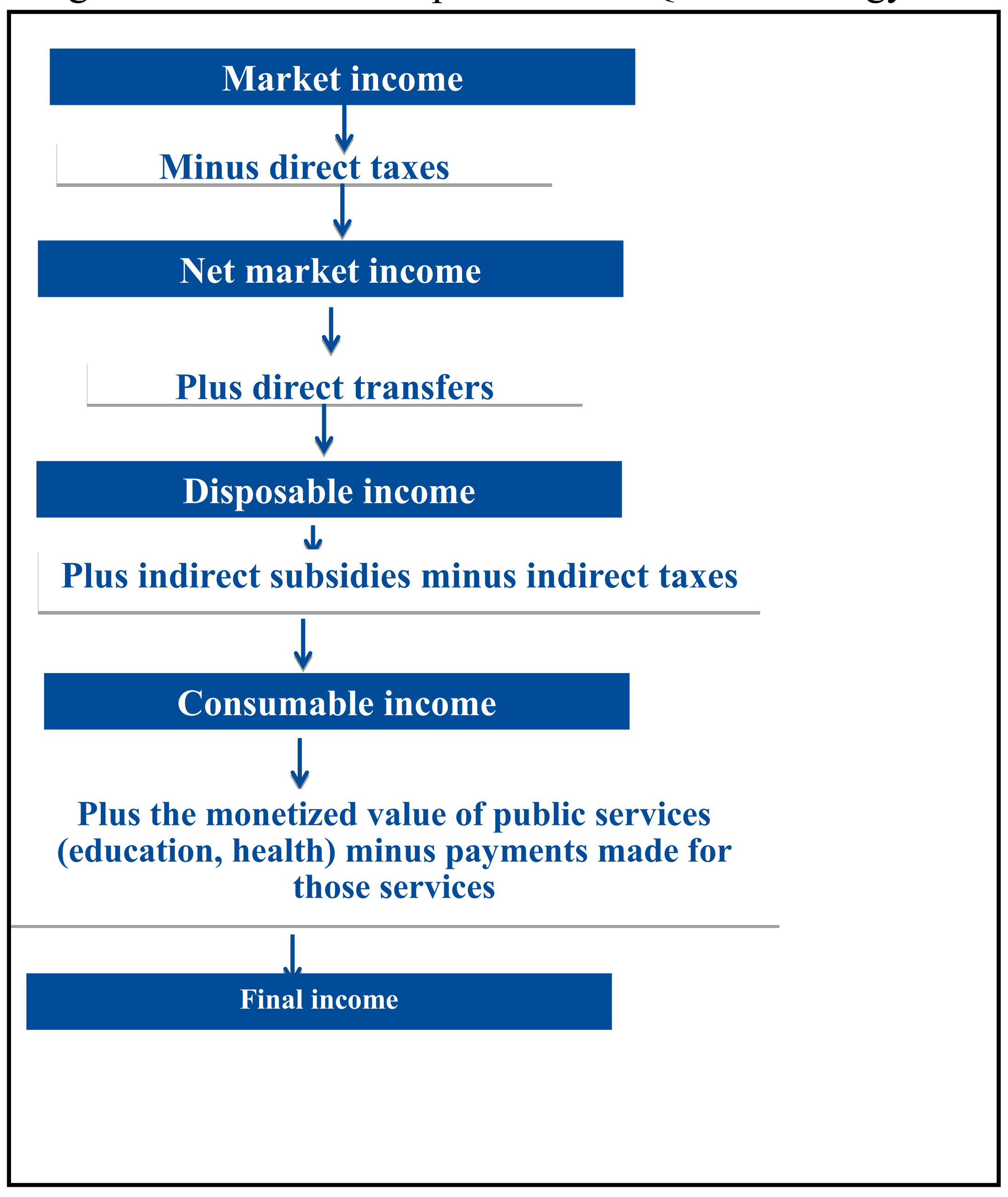
The Redistributive Effects of Fiscal Policy in Mali

By Mahunan Thierry Hounsa & Aly Sanoh (World Bank Group)

- Reducing poverty and inequality has become the major objective of public policies in developing countries.
- State fiscal policy and public spending are now seen as instruments to be used to reduce poverty and/or redistribute revenues
- But in a context of limited financial resources in these countries, decisions must be made about which sectors are to benefit from greater public expenditure.
- It is therefore important to identify the sectors for which public spending by the State will lead to a significant reduction in poverty and inequality.
- State public spending is financed partly from the resources that the Government collects from households in the form of taxes.
- For households, paying taxes to the State reduces income and purchasing power. It must therefore be ensured that tax collection by the State does not exacerbate inequalities or result into a great deterioration in the living conditions of vulnerable households.
- The main focus of this paper is to examine how taxes and budget expenditures in Mali redistribute resources among the various welfare quantiles.
- It presents a fiscal incidence analysis using the CEQ methodology to assess how taxes and spending distribute resources among the various income deciles in Mali.
- The data used come from the latest Integrated Survey on Agriculture (*Enquête Agricole de Conjoncture Intégrée*, EACI), from 2014/15, and the national budget for 2014.

Figure 1: Income Concepts in the CEQ Methodology



Mali's direct taxes are among the most progressive.

Figure 2a. WST (incidence by market income deciles and concentration by decile)

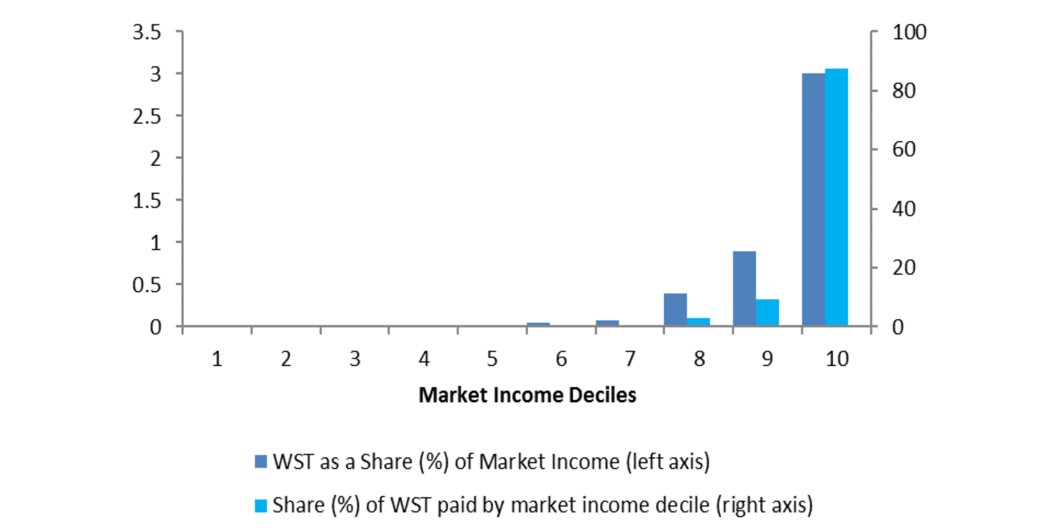
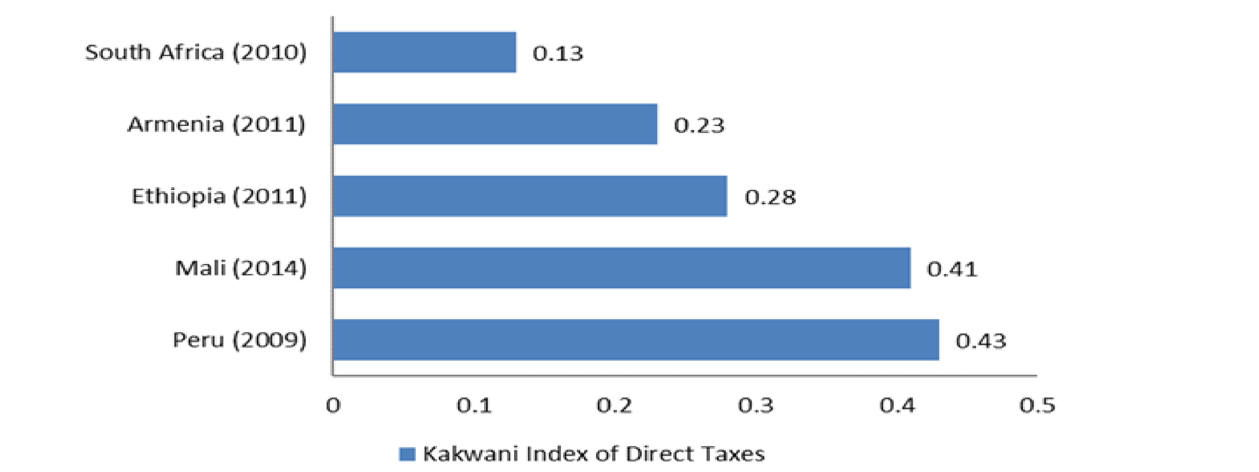


Figure 2b. Kakwani Index of Direct taxes for selected countries



Indirect taxes and the overall tax system are progressive

Figure 2c. Indirect taxes by category (incidence by market income deciles)

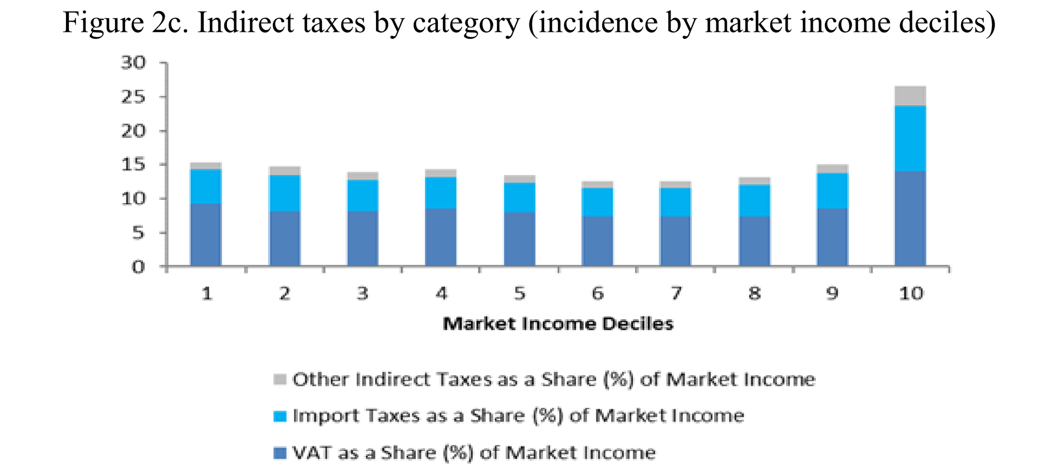


Figure 2d. Kakwani Index of taxes by category

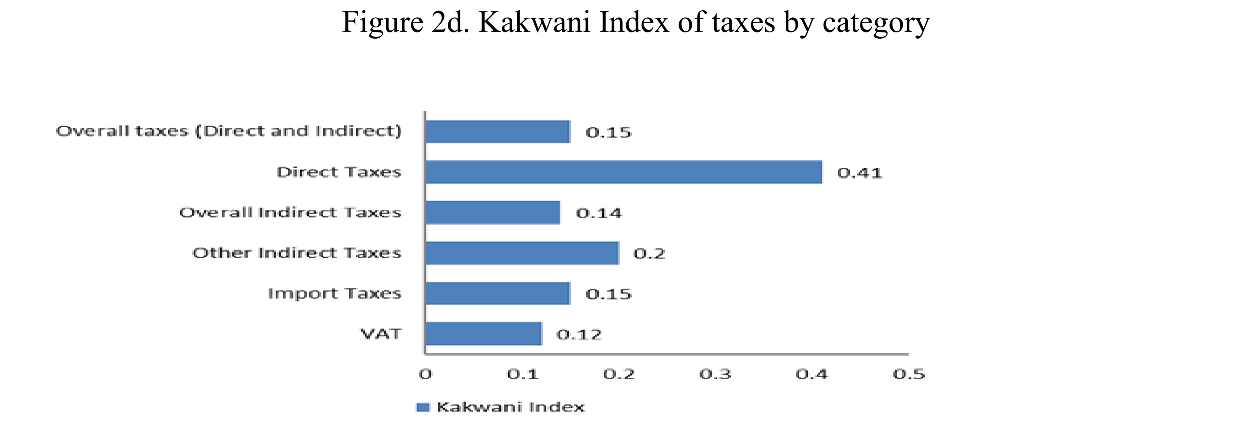


Figure 3:Concentration coefficients of public spending

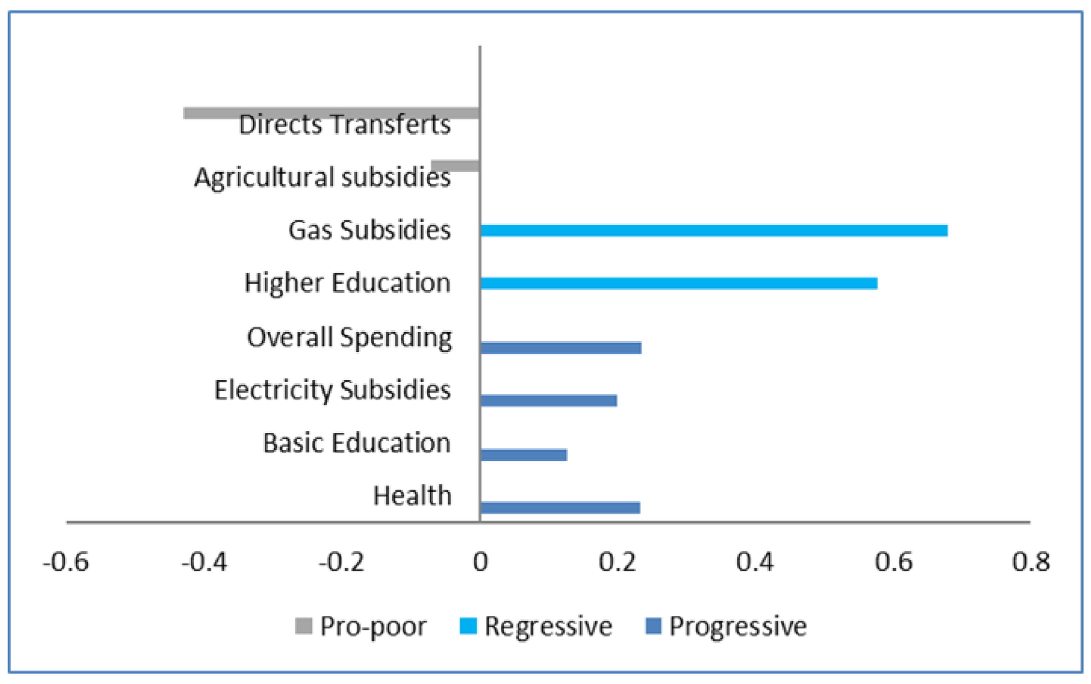


Table 1: Poverty and Inequaliy Indices for differents income concepts

Type of income	Gini index	Poverty index (%)
Market income (pre-fiscal income)	0.492	40.68
Market income plus pensions	0.492	40.44
Net market income	0.486	40.44
Disposable income	0.486	40.42
Consumable income (post-fiscal income)	0.480	47.20
Final income	0.466	46.36

Table 2: Fiscal Impoverishment (FI) due to fiscal policy

	From market income to disposable income	From market income to consumable income	From market income to final income
Fiscal impoverishment (FI) index	0	44.5%	38.32%
Proportion of non-poor individuals who became poor	0	6.92%	7.22%

Figure 4: FI index for various countries

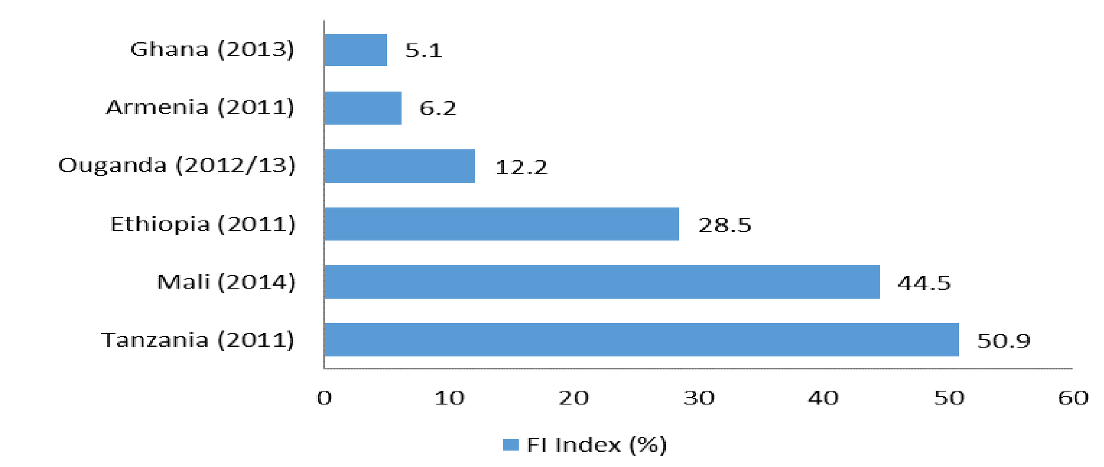


Table 3: Gains to the poor

	From market income to disposable income	From market income to consumable income	From market income to final income
Fiscal Gain to Poor	4.58%	7.61%	23.57%

Table 4: Marginal contributions to Gini index of different fiscal interventions

Tax/transfer	Marginal contribution to the Gini index	Progressive/ regressive	Pro-poor or not
Direct taxes	0.0053	Progressive	Pro-poor
Direct transfers	0.0002	Progressive	Pro-poor
Indirect taxes, including:	-0.0702	Progressive	Pro-poor
-VAT	-0.0291	Progressive	Pro-poor
-Import taxes	-0.0119	Progressive	Pro-poor
-Other indirect taxes	-0.0003	Progressive	Pro-poor
Indirect subsidies, including:	0.0031	Progressive	Not pro-poor
-Gas subsidies	-0.00008	Regressive	Not pro-poor
-Electricity subsidies	0.00005	Progressive	Not pro-poor
-Agricultural subsidies	0.0031	Progressive	Pro-poor
Education spending, including:	0.0062	Progressive	Not pro-poor
-Basic education	0.0086	Progressive	Not pro-poor
-Higher education	-0.0023	Regressive	Not pro-poor
Health spending	0.0036	Progressive	Not pro-poor

- ⇒ We analyzed the incidence of 61 percent of total tax revenue and 30 percent of general government expenditures.
- ⇒ Results show that the fiscal system is progressive in Mali. However, Fiscal policy has a limited effect on the distribution of revenue in Mali and a negative impact on poverty. The fiscal system reduces the Gini index by only 5.3 percent (0.026 points) and results in a 14 percent rise or 5.68 percentage points in the poverty rate from market to final income.
- ⇒ Indirect taxes have a strong impoverishing effect on the population and also have a negative impact in terms of reducing inequality.
- ⇒ The fiscal impoverishment rate (44.5 percent) from market income to consumable income in Mali is one of the highest in comparison with other countries.
- ⇒ It will be important to undertake a reform of indirect taxes in Mali by lowering tax rates on the products most consumed by the poor. Indirect subsidies should also be better targeted to mitigate the impoverishing effect of indirect taxes.
- ⇒ The fiscal system could deliver more benefits to those impoverished by the tax system by transferring more resources (higher levels and broader coverage) through the cash transfer program.