

2020

36th IARIW General Conference

Paper Prepared for the 36th IARIW General Conference, Oslo, Norway, August 24-28, 2020

Can Tax-funded Transfer Programs Provide Income Floors in Sub-Saharan Africa? Fiscal Incidence Analysis of Alternative Policy Simulations

Jon Jellema

Valentina Pabon

Nora Lustig

We use results from nine different country-based Commitment to Equity (CEQ) Assessments in sub-Saharan Africa to demonstrate the welfare impact in low- and middle-income countries of policy scenarios which (a) redirect current subsidy expenditures to direct cash transfer programs; (b) establish income floors to be funded from both current subsidy expenditure as well as from additional revenues generated through current direct and indirect tax instruments; and (c) target direct cash transfer spending to poor populations or to general populations (a "universal" transfer). Results indicate that at baseline the existing combination of taxes and transfers increases post-fiscal poverty in all countries but upper middle-income Namibia and South Africa. This result - which we call fiscal impoverishment - is most often due to the fact that the poor pay consumption taxes but receive very little in cash transfers and an exceedingly small share of total subsidies.. Reallocating expenditures on general price subsidies to targeted transfers would yield better poverty outcomes in most countries, but a portion of the not-so-poor poor would then receive no transfers at all. Results also show that setting income floors equivalent to international poverty lines and funding the necessary transfers with direct taxes from individuals is often not feasible for two reasons: there is extreme reranking of individuals (from pre- to post-fiscal income) and negative post-fiscal incomes for tax-paying individuals and the tax burden on the nonpoor would be significantly higher. Scenarios establishing income floors are more likely to be feasible when the required additional funding is financed by a proportional increase in indirect taxes.