EVALSDGs INSIGHT #16: Monitoring Inequality and Inequality Reduction Policies – A New Indicator for SDG 10: Indicator 10.4.2

PURPOSE

Growing and high levels of inequality, hamper economic growth, human development, and poverty reduction, jeopardising social cohesion and the implementation of the 2030 Agenda. Inequality, however, is not inevitable – to a large extent, policies determine the level of inequality. SMART indicators are therefore required to measure the positive and negative impact of policies on inequality and to track the distribution of resources and opportunities across an entire population. Indicators can be a key instrument for introducing, adapting, and evaluating decisions and policies. Until recently, SDG 10 (Reduce inequalities within and among countries) lacked a measure of the overall income distribution. In 2020, the Inter-Agency Expert Group on SDGs (IAEG-SDGs) included a new indicator for SDG 10 on reducing inequalities: the *Redistributive Impact of Fiscal Policy* indicator 10.4.2, which all countries are now expected to report on. This Insight highlights the opportunities and challenges that the inclusion of indicator 10.4.2 provides for policymakers and evaluators.

WHAT DOES INDICATOR 10.4.2 MEASURE?

The *Redistributive Impact of Fiscal Policy* indicator measures the extent to which fiscal policies, i.e., direct, and indirect taxes and transfers, contribute to reducing inequalities. The indicator is the Gini coefficient[1] of post-fiscal income subtracted from the Gini of pre-fiscal income. While a positive value indicates that the implemented fiscal policies reduce inequalities, a negative value indicates an increase. For the computation of pre-and post-fiscal income, a fiscal incidence analysis is required to determine the impact of taxes and expenditures on inequality. You can find more technical information on indicator 10.4.2 here and on the fiscal incidence analysis here. Both were developed by the CEQ Institute at Tulane University in the United States.

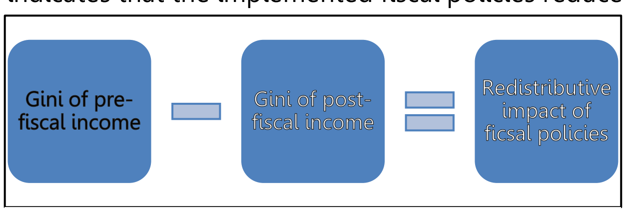

Figure 1: Formula for the redistributive impact of fiscal policy

WHY IT IS IMPORTANT TO INCLUDE THE INDICATOR.

The inclusion of indicator 10.4.2 filled two gaps in the monitoring framework of SDG 10. First, the initial indicators for SDG 10 focused mainly on reducing poverty and exclusion and thus on the bottom 40 per cent of the population. No indicator did justice to the relative concept of inequality and measured the distribution of income across the entire population. Second, the target for SDG 10.4 i.e., "Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality," was measured only by indicator 10.4.1, which is the "labour share of GDP"[2]. This indicator monitors the impact policies have on the factor income distribution[3] on a very general level, whereas the inclusion of indicator 10.4.2 ensures that the effect of fiscal policies on income inequality is assessed.

CHALLENGES FACED BY COUNTRIES REGARDING INDICATOR 10.4.2

Besides the challenges related to data collection and statistical work in general, such as limited budget and availability of data, the inclusion of Indicator 10.4.2 presented the countries where the study was conducted with the following obstacles:

Quality of data collected: Household surveys may not contain critical questions, e.g., taxes paid at the household level, making it more difficult to compare pre-and post-tax income. Furthermore, most

---

[1] Most common measure of income distribution with 0=perfect equality and 1 perfect inequality

[2] Share of national income accruing to labour.

[3] Distribution of income between primary factors of production (labour, capital, land).

countries only gather information on household income or consumption, yet both are required. It is necessary to compare disposable and consumable income for estimating the distributional impact of indirect taxes (e.g., VAT).

Several data points: The indicator was calculated only once for 110 countries. To create a thorough foundation for policy making and enable comparisons over time, the indicator needs to be calculated for more years.

Analysis of data: Technical capacity for the assessment of the redistributive impact of fiscal policies is partly low as there is limited experience with inequality indicators and comprehensive redistributive strategies.

OPPORTUNITIES FOR EVALUATORS

The calculation of indicator 10.4.2 and its underlying methodology provides evaluators with a comprehensive tool to monitor and evaluate the distributional impact of national and regional fiscal policies and measures. This can enable evaluators to make recommendations regarding objectives, implementation, and activities of policies. Ultimately, it can contribute to reducing inequalities by improving national policymaking. For instance, cash transfers or price subsidy programmes can be adapted to have a higher redistributive and thus inequality-reducing effect. Furthermore, the indicator could be used to complement other inequality indicators and measures when monitoring a country's inequality level and progress.

Evaluators should become familiar with topics such as financial inequalities, taxation, tax, and social programme reforms encompassed by Indicator 10.4.2. By so doing evaluators can help incorporate and analyse the distributive impact of related policies and projects and can track promises made at national and regional levels.

RECOMMENDATIONS

Many countries have used Fiscal Incidence Analysis to estimate the effects of different types of fiscal policies on inequality. The following recommendations are drawn from implementing the Fiscal Incidence Analysis and Indicator 10.4.2 in countries across the world.

1. Evaluation capacities for indicator 10.4.2. need to be strengthened. At least two data points for every country by 2030 should be calculated.
2. Technical and non-technical capacity on taxation needs to be increased not only within statistical agencies but also for non-state actors.
3. It is not enough to build capacities, regular dialogue between state and non-state actors, such as evaluators, is crucial to ensure meaningful progress.
4. Transparency is key! Outcomes of fiscal incidence analysis should be made accessible to the public and civil society organisations.
5. Engage with peers! Establish peer-to-peer exchange on evaluating Indicator 10.4.2. to share knowledge and experiences.
6. Take up the outcome of Indicator 10.4.2. in national planning documents, with policymaking and follow-up prioritized.
7. Follow-up on the outcomes! Indicator 10.4.2 is only the beginning. Engaging with the indicator might also reveal other issues relevant to the level of inequality.

This insight draws on Oxfam's briefing paper "The Redistributive Impact of Fiscal Policy Indicator".

Did you know?

EVALSDGs is a global network formed to add value and learning to SDGs, made up of people with a shared interest in evaluation and sustainable development. EVALSDGs Guidance Group (GG) is an EVALSDGs working group focused on strengthening capacity development for evaluation and the SDGs. EVALSDGs 'Insights' are short, light and easy to digest notes presenting ideas and new information, and stimulate thinking.

Author/s of this Insight: Lea Heise (Advisor, Global Project on Reducing Inequality GIZ); Holger Apel (Advisor, Global Project on Reducing Inequality, GIZ); Co-Editors: Dr Dianna Davis-Smith JaVOPE member and Lenyora Sihwa (Monitoring and Evaluation Specialist GIZ)

To provide your feedback or get more information, Contact: Hayat Askar, Jordan Development Evaluation Association: hayat.askar@gmail.com; Katinka Koke, UNITAR, Planning, Performance M&E Unit / Division for Strategic Planning and Performance: katinka.koke@unitar.org.