SESSION 7

Issues in Fiscal Incidence and Redistribution (Part B)

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Outline

- The Domestic Resource Mobilization and Social Protection
- National vs. Subnational Levels and decentralization – are objectives complementary?
The Domestic Resource Mobilization and Social Protection
Revenue mix in international perspective

(ranked by total government revenue/GDP; GNI right hand scale)

Notes
1. The year for which the analysis was conducted in parentheses.
2. Data shown here is administrative data as reported by the studies cited and the number do not necessarily coincide with the IADB bases (or other multilateral organization).
Revenue mix in international perspective

Legend:
- Direct personal income or payroll taxes
- Indirect taxes
- GNI per capita (2011 PPP)

Notes:
1. The year for which the analysis was conducted in parentheses.
2. Data shown here is administrative data as reported by the studies cited and the numbers are not necessarily coinciding with the IADB bases (or other multilateral organizations).
Revenue mix in international perspective

Notes:
1. The year for which the analysis was conducted is in parentheses.
2. Data shown here is administrative data as reported by the studies cited and may not necessarily coincide with the ADB's data (or other multilateral organization).
Is this equitable?

**Cumulative Concentration Shares, Uganda 2012/13**

- **45° line**
- **Consumption**
- **Personal Income Tax**
- **Indirect Tax**
- **Subsidies**
- **Transfers**
Is this equitable?

- Personal Income Taxes are paid by 1-5% of households.
- Transfers are received by < 3% of households
- Subsidies are received by ~50% of households.
- **Indirect Taxes: affect over 95% of the population**
Is this equitable? Does it harm the poor?

- Even with exemptions, indirect taxes are approximately neutral with respect to consumption

<table>
<thead>
<tr>
<th>% shares of:</th>
<th>Disposable Income</th>
<th>Indirect Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poorest quintile</td>
<td>4.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Richest quintile</td>
<td>48</td>
<td>57</td>
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</tbody>
</table>

- But poverty is typically measured before indirect taxes are taken into account
Does it harm the poor?

Poverty reduction (anonymous) can occur alongside impoverishment of poor/near-poor populations.
Does it harm the poor?

• Even fiscal systems producing reductions in poverty or inequality have various degrees of fiscal impoverishment.

• The poor can be “net payers” when there are widespread consumption taxes.

• In fiscal systems that produce an increase in the poverty headcount (e.g., Ethiopia, Ghana and Tanzania), more than 75% of post-fiscal poor were impoverished by the fiscal system.
In conclusion...

• **Domestic Resource Mobilization agenda might:**
  
  • Be inequitable if marginal resources are collected from consumption
  
  • Harm the poor and vulnerable if transfers/subsidies are more thinly spread

• Is this a “technology” problem (tax admin.) or a political problem?
National vs. Subnational Levels and decentralization
Poverty reduction (anonymous) can occur alongside impoverishment of poor/near-poor populations.
Overall result: more impoverishment, more inequality reduction

- Public education fees: amounts paid increase with income but…
  … those with higher income shares pay have a lower fee burden when measured as a share of pre-fee income.

- Richer households may be opting for the private system and routing their fees outside the fiscal system

- Fees paid for public health system access are progressive absolutely and relative to pre-fee income, but still not pro-poor

- Inequality overall is higher without fees; imposition of fees reduces inequality