



Fiscal policy and redistribution in Namibia

Context, Motivation

The past several years have witnessed a lively public debate in Namibia over the effectiveness of its social and poverty reduction programs vis-à-vis the extremely unequal distribution of income there.

- Events in 2013 & 2014 (hosted by the Bank of Namibia and the ILO, respectively) provided analytics/evidence on social grants only. The many different pathways through which fiscal policy – all expenditures and revenue collection – might impact poverty and inequality were not examined.
- The administration that took office in 2015 created a new Ministry of Poverty Eradication; its first task is a new policy framework for reducing poverty.
- Fiscal conditions deteriorated in 2015 and expenditures – including social grants – are under the microscope: how can maximum impact be achieved?

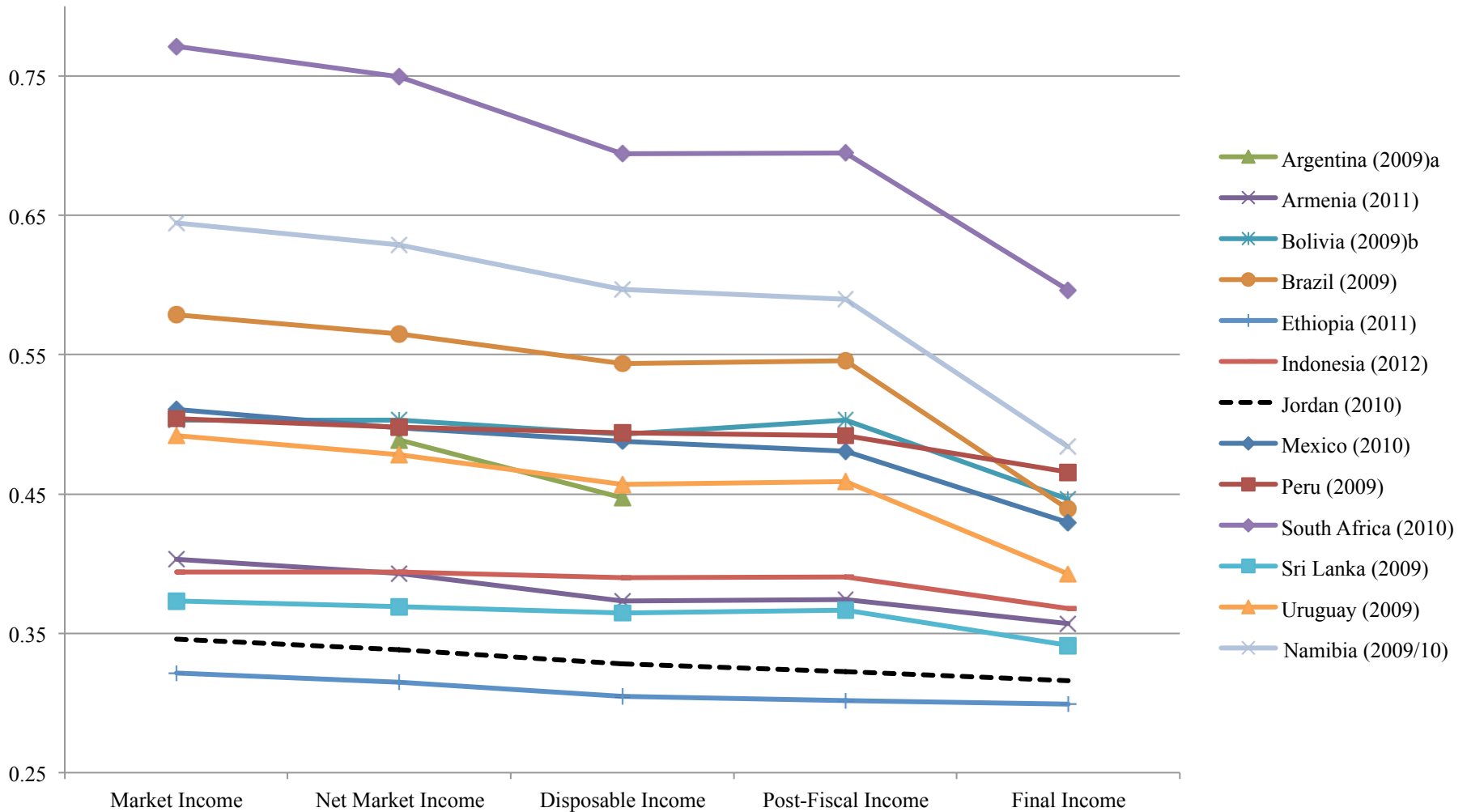
Engagement

The Bank partnered with the Namibian Statistics Agency – the head of which became an advisor to the incoming President – where poverty analytics and policy planning had been housed.

- NSA then convened representatives from all relevant executing agencies – Finance, Health, Education, Urban, Housing-Rural Public Works, Agri-Water-Forestry, Social Security Commission, Labor-Soc. Welfare, Poverty Eradication, Gender-Child Welfare, etc. for a 2-day “data validation” exercise in Windhoek in 2015. Preliminary results were also presented.
- The Bank team received clear directions (and solid votes of confidence) regarding expenditure and tax items to include; data sources and gatekeepers to consult with; and ways forward for less-than-completely specified fiscal items
- The Bank’s partnership(s) with NSA + additional agencies/ministries were strengthened.

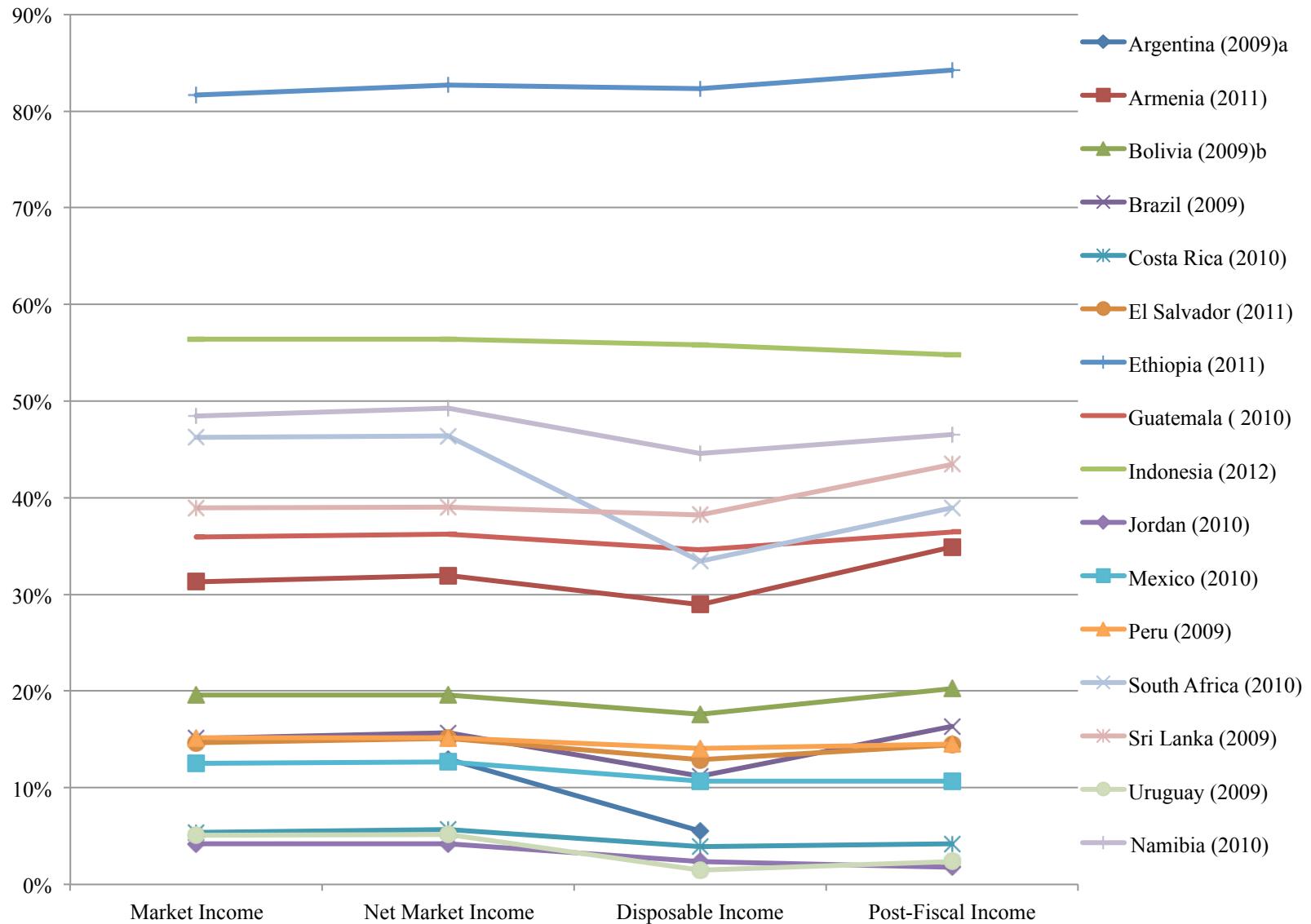
Results: Fiscal Policy and Inequality

(Pensions as income)



Results: Fiscal Policy and Poverty

(\$PPP 2.50/day; pensions as income)



Many social grants...

	Sample size*		Population**	
	Households	Individuals	Households	Individuals
All observations	9,656	44,614	436,795	2,066,398
For households that receive the indicated transfer only (direct +indirect beneficiaries):				
<u>Any social assistance grant</u>	2,041	12,003	93,418	561,537
old age pension	1,311	7,564	59,646	354,705
veteran's grant	89	602	3,842	26,917
children's grant	413	2,812	19,153	130,358
foster parents' grant	132	902	6,047	41,850
disability A grant (adults)	300	1,916	13,227	86,006
disability C grant (children under 16)	93	509	4,918	26,728

*) The sample size columns show the number of households, individuals and recipients of SP programs in the survey.

***) The population columns show the number of households, individuals and recipients of SP programs, expanded to the population using expansion factors.

...but mostly low coverage

Coverage: share of population that receives the transfer

		Poverty Status	
	Total	Extreme Poor	Not Poor
Direct and indirect beneficiaries			
<u>All social assistance</u>	<u>27.2</u>	<u>33.2</u>	<u>26.1</u>
old age pension	17.2	22.0	16.3
veteran's grant	1.3	2.4	1.1
children's grant	6.3	6.1	6.4
foster parents' grant	2.0	2.5	1.9
disability A grant (adults)	4.2	6.6	3.7
disability C grant (children under 16)	1.3	0.5	1.4

- 1. Coverage (by at least one) of the social assistance grants is at 27 percent of the population**
- 2. The poor are more frequently covered (33%) than the non-poor population**

Benefits are small relative to welfare...

Relative Incidence (over all households)			
All households			
	Total	Poverty Status	
		Extreme Poor	Not Poor
<u>Any social assistance</u>	<u>4.3</u>	<u>22.8</u>	<u>3.9</u>
old age pension	2.8	16.0	2.4
veteran's grant	0.2	1.5	0.1
children's grant	0.5	1.6	0.5
foster parents' grant	0.1	0.8	0.1
disability A grant (adults)	0.4	2.9	0.3
disability C grant (children under 16)	0.4	0.1	0.4

Notes:

Relative incidence is transfer amount received by a group as a share of total welfare aggregate of the group.

...but are important for recipients

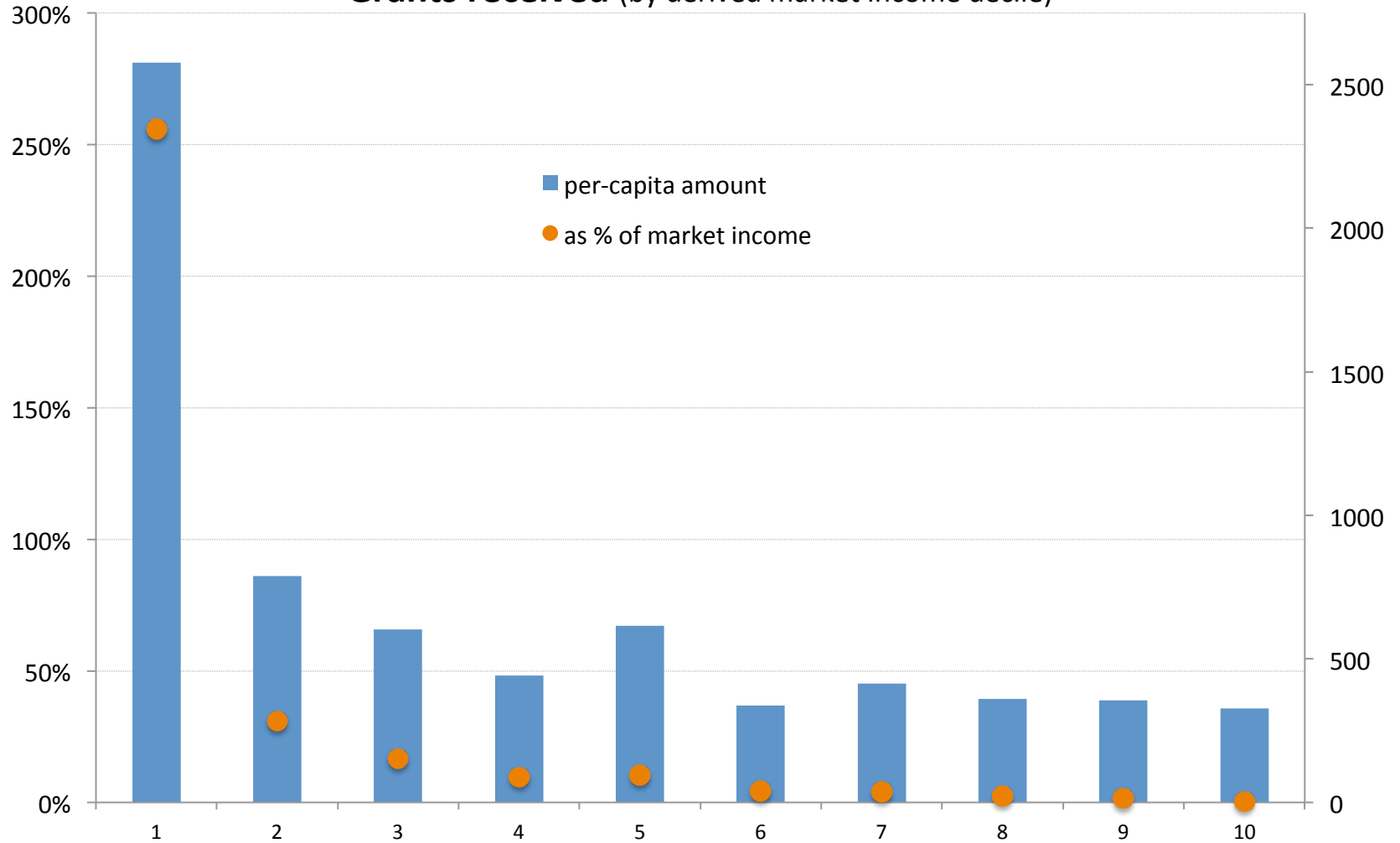
Generosity (only beneficiaries)			
Direct and indirect beneficiaries			
	Total	Poverty Status	
		Extreme Poor	Not Poor
<u>All social assistance</u>	<u>27.2</u>	<u>67.5</u>	<u>25.1</u>
old age pension	28.2	72.2	25.8
veteran's grant	23.0	51.8	19.9
children's grant	15.2	26.0	14.7
foster parents' grant	11.6	27.1	10.7
disability A grant (adults)	21.9	42.8	20.0
disability C grant (children under 16)	23.4	28.3	23.4

Notes:

Generosity is the mean value of the share transfer amount received by all beneficiaries in a group as a share of total welfare aggregate of the beneficiaries in that group.

Over 2/3rds of poor beneficiaries' expenditures are made possible by grants.

Grants received (by derived market income decile)



Everyone gets some social assistance transfers while richer households receive similar amounts, but non-meaningful welfare increases.

Broad, low coverage translates into ineffective spending...

Direct Transfers and Poverty Reduction

Beckerman-Immervoll Indicators			
		National Line	\$1.25PPP/day
VEE		0.47	0.45
PRE		0.27	0.26
S		0.42	0.43
PGE		0.26	0.24

45-50% of direct transfers go to the poor (VEE).

25-30% of transfer spending went to reducing the poverty gap (PRE).

Two-fifths of transfer spending (that goes to poor individuals) is *more than strictly necessary* to reduce poverty (S).

Transfers reduce the poverty gap by approximately one quarter (PGE)

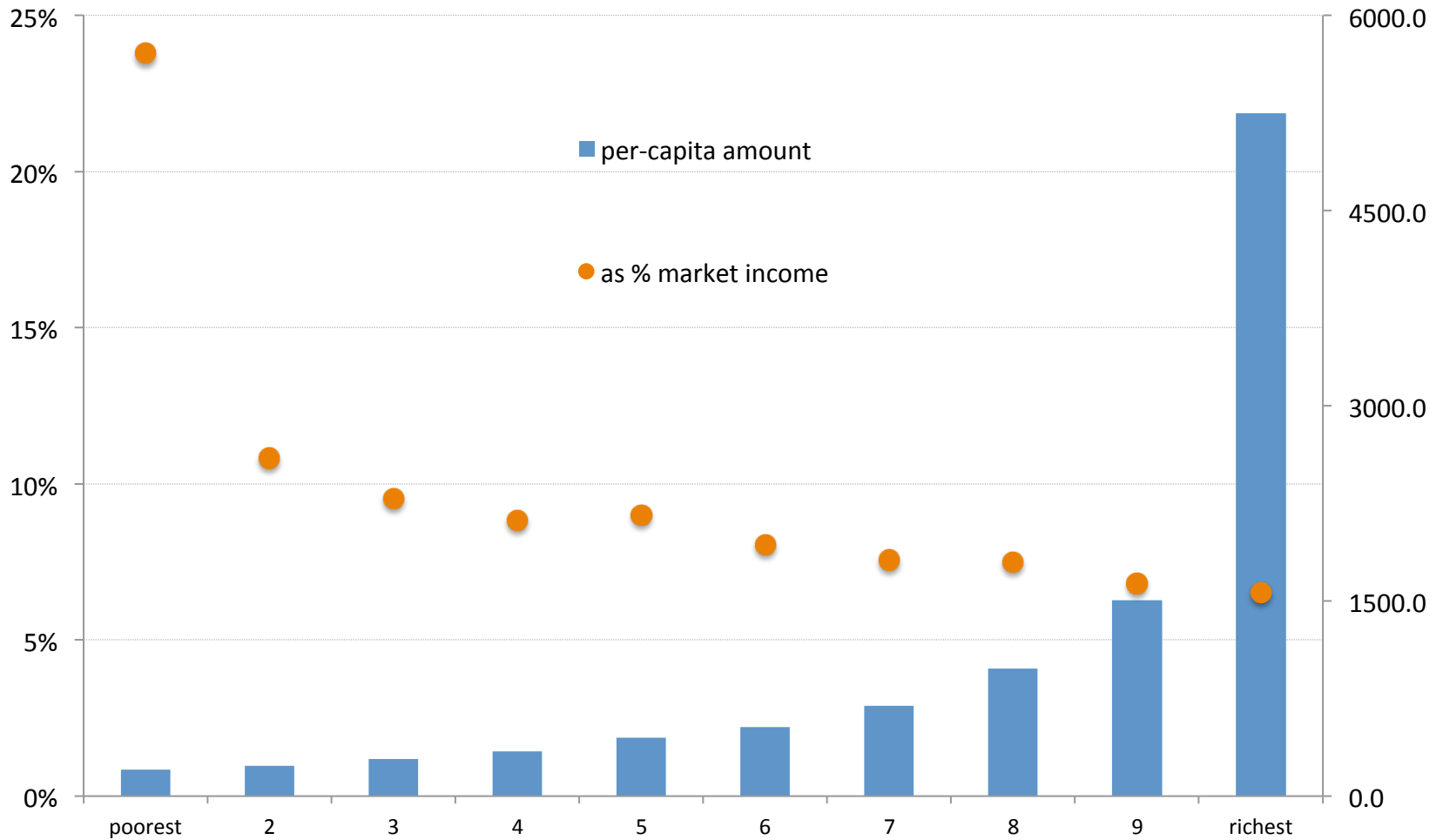
Meanwhile, indirect taxes are inescapable...

	% of all Individuals
<u>Indirect Tax Coverage</u>	
VAT	
<u>Poor</u>	100%
<u>Non-poor</u>	100%
Fuel Levy	
<u>Poor</u>	7%
<u>Non-poor</u>	29%

- VAT coverage is 100%
- Poor households pay fuel levies (of any amount) at approximately one-quarter the rate of non-poor households.

...and reduce purchasing power...

Indirect Taxes paid (by derived market income decile)



...and work *contra* to direct transfers

Marginal Contributions

	Inequality	Poverty
Social Grants	-0.03	-0.07
Indirect Taxes	0.00	0.02
Subsidies	0.00	-0.01

Note: marginal poverty(inequality) contributions measured at consumable (final) income.

- **Social grants are inequality and poverty-reducing**
- **Indirect taxes have no impact on inequality and increase poverty**
- **The indirect effects of Indirect Taxes are not included (and are potentially important for poor households)**

What about direct taxes?

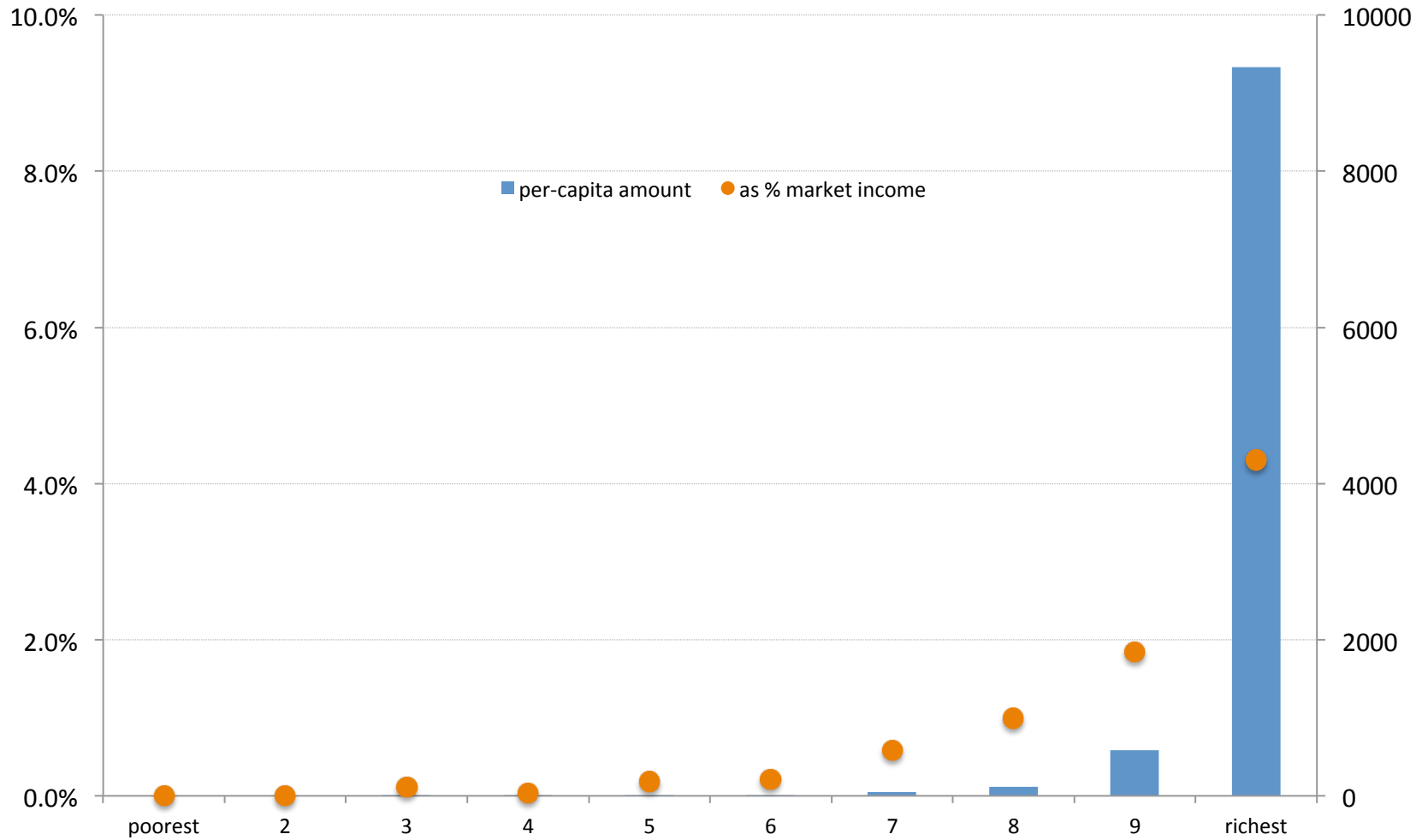
	Population*	
	Individuals	% of all Individuals
All observations	2,066,398	100
For households that pay tax only		
<u>Direct Taxes</u>	328,950	16%
<u>Poor</u>	4,082	0.9%
<u>Non-poor</u>	324,508	19%

*) The population columns show the number of individuals and/or taxpayers, expanded to the population using expansion factors.

- **Very few poor households pay taxes**
- **However, zero-income-tax households are *over-represented* in the household survey.**
- **Income-tax-paying households record magnitudes that are on average much lower (than the average for their income bracket).**

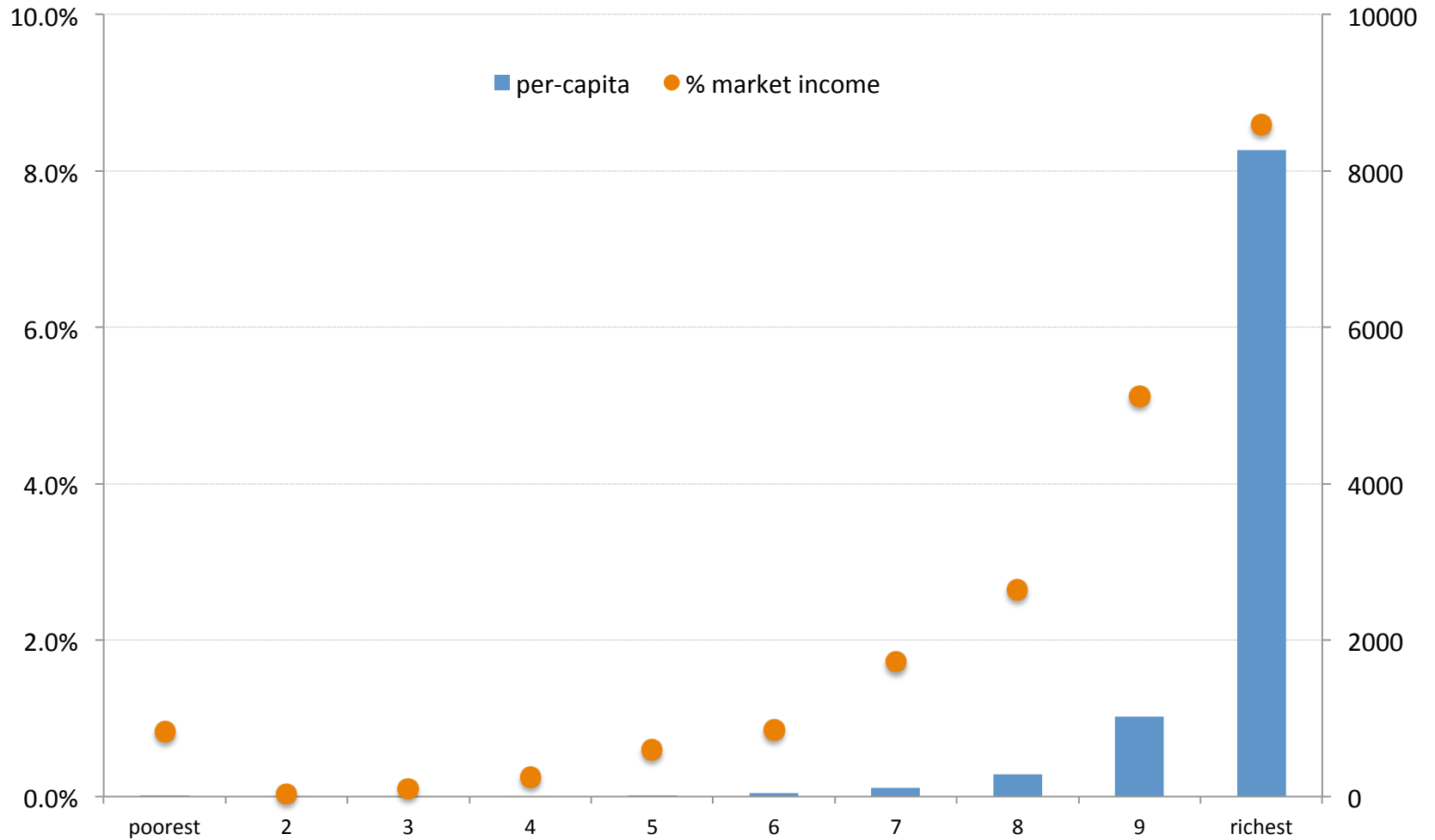
The poverty and inequality impacts of direct taxes...

Personal Income Taxes Paid (by observed market income decile)



...can change depending primary income measure.

Personal Income Taxes Paid (by derived market income decile)



Follow-up & Dissemination

- The Ministry of Poverty Eradication has asked for further inputs during the preparation of their Poverty Eradication framework and associated policies.
- The CEQ assessment will become a chapter in Namibia's upcoming Public Expenditure Review.