

# Informal Transfers and Informal Taxes in Developing Countries: How do They Affect Household Welfare Distributions and Fiscal Incidence?

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# Summary (1)

- **Motivation**
  - In the context of fiscal incidence and distributional analysis, what taxes or subsidies/transfer should we consider/include?
    - Low-income country: relies highly on consumption taxes, has high informality in labor market, mainly consumes self-production goods, has very limited social protection
- **Contribution:** Start from gross market income ...
  - Traditional approach: includes direct taxes and transfers—disposable income
  - CEQ: includes indirect taxes (VAT and excise) and indirect subsidies—consumable income; in kind transfers (education and health)—final income
  - **Evans and Salomon: includes informal taxes and informal transfer payments**
  - An empirical practice and advance of Olken and Singhal (2011)

# Summary (2)

- **Research Question**
  - Study incidence, welfare and distributional impacts of **informal taxes and transfer payments** paid or received by households using data from Uganda and Rwanda
    - Informal taxes: non-consumption expenditures, such as religious duty (Zakat), mutual aid, tontine payment, domestic and international payment
    - Informal transfers: interhousehold transfer, tontine
- **Conclusion**
  - Understanding the redistributive effects and scale of these informal mechanisms alongside formal taxes and transfers could be crucial to both understanding what drives redistribution but also to promoting good fiscal policy.

# Major Comments

## 1. The definition of informal taxes and transfers

- To what extent we should include them?
- How to define them?
  - Redistributive
  - Non consumption expenditure
  - Would in-kind labor account for informal taxes?
  - How about charitable donations?
- How to measure them in data?

## 2. More details on policy implication

- Remittance could change consumption pattern. It could be compliment or supplement to formal social transfers. It's impact on poverty.
- Should we tax interhousehold transfer or not?
- Formal taxes can crowd out informal taxes

# Major Comments

## 3. The construction of a new income concept

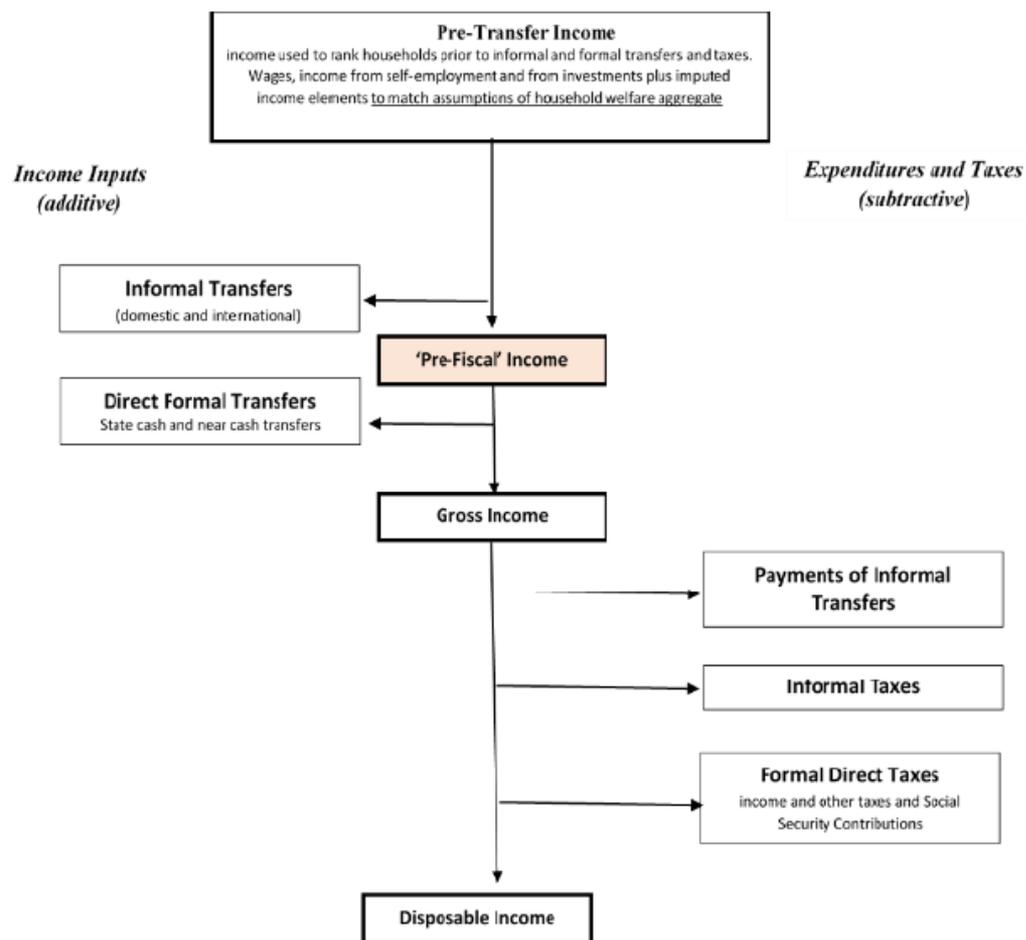
My suggestion:

Create another income concept:

DI with informal taxes =

traditional DI – informal transfers

- informal taxes



# Major Comments

## 4. Build income concepts backwards

Current approach : gross income  disposable income

My suggestion: disposable income = consumption aggregate  gross income

- Consumption info. is more reliable in low income countries than income info.
- Most households mainly consume household production goods
- This is suggested by Jon Jellema in the CEQ
- It can produce Gini and Poverty that match with official numbers

## 5. Simulate income taxes, social security, formal direct transfers or even informal transfers (such as religious duty)

- If the data quality or survey info. (such as income taxes) is poor
- Or there is missing info. on direct taxes and transfers

## 6. Consider survey to survey imputation

- If there is another LFS during the same period that has good quality on income or direct tax information

## 7. Better use of panel data

- Check frequency of informal transfers and taxes
- Study the impact on poverty dynamics

# Minor Points

- **Literature**

- Review remittance studies
- Subedi, Mahesh Kumar. "The impact of labor migration and remittances on household income and welfare in Nepal." Pacific Conference for Development Economics. Vol. 14. 2009.
- Stark, Oded, J. Edward Taylor, and Shlomo Yitzhaki. "Remittances and inequality." The economic journal 96.383 (1986): 722-740.
- Milligan, Michael. "The welfare effects of international remittance income." (2009).
- Barry, Christian, and Gerhard Overland. "Why remittances to poor countries should not be taxed." NYUJ Int'l L. & Pol. 42 (2009): 1181.

- **Countries for case study**

- More discussion on why you pick those two countries;
- More comparison on informal taxes and transfers across those two countries;
- What additional info. can the second country provide;
- More aggregate level statistics on informal taxes and transfers: Percent of income? Percent of GDP? Percent of total taxes?
- To study the religious duty, pick a Muslim dominant society? , zakat is mandated and collected by the state for Libya, Malaysia, Pakistan, Saudi Arabia, Sudan, and Yemen

# Minor Points

- **Data**
  - More description of the variables used for informal taxes and transfers
  - What are the survey questions?
  - The reference period
  - The quality
  - Average values by deciles: both conditional and unconditional mean
- **Figures**
  - Figure 7 is not clear: drop the original or residual income; check net cash position graph in CEQ

# Implications for WB Poverty GP

- **What shall we do in the future?**
  - Include informal taxes and transfers in household welfare measures
    - To what extent? Need more studies
  - Consider informality for low-income countries (we have already started!)
- **Challenges for researchers and institutions:**
  - The availability of data and quality of data
  - Definition of informal taxes/transfers
  - Consistency in approaches across countries