THE TIME IS NOW

Building a human economy for Africa

Africa faces economic challenges not seen for many years. Growth is slowing and commodity prices have fallen. Inequality is high and growing fast in many countries. Africa’s greatest natural resource, its young people, risks being squandered. Africa is losing billions to corruption, poorly negotiated deals and tax dodging. Citizens are becoming more outspoken and more active – unhappy with the deals their leaders are striking. Leaders must listen to their people. They must crack down on tax dodging and maximize progressive revenues to invest in the classrooms, clinics and crops that will create a more human economy for Africa.
Africa faces tougher times than we have seen for many years. Commodity prices have fallen rapidly and are set to stay low. As recently as 2012, Zambia could borrow dollars more cheaply than Spain.¹ Those days are gone, with average rates now at 10 percent.² Debt levels are already very high in some countries. Donors are distracted by the refugee crisis on their shores. Governments have spent a lot in recent years, much of it on badly needed infrastructure, but this means many governments are running significant deficits.

Against this backdrop, Africa’s largest, best-educated generation is coming of age. By 2025, half the continent’s people will be under the age of 25. Building on the theme of this year’s World Economic Forum on Africa, Oxfam believes that these young women and men are by far Africa’s greatest natural resource. They will lead the continent for the 21st century. Investing in them, and building the economies that can support them with jobs and opportunities, is paramount.

It is clear that the future external trends are far less benign than those of recent years. Yet Africa is blessed with huge natural resources, human and physical which if used wisely can build strong and resilient societies and economies that will face up to and overcome problems, and create better futures for the next generation. But in order to do this, African governments have to be far more strategic, wise and forward-looking in how they spend their increasingly limited resources.

**The growing gap between rich and poor across Africa**

Inequality is harming the ability of growth to reduce poverty and deliver shared prosperity in Africa. It is preventing the emergence of a new middle-class. Instead, the benefits of economic growth are all too often accruing to a small minority. Between 2003 and 2009, Nigeria experienced positive economic growth, yet poverty increased and everyone other than the richest 10 percent experienced a fall in share of the national consumption.³

With growth slowing, the need to tackle inequality is vital. It is vital to providing the opportunities needed for the millions of young people across the continent. The IMF has calculated that if African nations were to reduce their inequality levels to the same as those seen in ASEAN countries, this would add almost one percent to GDP growth, the equivalent of closing the infrastructure gap between the two regions.⁴

The first priority is therefore to tackle the growing inequality crisis in Africa. The gap between rich and poor is higher than in any other region on earth apart from Latin America, and is growing in many countries. Seven of the world’s most unequal countries are in Africa.⁵ Equatorial Guinea is a high-income country, with a per-capita income higher than
that of Spain, but with an infant mortality rate significantly higher than that of Burundi. Such statistics shame the continent.6

One measure of the rapid growth of inequality is the increased number of very rich people compared to extreme poverty levels. The number of African millionaires has increased by almost 50 percent in five years, and the number of billionaires has doubled since 2010.7 The richest 10 people in Africa now have a combined wealth equivalent to the GDP of Kenya. Meanwhile the number of people living in poverty in Africa has increased by 50 million since 1990.8

Economic inequality compounds existing inequalities. In Ethiopia, if you are a rich man in an urban area there is only a 12.2 percent chance you did not go to school. If you are a poor woman in a rural area, the figure rises to 69.6 percent.9 Meanwhile, there remains virtually no recognition of and support for reproductive and unpaid care work that is mostly performed by women. Currently women in sub-Saharan Africa spend five billion hours a year collecting water.10 This unpaid work further increases the inequality between women and men. Many countries in Africa also still have legal restrictions to gender equality that are inhibiting, including women’s equality in the economy. Policies should promote equal pay and decent work. Rectifying gender inequalities in access to credit, equal inheritance and land rights can make a huge difference, and many countries in Africa have begun to do this.

The need to maximize progressive Government revenues

African governments already fund the vast majority of their spending from domestic sources. They have managed to raise their tax-to-GDP ratio from around 18 percent of GDP to 21 percent of GDP over the last 10 years, which is admirable. However, the IMF believes there is scope to raise this significantly further in the near term, between 3 and 6.5 percent.11 This would be enough to double health spending in most countries. In the medium term, the aim should be tax levels similar to those in the OECD at around 35–40 percent of GDP.

Whilst this potential is exciting, when increasing revenues through taxation and other means, African governments must ensure that they do this in a way that decreases rather than increases inequalities.

Tax systems in Africa are some of the most regressive in the world. VAT, a regressive tax paid disproportionately by the poor, makes up 67 percent of revenue on average in sub-Saharan Africa. Because VAT is a consumption tax, it can also have a disproportionate impact on poor women, as they pay for more basic goods and services on behalf of the household. For example, a study in Ghana found that removing VAT on children’s goods would most strongly benefit female-headed households, as women had lower incomes and were also predominately responsible for purchasing such items.12

Instead of focusing their efforts on taxes that will take from the poorest and women, African governments should concentrate on implementing
taxes that derive revenue from those with the broadest shoulders. The IMF, amongst others, recommends ensuring better compliance from high-income individuals and companies, alongside other measures. It highlights the success of a number of countries in setting up a dedicated ‘large tax payers office’ to chase these taxes.\textsuperscript{13} Removing unproductive tax exemptions is another key way to raise revenues. Tax exemptions to foreign firms are estimated to be costing the Kenyan government $1bn a year.\textsuperscript{14}

Tax dodging by rich individuals and corporations deprives African nations of huge amounts of money. Corporations have been estimated to lose Africa $38bn annually in lost tax revenues.\textsuperscript{15} Rich individuals in Africa are making use of the global network of tax havens to avoid paying an estimated $14bn a year in taxes. Oxfam has calculated this would be enough to pay for the healthcare that could save the lives of four million children and employ enough teachers to get every African child into school.\textsuperscript{16}

Africa is hugely rich in minerals, but this source of growth is finite and must be used well to ensure that all benefit, including future generations. Instead, often the main beneficiaries are foreign companies, many of whom are paying very little tax. The extractives sector is the source of one-third of all tax revenue in Africa, but nevertheless extractive industries still actively use global tax loopholes to avoid paying their fair share of tax, robbing countries of much-needed revenues to spend on infrastructure, agriculture, job creation, healthcare and education. Zambia could be losing as much as $2bn annually to tax avoidance, with the mining industry the biggest culprit, and only one or two mining operations actually declaring profits.\textsuperscript{17}

Stronger contracts are being negotiated in some countries, often as the result of campaigns by civil society. In Niger, local campaigners and activists worked with campaigners in France to force the French company Uranium Areva to sign up to a new contract with the government which meant it would pay more.\textsuperscript{18}

Whilst the majority of Africa’s development will be achieved through maximizing domestic resources, external financing will play a part. Whilst there is a place for foreign direct investment in Africa, and it can and is playing a key role in the infrastructure and some other sectors, it is clear that private finance is neither a panacea, nor a blank cheque. When available, it needs to be regulated to offer guarantees on delivering sustainable and equitable development, as well as poverty reduction. It must lead to job creation, enabling people to learn new skills and generating the wages local communities desperately need to prosper.

We also need to see more and better aid from donor countries and a significant increase in long-term, predictable budget and sector support which supports country development plans. Aid should not be used to fund risky and unproven public-private partnerships (PPPs) in areas such as health and education which only serve to widen inequalities.
The need to invest wisely

African governments need to invest wisely to reduce inequality and build for the future. To do this, they need to listen first and foremost to their citizens. These investments need to be defined, prioritized and scrutinized by those they are designed to support. Creating the safe civic space for citizens and governments to work together is vital to a sustainable future. Oxfam works in countries across sub-Saharan Africa supporting citizens to make their voices heard, to press for more progressive spending and to hold governments to account.

Countries need to invest in vital infrastructure to build for the future, to build diverse economies that are going to deliver the jobs for the next generation and build a sustainable, equitable economy. They also need to invest carefully to reduce the amount of unpaid care work done by women, and close the gap between women and men. Core to this are investments in three areas: education, agriculture and health.

Education

Education is an incredible leveller of societies, a powerful weapon in the fight against inequality. It gives societies the potential to maximize the talents of everyone in the nation. It empowers citizens. Currently, secondary and tertiary education is only available to those in Africa who have money. It is heartbreaking to imagine the many scientists who are instead herding goats, or engineers that are pounding maize because they could not access the education they wanted. This is an invaluable, vital resource that Africa cannot afford to squander. It is a resource that nations in other regions are investing in very heavily indeed, because they see the huge value in an educated workforce.

Despite huge progress, Africa remains the most uneducated continent. In Botswana, 7 percent of the rich are not learning, as opposed to 40 percent of the poor. The major drive for universal primary education, and especially the commitment to education for all girls, that delivered such huge successes in Africa in the early part of the century has lost momentum. Instead, its place is being taken by ill-conceived PPPs and the promotion of private schooling. Recently, the Government of Liberia announced that it is planning on privatizing its entire primary education system, starting with a pilot of 50 schools run by a company championed by the World Bank.19

This is the wrong path for Africa. It is not the path taken by any nation that has successfully invested in education as part of its growth strategy. Instead, we need to see a redoubling of energies and investment in the hundreds of thousands of new teachers and schools needed for the public provision of free, universal, quality education for all.
Agriculture

As African leaders recognized in the Malabo Declaration in 2014, if future growth in Africa is to be inclusive and is to tackle rising inequality, it must be rooted in agriculture, and above all in small-scale agriculture. More than half the adult workers south of the Sahara are employed in agriculture, and in many countries the vast majority of women who work do so in agriculture. Boosting agricultural productivity is therefore among one of the best ways of raising living standards for women and men across the continent. And there is a long way to go. Sub Saharan Africa’s farms are far less productive than Latin American or Asian ones. Africa imports $35bn worth of food each year, and the whole continent exports less agricultural produce than Thailand.

Instead of backing solutions that help smallholder farmers, governments and donor agencies are increasingly supporting very large PPPs such as GROW Africa and the New Alliance for Food Security and Nutrition, which encourage private sector investment at scale as an approach to stimulate agricultural development. Oxfam research suggests that large-scale PPPs remain unproven and risky, likely to skew the benefits of investment towards the privileged and more powerful groups – while passing risks to the poorest and most vulnerable people in rural areas. Too many African governments have yet to consistently meet their Malabo commitment to invest 10 percent of their national budgets in agriculture.

African governments need to resist the attraction of these large-scale PPPs, and, in line with their Malabo commitment, prioritize strategic public investments in infrastructure, research and development (R&D), training and social protection for small-scale farmers and tailored for women, that are proven to reduce poverty and hunger and drive inclusive economic development.

Health

In March 2016, the shocking death of a young mother and her twin babies on the doorstep of a hospital in Cameroon, allegedly because she was unable to afford the fees for medical treatment, sparked protests in the country, and shocked headlines across the world. It is appalling that user fees for health are still likely to be killing many thousands across Africa, the majority almost certainly women and children.

It doesn’t have to be this way. Rwanda has made spectacular progress in extending health coverage in the last 20 years. Rwanda has reduced child mortality from 151 in 1990 to 55 in 2012. This has involved a large scale up in public provision of healthcare services. Sixty-nine percent of babies are delivered in health units. Rwanda allocates 20 percent of public financing to health, and although every citizen is required to be part of a health insurance scheme, membership of these schemes is subsidized heavily, with the two lowest income groups receiving their insurance cards for free.
There is no doubt that Rwanda’s consistent investment in universal health coverage and scaled up public provision has made a big contribution to reducing economic and gender inequality and to boosting economic growth. Sadly, despite these clear success stories, donors and governments are instead promoting the private sector as a better path for expanding healthcare in Africa, despite little evidence of this. The World Bank’s private sector arm, the IFC, advises on health PPPs in Africa. Just one hospital built through a PPP in Lesotho that they have been strongly supportive of was found by Oxfam in 2014 to be diverting over half of the country’s entire health budget and its continued financial viability is a serious concern.24

There is a need instead to focus on what works in health, a strong publicly funded, publicly provided, tax financed system of healthcare that is free at the point of delivery. This will enable African nations to make huge inroads in the fight against economic and gender inequality, and will help lay a strong foundation for inclusive growth. It is the key to a wise investment of scarce resources.

A bright future for the taking

There is every reason to be optimistic for the future of Africa. With the right investments, in the future of the next generation, African nations can build more equal societies, more human economies, where African citizens can start businesses, can become productive workers, farmers, engineers, and have the opportunities to make the most of their talents and creativity. Where women and men are treated equally. Where the richest individuals and corporations pay their fair share of taxes to help support viable economies. Where no one is scared of falling ill because they have no money for medicine. Where no girl’s talents are wasted because she cannot afford to go to secondary school. Where Africa grows enough to feed itself, and help feed the rest of the world. These are not pipe dreams, but very reasonable propositions based on strategic investments in Africa’s greatest natural resource, its young people.

Recommendations

Maximizing progressive revenues for investment in inclusive growth

• African governments should aim to increase their tax-to-GDP ratio more swiftly, to reach a percentage ratio at least in the mid-20s. The precise potential will vary across countries and over time, and must be done in a progressive way, but the IMF’s ‘frontier analysis’ supports ambition of increasing around six percentage points on average.

• African governments should identify ways to increase the total amount and proportion of tax revenue derived from direct taxes. This includes enhanced collection of existing taxes through investment in units targeting highly-paid individuals and large firms.

• In addition, African governments should consider improving progressivity in the design of personal income tax, increasing the number of income tax bands so that there are higher rates for wealthy
individuals. Very rich individuals should not be paying the same rate of income tax as relatively poorly paid teachers and doctors.

- African governments should prioritize the eradication of tax evasion and tax avoidance, by setting up national and regional action plans coordinated with strategies to combat the use of tax havens. Commit to strengthen tax cooperation to also play a more active and decisive role in the global tax reform agenda.

- Governments should conduct impact analysis of their tax policies; in particular they should ensure that new policies do not worsen gender inequalities, as a minimum ‘do no harm’ requirement.

- All nations should look to follow the example of the best new contracts with extractive companies, based on civil society campaigns, such as those in Ghana, to maximize the revenue they are securing from their mineral wealth.

- African governments must work on integrated regional programmes to address harmful tax competition leading to an unproductive ‘race to the bottom’. Governments should stop using unproductive tax exemptions. Full transparency and accountancy in national budgets must be a pre-requisite.

### Investing strategically in education, agriculture and health

- Governments must spend 20 percent of the national budget on investing in education.

- Financing for education should be directed towards strengthening and improving public education, rather than accelerating processes of privatization. Education quality must be bolstered by training and hiring adequate numbers of qualified teachers to meet the growing need on the continent.

- School fees must finally be abolished in the public sector for primary and secondary schools – to ensure the poorest are not excluded from the benefits of education.

- African governments should revitalize public investment targeted at the needs of small-scale agricultural producers. This should include a target-based timeline and monitoring mechanism to meet and then exceed the Malabo Declaration for governments to spend 10 percent of their national budget on agriculture, prioritizing investments in R&D, extension services, infrastructure and social protection, tailored to meet the needs of women and vulnerable groups. Mega-PPPs or private sector investment cannot replace this much needed public funding.

- A new set of guidelines is needed for all large-scale private sector engagement in agriculture in Africa. WEF-sponsored agricultural initiatives such as GROW Africa require urgent revision to improve their inclusivity, accountability and effectiveness. This revision should include meaningful participation from farmers groups in decision making; setting guidelines on ‘inclusive’ agriculture business models; and ensuring the application and monitoring of highest available standards on land, gender and labour rights within investment programmes.
• Countries must meet the Abuja commitment to spend 15 percent of national budget on health. No country has ever made serious progress towards achieving universal healthcare without significant public financing

• End the entrenched healthcare divide between rich and poor by:
  o Investing in comprehensive primary healthcare backed up by quality tertiary care accessible to all
  o Using public financing to abolish user fees and other direct payments for health. Any existing insurance contributions should be pooled with public financing to deliver equal coverage and quality of healthcare for everybody
  o Investing in building resilient health systems, especially training and remunerating the missing millions of health workers and deploy them equitably to boost quality of healthcare in rural remote areas close to people’s homes and workplaces

• African governments must resist the pressure from pharmaceutical companies to implement intellectual property rules which lead to much higher drug prices, using the maximum flexibility given to them under international agreements.

Achieving inclusive growth, tackling economic and gender inequality

• Each country develops national inequality reduction plans, in line with their SDG commitments, with concrete measurable targets to reduce economic inequality through inclusive growth.

• End women’s economic inequality by implementing economic policies and legislation to close the economic inequality gap for women.

• Recognize, reduce and redistribute unpaid care work by collecting better data on the provision of care and investing in physical and social infrastructure that supports care

• Challenge the negative social norms that further increase women’s economic inequality and lead to unpaid care being done mainly by women.
1. INTRODUCTION

For the countries of Africa, after a number of years in the sunshine, storm clouds are gathering on the economic horizon. Although for now growth remains positive, it has slowed significantly from the highs of recent decades. The two main positive external factors that have helped keep growth rates high – high commodity prices and relatively easy access to external financing – are no longer the case. Although so far aid levels have stayed broadly level, the quality of aid is deteriorating, and European donors are distracted by the refugee crisis on their shores. At the same time, the majority of countries have not made significant savings during the years of plenty.

Figure 1. Selected commodity prices, January 2013–August 2015

Oil-producing nations are facing the biggest pressure but other countries are also struggling. Many are facing infrastructure problems, despite considerable investment, with electricity blackouts in Zambia and South Africa. On a more positive note, in Kenya the doubling of geothermal generation capacity in the second half of 2014 led to a 20 percent increase in overall capacity and a 25 percent decrease in overall electricity costs. El Niño, a global weather phenomenon, has brought a decline in rainfall to Southern Africa – threatening the livelihoods of millions of farmers, and amplifying the acute risks posed by climate change, as already experienced by many on the continent.
Against this backdrop, Africa remains the youngest continent as rapid population growth continues in the majority of countries. By 2025, more than half of the continent’s people will be under the age of 25. Building on the theme of this year’s Regional Economic Forum, these young people are by far Africa’s greatest natural resource. Better educated than ever before, these young women and young men will lead the continent for the 21st century and will build the vision for the African Union for the next 50 years – a vision with women and youth at its heart. The need to invest in them, and build economies that can support and include them, is paramount.

It is clear for Africa that that the future external trends are far less positive than in recent years. Yet Africa is blessed with huge natural resources, human and physical, which if used wisely can build strong and resilient economies to weather the gathering storms and deliver progress for its people. But it is also clear that in order to do this, African governments have to be strategic, wise and forward-looking in how they spend their increasingly limited resources.

This paper looks first at the fact that governments must make tackling inequality a vital priority, as part of building more sustainable, human economies in Africa.

Secondly, it looks at maximizing progressive revenues in order to be able to do this, particularly from extractive industries.

Finally, the paper looks at the strategic spending priorities that will have the maximum impact on delivering equitable, sustainable economic growth, to build a bright future for the continent and its new and greatest generation of young people.
2. FIGHTING INEQUALITY IN AFRICA

The time to tackle inequality is now

The gap between the rich and poor is extremely high in Africa, and rising rapidly in many countries. It is seriously undermining the fight to end poverty. It is a major threat to progress. High economic inequality reduces economic growth and has been linked to higher rates of crime and conflict. It also makes other inequalities, such as the gap between women and men, significantly worse. Inequality in Africa is the highest for any region in the world except Latin America and the Caribbean. Africa is home to seven out of ten of the world’s most unequal countries, with shameful examples of extreme wealth existing alongside extreme poverty. Take Equatorial Guinea for example; it is a high-income country, with a per-capita income higher than that of Spain, but with infant mortality rates higher than those of Burundi. Such statistics shame the country and the continent.

Nigeria is Africa’s most populous country. It has a higher average income than Bangladesh. Nevertheless, in Nigeria children are three times more likely to die than children in Bangladesh, and in Bangladesh near-universal primary enrolment has been achieved; whereas in Nigeria over one-third of children are still not in the classroom. Between 2003 and 2009, Nigeria experienced positive economic growth, yet poverty increased – and everyone other than the richest 10 percent experienced a fall in share of the national consumption. The fight against rampant inequality is critical to Nigeria’s future.28

The IMF records increases in inequality in around one-third of the countries in sub-Saharan Africa in recent years, including Uganda and Ghana. Oxfam’s own research in Malawi has shown that while the consumption of the top 10 percent was 22 times that of the bottom 10 percent in 2004, by 2011 this had grown to 34 times.29

As measures of Gini coefficients are based on household surveys, which are widely recognized as being poor at capturing the scale of income at the top of society, the actual level of inequality is likely to be much higher. In African countries, inequality in wealth, including the distribution of land, is much greater than income inequality. One measure of the rapid growth of inequality is the number of very rich people compared to extreme poverty levels. The number of African millionaires has increased by almost 50 percent in five years, and the number of billionaires has doubled since 2010.30 The top 10 richest people in Africa now have a combined wealth equivalent to the GDP of Kenya.

Meanwhile, the numbers of people living in poverty in Africa have increased by 50 million since 1990, from 280 million to 330 million, although the overall proportion of people living in poverty has decreased from 56 percent in 1990 to 43 percent in 2012.31 This is also reflected in
the relatively low numbers of middle-income Africans despite years of economic growth, with one executive from Nestle saying ‘the middle class in the region is extremely small and it is not really growing.’

Economic inequality compounds existing inequalities: between women and men, between rural and urban lives. In Ethiopia, 45.2 percent of adults have not been to school. But if you are rich man living in an urban area, this figure falls to 12.2 percent. Conversely, 69.6 percent of poor women in rural areas have never been to school.

Across all countries, women carry out the majority of unpaid domestic and care work, on average 2.5 times the amount that men do. Currently, women in sub-Saharan Africa spend five billion hours a year collecting water. However, it is not included in traditional measures of the economy, and often economic policies fail to recognize or invest in it, making inequalities worse.

Many countries in Africa still have legal restrictions to gender equality that are inhibiting, including women’s equality in the economy. Policies should promote equal pay and decent work. Rectifying gender inequalities in access to credit, equal inheritance and land rights can make a huge difference.

Inequality also harms the poverty-reducing impact of growth. Many African nations have experienced strong growth in recent years, and many have translated this into impressive poverty reduction. However, many others have not, with the benefits of high growth accruing to a small minority.

The Afrobarometer Survey, which polled more than 50,000 people in 34 African countries, suggested in 2015 that much of the recent strong economic growth in Africa is only benefiting a small elite. ‘Despite high reported growth rates, poverty at the grassroots remains little changed,’ the authors of the survey said. ‘In fact, income inequality may be worsening.’

With growth slowing across the continent, it is ever more critical to ensure that inequality is tackled at the same time as a country grows; doing so can reap enormous dividends. Oxfam’s own calculations, carried out with the Brookings Institution, showed that in Kenya for example, if inequality remains at the same level for the next five years, three million more people will be condemned to live in poverty than if the government were able to reduce the Gini coefficient by 5 points, or 12 percent.

Reducing inequality is also likely to boost economic growth. In its recent Regional Economic Outlook, this finding is echoed by the IMF. IMF research suggests that addressing high inequality could significantly affect growth in sub-Saharan Africa. Reducing inequality to levels similar to those observed in ASEAN countries could boost the region’s GDP growth by 0.9 percent, roughly the same order of magnitude as the impact on growth that would result from closing the infrastructure gap between the two regions.
3. MAXIMIZING PROGRESSIVE REVENUES FOR PROGRESSIVE INVESTMENT

African nations will secure the majority of revenue for development domestically. This has always been the case and will increasingly be so. In addition, they can also secure resources externally from private financial flows and from donor aid.

1. African countries have the scope to raise more tax and other revenue themselves

Public spending in Africa remains mainly funded by domestic tax revenue, which has increased from around 18 percent of GDP in 2000–04 to 21 percent of GDP in 2011–14 (excluding Nigeria), according to the IMF. This is a very positive trend. To put this in perspective, this is more than enough to double health spending for many countries in the region. At the same time, tax-to-GDP ratios in low-income countries outside Africa have remained static or have only marginally increased.

There is scope to further increase the amount of tax and other revenues raised by countries in sub-Saharan Africa. In its analysis, the IMF suggests that there could be the potential for another 3–6.5 percent increase in tax revenue, citing Ghana, Kenya and Tanzania as countries where there is leeway to do this. They point out that this analysis is also dynamic, and that as and when economies expand there would be potential for further increases in the tax-to-GDP ratio as they become wealthier countries. In the medium term, the aim should be tax levels similar to those in the OECD at around 35–40 percent of GDP.

These are not small amounts of money, and represent significant resources to invest in spending on health, education and other vital and strategic investments that African nations desperately need.

2. Increased taxation must be raised progressively

Whilst this potential for increased revenue is exciting, in increasing revenues through taxation and other means, African governments must be very careful to ensure that they do so in a way that decreases rather than increases inequalities. As we saw from the previous section, inequalities between rich and poor, and between women and men, are a serious block to progress – and ill-conceived attempts to raise taxation can make things worse.
Over recent years, on the strong advice of the IMF, there has been a move to reduce trade taxes and increase indirect taxes, particularly through using and raising VAT rates. VAT is a regressive tax, as it is paid disproportionately by the poor. Currently 67 percent of tax in Africa is raised through VAT. Exemptions are often in place for some basic goods to try to mitigate the impact on the poorest people, but these are a blunt instrument. Because VAT is levied on consumption, it can also have a disproportionate impact on women, as they pay for more basic services on behalf of the household. For example, a study in Ghana found that removing VAT on children’s goods would most strongly benefit female-headed households, as women had lower incomes and were also predominately responsible for purchasing such items.

Instead of focusing their efforts on taxes that will take from the poorest and women, African governments should maximize their efforts to implement a more progressive tax structure that derive revenue from those with the broadest shoulders and the most powerful companies. Thresholds for personal income taxes are very low in many African countries, with teachers and nurses paying the same tax rates as those working for foreign companies or who earn 10 or 20 times as much. Higher rates of personal income tax on the wealthiest could provide a good source of revenue. Similarly, excessive capital gains generated through property and landholding, and through non-market-based remuneration, can be addressed through property taxes and other capital gains taxes. Also, putting end to individuals tax dodging and making multinationals pay their fair share of taxes in African countries where they carry out their real activity could significantly bring additional revenues to national budgets, and contribute to strengthen the social contract.

The IMF, amongst others, recommends ensuring better compliance from high-income individuals and companies, alongside other measures. It highlights the success of a number of countries in setting up a dedicated ‘large tax payers office’ to chase these taxes. Tax collection in developing countries is undermined by a lack of government capacity – Sub-Saharan African countries would need to employ more than 650,000 additional tax officials for the region to have the same ratio of tax officials to population as the OECD average.

Corporate tax has to be the major source of revenue for African governments, and this is likely to be the case for the foreseeable future for many countries that are reliant on extractive industries for revenues, and where the majority of the population are poor and employed in smallholder agriculture and the informal sector. Governments should assess the use of their investment inducements, including tax exemptions. Many of these can be ineffective or unnecessary, and may be particularly inappropriate in cases where investment is ‘round-tripped’ to take advantage of particular tax regimes. Tax exemptions to foreign firms are estimated to be costing the Kenyan government 100bn Kenyan shillings or $1bn a year.

Beyond this, the IMF recommends that ‘combining a modest ad valorem royalty, a corporate income tax, and a separate resource rent tax has considerable appeal for low-income countries’. Special attention needs
to be paid to international tax treaties and other mechanisms that allow some companies to artificially shift profits to tax havens. Dysfunctions in the national and international tax system erode tax bases and have a detrimental impact on producer countries. This is explored in the next section.

3. Tax dodging by rich individuals and corporations deprives African nations of huge amounts of money

Tax dodging by rich individuals and corporations deprives African nations of huge amounts of money. Rich individuals in Africa are making use of the global network of tax havens to avoid paying their taxes. One recent estimate is that almost one-third (30 percent) of rich Africans’ wealth – a total of $500bn – is held offshore. This would mean the amount of taxes foregone by governments in Africa due to individual wealth being held offshore is approximately $14bn annually. Oxfam has calculated that if these rich people brought their money onshore and paid their fair share of tax, it would be enough to save the lives of four million children (including more than one million newborns) and 200,000 mothers, and prevent nearly a million stillbirths each year, on average, between 2013 and 2035. There would be enough left over to fill the funding gap for the salaries of every one of the extra 1.4 million teachers needed by 2020 to ensure every child in Africa can go to primary school.

Corporations operating in Africa are also using the global network of tax havens and secrecy to avoid paying taxes. Corporations have been estimated to lose Africa a further $38bn annually in foregone tax revenues. By its very nature, the extractives industry is particularly prone to certain kinds of tax avoidance, such as trade mispricing (see box). Kofi Annan, chair of the Africa Progress Panel, noted that, ‘Tax authorities in all regions struggle to prevent the erosion of their tax bases, but Africa struggles more than most. That is partly because of the restricted human, technical and financial resources available to revenue administrations. But it is also because companies involved in the extractive sector are highly integrated and make extensive use of offshore centres and tax havens with limited disclosure requirements. These are ideal conditions for tax avoidance and evasion through artificial shifting of profits to tax havens.’ Just one company in Uganda used shell companies in tax havens to try to avoid paying $400m in tax. This is more than the Ugandan government spends on healthcare each year. Fortunately on this occasion they were stopped.

In November 2012, the Zambian Deputy Finance Minister, Miles Sampa, told reporters that the country was losing as much as $2bn annually to tax avoidance, with the mining industry the biggest culprit and only one or two mining operations actually declaring profits. ‘The other mines for one reason or another, some genuine, some not, are always making losses,’ Sampa said. ‘Most of it is due to transfer pricing or tax avoidance.’

This example shows that the sums involved are hugely significant in absolute terms, but are even more stark when we consider that corporate taxes are the cornerstone of African governments’ revenue streams, and
will continue to be so for the foreseeable future. It is shocking to think of the unbuilt schools, the untrained teachers, the untreated sickness and the gross abuse of human rights that this tax avoidance represents.

Governments can take some actions at national level to help prevent aggressive tax avoidance by companies, including those in the extractives sector. But by its nature, this is primarily a global problem, as a result of a broken and outdated international tax system, that requires global solutions. The OECD’s Base Erosion and Profit Shifting (BEPS) project was an attempt to fix this international tax system, but because the poorest countries were not represented, the solutions agreed have failed to benefit them.

There is an urgent need for a second generation of global tax reforms where all countries are represented equally, which put an end to the era of tax havens once and for all.

Box 1: Maximizing revenue from extractives

Revenue from extractive industries accounts for one-third of the total tax taken in Africa. The number of new extractive finds in different countries has made these revenues relevant in ever more situations. The fall in commodity prices will affect this trend, but the revenue from Africa’s natural resources will remain important for many years to come. Securing as much of this as possible for progressive social spending is a top priority.

Revenues from extractives come in a number of different ways, from the sale of mineral concessions and the royalties agreed, to the taxes paid by the companies extracting the natural resources. A huge amount depends on the contract that is signed, and on the honouring of that contract. Oxfam has worked with local partners, and civil society more widely, to support a number of such initiatives, for example in Burkina Faso, Ghana and Niger, covering new rules on taxes and royalties, contract negotiation and agreements about how revenues are used. In Burkina Faso, a successful ‘1% campaign’ by civil society demanding that the country’s new mining law require one percent of gross mining revenues be allocated to a community development fund could result in potentially millions of dollars a year for local development projects.\(^5\)\(^5\) As this example demonstrates, better contracts and revenue sharing can be negotiated with strong citizen oversight.\(^5\)\(^6\)

Sadly, there are also plenty of bad examples. The Africa Progress Panel found that the Democratic Republic of the Congo undervalued five deals with extractive companies by $1.4bn over just two years, selling mining concessions for far less than their market price, only for them to be sold on for a much higher price soon afterwards.

Companies often make use of their very strong bargaining position to negotiate extensive exemptions or reduced-rates royalty and corporate income tax. This led to Zambian miners paying higher rates of tax than the companies they were working for. There is considerable variation between extractive industries, with mining companies tending to pay less tax than their counterparts in oil and gas, but all firms do their best to negotiate as favourable terms as possible. Often, corruption plays its part.
A new issue with natural resource concessions concerns the ‘bundling’ of aid and investment by emerging powers investing in Africa (BRICS, typically). For example, the ‘oil for infrastructure’ deals, in which Angola and Nigeria sold crude oil to China in exchange for investments in transport infrastructure, were seen as controversial whilst not delivering the much-needed infrastructural improvements. Investment deals and contractual agreements between African countries and the BRICS deserve as much scrutiny as those with Western countries.

Transfer mispricing

In addition to the reduction of tax liabilities through negotiated exemptions or reduced rates, extractive industry companies can also be well-placed to take advantage of international tax rules and tax havens to avoid tax. This often involves the manipulation of trading between different parts of their company in an effort to reduce or eliminate profits in the country where they should be paying tax, and instead booking their profits in low-tax jurisdictions. One study for the US senate found a company selling toothbrushes between subsidiaries for $5,655 each.57

There are also indications from the recent Panama Papers that some companies may be involved in deliberately manipulating the value of goods to reduce tax liabilities in African countries. For example, Africa Confidential has reported on the case of a company mining diamonds in Sierra Leone, which is now the subject of a legal investigation following government action. According to Africa Confidential, there are indications that there may be wide discrepancies in the prices per carat of diamonds valued in-country and the prices they are sold for abroad. If these concerns are validated, it would mean the country has been losing tens of millions of dollars from its diamond business. In 2006, a review of 105 natural resource concessions in Liberia recommended that 36 contracts should be cancelled and 14 renegotiated because the government did not receive fair value from them.59

Former South African president Thabo Mbeki, on a visit to the Democratic Republic of Congo in June 2013, stated: ‘The extractive industries sector is central to the illicit outflow of money from Africa.’ Building on civil society advocacy around the issues, a number of relevant official organizations have highlighted the problems related to profit-shifting, not least by extractive industry companies. Following the fantastic campaign victories of recent years, new mandatory reporting requirements from the EU, Canada, Norway and the US, mean that in countries where they operate, starting this year, extractive companies will have to report exactly what payments they are making to central and local governments, right down to project level. This is likely to have a transformative effect.

Whilst the majority of Africa’s development will be achieved through maximizing domestic resources, external financing will also play an important part.

Private financial flows are no panacea

In recent years there has been a big increase in private investment flows into Africa, and governments have had significant access to financial markets to borrow money. Foreign Direct Investment stands at just over $50bn dollars, and has been around that level since 2010.60 It has tended to be focused on a few countries and a few sectors.
As recently as 2012, it was cheaper for a country like Zambia to borrow dollars than it was for Spain. Those days are gone. In fact, in a number of countries, the problem of unsustainable external and internal debts has once again become a major issue. Ghana could be spending as much as one-third of its revenue servicing its debts, starving government services of much-needed spending. A number of countries borrowed on international markets in recent years, and with interest rates now rising as high as 10 percent, these debts are becoming hard to service. Often this money has been borrowed to invest in vital infrastructure and other capital investments, but this is not always the case.

It is clear that private finance is neither a panacea, nor a blank cheque; when available, it needs to be regulated to offer guarantees on delivering sustainable and equitable development, as well as poverty reduction. It must lead to job creation, enabling people to learn new skills and generating the wages local communities desperately need to prosper, and enabling sustained and sustainable growth.

Private finance and the private sector should not be considered a substitute for public finance, particularly in the provision of essential services such as health and education. For many African countries the role of aid as a key form of external finance to supplement domestic revenue remains crucial and will remain so.

**Aid levels to Africa are relatively unchanged and the quality is falling**

Ideally, poor countries would be able to finance development for all of their citizens without aid, but for the poorest countries in Africa – and especially for those with very few natural resources – aid from rich nations is and will remain an absolutely fundamental source of financing for many years to come. Bilateral ODA to sub-Saharan Africa was $24bn, representing an increase of 2 percent in real terms from 2014. This is less than 20 percent of total aid, and given that Africa is where 33 percent of the poorest people on earth are this percentage needs to increase substantially.

Much of the aid to Africa is helping to deliver huge progress. Aid delivered via the Global Fund to Fight HIV, TB and Malaria is providing anti-retroviral treatment for millions of people across the continent and has distributed tens of millions of free mosquito nets. This has made a huge contribution to the major reduction in the number of deaths due to AIDS and malaria. It is a tremendous achievement and one that should continue to be supported and expanded.

Nevertheless, in recent years there has been a sharp deterioration in the quality of aid, as donors have shirked their commitments to standards of aid effectiveness, and moved away from providing the kind of support that has been proven to be most effective in enabling governments to make maximum progress. At Busan, donors pledged to use country systems as the default method of aid delivery. These include general budget support and sector budget support, which are essential to help
governments manage their fiscal position and to assist them with recurrent costs such as the salaries of teachers and nurses. A rigorous, independent evaluation of the impact of budget support in seven countries, initiated by the OECD, found that the initial effects of budget support contributed to the expansion of basic public services in health and education.64

Aid to support quality free public services such as education and health has been significantly lower than is needed. Instead, donors are increasingly choosing to tie their aid to private finance, which is risky and unproven. Aid should support both the capacity of government institutions to respond to citizen demands, as well as support citizens and domestic civil society organizations to engage in formal and informal public processes.

Through aid, Donors can also help countries with developing their domestic resource mobilization. This can be done through increasing aid to strengthen tax administrations. Donors can play a constructive role in helping countries build and resource progressive tax systems that can ensure that the richest individuals and corporations pay their fair share of tax.
4. STRATEGIC INVESTMENTS FOR A HUMAN ECONOMY

The need to invest wisely

Many African countries are already facing fiscal challenges, and the situation over the next few years is unlikely to improve. This means that highly strategic public spending is even more important. Fortunately, there are proven investments that can deliver in three ways simultaneously. They can reduce the gap between rich and poor. They can help deliver greater equality between women and men. Finally, they can deliver greater economic growth, both directly and indirectly, through reducing these inequalities which in themselves act as a barrier to economic progress.

Public spending on health, education and other public services has been shown to play a key role in reducing economic inequality, as seen particularly in many Latin American countries in recent years.65

Public spending on areas of the economy that will create the most jobs, in particular small-scale agriculture, has been shown to reduce inequality significantly. A weight of evidence points to the role of small-scale farming in reducing poverty, generating employment, and contributing to household and national food security.66

Public investment that prioritizes women is a powerful engine of women’s liberation. It can play a vital role in reducing the huge amount of unpaid care work that women have to undertake. It can give them the chance to learn to read and write, and the education and opportunities to secure good jobs which can play a major role in women’s empowerment.

Reducing economic and gender inequality in this way has in turn been shown to both increase the amount of growth and to change the nature of that economic growth, ensuring that the majority of women and men benefit.

The following sections look at education, agriculture and health, as these sectors have been shown to be at the heart of building inclusive growth and a human economy. They give some idea of what strategic investments can and should urgently be made by African governments in these priority sectors.
Listening to citizens is vital to ensure wise investments

Public spending investments that reduce inequality need to be a top priority across the continent. These investments need to be defined and prioritized with the people they are designed to support. Creating an enabling environment and a safe civic space for citizens and governments to work together to solve these critical governance challenges are preconditions for effective public investments to tackle inequality.

Without the space for citizens to engage with government institutions on these issues, policies will miss the mark. Without the space for civil society organizations to hold government institutions at different levels to account for how money is spent, the scourge of corruption will continue to undermine life-saving essential services and investments in the future generation of leaders and citizens. Without an enabling environment for dialogue, frustrations, corruption, extremism and violence flourish.

Citizens can play a key role in both setting the priorities and ensuring that the money is spent well on what it was supposed to be spent on. This is particularly important for ensuring that the priorities of women are recognized and respected in planning and spending, in a context where decision-making processes are often dominated by men. Citizens and civil society are well placed to work with government as a ‘critical friend’ and a watchdog in support of more inclusive, gender-sensitive and less regressive tax policy. As well as tracking budget expenditures, mobilized populations should engage in participatory budgeting processes, which many African countries have built into their constitutions and legislation.

Oxfam works with allies in many African countries to help create spaces and strengthen the voices of citizens and their ability to engage with government institutions and hold them to account. We do this because we know that citizens are best-placed to set out their own needs, and that government institutions are more representative, stronger and more effective when they take these voices into account. There is progress on government revenue and budget transparency in Africa, with more and more countries signing up to multi-stakeholder initiatives such as the Extractive Industries Transparency Initiative (EITI) and the Open Government Partnership. However, there is much more that could be done to ensure that budgeting, public planning and public investment processes are open to the public, and that data are publically available and disaggregated by sector and gender.

Across the continent, Oxfam is working with groups of organizations and networks of social movements who are committed to fairer development outcomes for the citizens of their countries. In Ghana, with our partner coalition, the Civil Society Platform on the IMF Bailout, Oxfam worked to ensure that the recent IMF bailout agreement did not cut social spending as is the norm, but rather resulted in more spending targeted to support poorer sectors of society. In Uganda, our partners CEW-IT trained 800 community monitors in budget-tracking and analysis; they were instrumental in sharing information with citizens and supporting them to
track expenditures in their own communities and engage constructively with local government. This resulted in better service delivery, and strengthened local government institutions and their legitimacy in the eyes of the people they serve.

**Education**

Africa is the youngest continent. By 2025, more than half of sub-Saharan Africa’s population will be under the age of 25. These young women and men are the future of the continent. They will build the societies and nations for the 21st century. There can be nothing more important than investing in these young people – and the most effective way to do that is through education.

Education is an incredible leveller of societies, a powerful weapon in the fight against inequality. It gives nations the potential to maximize the talents of all their citizens.

Yet despite some impressive progress in recent years, Africa remains the most uneducated continent, and the major gains of the early part of this century are under threat as momentum is being lost. Fifty-nine million children are out of school and 30 million of them are south of Sahara. The school-age population is projected to grow by one-third from now until 2030.

In Malawi, 52 percent of girls do not learn how to read and write compared to 44 percent of boys. In Botswana, seven percent of the rich are not learning, as compared to 30 percent of the poor. The tertiary education sector in Africa is tiny, and for the large part is beyond the means of anyone but the richest families – excluding the vast majority of Africa’s young women and men.

It is heartbreaking to imagine the many potential scientists who are instead herding goats, or the would-be engineers that are pounding maize. These young people are an invaluable, vital resource that Africa cannot afford to squander. Meanwhile, nations in other regions are investing very heavily in their young people, because they recognize the huge value of an educated workforce.

Education is also an incredible liberator of minds, and therefore of women and men. The power of being able to read and write, and what that means in terms of understanding the world and being able to take some control and play a part in society, is huge. Education and literacy is central to the spread of good governance and accountability, to empowered and educated citizens able to hold their governments to account for their actions. Yet across Africa, there are still far too many adults, and especially too many women, who are trapped in the darkness of illiteracy.

The major drive for universal primary education, school fee abolition and the commitment to education for all girls that delivered such huge successes in Africa in the early part of the century – due in part to donor support – has lost momentum. The share received by sub-Saharan
Africa of total aid to basic education has fallen from 49 percent in 2002/03 to 28 percent in 2014, even though the region accounts for over half (57 percent) of all out-of-school children. Instead, its place is being taken by ill-conceived public-private partnerships (PPPs) and the promotion of private schooling. Recently the government of Liberia announced plans to outsource its entire primary education system, primarily to a private company which is supported by the World Bank’s International Finance Corporation.

The UN Special Rapporteur on Education has said that the rise of commercial actors in education ‘cripples the notion of education as a universal human right... by aggravating marginalization and exclusion’. UNESCO warned in 2009 that, in particular, ‘significant gender disparities’ were present in low-fee/ for profit schooling, because for many families the so-called ‘affordable’ school fees actually impose a huge cost. In such contexts, girls are first to lose out. In rural Pakistan, for example, the poorest children are four times less likely to be enrolled at a private school than the richest children. And of these children, the poorest girls are even further disadvantaged – being 31 percent less likely to be enrolled in a private school than the poorest boys.

This is the wrong path for Africa. It is not the path taken by any nation that has successfully invested in education as part of its growth strategy. Instead, we need to see a redoubling of energies and investment in the public provision of free, universal education.

Teachers are the single most important factor in improving the quality of education in Africa. Across the continent, a heroic army of teachers – a huge number of them young women themselves – are educating Africa’s future generations, many of them working in appalling conditions. They need our support. We need to train them better. We need more of them. UNESCO has estimated that we need three million new teachers in sub-Saharan Africa by 2020, which would cost an additional $5.2bn a year. As we have shown, a clampdown on tax avoidance by rich individuals could more than pay for this vital investment in education that can give Africa’s young people the opportunity to achieve their potential.

**Agriculture**

To see the importance of agriculture in delivering growth that reduces inequality, it is helpful to compare the fortunes of Mozambique and Vietnam, as the IMF have done over a ten year period. Both have had very similar growth levels, but whereas Vietnam has created two million jobs in industry compared to just 160,000 in Mozambique, more importantly it has also significantly improved the productivity of agriculture, leading to the sustaining of many millions of jobs in agriculture and raising living standards.

There can be no doubt that if future growth in Africa is to be inclusive and is to tackle rising inequality, it must be based firmly in small-scale agriculture. More than half the adult workers south of the Sahara are employed in agriculture, and in many countries the vast majority of women who work do so in agriculture. Boosting agricultural productivity is
therefore one of the best ways of raising living standards for both women and men across the continent. There is, however, a long way to go. Sub Saharan Africa’s farms are far less productive than those of Latin American or Asia. Africa imports $35bn worth of food each year, and the entire continent exports less agricultural produce than Thailand alone.

As African Union leaders first recognized in the Maputo declaration of 2004, and reiterated in the Malabo Declaration of 2014, boosting agricultural growth – and especially improving the livelihoods and productivity of smallholder farmers – requires public investment. It needs infrastructure, such as rural feeder roads, grain storage facilities and irrigation systems. It needs extension workers, trained to work with farmers, both women and men, to help ensure that the best farming methods become common practice, especially in a changing climate. It needs new technology to be developed and research to be supported. Governments can play important roles in subsidizing credit, and ensuring access to inputs such as fertilizer and seeds, to help shift the risk away from farmers. They can guarantee minimum prices for crops, where that makes sense. They can support food reserves and other forms of social protection in the face of extreme weather and other external shocks. This is particularly true in the context of climate change, the effects of which are making farming in Africa even riskier.

To maximize the benefits of agriculture for farmers, and in particular women, it is essential that governments prioritize investments that can link rural areas to emerging urban markets in African cities. Through this approach, consumer demand can lead to greater economic opportunities in rural areas – leading to a virtuous circle of growth. Governments also need to better understand investment approaches that can support women, such as informal production groups, a focus on commodities such as fruit and tree-based products, and the development of high-value local and national markets rather than investment only to support cash crops for export.

New and innovative business models can similarly ensure that as much value as possible is kept by producers, and that producers are able to come together to get involved in the lucrative business of processing and early-stage value addition, rather than simply selling very cheap raw produce. The Kenyan Tea Development Agency (KTDA) is an excellent example of this. It has become a giant of the tea sector, and is wholly owned by 550,000 of Kenya’s small-scale tea farmers. Through KTDA, these farmers own 66 tea-processing factories. KTDA results in Kenyan tea farmers getting over 75 percent of the final price of their tea; much higher than the percentage gained by farmers in neighbouring countries. Cocobod in Ghana also sets minimum prices for cocoa, protecting farmers and minimizing risk.

Instead of doing this and backing these solutions that help smallholder farmers, governments and donor agencies are increasingly supporting very large PPPs such as GROW Africa or the G7’s New Alliance for Food Security and Nutrition, which encourage private sector investment at scale as an approach to stimulate agricultural development. Oxfam research suggests that large-scale PPPs remain unproven and risky, and
are likely to skew the benefits of investment towards the privileged and more powerful groups – while passing risks to the poorest and most vulnerable people in rural areas.

African governments need to resist the attraction of these large-scale PPPs and in line with their Malabo commitment, prioritize strategic public investments which are proven to reduce poverty and hunger and drive economic development.

**Health**

In March 2016, the shocking death of a young mother and her twin babies on the doorstep of a hospital in Cameroon, allegedly because she was unable to afford the fees for medical treatment, sparked protests in the country and made news headlines across the world. The fact that user fees for healthcare are still likely to be killing many thousands of people across Africa, the majority of them almost certainly women and children, is appalling.

In 2009, the UN Secretary General convened a meeting of world leaders, including the president of the World Bank, which led to the commitment of many countries to remove user fees, and enabled many countries to do this for mothers and children. In Sierra Leone, fees were removed for pregnant women in 2010. Within one year, there was a 150 percent improvement in maternal complications managed at health facilities and a 61 percent reduction in the maternal case fatality rate. The number of users of facilities adopting modern family planning methods rose by 140 percent.

Yet eight years later, mothers are still dying in Cameroon and in countries across Africa. This is a horrific, unnecessary and unacceptable squandering of human life. It is a rationing of life at its most brutal.

We know that public investment in health provision for all – women, men, boys and girls – is some of the most strategic and cost-effective spending a government can make:

1. It reduces inequality between rich and poor. Catastrophic health expenditures are one of the key factors driving people into poverty.
2. It reduces inequality between women and men. It cuts the amount of unpaid care women have to undertake, liberating them in many ways. The health system is also a major employer of young women.
3. It boosts growth, as productivity increases with a healthier workforce. Malaria alone is thought to have a negative impact of as much as 1.3 percent on GDP growth in some African countries.

A new Global Investment Framework for Women’s and Children’s Health (Investment Framework) demonstrates that investing in women’s and children’s health in Africa could save millions of lives and yield an eleven-
fold return through social and economic benefits. On average, across 46 African countries, investing an additional $8 per capita per year during one generation (i.e. from 2013 until 2035) could prevent up to four million maternal deaths, 90 million child deaths (including 30 million newborn deaths) and 17 million stillbirths.73

We also know that scaled-up public provision of health services has been at the heart of every developing country success story. More nurses, more doctors, more clinics, more medicines. Focused on a basic package of care, focused on rural areas, a huge amount can be achieved with relatively modest levels of public investment.

With genuine political commitment resulting in increased public spending, Sri Lanka was able to provide universal access to a wide network of effective, good quality health services, including district hospitals. Additionally, good geographical access and the absence of any user fees or co-payments in the public sector has resulted in a system that is unusually equitable in both utilization of services and health outcomes. For example, due to many rich people choosing to access private outpatient care, 27 percent of spending on the free public outpatient system is captured by the lowest income quintile.

**Box 2: Rwanda’s tremendous health progress**

In Africa, Rwanda has made spectacular progress in extending access to health coverage in the last 20 years. It has reduced child mortality from 151 deaths (per 1,000 live births) in 1990, to 55 in 2012 (with an expectation of reaching 40 in 2015) and reducing maternal mortality from 910 deaths (per 100,000 live births) in 1990 to 340 in 2012 (with 212 predicted in 2015). What is more, life expectancy has practically doubled, from 33 to 63 years, in this period. On these health indicators, Rwanda has overtaken all of its immediate neighbours.

This has involved a large scale-up in public provision of healthcare services: 97 percent of babies are now immunized against 10 infectious diseases, 69 percent of babies are delivered in health units, and Rwanda was among the first countries in sub-Saharan Africa to distribute millions of insecticide-treated bed nets to households, free of charge, to fight malaria. In order to improve access to services, community health workers provide basic primary healthcare interventions, with each village electing three community health workers who are then trained and equipped by the state.

Rwanda allocates 20 percent of public financing to health, and this is set to rise further to 25 percent,74 and although every citizen is required to be part of a health insurance scheme, membership of these schemes is heavily subsidized, with the two lowest-income groups receiving their insurance cards for free.

There is no doubt that Rwanda’s consistent investment in universal health coverage and scaled-up public provision has made a big contribution to reducing economic and gender inequality, and boosting economic growth.75
Sadly, despite these clear success stories, donors and governments are instead promoting the private sector as a better path for expanding healthcare in Africa, despite little evidence that this is the case. The new Global Financing Facility (GFF) for reproductive, maternal, newborn, child and adolescent health, embraces and champions the private sector as both a financer and deliverer of healthcare services. In fact, evidence from malaria treatment clearly demonstrates that the private sector is less effective than public sector and community workers. Yet the GFF has so far avoided addressing much higher levels of poor-rich inequity in the private delivery of sexual, reproductive and maternal health services in the private sector, or the disproportionate dependence of poor women on the public sector.

Similarly, the International Finance Corporation (IFC), the private sector investment arm of the World Bank Group, justified its growing role in global health using figures showing the high usage of private healthcare services by poor women in Africa, whilst neglecting the fact that a large proportion of ‘private’ care sought by the poorest women was from unskilled and unqualified workers and unregulated medicine shops or hawkers.

Oxfam’s research has found that far from reaching the health needs of poor women in Africa, the IFC’s investments to date have been in high-end facilities for the rich. The IFC also advises on health PPPs in Africa. In 2014, Oxfam research found that its flagship PPP hospital in Lesotho is diverting over half of the entire country’s health budget, and serious concerns remain about its financial viability.

Oxfam calculated the cost of training of the ‘missing’ 9,020 medical doctors and 37,059 nurses and midwives in four countries (Guinea, Liberia, Sierra Leone and Guinea Bissau) to be $420m. Once they were trained, a total of $297m annually would be needed to pay their salaries for 10 years. This would be more than possible with the mobilization of taxation from extractives and foreign aid.

There is a need to focus on what works in health, namely: a strong, publicly funded, publicly provided, tax-financed system of healthcare that is free at the point of delivery. This will enable African nations to make huge inroads in the fight against economic and gender inequality, and will help lay a strong foundation for inclusive growth. It is the key to wise investment of scarce resources.
5. CONCLUSION: A BRIGHT FUTURE FOR THE TAKING

Africa faces tough times ahead, but with the right strategic investments it can weather the coming challenges. Governments must listen to their citizens. Above all, they must strategically invest their scarce resources, in the education, health and agriculture that will build resilient and more equal economies. Rising gaps between rich and poor harm the continent and must be reversed. They make the gap between women and men worse. A more equal Africa is better for everyone. To achieve this companies and rich individuals must be made to pay their fair share of tax. Extractive industries in particular must play their part. Africa is not short of resources, whether it is the minerals in the ground or its young women and men, its best educated generation in history. The time is now to build better societies, human economies for the 21st century.

Recommendations:

Maximizing progressive revenues for investment in inclusive growth

• African governments should aim to increase their tax-to-GDP ratio more swiftly, to reach a percentage ratio at least in the mid-20s. The precise potential will vary across countries and over time, and must be done in a progressive way, but the IMF’s ‘frontier analysis’ supports ambition of increasing around six percentage points on average.

• African governments should identify ways to increase the total amount and proportion of tax revenue derived from direct taxes. This includes enhanced collection of existing taxes through investment in units targeting highly-paid individuals and large firms.

• In addition, African governments should consider improving progressivity in the design of personal income tax, increasing the number of income tax bands so that there are higher rates for wealthy individuals. Very rich individuals should not be paying the same rate of income tax as relatively poorly paid teachers and doctors.

• African governments should prioritize the eradication of tax evasion and tax avoidance, by setting up national and regional action plans coordinated with strategies to combat the use of tax havens. Commit to strengthen tax cooperation to also play a more active and decisive role in the global tax reform agenda.

• Governments should conduct impact analysis of their tax policies; in particular they should ensure that new policies do not worsen gender inequalities, as a minimum ‘do no harm’ requirement.
• All nations should look to follow the example of the best new contracts with extractive companies, based on civil society campaigns, such as those in Ghana, to maximize the revenue they are securing from their mineral wealth.

• African governments must work on integrated regional programmes to address harmful tax competition leading to an unproductive “race to the bottom”. Governments should stop using unproductive tax exemptions. Full transparency and accountancy in national budgets must be a pre-requisite.

**Investing strategically in education, agriculture and health**

• Governments must spend 20 percent of the national budget on investing in education.

• Financing for education should be directed towards strengthening and improving public education, rather than accelerating processes of privatisation. Education quality must be bolstered by training and hiring adequate numbers of qualified teachers to meet the growing need on the continent.

• School fees must finally be abolished in the public sector for primary and secondary schools – to ensure the poorest are not excluded from the benefits of education.

• African governments should revitalize public investment targeted at the needs of small-scale agricultural producers. This should include a target-based timeline and monitoring mechanism to meet and then exceed the Malabo Declaration for governments to spend 10 percent of their national budget on agriculture, prioritizing investments in R&D, extension services, infrastructure and social protection, tailored to meet the needs of women and vulnerable groups. Mega-PPPs or private sector investment cannot replace this much needed public funding.

• A new set of guidelines is needed for all large-scale private sector engagement in agriculture in Africa. WEF-sponsored agricultural initiatives such as GROW Africa require urgent revision to improve their inclusivity, accountability and effectiveness. This revision should include meaningful participation from farmers groups in decision making; setting guidelines on ‘inclusive’ agriculture business models; and ensuring the application and monitoring of highest available standards on land, gender and labour rights within investment programmes.

• Countries must meet the Abuja commitment to spend 15 percent of national budget on health. No country has ever made serious progress towards achieving universal healthcare without significant public financing.

• End the entrenched healthcare divide between rich and poor by:
  
  o Investing in comprehensive primary healthcare backed up by quality tertiary care accessible to all
  
  o Using public financing to abolish user fees and other direct payments for health. Any existing insurance contributions
should be pooled with public financing to deliver equal coverage and quality of healthcare for everybody

- Investing in building resilient health systems, especially training and remunerating the missing millions of health workers and deploy them equitably to boost quality of healthcare in rural remote areas close to people’s homes and workplaces

- African governments must resist the pressure from Pharmaceutical Companies to implement intellectual property rules which lead to much higher drug prices, using the maximum flexibility given to them under international agreements.

**Achieving inclusive growth, tackling economic and gender inequality**

- Each country develops national inequality reduction plans, in line with their SDG commitments, with concrete measurable targets to reduce economic inequality through inclusive growth.

- End women’s economic inequality by implementing economic policies and legislation to close the economic inequality gap for women.

- Recognize, reduce and redistribute unpaid care work by collecting better data on the provision of care and investing in physical and social infrastructure that supports care

- Challenge the negative social norms that further increase women’s economic inequality and lead to unpaid care being done mainly by women.


6  Per capita income of Equatorial Guinea at GDP PPP is 34,000, for Spain it is 33,600. Infant mortality for Burundi is 54 per 1,000 live births, for Equatorial Guinea it is 68. Source http://data.worldbank.org/indicator/SP.DYN.IMRT.IN and http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD


13  Ibid.


15  This estimate is made by Global Financial Integrity and is for transfer pricing only, so the real figure is likely to be higher. Quoted in the Africa Progress Panel 2013 report, page 65.


22  In 2005 a Save the Children study estimated that 230,000 children’s lives could be saved if user fees were eliminated in 20 African countries, see Save the Children (2005). Impact on child mortality of removing user fees: simulation model. http://www.ncbi.nlm.nih.gov/pubmed/16195292. With fees continuing to exist in many African nations, it is very likely that women and children are paying the highest price for this.


27  See the discussions and outcomes of Agenda 2063. The future we want for Africa. http://agenda2063.au.int/en/vision

31 World Bank (2016).
32 Quoted in the Economist Business in Africa Supplement, from an interview in the Financial Times. In 2014 Cadbury closed its factory in Nairobi, importing products from Egypt and South Africa instead. A survey by Pew in 2011 found that ‘few countries had much of an increase in the share of middle-income earners’ in the decade to 2011.
35 http://www.afrobarometer.org/online-data-analysis
39 Indeed many countries have increased investments in education and health, but remain far short of commitments made and what is required.
50 Ibid.
51 This estimate is made by Global Financial Integrity, and is for transfer pricing only, so the real figure is likely to be higher. Quoted in the Africa progress panel 2013 report, page 65.
56 There is a need to widen the tax base through encouraging secondary industries related to extractives. For example, Local Content Provisions in countries such as Nigeria, Ghana, and Angola have been used to stimulate domestic participation in the oil and gas industry by providing specialized services and equipment (e.g. locally fabricated pipes, provision of marine vessels for lifting oil cargos, etc.) to larger multinational oil and gas companies. If properly harnessed, local content policy can drive innovation by local manufacturers, create more jobs (particularly ones more amenable to women), and be scaled upwards at the regional level to create pooled infrastructure and manufacturing industries. It is important, nonetheless, to ensure that local content policies are not another avenue to distribute state patronage to political elites, and that women-owned business benefit from these policies.
62 Development Finance International, Personal Communication, April 2015