



**CYW-RPF**

**Children, Youth and Women  
Research and Practice Forum**

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## Editor's Note

Dear readers,

We are pleased to welcome you to the June 2024 CYW-RPF quarterly newsletter. This edition presents two summaries of research presented at the monthly CYW-RPF seminars. These are from papers on 1) Gender Responsiveness of Fiscal Policies and Related Legal Frameworks in Ethiopia, conducted by UN Women, and 2) An examination of tax compliance through a gender lens: experimental evidence from Ethiopia, done by the World Bank.

It also addresses the news story, the Young Lives Ethiopia Country Director, Dr Alula Pankhurst's, interview with Child Wellbeing Media Centre on Arts TV which discusses the Young Lives research.

We look forward to your comments, suggestions and contributions. For more information, please contact us via [crpf.ethiopia@gmail.com](mailto:crpf.ethiopia@gmail.com) or 011 1 540121



## Young Lives Ethiopia's Country Director discusses the Young Lives research on Arts TV

The Young Lives research is an innovative long-term project investigating the changing nature of childhood poverty in four developing countries. The study is being conducted in Ethiopia, India, Peru and Vietnam and has tracked the lives of 12,000 children for 24 years, through 5 (in-person) survey rounds (Round 1-5); the Round 6 survey was conducted over the phone in 2020 and 2021 as part of the Listening to Young Lives at Work: COVID-19 Phone Survey. The Round 7 survey has been completed in May 2024 and the data is currently being analysed.

The Young Lives Ethiopia Country Director, Dr Alula Pankhurst's, interview with Child Wellbeing Media Centre on Arts TV discusses a wide range of topics that Young Lives has researched including poverty and inequality, gender and intersecting inequality, child protection, nutrition, early learning, sexual reproductive health, mental health, etc. Dr Alula Pankhurst also explained the key findings, policy recommendations and the efforts to improve children's, women's and youth's lives in Ethiopia.

Watch the interview here: - <https://bit.ly/3W2hAH7>



Research Summaries from CYW-RPF presentations

Gender Responsiveness of Fiscal Policies and Related Legal Frameworks in Ethiopia

By Firehiywot Handamo

Introduction

Fiscal policy is one of the key macroeconomic policy tools through which a government applies its taxation, spending and deficit financing powers to influence aggregate economic conditions. In many developing countries, governments apply fiscal policy to promote stable and sustainable growth, ensure fair income distribution and reduce poverty, among other objectives. Fiscal policy plays an important role in shaping the performance and behaviour of the economy, just as monetary policy does. In Ethiopia, the Government of Ethiopia (GoE) applies fiscal policy measures to promote fast, sustainable and inclusive economic growth and stabilise the macroeconomy.

The study has aimed to provide a brief overview of the gender responsiveness of existing fiscal policies and related legal frameworks.



Findings

The assessment covered tax policy legislation, spending and financing policies to assess the gaps in addressing gender issues. Accordingly, in terms of explicit biases, there are no provisions that reveal gender discrimination. However, implicit biases are more common in Ethiopia's tax system. The personal income tax law in Ethiopia is progressive, promoting gender equality. However, there are still biases due to the current minimum tax-free income which is not sufficient to meet the cost of a defined standard of living or cope with unexpected shocks and cannot safeguard the livelihoods of the poorest, notably women.



Indeed, a single rate of consumption taxes without exemption would likely create implicit gender biases. In this regard, Value Added Tax (VAT) on goods and services may pose inevitable challenges to the poor's ability to pay taxes, particularly women. VAT in

Ethiopia disproportionately increases the cost of living for women, given women's role in feeding their families. Although selected basic consumption goods such as milk, bread, injera, unprocessed grains, wheat flour, and oil seeds are exempt from VAT, some other items should be exempted from VAT, such as vegetables and female hygiene products, which disproportionately impact women. Similarly, among the excisable items, edible oils and fats, perfumes, cosmetics and hair accessories, plastic bags, sugar and salt are mainly women's consumption items and taxes on such items unduly impact them.



The Finance Administration Proclamation is a law that applies to all public bodies, explicitly stating that consideration of gender issues is required during budget preparation. Although gender-responsive budgeting involves planning, auditing, reporting and so on, the proclamation only explicitly declares incorporating gender issues during budget preparation. On the other hand, the Macroeconomic and Fiscal Framework (MEFF) preparation process, which involves more of a top-down approach, is not gender aware, as the model does not incorporate gender aspects in forecasting. Government subsidies that target low-income groups to access essential goods and services at more affordable and stable prices have an important redistribution impact. Given this fact, government spending policy incorporates direct transfers and provides subsidized basic food items and services to low-income

households. In this regard, Ethiopia's Productive SafetyNet Program (PSNP) is believed to be equity-promoting. The results indicate that the PSNP helps beneficiaries in terms of consumption smoothing, asset accumulation, and development of the local community.

Key recommendations

- **Revise income tax legislation to meet gender needs.** There is a need for a revision of the income tax law, including the current progressive rate and the level of minimum tax-free income, given the prevailing macroeconomic situation, including the high inflation rate, which disproportionately affects women, who are more likely to be on the lowest incomes in the country.
- **Expand consumption tax exemptions on items that promote social welfare/gender equality.** Consumption taxes, including VAT and excise tax legislation, should be revised to accommodate different needs of men and women.



- **Make the Macroeconomic and Fiscal Framework (MEFF) gender sensitive.** The MEFF should consider gender issues in its assumptions and targets, as well as recognize the different roles of women and men in the economic sphere.
- **Establish the accountability mechanism to ensure proper implementation of gender-responsive budgeting.**



- ▶ **Revise the Ethiopian Finance Administration Proclamation to reflect the inclusion of gender issues in all public finance processes.** The Finance Administration Proclamation should incorporate gender equity, ensuring that the allocated budget is spent equitably, meeting different gender needs.
- ▶ **The Ministry of Finance (MoF) should embark on producing gender budget statements (GBSs).** MoF should submit a GBS along with its draft annual budget to Parliament, stating the expected gender implications of expenditure by

public bodies to identify gender bias in the allocation of budget.

- ▶ **Promote the production of female hygiene products domestically.** MoF should encourage domestic production of female hygiene products, including sanitary pads, through its fiscal policy measures.
- ▶ **Revise tax incentive laws to include gender aspects.** This includes additional criteria/incentives for employing women, when applicable.

## Research Summaries from CYW-RPF presentations

### An examination of tax compliance through a gender lens: experimental evidence from Ethiopia

Firew Bekele Woldeyes (PhD)

#### Introduction

Gender equality remains a significant concern globally, impacting various aspects of the economy, including economic participation. Despite extensive research on gender disparities in socio-economic contexts, there's a notable gap in understanding gender differences in tax compliance, especially among men and women-owned businesses in developing countries like Ethiopia.

In developed countries, where social, political and cultural gender equality is greater than in developing countries, studies still revealed significant differences in tax compliance behaviour between men and women. For example, in a cross-country experimental study in the United States, the United Kingdom, Sweden and Italy, the findings indicate that women are significantly more compliant than men in all countries and under every condition. Whereas, in developing countries where women are highly marginalised and discriminated in every aspect, studies aimed at investigating the role of this behavioural difference in tax mobilisation (compliance) are scant. To the best of the knowledge of the researchers who conducted this research, no study has attempted to explore how the business owners' gender differential affects tax

compliance in Ethiopia. Thus, it is important to address this research gap and investigate if gender plays any role in tax compliance in the Ethiopian context. Understanding if there are gender disparities in tax compliance in Ethiopia is crucial for promoting gender equality in entrepreneurship and ensuring a fair and equitable tax system.



#### Research question

- ▶ Are there any differences in tax compliance responses between men and women-owned businesses that suggest systematic underreporting of sales and taxes across different measures of tax compliance?

#### Method and Data: Sampling

- ▶ The field experiment was conducted on 5,400 taxpayers, including both individual and share companies in Addis Ababa.
- ▶ The experiment involved the assignment of 3,600 taxpayers to two treatment groups and 1,800 tax papers to a control group.
- ▶ Businesses were stratified based on sector and location (sub-city in Addis).
- ▶ The study has excluded Share Companies as there are multiple owners.
- ▶ The number of taxpayers in the study is 3257 (lower than the original study design because we have excluded Share Companies)
- ▶ Data covers the years 2012 to 2015. The study collected the tax return information for businesses selected for the field experiment for the reporting period 2012 to 2015.
- ▶ The database includes profit tax declaration and payment, rental tax payment before and after the treatment, and additional information on the legal status and the category of businesses.



#### Findings

This study mainly sought to answer the key research question, which is how owners' gender affects the tax compliance behaviour of enterprises. In other words, it aims at testing the central hypothesis that female-owned businesses are more compliant than male-owned ones. The results suggest that enterprises' tax compliance behaviour is significantly affected by their owners' gender: female-owned enterprises are more likely to be tax compliant than those owned by men. The correlation between the owner's gender and tax compliance also becomes stronger as enterprises get larger in size.

#### Conclusion

The Ethiopian economy has been growing and sustaining such economic growth requires strong domestic resource mobilisation, mainly boosting its tax revenue. Domestic resource mobilisation through the form of taxation is a vital tool to finance government budgets and speed up economic growth. However, the amount of collected taxes is still below the expected level in Ethiopia. This is mainly caused by the existence of widespread tax evasion, corruption, and limited administrative and enforcement capacity. In the absence of enforcement capacity, increasing tax revenues and financing development expenditures in developing countries, like Ethiopia, usually





depends on the capacity of policymakers to harness individuals' civic-mindedness, social norms, reciprocity and cultural values of trust. However, how social values, norms and individual behavioural differences can play a role in reducing tax evasion needs empirical evidence.



In line with this, our study aimed to explore the role of business owners' gender on tax compliance in Ethiopian enterprises. This study also aimed at scrutinising whether firm size has different implications on the tax compliance behaviour of male and female-owned enterprises.

To address these objectives, we combined tax audit registry data with survey data. The estimation results from the logit model reveal a statistically significant difference in the tax compliance behaviour of enterprises owned by men and women. Controlling for different covariates including firm characteristics, ownership characteristics and business environment factors, the results confirm the commonly held view that female-owned enterprises are, on average, more likely to be compliant than their male counterparts. Moreover, the tax compliance behaviour of enterprises is also size-dependent. From the result, it is evident that the probability of being tax compliant significantly declines as firm size increases, irrespective of firm owners' gender. There is also robust evidence that female-owned businesses become relatively more compliant than male-owned businesses in larger size businesses, than in smaller ones.

The result of the study implies that policies aimed at improving the tax administration system and introducing new tax enforcement and audit practices should consider the behavioural differences between male and female owners. Moreover, it is also necessary to improve women's business participation in the country for equity concerns and as minimising tax evasion is one of the multifaceted social benefits of encouraging women entrepreneurs.



**Interested to Know about CYW-RPF?**

The Child Research and Practice Forum (CRPF) was recently renamed Children, Youth and Women Research and Practice Forum (CYW-RPF) in order to expand the mandate of the Forum at the request of stakeholders and after holding a survey poll of the mailing list members.

CRPF was established in 2010 to promote work on child research, policy and practice. CWY-RPF makes use of monthly seminars, quarterly newsletters and annual publications as a means to achieve its objectives. The publications are also available on the Young Lives Ethiopia website (<https://www.younglives-ethiopia.org/>). CYW-RPF is organized by Young Lives with the Ministry of Women and Social Affairs and UNICEF.

If you want to know more, please contact us via [crpf.ethiopia@gmail.com](mailto:crpf.ethiopia@gmail.com)