

# Fiscal Space, poverty and inequality in Africa

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## Introduction

Sub-Saharan Africa experienced stellar economic growth over the past one decade – growing at annual average of 5.1 per cent yearly. It grew at an average annual rate of 6.5 percent during 2005-2010 and 4.3 percent 2010-2013.<sup>1</sup> The continent also had six out of the ten fastest growing economies in the world during the first of decade of the 2000s and seven of the ten projected fastest growing economies between 2011 and 2015. The resounding economic growth performance made it to be the second fastest growing region in the world, despite the slowdown in the world economy since 2008. GDP per capita also grew at an annual growth of 2.0 percent during 1990 and 2011. Several factors account for this performance including commodity boom, improved macroeconomic management (such as improved management of debts), the increasing orientation of trade towards fast-growing emerging markets and increasing external flows (foreign direct investment and remittances), to mention a few.

In spite of this stellar performance in economic growth, the benefit of the growth has not been broadly shared. Poverty only declined marginally from 56.5 percent in 1990 to only 48.5 percent in 2010 – far below the 28.2 percent target by 2015. The high level of inequality is one of the reasons while the growth elasticity of poverty has been quite low in Africa.

Although inequality is very high in Africa, the continent had the fastest reduction in equality among developing regions. Top 20 percent of the population still earns more than 50 percent of the national wealth in many countries, especially in Southern African countries (Figure 1a).<sup>2</sup> On the other hand, the income share of the lowest 20 percent is lower than 4 percent in countries like Botswana, Lesotho Namibia and South Africa (Figure 1b).

The share of each group in national income grew between 1990s and 2000s, but the rate of growth in income share varies across countries. The growth in income share of the lowest 20 percentile was faster than the top 20 percentile in such countries as Guinea Bissau, Mali, Namibia, CAR and Swaziland. For instance in Guinea Bissau, between 1990s and 2000s, the growth rate of their share of national income was 124.9% and 490.4% for top and lowest quintiles respectively. The opposite is however the case in Ghana where the top quintile share grew by 266.9 percent and the lowest quintile by 198.6%. This notwithstanding, while inequality rose between 1990s and 2000s in some countries (e.g. Botswana, Ghana, Tunisia, Morocco and Madagascar), it fell in others such as Tunisia, Swaziland, Namibia, Mali Malawi and Guinea Bissau.

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<sup>1</sup> [http://data.un.org/Data.aspx?q=Gdp+growth&d=WDI&f=Indicator\\_Code%3aNY.GDP.MKTP.KD.ZG](http://data.un.org/Data.aspx?q=Gdp+growth&d=WDI&f=Indicator_Code%3aNY.GDP.MKTP.KD.ZG)

<sup>2</sup> They are Botswana, South Africa, Lesotho, Swaziland, Zambia and Mozambique. Others include Uganda, Seychelles, Kenya, CAR and Gambia.

To avoid the variability associated to measuring inequality either by the extreme percentiles or quintiles, a severity index of the relative share of the lowest quintile to the top quintile was used to measure severity of inequality across African countries. The share of the lowest quintile of the top quintile income is 15 percent and above in Egypt, Zambia, Mozambique, Uganda, Malawi and Senegal. The distribution of incomes is best among these countries relative to others. In Botswana, South Africa, Guinea Bissau and Mail, the share is less than 5.0 percent – an indication of high income inequality across groups (Figure 2).

The central role of fiscal policy in addressing poverty and inequality has long been acknowledged in the literature, yet empirical work on it, particularly in Africa, is very limited. Fiscal policies affect poverty and inequality through progressivity of taxes, well-targeted transfers and quality of public expenditure. The relationship is, however, not linear; it requires adroit management of policymakers. On the other hands, fiscal policy can also be used to influence other structural factors affecting poverty and inequality especially human capital accumulation, factor endowment and labour market development. This paper therefore examines the role for fiscal policies in reducing poverty and inequality in Africa.

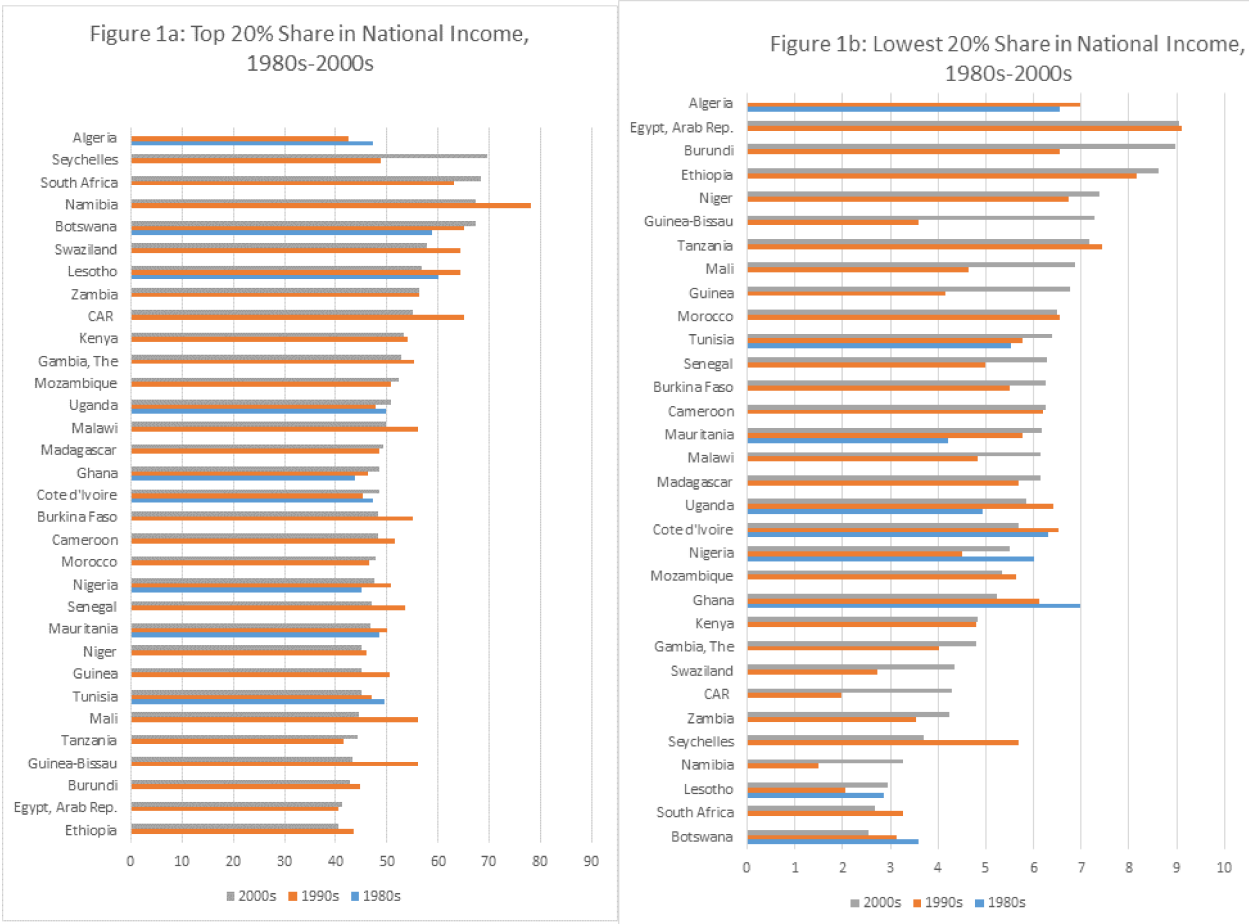
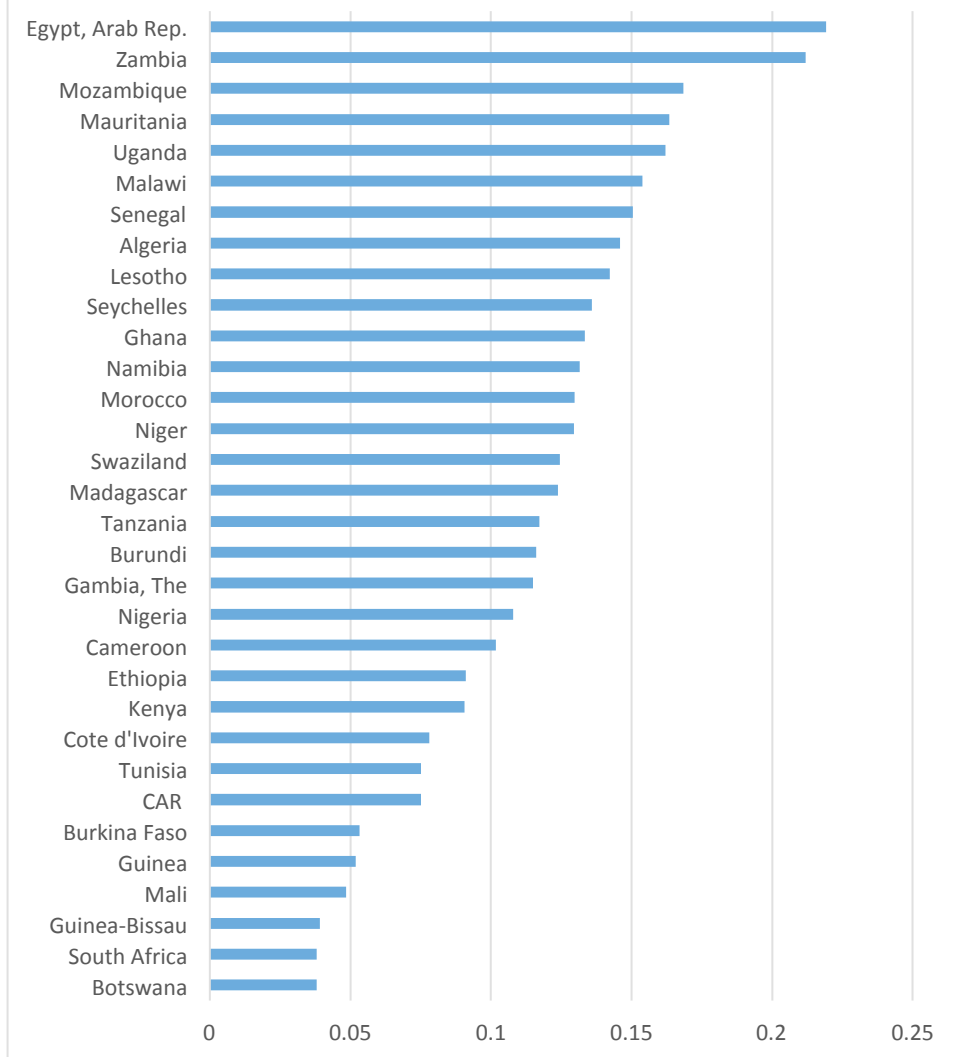


Figure 2: Severity Index among African countries



## 2.0 Establishing the linkage between fiscal space and poverty or inequality

The seminal work of Simon Kuznets in 1955 brings to prominence the linkage between economic growth and inequality – by hypothesizing that economic growth at the initial stage raises and later reduces income inequality. Since then, several studies have tried to unearth key drivers of inequality – factors contributing to lopsided wealth and income distributions. For instance, the level of GDP to be critical in determining inequality (e.g. Barro, 2000) while studies such as Ramos and Roca-Sagalés (2008) and Marreo and Rodríguez, (2013) show that economic growth is not a cause but an instrument to tackle inequality. Other important determinants of inequality include human capital accumulation (Tanzi, 2000); labour and capital endowments and their returns (e.g. Benhabib et al., 2011); trade openness (Barro, 2008, Feld and Schnellenbach, 2014) using wages and employment as the transmission mechanisms; and economic integration leading to the adoption of common currency in Europe, which limits national governments to pursue their own income redistribution objectives (Bertola, 2010; and Bouvet, 2010).<sup>3</sup> The key question, therefore, is how can we use fiscal policies to influence these factors that shape poverty and inequality?

Fiscal space enhances economic efficiency and better distributional coverage. Fiscal policies affect poverty and inequality through taxes, transfers and public expenditure. The relationship is not automatic or linear. The progressivity of direct taxes (such as those levied on income, wealth and inheritance) and indirect taxes (such as on consumption) is an important channel.<sup>4</sup> Efficient and well-targeted public spending on education, vocational and entrepreneurial training, and basic health services are vehicles to reduce poverty and income inequality. For instance, public spending that proactively supports girls and women’s education could help address inter-generational poverty while those directed at vocational skills of unskilled labour could accelerate reduction in income inequality. Heavy and quality investment in human capital accumulation and development could drive poverty and inequality reduction.

The ability of fiscal policies to substantially influence social change and labour market mobility, for instance, portends whether the impact on poverty and inequality is short or long term in orientation (OECD, 2008). For instance, transition from vulnerable groups to a middle class status is a social movement. Enhancing knowledge and cognitive skills of girls and women provides opportunity to transit from the excluded and marginalized groups to empowered groups that hold the key to propel fortunes of households.

The potential transmission mechanisms between fiscal decentralization, and poverty and inequality reduction, particularly through pro-poor sectoral outcomes such as basic education, basic healthcare and agricultural productivity, depend largely on the outcome of the trade-off between potential benefits derived from better matching of local preference due to local

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<sup>3</sup> Salotti and Trecroci (2015) provide more illumination on this linkage and how various studies have tried to handle the linkage.

<sup>4</sup> For instance see Salotti and Trecroci (2015), De Freitas (2012) and Benhabib et al. (2011) on how taxation (including taxes on capital income and property) could be an instrument of reducing inequality.

proximity, and the lack of technical capacity at the local level (Yao, 2007). He established some significant statistical, but non-linear relationship between fiscal decentralization and poverty, using the Generalized Method of Moment Instrumental Variable (GMM-IV) model on 97 countries over the period 1975-2000.

The results from China shows opposing results between taxes and government expenditures on inequality. Government spending exhibits some worsening impact while government taxes improve inequality (Cevik and Correa-Caro, 2015). The ability of fiscal policies to be able to counter other drivers of poverty and inequality also matters. For instance, fiscal policies that are progressive and are able to strengthen accountability and transparency in the collection and use of public resources may produce stronger effects on poverty and inequality.

The findings from Salotti and Trecroci (2015) provides illuminations of how inequality is sensitive to fiscal policy (the bottom and the top tail of income distribution). Using data for advanced countries, they found fiscal policy (public debts) elasticity on inequality to range between -0.05 and -0.18 while those of government final consumption expenditure ranged between -0.23 and -0.55. When efficiency and quality of government spending is assured, public expenditure is potent for redistribution of wealth and opportunities to the lowest quintiles of the population. The equalizing impact of public spending on education, health and social spending is prominent.

Markets accelerate economic growth but the states distribute benefits of such growth. How? Effective fiscal policy, through progressive taxes and quality public expenditure, ensures better access to economic, social, and political resources. A fairer access to these resources does not only enhance wellbeing of the population but also promotes a better income distribution (IMF, 2014).

### **3.0 Analysis of poverty and inequality in Africa**

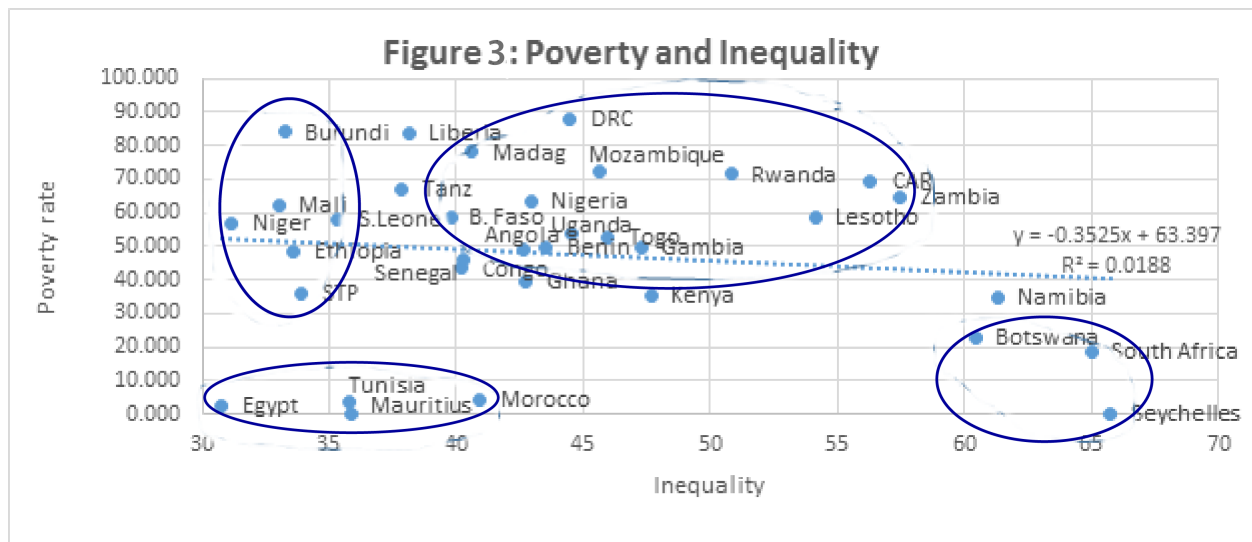
Analysis of poverty and inequality in Africa exhibits four distinct groups. The first and the most desirable group is the set of countries with low poverty and inequality levels: Egypt, Tunisia, Mauritius and Morocco (see Figure 3). These are mostly North African countries. Heavy investment in quality and accessible education and health services is a common factor. The expected years of schooling in these countries range between 11 (Morocco) and 15.6 (Mauritius) while life expectancy also remains high (between 70.9 in Morocco and 75.9 in Tunisia). Duclos and Verdier-Chouchane (2011) provide some illuminations on what stands out Mauritius as a very good example on poverty and inequality reduction. Its poverty-inequality reduction strategy focuses more on expanding employment opportunities, modernizing its economy and maintaining an effective and elaborate social protection mechanisms. Its social protection is anchored on deepening skills acquisition programs for unskilled and uneducated individuals and expanding access to nutritional and medical assistance to the marginalized – coupled with free

health services to all. The country has been allocating a significant proportion of public budget on education and health services.

The second group succeeded in reducing poverty to some extent but inequality remains quite high. The countries in this group are essentially Southern Africa: Seychelles, South Africa and Botswana. The economic development strategy of these countries is outward oriented and they all exhibited some racial divide which tends to be distributed across sophisticated and peripheral economies. For instance, South Africa has the most expansive social protection in the continent. However, racial divisions and skills gaps among its youth remain a policy priority. As a result, youth (15-34 years) unemployment hovered between 32.7 and 36.2 percent during 2008-13.<sup>5</sup>

The third group consists of countries with high poverty in the midst of low inequality. They are low income group, characterized by non-sophistication of their economies: e.g. Burundi, Niger, Mali, Sao Tome and Principe, and Ethiopia. While Ethiopia is succeeding in winning the war on poverty - 41.78 percent reduction during 1995-2010, it is however losing the battle on inequality in recent times – Gini coefficient rose from 0.298 in 2005 to 0.336 in 2010.

The fourth group is characterized by both high poverty and inequality rates. Most of the resource rich countries like Angola, Congo, DRC, Mozambique and Nigeria are in this group. The resource curse associated with Dutch Disease and rent seeking activities are some of the factors explaining the stickiness of poverty and inequality to avalanche of resources accumulated during the commodity booms.



The widening salary and wage compression ratio is an important driver of inequality across the continent. Many studies have acknowledge the rising share of income going to the top earners as a key driver of inequality (Piketty and Saez, 2006; McCall and Percheski, 2010; and Atkinson et al., 2011; and Piketty, 2015). What accounts for the rising trend of wage compression globally?

<sup>5</sup> <http://beta2.statssa.gov.za/publications/P02114.2/P02114.22014.pdf>

Several factors account for this including technological progress, international trade, democratization that leads to state capture, and market and tax reforms.

A good example of the state capture in the context of the political process is the salaries of political office holders as a share of per capita incomes. Politicians influence allocation of emoluments to themselves with limited recourse to the country's development context. The salaries of some African legislators relative to minimum wages and per capita income at the national level shows some levels wide wage compression rates. While legislators from all countries from the Organization of Economic Cooperation and Development (OECD) earned less than eight times their countries per capita income (ranging from 1.3 times in Norway to 7.1 times in Britain), it is 64 times in Nigeria, 60 times in Kenya and 15.1 times in South Africa (see Table 1 and Odusola, forthcoming).

Corruption, which manifests in the form of poor service delivery, is a bane of poverty and inequality in several countries. The lopsided nature of the educational system that is at variance with labour market reality is another factor that tends to complicate poverty. The dynamics of economic structures, especially predominance of traditional agriculture in the midst of commercial agriculture, enclave extractive sector and sophisticated financial and telecommunication sector play important role in shaping poverty and inequality in many African countries. The dichotomy between rural and urban economies is another (Cornia, 2015).

**Table 1: Legislators Pay and Inequality in Pay across highly paid parliamentarians globally**

	Basic salary per annum, 2013	GDP Per Capita (Current USD, 2013)	Ratio of GDP per capita	Index by GDP per capita	Ranking by GDP per capita	Index by Inequality in pay	Ranking by Inequality in pay
Nigeria	189500	2966.1	63.88861	0.029	20	1.000	21
Kenya	74500	1238.5	60.15341	0.012	21	0.942	20
South Africa	104000	6886.3	15.10245	0.067	18	0.236	18
Brazil	157600	11938.9	13.20055	0.116	17	0.207	17
Italy	182000	35477.5	5.130012	0.345	14	0.080	15
Hong Kong	130700	38364.2	3.406822	0.373	12	0.053	13
USA	174000	52980	3.284258	0.515	5	0.051	12
Japan	149000	38633.7	3.856736	0.376	11	0.060	14
Australia	201200	67473	2.981934	0.656	2	0.047	10
Germany	119500	46255	2.583504	0.450	8	0.040	6
Britain	105400	14776.8	7.132803	0.144	16	0.112	16
France	85900	42631	2.014966	0.415	9	0.032	3
Norway	138000	102832.3	1.341991	1.000	1	0.021	1
Israel	114800	36050.7	3.184404	0.351	13	0.050	11
Singapore	154000	55979.8	2.750992	0.544	4	0.043	8

New Zealand	112500	42409	2.652739	0.412	10	0.042	7
Ireland	120400	50470.3	2.385561	0.491	7	0.037	4
Sweden	99300	60364.9	1.644996	0.587	3	0.026	2
Canada	154000	52305.3	2.944252	0.509	6	0.046	9
Indonesia	65800	3643.9	18.05758	0.035	19	0.283	19
Saudi Arabia	64000	25819.1	2.478785	0.251	15	0.039	5
<b>Sources:</b> Author's computation from The Economists (15 July 2013) and World Development Indicators, 2013.							

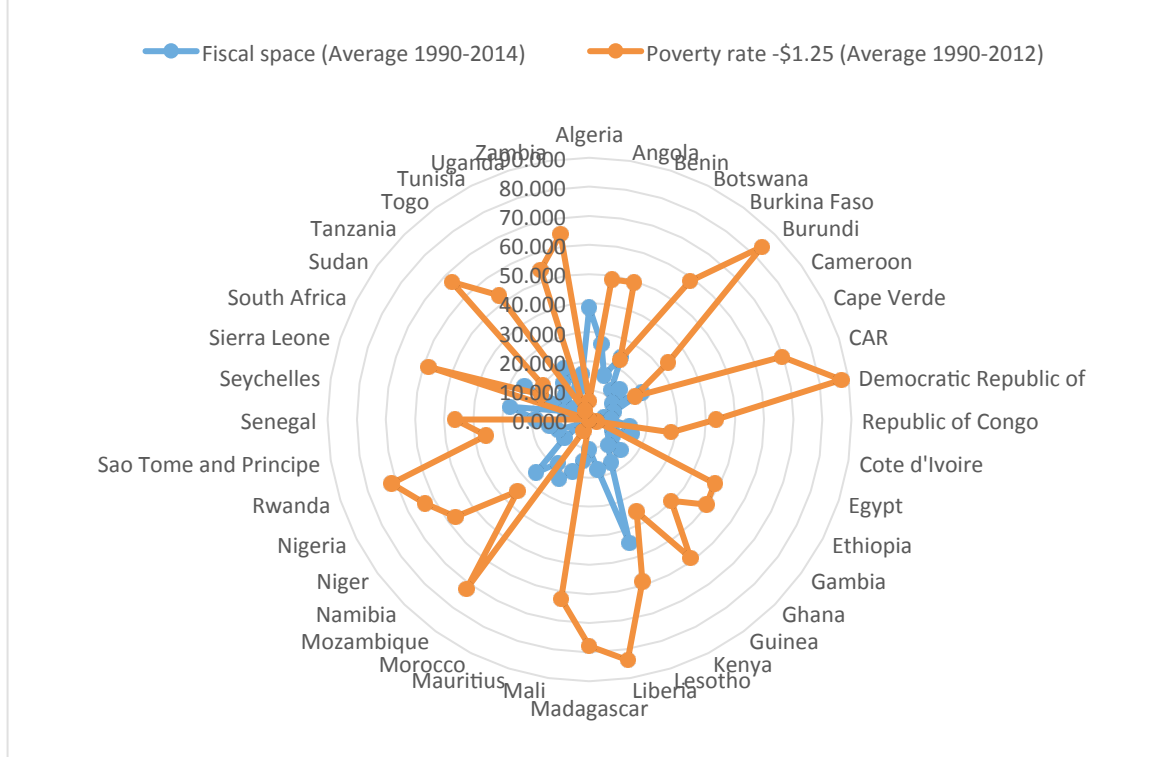
#### 4.0 Fiscal Space, poverty and inequality: What does the evidence say?

Fiscal policies affect poverty and inequality through progressive taxes, well-targeted transfers and pro-poor quality expenditure. An effective redistribution of the total tax burden towards the rich via personal and corporate income taxes and reallocations of public spending to favour the poor and the marginalized groups have a strong role in reducing poverty and inequality. Well targeted public expenditures to education, health, safety nets and agricultural expenditures – could dent poverty and inequality substantially. A rapid reduction in inequality further enhances growth elasticity of poverty. As argued by Robalino and Warr (2006), pro-poor reallocations of taxes and expenditures can increase the poverty-reducing capacity of economic growth.

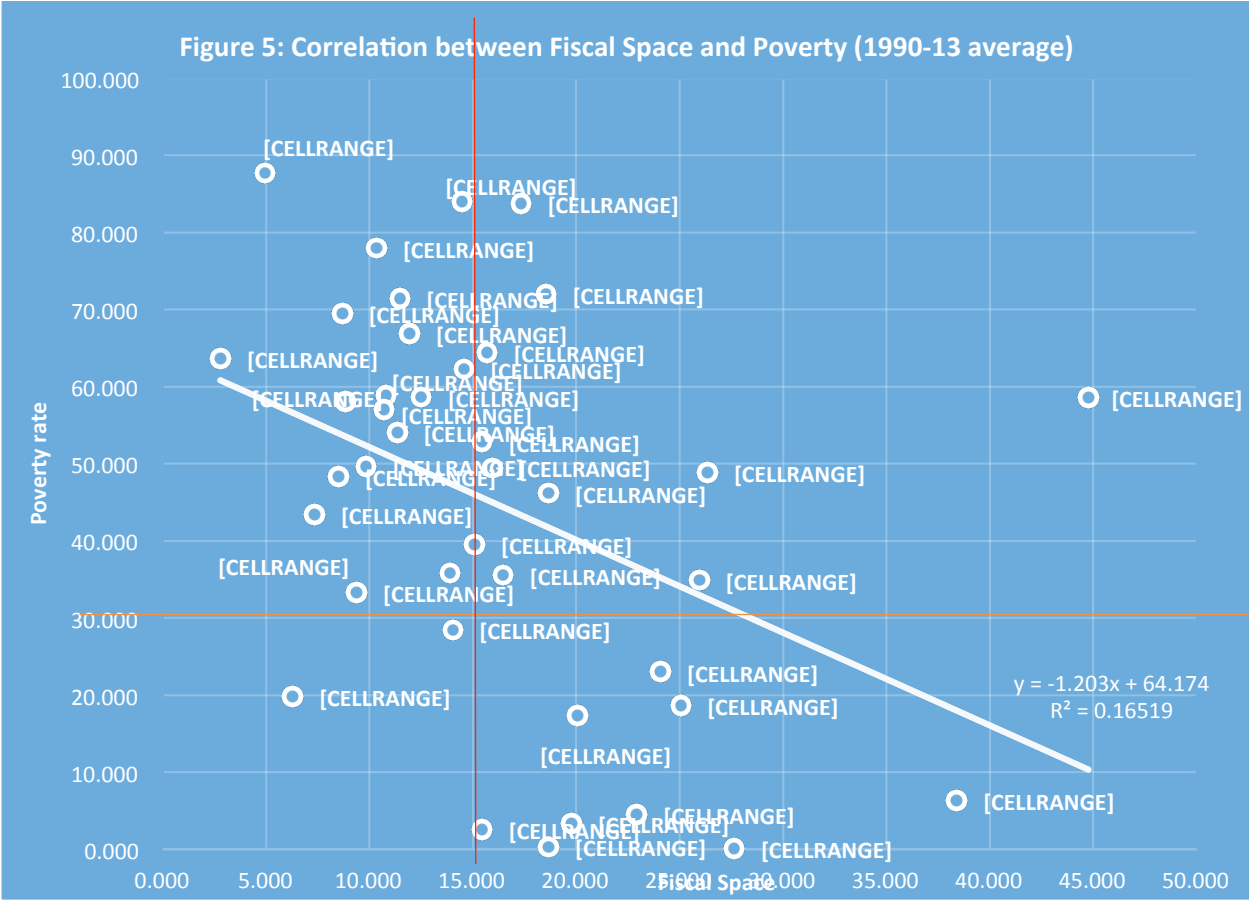
Evidence from figures 4 and 5 provides a strong negative relationship between fiscal space and poverty in Africa. Countries with high fiscal pace tend to have lower poverty rates compared with others with lower tax revenue-GDP ratios. Algeria, Botswana, South Africa and Seychelles are good examples. However, countries like Lesotho, Angola and Namibia are exceptions due to substantial revenues coming from the extractive sector (Figure 4).



Figure 4: Fiscal space and poverty rates in Africa, 1990- 2014



Fiscal space alone tends to account for 16.5 percent of changes in reduction in poverty (Figure 5). More than 80 percent of countries with fiscal space of 15 percent and above have poverty rate of less than 30 percent (e.g. Seychelles, Mauritius, Egypt, Tunisia, Morocco, Algeria and Cape Verde). The development strategies adopted after independence in the North African countries, for instance, is a major factor explaining low rate of poverty in the region. The commanding height of government was focused on social objectives, including wide-scale policies for redistribution and equity (AfDB, 2011). Heavy human capital development in health, education, housing and large-scale public sector employment is key to enhancing the redistributive policies of governments in Algeria, Egypt, Morocco and Tunisia.



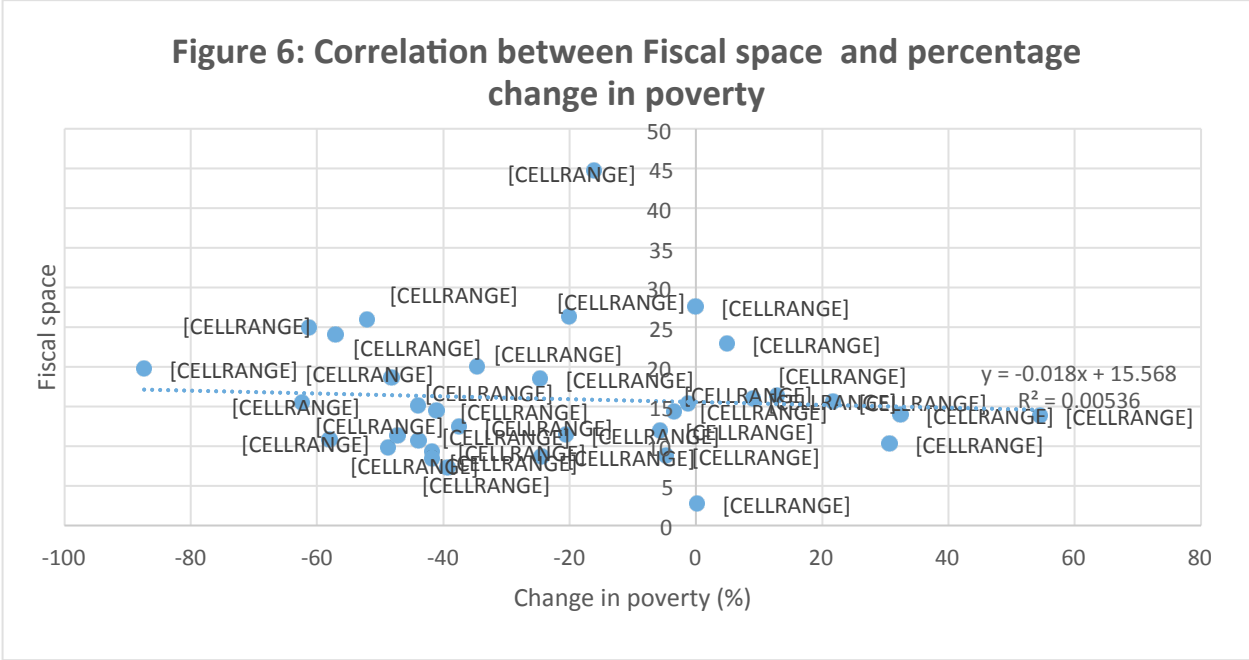
The relationship between percentage change in poverty (ranging from 1990-2013) and the average fiscal space (1990-2014) also reveals an inverse relationship. For all countries, a correlation index of -12.6 was established. All the six countries that reduced poverty by at least 50 percent during the period had a fiscal space of more than 10 percent (Tunisia, Egypt, South Africa, Guinea, Botswana and Namibia). About 86 percent of countries that reduced poverty during 1990-2013 recorded a fiscal space of at least 10 percent. See Figure (Figure 6). Other things being equal, fiscal space tends to support poverty reduction.

The relationship between fiscal space (1990-2013) on one hand and market and net Gini (after taxes and transfers) coefficients (averages), on the other, tends to suggest some elements of regressivity in taxes. Both Gini coefficients are positively correlated with fiscal space (Figures 7).<sup>6</sup> All countries with revenue-GDP ratio of 20 percent and above (except Algeria, Morocco and Seychelles) have income inequality (market and net Gini coefficients) that are more than 0.5. These countries (Algeria, Morocco and Seychelles) are not resource rich countries or not depending heavily on primary commodities for their exports and revenues. The need to enhance the non-extractive revenues by reducing heavy dependence of governments on revenues from the extractive sectors in countries like Nigeria and Democratic Republic of the Congo, for instance, could help reverse the positive linkage. It also calls for the need to improve progressive taxation

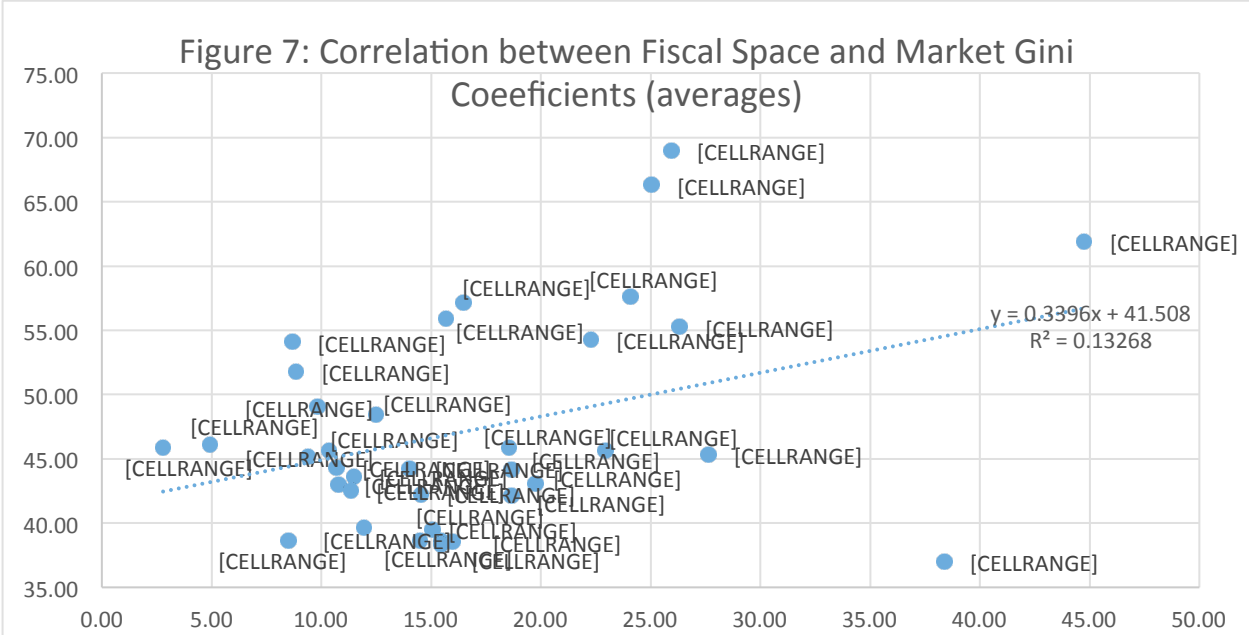
<sup>6</sup> The relationship between fiscal space and income inequality for both market and net Gini coefficients are the same. Only the net Gini is presented here.

in countries with high fiscal space and high income inequality like Lesotho, Namibia, South Africa, Angola and Zimbabwe. The coefficient of determination, which is about 13.3 percent is relatively high while correlation coefficients for both gross and net Gini is higher than 0.36. To this end, a progressive tax system and diversification of government revenues away from the extractive sector, could help in reducing inequality in the continent.

**Figure 6: Correlation between Fiscal space and percentage change in poverty**

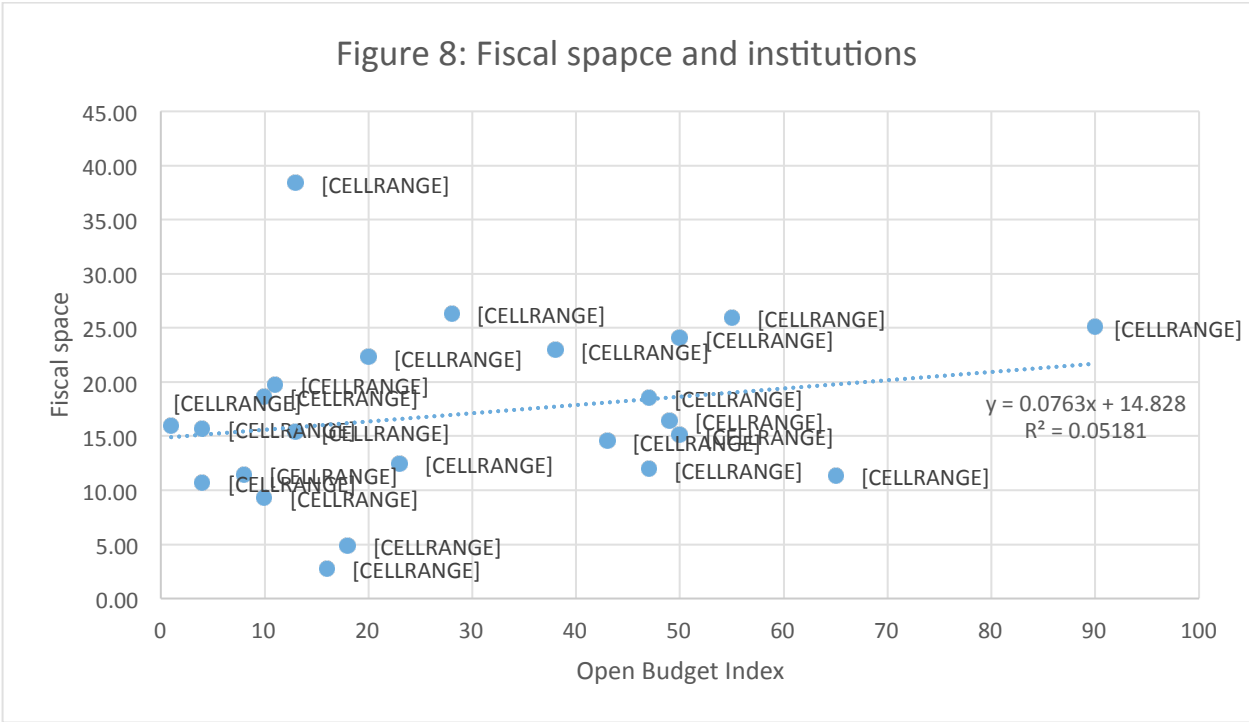


**Figure 7: Correlation between Fiscal Space and Market Gini**



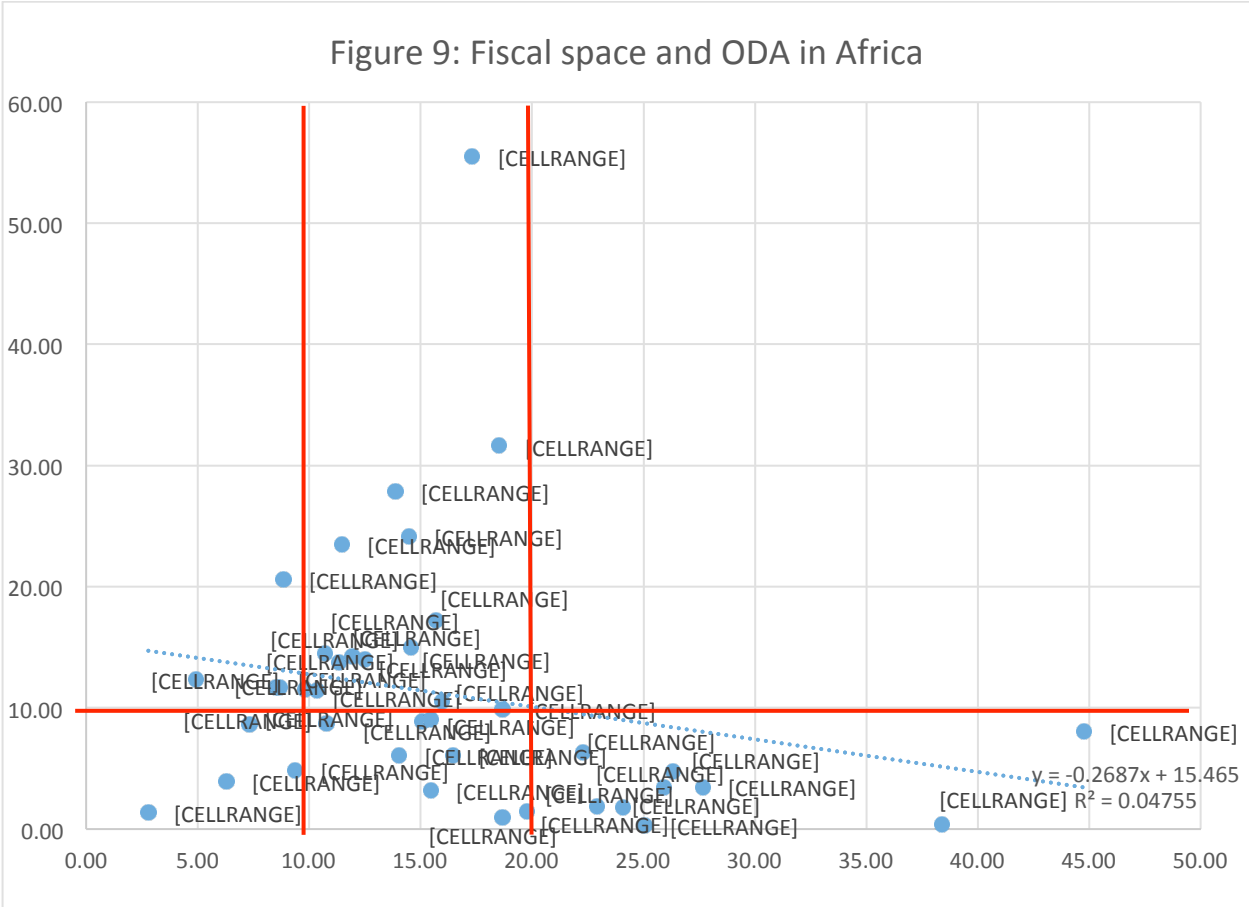
Institutions matter in increasing fiscal space in Africa (Figure 8). The Open Budget Index (OBI) provides a comprehensive view of a participatory, transparent and accountable budgetary process, including revenue generation and management.<sup>7</sup> In 2010, for instance, South Africa was ranked the best globally in terms of OBI. It is therefore not surprising that South Africa is one of the countries with the largest fiscal space in the continent. Namibia, Botswana, Ghana and Uganda also scored very high in OBI over the past years and also among countries with revenue-GDP ratio of more than 10 percent in Africa. On the other hand, countries with low institutional ratings on OBI such as Nigeria, Democratic Republic of the Congo and Cameroon are among countries with very low fiscal space in the continent.

Decoupling government revenues from the extractive sector helps to avert vicissitudes of revenues from primary commodities. Getting more revenues from personal and corporate income taxes help to increase tax progressivity. It also enhances fiscal citizenships across countries. Fiscal citizenship helps to engender accountability and transparency in the use of public budgets – public expenditures and revenues. Qui-pro quo in tax management also helps to boost and smoothen revenues across countries. The correlation index between OBI and fiscal space is as high as 0.23; the coefficient of determination is 5.1 percent.



<sup>7</sup> The Open Budget Survey measures the state of budget transparency, participation, and oversight across countries. A minimum sets of standards have been established for national budgets. These include having in place: pre-budget statements, Executive budget proposals, citizens’ budget, Enacted Budget, mid-year budget report, year-end budget report, audit report, public engagement in the budgetary process, legislative strength and audit institution strengths (IBP, 2012).

Given the potential role of fiscal space in addressing poverty and inequality, it is important to examine other factors that could explain its depth. What is the link between fiscal space and ODA (measured as the share of ODA in GNI)? The relationship tends to be negative with a correlation index of -21.8. Three clear groupings of countries emerge. First, a group of countries with both low fiscal space and ODA-GNI ratio (e.g. Nigeria, Congo, Sudan and Cameroon) is evident. These are countries facing some institutional challenges including rent seeking activities from the extractive sector. The second group is the aid orphans<sup>8</sup> whose fiscal space is between 10 and 20 percent (e.g. Liberia, Sao Tome and Principe, Niger, Zambia and Benin). Interestingly, most ODA recipients tends to have stronger fiscal space than many other countries with limited access to ODA. There seems to be some institutional enhancement on domestic resource mobilization by most ODA orphans. Scaling up the proportion of ODA dedicated to building human and institutional capacity for fiscal space is critical to accelerating fiscal space in Africa. And the third group are countries that do not depend on aid with strong fiscal space history (e.g. Algeria, South Africa, Morocco and Seychelles). These are countries with relatively sound and accountable revenue institutions. These countries provide some good cases for benchmarking on fiscal space in Africa.

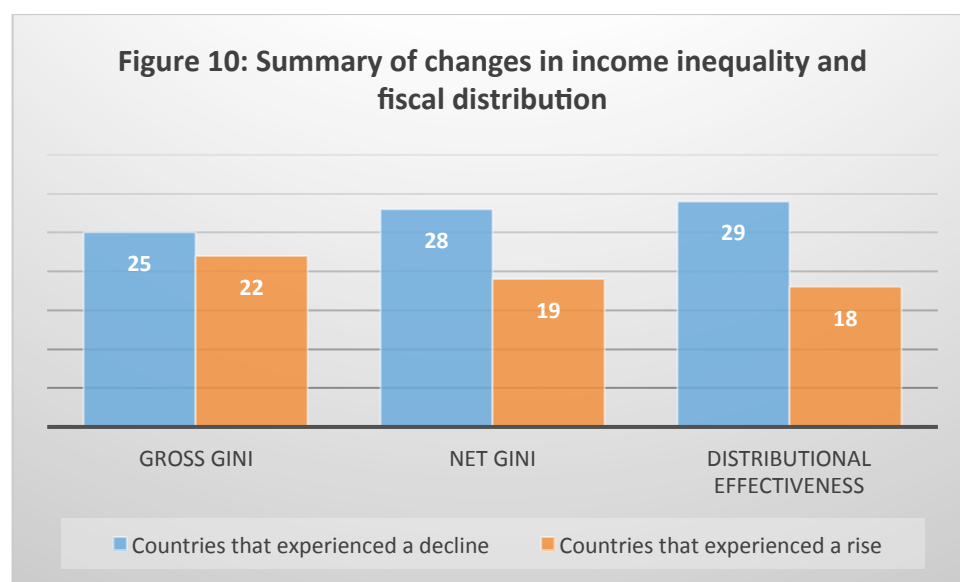


<sup>8</sup> These are countries with ODA-GNI share is 10 percent and above.

## 5.0 Distributional Effectiveness of Fiscal Policy in Africa

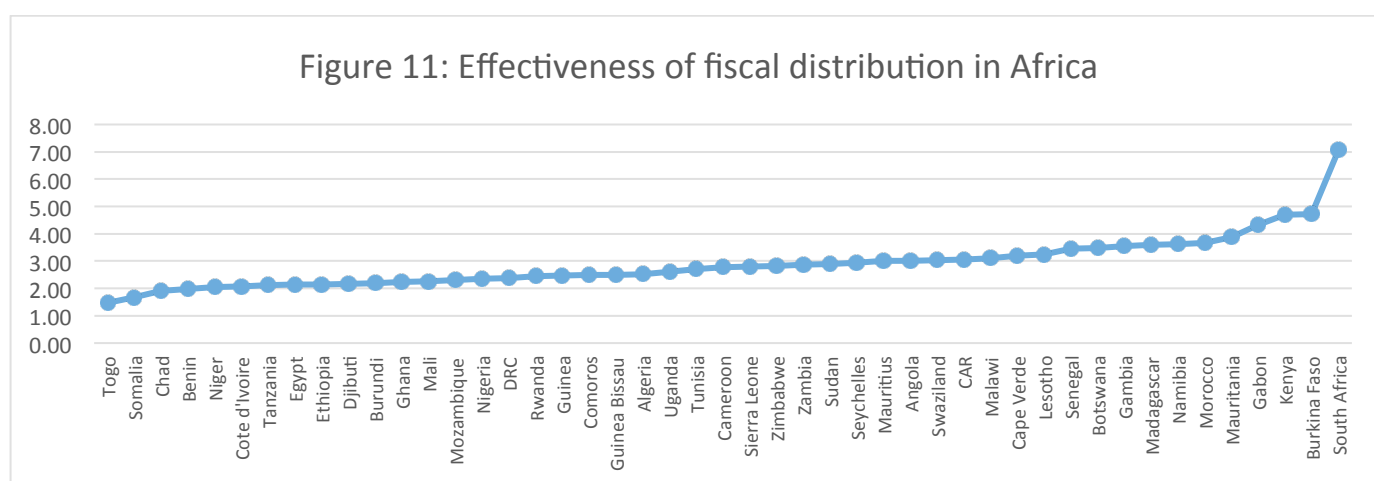
The effectiveness of income distribution is affected by many factors including fiscal policy instruments – taxes, transfers and public expenditures. The Standardized World Income Inequality Database (SWIID) provides a framework of examining distributional effectiveness of fiscal policy on income distributions across countries (e.g. Solt, 2009; Cevik and Correa-Caro, 2015). This is often measured as the difference between the gross Gini (before taxes and transfers) and the net Gini (after taxes and transfers).

Many countries experienced faster rate of increase in net Gini coefficient than the market Gini coefficient. When this happens, it indicates an erosion in the distributional impact of fiscal policy. Of the 47 countries where data is available, 29 countries recorded declines in the distributional effectiveness of fiscal policy (see Figure 10 and Table 2). Example of countries with stellar performance on this (35 percent increase and above) are Angola, Mozambique, Democratic Republic of the Congo, South Africa and Togo. For instance, between 1965 and 2011 in South Africa, market Gini rose by 17.6 percent while net Gini rose by 14.9 percent. The dismantling of apartheid, the expansive social protection coverage and innovative revenue management in South Africa made this possible.



The effectiveness of fiscal policy, measured by the difference between the market and net Ginis, across countries with available data in Africa is shown in figure 11. South Africa had the highest performance on this indicator. This is followed by Burkina Faso, Kenya and Gabon. This tends to suggest that the level and composition of taxes and quality of spending as well as its distribution across groups and spatial locations are contributing to reduction in inequality in most of these countries. Many countries are deepening their direct taxation while some are shifting away from indirect to direct taxation as a way of narrowing down income inequality. The reform

in the tax collection system, which is blocking tax evasion from companies and individuals in South Africa is also contributing to the enviable performance in fiscal distribution in the country. The implementation of fiscal decentralization in Kenya, which has been adjudged to have promoted allocative efficiency and equity (Bakaga, 2008) could be one of the factors explaining fiscal distribution effectiveness in the country. The increasing wave of public participation in budgeting and the introduction of social accountability matrix in service delivery at the county level (World Bank, 2015) is also another factor driving the distributional effectiveness of fiscal policy in Kenya.



**Table 2: Percentage changes in Income Inequality and Fiscal Distribution in Africa**

	Period	Percentage change in Net Gini	Percentage change in Market Gini	Percentage change in fiscal distribution
Angola	1995- 2009	7.536607	22.44999	399.8369
Benin	2003-2006	-1.44039	-1.98971	-11.1907
Botswana	1985-2005	-1.34347	-2.37015	-20.0497
Burkina Faso	1994-2009	-11.6111	-10.371	18.76314
Burundi	1992-2006	-0.92649	0.273022	22.1063
Cameroon	1983-2007	-21.2913	-20.6016	-6.44125
Cape Verde	1989-2005	0.298458	0.745976	9.132903
CAR	1992-2008	-0.15446	-3.45496	-45.7216
Chad	2003-2005	0.085515	-0.29234	-8.17598
Comoros	2002-2005	24.53076	23.97486	10.66307
DRC	2005-2008	-0.59315	0.946813	37.05975
Cote d'Ivoire	1985-2008	3.186386	2.174278	-18.7182

Djibouti	1995-2005	9.16312	8.203351	-7.30916
Egypt	1964-2009	-21.332	-22.8399	-40.9409
Ethiopia	1981-2010	3.318852	4.216217	20.62047
Gabon	1960-2005	-28.4157	-31.7466	-69.201
Gambia	1992-2003	13.24117	10.00816	-38.0648
Ghana	1987-2006	15.37641	16.01069	27.08115
Guinea	1991-2007	-14.3393	-19.8591	-67.8113
Guinea				
Bissau	1991-2005	-25.9429	-27.4751	-55.3848
Kenya	1960-2007	-37.8861	-25.2186	-694.358
Lesotho	1986-2003	-15.1648	-14.6453	-6.38731
Madagascar	1960-2010	-4.13055	-7.09782	-39.6741
Malawi	1985-2011	-18.8675	-22.5133	-60.1562
Mali	1989-2010	-9.29927	-8.25665	13.56232
Mauritania	1987-2008	-7.80479	-6.17556	13.2716
Mauritius	1972-2005	4.914293	1.047171	-43.2907
Morocco	1960-2007	-7.17481	-14.4327	-63.5183
Mozambique	1996-2008	6.490042	8.507051	60.19714
Namibia	1993-2010	-13.4343	-13.1215	-6.93023
Niger	1960-2008	12.46645	8.657433	-40.1515
Nigeria	1981-2011	30.80966	27.81144	-10.0861
Rwanda	1985-2011	114.1855	106.7586	5.286143
Senegal	1960-2011	-24.4037	-25.1084	-32.3771
Seychelles	1978-2007	-3.10475	-3.79327	-11.0075
Sierra Leone	1968-2011	-24.8326	-28.2184	-60.2816
Somalia	2001-2006	-6.25385	-9.25452	-45.612
South Africa	1965-2011	14.97815	17.5531	35.48452
Sudan	1968-2009	-14.7934	-18.3861	-58.1852
Swaziland	1994-2009	-15.4307	-14.9943	-7.08211
Tanzania	1964-2011	-28.5194	-31.7145	-73.7383
Togo	2005-2011	13.92555	14.69394	35.39809
Tunisia	1965-2010	-28.9259	-30.5842	-50.6625
Uganda	1983-2011	19.35845	19.63701	23.95057
Zambia	1972-2010	0.309067	1.232789	13.99951
Zimbabwe	1990-2011	-21.0352	-20.9206	-18.6783

Source: Author's computation from the Standardized World Income Inequality Database (SWIID).

Note: The change in fiscal distribution in Kenya is large due to a decline of 1.257 in the base year, 1960.

## 6.0 Conclusions and Recommendations



Fiscal policies play important roles in reducing poverty and inequality in any society – through such instruments as taxes, transfers and government spending. These instruments are needed to vigorously reduce poverty and inequality in a way that ensures that no one is left behind in the development equation. Apart from using fiscal instruments to directly impact on poverty and inequality, such instruments could also be used to influence structural factors affecting poverty and inequality, particularly human capital accumulation, factor endowment and labour market transformation. The evidence from this paper, using bivariate analysis, shows that the relationship is not automatic.

Countries with high fiscal space tend to have lower poverty rates compared with others with lower tax revenue-GDP ratios. Fiscal space alone tends to account for 16.5 percent of changes in reduction in poverty. All the six countries that reduced poverty by at least 50 percent between 1990 and 2013 had a fiscal space of more than 10 percent (Tunisia, Egypt, South Africa, Guinea, Botswana and Namibia). On the other hand, the positive correlation between fiscal space and inequality (gross and net Ginis) tends to suggest some elements of regressive taxation. The coefficient of determination, which is about 13.3 percent is relatively high while correlation coefficients for both gross and net Ginis is higher than 0.36.

Institutions matter in increasing fiscal space in Africa. Countries with increasing participatory, transparent and accountable budgetary process tends to have stronger impact of fiscal space on poverty and inequality reduction. Fiscal citizenship helps to engender accountability and transparency in the use of public budgets and better service delivery also offers potentials to boost and smoothen revenues.

Although 29 countries recorded declines in the distributional effectiveness of their fiscal policies over time, yet some countries such as Angola, Mozambique, Democratic Republic of the Congo, South Africa and Togo made stellar progress in enhancing their fiscal policy effectiveness – distributional impact rose by 35 percent or more.

There is an urgent need to enhance the non-extractive revenues by reducing heavy dependence of governments on revenues from the extractive sectors in countries such as Nigeria, Congo, and DRC. This paper also calls for the need to improve progressive taxation in countries with high fiscal space and high income inequality like Lesotho, Namibia, South Africa, Angola and Zimbabwe. To this end, a progressive tax system and diversification of government revenues away from the extractive sector, could help in reducing inequality in the continent.

Fiscal policy, through heavy investment in quality and accessible education and health services is a common factor in simultaneously denting poverty and inequality in Egypt, Tunisia, Mauritius and Morocco. Fiscal policy could also be used to proactively expand employment opportunities, modernize their economies and maintain an effective and well-targeted social protection mechanisms that benefit the marginalized. Deepening skills acquisition programs for unskilled and uneducated individuals is vital to addressing inequality.

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