



Social spending and inequality

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Surveillance



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HOW TO OPERATIONALIZE INEQUALITY ISSUES IN COUNTRY WORK

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The Report prepared by IMF staff and completed on June 1, 2018, has been released.

The staff report was issued to the Executive Board for information. The report was prepared by IMF staff. The views expressed in this paper are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board.

Inequality and social spending issues having become important policy objectives for the IMF in program, surveillance and CD in recent years.

Since 2015 the IMF has made distributional issues and inequality subject of a more systematic focus.

In 2015, the IMF started a pilot initiative to operationalize its work on inequality with the objective of providing lessons on how to effectively integrate distributional issues into broader surveillance and program work.

45 pilot studies were concluded in 2015-18 and since then the coverage of inequality issues has been mainstreamed in surveillance.

About 50 AIV reports have a meaningful coverage of inequality issues, which include inclusive growth, inequality trends, drivers and policies; distributional implications of macroeconomic and structural policy reforms; regional inequality; gender inequality; and financial inclusion, among others.

Programs (Lending)

IMF-supported programs mitigating the adverse effects of fiscal adjustment on the vulnerable is central.

Both PRGT and GRA-supported programs often include quantitative spending targets on social and other priority spending.

These quantitative targets are often complemented with structural conditionality i.e., the adoption of specific reform measures that are designed to protect vulnerable groups sometimes established as prior actions or structural benchmarks (SBs).

Structural conditions include structural benchmarks and prior actions. SBs and PAs are reform measures that are often not easily quantifiable.

- *Structural Benchmarks*: For example, a SB would specify the development of a social registry of vulnerable households rather than specifying an increase in social spending.
- *Prior Actions*: When upfront implementation is essential to achieve program goals or monitor implementation, PAs are measures which a country agrees to take before the IMF Board approves financing, completes a review, or grants a waiver.

Capacity Development

TECHNICAL NOTES AND MANUALS

The IMF also provides increasing capacity development to countries on how to strengthen progressivity of the entire tax-and-benefit system and how to protect the vulnerable groups when implementing major reforms.

Distributional analysis has become an integral part of technical assistance.

The IMF also established an internal Inequality Advisory Group to facilitate knowledge sharing both within the institution and with other development partners, including through joint seminars.

A New Tool for Distributional Incidence Analysis: An Application to Fuel Subsidy Reform



Angola: SDG Costing Assessment Detail: Education			
	Angola		
	High performance 1/	2020 (or latest)	2030
GDP per capita	4,137	1,743	1,821
Cost Drivers and Other Factors			
Students per teacher ratio	17.8	45.1	17.8
Teacher wages (ratio to GDP per capita)	2.7	2.0	2.7
Capital and other recurrent spending (% total spending)	43.5	30.9	43.5
Student age population (% total population)	33.2	51.8	51.1
Enrollment rate (preprimary to tertiary)	77.9	50.2	80.1
Private share (% of total spending)	34.6	23.2	34.6
Spending and Outcomes			

Angola: SDG Costing Assessment Detail: Health			
	Angola		
	High performance 1/	2020 (or latest)	2030
GDP per capita	4,456	1,743	1,821
Cost Drivers and Other Factors			
High-cost population (<1 and 60+) (percent of total population)	15.4	8.0	8.0
Doctors per 1,000 population	2.1	0.2	2.1
Doctors per 1,000 population - demographically adjusted	2.9	0.2	2.1
Other medical personnel per 1,000 population	4.6	2.8	4.6
Other medical personnel per 1,000 population (demographically adj)	6.4	2.4	4.6
Doctor wages (ratio to GDP per capita)	7.1	5.0	7.1
Other recurrent & capital health spending (percent tot health spend)	55.6	62.2	55.6
Private health spending (percent of total health spending)	46.2	55.6	46.2
Spending and Outcomes			
Total health spending (percent of GDP)	7.0	2.8	8.6
Public health spending (percent of GDP)	3.8	1.3	4.6
Private health spending (percent of GDP)	3.2	1.6	4.0
Per capita health spending (US\$)	310.9	49.6	155.8
SDG3 index	78.5	34.8	>75
Additional Health Spending by 2030 (percent of GDP)			5.71

10.8
7.1
3.7
481
>87
8.3

Additional reports:

- Solomon Islands, Country report 22/15, Selected Issues
- Pakistan: Spending Needs for Reaching the Sustainable Development Goals (SDGs) . IMF working paper, WP/21/108
- Nigeria, IMF Country Report No. 20/177
- Tonga: IMF Country Report No. 20/212
- India: The Spending Challenge of Achieving the SDGs in South Asia: Lessons from India, WP 21/294
- Cambodia: IMF Country Report No. 19/387
- Mexico: IMF Country Report No. 19/337, Selected Issues
- Brazil: WP19/236 Doing More with Less: How Can Brazil Foster Development While Pursuing Fiscal Consolidation?
- Chad: IMF Country Report No. 19/259, Selected issues
- Indonesia, Benin, Guatemala, Myanmar, Uzbekistan, Vietnam, Wanda

Taxation and fiscal revenue

IMF Working Paper

Fiscal Affairs Department

Tax Capacity and Growth: Is there a Tipping Point?

Prepared by Vitor Gaspar, Laura Jaramillo and Philippe Wingender¹

Authorized for distribution by Vitor Gaspar

November 2016

IMF Working Papers describe research in progress by the author(s) and are published to elicit comments and to encourage debate. The views expressed in IMF Working Papers are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

Abstract

Is there a minimum tax to GDP ratio associated with a significant acceleration in the process of growth and development? We give an empirical answer to this question by investigating the existence of a tipping point in tax-to-GDP levels. We use two separate databases: a novel contemporary database covering 139 countries from 1965 to 2011 and a historical database for 30 advanced economies from 1800 to 1980. We find that the answer to the question is yes. Estimated tipping points are similar at about 12¾ percent of GDP. For the contemporary dataset we find that a country just above the threshold will have GDP per capita 7.5 percent larger, after 10 years. The effect is tightly estimated and economically large.

the IMF also advises and helps countries to expand fiscal space to allow for or increase financing of key social spending.

Raising tax progressivity and strengthening overall tax capacity can help increase tax collection and create sustainable sources of funding the government expenditure.

Table 7. Benin: Quantitative Performance Criteria and Indicative Targets, 2021–2023¹
(CFAF billion)

	December 31, 2021	June 30, 2022			September 30, 2022		December 31, 2022	March 31, 2023	June 30, 2023	September 30, 2023	December 31, 2023
	Est.	PC			Indicative Target		Performance Criteria	Indicative target	Performance Criteria	Indicative target	Indicative target
		Prog.	Actual	Status	Prog.	Prel.	Prog.	Prog.	Prog.	Prog.	Prog.
A. Quantitative performance criteria²											
Basic primary balance (floor) ³	-148.5	-77.3	3.8	Met	-154.4	-60.9	-127.6	3.8	-1.6	-74.2	-19.6
Net domestic financing (ceiling) ⁴	-380.8	290	129	Met	431	264	377	130	205	357	261
B. Continuous quantitative performance criteria (ceilings)											
Accumulation of external payments arrears	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the present value of new external debt contracted or guaranteed by the government ⁵	1,016.0	620	293.7	Met	620	432	620	620	620	620	620
C. Indicative Targets²											
Tax revenue (floor)	1,082.3	578.9	617.2	Met	876.7	914.9	1,232.9	321.5	669.5	989.4	1,365.5
Priority social expenditure (floor) ⁶	150.0	46.2	76.5	Met	92.5	TBD	149.1	16.4	50.9	101.8	164.2

Sources: Beninese authorities, IMF staff estimates and projections.

¹The terms in this table are defined in the Technical Memorandum of Understanding (TMU).