

Evidence-Based Fiscal Policy Tools to Improve Equity

ATI Webinar Series
14 September 2022



Living standards have risen dramatically over the past 200 years.

But history and current global trends are overwhelmingly clear: **growth alone is not enough to ensure a just distribution of incomes, assets, and opportunities.**

Fortunately, governments have at their disposal policy instruments which can reduce economic and social injustice.

Governments using public policies to combat inequitable social outcomes **often commit publicly** to targets or national or international agreements.

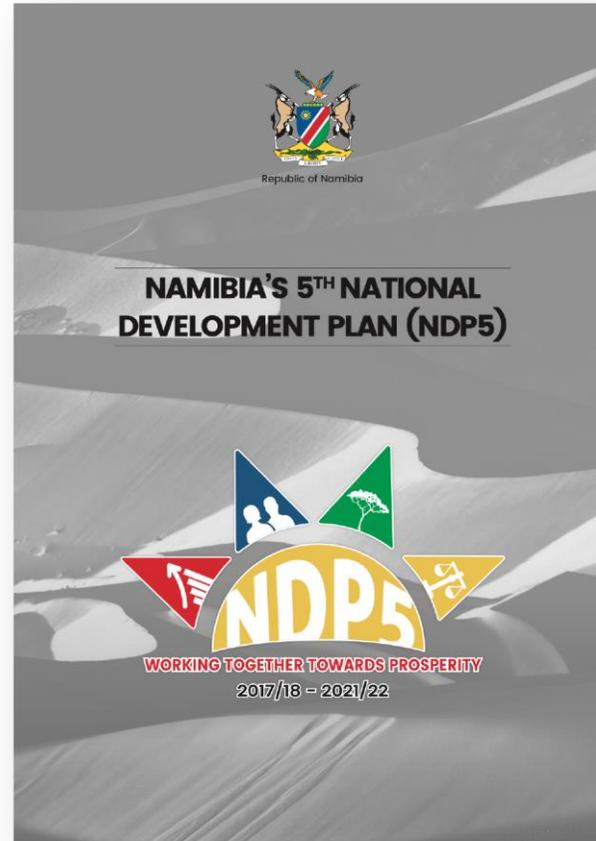
For example:

Agreeing to the Sustainable Development Goals (2030) framework and the “Leave no one behind” promise written into that framework.

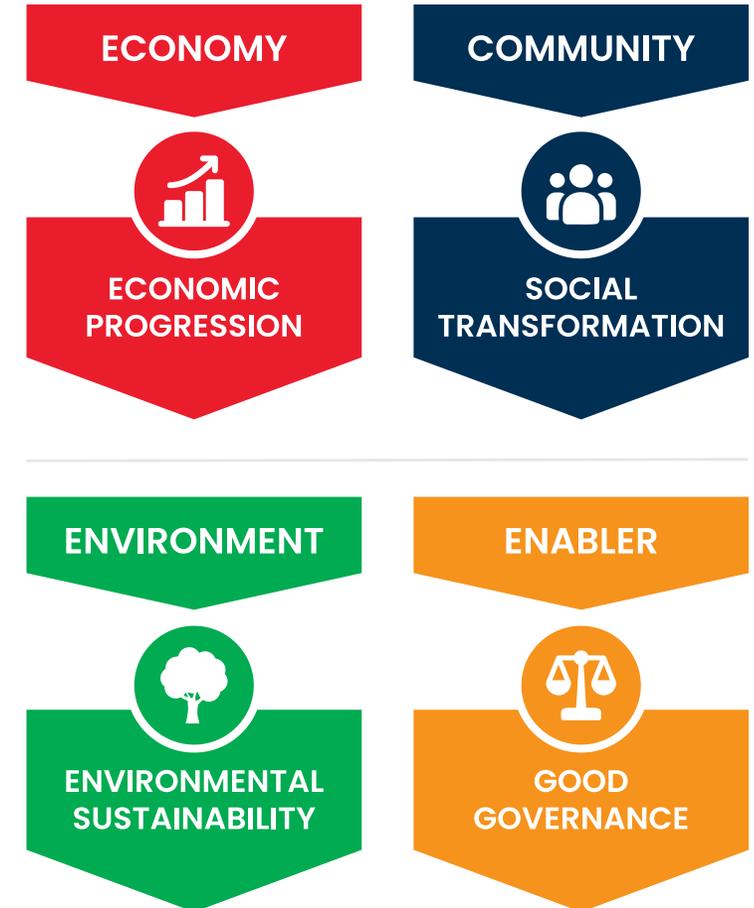


For example:

Writing equity goals into budgets, development plans, or sectoral development strategies.



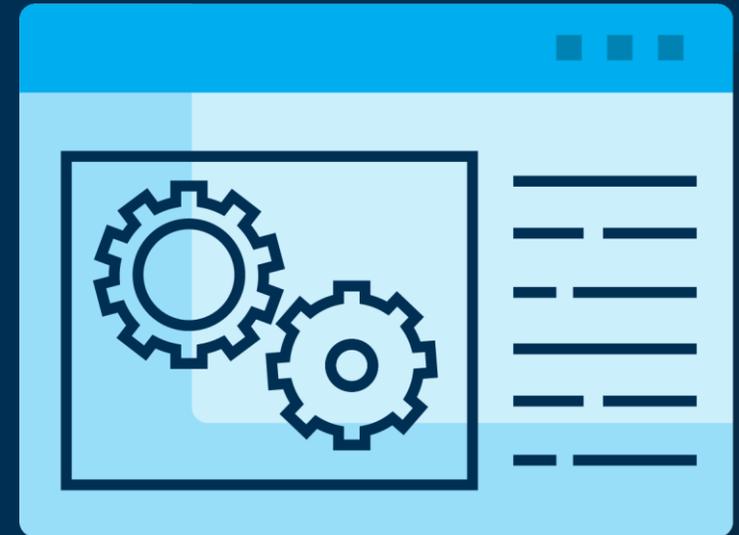
NDP5 STRUCTURE



MOTIVATION

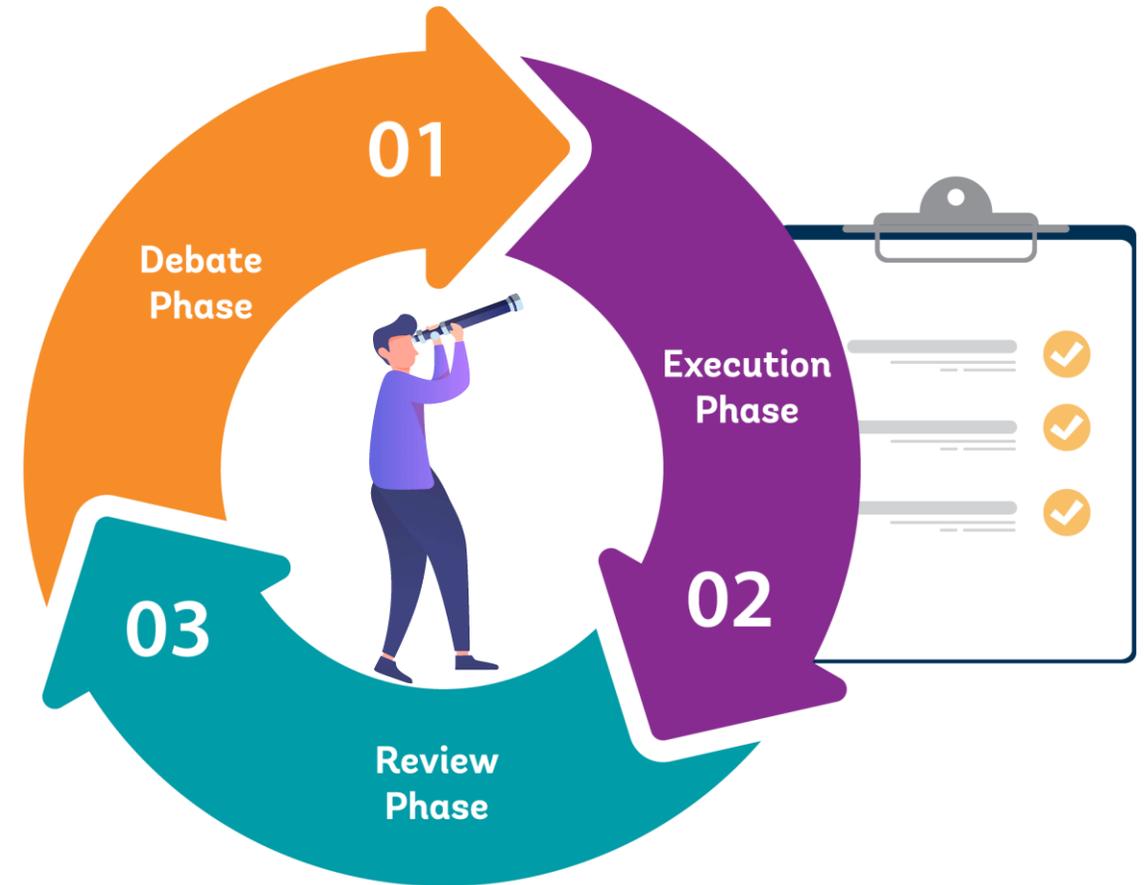
These public commitments make transparent the standards by which policies should be judged. However, goals and objectives are often independent, overlapping, and difficult to separate from one another.

Policymakers, citizens, and stakeholders urgently need transparent and easy-to-apply analytical tools that provide meaningful empirical information on the impact that public policy is having on equity, inequality, poverty, and opportunities.



The cycle by which policies are turned into programs with social impact - a budget cycle or a development planning cycle - can be sketched in 3 continuous and overlapping processes

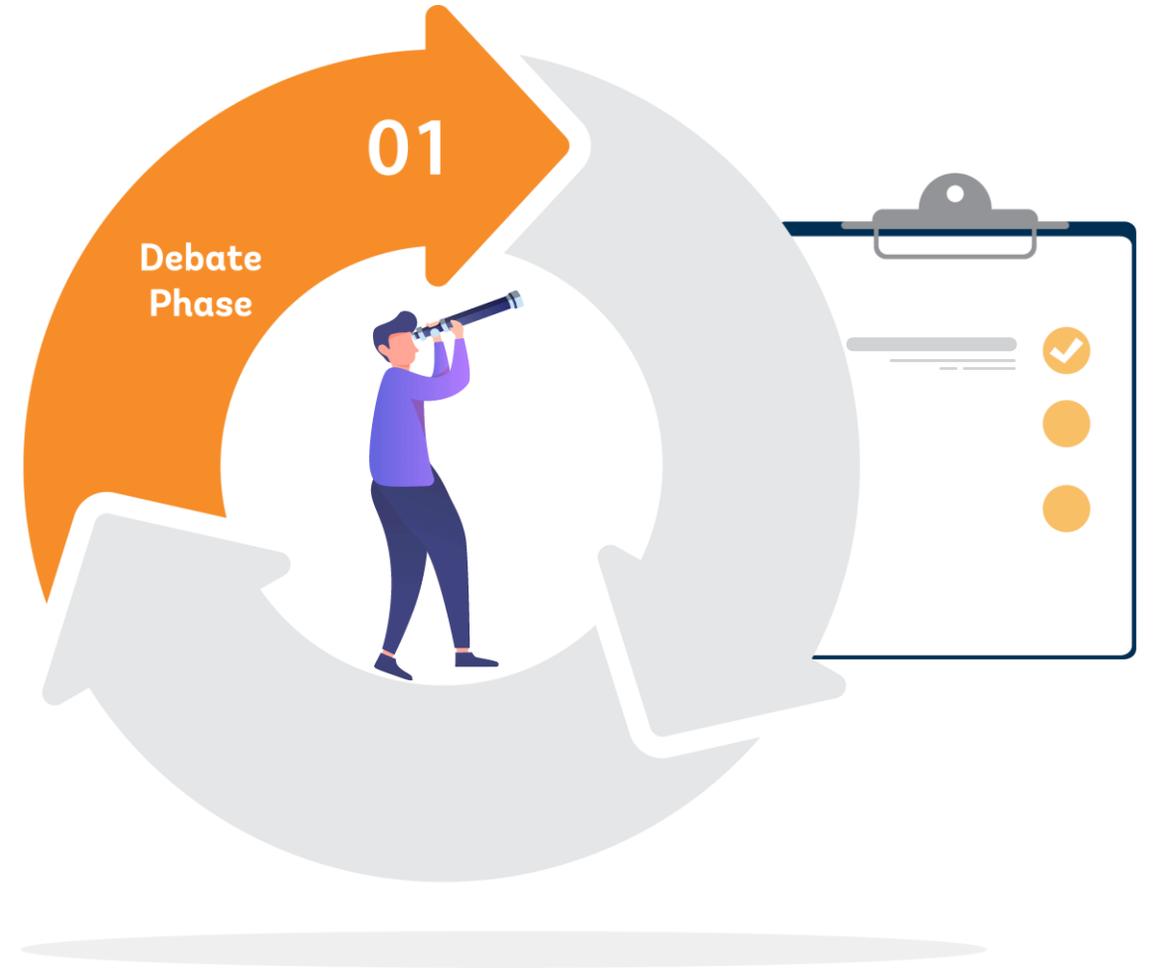
Budgeting Processes



MOTIVATION

The debate and deliberation phase, where policy proposals are mooted and policy actors debate and agree on which policies to pursue.

Phase 1 | Develop Planning Policy Proposals



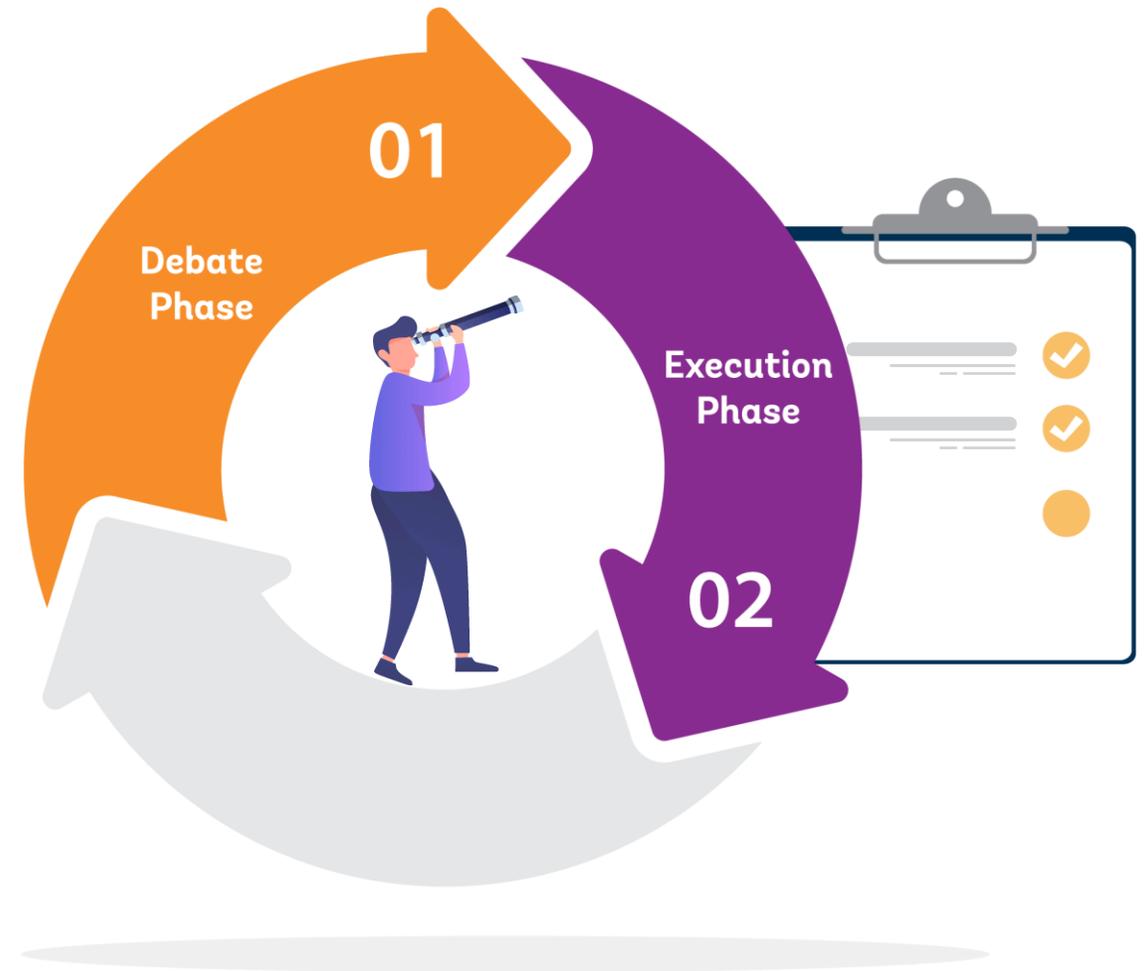
MOTIVATION

The debate and deliberation phase, where policy proposals are mooted and policy actors debate and agree on which policies to pursue.

The execution phase, where policies and programs are executed, budgets are disbursed by the fisc to executing agencies, and revenues are collected by the fisc.

Phase 2

Policy Impact
Civil & Social Response



MOTIVATION

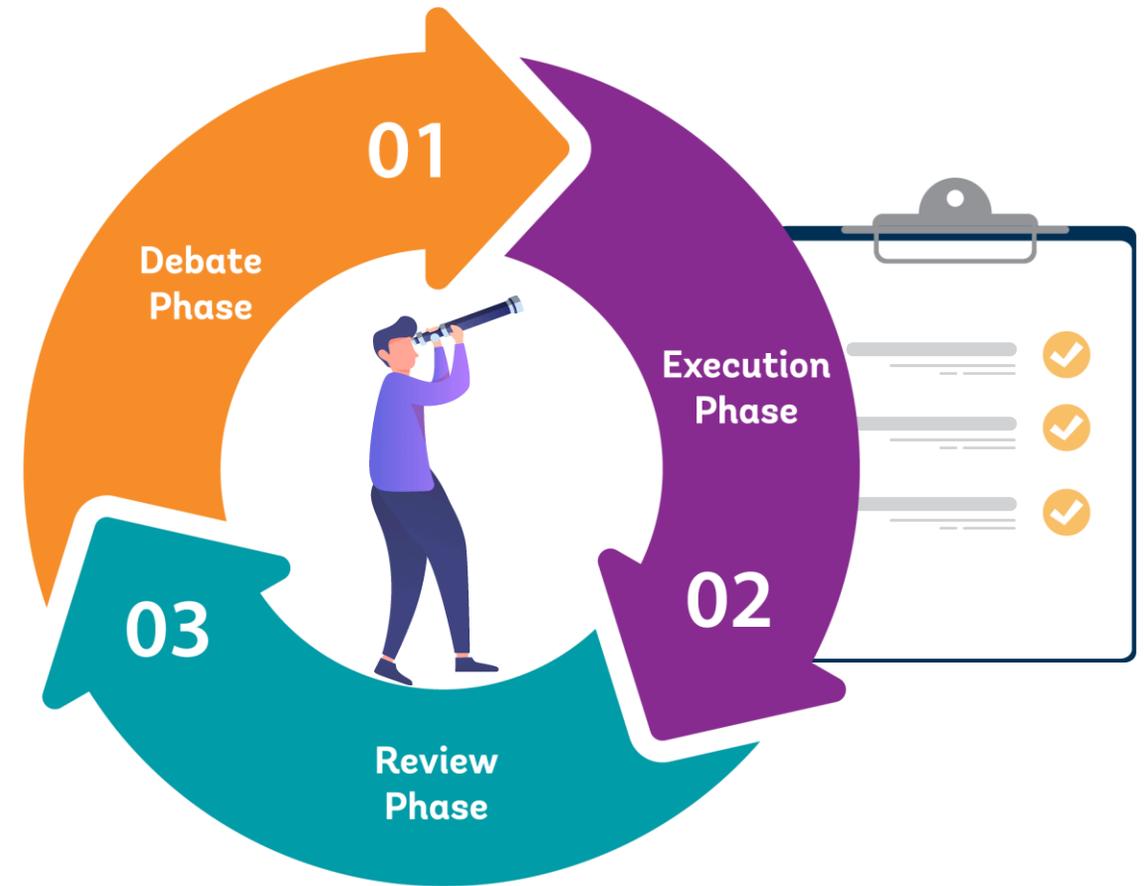
The debate and deliberation phase, where policy proposals are mooted and policy actors debate and agree on which policies to pursue.

The execution phase, where policies and programs are executed, budgets are disbursed by the fisc to executing agencies, and revenues are collected by the fisc.

The review phase, where evidence on the impact of policies (as executed) is produced, gathered, examined, debated and incorporated into the next cycle.

Phase 3

Baseline Analysis Policy Reform Impact



The Equity Budgeting Tool (EBT)

Offers practitioners and policymakers a framework to analyze the extent to which reducing inequality is reflected in *Phase 1 - the drafting and execution of public budgets.*



The EBT calls for a review of:

Primary data sources - annual budgets, national development plans and sectoral development strategies.

Secondary data sources - Public Expenditure and Financial Accountability (PEFA) assessments and Open Budget Surveys (OBS) - where they are available.



WHAT IS EBT?

EBT creates proprietary data, via stakeholder engagement, on the equity considerations built into budget and planning processes and procedures.

The EBT is therefore uniquely suited to reveal any political constraints limiting progress on equity goals.



WHAT ARE EBT'S USEFUL RESULTS?

EBT analysis can show where and when equity principles, goals, and considerations are included in budget or development planning processes and budget execution.

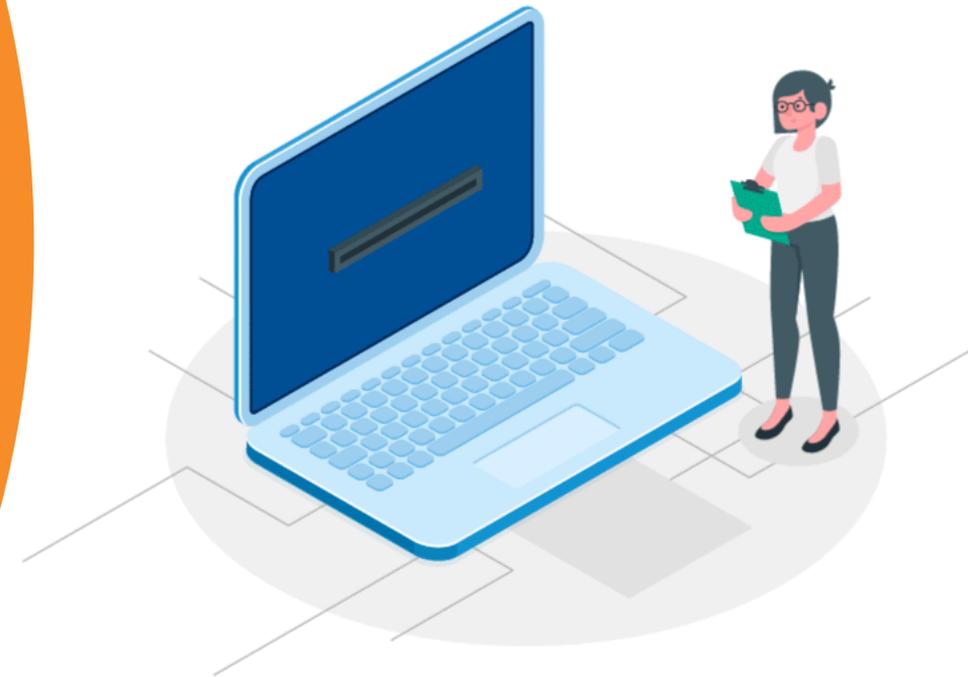
Question	Sources of information	Traffic light	light
Is budget executed in line with the budget approved by parliament?	BOOST database; PEFA indicator P2; IMF reports		
Are budget disbursements and execution recorded in the Government Financial Management Information system? What is their level of disaggregation?	PEFA indicator 6.1		
Do in-year budget virements or supplementary budgets take equity into account? E.g. Do they protect expenditures to disadvantaged groups?	BOOST database; PEFA 21.4; In-year budget revisions and supplementary budgets		
Does the procurement system take equity considerations into account? Does the procurement of goods and services include provisions to ensure equal opportunities for disadvantaged service providers? How?	Public procurement guidelines; regulations and policy related to positive discrimination		
Are CSOs representing the rights of the most marginalised involved in this stage of the process?	Self-assessment; key informant interviews		



Creation of proprietary data through stakeholder interviews, workshops, and validation discussions.

Review and analysis of primary data in budgets, development plans, and sector strategies with stakeholders when possible.

Desk review and analysis of secondary data in.





Primary / Proprietary Data

- Stakeholder engagement, interviews, workshops
- Household budget survey
- Budgetary and administrative data on programs, taxes and expenditures
- National Development plan
- Sectoral Strategic plans

Secondary Data

- PEFA or OBS
- Public Expenditure Reviews



WHAT DO WE NEED FOR RESULTS?



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Fiscal Incidence Analysis (FIA):

An estimate of the net impact that fiscal policies - taxes and transfers - have on each individual citizen, family, or household.

FIA allocates taxes to the individuals who pay them; and transfers to individuals eligible to receive them.



Fiscal Incidence Analysis (FIA):

FIA allocates or assigns taxes and transfers to individuals responsible for paying them or eligible to receive them.

FIA traces the impact of fiscal policies from their execution by government down to individuals.



Fiscal Incidence Analysis (FIA):

By summing up individual net impacts over all individuals, FIA provides an estimate of economy-wide impact of fiscal policy on equity indicators: inequality, poverty, fiscal impoverishment, progressivity, and others



FIA provides a summary of the different ways which different groups are made both better off and worse off by fiscal policy.

FIA can isolate the impact of individual policies or the impact of all policies on specific subgroups like the elderly or children, for example.

FIA accounts for the current impact of current policies, however, by linking policies to individuals, their characteristics, and their behaviors, FIA provides useful background information for estimates of the impact of policy reform (or future policies)



Conceptual Scheme

Organizing principle: How do individuals access/experience fiscal policy?

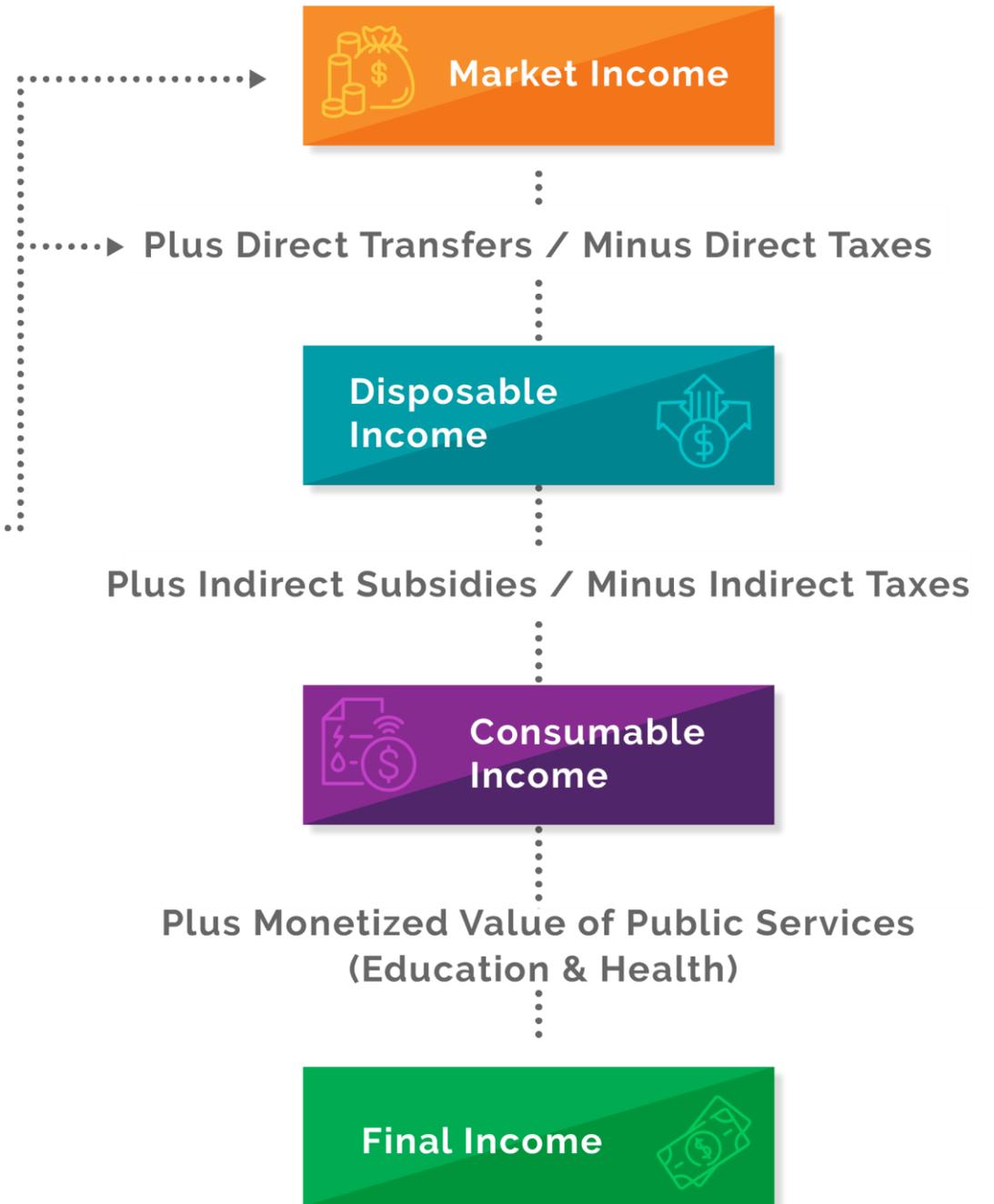
As suppliers of external labor

Fiscal elements:

Income Taxes including tax credits and taxable income rules

MSME finance

Policies (like maternal/parental leave) that address wage gaps



Conceptual Scheme

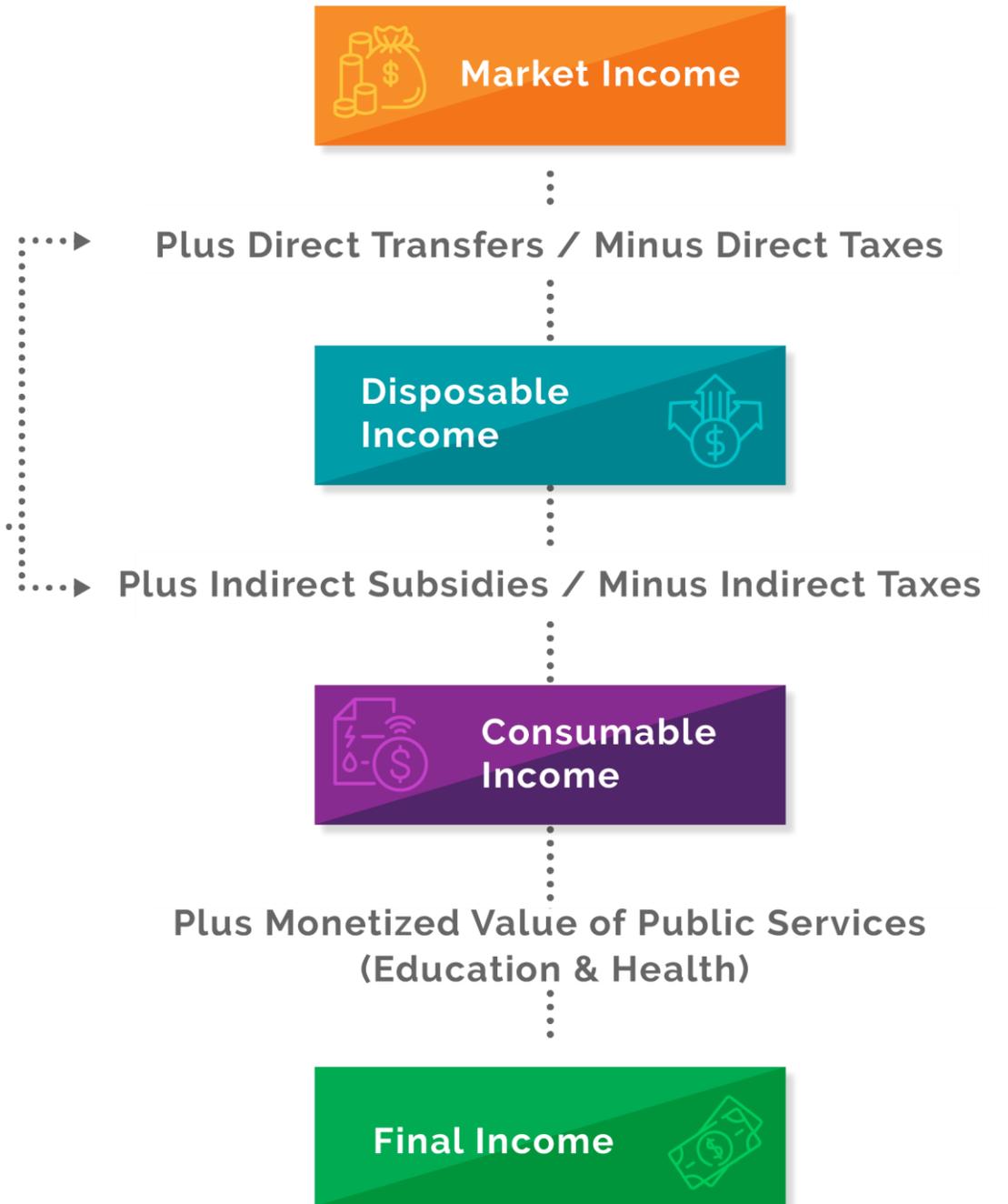
Organizing principle: How do individuals access/experience fiscal policy?

As consumers

Fiscal elements:

Direct Transfers – can target recipient/eligibility; can target control of benefit

Indirect Taxes and Subsidies



Conceptual Scheme

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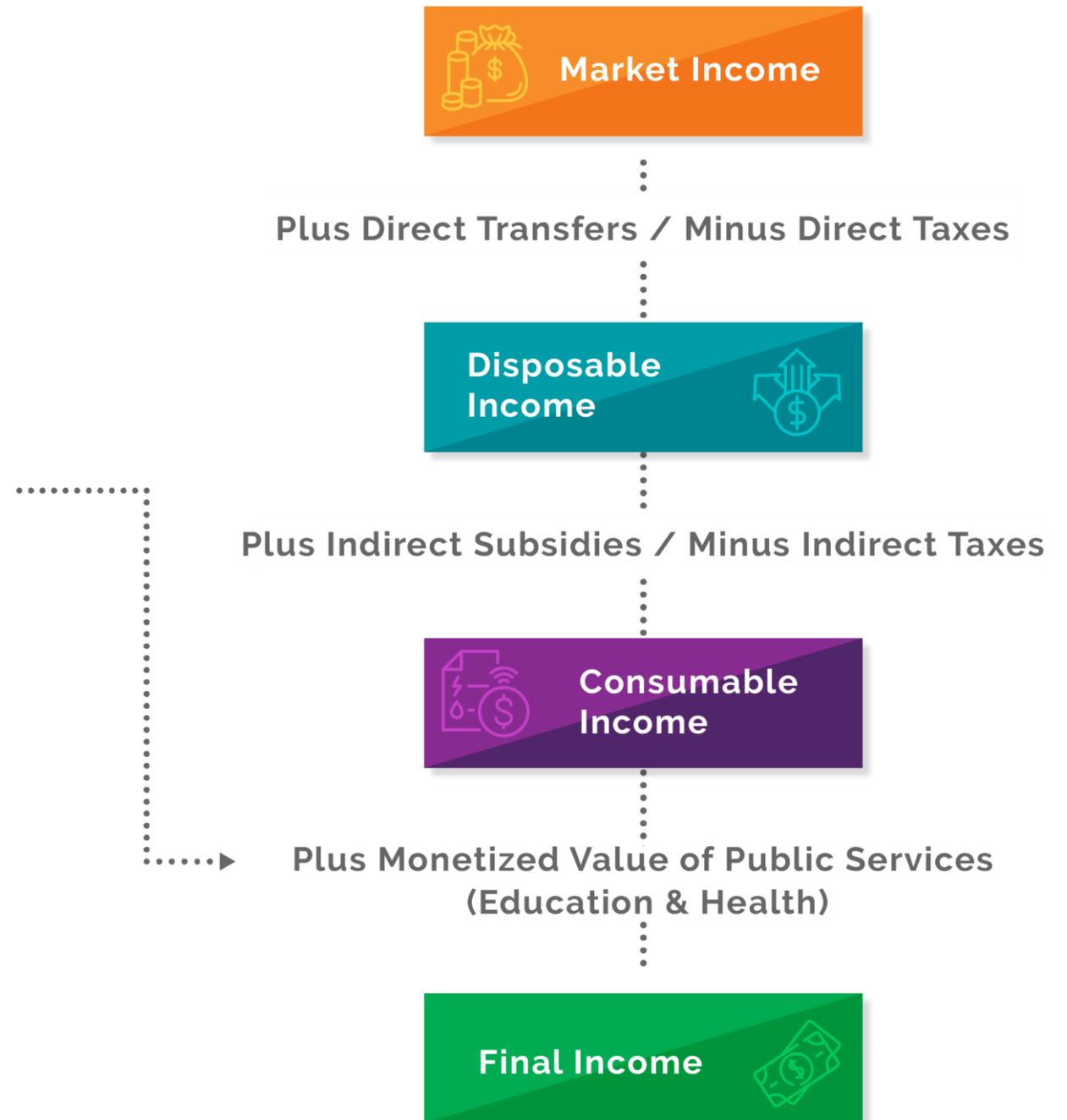
As participants in Social Reproduction

Fiscal elements:

In-kind transfers: Education;
Health; Water, Sanitation,
and Hygiene (WASH) services;
childcare elderly care

Infrastructure

Communications/Internet
and Media



Conceptual Scheme

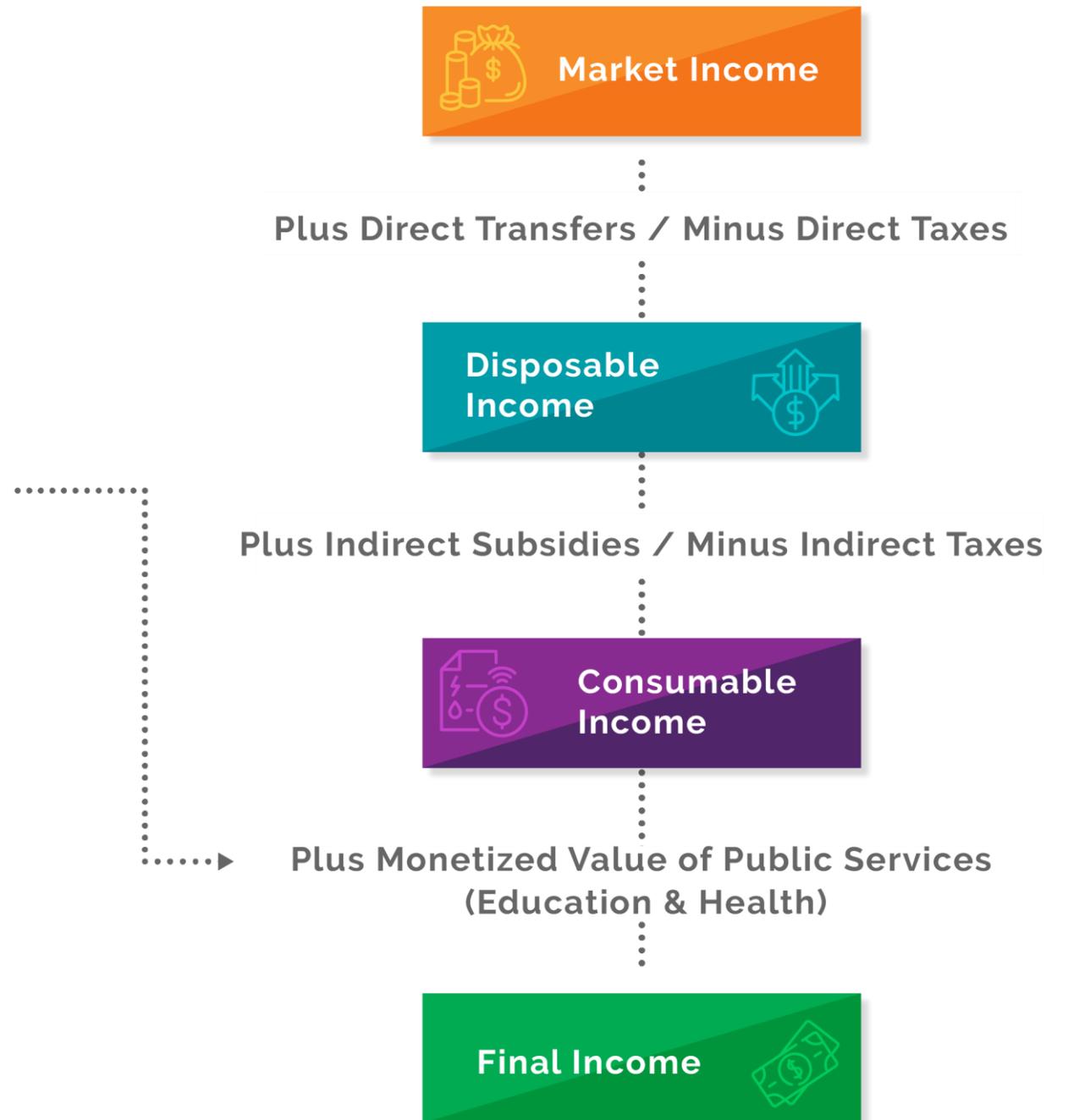
Organizing principle: How do individuals access/experience fiscal policy?

As investors in human capital

Fiscal elements (continued):

Labor-market activation

Provision of housing and other assets



HOW DO WE GET RESULTS?



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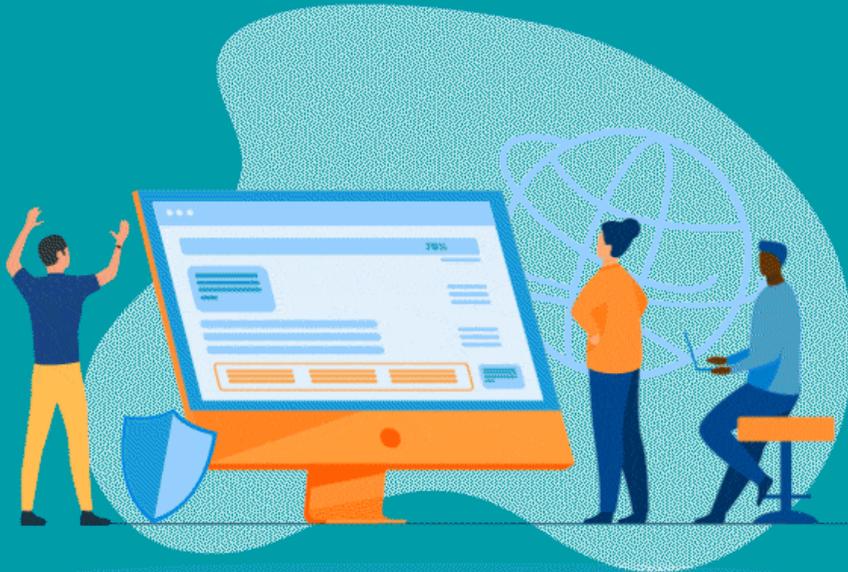
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Microsimulations provide a preview of equity impacts of potential policy reform.

When built on a context-specific fiscal incidence model, feasible policy reform scenarios can be costed and benefits can be validly compared.





User interface:

Creating a friendly, approachable, intuitive design.



Applicability and policy relevance:

The tool should be able provide an empirical forecast regarding the impact of fiscal policy reforms that are relevant and feasible in the country in question.



Human Resources:

The simulation tool is a “use it or lose it” proposition – when there are no individuals able to manipulate the tool its relevance will fade.



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Lead: Analytical mastermind; convener

Co-lead: Departmental Liaison

Researchers: 1 to 2 individuals capable of producing analytics or translating analytics into policy action plans.

CONCLUSION

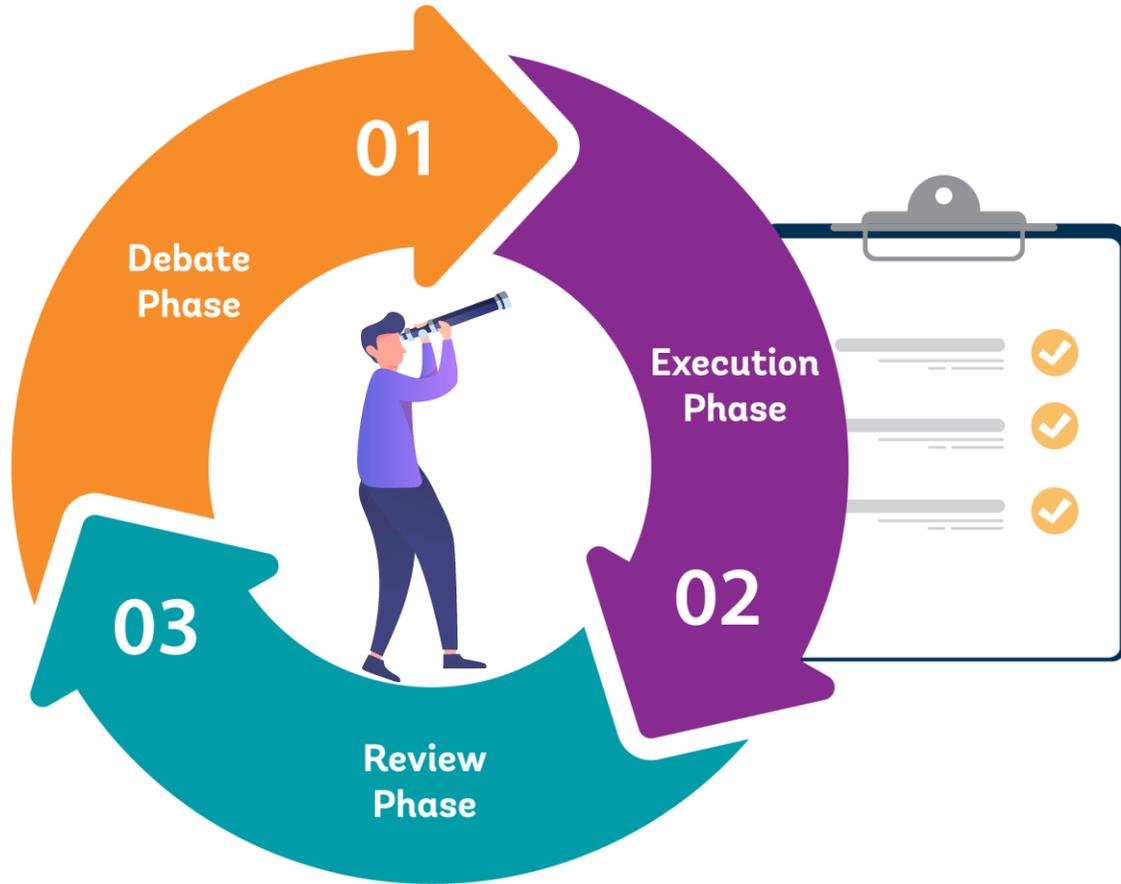
Committing public policies to improve equity is admirable; judging whether public policies are having the desired impact is not always obvious.

Positive progress on equity goals can be made in the processes which are followed to generate budgets, development plans, and in policy formulation...

CONCLUSION

...and in the execution of policies, programs, and plans, where the tangible benefits created from public policies reach individuals, and where individuals are asked to part with private resources (taxes) in order to partially fund those expenditures...

...and in the desire for reform when policies are having less of a positive equity impact than they should.



Equity analysis at all 3 phases allows governments to go beyond targets and indicators and provide context and forward-looking momentum for policy reform.