RAISING REVENUES TO ANOTHER LEVEL WITH DATA AND MODELLING

RELEVANT ACTION AREAS

Domestic Public Resources

Data, monitoring and follow-up

Science, technology, innovation and capacity-building
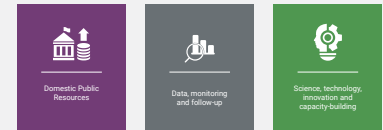
Key messages

- Good policy needs good evidence. Good evidence needs good data and analysis. Good analysis of policy reform needs good ex-ante modelling.

- Administrative data, such as tax records and social security information, enable sound research and policy analysis at a comparatively low cost. Their potential is unused, mainly in many Global South countries.

- Administrative data should be accessible in dedicated, safe spaces for governments, academia and CSOs, such as secure data labs.

- Different models are essential for providing evidence for policymakers as they allow for analysing current and future policies and their impact on government revenues and expenditures as much as poverty and inequality. Governments must build a modelling infrastructure to enable meaningful ex-ante policy simulation and analysis.

✳ Problem statement

Many countries in the Global South suffer from a significant gap in understanding tax policy impacts and related administrative reforms. Without adequate evidence, policymakers may implement changes that fail to achieve desired outcomes or inadvertently harm economic stability. Nor can societies have the necessary conversation around the social contract and who should bear which burden without adequate evidence. When citizens perceive tax policies as unfair or poorly justified, it can lead to widespread dissent and non-compliance. Public resistance to tax policies, often seen in the form of protests, underscores the importance of transparent and evidence-based policymaking.

The two cornerstones for sound evidence for policymakers in the area of tax and expenditure policies are (1) adequate data, specifically administrative data, and (2) their use through proper modelling and analysis:

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1. **Administrative data:** Administrative data such as tax records and social security information enable research and policy analysis offering additional and complementary analysis to results based on survey data. Yet, administrative data is a largely under- if not unused, resource in many Global South countries. In practice, the sensitive nature of the data and lack of data governance limit the use of this data: Data owners may lack the knowledge and capacity to make data available safely, such as anonymising or identifying safe researchers or projects.

   Linking administrative datasets can provide an even more comprehensive view of socioeconomic conditions, such as in Finland during the COVID-19 pandemic. Despite its potential, many countries face challenges integrating administrative data due to difficulty coordinating between government departments, lack of skills, technical barriers, and inconsistent data standards.

2. **Modelling of policy reform:** Policy reform discussions need to be grounded on evidence that is as rich as possible. While evaluation of past reforms is critical, proper ex-ante modelling of policy reform is crucial for an informed debate on policy reform. Ex-ante policy simulations must not stop at pure revenue predictions of the specific tax that is to be introduced or reformed. They need to consider the broader implications for societies and their welfare, such as interactions with other tax and social protection policies, impacts on population subgroups, and potential behavioural reactions, to name only a few.

   Tax-benefit microsimulation modelling is a powerful tool for answering such questions with highly detailed modelling based on as rich microdata as possible. Static, day-after results of how tax revenues change, i.e., if personal income tax rates are increased, are a first step to understanding a policy reform's potential impact. Similarly, these models are a powerful tool to trial social protection reforms and analyse revenue-

neutral reforms, for example, by "recycling" revenues gained from tax reform to support the vulnerable.

While tax-benefit models are commonly used in the Global North, their use is less common in the countries of the Global South, where in many countries none exists.

Governments need different, complementary models and data types when assessing policy proposals. Combining tax-benefit microsimulation models with administrative tax data is a particularly powerful tool for informing tax policy decisions. While administrative tax data provide high-quality income data for all taxpayers including top income earners and enable greater accuracy when estimating tax revenues, high-quality survey data remain key for a full picture of the population's characteristics and welfare.

✺ Policy solutions

Countries must leverage administrative data for timely and holistic evidence informing the public and policymakers. Governments should set a regulatory and practical (in terms of IT structure) framework that allows access and use of administrative data. Planning and undertaking regular survey data collection and constantly improving the quality of survey data should be considered a complementary rather than a competing demand.

Administrative data should be accessible in dedicated, safe spaces for governments, academia and CSOs, such as secure data labs. Data labs are specialised environments designed to safely analyse administrative data to derive actionable insights. They play a crucial role in transforming raw data into valuable information, which can be used for trend forecasting, fraud detection, and other strategic purposes. Successful data labs require a clear strategic vision, the right technological tools, and skilled personnel—opportunity for action and mobilisation of funds to improve the access to data[1].

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1   See Ebrahim, A., & Cassim, A. (2021). Building tax data for research. In *Building tax data for research* (Vol. 2021, Issue 2). UNU-WIDER. https://doi.org/10.35188/UNU-WIDER/WBN/2021-2
Jouste, M., Barugahara, T. K., & Musoke, N. (2023, January). *Secure research data lab in Uganda: A game changer for efficient and fair taxation.* UNU-WIDER.

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Similarly, governments must build a modelling infrastructure to enable meaningful ex-ante policy simulation and analysis such as done in the scope of UNU-WIDER's SOUTHMOD project[2] and the TaxDev Initiative[3] of ODI and IFS. The SOUTHMOD initiative currently covers 13 Global South models developed and constantly improved by UNU-WIDER and national teams in each country for over ten years and shared publicly. The project has produced policy-relevant evidence, technical innovation, and research findings, and through extensive capacity building, the skills of partners and stakeholders in these countries have been improved.

Building modelling infrastructure should ideally be a joint undertaking across various Ministries (particularly but not limited to Ministries of Finance, Economics, Social Affairs, and Development), government agencies (such as Revenue Authorities and Statistical Services), academia and think tanks to ensure high-quality information and data feeding the models. Such a collaborative approach also provides a platform for a country to exchange on the tax-benefit system as a whole and not only discuss policies in isolation.

And just as administrative data, this modelling infrastructure – whether conceived by a single actor or in collaboration with others, and whether running on sensitive or less sensitive data – should be accessible to government, academia, think tanks and CSOs alike. Making such models a public good ensures that all relevant actors can contribute meaningful evidence and participate in debates on taxes, expenditure, and society's welfare.

✿ Specific recommendations for FFD4

The FfD4 should serve as a forum for countries to discuss the data and modelling infrastructure gaps identified above. The FfD4 process will benefit from laying open that without proper evidence, governments in the Global South will encounter great difficulty increasing tax-to-GDP ratios in an informed and sustainable manner.

Similarly, the FFD4 should provide a space for considering different modalities of how countries in the Global South could acquire the necessary infrastructure and skills. The process should provide space for member states to discuss how they can best support each other, building on experiences from the last phase.

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2   See https://go.unu.edu/XKhYu for more information.

3   See https://www.taxdev.org/ for more information.