



Evidence.  
Ideas.  
Change.

*Informal transfers and informal taxes in  
Developing Countries: how do they affect  
household welfare distributions and fiscal  
incidence?*

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# Today's presentation

- Work in Progress:
  - Current version is ‘proof of concept’
  - Lays out Approach to Arithmetic Accounting of Informal Taxes & Transfers
  - Considers Role in Redistribution Alongside Formal Taxes & Transfers
  - But empirical results are ‘first run’ and preliminary.

# Motivation:

- New work in Rwanda and Uganda in 2019 as part of DfID funded ‘TAXDev’ project (joint with IFS):
  1. Provide advisory to Tax Policy Unit
  2. Assist in improving evidence base on distributional impacts of taxes and transfers
  3. Eventual work on micro-simulation model.
- But before proceeding on 2 and 3, what is the context of formal verses informal taxes and transfers?
- Other analysis and support seems to ignore the issue (CEQ, UN-WIDER ‘Southmod’, TaxDev in Ghana & Ethiopia)
- TaxDev Research Fund support to assess scale and importance

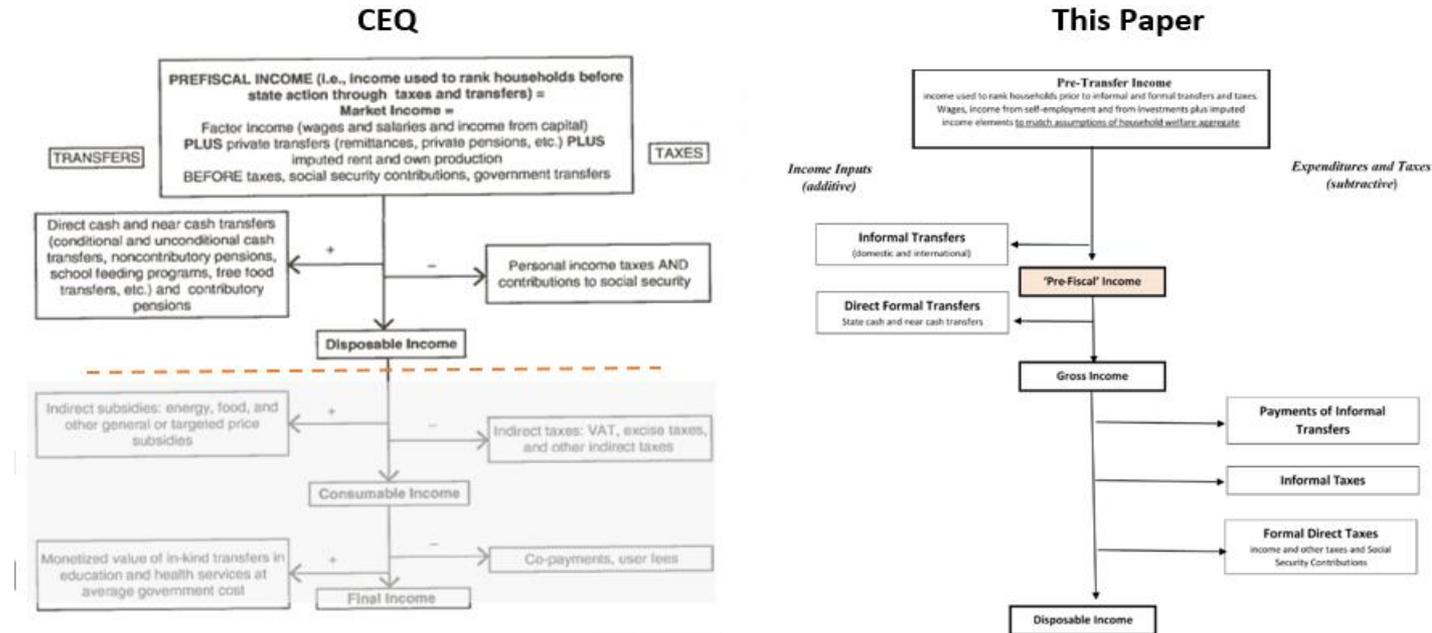
## Literature:

- Informal Taxes now recognized as part of ‘tax policy’ following Olken & Singhal (2011)
- Informal Transfers (receipt *and payment of* remittances and other inter-household transfers) known to be of large scale 30%-40% of population in many LICs (Fafchamps & Cox 2008)
- Informal ‘Social Protection’ and Risk Pooling also at scale (Fafchamps & Cox, Dercon 2007)
- Formal fiscal incidence and redistribution (Lustig 2018) and CEQ (but also the ‘cash only’ approaches of micro-simulation UN-WIDER ‘Southmod’ and others).

# Definitions

- **Informal Taxes** Olken & Singhal (2011) *‘a system of local public goods finance coordinated by public officials but enforced socially rather than through the formal legal system’*
  - We further specify they are not identified as ‘local taxes’ collected by municipal authorities
  - We widen concept to include ‘religious taxes’ (e.g. Zaqat) – but not in this version of the paper.
- **Informal Transfer Income**
  - Receipt of remittances and other inter-household transfers in cash & kind (regular and gifts)
  - Payments from informal risk sharing institutions: Savings Co-operatives, ‘Tontine’
- **Informal Transfer Expenditure**
  - Payments of remittances & inter-household transfers from donor households
  - Payments into informal risk sharing institutions
- *Are expenditures ‘non-consumption expenditure’ (Deaton & Zaidi 2002) and have a redistributive effect?*

# Arithmetic Accounting Approach: Direct Taxes & Transfers



Source: Figure 1.1, Lustig & Higgins 2018

# Data

- **Rwanda**

- Rwanda Integrated Household Living Conditions Survey 2016 -2017 (RIHCS)
- 14, 580 household sample
- Identified transfers
  - Formal: RSSB Pensions & other benefits, VUP transfers & Public Works (cow for the poor)
  - Informal: international and national remittances/inter-household transfers, Tontine, (SACCOs)
- Identified taxes & expenditures
  - Formal: Property Tax, ‘Other Taxes’, Mandatory Health Insurance
  - Informal: ‘Mutual Aid for Community Devt’, expend on transfers from donor households, tontine payments

Notes: **no Income Tax or SSICs** – to be modelled  
small samples of beneficiaries and payees  
taxes in kind from labour – not identified

# Data

- **Uganda**

- Uganda National Panel Survey 2013/14 (UNPS)
- 3,119 household sample \*\*\*\* we want to repeat with larger UNHS 2016-2017
- Identified transfers
  - Formal: RSSB Pensions & other benefits,
  - Informal: international and national remittances/inter-household transfers,
- Identified taxes & expenditures
  - Formal: Income Tax, Property Tax, SSIs
  - Informal: expend on transfers from donor households, ‘local taxes’

**Notes:**

v small samples for beneficiaries/payees

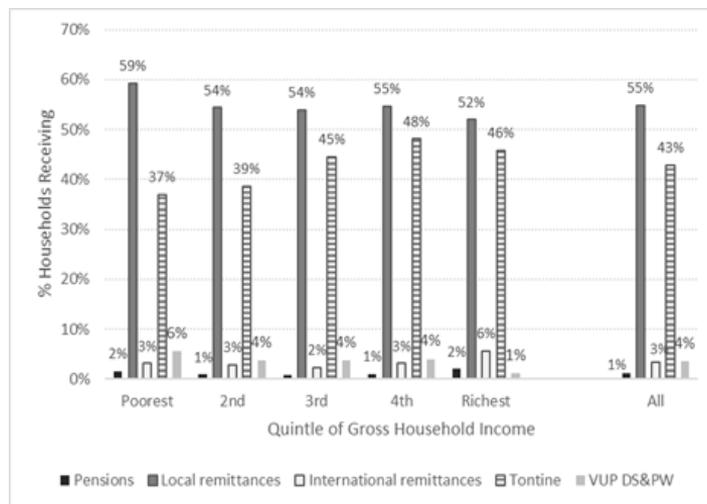
in kind informal tax through labour – seen in community level data but not in hhld level data

No data on SACCOs

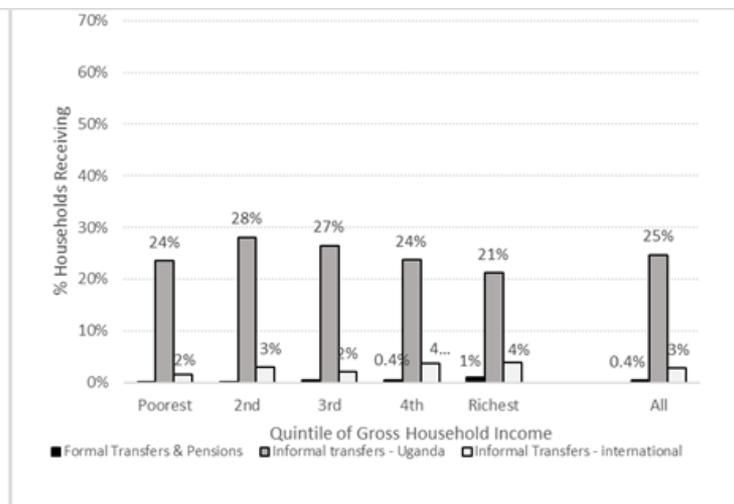
Future exploration/imputation of Zaqat payments for Muslim population (14%)

# Incidence of Transfers

## Rwanda



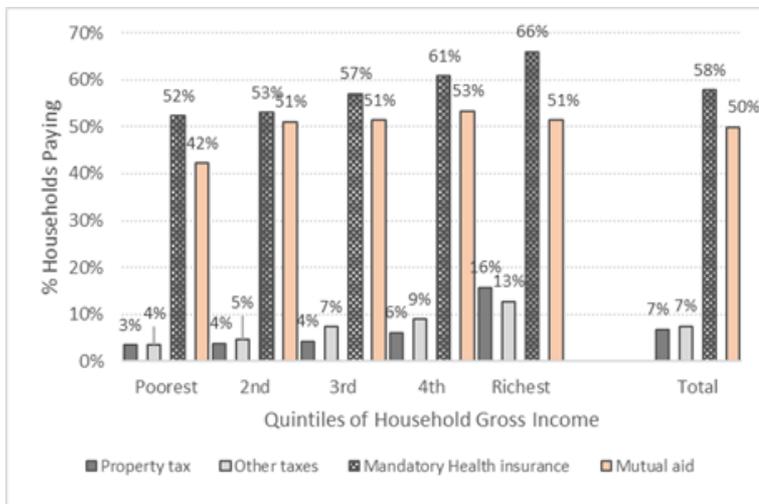
## Uganda



Provisional results  
 Gross Household Per-capita Income:  
 (for comparison with CEQ)

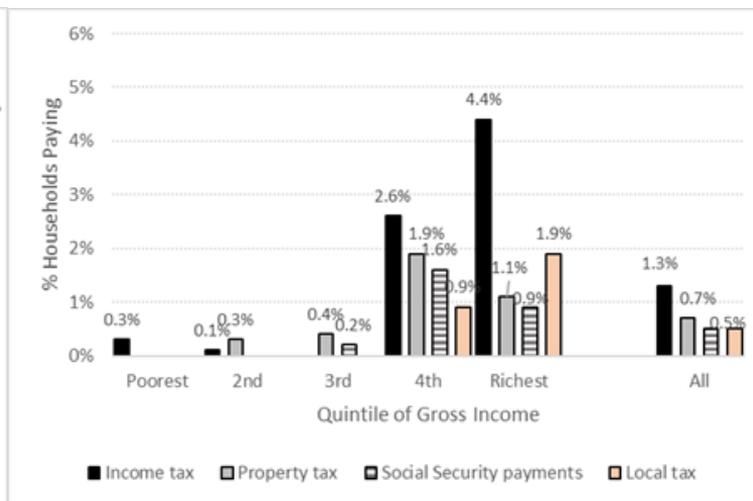
# Incidence of Taxes

## Rwanda



## Uganda

(Note y scale)



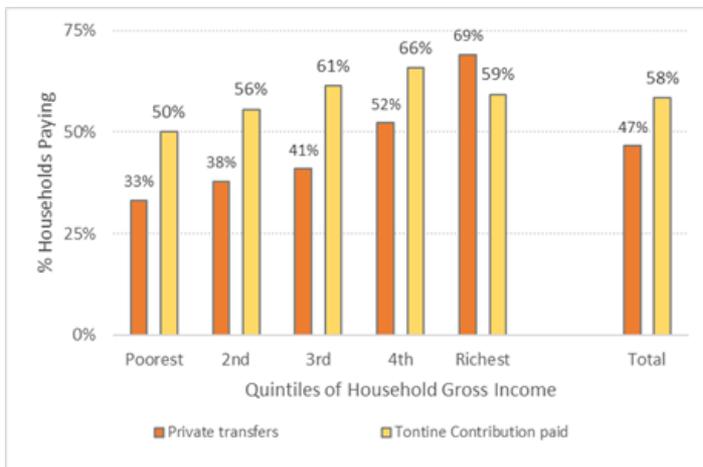
Provisional results

No Rwandan Income Tax or SSIs

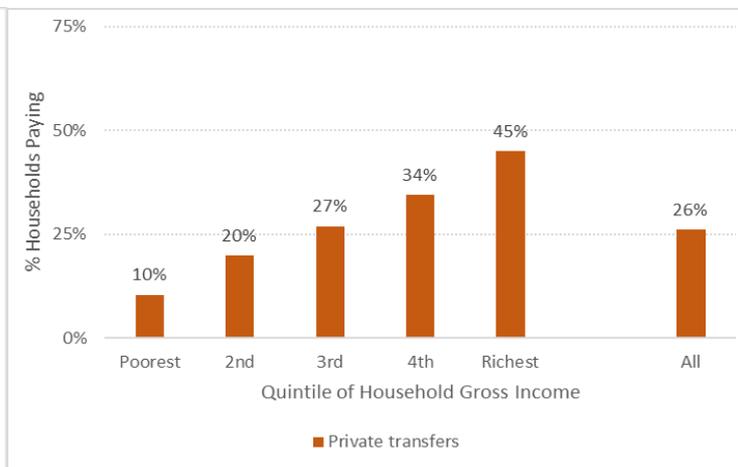
Gross Household Per-capita Income:

# Incidence of Expenditure on Transfers

## Rwanda



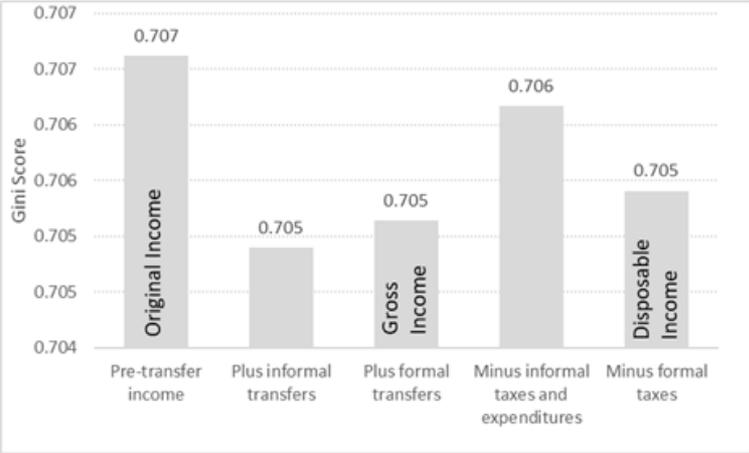
## Uganda



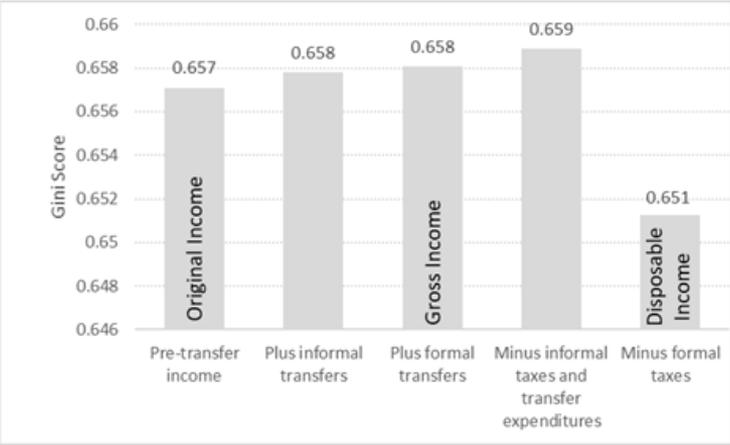
Provisional results  
Gross Household Per-capita Income:

# Inequality by Income Definition

## Rwanda



## Uganda



Provisional Results

# Early Conclusions

- Provisional but proof of concept:
  - Including Informal Taxes and Transfers makes a considerable difference to interpretation of 'Income Redistribution' in Rwanda and Uganda.
    - (Analysis solely on 'direct' taxation: likely to see more from impact of VAT, services and subsidies)
- Largest additional effect is from the payment of and receipt of informal inter-household transfers
  - Incidence of informal transfers 25-50% (matching earlier evidence from other LICs)
  - Many formal and informal taxes have low incidence and low values
    - Rwanda exception: Mandatory Health Insurance payments.
- Data constraints are many
  - Incomplete set recorded/ observed in Household Surveys
  - Computation of Income produces large outliers and uncertainty
- Overall effects on Income Inequality are low but informal transfers seem to have the largest overall contribution

# Much Still To Do

- Data work
  - More on robustness and sensitivity: income distribution, outliers and samples; revise point estimates
  - Imputation of 'missing' forma taxes in Rwanda
  - Explore religious taxation (esp Zaqat)
- Explore Relationships and Correlates
  - Exploit panels?
- How Representative are Rwanda and Uganda?
  - What is potential to similar consideration across Sub-Sharan Africa?
    - What do household surveys capture?
- Clarify theory and definitions
- Explore influence on applied analysis?
  - Moving from 'income' to 'consumption aggregates' for poverty and inequality to match policy makers' metrics
  - Input into policy advice in Rwanda and Uganda through TaxDev.