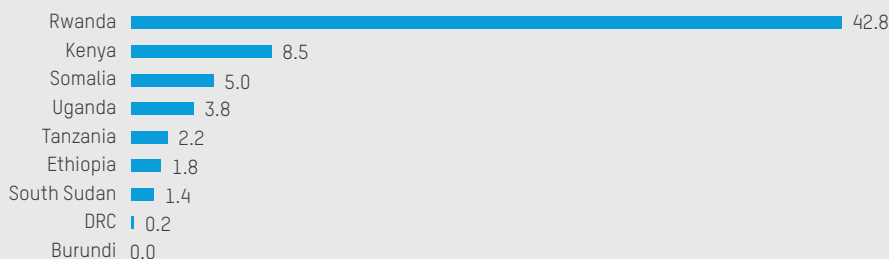
Countries	Percentage of workers stopping work temporarily	Percentage of workers who worked fewer hours	Percentage of workers who earned less than usual
Ethiopia	67	54	61
Kenya	71	73	74
Tanzania	53	55	54
Uganda	66	66	72
Average	64.3	62	65.3

Source: J. Ray. (2021, May 3). *COVID-19 Put More Than 1 Billion Out of Work*. Gallup. <https://news.gallup.com/poll/348722/covid-put-billion-work.aspx> The surveys are based on at least 1,000 adults aged 15 or older in each country and conducted in the latter half of 2020 and early 2021.

Lower growth will continue in 2022, though its severity will depend mainly on the rollout of COVID-19 vaccines, which has been shockingly slow in most East African countries.⁴¹ As of mid-January 2022, a dismal 4% of the population had been fully vaccinated in the region.⁴² As **Figure 3** shows, only Rwanda had vaccinated more than 40% of its population. Burundi was the last East African country to acknowledge the seriousness of the pandemic and to request vaccines, and therefore launched its vaccination campaign only on 31 October 2021.⁴³

Unequal global access to vaccines is hampering rollout in the region: wealthy countries are buying more doses than they can use, while vaccine manufacturers deprioritise poorer countries and COVAX, the global vaccine facility intended to ensure vaccine distribution to poorer countries. New massive 'booster shot' campaigns in wealthier countries could delay this further, posing a serious risk if the virus mutates into more deadly variants.

FIGURE 3: PERCENTAGE OF POPULATION FULLY VACCINATED, MID-JANUARY 2021



Source: Our World in Data. <https://ourworldindata.org/covid-vaccinations>

1.3 EAST AFRICAN COUNTRIES WERE UNPREPARED FOR THE CRISIS

COVID-19 has exposed how woefully unprepared East African governments were for a pandemic. **Figures 4–7** show that countries had:

- limited access to essential health services, reaching fewer than 60% of the population in all countries;
- an average of 7% of people spending catastrophic proportions (more than 10%) of their income on healthcare;
- limited commitment to spending on healthcare, with under 10% of government budgets dedicated to health in all countries except Ethiopia, Burundi and DRC;
- extremely low access to social protection benefits (using pension coverage as a proxy), with only 10.5% coverage on average, and under 10% in six countries;⁴⁴
- very low social protection spending of only 7% of budgets (only 40% of the global average); and
- an average of 20% of workers on formal contracts (34% less than the global average), therefore having rights to sick pay, job protection, etc.

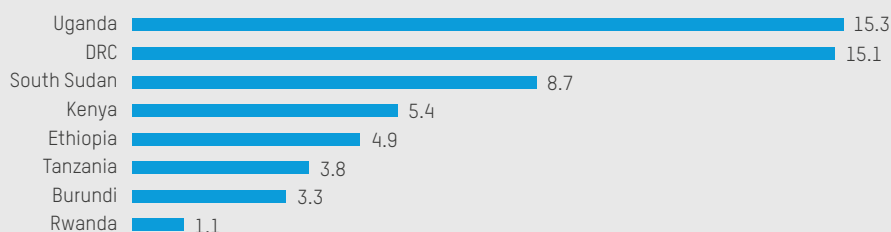
In short, when COVID-19 hit, half of East Africa's citizens had inadequate access to healthcare, 90% lacked social protection and 80% lacked labour rights to cope with the pandemic.

FIGURE 4: UNIVERSAL HEALTH CARE COVERAGE (2019, % OF POPULATION)



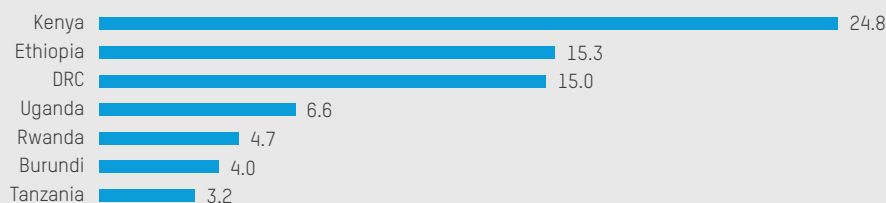
Source: Development Finance International and Oxfam *Commitment to Reducing Inequality Index* database 2020 at www.inequalityindex.org, based on WHO and ILO sources. Health data not available for Somalia.

FIGURE 5: CATASTROPHIC HEALTHCARE PAYMENTS (2019, % OF POPULATION)



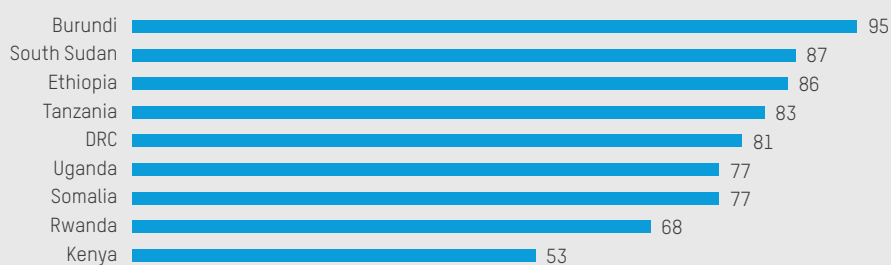
Source: Development Finance International and Oxfam *Commitment to Reducing Inequality Index* database 2020 based on WHO and ILO sources. Health data is not available for Somalia.

FIGURE 6: PENSION COVERAGE (% OF POPULATION)



Source: Development Finance International and Oxfam *Commitment to Reducing Inequality Index* database 2020 based on WHO and ILO sources. Social protection data is not available for Somalia and South Sudan.

FIGURE 7: WORKERS WITH NO FORMAL LABOUR RIGHTS (% OF WORKFORCE)

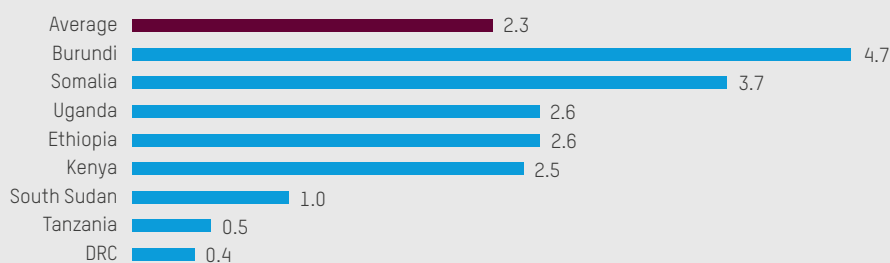


Source: Development Finance International and Oxfam *Commitment to Reducing Inequality Index* database 2020 based on WHO and ILO sources.

1.4 GOVERNMENTS' PANDEMIC RESPONSES

East African countries have responded to COVID-19 with a range of fiscal support packages. These average only 2.3% of GDP, about the same level as in West Africa, but half that of SADC countries, and one quarter of those in high-income countries, due to many countries' constrained ability to borrow additional funds.⁴⁵ **Figure 8** shows the scale of states' responses. They range from well below 1% in DRC and Tanzania, up to over 3% for Burundi and Somalia. Most countries in the region already had high debt levels and very limited fiscal space to respond. The governments of Burundi and Tanzania downplayed the prospective impact of COVID-19 for most of 2020 – and Burundi launched a response only in 2021. All countries except Tanzania funded part of their COVID-19 response by cutting other spending.⁴⁶

FIGURE 8: COVID-19 RESPONSE SPENDING (% GDP)



Source: IMF country programme documents (2020–21), available at <https://www.imf.org/en/Countries>.

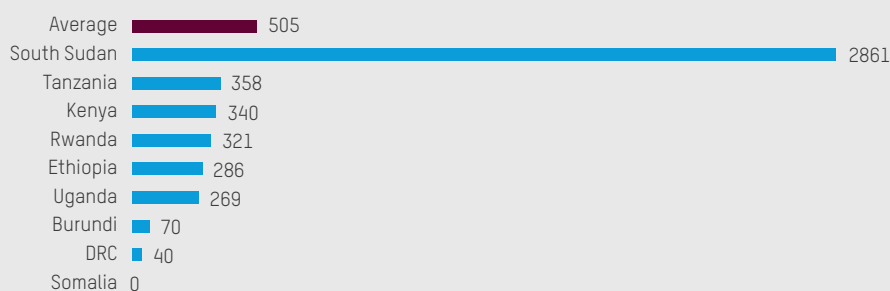
The nature of responses has varied between countries. All have spent on health measures to fight the pandemic, but only Rwanda has included plans to invest more in health systems and preparedness beyond 2021 (until 2024). Somalia increased its health spending tenfold between 2009 and 2021, to 5% of total federal spending.⁴⁷ All countries have also increased social protection spending, but some increases (e.g. in DRC, South Sudan and Tanzania) have been very limited. In contrast to other African regions, most spending has been on health and social protection responses rather than the broader economy.

According to the World Bank, only Ethiopia and Rwanda have used a range of social assistance mechanisms (cash transfers, public works, food provision, and waivers or reductions of utility bills) to supplement citizens' income. Most countries have used fewer tools: cash transfers, public works and food in Uganda; cash transfers, public works and utility bills in Kenya; cash transfers and utilities in DRC; cash transfers and food in Somalia; only cash transfers in South Sudan and Tanzania; and only support with utility bills in Burundi. Rwanda and Kenya have massively increased the numbers of people receiving cash transfers, by 654% and 211% respectively,⁴⁸ but from a very small base and only temporarily, thereby dramatically reducing their impact on reducing inequality.

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 East African countries. **Figure 9** shows that, on average in 2019, East African countries were spending five times as much on domestic and external debt servicing as on health, with South Sudan spending 28 times as much. Only Burundi, DRC and Somalia spent more on health than debt servicing.⁴⁹

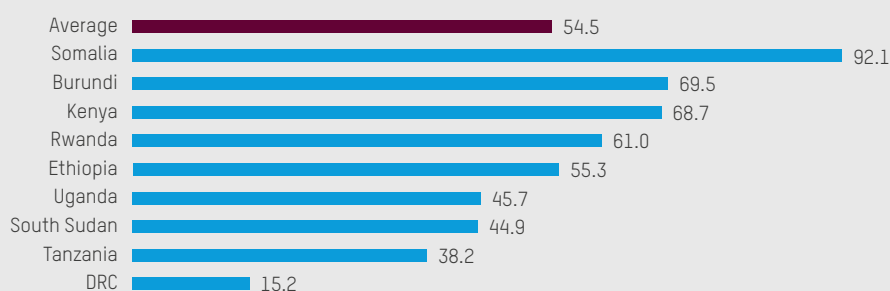
FIGURE 9: DEBT SERVICE PAYMENTS COMPARED TO HEALTH SPENDING
[% VALUE, 2019]



Source: Health spending from CRII data; debt service from IMF/World Bank Debt Sustainability Analyses, at <https://www.imf.org/en/publications/dsa>, IMF Programme Documents and country budget documents 2019–20.

Many countries have had to borrow to fund their pandemic responses, at the same time as GDP has fallen and budget revenues have collapsed. **Figures 10 and 11** show debt as a proportion of GDP, and debt service compared to budget revenues.⁵⁰ Debt-to-GDP averaged 54.5%, and debt service/budget revenue 35.2% by 2020–21. The highest debt service costs are for South Sudan, Kenya, Uganda and Rwanda, which are spending around or over half their revenue. Only in Somalia, DRC and Burundi is debt absorbing less than 25% of revenues.

FIGURE 10: PUBLIC DEBT COMPARED TO GDP (% , 2020–21)



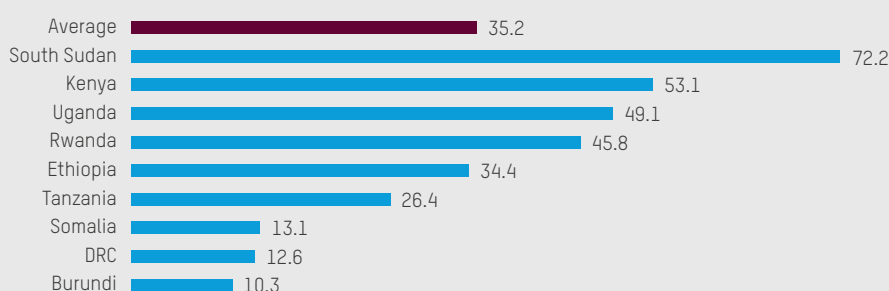
Source: IMF WEO database April 2021, at <https://www.imf.org/en/Publications/WEO/weo-database/2021/April>

So far, the global response in terms of debt relief has been limited to:

- the cancellation of debt servicing to the IMF during 2020–21 (including for Burundi, DRC, Ethiopia, Rwanda and Tanzania in East Africa);⁵¹ and
- a postponement of payments to G20 governments during the same period through a debt service suspension initiative (DSSI), to which six East African countries have applied.⁵² However, this initiative does not provide genuine long-term relief: the creditors continue to add interest to debt during the suspension and repayment period.

Somalia is also receiving comprehensive external debt relief, which will reduce its debt by around 90% and its debt service to only 7% of budget revenue in 2022–24.⁵³ However, this is occurring as part of the Heavily Indebted Poor Countries Initiative, which was designed 20 years ago and has nothing to do with the international response to COVID-19.

FIGURE 11: DEBT SERVICING COSTS COMPARED TO TAX REVENUES (% , 2020–21)



Sources: IMF/World Bank Debt Sustainability Analyses 2020–21, at <https://www.imf.org/en/publications/dsa>, IMF Country Programme Documents and country budget documents 2021–22

The G20 has established a new Common Framework, whereby most major creditor governments will meet to try to improve coordination. However, as relief does not yet involve commercial creditors or multilateral creditors other than the IMF (which account for the bulk of debt service in many countries), countries must continue servicing their debts to these groups. As a result, countries still accessing global bond markets, such as Rwanda, would not consider applying for Common Framework relief, because they might face major credit rating downgrades or lose their market access.⁵⁴ In addition, nothing is being done to reduce domestic debt levels, though their servicing accounts for a large share of the debt service burden in most East African countries, due to high domestic interest rates.⁵⁵

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 into 2022, transformed from a suspension into a cancellation initiative and include all multilateral and commercial creditors. However, this alone will not stop debt levels crowding out social spending and undermining progress towards the UN Sustainable Development Goals (SDGs) over the longer term. Many East African countries (apart from perhaps Burundi and DRC) will need comprehensive debt cancellation and reductions to ensure that their debts are sustainable, as part of a package including additional new concessional financing, so that they can invest to tackle inequality and build resilience against future pandemics through education, health, social protection and food security measures.⁵⁶

1.6 FAILING TO THINK ABOUT INEQUALITY: THE IMF AND WORLD BANK RESPONSE IN EAST AFRICA

The IMF and World Bank are mandated by the UN and the G20 to mobilize financing to fight the pandemic. However, they should also continue to play their longer-term roles of putting countries on track to achieve the SDGs and reduce inequality.⁵⁷

All East African countries have received extra emergency financial assistance from the IMF and the World Bank (for more details, see the country profiles accompanying this report). Such financing, combined with enhanced flows from the AfDB, the UN and bilateral partners, has been vital to fund pandemic response packages. However, these packages have been much smaller than those possible for wealthier countries borrowing on commercial markets (see [Section 1.4](#)).

Multilateral support was further scaled up in the third quarter of 2021. In early August, the IMF approved an issuance of \$650bn of Special Drawing Rights (SDRs), an international reserve asset from the IMF which countries could use to support spending or pay down domestic debt.⁵⁸ The nine countries in East Africa have received a combined \$4.63bn of SDRs, equivalent to 1.2% of 2021 regional GDP. The four poorest countries in the region will receive a major boost, with South Sudan receiving 10.3% of its GDP, Burundi 6.6%, Somalia 4.1% and DRC 2.7%. The resources will go some way to mitigating the pandemic-induced health and economic fallout by providing space to increase social spending or procure much-needed vaccines. In DRC and Ethiopia, for example, the SDRs each country received are more than enough to buy and deliver vaccines to every citizen.

There are plans for wealthier countries that do not need their \$400bn share of these SDRs to reallocate them so that more IMF financing will be available to low- and middle-income countries. However, as recently agreed by the IMF Governors in October 2021, some of these SDRs will be channelled via concessional loans by the IMF (through the Poverty Reduction and Growth Trust and the new Resilience and Sustainability Trust), with multilateral development banks also being considered as a channel. All these loans would contain policy conditions, unlike general SDR issuances which have no conditionality.⁵⁹ In addition, even with this reallocation, the amount received by developing countries will be much less than is needed for a full recovery from COVID-19 and a just and green recovery to accelerate progress to the SDGs. Many analysts and advocates have estimated that an issuance of SDR \$3tn would be desirable for these purposes.⁶⁰ Given their very low cost (an interest rate of 0.05% at the publication time and no repayment of principal necessary), regular large issuances of SDRs (say US\$650 billion every two years) could be a very 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.

Most current IMF loan documents in the region contain no significant analysis of inequality.⁶¹ However, some loan documents noted the likely increases in poverty estimated by the World Bank. Additionally, the latest IMF report on Uganda draws on work by the Uganda Bureau of Statistics to assess the impact of COVID-19 on poverty and inequality.⁶² Given that inequality is 'macro-critical', that is vital to future growth and stability, examining its trends and designing policy responses should be central to the analysis and policies underpinning IMF Article IV and lending programme documents in all East African countries.

The lack of inequality-specific analysis is perhaps understandable in the IMF's emergency COVID-19 response loans, which aim to fill emergency financing gaps without conducting much detailed analysis, and many of which came with far fewer terms and conditions. However, even in these loan documents, the IMF could have advocated key priority policies needed to fight inequality, including increases in progressive taxation, anti-inequality spending and labour rights. In line with this, the IMF fiscal affairs department has suggested 'solidarity' increases in progressive taxes to fund COVID-19 response and recovery,⁶³ but there is no sign that such recommendations are feeding into IMF programming in East Africa.

On the other hand, there are some encouraging signs that the IMF is beginning to focus on making taxation more progressive in East Africa. Kenya's initial response to COVID-19 was, against IMF advice, to cut all taxes – the government cut the top rate of personal income tax (PIT) and main rate of corporate income tax (CIT) in the 2020 budget; both from 30% to 25%, and reduced value-added tax (VAT) from 16% to 14%. However, in January 2021, with IMF support, it reversed these cuts.⁶⁴ Rwanda is also planning to increase the progressivity of its personal income tax with IMF technical assistance.⁶⁵ South Sudan is planning to increase all of its tax rates gradually over the next few years to bring them closer to the levels in other EAC countries, starting by increasing its business profits tax from 20% to 30%, with top PIT (and regressive VAT) rate increases to come. Most of the other countries covered in this report plan to rely on reducing tax exemptions (DRC, Ethiopia, Kenya, and Uganda) and more effective collection of taxes. It would be desirable to see the IMF advising all other countries on how to make taxes more progressive.

While the initial pandemic-related health and social protection spending may have helped to mitigate some of the pandemic-induced inequality, in almost all countries (except Uganda, where an increase of 0.7% of GDP in health and education spending is planned), these programmes are to be wound down by the end of 2021. Burundi is somewhat exceptional, as it did not acknowledge the severity of the pandemic until mid-2021, and therefore will be increasing spending in 2021-22 before bringing it back down again. In a context of budget

austerity in almost all countries (see **Section 1.7**), it will be extremely hard to protect social spending, let alone to increase it dramatically to fight inequality and reach the SDGs.

The World Bank's Systematic Country Diagnoses of East African 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 healthcare or universal social protection floors by 2030.⁶⁶

The World Bank and the IMF have analysed the impact of taxes and spending on poverty and inequality in four East African countries.⁶⁷ 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 Doing Business Index which has been widely criticized for encouraging deregulation and corporate tax cuts.⁶⁸

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 eight of 71 World Bank COVID-19 health projects worldwide had included any measures to reduce financial barriers to accessing health services.⁶⁹ The CRII has shown that this is a major issue in most East African countries, with such expenditures bankrupting millions of people each year and excluding them from treatment. For the countries covered in this report, none of the five World Bank projects (in Burundi, DRC, Ethiopia, Kenya and Rwanda) included measures to increase the affordability of services in their design.⁷⁰

On social protection support, while there have been considerable increases in the reach of cash transfers in some East African countries (see **Section 1.4**), 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.⁷¹ 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 abandoned and reversed as soon as the pandemic subsides, and Oxfam's analysis finds that the IMF is encouraging such reversals in some countries.⁷²

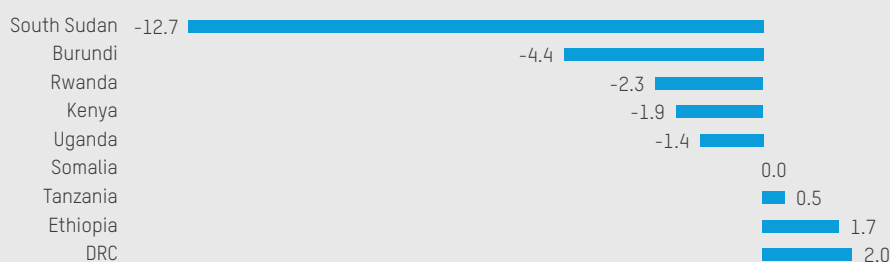
The leaders of the IMF and the World Bank have given strong speeches on inequality.⁷³ Both institutions have conducted comprehensive analyses stressing the risk that the pandemic will increase inequality, as well as the need to prevent this. However, their responses in country operations have largely ignored the issues of inequality, and by omission as well as by explicit policy advice 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 COMPOUNDING COVID-19 DRIVEN INEQUALITY: THE IMF PUSHES FOR RETURN OF AUSTERITY IN EAST AFRICA

While East African governments responded to the pandemic in 2020 with fiscal support packages, in some countries these are proving to be short-lived. Some countries have increased their spending as a proportion of GDP in 2021, but Kenya, Rwanda, Somalia and Tanzania have been cutting spending as COVID-19 infections and deaths continue to rise.⁷⁴

Even more concerning are the long-term plans for austerity in the countries covered by this report. DRC, Ethiopia, South Sudan and Tanzania had already seen overall expenditure cuts in 2020, and **Figure 12** contains IMF projections for nine East African countries in 2022–26, showing that they plan to reduce annual public spending by 4.7% of GDP on average compared with 2021.⁷⁵ Not implementing these cuts would be enough for these five governments to quadruple health spending and keep it at that level until 2026. South Sudan, where there were more generals than doctors before COVID-19, could multiply its health spending by 13 times.⁷⁶

FIGURE 12: AVERAGE ANNUAL GOVERNMENT SPENDING CUTS IN EAST AFRICA (2022–2026, % OF GDP)



Source: IMF. (2021). World Economic Outlook database: October 2021. Cuts are calculated in current US dollars, using 2021 expenditure (% GDP) as the baseline.

In all countries, the planned cuts exceed annual health budgets; they are twice as high in Uganda, four times in Burundi, and 34 times in South Sudan.⁷⁷

Austerity is being encouraged in IMF policy assessments, loans and advice on reducing overall spending 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.⁷⁸ Within these cuts, efforts are being made in IMF programmes to protect core social spending, especially in most East African countries using social spending floors, but these are defined differently across countries, and in many do not include social protection. If East African 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.⁷⁹ 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.⁸⁰

2. THE COMMITMENT TO REDUCING INEQUALITY INDEX 2020

The third edition of Oxfam and DFI's Commitment to Reducing Inequality Index (CRII) ranks 158 governments across the world on their commitment to reducing inequality. The global report was launched in November 2020.⁸¹

The CRII measures government policies and actions in three areas (called 'pillars') that are proven to reduce inequality significantly:

1. **Public services**, looking at education, health and social protection.
2. **Taxation**, looking at how progressive structures are on paper and in practice.
3. **Workers' rights**, with a particular focus on women's rights.⁸²

While these three thematic pillars remain unchanged from earlier editions, there have been significant changes in methodology to organize the index more consistently and show the impacts on inequality more clearly.⁸³ Each pillar now contains three levels of indicator:

1. **Policy commitment indicators**, which measure the commitment of governments through their policies (which may not always be implemented in practice).
2. **Coverage or implementation indicators**, which measure who is covered (or not) as a result of policy actions, or how well a government puts policies into practice.
3. **Impact indicators**, which measure the impact of policy actions on levels of inequality.

Figure 13 shows the CRII's three pillars and three levels. More details on the exact definitions of the indicators and data sources can be found in the methodology document on the CRII website at www.inequalityindex.org

FIGURE 13: THE CRII PILLARS AND INDICATORS

	PUBLIC SERVICES SPENDING	TAX PROGRESSIVITY	LABOUR RIGHTS AND WAGES
Policy indicators	<ul style="list-style-type: none"> • PS1a Education • PS1b Health • PS1c Social protection 	<ul style="list-style-type: none"> • T1a–Personal income tax • T1a–Corporate income tax • T1a–Value added tax • T1b–Harmful tax practices 	<ul style="list-style-type: none"> • L1a Labour rights • L1b Women's labour rights • L1c Minimum wage
Implementation or coverage indicators	<ul style="list-style-type: none"> • PS2a Secondary education completion by poorest quintile • PS2b Universal health coverage and out-of-pocket expenditure • PS2c Pension coverage 	<ul style="list-style-type: none"> • T2 Tax productivity across VAT, PIT & CIT 	<ul style="list-style-type: none"> • L2a Unemployment • L2b Vulnerable employment
Impact indicators	<ul style="list-style-type: none"> • PS3 Impact of spending on inequality (Gini) 	<ul style="list-style-type: none"> • T3 Impact of tax on inequality (Gini) 	<ul style="list-style-type: none"> • L3 Impact of labour income (wage) on inequality (Gini)
Total CRI score	Average of 3 pillar scores		

The rest of this report assesses how much nine East African countries are demonstrating a commitment to reducing inequality. This regional report is accompanied by nine country briefs,⁸⁴ which contain more detailed policy analysis and recommendations. _

BOX 1: THE IMPORTANCE OF AGRICULTURE AND GOVERNANCE

In addition to the core policies of the CRII, this report considers two additional policy areas.

In many countries in the region, poverty is concentrated in rural areas: therefore, supporting smallholders and food production is essential in order to fight inequality, poverty and food insecurity. This report therefore looks at the degree to which we can assess government spending on agriculture, given governments' commitments to the Comprehensive Africa Agriculture Development Programme (CAADP). This topic is covered in **Section 4.5**, as an addendum to the public spending pillar.

In addition, many commentators on the 2018 and 2020 global CRII reports have suggested that good governance may be a key indicator of anti-inequality commitment for governments, as it demonstrates that a government is more responsive to citizens' needs. We therefore look at two key indicators of governance – budget transparency and corruption – to see whether they are correlated with anti-inequality policies. (see **Box 2**).



3 EAST AFRICA'S OVERALL CRII PERFORMANCE

Compared with the four other regions of Africa, East Africa has the third-highest commitment to reduce inequality as measured by the CRII. **Table 2** shows the regional CRII scores for each of the five regions of Africa weighted by population, in which 1 represents the strongest anti-inequality record for each indicator. The data show that the average East African citizen is living under a government one third less committed to reducing inequality than their counterparts in North and Southern Africa, but 50% more committed than those in West and Central Africa. North and Southern Africa's better performances reflect higher average income levels, and therefore higher taxpaying capacity and more money to spend on public services. It is important to note that East Africa is doing only one third as well as the best performers globally in its commitment to reduce inequality.

As shown in **Table 3**, only one country (Kenya) comes in the top half of the global CRII index, but is still 76th in the world and eighth in Africa. This reflects its high education spending and a relatively progressive tax system (before the tax cuts introduced in 2020 and reversed in 2021), which brings in relatively significant income tax revenues.

TABLE 2: REGIONAL SCORES AND RANKINGS

Region	CRII average scores	Africa ranking (5)
SADC	0.84	1
North Africa	0.49	2
East Africa	0.35	3
Central Africa	0.32	4
West Africa	0.22	5

TABLE 3: CRII OVERALL SCORES FOR EAST AFRICAN COUNTRIES

Country	East Africa ranking (8)	Africa ranking (47)	Global ranking (158)
Kenya	1	8	76
Tanzania	2	26	130
Rwanda	3	28	133
DRC.	4	30	135
Ethiopia	5	31	136
Uganda	6	38	143
Burundi	7	40	147
South Sudan	8	47	158

South Sudan comes last in the global index, mainly because it is emerging from conflict, and so spends relatively little of its budget on inequality-reducing social services, but also because it has a regressive tax system. Uganda and Burundi are also in the bottom 20 performers, due mainly to low social spending and poor labour rights, respectively.

4 ARE EAST AFRICA'S PUBLIC SERVICES REDUCING INEQUALITY?

The public services pillar of the CRII (see **Chapter 2**) considers actions taken by governments related to education, health and social protection. Previous editions of the CRII looked only at spending as a percentage of government budgets and the impact spending had on a country's Gini coefficient. For 2020, a new set of indicators were added to measure the coverage and equity of services – and this was found to be an area in which many East African countries do badly.

Table 4 shows the public services rankings (weighted by population) for Africa's five regions: East Africa comes third, scoring 25% less than North Africa and SADC, but 75% higher than West and Central Africa. It is doing only a fifth of what the best performers globally do to reduce inequality through public services.

Table 5 shows the rankings for East African countries within the region, Africa and the world. All eight countries are in the bottom third of the global index. There is insufficient data to rank Somalia, but it would also certainly finish in the bottom third.⁸⁵

TABLE 4: CRII PUBLIC SERVICES REGIONAL SCORES AND RANKINGS

Regional	CRII average scores	Africa ranking (5)
North Africa	0.29	1
SADC	0.27	2
East Africa	0.21	3
Central Africa	0.12	4
West Africa	0.12	5

TABLE 5: CRII PUBLIC SERVICES RANKINGS FOR EAST AFRICAN COUNTRIES

Country	East Africa ranking (8)	Africa ranking (47)	Global ranking (158)
Kenya	1	13	110
Ethiopia	2	16	116
Burundi	3	24	127
DRC	4	30	135
Rwanda	5	31	136
Tanzania	6	33	138
Uganda	7	37	144
South Sudan	8	47	158

Source: M. Martin, et al. (2020). *Fighting Inequality in the Time of COVID-19: The Commitment to Reducing Inequality Index 2020*.

Kenya comes top on public services in East Africa, but only 13th in Africa and 110th globally. This is because it spends almost 20% of its budget on education, resulting in 12% of the poorest children finishing secondary school. Nevertheless, its performance on health and social protection is much weaker, so its public services reduce inequality by only 12%.⁸⁶

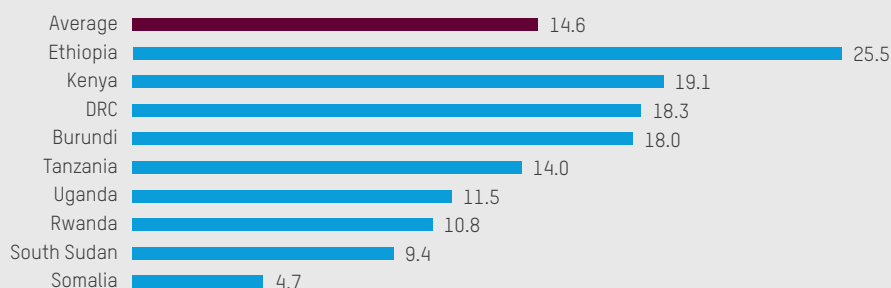
South Sudan ranks bottom in East Africa and globally on public services. As a country emerging from conflict, it is spending only 11.7% of its budget on education, health and social protection combined. These services are not reaching the poorest people: only 1% of the poorest children finish secondary school, and just 31% of citizens have access to healthcare. As a result, public services are estimated to reduce inequality by only 0.6%.⁸⁷

The rest of this chapter considers spending and coverage for education, healthcare and social protection in more detail; their impact on inequality; the coverage of these services; and then national spending on agriculture.

4.1 EDUCATION

In East Africa, only Ethiopia is meeting the internationally recommended 20% of national budgets on education spending, as set by the Education for All partnership (see **Figure 14**). Its education share is the second-highest in the world. Kenya, DRC and Burundi are not far from meeting the target, but South Sudan and Somalia are under 10%.

FIGURE 14: EDUCATION SPENDING (% GOVERNMENT BUDGET)



Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*. Coverage data are not available for Somalia

Table 6 shows that all the countries perform badly on the CRII indicator on equity of coverage, specifically the completion of secondary education for the poorest quintile. In Tanzania, South Sudan, Burundi and Ethiopia, fewer than 2% complete secondary education.

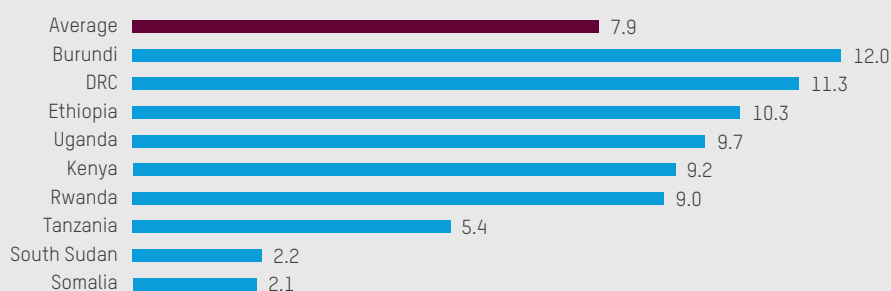
TABLE 6: EDUCATION COVERAGE INDICATOR

Countries	Percentage of poorest 20% completing secondary school
Kenya	12.0
DRC	7.2
Rwanda	3.8
Uganda	3.2
Ethiopia	1.7
Burundi	1.6
South Sudan	1.1
Tanzania	0.2

4.2 HEALTH

Figure 15 shows that on average in East Africa, spending on health is only half the Abuja African Union commitment of 15% of budgets. Only three countries (Burundi, DRC and Ethiopia) spend over 10%. Somalia and South Sudan spend just 2%.

FIGURE 15: HEALTH SPENDING (% OF GOVERNMENT BUDGET)



Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*.

Table 7 shows that all East African countries are falling well short of the SDG of 100% universal health coverage, with six not having reached 50% coverage when the COVID-19 pandemic hit. DRC and Uganda also have extremely high levels of 'catastrophic out-of-pocket' (COOP) health spending, defined as households spending more than 10% of their income on healthcare.⁸⁸

TABLE 7: EQUITY OF HEALTH COVERAGE INDICATORS

Countries	% pop'n able to access healthcare	COOP (% pop'n)
Rwanda	57	1.1
Kenya	55	5.4
Uganda	45	15.3
Tanzania	43	3.8
Burundi	42	3.3
DRC	41	15.1
Ethiopia	39	4.9
South Sudan	31	8.7

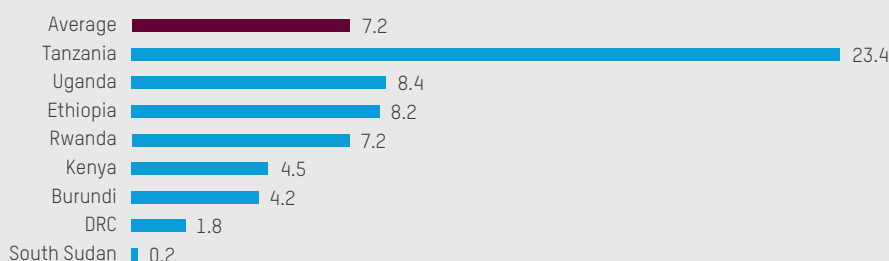
Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*. Coverage data are not available for Somalia.

4.3 SOCIAL PROTECTION

As **Figure 16** shows, pre-pandemic social protection spending averaged only 7.2% of national budgets in East Africa. It fell below 10% in all countries except Tanzania,⁸⁹ and was below 5% in Kenya, DRC, Burundi and Kenya.

The CRII uses pension coverage as a proxy for overall social protection coverage due to a lack of data across programmes targeted to other groups. It measures the percentage of the population of pensionable age receiving a pension. As **Table 8** shows, all countries in the region reach fewer than 25% of their population with a pension. In Tanzania, Burundi, Rwanda and Uganda, the pension coverage rate is below 10%. The related SDG is for 100% social protection coverage.

FIGURE 16: SOCIAL PROTECTION SPENDING (% OF GOVERNMENT BUDGET)



Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*. Spending data are unavailable for Somalia, and coverage data for Somalia and South Sudan. More recent ILO data for Tanzania indicate a spending level at around 7% of the budget.

TABLE 8: SOCIAL PROTECTION COVERAGE INDICATOR

Country	Pension coverage (% of elderly population)
Kenya	24.85
Ethiopia	15.30
DRC	15.00
Uganda	6.60
Rwanda	4.70
Burundi	3.95
Tanzania	3.20

Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*. Spending data are unavailable for Somalia, as are coverage data for Somalia and South Sudan. More recent ILO data for Tanzania indicate a spending level at around 7% of the budget.

4.4. IMPACT OF PUBLIC SERVICES ON INEQUALITY

Evidence shows that public spending on education, health and social protection can reduce income inequality dramatically, especially by preventing people living in poverty from having to pay out of their own pockets.⁹⁰ However, the extent of redistribution depends on the scale and progressivity of spending. The CRII measures the impact of public service spending using country-specific studies of the incidence of spending on the Gini coefficient where these have been conducted (Ethiopia, Kenya, Tanzania and Uganda), or estimates based on the scale of spending and global average impact coefficients where they have not. All countries should aim to conduct country-specific incidence studies as soon as possible to have more accurate data.⁹¹

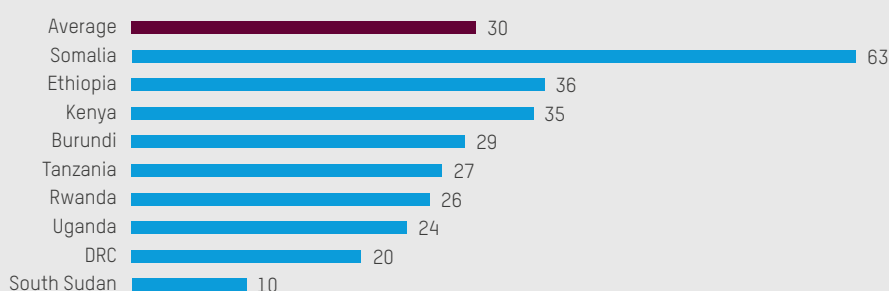
The impact of East Africa's public services on inequality is relatively low. Kenya has reduced its inequality by 12.6% largely due to its education spending; and Burundi, Rwanda and Uganda by 6%. The poorest performers are South Sudan (0.6%) and DRC, Ethiopia and Tanzania (around 3%) because they spend too little across the three sectors and do not spend progressively.

4.5 AGRICULTURE SPENDING ON SMALLHOLDERS AND FOOD

Agriculture spending can play a vital role in combating inequality, if it boosts the incomes of smallholder farmers and agricultural labourers, and reduces food insecurity.

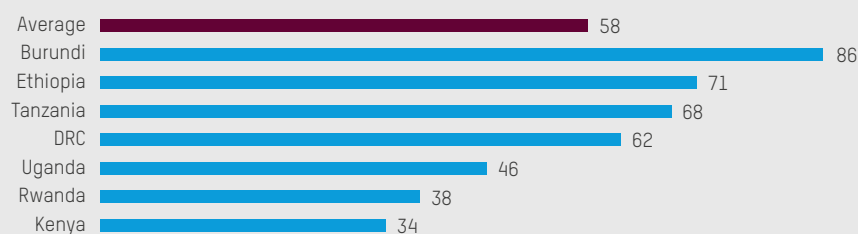
Agriculture remains a very important sector in most East African economies. As shown in **Figures 17 and 18**, it accounts for 30% of GDP and 58% of the workforce on average. It is especially vital for workers in Burundi, Ethiopia, Tanzania and DRC, where it accounts for more than half of the workforce. Rural poverty remains higher than urban poverty in most countries. Food insecurity is very high, and rural poverty and food insecurity are major drivers of inequality.⁹²

FIGURE 17: SHARE OF AGRICULTURE IN GDP (%)



Source: World Bank. *Agriculture, forestry, and fishing, value added (% of GDP)*.
<https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?>

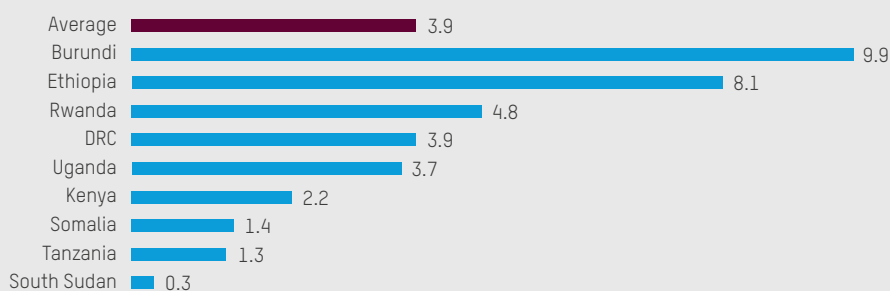
FIGURE 18: SHARE OF LABOUR FORCE IN AGRICULTURE (%)



Source: ILO. *Country profiles*. Share of labour force in agriculture, 2017. <https://ilostat.ilo.org/data/country-profiles/>

In 2014, East African countries recommitted to the Comprehensive Africa Agriculture Development Programme (CAADP), which called for governments to increase their annual budgetary allocations to agriculture to at least 10%.⁹³ As **Figure 19** shows, only Burundi is close to meeting this target, although Ethiopia is not far from it. All the remaining countries spend less than 5% of their budgets on agriculture, with South Sudan, Tanzania, Somalia and Kenya spending under 2.5%.

FIGURE 19: AGRICULTURE SPENDING (% GOVERNMENT OF BUDGET, 2019)



Sources: National budget documents for 2019.

The available data do not allow a breakdown of agricultural spending into recipients – we do not know how much goes to smallholders and how much to agribusinesses. This means it is not possible to assess whether the spending will help reduce rural poverty, nor whether it is targeted to food crops rather than export crops, and thereby reducing food insecurity. It should be a priority for governments in the region to disaggregate their spending in more detail so that it is easier to assess which programmes are likely to be helping combat rural poverty, food insecurity and inequality.

5 ARE EAST AFRICA'S TAX SYSTEMS REDUCING INEQUALITY?

The tax progressivity pillar of the CRII (see **Chapter 2**) assesses how well a country's tax policies and their implementation are reducing inequality. The indicators are:

- 1. Progressivity of tax policies.** Are the main taxes – personal income tax (PIT), corporate income tax (CIT), and value-added tax (VAT) or general sales tax (GST) – designed to be progressive on paper? Does their burden fall more on those who can afford to pay?
- 2. Implementation of tax policies.** How successfully does the country collect its main taxes and how progressive does this make tax collection in practice?
- 3. Impact of tax on inequality.** What is the impact of the tax collected on income inequality, as measured by the Gini coefficient?

Table 9 shows that East Africa performs second among African regions in terms of the average scores (weighted by population) across the tax pillar – though the other regions are not far behind. It achieves an average score almost two-thirds that of the best performers.

This is because, as shown in **Table 10**, two countries (Kenya and Tanzania) are in the top third of the global index, and only two (DRC and South Sudan) are in the bottom third. Kenya performed best on tax progressivity in East Africa, and ranked fourth in Africa and ninth globally (before the tax cuts introduced in 2020 and reversed in 2021) because its tax collection brings in relatively significant tax revenues. Nevertheless, Kenya could do more to make its system more progressive, such as introducing a wealth tax, improving property taxes and collecting more of the tax which large corporations and wealthy individuals are currently dodging.

At the other end of the East African rankings is South Sudan, due to its low corporate and top PIT rates of 20% and 15% respectively, as well as its poor tax collection. Somalia has higher rates but even lower collection, relying on customs and VAT.

TABLE 9: TAX PROGRESSIVITY CRII REGIONAL SCORES AND RANKINGS

Region	CRII average scores	Africa ranking (5)
SADC	0.62	1
East Africa	0.61	2
North Africa	0.58	3
Central Africa	0.53	4
West Africa	0.49	5

TABLE 10: CRII TAX PROGRESSIVITY RANKINGS FOR EAST AFRICAN COUNTRIES

Country	East Africa ranking (8)	Africa ranking (47)	Global ranking (158)
Kenya	1	4	9
Tanzania	2	11	39
Ethiopia	3	16	55
Rwanda	4	22	74
Uganda	5	24	86
Burundi	6	30	95
DRC	7	33	107
South Sudan	8	47	155

Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*.

Increasing tax revenue holds enormous potential for funding government programmes to reduce inequality. If the governments of East Africa were to increase their tax revenue by just 1% of GDP, this would raise \$4.9bn each year on average for the next five years, which is enough to raise health spending by an average 77% each year across the region.⁹⁴

In addition, East Africa's citizens (insofar as independent opinion polls have been possible in countries) strongly support more progressive tax systems. **Table 11** shows the results of Afrobarometer surveys covering three of the nine countries in this report, finding that 71.4% of citizens think it is fair to tax rich people at a higher rate to help pay for government programmes which benefit people living in poverty.

TABLE 11: PROPORTION OF CITIZENS WHO SUPPORT MORE PROGRESSIVE TAXATION
(PERCENTAGE WHO AGREE/STRONGLY AGREE)

Countries	Percentage who agree/strongly agree
Ethiopia	73.2
Kenya	74.6
Uganda	66.4
Average	71.4

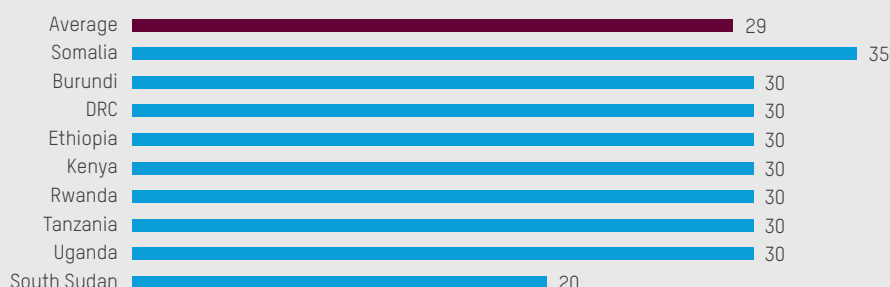
Sources: Afrobarometer Round 8 surveys conducted between 2018 and 2020, available at https://afrobarometer.org/publications?field_publication_type_tid=437

5.1 PROGRESSIVITY OF TAX POLICIES ON PAPER

This indicator measures whether the main taxes (CIT, PIT, and VAT or GST) are structured in a progressive fashion, so that richer citizens are intended on paper to pay a higher share of their income and the poorest citizens are largely exempt. On these aspects, almost all East African countries come in the top half of the CRII: DRC and Burundi do especially well. On the other hand, South Sudan's low CIT and PIT rates leave it badly placed.

This indicator also includes an assessment of whether countries are promoting harmful tax practices through their tax policies, such as acting like tax havens and depriving their own citizens (and those of other countries) of revenues. None of the East African countries covered by this report are exhibiting significant harmful tax practices or acting like tax havens.

FIGURE 20: CORPORATE INCOME TAX RATES (%)

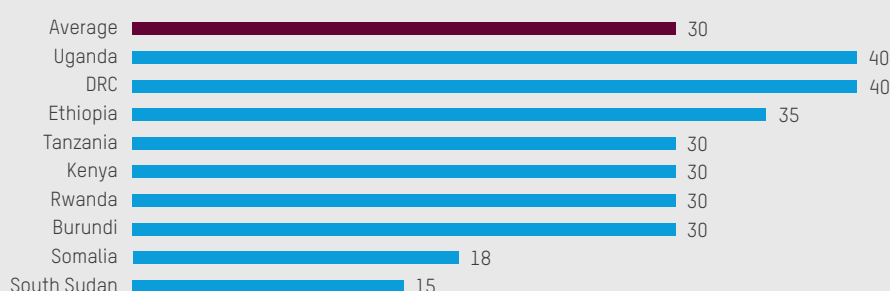


Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*, based on budget documents and tax codes.

Looking in more detail at individual taxes, as shown in **Figure 20**, the average East African CIT rate is 29%, close to the African average of 28%. Almost all countries have 30% CIT rates. South Sudan plans to raise its 20% CIT rate as part of its EAC regional convergence plan.

The East African average top rate of PIT is 30%, somewhat below the broader African and global averages of 32%. **Figure 21** shows a wide range of top rates. The top rates in DRC and Uganda are higher than average, while those in Somalia and South Sudan are very low.

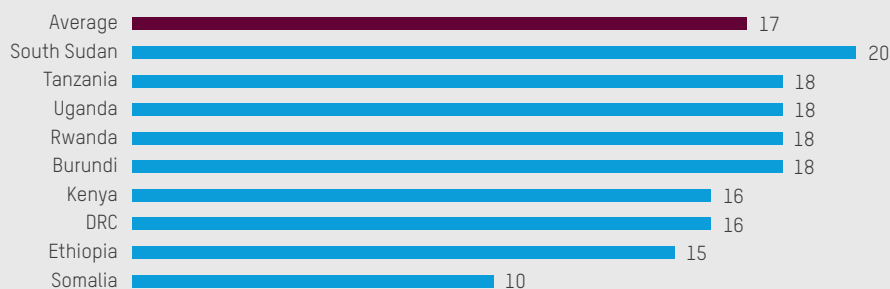
FIGURE 21: TOP PERSONAL INCOME TAX RATES (%)



Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*, based on budget documents and tax codes.

The average VAT rate is 17%, slightly above the African average of 16% and the global average of 15.5% (see **Figure 22**). These are regressive taxes, because people with less disposable income have to spend a much higher proportion of their incomes on the consumption they tax. Therefore, countries receive higher CRII scores if they have lower rates. South Sudan has the highest rate, with a GST of 20%, but has plans over time to transform this into a VAT which extends to services as well as goods, and to reduce it to 18% to converge with the EAC. Somalia, Ethiopia, DRC and Kenya have lower rates.⁹⁵

FIGURE 22: VAT OR GST RATES (%)



Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*, based on budget documents and tax codes.

Two policy measures can make VAT less regressive and reduce its impact on inequality:

- exempting basic foodstuffs consumed by people living in poverty; and
- having a relatively high minimum threshold for companies to take VAT payments, which excludes smaller traders, reducing costs for poorer customers.⁹⁶

Table 12 shows that five East African countries use both of these measures. Tanzania uses only a high threshold, and South Sudan uses neither. It will be vital to protect these measures (and extend them to Tanzania and South Sudan) as part of EAC convergence efforts, in order to reduce the burden of consumption taxes on people living in poverty.

TABLE 12: VAT EXEMPTIONS AND HIGH THRESHOLDS

Country	Basic food exemptions	High thresholds
Burundi	Lower rate	Yes
DRC	Yes	Yes
Ethiopia	Yes	Yes
Kenya	Yes	Yes
Rwanda	Yes	Yes
South Sudan	No	No
Tanzania	No	Yes
Uganda	Yes	Yes

Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*, based on budget documents and tax codes.

Wealth taxes can reduce inequality dramatically. They can cover various types of wealth, such as land, property, financial wealth or significant transactions (such as capital gains, inheritance and gifts). Taxes on wealth are important because, due mainly to financial income rising much faster than earned income, wealth inequality is higher than income inequality.⁹⁷

These types of taxes should be a priority for the region. Yet no East African country has a tax on the stock of wealth. All have property taxes, but these are often at low levels, are not progressive and/or are very ineffectively collected.⁹⁸ Many lack inheritance or gift taxes, or levy them at very low levels. And as shown in **Table 13**, most countries have taxes on personal or corporate capital gains, but these are set at only half the rates of similar income taxes, and are much lower than income taxes in seven or eight of the nine countries.

TABLE 13: PERSONAL AND CORPORATE INCOME AND CAPITAL GAINS TAXES

Country	Personal taxes (%)				Corporate taxes (%)			
	PIT	PCGT	DIFF	Relative %	CIT	CCGT	DIFF	Relative %
Burundi	30	17.5	-12.5	58	30	17.5	-12.5	58
DRC	40	0	-40	0	30	30	0	100
Ethiopia	35	22.5	-12.5	64	30	22.5	-7.5	75
Kenya	30	5	-25	17	30	5	-25	17
Rwanda	30	17.5	-12.5	58	30	17.5	-12.5	58
Somalia	18	0	-18	0	30	0	-30	0
South Sudan	15	2	-13	13	20	2	-18	10
Tanzania	30	11.5	-18	38	30	30	0	100
Uganda	40	40	0	100	35	30	-5	86
Average	29.78	12.89	-16.89	43	29.44	15.11	-14.33	51

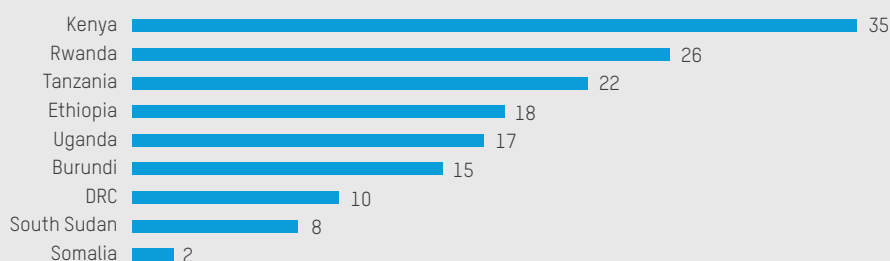
Sources: PWC or KPMG corporate tax summaries for most countries, national tax codes for others.

Note: where CGT rates are different for immovable and movable property, the two rates are averaged.

5.2 TAX COLLECTION

The tax collection indicator looks at productivity; the percentage of tax each country is collecting compared to what it should collect, based on tax rates and the tax base from which it is collected.⁹⁹ On this basis, almost all East African countries perform badly, collecting well below half of what they should (see **Figure 23**). Five countries collect less than a fifth, while Somalia collects just 2%.

FIGURE 23: TAX COLLECTION PRODUCTIVITY (%)



Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*, based on budget documents and IMF data.

Far too many countries remain largely dependent on consumption taxes for their tax revenue. All suffer from major shortfalls in collection of income taxes. These reflect five main factors:

- the excessive use of tax exemptions and holidays, mainly as incentives to attract (mostly foreign) investment, even though there is no evidence worldwide that such incentives are major factors in investment decisions;
- widespread tax dodging – illegal evasion or legal avoidance – and ‘illicit financial flows’ by major companies and high-net-worth individuals;
- the use of major deductions – especially for private education, healthcare and pensions – from wealthier citizens’ PIT burdens;
- weak tax administrations with insufficient capacity to track and audit the tax liabilities of large taxpayers; and
- unbalanced tax treaties that deprive countries of the ability to collect taxes from multinational corporations.¹⁰⁰

Most East African governments have been trying to reduce exemptions and deductions, increase measures to combat tax dodging, renegotiate treaties and improve their tax collection capacity. However, there is still much to do – not just at the national level, but through international cooperation to share tax information, renegotiate tax treaties and provide assistance with auditing and collection.

5.3 IMPACT OF TAXES ON INEQUALITY

Evidence shows that income and wealth taxes tend to reduce inequality substantially because they are progressive and collect more from wealthier citizens¹⁰¹ whereas most consumption taxes (e.g. VAT and GST) can increase inequality because they are regressive and collect more proportionally from lower-income citizens. The impact of tax on inequality varies hugely across countries because the extent of redistribution depends on both the structures of the taxes (rates, exemptions, thresholds, etc.), and the scale of their respective collection. The CRII measures this impact using country-specific studies of the incidence of taxes on the Gini coefficient where these exist (Ethiopia, Kenya, Tanzania and Uganda), or estimates based on the collection of taxes and global average impact coefficients where they have not.

In East Africa, only four countries have tax systems that reduce inequality, with Tanzania reducing its Gini coefficient by about 11%; Kenya by 7%, Ethiopia by 3% and Uganda by 2%. The tax systems in South Sudan and Somalia have virtually zero impact on inequality. The tax systems in DRC and Rwanda are marginally regressive – actually increasing inequality by 1% and 4%, respectively. Given that all the neutral and regressive calculations are based on estimates, all countries should aim to conduct country-specific incidence studies as soon as possible to have more accurate data.¹⁰²



6 ARE EAST AFRICA'S LABOUR POLICIES REDUCING INEQUALITY?

The labour rights and wages pillar of the CRII measures whether labour policies are reducing inequality at three levels:

- 1. Labour policies.** Does legislation provide for labour and union rights, protection for women workers (i.e. on equal pay, non-discrimination, rape and sexual harassment, as well as length and levels of parental pay), and fair minimum wages?
- 2. Labour rights coverage.** What proportion of workers have guaranteed rights through a formal labour contract? This excludes the unemployed and those in vulnerable and informal employment.
- 3. Impact on wage inequality.** This is measured by the Gini coefficient of wages.

Table 14 shows that East Africa comes third among Africa's regions for its average weighted labour rights score. Governments in East Africa are doing only 40% of what North Africa is doing, and half of what the countries in the SADC are. They are performing just a fifth as well as global leaders. This is because East Africa has a number of countries with extremely weak labour rights and low minimum wages; a high proportion of people in vulnerable employment lacking labour rights; and very high wage inequality.

Table 15 shows that, for these reasons, almost all countries rank in the bottom third of the global CRII, with Burundi, Ethiopia, South Sudan and Uganda in the bottom six. Even Kenya, the best performer in East Africa, is 105th globally for labour policies

TABLE 14: LABOUR RIGHTS CRII REGIONAL SCORES AND RANKINGS

Region	Labour score	Africa ranking (5)
North Africa	0.49	1
SADC	0.36	2
East Africa	0.2	3
Central Africa	0.16	4
West Africa	0.12	5

TABLE 15: CRII LABOUR POLICY RANKINGS FOR EAST AFRICAN COUNTRIES

Country	East Africa ranking (8)	Africa ranking (47)	Global ranking (158)
Kenya	1	15	105
DRC	2	21	122
Rwanda	3	32	136
Tanzania	4	35	144
Uganda	5	42	153
South Sudan	6	43	154
Ethiopia	7	44	155
Burundi	8	45	156

Sources: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*.

6.1 LABOUR POLICIES

Only DRC performs well on paper for its labour rights policies and laws, ranking in the top 10 globally. This reflects above all its high minimum wage. At the other end of the rankings are Ethiopia and South Sudan, that are in the bottom third of the index because they have no minimum wage. All East African countries' overall labour pillar scores are also brought down by their high levels of informal or vulnerable employment, as well as the high inequality of wages (measured by Gini coefficient of wages), showing that policies are not being implemented.

Only South Sudan and Uganda scrape into the top half of the Penn State University Labour Rights Indicators on worker and union rights. They have passed most of the laws needed to allow freedom of association and collective bargaining rights, but still violate them sometimes. In contrast, DRC and Tanzania are in the bottom third on this indicator: as of 2017 they were missing much critical legislation, and often violating what legislation did exist.¹⁰³

Women require specific protections to enhance their labour market participation and wage levels. As a result, the CRII looks at how these rights are protected, by assessing whether laws exist to:

- 1 prevent discrimination in hiring;
- 2 prevent discrimination in the workplace;
- 3 ensure equal pay for work of equal value; and
- 4 protect women comprehensively against gender-based violence and sexual harassment.

As **Figure 24** shows, three East African countries (Burundi, Rwanda and Tanzania) score well on this indicator, having high-quality laws in all four areas. DRC, Ethiopia, Kenya, Somalia, South Sudan and Uganda are marked down for not including marital rape in their anti-rape laws. Ethiopia and Somalia also lack a sexual harassment law.

FIGURE 24: WOMEN'S LABOUR RIGHTS IN LAW (NUMBER OF HIGH-QUALITY LAWS)

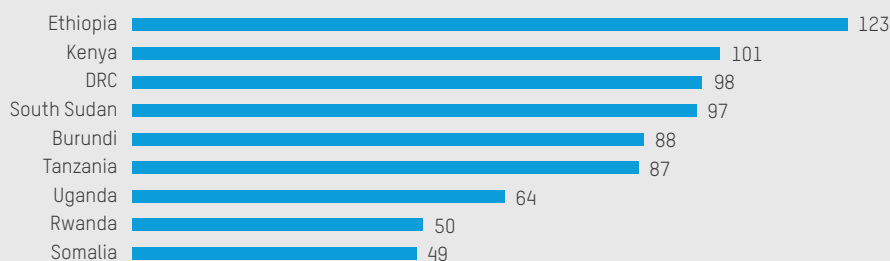


Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*, based on national labour laws.

The second women's rights indicator is the number of days of paid parental leave provided. This is vital for parents to be able to undertake their child care roles without losing income. This indicator is assessed on the number of days of paid leave multiplied by the percentage of workers' prior income paid. As **Figure 25** shows, only Ethiopia and Kenya provide 100 days or more; DRC, South Sudan, Burundi and Tanzania provide between 87 and 98 days; while Uganda provides only 64, Rwanda 50 and Somalia 49 days.

Another important indicator used globally to assess whether the burden of care for women is relieved is paternity leave. East Africa preforms relatively badly on this, with DRC having no paternity leave; Ethiopia and Tanzania providing only three days; Burundi, Rwanda and Uganda four; South Sudan seven; and Kenya ten days. Parental leave is, however, an area in which Ethiopia and South Sudan have sharply increased the number of days provided in recent years.

FIGURE 25: PARENTAL LEAVE (DAYS X % PRIOR SALARY PAID)

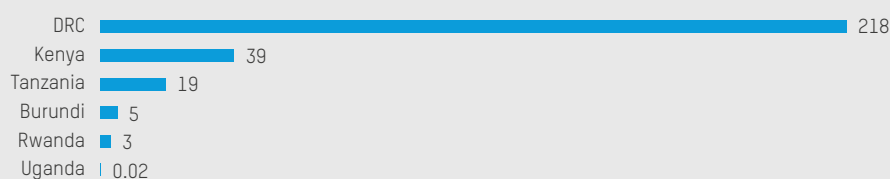


Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*, based on national labour laws.

The final indicator used to assess labour policies is a country's minimum wage. Ideally this would be assessed against the standard of a living wage that allows workers to afford all the basic necessities of a decent life. However, living wages have not been calculated for most of the countries in East Africa, so instead we compare the minimum wages with per capita GDP: this has the added advantage (compared, for example, with average wages) of reflecting whether the minimum wage is helping to increase labour earnings' share of GDP.

As **Figure 26** shows, only DRC performs relatively well on this indicator, setting the wage well above per capita GDP. Most other East African countries do very poorly, with the lowest minimum wages being in Burundi, Rwanda and Uganda, which have not updated them for decades. Ethiopia, Somalia and South Sudan are excluded from this indicator because they are among the 12 countries in the world that do not have a minimum wage.¹⁰⁴

FIGURE 26: MINIMUM WAGE AS % PER CAPITA GDP

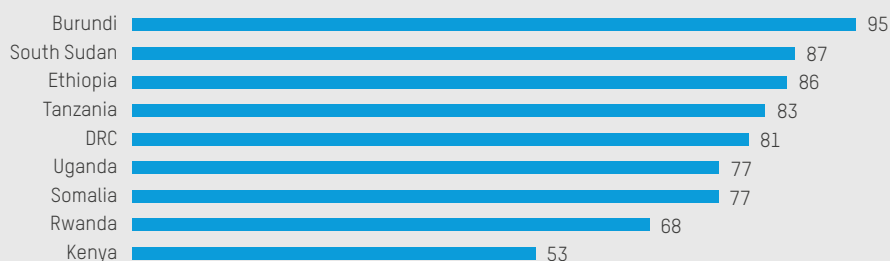


Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*, based on national labour laws.

6.2 COVERAGE OF WORKERS' RIGHTS

As can be seen in **Figure 27**, fewer than half of workers in all East African countries are covered by formal labour protections. In all but Kenya and Rwanda, fewer than a quarter are covered. This seriously undermines the realization of labour rights as a result of the very high levels of informal and vulnerable labour (and in South Sudan and Uganda, also by high unemployment).

FIGURE 27: WORKERS WITH NO FORMAL LABOUR RIGHTS (% LABOUR FORCE, 2019)



Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*, based on ILO data.

6.3 IMPACT ON WAGE INEQUALITY

To assess whether anti-inequality labour policies are reducing wage income inequality, we use ILO estimates of the Gini coefficient for wages.¹⁰⁵ This works in the same way as the Gini coefficient for income – the higher the coefficient, the more unequal wages are.

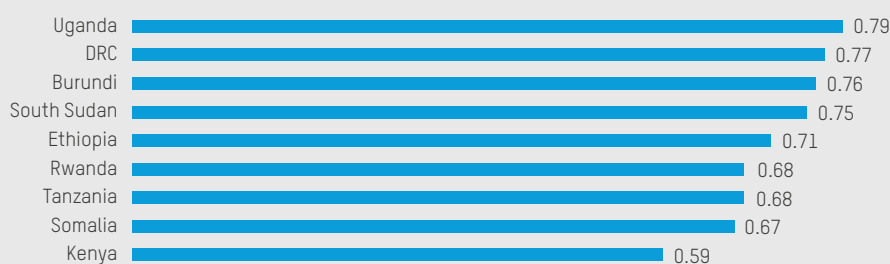
As shown in **Figure 28**, East African countries have significant wage inequality: five countries (Uganda, DRC, Burundi, South Sudan and Ethiopia) have Gini coefficients above 0.7, putting them in the world's worst 20 countries. All East African countries are in the bottom half of global scores.

These very high wage Gini coefficients reflect two main factors:

- the poor enforcement of policies on women's rights and minimum wages; and
- the low wages earned by those in vulnerable or informal employment.

They thus reflect that largely unregulated labour markets are producing extreme levels of inequality. It will be very difficult for governments to reduce such high levels of market-produced inequality to levels that do not have a negative impact on GDP by using spending and tax measures alone. This emphasizes the need for stronger labour rights policies and their enforcement in East African countries.

FIGURE 28: WAGE INEQUALITY (GINI COEFFICIENT)



Source: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*, based on ILO estimates.

BOX 2: DOES GOOD GOVERNANCE ENHANCE COMMITMENT TO REDUCE INEQUALITY?

In comments received on the 2018 and 2020 global CRII reports, DFI and Oxfam were urged to analyse whether good governance – in particular a commitment to budget transparency and to fighting corruption – made governments more focused on fighting inequality and more involved in national budget decisions, meaning that distribution was then less determined by wealth, power or bribery among a small elite.

We have tested the correlations between countries' CRII scores (overall and on different pillars), and two other well-respected indexes, the International Budget Partnership's Open Budget Index (OBI) and Transparency International's Corruption Perception Index CPI.¹⁰⁶ Neither of these indexes covers all CRII countries, with the CPI covering 152 and OBI 106.¹⁰⁷

There are not sufficient data points from the indices to make full econometric testing worthwhile, but simple statistical analysis shows relatively high correlation of both other indices (especially the CPI) with the overall CRII, and its public services pillar. As shown in **Figures 29–32**, the Pearson correlation coefficients all exceed 0.63. The strongest relationship is between the CRII public services pillar and the CPI (0.74): higher CPI correlations imply that lower perceptions of corruption are very highly correlated with anti-inequality public services, but higher budget transparency is also highly correlated.

We also tested the tax pillar of the CRII against the other indexes, but found virtually no correlation, at -0.05 for the CPI and 0.13 for the OBI. We did not test the labour pillar because there was not a credible hypothesis that anti-corruption policies or budget transparency would be linked to labour policies.

FIGURE 29: CRII–OBI CORRELATION (0.63)

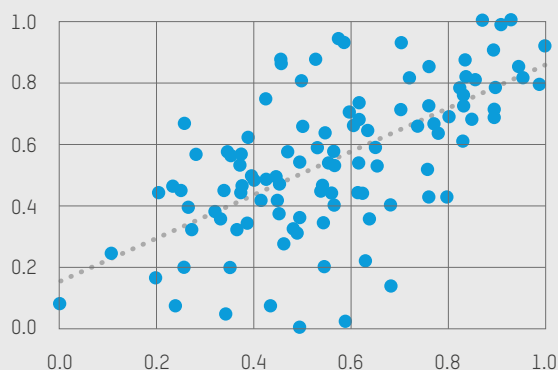


FIGURE 30: CRII–CPI CORRELATION (0.70)

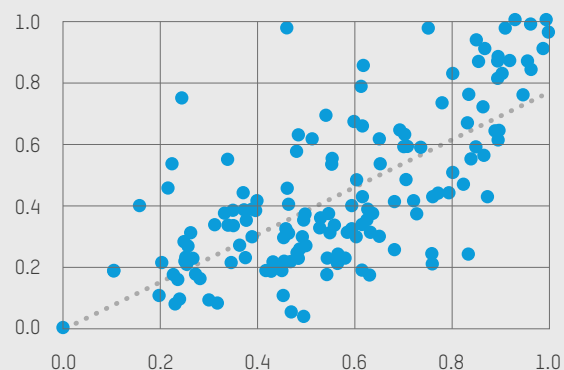


FIGURE 31: CRII PUBLIC SERVICES–OBI CORRELATION (0.63)

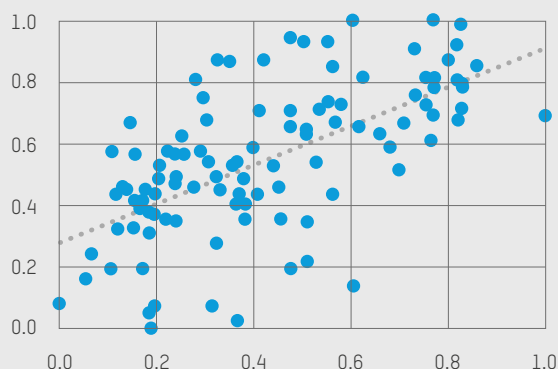
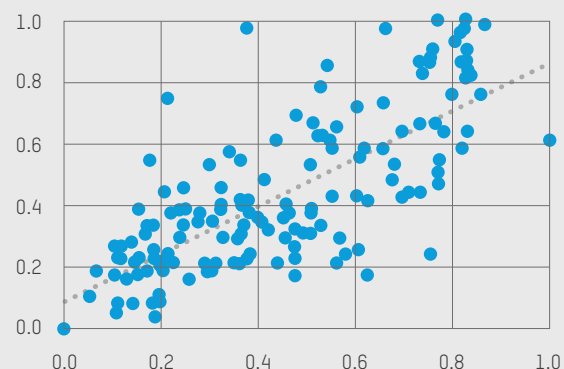


FIGURE 32: CRII PUBLIC SERVICES–CPI CORRELATION (0.74)



A more detailed look at East African countries, in **Figures 33–36**, shows somewhat lower (but still relatively high) correlations for public services scores. The correlation of CRII for public services with OBI was 0.48, while that with CPI was 0.41. On the other hand, the correlations of CRII overall score with OBI (0.58) and CPI (0.46) were higher in East Africa than globally, with this difference being almost entirely due to higher regional correlations of CRII tax scores with OBI (0.53) and CPI (0.57).

The public services finding is very interesting, in that it implies there might be somewhat less close links between transparency and anti-corruption measures and anti-inequality public services in the East African region than globally. In turn this reflects weaker anti-corruption and budget transparency measures in the region, as reported by the CPI and OBI, explaining why these services do not reach people living in poverty. This finding appears to confirm other studies showing that a very high proportion of public services spending in the region does not reach its intended poor beneficiaries, either because it is badly designed and so does not reach the poorest,¹⁰⁸ or because it is diverted through corruption before it reaches the poorest people.¹⁰⁹ It also aligns with the key demands of Fight Inequality Alliance campaigners in the HECA region, which are for greater anti-inequality policy action to focus particularly on ensuring that government social services actually reach the poorest people.

The tax finding also implies that there are closer links between tax policy and transparency and anti-corruption efforts in the East African region than elsewhere. In turn this reflects somewhat higher levels of transparency and stronger anti-corruption measures taken to support tax policy in the region, such as, for example, the establishment of independent revenue authorities with much higher pay scales than normal government service, which means that taxes are somewhat more successfully collected from the key (wealthier) contributors.

In any case, overall this result for East Africa still confirms the strength of the link between budget transparency and anti-corruption measures, and anti-inequality policies, meaning that governments need to reinforce their transparency and anti-corruption policies to fight inequality more effectively.

FIGURE 33: CRII PUBLIC SERVICES-OBI CORRELATION (0.476)

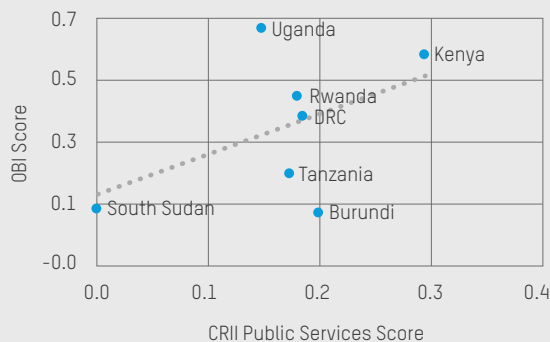


FIGURE 34: CRII PUBLIC SERVICES-CPI CORRELATION (0.406)

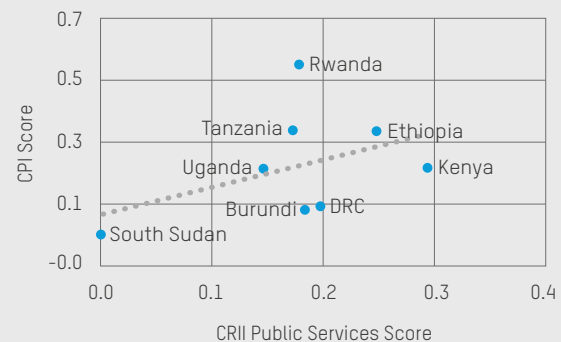


FIGURE 35: TAX-OBI CORRELATION (0.533)

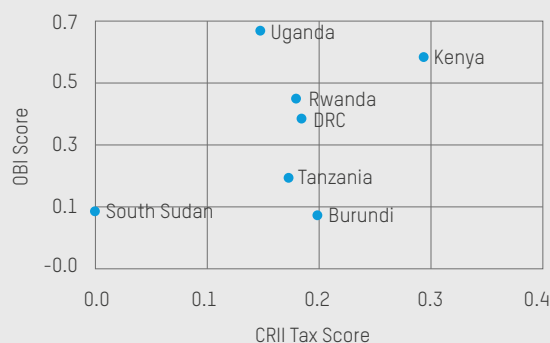
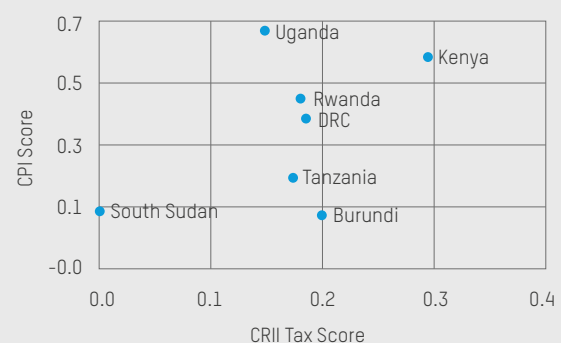


FIGURE 36: CRII TAX-CPI CORRELATION (0.570)



7 CONCLUSIONS AND RECOMMENDATIONS

There is nothing inevitable about the crisis of high inequality that characterized East African societies before COVID-19, nor its worsening during the pandemic. However, without concerted efforts by governments and support from the international community, the crisis will deepen, and stop the region's governments from meeting most of the SDGs.¹¹⁰

The pandemic must serve as a wakeup call to national, regional and global leaders for an inclusive recovery that tackles inequality aggressively. Most governments in the region have done little to reduce very high market-produced wage inequality by enhancing labour rights, and equally little to offset this inequality with social spending and progressive tax measures. Only the combination of immediate measures to reverse pandemic-related rises in inequality, strongly reinforced national commitment to anti-inequality policies, and support from regional and international levels, can allow East African countries to emerge from the pandemic without a major increase in inequality and poverty – and resume their progress towards meeting the SDGs.

7.1 THE MOST URGENT RECOMMENDATIONS

Chapter 1 showed that the initial policy responses to the pandemic failed to tackle inequality systematically. The extra pandemic-related spending is being scaled back, and there is only very patchy evidence of tax policies becoming more progressive. The pandemic's macro-economic consequences have accelerated a recent rise in debt service, absorbing 35% of government revenue and crowding out anti-inequality spending. Most worrisome is the wave of austerity planned by many governments in the region, which could result in a cumulative cut to public budgets of nearly \$23.6bn by 2026. In a region where CRII scores show that many governments are already among the world's least committed to anti-inequality public spending, this will be disastrous. It is therefore extremely urgent for East African governments, their regional institutions, and the international community to act now to reverse these trends.

The most urgent measures should include:

- accelerating the distribution of free COVID-19 vaccines to all East African countries, to ensure high levels of vaccine coverage by June 2022; and
- immediately reversing the planned fiscal austerity, with a particular emphasis on increasing spending for health, education and social protection to achieve the SDGs.

These enhanced spending efforts should be funded by:

- increasing rates and collection of progressive income and wealth taxes in each country;
- transforming the current DSSI into cancellations of debt service due to all creditors (including commercial and multilateral) between 2020 and 2022;
- reallocating significant portions of the \$400bn of SDRs issued to high-income economies to lower-income economies, on highly concessional terms and with minimal conditionality; and
- increasing aid flows to the region targeted at enhancing anti-inequality social spending.

Based on mobilizing this financing, the IMF and World Bank should build their programmes and advice to countries around increasing social spending, progressive taxation, debt relief and aid financing, to provide fiscal space for countries to reverse the sharp increases in inequality and poverty caused by the pandemic and make faster progress towards the SDGs.

7.2 MEDIUM-TERM RECOMMENDATIONS FOR GOVERNMENTS

In recovering from the pandemic, it is vital for national governments and the EAC as a whole to prioritize national budgets and development plans which include the following measures:

1) Spend sufficiently on universal high-quality public services that reduce the gap between rich and poor people, and between men and women

- Allocate a minimum of 20% of government budgets to free universal education, with a special emphasis on improving access to high-quality primary and secondary education.
- Allocate a minimum of 15% of government budgets to fund a public health sector that is free at the point of use, universal, easily accessible and of high quality; ensure all citizens receive health services and avoid catastrophic out-of-pocket (COOP) payments.
- Enact universal social protection programmes that are adequately funded to ensure protection for the working poor, children, people living with disabilities, unemployed people and other vulnerable groups, including pensioners.

2) Increase government support for small-scale food-producing agriculture

- Allocate at least 10% of government budgets to support agriculture, especially in countries where agriculture is a key sector for employment and incomes, with as much as possible of this allocated to smallholders and food crops.
- Develop national agricultural investment plans that are gender-sensitive and seek primarily to support small-scale farmers in non-cash crop sectors, showing how each country will achieve food security and end rural poverty by 2030.

3) Redistribute through progressive taxation

- Make corporate and personal income taxes more progressive, raising all top rates to at least the African average (28% for corporate and 32% for personal income tax).
- Strengthen other progressive taxes, such as those on capital gains, property, and financial transactions and income.
- Ensure that VAT and GST exempt basic food products and set high registration thresholds to exclude small traders.
- Introduce taxes on the stock of wealth, including wealth held offshore.
- Ensure multinational corporations pay their fair share of taxes by strengthening tax avoidance policies, transfer-pricing legislation and countermeasures against tax havens.
- Stop the regional 'race to the bottom' on corporate taxation by scrapping unnecessary tax incentives for investors, and reviewing existing incentives and tax treaties.
- Strengthen the capacity of national revenue authorities to curb illicit financial flows, through corporate country-by-country reporting of income and exchange of information on offshore profits and wealth holdings.

4) Strengthen labour policies

- Ensure that people have rights to unionize, strike and bargain collectively, by introducing and respecting all laws needed to comply with ILO conventions.
- Legislate to include marital rape in anti-rape laws across all countries, and in Ethiopia and Somalia to penalise sexual harassment.
- Increase parental leave to at least 18 weeks (126 days) fully paid at 100% of prior salary, in line with ILO recommendations, and expand paternity leave significantly to reduce the burden of unpaid care on women.
- Increase minimum wages to match per capita GDP, and thereafter establish annual reviews to increase them in line with inflation.
- Invest far more in national structures enforcing labour legislation.
- Set up systems to ensure that the informal sector progressively complies with the minimum regulatory requirements on working conditions and pay for women and men.
- Establish systems to gradually incorporate informal and vulnerable workers (and their micro-insurance arrangements) into social protection and insurance schemes.
- Increase investment in public sector jobs and public works to reduce unemployment.

7.3 RECOMMENDATIONS FOR REGIONAL ORGANIZATIONS

The mandate of the EAC is defined as deepening political, economic and social cooperation among member states with a view to the creation of an East African Federation. The AU's mandate is broader, covering the attainment of Agenda 2063, and including the agreement on policies and monitoring of their implementation on such issues as illicit flows and tax dodging, as well as commitments on spending levels made at AU summits. Sustainable growth and economic stability in the region cannot be achieved without reducing inequality drastically, so the AU and EAC should be putting reducing inequality at the heart of its future work, by:

1) Recognizing and planning to remedy AU and EAC members' inequality crisis

- Prioritize tackling inequality in the agendas for AU and EAC summits and ministerial meetings, and for the Secretariats' work programmes.
- Develop a joint regional action plan to increase commitment to reducing inequality.
- Establish a robust mechanism to support and monitor the achievement of SDG 10 on reducing inequality.

2) Encouraging 'a race to the top' in policies to reduce inequality

- Ensure that efforts to harmonize fiscal policies and tax rates as part of the process of creating an EAC Monetary Union emphasize the need for a 'race to the top' in making tax systems more progressive; enhancing the design and collection of corporate and personal income taxes; and the implementation of wealth taxes, including on capital gains, property and financial income.
- The EAC should seek regional harmonization of investment and tax codes to curb harmful tax competition in the region, particularly by sharply limiting tax incentives.
- The AU should continue to develop common regional frameworks on measures to combat tax dodging and illicit financial flows, including regional transfer-pricing guidelines, corporate country-by-country tax reporting and information exchange on high-net-worth individuals' accounts.
- The AU should continue to develop and monitor compliance with continental norms on social spending on education, health, social protection and agriculture, as well as coverage of public services for people living in poverty, to ensure that spending policies reduce inequality.
- In line with Article 12 of the EAC protocol, the EAC should ensure that regional norms and convergence objectives on labour and social protection policies are designed to reduce inequality; this involves promoting union rights, women's rights, minimum wages and policies to encourage job formalization, and social protection policies in line with the SDG of 100% coverage.

7.4 RECOMMENDATIONS FOR THE INTERNATIONAL COMMUNITY

The international community should support national and regional efforts by:

- Mandating the IMF and World Bank to ensure that all country programmes and policy advice focus on reducing inequality, and contain specific urgent measures to make tax, public services and labour policies achieve this more effectively.
- Providing comprehensive debt cancellation to EAC countries to reduce their debt servicing to low levels and ensure that they have enough financing to achieve the SDGs, especially for universal healthcare, education and social protection.
- Consider issuing regular large annual amounts of SDRs during the next decade, targeted and reallocated to developing countries to enhance their ability to spend progressively.
- Establishing a global fund for social protection that supports lower-middle-income countries to provide social protection for all by 2030.
- Introducing solidarity taxes in their own countries on wealth, income, financial transactions and carbon emissions, with part of the revenue going to lower-income countries.

ANNEX 1: THE COMMITMENT TO REDUCING INEQUALITY INDEX 2020: RANKINGS OF AFRICAN COUNTRIES

Country	Global ranking (158)	Africa ranking (47)	Country	Global ranking (158)	Africa ranking (47)
South Africa	18	1	Senegal	127	25
Seychelles	21	2	Tanzania	130	26
Tunisia	48	3	The Gambia	132	27
Namibia	52	4	Rwanda	133	28
Lesotho	54	5	Burkina Faso	134	29
Botswana	60	6	Democratic Republic of Congo	135	30
Algeria	70	7	Ethiopia	136	31
Kenya	76	8	Republic of Congo	137	32
Mauritius	79	9	Zimbabwe	138	33
Togo	82	10	Cameroon	139	34
Cabo Verde	91	11	Guinea	140	35
Eswatini	96	12	Côte d'Ivoire	141	36
Malawi	97	13	Niger	142	37
Djibouti	101	14	Uganda	143	38
São Tomé and Príncipe	105	15	Sierra Leone	145	39
Egypt	113	16	Burundi	147	40
Mozambique	115	17	Madagascar	148	41
Angola	118	18	Guinea-Bissau	150	42
Morocco	120	19	Central African Republic	151	43
Ghana	121	20	Liberia	154	44
Zambia	122	21	Chad	155	45
Mauritania	123	22	Nigeria	157	46
Mali	125	23	South Sudan	158	47
Benin	126	24			

NOTES

All links last accessed 2022, January 17, except where specified.

- 1 Our World in Data. <https://ourworldindata.org/covid-vaccinations>
- 2 In this report, East African regional averages for the CRIL scores are calculated using data from the six members of the East African Community (Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda) plus Ethiopia and Somalia. The listings of country and regional policy specifics (and their related averages) also include DRC, which for the purpose of CRIL regional overall and pillar averages is included in SADC. Unfortunately, insufficient data were available to include Eritrea.
- 3 See M. Martin et al. (2020), *Fighting inequality in the Time of COVID-19: The Commitment to Reducing Inequality Index 2020*. http://powerofpublic.org/Inequality_Index_Reports/index.html; and M. Lawson, M. Martin and J. Walker (2019), *The Commitment to Reducing Inequality Index 2018: A global ranking of governments based on what they are doing to tackle the gap between rich and poor*. Oxfam. <https://policy-practice.oxfam.org/resources/the-commitment-to-reducing-inequality-index-2018-a-global-ranking-of-government-620553/>
- 4 Our World in Data. (2021, December 9).
- 5 This is estimated by comparing the 2020 real GDP growth which the IMF forecast prior to the COVID-19 pandemic (in October 2019) with actual growth figures for 2020 (as of October 2021). The projections from 2019 are from IMF (2019), *Sub-Saharan Africa Regional Economic Outlook* imf.org/en/Publications/REO/SSA/issues/2019/10/01/sreo1019. Actual GDP growth for 2020 is taken from IMF. *World Economic Outlook Database, October 2021* <https://www.imf.org/en/Publications/WEO/weo-database/2021/October>
- 6 J. Ray. (2021, May 3). *COVID-19 Put More Than 1 Billion Out of Work*. Gallup. <https://news.gallup.com/poll/348722/covid-put-billion-work.aspx>
- 7 The five countries are Kenya, Uganda, Burundi, Rwanda and South Sudan. This is calculated from IMF projections of general government expenditure as a percentage of GDP, comparing the figures for 2022–26 with spending levels in 2021, and converted into dollar amounts by comparing to GDP in current prices. Data on spending are from IMF (2021). Data on per capita general government health spending at current US\$ prices are from WHO. (n.d.). *Global Health Expenditure Database*. <https://apps.who.int/nha/database>
- 8 N. Tamale. (2021). *Adding Fuel to Fire*.
- 9 N. Tamale. (2021). *Adding Fuel to Fire: How IMF demands for austerity will drive up inequality worldwide*. Oxfam. <https://policy-practice.oxfam.org/resources/adding-fuel-to-fire-how-imf-demands-for-austerity-will-drive-up-inequality-worl-621210/>
- 10 TRT World. (2020, June 22). With more generals than doctors, *Covid-19 threatens S Sudan health systems*. <https://www.trtworld.com/africa/with-more-generals-than-doctors-covid-19-threatens-s-sudan-health-systems-37475>
- 11 C. Coffey, P. Espinoza Revollo, R. Harvey, M. Lawson, A. Parvez Butt, K. Piaget, D. Sarosi and J. Thekkudan. (2020). *Time to Care: Unpaid and underpaid care work and the global inequality crisis*. Oxfam. <https://oxfamlibrary.openrepository.com/bitstream/handle/10546/620928/bp-time-to-care-inequality-200120-en.pdf>
- 12 Data for 2019 from DFI's Government Spending Watch at <https://www.governmentspendingwatch.org/spending-data>
- 13 This is calculated using the general government revenue for 2021, converting this to dollars by comparing to GDP at current prices and calculating how much one more percentage point would raise. Data on general government revenue and GDP at current prices are from IMF (2021), and data on per capita general government health spending are from WHO *Global Health Expenditure Database*.
- 14 Data from the CRIL revenue database, in turn based on the latest IMF country programme or Article IV documents, referring to 2019. The average includes only South Sudan's non-oil tax revenue, because its oil revenue is a share of sales by oil companies, rather than tax. If South Sudanese oil revenue were to be included, the regional average would be 16.4%.
- 15 Data from the CRIL revenue database, based on the latest IMF programme or Article IV documents, referring to 2019.
- 16 Afrobarometer Round 8 surveys conducted between 2018 and 2020, available at https://afrobarometer.org/publications?-field_publication_type_tid=437
- 17 Throughout this report, East African regional averages for the CRIL overall and pillar scores are calculated using data from the six members of the East African Community (Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda) plus Ethiopia and Somalia. The listings of country and regional policy specifics (and their related averages) also include DRC, which for the purpose of CRIL regional overall and pillar averages is included in SADC. Unfortunately, insufficient data were available to include Eritrea in the report.
- 18 Sources for all data are the UNDP Human Development Report country database at <http://hdr.undp.org/en/countries>
- 19 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. Data source is the UNDP Human Development Report country database at <http://hdr.undp.org/en/countries>
- 20 GDP growth data from IMF. (2021). *World Economic Outlook Database: April 2021*. Trends in poverty and inequality from World Bank povcalnet database at <http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx>
- 21 J.D. Ostry, A. Berg and C.G. Tsangarides. (2014). *Redistribution, Inequality, and Growth*. imf.org/en/Publications/Staff-Discussion-Notes/Issues/2016/12/31/Redistribution-Inequality-and-Growth-41291
- 22 R. Wilkinson and K. Pickett. (2010). *The Spirit Level: Why Equality is Better for Everyone*. London: Penguin.
- 23 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>

- 24 Data from country surveys compiled by the World Inequality Lab, at <https://wid.world/world>
- 25 K.Georgieva. (2020, September 29). *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>
A. Guterres. (2020, July 18). *Tackling the Inequality Pandemic: A new social contract for a new era*. UN Nelson Mandela Lecture. <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>
D. Malpass. (2020, October 8). *Reversing the Inequality Pandemic*. <https://www.worldbank.org/2020/10/08/reversing-the-inequality-pandemic-speech-by-world-bank-group-president-david-malpass/>
For more details on the global impact on inequality, see Chapter 2 of the global CRII 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*. 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>
- 26 N. Yonzan et al. (2021, October 7). *Is COVID-19 increasing global inequality?* World Bank Data Blog. <https://blogs.worldbank.org/opendata/covid-19-increasing-global-inequality>
- 27 P. Espinoza Revollo. (2021). *The Inequality Virus: Methodology note*. Oxfam. <https://policy-practice.oxfam.org/resources/the-inequality-virus-bringing-together-a-world-torn-apart-by-coronavirus-throug-621149/>
- 28 IMF. (2020a). *World Economic Outlook: A Long and Difficult Ascent*. October edition. <https://www.imf.org/en/Publications/WE0/Issues/2020/09/30/world-economic-outlook-october-2020> See also: G. Cugat and F. Narita. (2020, October 29). *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/>
- 29 N. Yonzan, C. Lakner, D. Gerszon Mahler, R.A. Castaneda Aguilar and H. Wu. (2020, November 9). *The impact of COVID-19 on global poverty under worsening growth and inequality*. World Bank Data Blog. <https://blogs.worldbank.org/opendata/im-pact-covid-19-global-poverty-under-worsening-growth-and-inequality>
- 30 D. Gerszon Mahler et al. (2021, June 24). *Updated estimates of the impact of COVID-19 on global poverty: Turning the corner on the pandemic in 2021?* World Bank Data Blog. <https://blogs.worldbank.org/opendata/updated-estimates-im-pact-covid-19-global-poverty-turning-corner-pandemic-2021>
- 31 See Chapter 1 of African Development Bank. (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>
- 32 See <https://www.bbc.com/future/article/20200806-the-biblical-east-african-locust-plagues-of-2020>
- 33 See <https://www.theguardian.com/global-development/2021/sep/15/drought-puts-21-million-kenyans-at-risk-of-starvation> and <https://www.fao.org/kenya/news/detail-events/en/c/1418809/>
- 34 See <https://www.ifrc.org/emergency/somalia-hunger-crisis-2021>
- 35 This is estimated by comparing the IMF's forecast real GDP growth for 2020 prior to the COVID-19 crisis (from October 2019) with the region's actual growth figures for 2020 (from April 2021). The forecasts in 2019 are taken from IMF (2019 *Sub-Saharan Africa Regional Economic Outlook*). The actual 2020 data are from IMF (2021), *Regional Economic Outlook for Sub-Saharan Africa: Navigating a Long Pandemic*. <https://www.imf.org/en/Publications/RE0/SSA/Issues/2021/04/15/regional-economic-outlook-for-sub-saharan-africa-april-2021>
- 36 Data for Ethiopia are for the fiscal year 2020/21, which is when the impact of COVID-19 was felt.
- 37 Data from IMF *World Economic Outlook Database*. October 2021.
- 38 International Labour Organization. (2021). *ILO Monitor: COVID-19 and the world of work. Seventh Edition*. https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_767028.pdf
- 39 H. Karas and M. Dooley. (2021). *Extreme Poverty in the Time of COVID-19*. UN Virtual Inter-agency Expert Group. https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2021/05/KHARAS_paper1.pdf
- 40 See <https://pubdocs.worldbank.org/en/366631492188168425/mpo-rwa.pdf>
- 41 See, for example, the OECD global economic projections, in which the base scenario projects recovery in 2021, but the downside scenario sees it taking until the end of 2022: OECD. (2021). *Strengthening the recovery: The need for speed*. Interim report March 2021. <http://www.oecd.org/economic-outlook>. See also the IMF and World Bank forecasts, which indicate that GDP levels will remain around 3–5% below pre-pandemic projections at the end of 2021: IMF. (2021c). *World Economic Outlook Update: Policy Support and Vaccines Expected to Lift Activity*. January update. <https://www.imf.org/en/Publications/WE0/Issues/2021/01/26/2021-world-economic-outlook-update>
World Bank. (2021). *Global Economic Prospects: January 2021*. <https://www.worldbank.org/en/publication/global-economic-prospects>
- 42 Vaccination data from Our World in Data as of 17 January 2022. <https://ourworldindata.org/covid-vaccination>. The countries are Kenya, Uganda, Tanzania, Rwanda, Democratic Republic of Congo, Burundi, Somalia and South Sudan.
- 43 See <https://campaigneffectiveness.org/october-2021-burundi-begins-covid-19-vaccination-campaign/>
- 44 Pension coverage is used as a proxy because data on overall social protection coverage are not available for all countries.
- 45 Data for spending by other African regions taken from DFI/Oxfam 2021 West Africa and Southern Africa CRII reports. Data for spending by high-income economies taken from IMF. (2020b). *Regional Economic Outlook: Sub-Saharan Africa*. <https://www.imf.org/en/Publications/RE0/SSA/Issues/2020/10/22/regional-economic-outlook-sub-saharan-africa>. These data are now somewhat out of date, so spending in other groups is likely to be 25–50% higher.
- 46 Data for East African 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. (2021d). *Policy responses to COVID-19*. <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#U>

- 47 World Bank (June 2021), *Somalia Economic Update*. documents1.worldbank.org/curated/en/926051631552941734/pdf/Soma-lia-Economic-Update-Investing-in-Health-to-Anchor-Growth.pdf
- 48 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>. Somalia also introduced a major new cash transfer programme but this was planned pre-COVID and so is not counted as part of its COVID response.
- 49 Somalia did not pay any debt service in 2019 as all its debt was in arrears.
- 50 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 Ethiopia and Somalia, these were supplemented by analysis of 2019, 2020 and 2021 budget documents.
- 51 For more details, see: IMF. (2021e). *COVID-19 Financial Assistance and Debt Service Relief*. <https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker>. Somalia also received debt service relief from the IMF as part of the IMF's contribution to its HIPC Initiative assistance, but this was not part of a COVID-19 response.
- 52 Burundi, DRC, Ethiopia, Kenya, Tanzania and Uganda. For details, see World Bank, *COVID 19: Debt Service Suspension Initiative*. <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>
- 53 See <https://www.imf.org/en/Publications/CR/Issues/2020/03/26/Somalia-Enhanced-Heavily-Indebted-Poor-Countries-HIPC-Initiative-Decision-Point-Documents-49290>
- 54 Kenya was also reluctant to participate in the DSSI during 2020 but agreed to do so from 2021 as part of the discussions around agreeing a programme with the IMF in 2021.
- 55 See M. Martin (2021, December), *A New Nordic Response to the New Global Debt Crisis*, available at www.development-finance.org.
- 56 Ibid.
- 57 For detailed descriptions of these mandates and statements on the IMF and World Bank's commitments to reducing inequality, see: New Rules for Global Finance. (2013). *Global Financial Governance and Impact Report 2013*. https://new-rules.org/storage/documents/global_financial_governance_impact%20report_2013%20.pdf
- 58 IMF. (2021, August 2). *IMF Governors Approve a Historic US\$650 Billion SDR Allocation of Special Drawing Rights*. <https://www.imf.org/en/News/Articles/2021/07/30/pr21235-imf-governors-approve-a-historic-us-650-billion-sdr-allocation-of-special-drawing-rights>
- 59 For agreement on the plans to reallocate SDRs see <https://www.imf.org/en/News/Articles/2021/10/14/communique-of-the-forty-fourth-meeting-of-the-imfc>. For more details of the problems with the proposed approach and proposals for how to improve it, see the multi-agency *Open Letter to G20 Finance Ministers, Central Bank Governors and the IMF: Civil Society Organizations Call for Quick Special Drawing Rights Allocation*, 18 April 2021. <https://gcap.global/news/open-letter-to-g20-finance-ministers-and-the-imf-civil-society-organizations-call-for-quick-special-drawing-rights-allocation/>
- 60 Various global leaders 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, February 3). *Multilateral Cooperation for Global Recovery*. Project Syndicate. <https://www.project-syndicate.org/commentary/multilateralism-for-the-masses-by-emmanuel-macron-et-al-2020-02>; Communiqué of Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development. (2020, October 13). <https://www.g24.org/wp-content/uploads/2020/10/G-24-Communique-Final-Annual-Meetings-2020.pdf>
- 61 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>
- 62 Based on an analysis of all country programme documents – whether emergency programmes such as the Rapid Credit Facility and Rapid Financing Instrument or longer-term programmes such as Extended Credit Facility and Policy Support Instruments. The individual documents can be found at <https://www.imf.org/en/countries>. For references to the individual documents, see the country briefs accompanying this report.
- 63 See <https://www.imf.org/en/Publications/CR/Issues/2021/06/30/Uganda-Request-for-a-Three-Year-Arrangement-Under-the-Extended-Credit-Facility-Press-461347>
- 64 For the IMF suggestions on tax policy for COVID-19 recovery, see: R. de Mooij, R. Fenochietto, S. Hebois, S. Leduc and C. Osorio-Buitron. (2020). *Tax Policy for Inclusive Growth after the Pandemic*. IMF. <https://www.imf.org/-/media/Files/Publications/covid19-special-notes/en-special-series-on-covid-19-tax-policy-for-inclusive-growth-after-the-pandemic.ashx>
- 65 EY Global. (2021). *Kenya enacts significant tax measures for 2021*. https://www.ey.com/en_gl/tax-alerts/kenya-enacts-significant-tax-measures-for-2021
- 66 See <https://www.imf.org/en/Publications/CR/Issues/2021/07/22/Rwanda-Fourth-Review-of-the-Policy-Coordination-Instrument-and-Request-of-an-Extension-of-462561>
- 67 Based on an analysis of World Bank Systematic Country Diagnostics (SCDs) conducted for this paper. The SCDs are available at: <https://openknowledge.worldbank.org/handle/10986/23099>. For references to the individual documents, see the country briefs accompanying this report.
- 68 Ethiopia, Kenya, Tanzania and Uganda. These analyses have been conducted jointly with the Commitment to Equity Institute at Tulane University, and are available at <https://commitmenttoequity.org/>
- 69 I. Richards. (2021, September 24). *With the World Bank's 'Doing Business' Out of Business, What Should Come Next?* Inter Press Service. <https://www.ipsnews.net/2021/09/world-banks-business-come-next/>
- 70 See Chapter 2 of M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*.
- 71 K. Malouf Bous, A. Marriott, E. Seery and R. Shadwick. (2020). *From Catastrophe to Catalyst: Can the World Bank make COVID-19 a turning point for building universal and fair public healthcare systems?* Oxfam. <https://policy-practice.oxfam.org/resources/from-catastrophe-to-catalyst-can-the-world-bank-make-covid-19-a-turning-point-f-621113/>

- 71 See, for example, C. Andrews, A. de Montesquiou, I. Arevalo Sanchez, P.V. Dutta, B.V. Paul, S. Samaranayake, J. Heisey, T. Clay and S. Chaudhary. (2021). *The State of Economic Inclusion Report 2021: The Potential to Scale*. World Bank. <https://openknowledge.worldbank.org/handle/10986/34917>
- 72 N. Tamale. (2021). *Adding Fuel to Fire*.
- 73 For the speeches, see for example: L. Elliott. (2020, September 29). *IMF chief: Covid will widen inequality without global action*. *The Guardian*. <https://www.theguardian.com/business/2020/sep/29/imf-chief-covid-inequality-kristalina-georgieva>; World Bank. (2020, December 12). *Remarks by World Bank Group President David Malpass at the Climate Ambition Summit 2020*. <https://www.worldbank.org/en/news/speech/2020/12/12/remarks-by-world-bank-group-president-david-malpass-at-the-climate-ambition-summit-2020>
- 74 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 are from IMF (2021). *World Economic Outlook Database: April 2021*.
- 75 The five countries are Kenya, Uganda, Burundi, Rwanda and South Sudan. This is calculated from IMF projections of general government expenditure as a percentage of GDP, comparing the figures for 2022–26 with expenditure levels in 2021, and converted into dollar amounts by comparing to GDP in current prices. Data on spending and GDP are from IMF *World Economic Outlook database: October 2021* at [imf.org/en/Publications/WE0/weo-database/2021/October](https://www.imf.org/en/Publications/WE0/weo-database/2021/October). Data on per capita general government health spending at current US\$ prices are from WHO. *Global Health Expenditure Database*. <https://apps.who.int/nha/database>.
- 76 TRT World. (2020, June 22). *With more generals than doctors, Covid-19 threatens S Sudan health systems*.
- 77 Data for health expenditure as a percentage of GDP from the CRII 2020 database, based on national budgets for 2019–20.
- 78 N. Tamale. (2021). *Adding Fuel to Fire*.
- 79 D. Furceri, P. Loungani, J. David Ostry and P. Pizzuto (2021, April 30). *The rise in inequality after Pandemics: Can fiscal support play a mitigating role?* IMF Working Paper 21/120. <https://www.imf.org/en/Publications/WP/Issues/2021/04/30/The-Rise-in-Inequality-after-Pandemics-Can-Fiscal-Support-Play-a-Mitigating-Role-50287>
- 80 See World Bank (2020). *Poverty and shared prosperity 2020 – Reversal of fortune*. <https://openknowledge.worldbank.org/bitstream/handle/10986/34496/9781464816024.pdf>
- 81 M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*.
- 82 For the wide range of analytical evidence underlying the choice of policies for the index, see: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*; M. Martin, J. Walker and M. Lawson. (2021). *The Commitment to Reducing Inequality Index 2020: Methodology Note*. Oxfam and DFI. <https://policy-practice.oxfam.org/resources/fighting-inequality-in-the-time-of-covid-19-the-commitment-to-reducing-inequality-index-2020-621061/>; For a full discussion of the evidence that action in these three areas has a large bearing on inequality, see M. Lawson and M. Martin. (2018). *The Commitment to Reducing Inequality Index 2018*. Oxfam and DFI. <https://policy-practice.oxfam.org/resources/the-commitment-to-reducing-inequality-index-2018-a-global-ranking-of-government-620553/>
- 83 For details of these methodology changes, see M. Martin, J. Walker and M. Lawson. (2021). *The Commitment to Reducing Inequality Index 2020: Methodology Note*.
- 84 For Burundi, DRC, Ethiopia, Kenya, Rwanda, Somalia, South Sudan, Tanzania and Uganda. The country briefs can be found on the CRII website at <http://www.inequalityindex.org/#/countryProfiles>
- 85 It spends less on education and health as a proportion of its budget than any other East African country, and the coverage of its public services is very limited, although recent data are not available.
- 86 As measured by the reduction in Gini from market income to income after social protection and public services.
- 87 Ibid
- 88 SDG 3.8.1's Universal Health Coverage Index looks at access to essential services, including reproductive, maternal, newborn and child health, infectious diseases, non-communicable diseases and service capacity and access, among the general and most disadvantaged populations. SDG 3.8.2's Catastrophic Household Spending (C00P) indicator is measured by those who spend 10% of their household budget on healthcare.
- 89 The Tanzania data quoted are for 2010. More recent data from the ILO in the World Social Protection Report 2020-22 indicate that this level of spending was exceptional and that more recent spending has been around 1.7% of GDP or 7% of the total budget. See: ILO. (n.d.) *Public health and social protection expenditure, 2020 or latest available year*. <https://www.social-protection.org/gimi/WSPDB.action?id=1461>
- 90 See: M. Martin et al. (2020). *Fighting Inequality in the Time of COVID-19*.
- 91 For more details on these studies and the methodology, see the University of Tulane Commitment to Equity Institute website at <https://commitmenttoequity.org/>
- 92 M.K. Dodo (2020). *Understanding Africa's Food Security Challenges*, in B. Mahmoud (ed.). (2020). *Food Security in Africa*. IntechOpen. <https://www.intechopen.com/books/8063>
- 93 African Union Commission and NEPAD Planning and Coordinating Agency. (2015). *The CAADP Results Framework 2015-2025: 'Going for results and impacts'*. https://au.int/sites/default/files/documents/31250-doc-the-caadp_results_framework_2015-2025_english_edited_1-1.pdf
- 94 This is calculated using the general government revenue (% of GDP) for 2021 and converting this to dollars by comparing to GDP current prices and calculating how much one more percentage point would correspond to. Data on general government revenue is from IMF. (2021). *World Economic Outlook Database: April 2021*.
- 95 For more details, see <https://www.imf.org/en/Publications/CR/Issues/2021/04/01/Republic-of-South-Sudan-Staff-Monitored-Program-and-Request-for-Disbursement-under-the-Rapid-50331>

- 96 See M. Martin, J. Walker and M. Lawson. (2021). *The Commitment to Reducing Inequality Index 2020: Methodology Note*.
- 97 A. Chatterjee, L. Czajka and A. Gethin. (2021). *A Wealth Tax for South Africa*. PSE Working Papers. <https://ideas.repec.org/p/hal/psewpa/halshs-03131182.html>
- 98 For more details, see <https://www.ictd.ac/programme/apti/>
- 99 For VAT, the tax base assumed is private consumption. However, reliable data are not available on individual incomes or corporate profits as tax bases for PIT and CIT, so we use GDP minus consumption as the base for this.
- 100 See, for example: M. Hearson. (2015). *Tax treaties in sub-Saharan Africa: a critical review*. Tax Justice Network. http://eprints.lse.ac.uk/67903/1/Hearson_Tax_treaties_in_sub-Saharan_Africa.pdf
- 101 A. Chatterjee et al. (2021). *A Wealth Tax for South Africa*.
- 102 For more details on these studies and the methodology, see the University of Tulane Commitment to Equity Institute website at <https://commitmenttoequity.org/>
- 103 See: Global Labour University and the Center for Global Workers' Rights at Penn State University. (n.d.). *Labour rights in law and practice*. <http://labour-rights-indicators.la.psu.edu/countries>. At the time of the 2020 CRII's compilation, the latest assessment available was for 2017. Assessments for 2018 and 2019 are due to be uploaded shortly.
- 104 Ethiopia has a minimum wage for the public sector but the CRII considers only minimum wages that apply to the whole economy.
- 105 Available at: https://www.ilo.org/shinyapps/bulkexplorer29/?lang=en&segment=indicator&id=LAP_2LID_QTL_DT_A
- 106 For more details on these indexes, see their websites at <https://survey.internationalbudget.org/#home> and <https://www.transparency.org/en/cpi/2020/index/>. The data used from both are those for 2019, to match the CRII data.
- 107 The CPI includes all CRII countries except Antigua and Barbuda, Belize, Egypt, Fiji, Occupied Palestinian Territories (OPT) and Samoa. The OBI includes all CRII countries except Antigua and Barbuda, Armenia, Austria, Bahamas, Bahrain, Barbados, Belarus, Belgium, Belize, Bhutan, Cabo Verde, the Central African Republic, Congo Republic, Cyprus, Denmark, Djibouti, Estonia, Ethiopia, Finland, Greece, Guinea, Guinea-Bissau, Guyana, Haiti, Hong Kong, Iceland, Ireland, Israel, Laos, Latvia, Lithuania, Luxembourg, the Maldives, Malta, Mauritania, Mauritius, the Netherlands, North Macedonia, OPT, Oman, Panama, Samoa, Seychelles, Singapore, Solomon Islands, St Lucia, St Vincent and the Grenadines, Switzerland, Togo, Uruguay, Uzbekistan and Vanuatu.
- 108 See <https://www.brookings.edu/research/financing-for-a-fairer-more-prosperous-kenya-a-review-of-the-public-spending-challenges-and-options-for-selected-arid-and-semi-arid-counties/> and <https://www.developmentpathways.co.uk/regions/east-africa/>
- 109 See J. Dehn, R. Reinikka, and J. Svensson (2003), 'Survey Tools for Assessing Performance in Service Delivery', in F. Bourguignon and L. Pereira da Silva (eds). (2003). *The Impact of Economic Policies on Poverty and Income Distribution*. Oxford University Press/World Bank.
- 110 See <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2021/04/27/A-Post-Pandemic-Assessment-of-the-Sustainable-Development-Goals-460076>. For a summary presentation of the study, the case studies and their conclusions, see <https://www.imf.org/en/topics/sdg/sdg-financing>

© Oxfam International January 2022

This paper was written by Matthew Martin and Anthony Kamande with contributions from Jonas Gielfeldt. Oxfam acknowledges the assistance of Max Lawson, Gerald Byarugaba, Michael Odumbe, Helen Wishart, Levi Gikandi, Parvin Ngala, Mary Muia, Ivan Nikolic and Oxfam country teams in Horn, East and Central Africa in its production. It is part of a series of papers written to inform public debate on development and humanitarian policy issues.

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

This publication is copyright but the text may be used free of charge for the purposes of advocacy, campaigning, education, and research, provided that the source is acknowledged in full. The copyright holder requests that all such use be registered with them for impact assessment purposes. For copying in any other circumstances, or for re-use in other publications, or for translation or adaptation, permission must be secured and a fee may be charged.

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

Published by Oxfam GB for Oxfam International under ISBN: 978-1-78748-857-1 in January 2022.
DOI: 10.21201/2021.8571

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

Development Finance International

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

Photos

Front cover: Pastoralist Fatuma outside her home in Tana River County, Madogo division. An infestation of locusts destroyed all of her livestock's pastureland.

Photo: Lameck Ododo

Page 2: Amina Ibrahim is mother to twelve children. The drought in Ethiopia killed her family's livestock and an outbreak of cholera endangered her family.

Photo: Pablo Tosco

Page 17: Elombe stands outside his home in Ituri Province, Democratic Republic of Congo. Life here is characterized by conflict, mass displacement, malnutrition and epidemics.

Photo: John Wessels

Page 30: Somalia has suffered from a severe drought since 2016. The population, mostly pastoralist and nomadic has lost its livestock, and with it, their livelihoods.

Photo: Pablo Tosco

Oxfam

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

Oxfam America (www.oxfamamerica.org)

Oxfam Aotearoa (www.oxfam.org.nz)

Oxfam Australia (www.oxfam.org.au)

Oxfam-in-Belgium (www.oxfamsol.be)

Oxfam Brasil (www.oxfam.org.br)

Oxfam Canada (www.oxfam.ca)

Oxfam Colombia (lac.oxfam.org/countries/colombia)

Oxfam France (www.oxfamfrance.org)

Oxfam Germany (www.oxfam.de)

Oxfam GB (www.oxfam.org.uk)

Oxfam Hong Kong (www.oxfam.org.hk)

Oxfam IBIS (Denmark) (www.oxfamibis.dk)

Oxfam India (www.oxfamindia.org)

Oxfam Intermón (Spain) (www.oxfamintermon.org)

Oxfam Ireland (www.oxfamireland.org)

Oxfam Italy (www.oxfamitalia.org)

Oxfam Mexico (www.oxfamMexico.org)

Oxfam Novib (Netherlands) (www.oxfamnovib.nl)

Oxfam Québec (www.oxfam.qc.ca)

Oxfam South Africa (www.oxfam.org.za)

KEDV (www.kedv.org.tr)



Development
Finance
International



OXFAM