The Redistributive Impact of Fiscal Policy Indicator
A User Guide
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Earlier this year, the Sustainable Development Goals (SDGs) framework has been augmented by the adoption of a new indicator: the Redistributive Impact of Fiscal Policy (SDG 10.4.2). All countries are now expected to report to the United Nations their Gini indices for market, disposable, and consumable income. Governments should build on that obligation to systematically and transparently analyse the redistributive impact of the tax and transfer policies they consider, to ensure that they “adopt fiscal and social protection policies that progressively achieve greater equality.”

Why fight inequality?

In 2015, world leaders committed to an ambitious new set of global goals to eradicate extreme poverty, reduce economic and gender inequality, protect the planet, and ensure peace and prosperity for all by 2030: the Sustainable Development Goals (SDGs).

In adopting a standalone goal to “reduce inequality within and among countries” (SDG10), they acknowledged the mounting body of evidence from the United Nations, the IMF, the World Bank, the OECD, academics and civil society experts that extreme economic inequality is a significant constraint to development and human progress. The 2019 Human Development Report has described how economic inequality is deeply interconnected with inequalities in other aspects of human development, and how overall these constitute a roadblock to the achievement of the SDGs. Research and practice the world over have demonstrated that high economic inequality is a barrier to poverty reduction, and deeply entrenched with the other great challenges of our time: gender inequality, and climate change, conflicts, the crisis of democracy, and technological progress. High inequality is also bad for economic growth, undermines social cohesion, and is correlated with crime and poor physical and mental health.

The Covid-19 pandemic has magnified existing inequalities, and the failure to tackle economic inequality and poverty has left the majority of countries far more vulnerable to both the health and economic impacts of the disease. Even if the virus doesn’t discriminate, it is the poorest people who bear the brunt of the crisis. They are more exposed because they are least able to isolate and wash their hands regularly, and they are more vulnerable because they are more likely to have pre-existing poor health and have no health insurance. Following workplace closures, millions of people are losing their jobs, especially in the informal sector. Meanwhile, those at the top of the distribution have the assets and savings needed to protect themselves and are more likely to have secure jobs that can be done remotely. The World Bank estimates that COVID-19 could push 226 million people into poverty (below the $5.50 poverty line) during 2020 alone, and that global poverty will rise for the first time since 1998.

Even before the outburst of the Covid-19 pandemic, global progress on Goal 10, as measured by Target 10.1 (“By 2030, progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average”) had been too slow. According to
the latest World Bank’s estimates, between 2012 and 2017 and for 91 countries with available data, only 53 saw the income or consumption of the bottom 40% grow faster than the national average (including three with negative growth). Even these gains have been small and uneven: growth of the bottom 40% was 1 percentage point faster than the average in East Asia and Pacific and in Latin America, and slower in the Middle East and North Africa (−0.4), South Asia (−0.5), and Sub-Saharan Africa (−0.6). Updated World Bank Projections for 2020-21 indicate that income or consumption of the bottom 40% will drop sharply in nearly all economies, reversing even the progress made so far. The IMF has published analysis showing how the pandemic will worsen inequality, hitting women, and informal workers, especially in emerging markets and developing economies.

**Why a new SDG indicator to assess fiscal policy impact on inequality?**

International institutions – including the IMF, the World Bank, UNCTAD, the WHO – have all stressed the importance of fiscal policies in the response to Covid-19, including unemployment and health benefits, sick leave, cash transfers and public works programmes, potentially funded by increasing income and progressive taxation. This consensus stems from the increasing recognition that inequality is determined in large part by policy choices, and that taxes and transfers (i.e., fiscal policies) are one of the most powerful instruments in the hands of government to tackle poverty and inequality. Over the past decade, several international institutions have been increasingly recommending the implementation of more progressive policies.

The adoption of Goal 10 had created an international mechanism to hold countries accountable for their effort to reduce inequality, encouraging governments to “adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality” (Target SDG10.4). However, this was monitored by an indicator that only captured the impact of labor policies (Indicator 10.4.1, which is the labor share of GDP). There was no corresponding indicator to monitor the impact of fiscal policies as such on the income distribution. The *Redistributive Impact of Fiscal Policy* indicator fills this gap.

This new indicator also fills a gap for the overall Goal 10. Goal 10 was designed to underscore the SDGs principle of “leaving no one behind,” as reflected in targets and indicators that measure reduction in poverty and exclusion and focus on the bottom of the income distribution. For example, Target 10.1 compares mean income growth of the poorest 40% to the national average and is an imperfect measure of inequality. Target 10.2 concerns empowerment and inclusion of all groups, and its indicator is the share of people living below 50 per cent of median income, by sex, age and persons with disabilities. Goal 10, however, lacked a measure of the overall income distribution (like the Gini) or of income concentration at the top (like the share of the richest 1 percent, or the Palma, which is the ratio of the income share of the richest 10 percent to the poorest 40 percent). Although there may not be further opportunities to improve the SDGs monitoring framework, measures of wealth inequality and of horizontal income inequality (e.g., inequality between genders or ethnic groups) would also be welcome.

The United Nations Statistical Commission ratified the adoption of the indicator in March 2020, following a proposal submitted by Oxfam, CEQ Institute, and the World Bank to the Inter-Agency Expert Group’s 2020 Comprehensive Review of SDG indicators, on the back of a letter signed by ten international NGOs and ample discussion throughout the 2019 High-Level Political Forum review process. All countries are now mandated to produce the indicator.

In addition to monitoring progress of individual countries over time, the indicator can also be used as a league table to compare countries to each other. That is for instance the spirit of Oxfam and Development Finance International’s *Commitment to Reducing Inequality Index*,
which ranks 158 countries according to their policies to fight inequality and which includes this indicator.\textsuperscript{23}

Elements of the Commitment to Reducing Inequality Index, including the tax component of this indicator, have in turn been adopted by the Addis Tax Initiative as part of its own process to monitor its member countries’ progress on domestic resources mobilization.\textsuperscript{24} The ATI Declaration 2025 includes a new commitment from governments to “monitor the impact of tax policies on equity and equality” in support of SDG10.4.\textsuperscript{25}

What is the Redistributive Impact of Fiscal Policy indicator?

The Redistributive Impact of Fiscal Policy indicator measures the degree to which income inequality is reduced or increased by the current execution of fiscal policy, including direct and indirect taxes, direct transfers (i.e., mandatory social insurance benefits and contributions, direct cash or near-cash government transfers to households like school meals – but not public services like education and health care), and indirect transfers (i.e., price subsidies). It is defined as the difference between the Gini indices of pre-fiscal (or market) and post-fiscal income.\textsuperscript{26} A positive value indicates that fiscal policies reduce inequality, a negative value that they increase it.

Figure 1. The Redistributive Impact of Fiscal Policy

The methodology to produce the SDG10.4.2 indicator was developed by the CEQ Institute at Tulane University and is outlined in detail in its metadata document.\textsuperscript{27} A comprehensive discussion of fiscal incidence analysis as a tool to investigate the impact of fiscal policies on inequality and poverty can be found in the CEQ Handbook.\textsuperscript{28}

The methodology calls on countries to produce the indicator with two alternative definitions of post-fiscal income: disposable income (i.e., market income minus direct taxes plus direct transfers) and consumable income (i.e., disposable income minus indirect taxes plus indirect transfers).\textsuperscript{29} Consumable income is the more comprehensive concept and better represents the reality of most developing countries, which rely more strongly on indirect taxation (e.g., Value Added Tax) and indirect transfers (i.e., price subsidies).

The methodology allows for some country discretion on a number of methodological choices, including but not limited to: treating pensions as either transfer or deferred income,\textsuperscript{30} using either income or consumption data, allocating household income to individuals either on a per capita or equivalized basis. These differences can affect cross-country comparisons and will be reported for transparency.

The indicator can be estimated for any country with a representative micro-data set (such as a Household Budget Survey or an Income and Expenditure Survey) and fiscal or budgetary administrative data on revenue collections, social expenditures, and subsidy expenditure. Depending on the availability of disaggregated individual-level data and of the relevant variables in the micro-data set, the indicator can be estimated separately for different sub-
groups of the population (e.g., by gender, region, age, ethnic group). This enables researchers to estimate the differential impact of fiscal policies on various social and demographic groups.

The CEQ Institute, World Bank and OECD have already produced the *Redistributive Impact of Fiscal Policy* indicator for at least one year for 110 countries (see Annex).

The World Bank is the custodian agency for the indicator, in charge of quality control. The indicator can be compiled either by the World Bank itself, or by the CEQ Institute, OECD, or national statistical agencies.

**Lessons learned about fiscal policy’s impact on inequality**

The methodology underpinning indicator 10.4.2 allows for incidence analysis of different types of fiscal policies. Over the past decade, the CEQ Institute and the World Bank have applied this methodology to make comprehensive diagnostics of redistribution through fiscal policy in a number of countries, generating a useful evidence base that can inform the design of progressive policies in other countries too.

A first important lesson is that **the combined distributional effect of taxes and transfers varies hugely across countries and regions**. For example, evidence from the 2010s shows that in Ethiopia, Guatemala, Indonesia, Jordan, and Sri Lanka, taxes and transfers reduce the Gini Index by less than 3 percentage points, whereas in Brazil, Georgia, and South Africa they reduce it by more than 12 percentage points.\(^{31}\) At the regional level, the redistributive effect of direct taxes and transfers is considerably larger in the European Union than in the United States and in Latin America. On average, direct taxes and transfers reduce the Gini Index by 19 percentage points in the European Union, by 11 points in the United States, and by 3 points in Latin America.\(^{32}\) A study focusing on income redistribution of working-age population in OECD countries found that taxes and transfers reduce the Gini Index by 11 Gini points on average, but with variations that range between a reduction of 22 points in Ireland and 3 points in Chile.\(^{33}\)

Countries with similar levels of inequality can have very different levels of redistribution, and larger redistributive efforts can compensate for higher levels of **market inequality**. For example, although the Gini Index of market income inequality stands at around 38 in both Japan and Norway, disposable income inequality is 27 in Norway compared to 32 in Japan.\(^{34}\) Germany has a much higher level of market inequality than Korea, but a similar level of post-fiscal inequality, that is achieved with a larger redistributive effort than Korea.

The **level of social spending also varies greatly across countries, and it is a key determinant of the overall redistributive impact of fiscal policy**. Higher levels of social spending (including transfers plus public spending for health and education) tend to generate more redistribution.\(^{35}\) Social spending is, on average, 14 percent of GDP in Latin America, 12 percent in low or middle-income countries outside of Latin America (for which information is available) and 27 percent in advanced OECD countries. Even within Latin America there are huge differences, with social spending ranging between 28 percent of GDP in Argentina to 7.2 percent in Guatemala.\(^{36}\)

**Direct taxes and transfers are the fiscal policy tools with the most redistributive power.** A cross-country analysis looking at evidence from around 2010s for 25 low or middle-income countries found that direct taxes and transfers are always equalizing.\(^{37}\) Evidence from OECD countries shows that the largest part of fiscal redistribution is achieved through direct transfers, although direct taxes play a relatively large role in reducing inequality in countries that achieve relatively little redistribution overall like Japan, Korea, or Italy. In all countries, progressive
personal income taxes reduce inequality. Direct transfers also play an equalising force across low and middle-income countries. In Latin America, the marginal contribution of direct taxes and transfers is always equalizing, except in Colombia where direct taxes are almost neutral.

Indirect taxes frequently – but not always – have a regressive impact. Indirect taxes are unequalizing in Bolivia, Brazil, Colombia, El Salvador and Uruguay, but equalizing in Chile, Costa Rica, Ecuador, Mexico and Peru. Indirect taxes are unequalising in Indonesia and neutral in South Africa. Evidence from 20 OECD countries finds that consumption taxes are regressive when measured as a percentage of income. IMF research examining the growth-inequality trade-offs of macro-structural reforms in low-income countries confirms that reform of direct taxation has usually decreased inequality, while increases in VAT rates have increased inequality.

The regressive effect of indirect taxes and other regressive fiscal reforms can, to an extent, be compensated with targeted cash transfers, depending on the coverage and the generosity of the transfer. For instance, IMF research in low-income countries found that the overall distributional impact of tax reforms depended on the extent to which the additional revenues were used for compensatory measures such as cash transfers. A study simulating fiscal reforms in nine African countries showed that redirecting current subsidy expenditures to direct cash transfer programs would benefit the poor in most countries, but a portion of the not-so poor would then receive no transfers at all. Similarly, a study assessing the poverty and inequality impact of preferential VAT rates in Ethiopia, Ghana, Senegal and Zambia, found that existing cash transfer programs would not be able to compensate the negative impact on the poor of a reform widening the VAT base, given issues related to coverage and targeting mechanisms.

Energy subsidies reforms can have a substantial impact on inequality and poverty and need to be carefully calibrated and accompanied by complementary and compensatory measures. In Iran, the replacement in 2010 of energy and bread subsidies with an unconditional and universal cash transfer initially reduced poverty from 22.5 percent to 10.6 percent, but this positive impact was eroded by high and rapid inflation, which in five years cut the real value of the transfer by half, and has since nearly disappeared. In Ghana and Tanzania, energy subsidies are substantial and popular but regressive despite the use of lifeline tariffs for electricity consumption. Their removal would reduce inequality but also increase poverty by a non-trivial amount because the subsidies lower the energy price paid by the poor. A simultaneous expansion of cash transfer programs could offset the poverty consequences of removing energy subsidies while lowering overall fiscal costs.

The extent to which transfers are targeted to the poor affects the redistributive power of fiscal policy. Targeting transfers can increase redistribution according to comparative evidence for 25 low or middle-income countries for around 2010. However, this conclusion ignores the dynamic political economy tradeoff between targeting transfers and increasing them: it is politically easier to increase transfer budgets when everyone benefits from them than when they are narrowly targeted to “the poor” (which can also be stigmatizing). OECD data shows that there is a negative correlation between size of transfers (measured by spending on transfers as a percentage of GDP, which reflects both their coverage and generosity) and targeting (measured as the share of transfers going to the poorest quintile) across OECD countries, a robust correlation between redistribution and size of transfers, and no correlation between redistribution and targeting. In other words, while targeting a small transfer budget on the poor can increase its redistributive impact, countries that redistribute the most do so by increasing spending through universal social transfers. There is also evidence that means-testing transfers is subject to both exclusion (i.e., some eligible poor people not getting the benefit) and inclusion (i.e., some ineligible rich people getting the benefit) errors.
The impact of fiscal policy on extreme poverty may differ from the impact on inequality. This happens for example when the reduction in purchasing power of poor people caused by indirect taxes (such as VAT) is not adequately compensated by cash transfers for the poor. For example, in El Salvador, Ethiopia and Nicaragua, the poor are net payers into the fiscal system, due to a combination of highly regressive consumption taxes and cash transfer that are not sufficiently pro-poor. In Uganda, the poor are net payers into the fiscal system because only some of them benefit from direct transfer programs while all of them pay indirect taxes. Out of nine Sub-Saharan African countries, the existing combination of taxes and transfers increases post-fiscal poverty in all countries but Namibia and South Africa.

It is important to look at public spending beyond direct and indirect transfers. The value of in-kind transfers that families receive in the form of public services like education and health care can also have an important redistributive effect. This impact is not captured by the SDG10.4.2 indicator but the CEQ methodology does allow to extend the analysis to the impact of public spending on health care and education, as long as microdata are available. However, this approach values the benefits of the health and education services at the government’s cost of provision, which can be very different from the value households attribute to them, especially if quality is poor.

Fiscal policy is a powerful instrument to reduce spatial, ethnic, or gender inequality, but it has not yet sufficiently been used for that purpose. In Latin America, taxes and transfers are under-utilized in general and do little to reduce the ethno-racial inequalities evident in the region. Taxes and transfers also have significant effects on gender equality. For example, the personal income tax can impact important life choices like whether to marry, co-habit, have children, or enter or exit the labour force. Consumption taxes tend to have stronger effects on purchasing power of women as compared to men. However, this remains an under-studied topic in the literature, not least for scarcity of household data disaggregated by gender. The World Bank has initiated a pilot project to bring a stronger gender lens into their country fiscal incidence analysis. This work will explore different methodological approaches to understanding how fiscal policy and gender intersect and apply these approaches to some country case studies. More of these types of studies will be critical to understand and tackle the gender bias built into fiscal systems.

How is the Redistributive Impact of Fiscal Policy Indicator Used?

For the purposes of compiling the SDG10.4.2 indicator, governments are expected to report three estimates to the United Nations: Gini indices for market, disposable, and consumable income. However, as also illustrated in the previous section, their calculation requires household surveys’ microdata, detailed budget data and a methodology for fiscal incidence analysis that allows for investigation of the impact of any specific policy parameter (e.g., VAT exemption thresholds) on different demographic group (e.g., poor people in region X).

Several examples of studies carried out by the CEQ Institute and the World Bank demonstrate the contribution that this analysis can make to national policy making. A survey carried out by the CEQ Institute with 42 experts (working in academia, government, multilaterals, for CEQ Institute or as independent consultants) involved in one or more CEQ assessments between 2009 and 2018 found that these had had clear policy impacts on the design of cash transfer programs in eight countries (Argentina, Bolivia, Ecuador, Ethiopia, Indonesia, Nigeria, Panama, Uganda), of price subsidy programs in three countries (El Salvador, Indonesia, Tunisia), and of personal income taxes and indirect taxes in four countries (Argentina, Nigeria, Panama, and Tunisia). More specifically, participants noted an increase in cash transfer spending, coverage, and benefits, and a reduction in fuel subsidy spending. The overwhelming majority of experts that were consulted considered the CEQ methodology a useful tool for
policy-making, noting that its usefulness depends on the interest of the authorities in inequality and poverty, and the distributional consequences of their policies.\textsuperscript{61}

An example of country study that informed policy change is a CEQ analysis in Ethiopia. It showed that the extreme poor were often paying taxes over and above what they received in transfers, as a consequence of two factors: the threshold of income at which people were liable to start paying income tax was very low and the Productive Safety Net Program (PNSP) – the flagship cash transfer program – had both low coverage and low benefits. In January 2016, the government expanded the coverage of the PNSP to include households living in urban areas, among other things. In July 2016, the government raised the threshold of taxable personal income.\textsuperscript{62}

In Indonesia, the CEQ analysis led by the World Bank informed the government’s decision to redirect spending from fuel subsidies to infrastructure, health and social protection, and to redirect social spending to more effectively targeted cash transfers.\textsuperscript{63}

The World Bank has already provided about 20 governments with a micro-simulation tool that allows them to project the impact of specific fiscal policy reforms. The Romanian government has made the tool public.\textsuperscript{64} Tools like this can and should be regularly used to assess and calibrate the poverty and inequality impact of fiscal reforms, and run simulations identifying the most appropriate measures to compensate poor people.

Fiscal incidence analysis is commonly practiced also by other international institutions, such as the IMF and the OECD. The OECD occasionally advises countries on tax policy reform.\textsuperscript{65} Advice is occasionally geared towards building more equitable tax systems, relying on different types of equity analysis, but it’s rarely based on a comprehensive analysis of the inequality incidence of fiscal policy (for recent examples, see Costa Rica for VAT reform\textsuperscript{66} and Kazakhstan for personal income tax reform\textsuperscript{67}).

The IMF runs fiscal incidence analysis in some of its technical assistance\textsuperscript{68} and in its country surveillance work (Article IV reports).\textsuperscript{69} This practice has become more frequent in recent years, reflecting the IMF recognition that inequality is a “macro-critical issue” that needs to be taken into account in its policy work.\textsuperscript{70} However, it is not a systematic or mandatory analysis for staff, and it is used more often for policy reforms such as fuel price subsidy reform. The IMF does not run fiscal incidence analysis or distributional assessments of the policy conditionalities included in its loan programmes, which are necessarily those with greater tractions on governments. The argument is that loan agreements are often negotiated at a time of economic crisis and as a matter of urgency, and they are typically informed by past technical assistance work and previous Article IVs.

For its inequality incidence analysis, the IMF relies on both the CEQ methodology and a general equilibrium model approach. The IMF adopted this latter approach because it accounts for behavioural responses, shows the impact of fiscal policies on macroeconomic variables as well as inequality, and can also be used for a wider range of macroeconomic policies.\textsuperscript{71} However, such models do not capture fiscal policy at the same level of granularity as the CEQ Institute methodology does. They are very country-specific and hence inadequate for country comparison. They rely on many assumptions that are not always transparent and unevenly grounded in evidence, which makes them harder for policymakers to interpret.

**What are the limitations and constraints of inequality analysis of fiscal policies?**

Fiscal incidence analysis such as the one enabled by CEQ’s methodology have the greatest traction and impact at country level when they are driven by government demand. An
increasing number of governments is demanding support to design more progressive fiscal policies, but this trend needs continuous support by the international community.

Data availability remains a major constraint. Household surveys are more available than they used to be, but in many countries they are still too infrequent. Some surveys don’t include the right questions to carry out the CEQ methodology or other types of fiscal incidence analysis. For example, in many countries surveys don’t collect information on taxes paid at household level, which limits the availability of measures of disposable (post-tax) income. Another problem is how to address the under-reporting on taxes paid and public benefits received by households. Finally, assessing the distributive impact of indirect taxes necessitates microdata on household income and consumption expenditure, but many countries typically only have either one or the other, which means data have to be imputed.

Technical capacity at national level is also often insufficient or inadequate, and staff turnover in national governments can undermine the effectiveness of training programs.

A third constraint is funding. Household surveys are expensive, and the processing of the data to produce the indicator and make a full assessment of the inequality impact of fiscal policy is very work intensive.

The above notwithstanding, the main constraint is government interest and political will. If a government is concerned about equity and committed to running such analysis, the World Bank, the CEQ Institute or another actor will find a way to make it happen. If a government fails to share the data, the exercise is impossible even if an international actor has the funding and capacity to carry it out.

Lack of transparency is also a concern. Household survey microdata and detailed budget data are not always made publicly available. Sometimes governments grant access to unpublished data but then block publication of the findings for fear of the public response.

Finally, the indicator’s structural limitation is that it is static and is a snapshot of fiscal redistribution at a particular point in time. It does not capture the behavioural responses of households to changes in taxes and transfers and it is a record of policies that may have changed by the time that the indicator is made public. However, fiscal policies are relatively consistent over time, and methodologies are being developed to account for behavioural responses. For example, the World Bank has developed a tool to analyse behavioural response in the case of “sin taxes”. It concludes that, although the poor devote a higher proportion of their income to tobacco and alcohol, in the long-term they benefit more through reduced health care spending and longer years of life and earning because they are more sensitive to the higher prices and reduce consumption of these unhealthy products to a greater degree.72

Another limitation of the indicator is that it only measures economic inequality and it only captures redistribution through fiscal policies; it does not inform on pre-distribution inequality. However, provided the relevant data (e.g. disaggregated by gender, race, religion, age) is available in both household surveys and administrative records, the indicator could be used to better understand the intersections between economic and other forms of identity-based and horizontal inequalities. This underscores the need for a revolution in the quantity and quality of data collected to measure and monitor different types of inequalities, and use the measures to inform policy making.
**Vision for the future**

Monitoring change in the Redistributive Impact of Fiscal Policy indicator over time at the country level will be even more critical in the aftermath of the COVID-19 pandemic, as the short and medium-term policy response will demand huge amounts of public spending to address the health emergency and the economic fallout. After the pandemic, more progressive tax systems will be needed not only to raise revenues to meet the fiscal needs of the COVID-19 response more fairly, but also to improve the resilience of tax systems to crises and their response to household hardships. The SDG 10.4.2 indicator will be critical in ensuring that additional spending and revenues are leveraged in equitable ways, so that they contribute to reducing poverty and inequality throughout the world.

The vision for the future is that the indicator is estimated regularly by all countries and that it is part of a broader process of systematic and transparent analysis of the inequality and poverty impact of every major fiscal reform. The analysis should inform public debate on these reforms and involve all stakeholders, including civil society organization.

Getting there requires the establishment of a community of practice at national and international level to advance data collection, data analysis, refinements of the methodology and translation into policy making and policy debate.

National Statistical Offices should play a key role in such communities to continue improving the methodologies underpinning the indicator and collecting the data that would allow these measures to be routinely produced. In addition to conducting household surveys, they need to work hand in hand with the relevant ministries to ensure the necessary administrative data is available. Even where household surveys are not conducted every year, the indicator could be updated with yearly administrative data.

The community of practice should also include national-level independent research bodies which could run distributional impact analysis of any major fiscal reform. In each country, the research body could also provide civil society organizations with a microsimulation tool, based on the CEQ methodology, to assess and calibrate the poverty and inequality impact of fiscal reforms, and run simulations identifying the most appropriate compensatory measures. An independent body would increase the credibility of the analysis to inform public debate around policy reforms.

The results of such fiscal incidence analysis should be turned into accessible and transparent publications. At the very least, governments should provide their parliaments with such analyses prior to votes on fiscal reforms, but more recommendable would be the involvement of civil society in such debates, especially in the case of policy reforms that imply losses for some groups of people and compensatory measures (subsidies cut and cash transfers being a case in point). For example, reforms that imply cuts or significant changes in spending for social transfers or food subsidies should be analyzed and discussed with civil society organizations, including especially women’s rights groups. The involvement of civil society is especially needed to incentivize and foster government’s willingness and commitment to designing equitable fiscal policies, and to building national consensus by being transparent with the data.

To turn SDG indicator 10.4.2 into an effective monitoring tool, at least two estimates in time for each country would be needed by 2030. However, the indicator is currently available only for about half of all UN members, and for the vast majority of them for only one point in time. To meet the objective of two estimates per country by 2030, a real mobilization of the community of practice is needed. Strong governments commitment to data production and analysis should be reflected in more financial resources mobilized to this end, including from donors and international institutions. National and international donors can and should play a
critical role in providing financial resources to run more and better surveys and to improve capacity through training and technical assistance projects.

Besides providing additional funding, the international community should promote debate about the use of fiscal policy to reduce inequality. International institutions such as the IMF and the World Bank need to lead the way in expanding and improving the adoption of fiscal incidence analysis and using SDG10.4.2 to inform their policy recommendations. For example, the World Bank should systematically integrate the indicator into the Global Tax Program (GTP) as well as into its Domestic Resource Mobilization projects being funded by the International Development Association.

**Recommendations**

The inclusion of Goal 10 in the 2030 Agenda was a remarkable achievement that sent a strong signal to governments that equitable fiscal policies are part of successful national development compacts. With the inclusion of the Redistributive Impact of Fiscal Policy indicator, the SDGs framework is now endowed with a tool to monitor progress across countries and inform the design of redistributive fiscal reforms in each country. However, to turn the indicator into a global standard for assessing government effectiveness in tackling inequality and a point of reference for international institutions providing policy advice to countries, concerted efforts are needed.

National governments should:
- Provide the World Bank with the SDG10.4.2 data on a regular basis, with technical assistance from the World Bank the CEQ Institute and funding from donors as needed; in case no new household survey has been carried out, at least update the indicator with the annual budget data;
- Provide public access to micro-data of household surveys;
- Publish detailed budget data, and work with the World Bank on a tool to easily input new budget data into studies using past household surveys;
- Allow publication of IMF technical assistance reports and WB distributional analysis of fiscal policies;
- Produce micro-simulation of poverty and inequality impact of all significant fiscal policy reforms, and use the results to inform a public debate and deliberation in Parliament;
- Actively engage the civil society in debates on fiscal policy reforms.

To increase the accuracy of the SDG10.4.2 indicator, National statistical agencies should:
- Carry out more frequent household surveys;
- Get access to tax information of the individuals included in the household surveys;
- Implement checks and corrections for the underreporting of tax paid and benefits received;
- Conduct household surveys covering both income and expenditure;
- Cooperate internationally to increase the cross-country comparability of the indicator by providing data to the World Bank in a uniform standard (e.g., pensions as deferred income, household income reported on an equivalized vs. per capita basis, income to include imputed rent and own consumption).

The World Bank should:
- Continue providing technical assistance to countries to compute the SDG10.4.2 indicator;
- Include distributional analysis in all country-level Public Expenditure Reviews that take place every five years;
- Produce micro-simulation tools for all countries;
• Continue to allocate funding to training and technical assistance on fiscal incidence analysis;
• Integrate the results of country policy analysis into country lending and programmes and link with other Bank operations.

The IMF should:
• Include distributional analysis as part of all Medium-Term Revenue Strategies and urge governments to allow their publication;
• Continue to invest in technical assistance and push governments to make the results of technical assistance reports publicly available;
• Make fiscal incidence analysis a more standard and systematic practice in country surveillance and integrate into loan programmes.

The United Nations and UNDP should:
• Take stronger leadership to generate the institutional support and mechanisms to advance the implementation and monitoring of progress of Goal 10;
• Work with countries, donors and international institutions to ensure that by 2030 all countries have been able to produce two estimates (at two different points in time) of indicator SDG 10.4.2;
• Engage UNDP country offices in identifying what gaps exist at country level to regularly estimate the indicator, and build capacity to fill them;
• Strengthen the UN Inequalities Task Team and its coordination of UN-wide actions on reducing inequalities;
• Create a Forum of UN stakeholders, with the key function of convening an annual global inequality summit, where countries could report on their progress in tackling the gap between rich and poor, and where international institutions could discuss international policy progress.

Donors should:
• Fund national statistical agencies to carry out more frequent household surveys;
• Fund CEQ Institute and the World Bank to compute indicator 10.4.2;
• Support the training of local capacity to calculate and analyze indicator 10.4.2;
• Support peer-to-peer learning among interested governments;
• Support a network “Friends of SDG 10.4.2” to coordinate actions and facilitate learning among countries.
• Support UN initiatives on a coordinated approach to reducing inequalities.

The OECD should:
• Collaborate with the OECD members’ national statistical agencies, the World Bank and CEQ Institute to produce the Gini Index of consumable income for OECD countries, contributing to the regular estimation of SDG 10.4.2 indicator;
• Systematically integrate fiscal incidence analysis in its Tax Policy Reviews and make these publicly available for all countries.
Annex: Countries with available data

Data for the *Redistributive Impact of Fiscal Policies* indicator will be published on the UN website at: [https://unstats.un.org/sdgs/indicators/database/](https://unstats.un.org/sdgs/indicators/database/)

Meanwhile, data and in-depth studies for 58 countries (and a further 22 pending) are already available (usually only for one year) on the CEQ Institute’s website at: [https://commitmenttoequity.org/](https://commitmenttoequity.org/)

Data for the Gini indices of market and disposable income only but for several years are available for 44 countries on the OECD website at: [https://stats.oecd.org/viewhtml.aspx?datasetcode=IDD&lang=en](https://stats.oecd.org/viewhtml.aspx?datasetcode=IDD&lang=en)

In total, and counting countries with both CEQ and OECD data only once, data is or will soon be available for 110 countries.

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Tajikistan*  
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Togo  
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Uzbekistan*  
Venezuela  
Vietnam  
Zambia  

South Africa  
Switzerland  
Sweden  
Turkey  
United Kingdom  
United States

* designates countries for which data have not yet been published.
Endnotes

1 Goal 10 is about reducing economic inequality at the national level, but also tackling discriminations based on gender race, disabilities and other characteristics, as well as reducing international inequality. A full list of Goal 10 targets is available at: https://sdgs.un.org/goals.
2 UNDP (2019)
3 World Bank (2020)
4 Rhodes (2017)
5 Gore (2020)
6 UN and World Bank (2018)
7 IDEA (2017); Lindberg (2019)
8 IMF (2018); ILO Global Commission on the Future of Work (2019)
9 Grigoli and Robles (2017); OECD (2015); Berg and Ostry (2011)
10 Wilkinson and Pickett (2011); Wilkinson and Pickett (2019)
11 Martin et al (2020)
12 ILO (2020)
13 Lakner et al (2020)
14 World Bank (2020)
15 World Bank (2020)
16 Furceri, Loungani and Ostry (2020)
17 Georgieva et al (2020)
18 Dabla-Norris and Rhee (2020)
19 Cugat and Narita (2020)
20 OECD (2016); World Bank (2016); IMF (2017); UNDP (2019)
21 Fukuda-Parr and Smaavik Hegstad (2018)
22 Galasso (2015)
23 https://inequalityindex.org
24 https://www.addistaxinitiative.net/ati-monitoring
25 The Addis Tax Initiative: Declaration 2025
https://www.addistaxinitiative.net/sites/default/files/resources/ATI%20Declaration%202025.pdf
26 Alternatively, the Redistributive Impact of Fiscal Policy Indicator can be defined as the ratio between the Gini indices of pre and post-fiscal income
27 SDGs Indicators Metadata https://unstats.un.org/sdgs/metadata/
28 Lustig (2018)
29 The CEQ Institute’s methodology includes a third concept of post-fiscal income: final income, which is consumable income plus the value of health care and education services that CEQ allocates to household as an in-kind transfer. Final income is not included in the SDG10.4.2 indicator, and so health care and education services are ignored in this paper.
30 When pensions are treated as a government transfer (and pension contributions as a tax), retirees’ pre-fiscal income is often zero or near-zero as they usually don’t have any earned incomes. This makes the transfer look strongly progressive. However, this may not reflect their actual economic position, for instance if they have made high contributions to the public pension system during a lifetime of high earnings and get a high pension in return. Treating contributions to the pension system as savings and pensions as deferred market income
avoids this issue and places them more accurately in the income distribution. The choice ultimately depends upon the nature of a country’s pension system.

31 Inchauste and Lustig (2017a)
32 Lustig (2020)

This comparison considers pension as transfers. However, as explained in Endnote 30, the difference between regions is much reduced when pensions are considered as deferred income: taxes and transfers reduce inequality by 7.7 percentage points in the European Union, 7 points in the United States, and 2.1 points in Latin America. This is the case because counting pensions as transfers increases the redistributive power of countries where pension systems are large and cover many people, compared to counting pension as deferred income.

33 Causa, Browne and Vindics (2019)
34 Causa and Hermansen (2017)
35 See for example: Lustig (2017)
36 Lustig (2020) for all data in the paragraph.
37 Lustig (2017)
38 Causa and Hermansen (2017)
39 Lustig (2017)
40 (Lustig, 2020)
41 Lustig (2020)
42 Lustig (2017)

43 OECD/KIPF (2014). This study emphasizes that consumption taxes are either neutral or slightly progressive in terms of expenditure, and that there is a case to make the analysis in terms of expenditure in a lifecycle perspective (people’s expenditure is relatively stable throughout the lifecycle, while their income drops dramatically upon retirement).

44 Fabrizio et al (2017)
45 Fabrizio et al (2017)
46 Lustig, Jellema, and Martinez Pabon (2019)
48 Enami and Lustig (2018); World Bank (2018)
49 Younger (2017)
50 Lustig (2017)

51 Authors’ calculations based on data from http://www.oecd.org/economy/public-finance/incomeredistribution/
52 Sabates-Wheeler, Hurrell, and Devereux (2014); Kidd and Athias (2019)
53 Inchauste and Lustig (2017b)
54 Jellema, Lustig, Haas and Wolf (2017)
55 Lustig, Jellema, and Martinez Pabon (2019)
56 Lustig, Morrison and Ratzlaf (2019)
57 Lahey (2018)
58 For a review of sixteen studies including gendered fiscal incidence analysis, see: Greenspun and Lustig (2013)
59 This section is informed by conversations held by the authors with fiscal incidence experts at the CEQ Institute, the World Bank, the IMF and the OECD.
60 The authors of this brief interviewed experts on fiscal incidence analysis and CEQ methodology at the CEQ Institute, the World Bank, the IMF and the OECD for the purpose of informing this section.
Feoli and Appaix-Castro (2019)

http://commitmenttoequity.org/snapshot/02/01.php

Personal communication with World Bank staff, based on an internal review of impact of CEQ analysis on Bank’s operations and government policies.

https://datanalytics.worldbank.org/romania-sim-tool/

https://www.oecd.org/tax/tax-policy/country-reviews-advice/

OECD (2017)

OECD (2020)


OECD (2020)


IMF (2018)

See the review of the growth-inequality trade-offs of macrostructural policies in Fabrizio et al (2017)


UN System Framework for Action on Inequality, https://www.unsceb.org/content/ef
References


