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Informal Transfers and Taxes in Sub-Saharan Africa: How do they Affect Poverty, Inequality and Fiscal Policies to Reduce These?

This paper profiles and analyses informal taxes and transfer payments made by households: their incidence, scale and distributional effects. Focusing on a number of sub-Saharan African countries, we consider the effect of deducting 'non-consumption expenditures' from the welfare aggregate in the form of informal taxes and payments of informal transfers (such as remittances) to other households. We consider the effects on the overall welfare distributions, including poverty and inequality and on fiscal redistribution and progressivity.

The paper first considers the definition of 'informal taxes' and how far to include customary or religious obligations, such as Zaqat for Muslims, in definitions of taxation alongside informal local and formal local and national taxes. A review of the literature allows us to follow those definitions in the documentation and data across national household surveys in sub-Saharan Africa. The review also shows which surveys identify and quantify the payments made of informal transfers, and we consider these alongside informal and formal taxes. Secondly, in two countries, identified from the review of surveys, the paper analyses the difference in inequality and poverty that arise from deductions of those payments from household consumption aggregates in addition to the deduction of formal tax and transfer payments. Third, the paper considers fiscal incidence and progressivity of formal taxes and transfers in these countries' amended distributions before also considering the 'joint incidence' of formal and informal payments and their combined effect on poverty, inequality and resulting 'fiscal progressivity'. Finally, the paper concludes by discussing how these amended estimates of household welfare match the assumptions in national poverty measurement and in the resulting profiling of poverty reduction arising from transfers and taxes.