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Item 5 of the provisional agenda*
Presentation on the theme of the fifty-fifth session of the Economic Commission for Africa

Economic Commission for Africa
Conference of African Ministers of Finance, Planning and Economic Development
Fifty-fifth session

Addis Ababa (hybrid), 20 and 21 March 2023
Item 3 of the provisional agenda**
Dialogue on the theme of the fifty-fifth session of the Economic Commission for Africa

Issues paper

Fostering recovery and transformation in Africa to reduce inequalities and vulnerabilities

I. Objective

1. In recent years, Africa has found itself facing a perfect storm of overlapping and recurring crises that perpetuate the poverty and inequality that were significant even before the coronavirus disease (COVID-19) pandemic. The purpose of the present paper is to identify the key issues related to poverty and inequality that will inform the proceedings of the forty-first meeting of the Committee of Experts and the fifty-fifth session of the Conference of African Ministers of Finance, Planning and Economic Development, the theme of which is "Fostering recovery and transformation in Africa to reduce inequalities and vulnerabilities". The paper presents the status of poverty and inequality in Africa in the context of overlapping global shocks and outlines compounding factors as well as promising opportunities for African countries to pursue a people-centered recovery.

II. Perfect storm of overlapping crises

2. While the world was still grappling with the COVID-19 pandemic, the war in Ukraine broke out in early 2022. The impact of the two shocks has been exacerbated by the higher frequency and intensity of natural disasters globally. Together, the three overlapping shocks have pushed more people into extreme poverty and have increased inequality worldwide. Africa is falling even further behind, with the continent now accounting for the highest proportion of the world's poor of any region globally. The emergence of a large number of newly poor and vulnerable people makes it harder to close the gap between the rich and the poor. Inequality remains a persistent challenge.

* E/ECA/COE/41/1.
** E/ECA/CM/55/1/Rev.1.

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3. The costs of the triple crisis are high, as seen in the increased numbers of the newly poor and vulnerable. Relief for vulnerable people is far from sight, owing to the deteriorating macroeconomic situation. While there is an increased need for spending to reduce the scarring from the crises, there is limited available fiscal space.

4. In this context, achieving targets to eradicate extreme poverty and reduce inequality in just 8 years' time pursuant to the 2030 Agenda for Sustainable Development is becoming ever more improbable. Poverty and inequality in Africa pose high risks to prosperity, peace and security, and to the social contract more broadly. Fostering a new development model centered on people and focusing national and regional development strategies on reducing poverty and inequality is, therefore, urgent.

III. State of poverty and inequality

5. There were significant levels of poverty and inequality in Africa even before recent global crises. Poverty has worsened and inequality has widened in the continent amid the overlapping crises. Recovering from their adverse effects may take years if urgent action is not taken at the global and national levels. It is particularly concerning that the non-poor in Africa are at a high risk of slipping into poverty as shocks occur.

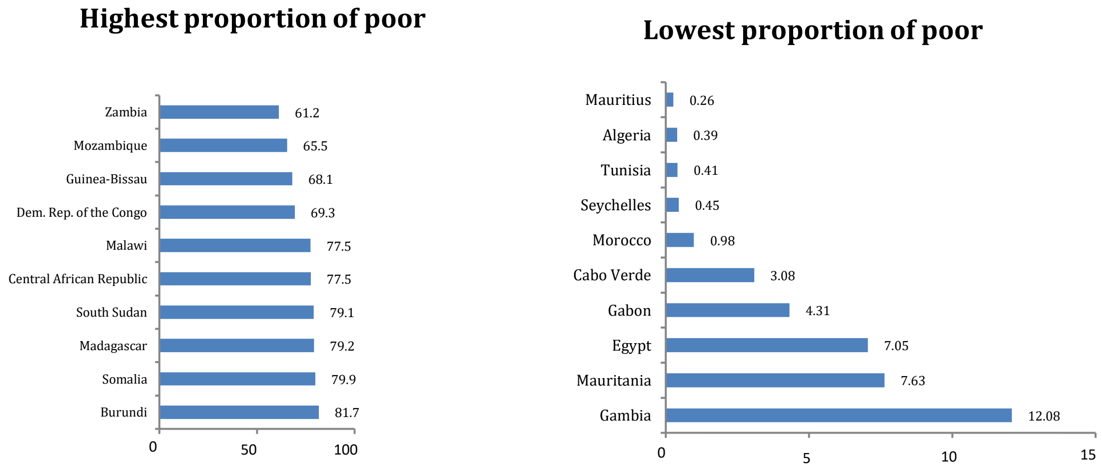
A. Over half a billion Africans are still living in extreme poverty

6. Africa had made significant progress in reducing the proportion of people living in extreme poverty (below $2.15 a day per person). Between 2000 and 2019, the share of the continent's population living in extreme poverty decreased from 53.4 per cent to 40.1 per cent. Nonetheless, the absolute number of poor remains high: today, 546 million people are still living in poverty, which is an increase of 74 per cent since 1990. In 2022, Africa accounted for more than half of global poverty (54.8 per cent), followed by South Asia (37.6 per cent).

7. The distribution of extreme poverty in Africa is highly skewed. At the subregional level, East and West Africa account for almost three quarters of all African people living in poverty (73 per cent). The East Africa region alone accounts for 41 per cent of the total number of poor, which is partly explained by the fact that four populous East African countries (Ethiopia, Madagascar, Uganda and United Republic of Tanzania) account for 18 per cent of the continent's total poor population. Of the 21 countries defined as fragile and conflict-affected, 17 are in East and West Africa, which presents a potential risk factor for worsening poverty and inequality. The number of people living in poverty was the lowest in Southern and North Africa (16 million and 17 million people, respectively).

8. The 10 African countries with the highest levels of poverty in Africa, in descending percentage order, are Burundi, Somalia, Madagascar, South Sudan, the Central African Republic, Malawi, the Democratic Republic of the Congo, Guinea-Bissau, Mozambique and Zambia, in each of which between 60 per cent and 82 per cent of the population is poor (see figure I). Together, those 10 countries account for two thirds of African poor (64.9 per cent). At the other end of the scale, the lowest levels of poverty in Africa, in ascending percentage order, were in Mauritius, Algeria, Tunisia, Seychelles, Morocco, Cabo Verde, Gabon, Egypt, Mauritania and the Gambia. Most of those countries (except the Gambia) are middle-income countries where the $2.15 threshold may understate the extent of poverty.

Figure I
Countries with the highest and lowest proportion of poor, 2022
(Percentage of the population)



Source: Calculations by the Economic Commission for Africa (ECA) using the PovcalNet database of the World Bank (accessed November 2022).

B. Poverty is concentrated in lower-middle-income countries

9. The highest levels of poverty in Africa are registered in the lower-middle-income countries, which collectively account for more than half of the total poor population in Africa (52.2 per cent). Low-income countries account for a lower proportion of poor in Africa (45.0 per cent) than do lower-middle-income countries. Even though the upper-middle-income countries account for only 2.7 per cent of the total poor population in Africa, some of the greatest income disparities on the continent are in upper-middle-income countries, such as Botswana, Namibia and South Africa.

10. Among the middle-income countries, extreme poverty was high in countries such as the Congo (60.6 per cent), Angola (54.7 per cent), Nigeria (46.3 per cent) and Zimbabwe (41.3 per cent), where extractive activities, which have a lower poverty-reducing effect, account for a high share of gross domestic product (GDP). Poverty levels are also severe in the 21 fragile and conflict-prone countries of Africa, which, together, account for 58.4 per cent of poverty in Africa. Conflict and insecurity are key compounding factors in exacerbating poverty and inequality.

C. Eighteen million Africans fell into poverty in 2022

11. Recent crises, especially the pandemic and the war in Ukraine, have pushed more people below the poverty line in Africa. Alarmingly, between 2019 and 2020, following the outbreak of COVID-19, 62 million people were pushed into poverty in just one year. While the number of poor declined between 2020 and 2021, owing to the recovery of economic growth, it rose again from 2021.

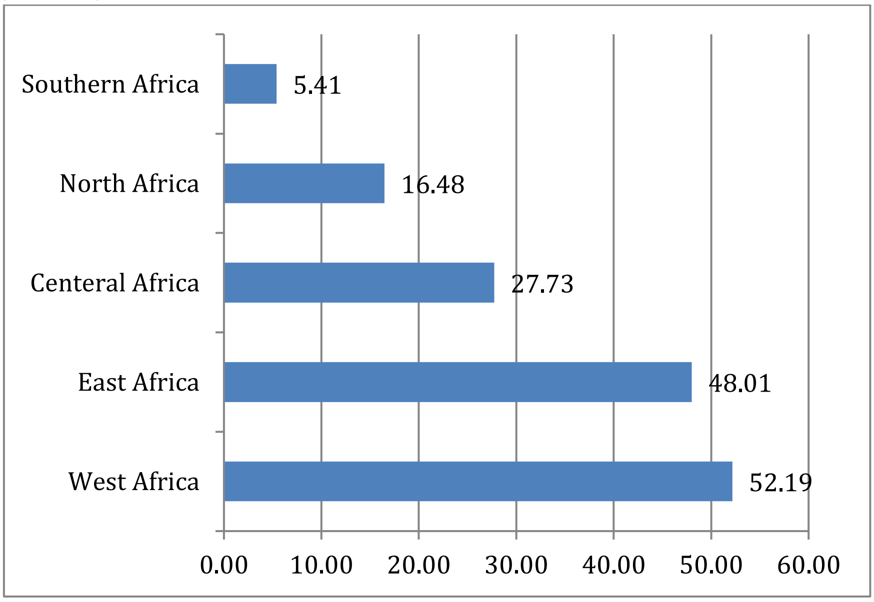
12. In 2022, an additional 18 million poor people emerged in Africa. The effect was highest in East and West Africa, where 7.1 and 6.3 million people fell into poverty, respectively, followed by Central Africa (3.7 million), North Africa (0.6 million) and Southern Africa (0.5 million). Half of those pushed into poverty in 2022 come from 10 countries (Burkina Faso, Ethiopia, Kenya, Madagascar, Malawi, Nigeria, Rwanda, Somalia, United Republic of Tanzania and Zambia). The impact of

the crises has also been significant in middle-income countries, such as Kenya, Nigeria and the United Republic of Tanzania.

D. Up to 149 million non-poor are at risk of falling into poverty

13. In the current context of global shocks, many of those who are not poor are at a high risk of falling into poverty. There are up to 149 million non-poor on the continent, equivalent to 10 per cent of the African population in 2022, whose income is 20 per cent above the poverty line (at $2.58 a day per person) and are, therefore, at a high risk of falling into poverty. In East and West Africa, 48 million and 52 million people, respectively, are vulnerable to falling into poverty, accounting for 67 per cent of the total for Africa (see figure II). Southern Africa has the lowest number, with 5.4 million people vulnerable to falling into poverty. In all, there are 695 million poor and non-poor who are at risk of falling further into poverty, accounting for half of the population of Africa.

Figure II
Number of people vulnerable to falling into poverty by subregion, 2022
(Millions)

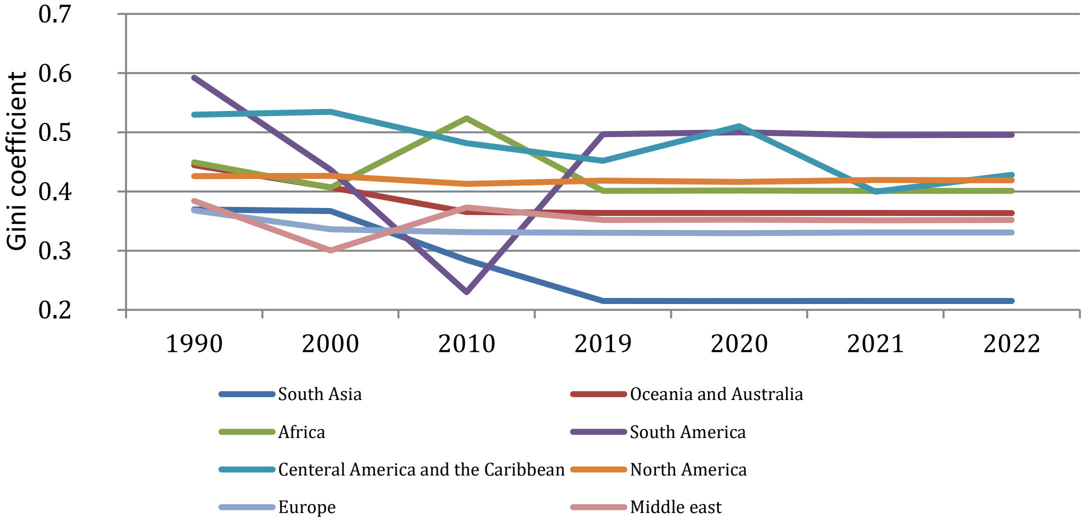


Source: ECA calculations using the PovcalNet database of the World Bank (accessed November 2022).

E. Income inequality remains persistently high

14. High inequality has been a feature in Africa even during periods of high growth. The fastest economic growth in Africa was registered between 2000 and 2010, at average annual rate of 5.5 per cent, but it was accompanied by widening inequality. As measured by the Gini coefficient, although inequality in Africa declined after 2010, it remains significant, at 0.40 today, which is higher than the global average (0.30) but lower than the rate in South America (0.50), Central America and the Caribbean (0.43) and North America (0.42) (see figure III).

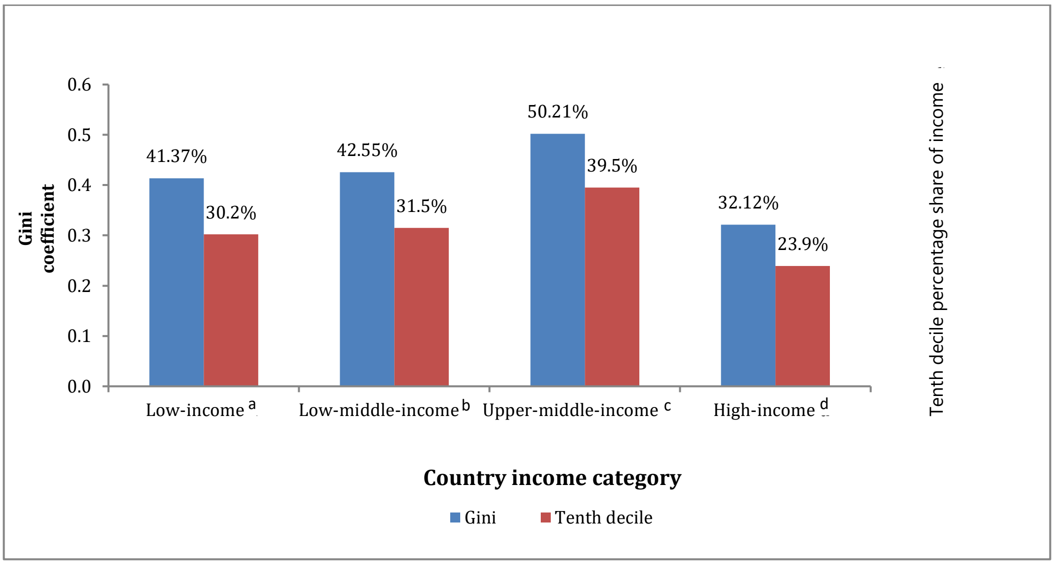
Figure III
Global income inequality, 1990-2022



Source: ECA calculations using the PovcalNet database of the World Bank (accessed November 2022).

15. Income inequality is highest in Southern Africa (0.61), where it is well above the average for Africa, followed by Central Africa (0.45) and East Africa (0.41). It is lowest in North Africa (0.32) and West Africa (0.36). Income inequality is highest in middle-income countries in Africa (see figure IV), which suggests that economic growth alone has not been sufficient in those countries to reduce income inequality.

Figure IV
Income inequality by level of country income



Source: ECA calculations using the PovcalNet database of the World Bank (accessed November 2022).

Note: The Gini coefficient columns reflect the incidence of income inequality (ranging from 0 for perfect equality to 1 for extreme inequality). The tenth decile columns reflect the income share held by the top 10 per cent of the population. For example, in the upper-middle-income countries, the top 10 per cent of the population owned 39.5 per cent of the income.

[a] *Low income*: Burkina Faso, Burundi, Central African Republic, Chad, Democratic Republic of the Congo, Ethiopia, Gambia, Guinea, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sierra Leone, Somalia, South Sudan, Sudan, Togo, Uganda, Zambia.

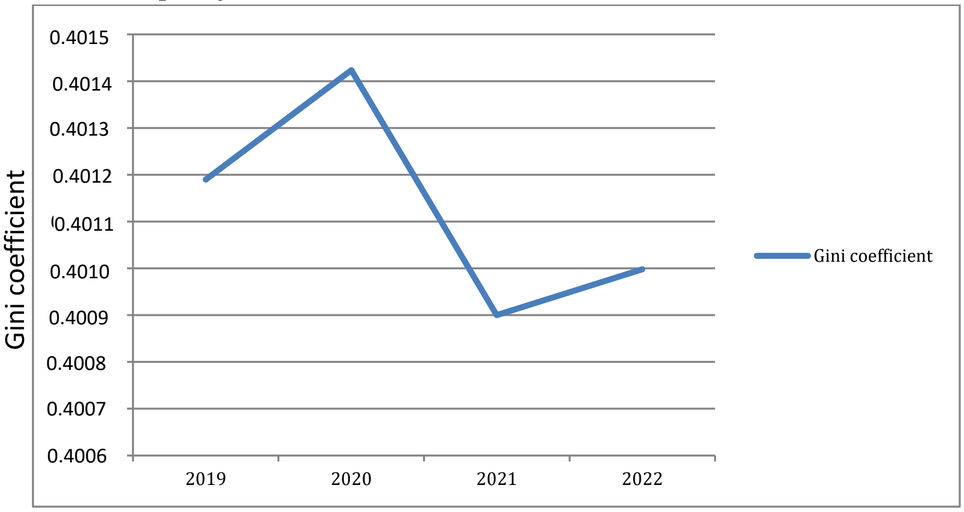
[b] *Lower-middle income*: Algeria, Angola, Benin, Cabo Verde, Cameroon, Comoros, Congo, Côte d'Ivoire, Djibouti, Egypt, Eswatini, Ghana, Kenya, Lesotho, Mauritania, Morocco, Nigeria, Sao Tome and Principe, Senegal, Tunisia, United Republic of Tanzania, Zimbabwe.

[c] *Upper-middle income*: Botswana, Gabon, Mauritius, Namibia, South Africa.

[d] *High income*: Seychelles.

16. Among the countries with available data, of the 10 countries with the highest levels of income inequality, 7 are in Southern Africa (Angola, Botswana, Eswatini, Namibia, Mozambique, South Africa and Zambia), 2 are in West Africa (Sao Tome and Principe and Guinea-Bissau) and 1 is in Central Africa (Central African Republic). Among the Southern African countries, 3 are upper-middle-income countries (Botswana, Namibia and South Africa), which highlights the limited impact of economic growth on inequality reduction. Since 2019, income inequality has changed marginally (see figure V). It rose between 2019 and 2020, then declined before rising again slightly after 2021.

Figure V
Income inequality in Africa, 2019-2022



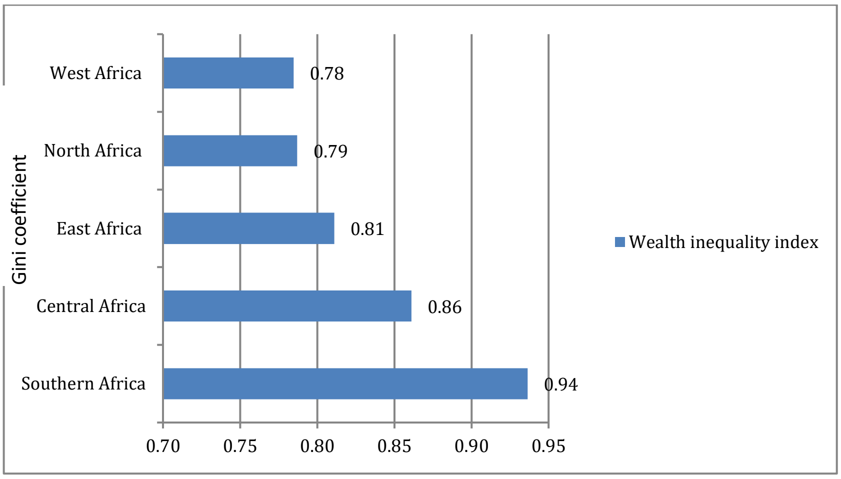
Source: ECA calculations using. the PovcalNet database of the World Bank (accessed November 2022).

F. Wealth inequality is much greater than income inequality in Africa

17. Wealth inequality is extremely high in Africa. At the subregional level, the highest level of wealth inequality, as it is for income inequality, is in Southern Africa (0.93 Gini coefficient) (see figure VI). West Africa has the lowest wealth inequality, although it has the second highest concentration of poor people on the continent.

18. With regard to country income levels, wealth inequality is highest in the upper-middle-income and high-income countries, where the Gini coefficients stand at 0.85 and 0.81, respectively. It is lowest in the lower-middle-income (0.78) and low-income countries (0.79).

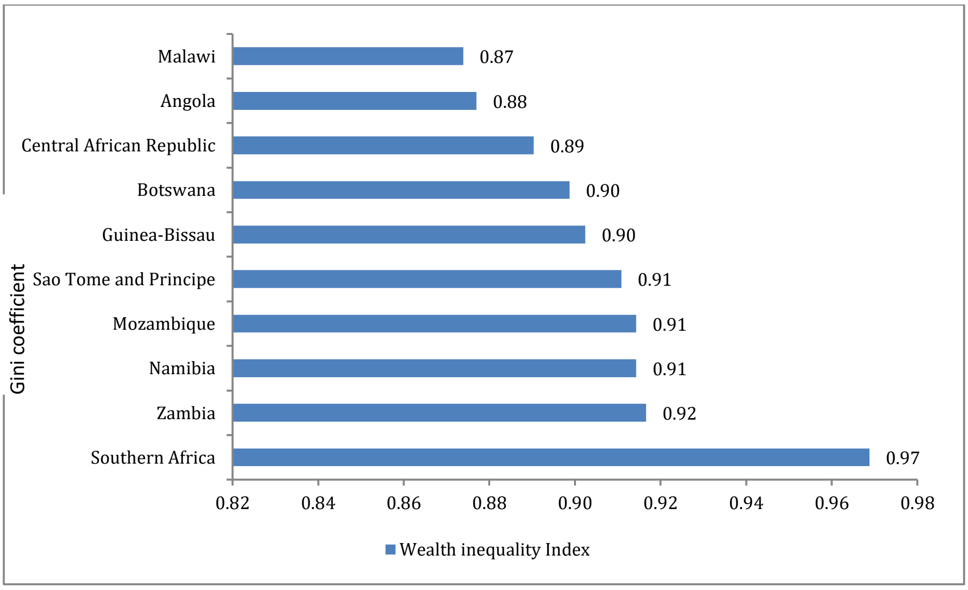
Figure VI
Wealth inequality in Africa, by subregion



Source: ECA calculations using the World Inequality Index database of the World Bank (accessed November 2022).

19. Of the 10 countries with the highest levels of wealth inequality, 7 are in Southern Africa (Angola, Botswana, Malawi, Mozambique, Namibia, South Africa and Zambia), 2 are in West Africa (Guinea-Bissau and Sao Tome and Principe) and 1 is in Central Africa (the Central African Republic) (see figure VII). Of those 10 countries, 8 are also among the 10 countries with the highest levels of income inequality. In those 8 countries, the magnitude of wealth inequality is greater than that of income inequality.

Figure VII
Countries with the highest wealth inequality in Africa



Source: ECA calculations using the World Inequality Index database of the World Bank (accessed November 2022).

0.88

G. Gender inequality accentuated amid recent crises

20. Given the already significant level of gender inequality that existed before the onset of the various crises, women have become particularly vulnerable as the crises have played out in recent years. For instance, in Africa, in the second quarter of 2020, the pandemic led to a plunge in hours worked by 19 per cent and 15 per cent for women and men, respectively, further increasing the gender gap in hours worked. Although the hours worked by women and men has increased since then, they remain below their pre-pandemic levels.

21. The International Labour Organization has estimated that the earnings of informal economy workers declined by 81 per cent in the first month of the pandemic, with women bearing the brunt of the impact.

22. In addition, more than two thirds of all unpaid care work in Africa was undertaken by women before the pandemic, and caring for sick relatives and young children who were kept at home from school and day-care facilities as a result of COVID-19 exacerbated the existing burden. A combination of social norms and the gender digital divide in access to the Internet and mobile technology constrained the ability of girls to continue learning during the pandemic. The war in Ukraine further compounded threats to gender equality in Africa, given the adverse effects on food and fuel security within the household, which are areas for which women are often responsible.

IV. Compounding factors that deepen poverty and widen inequality

23. The magnitude of poverty is immense and inequality is persistently high. The key explanatory compounding factors, both structural and circumstantial (i.e. related to exposure to shocks), are highlighted below.

A. Low poverty-reducing effect of economic growth

24. The poverty-reducing effect of economic growth has been lower in Africa than in other regions. The prevalence of growth driven by capital-intensive and resource-extractive industries partly explains the low growth-poverty elasticities. In addition, the initial conditions in Africa of high poverty and high inequality have contributed to the limited poverty-reducing impact of growth.

25. Africa has the world’s highest annual population growth rate (2.5 per cent), and its population is projected to increase to 2.9 billion by 2050. Furthermore, the active working-age population (25–64 years) is increasing in Africa. There could, therefore, be a demographic dividend that accelerates growth, but only if the working-age population is educated, healthy and able to enter productive employment.

B. Tight fiscal space to tackle poverty and inequality

26. African countries continue to face declining revenue, rising debt stress and increasingly constrained fiscal space. Their capacity to respond to poverty, proactively or reactively, is therefore limited. In 2022, the government debt-to-GDP ratio in Africa was 64.5 per cent, which, although 1.4 percentage points lower than in 2021, is still significantly higher than the pre-pandemic figure for 2019 (57.1 per cent). The region’s budget deficit is 4.6 per cent of GDP, which, while lower than it was in 2020 and 2021, is still higher than its pre-pandemic, 2019 level of 4.2 per cent.

27. Recent global crises have narrowed countries’ fiscal space, further constraining the capacity of their Governments to finance social protection. About 83 per cent of Africans lack any social protection benefit. African countries did step up

in response to the pandemic by, on average, doubling their fiscal spending to 3.3 per cent of GDP. Average per capita spending on social protection, however, based on data from 30 African countries, was $10 less than elsewhere globally and was too low to significantly increase consumption among the poor and enable them to exit poverty.

C. Global financial and trade barriers

28. African States face some of the highest borrowing costs in the world, owing to embedded bias among credit rating agencies against African economies, which critically constrains their ability to access financing to respond to shocks. In addition, most African countries face global trade barriers that impede their ability to expand their productive capacity. On average, trade costs are higher for African countries relative to other developing countries. Trade can be a powerful driver for poverty reduction as it leads to efficiency gains through greater investment, technology transfer and better terms of trade. Trade costs have a negative impact on the affordability of tradable goods, which, in turn, reduces the welfare of the poorest.

D. Cost-of-living crisis

29. African reliance on imports makes the continent vulnerable to commodity price shocks. In 2021, 39 African countries were net importers of food products. In addition, in 2021, Africa exported only $5.7 billion of refined petroleum products but imported over $44 billion of them. In this context, global shocks have ripple effects on the poor in Africa through inflation, which, in 2022, stood at 12.3 per cent, which was much higher than the world average of 6.7 per cent. Given that households in Africa spend up to 40 per cent of income on food, the impact of global crises has hit the poorest households in Africa severely. A staggering 310 million Africans experienced some form of food insecurity and 6 million Africans faced extreme hunger in 2022. In addition, health shocks and related income losses can keep households in a permanent state of impoverishment in Africa. Out-of-pocket expenditure accounts for 36 per cent of health expenditure in African countries, compared with a global average of 22 per cent. Every year, 11 million Africans fall into poverty due to high out-of-pocket payments.

E. Dire implications of climate change

30. Climate change accentuates poverty through its impact on lives, livelihoods and economies. In the past 50 years, drought-related hazards have claimed the lives of over half a million people and have led to economic losses of over $70 billion in Africa. Up to 118 million extremely poor Africans could be exposed to drought, floods and extreme heat by 2030. Climate events have also caused over 85 million people in the region to migrate or to be displaced. Critically, increased temperatures have contributed to a 34 per cent reduction in agricultural productivity growth in Africa since 1961. African coastal countries are also facing climate-related threats to their blue economies, including in fisheries, aquaculture, tourism, ports, coastal mining and energy.

F. Conflict and insecurity risks

31. Conflict and insecurity continue to pose challenges to poverty reduction in Africa. In 2021, armed conflicts occurred in 46 States worldwide, of which 18 were in Africa (excluding North Africa). In the same year, there were 19 high-intensity armed conflicts worldwide, of which 12 were in Africa (excluding North Africa). Furthermore, 5 African countries were among the least peaceful countries globally,

according to the 2022 Global Peace Index. Moreover, 5 of the 10 countries most affected by terrorism were in Africa. In the context of ongoing shocks, food insecurity has been associated with increased political instability.

V. People-centered recovery and transformation

32. Shocks could lead to permanent scarring effects and set back the clock on economic and social progress. Countries, therefore, need to build resilience and recover quickly. There needs to be a shift in policymaking from responding to poverty and inequality reactively (through redistribution) to preventing it proactively (pre-distribution). Recovery in Africa must, therefore, be focused on people-centered policies and on a development path that is resilient, inclusive and sustainable. The following policy options present opportunities in that regard.

A. Pursue pro-poor and inclusive macroeconomic policies

1. Pursue targeted and efficient fiscal spending for poverty reduction

33. Given fiscal constraints, spending should focus on helping the most vulnerable, including through better targeting and greater efficiency. Short-term social assistance is needed to support the most vulnerable, but transitioning to comprehensive and fiscally sustainable national social protection policies is vital.

The Takaful and Karama social safety net programme in Egypt, for instance, has been found to reduce by 12 per cent the probability of enrolled households falling below the poverty line while significantly increasing household consumption. Moreover, contributory social protection schemes must urgently be adapted so that informal sector workers can better access and afford them. Spending inefficiencies can also be tackled by employing digital technologies so that social protection can be targeted better.

2. Reduce vulnerability to poverty preemptively to build resilience against future shocks

34. The ability of households to manage risk is limited as they have little or no access to formal insurance or credit and often rely on informal coping strategies. It is of particular importance to invest in preemptive policies to mitigate the impact of shocks by providing public goods, such as health care, education and social protection. Hedging the risks of health shocks is especially critical. The community-based health insurance scheme in Rwanda, for instance, reduced annual per capita out-of-pocket spending by as much as 83 per cent of average per capita health-care expenditure. Expanding the local manufacturing of medicines is key for improved health resilience. Business opportunities in the health-care and wellness sector in Africa will be worth an estimated $259 billion by the year 2030 and have the potential to create 16 million jobs. The operationalization of the African Continental Free Trade Area and of the African Medicines Agency offers significant opportunities in that regard.

3. Contain the impact of inflationary pressures on the poor

35. Containing inflationary pressures is vital to protect the poor and non-poor from falling into poverty. Central banks in Africa currently have a major challenge in balancing the trade-off between preventing inflation and promoting growth. Responses that emerged due to recent crises could be sustained and scaled up. For example, the Bank of Mauritius created the Mauritius Investment Corporation in June 2020 with seed capital of $2 billion. It proved to be a decisive tool in safeguarding the financial sector and protecting livelihoods by creating a domestic investment portfolio and by providing critical financial support to large corporate organizations during difficult moments. The Corporation, which has been an associate member of the International Forum of Sovereign Wealth Funds since September 2022, helped to

maintain financial stability and mitigated the impact of downturns in key economic sectors.

4. Accelerate financial inclusion to reduce poverty and vulnerability

36. Financial exclusion limits the ability of the poor to save, invest, repay debts and manage risk responsibly. Fostering financial inclusion through the promotion of electronic payment systems is a major opportunity to strengthen the resilience of poor households. Financial inclusion has been found to reduce poverty in Africa by providing net wealth and larger welfare benefits to the poor. Improved financial inclusion was found to reduce the likelihood of households to be poor by 27 per cent in Ghana. In Kenya, M-Pesa is used by 96 per cent of the population and has helped to lift close to 190,000 households out of poverty. In 2021, the majority (70 per cent) of mobile banking transactions globally took place in Africa. The rapid growth in mobile money accounts in Africa provides considerable opportunity to expand financial inclusion for the benefit of poor and vulnerable households.

B. Ensure access to finance for an inclusive recovery

1. Tax fairly, close loopholes and expand the tax base

37. Closing tax loopholes is critical. It is estimated that Africa loses between $40 and $80 billion through tax evasion every year. In addition, illicit financial flows must be combatted urgently because they account for losses of $88.6 billion annually, which is equivalent to half of the Sustainable Development Goals financing gap in Africa. Countries need to increase the diversity of payers in their tax base, to include those in the agricultural, informal and the natural resource sectors. Information technology could be used to bring more economic agents within the tax system and the development of the digital economy could expand revenue.

38. In addition, value-added tax (VAT) regulations need to be reviewed, given that VAT collection efficiency is well below 50 per cent in most African countries. Sudan embarked on a tax reform programme in 2019 with the technical support of ECA, leading to an increase in tax revenue as a percentage of GDP that will reach an estimated 6 per cent by the end of 2022. The implementation and widespread use of other indirect taxes can have significant consequences. For instance, the Ethiopian excise tax reform supported by ECA, through the implementation of a new law in 2019 and its enforcement in 2020, has doubled excise revenue, as compared with the 2019 baseline level.

2. Shift the tax burden to tackle wealth inequality

39. Progressive taxes, in particular direct income taxes, including wealth taxes and the taxation of capital income, are a key channel for Governments to reduce inequality in the short term. Kenya, Lesotho and the United Republic of Tanzania all reduced their inequality levels by well over 5 per cent through progressive income tax structures and strong income tax collection. If East African Governments increased their tax revenues by just 1 per cent of their GDP by raising taxes on the wealthiest individuals and largest corporations, they would collect an additional $4.9 billion each year for the next 5 years.

40. There is considerable room to expand property taxes, which contribute only 0.3 per cent of GDP. Action is needed to tackle prevalent barriers to land and property taxation, including inadequate data and valuation practices and incomplete property registration. Almost all African countries have transfer or stamp duty taxes and most have capital gains tax. Nevertheless, only approximately 15 countries in Africa have introduced a land tax (separate from property taxes), which suggests that there is untapped potential.

3. Leverage climate financing to reduce risk for the poorest and most vulnerable

41. Mitigating the impact of climate-related extreme events will be critical in hedging the risk of poverty in Africa. The continent needs between $20 billion and $30 billion annually until 2030 to tackle climate change. The $100 billion annual climate finance commitment agreed in 2009 has not materialized. The twenty-seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change did establish a loss and damage fund, but its details and implementation modalities are yet to be determined. Opportunities for innovative forms of climate finance should target the most vulnerable by minimizing loss of lives and livelihoods and by creating much needed jobs. For instance, at a price of $120 per ton of carbon dioxide, nature-based carbon removal projects alone could generate between $15 billion and $82 billion per year, help to create 35 million to 167 million jobs, and improve the livelihood of communities. Similarly, the Great Blue Wall Initiative, launched in 2021 to accelerate and scale up ocean conservation action, could unlock regenerative livelihood opportunities for 70 million people in the western Indian Ocean subregion.

C. Carve a structural development path that is just and addresses people's needs

1. Guide structural transformation towards a job-rich path

42. Sectors with a low poverty-reducing impact, namely natural resource extraction and commodity-based sectors, continue to dominate African economies. Accelerating the expansion of higher value-added and job-rich sectors would have a positive impact on poverty reduction by increasing incomes and consumption, and would reduce the risk of future shocks. Africa must considerably expand industrialization and leverage the opportunities that are presented by the African Continental Free Trade Area. Shifting resource extraction towards adding value, especially in relation to the critical minerals for which demand is forecast to rise, offers potential for creating green jobs. Transforming the agricultural sector, in which the majority of Africans are employed, including through climate-smart agriculture, is also critical. The Free Trade Area provides a significant opportunity to promote intra-African trade in agricultural commodities and to reduce food insecurity.

2. Implement the African Continental Free Trade Area to reduce poverty and inequality

43. The realization of the African Continental Free Trade Area is expected to have positive implications for the reduction of both inequality and poverty in Africa. At the national level, it is expected to help reduce inequality in African countries, as revealed by the projections that their Gini coefficients would be lower with the Free Trade Area than without it. In particular, digital trade represents a unique opportunity for Africa to unlock the potential of the Free Trade Area in terms of growth, poverty and inequality. The Africa Trade Exchange, owing to the pool procurement mechanism, will enhance the access of vulnerable economies to goods in an efficient way and at reduced average trading costs. By integrating suppliers, especially small business and small and medium-sized enterprises, the Exchange has the potential to foster a more inclusive development path and can contribute to reducing poverty and inequality across African countries.

D. Advance reforms for a more just and inclusive global financial architecture

1. Reform the global debt architecture and regulatory framework

44. An overhaul of the Group of 20 and the Paris Club's Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative is required to make

it more effective, time-bound and transparent and to provide a debt service standstill to applicants. It is vital to expand eligibility for the Common Framework to middle-income countries, to use the lending-into-arrears policy of the International Monetary Fund (IMF) more boldly by providing much-needed financing to debtor countries and to reduce the leverage of holdout creditors. IMF can play a greater role in the global debt architecture, in line with its mandate to facilitate greater debtor-creditor dialogue, including by potentially serving as the secretariat for the Common Framework.

45. In addition, improving the global debt architecture by strengthening debt legislation is key. Major jurisdictions that issue sovereign debt are called upon to require enhanced collective action and force-majeure clauses in all sovereign debt contracts and to implement comprehensive anti-vulture fund legislation in major creditor countries. It is critical to introduce an enhanced regulatory framework for credit rating agencies that requires more transparency in methodology and ratings processes, provides proper oversight of the agencies and establishes a fair external recourse mechanism to dispute ratings.

2. Promote the rechanneling of special drawing rights

46. It is vital to consider IMF special drawing right (SDR) allocations in a rules-based and analytical manner, with a view to reducing the discretionary and political nature of the allocation process and to taking into account country liquidity needs. Pledges to rechannel SDRs should be honoured in order to provide critical support to low- and middle-income countries. Donor countries are urged to channel at least 30 per cent of their allocations. IMF should also clarify and operationalize the provision pertaining to allocations in the event of unexpected major developments. A further proposal is to increase the flexibility for eligibility and the qualification criteria of the Resilience and Sustainability Trust, fast track its operationalization and enhance its catalytic role in green financing, including debt-for-nature swaps, green financial products and carbon credit markets.

3. Revamp the tools for dealing with the evolving nature of shocks

47. The suspension of IMF surcharges on non-concessional lending for 2 to 3 years would support African countries’ sustained recovery from overlapping crises. It is also important to restore the levels of access to the IMF Rapid Credit Facility and Rapid Financing Instrument that were in place during the pandemic. More broadly, African countries should call upon IMF to make access limits less restrictive overall. Specifically, international financial institutions should broaden the concessions for lending, extend the maturing of financing, provide greater emergency resources and reinvigorate toolkits in response to more frequent global shocks, with greater consideration for middle-income economies. In the longer term, it is critical for IMF to address the inequality inherent in the quota system and increase the African share at the next quota review, in 2023.

VI. Conclusions

48. Global crises have exacerbated levels of poverty and inequality, which were already high and persistent. The shocks, combined with underlying structural factors, have further compounded the increased levels of poverty and the vulnerability of the non-poor to falling into poverty. While income inequality has been high and constant throughout recent crises, wealth inequality has been even higher. High inequality and high levels of poverty create a vicious circle in which existing structural bottlenecks persist, rendering the African population perennially vulnerable to both economic and non-economic shocks.

49. A people-centered recovery requires a focus on tackling risk factors for poor and vulnerable households while building their capacity to weather future shocks.

Reducing risks and building resilience against future shocks will require action at all levels – by individuals, households, communities, systems, countries and the continent - to reduce, mitigate, adapt to and recover from shocks and stresses in a manner that reduces chronic vulnerability and facilitates inclusive growth. A combination of preventive investments to hedge risks and responsive measures to mitigate negative effects will be needed, given the expected recurrence of shocks.

50. Based on the above observations, the following key policy questions may be raised for discussion:

(a) What are the country experiences and successes in maximizing the pro-poor and inclusive outcomes of macroeconomic policies amid recurring crises?

(b) What measures have worked and what measures should be considered to accelerate the creation of a structural development path that promotes long-term resilience and measurably reduces poverty and inequality?

(c) What urgent reforms are needed in the global financial architecture to reduce poverty and inequality in Africa?

(d) What are the opportunities to finance investments to mitigate the vulnerability of both the poor and non-poor to the effects of shocks? How can African countries leverage green finance opportunities?

(e) How can the African Continental Free Trade Area be harnessed to increase economic resilience and inclusion and to reduce vulnerability?