Introduction

Fiscal policy is one of the key macroeconomic policy tools through which governments use taxation, spending and deficit financing powers to influence aggregate economic conditions, whereas fiscal stimulus refers to governments’ attempts to apply fiscal policy tools – such as lowering the tax rate, increasing government spending or widening the level of deficit – to stimulate the economy.

The main objective of this assessment is to review the gender responsiveness of fiscal stimulus packages and existing fiscal policies and related legal frameworks so as to identify gaps as well as good practices in order to provide policy recommendations for policymakers, such as the Ministry of Finance (MoF).

Governments apply fiscal policy interventions and undertake stimulus packages mostly during economic downturns. Recently, the world economy experienced an economic and social upheaval due to the COVID-19 pandemic, resulting in production shutdowns, supply chain disruptions, and demand shocks, which caused ripple effects across all economic sectors. Following the slowdown in economic activities, some firms were forced to reduce the size of their workforce due to difficulties in paying wages and salaries. Moreover, the pandemic disproportionately affected women, who are more vulnerable as they are mostly engaged in informal sector economic activities. Beyond the health and humanitarian impacts, the pandemic had a significant impact on people’s economic well-being, with a particular impact on women in terms of job losses, unpaid care-work burden, and so forth. In this regard, assessing the impact of fiscal stimulus packages on gender equality is crucial to see whether the different needs and priorities of women and men are adequately addressed.
On the other hand, analyzing existing fiscal policy and its legal framework using a gender lens is vital to integrate a gender perspective at the macro level. Fiscal policy plays an important role in addressing or exacerbating gender inequality. For instance, gender-equitable inclusive growth could eliminate gender gaps in unemployment and the enjoyment of decent work by increasing the creation of decent work for both women and men, with a higher rate of expansion for women than for men, a process that may be described as “equalizing up”\(^1\). Fiscal policy legislation, such as tax and expenditure policies, is not gender-responsive enough despite significant milestones made in some areas. Recognizing and addressing existing gender inequalities is a prerequisite for long-term inclusive economic growth through macroeconomic policy measures. This requires both short-run and long-run fiscal policy interventions that should promote women’s economic empowerment, create decent jobs, reduce and redistribute unpaid care-work burden through investing in the care economy, and address gender-based economic biases, among other things. In this regard, key gender issues in Ethiopia’s fiscal policy and the COVID-19 stimulus package include inadequate minimum tax-free income applied to ensure income for basic needs, women’s unequal ability to access various tax exemptions, gender biases of consumption taxes such as VAT and excise tax, and a lack of appropriate attention paid to gender-specific needs.

This policy brief discusses the key findings and recommendations from the assessment and presents an entry point to improve the gender responsiveness of fiscal policy measures in Ethiopia, including fiscal stimulus packages to address existing gender gaps and contribute to sustainable and equitable development. Hence, the key findings and recommendations of this assessment are expected to be used by policymakers in future fiscal policy reforms.

Key findings of the assessment

• The assessment finds that the government’s fiscal stimulus packages are either gender-neutral or blind. The government’s COVID-19 interventions mainly focused on the sectors that would be most hit by the pandemic, supporting them to retain their employees, and did not explicitly take into account the gender implications of the interventions. Despite the Council of Ministers approving a set of economic measures to support businesses and employment – including forgiveness of all tax debt prior to 2014/2015, a tax amnesty on interest and penalties for tax debt, and exemption from personal income tax withholding for four months for paying employees’ salaries – there are no explicit indicators that show how the interventions could address women’s and men’s different priorities, needs, constraints and so forth.

• COVID-19-related social protection measures were to some extent gender sensitive. From a gender point of view, social protection, health, food security, housing, water and education interventions in the context of the COVID-19 Multi-Sectoral Preparedness and Response Plan (MSRP) were at least partly sensitive to women’s differential needs. For instance, the response plan devised a strategy to reduce the number of internally displaced people (mostly women and children) living in collective centres and allotted resources to provide emergency shelter and non-food items. However, proposed interventions – such as teaching delivery through radio and TV media, and the provision of self-learner packs – did not consider girls’ and women’s care-work burden, which made it difficult for them to attend lessons delivered virtually.

• There is implicit gender bias in Ethiopia’s tax system. Explicit discrimination refers to policies that directly impact men and women differently, while policies that have implicit bias or discrimination refer to those that do not treat men and women differently, but their impact affects men and women differently. In this regard, there is implicit bias in the Federal Income Tax Proclamation of Ethiopia regarding income tax-related exemptions, e.g. allowances paid to members of public enterprise board secretariats, public bodies, or study groups, which are dominated by men, are exempt. In addition, consumption taxes, such as VAT and excise tax, which are regressive in nature, can negatively impact women more than men. For instance, excisable items, including edible oils and fats, perfumes, cosmetics and hair accessories, plastic bags, sugar and salt, are mainly purchased by women. However, over the past few years, there have been promising improvements addressing implicit gender bias in the tax system in Ethiopia, such as exempting washing machines from excise tax and reducing import taxes on finished menstrual hygiene products.

• Expenditure policy in Ethiopia is not gender-responsive enough, despite achieving a significant milestone in practicing gender-responsive budgeting. The Financial Administration Proclamation No. 970/2016 made an important amendment regarding the inclusion of gender issues in the government budget process. Although gender-responsive budgeting involves planning, budgeting, auditing,
reporting, and so on, the proclamation only explicitly mentions that gender issues are to be incorporated during budget preparation. On the other hand, the Macroeconomic and Fiscal Framework (MEFF) is totally gender-blind and does not incorporate gender-related indicators or variables. Moreover, the MoF never produces a gender budget statement and submits it to Parliament along with the annual Federal Government draft budget.

Key policy recommendations

• Design response measures in a gender-responsive manner. Well-designed fiscal stimulus packages could play a vital role in alleviating the impact of crises and disasters on women.

• Set out gender budget statements for stimulus packages and the annual government budget. The government should generate a gender budget statement that shows how disaster response measures support women and promote gender equality. In general, the MoF should submit a gender budget statement along with its draft annual budget to Parliament, stating the expected gender implications of expenditure by public bodies which helps to identify gender biases in the allocation of the budget. The Ministry of Women and Social Affairs should play a vital role in this process through advocacy and capacity-building measures.

• Ensure tax policies meet gender needs. Given the prevailing high cost of living, the current progressive rate of tax and the level of minimum tax-free income are too low to address the redistribution problem or to safeguard the livelihood of the poorest, such as women.

• Expand exemptions’ coverage on consumption taxes on items that promote social welfare/gender equality. Although selected basic consumption goods are exempt from VAT, there are still VAT-assessed items, such as vegetables and feminine hygiene products, which disproportionately impact women. Moreover, among the excisable items in Ethiopia, edible oils and fats, cosmetics and hair accessories, plastic bags, sugar and salt are mainly purchased by women; hence, excise tax should be assessed to ascertain whether it has an implicit gender bias.

• Make the Macroeconomic and Fiscal Framework (MEFF) gender responsive. The Macroeconomic and Fiscal Framework (MEFF), which serves as a base for the annual budget preparation, is gender blind; it overlooks gender aspects such as the reproductive sector (care economy) and fails to include key variables such as employment.

• Make the collection of sex-disaggregated data a standard practice. Sex-disaggregated information must be available for policy makers to develop appropriate, evidence-based responses and policies.