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**SOUTHMOD** — Simulating tax and benefit policies for development
SOUTHMOD - simulating tax and benefit policies for development

- Ecuador
- Tanzania
- Ethiopia
- Viet Nam
- Ghana
- Zambia
- Mozambique

plus updates of existing models for Namibia and South Africa
What is microsimulation? (I)

Households
- Family structure
- Income
- Expenditure

Policy systems
- Taxes
- Benefits

Legislation

Effect of policies on individual and government level
- Tax load
- Benefit amounts
- Government tax receipt
- Social protection expenditure

Inform government and research

Who pays how much tax?
Who receives benefit?
Components of government budget?

Measures of tax progressivity, sub-group analysis...

Micro data

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What is microsimulation? (II)

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Inform government and research

Reform

Effect of reform on inequality, poverty, budget balance, ...?

Labour supply responses, effects on (in)formality, ...?
Why are tax-benefit microsimulation models important?

Integral part of governments’ ”bookkeeping”:  

• Understand who pays how much taxes and who receives benefits;  
• How taxes and benefits affect the government budget;  
• Estimate effects of tax/social protection reform.

Social protection on the rise in the developing world; at the same time countries need to increase tax revenues.

Complex models → need to train model developers and users
Set-up of the SOUTHMOD project

- Joint undertaking with the EUROMOD team and SASPRI (Cape Town)

- EUROMOD
  - Both a microsimulation model for European countries
  - a software for building new microsimulation models

- WIDER, SASPRI and EUROMOD (senior project partners)
  - **build models** together with local team in each country (models freely available for non-commercial use), and
  - **educate local stakeholders to use the model:**
    a) Government and its agencies,
    b) Researchers
Building on EUROMOD success

• EUROMOD is a result of 20 years of investment into tax-benefit microsimulation

• A large user group, annual activities, presence in conferences

• SOUTHMOD benefits from all this experience

• But, more importantly, will facilitate interaction and learning within a community of experts in African countries and other developing countries

• Annual SOUTHMOD workshops

• Research activities to begin where the aim is to improve the ’fit’ of the models to developing countries’ circumstances
Microsimulation in Ghana

Microsimulation can be used to answer questions such as:

• How does the current tax and social grant system **impact upon individuals in different groups** (e.g. income groups, family types)?

• To what extent does the current system of social grants **reduce poverty and inequality**?

• What would be the **cost of implementing** social security **policy reforms**, for example:
  – universalising the Old Age Pension Scheme,
  – introducing a child grant
  ➢ and what would be the **impact** on poverty/inequality?
  ➢ And how could these policies **be financed**?