

# Promoting **equality**

An interregional  
perspective



United Nations

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This report is a joint effort by the Economic Commission for Africa (ECA), the Economic Commission for Latin America and the Caribbean (ECLAC), the Economic and Social Commission for Asia and the Pacific (ESCAP) and the Economic and Social Commission for Western Asia (ESCWA), in the framework of the interregional project “Promoting Equality: Strengthening the capacity of selected developing countries to design and implement equality-oriented public policies and programmes”, financed through the United Nations Development Account.

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## Foreword

The 2030 Agenda for Sustainable Development reflects a consensus on the need to move towards more egalitarian, cohesive and solidarity-based societies. It is a consensus that is people-centred and promotes an inclusive model of sustainable development. Reducing the multiple manifestations of inequality is at the core of the entire 2030 Agenda, with its call to “leave no one behind” and to “endeavour to reach the furthest behind first” on the path to development, and is enshrined in Sustainable Development Goal 10 “Reduce inequality within and among countries”.

The regional dimension of development is recognized as critical for an effective and coordinated response to an ever-growing number of development challenges in the 2030 Agenda. Within this framework, the United Nations Regional Commissions —Economic Commission for Africa (ECA), Economic Commission for Latin America and the Caribbean (ECLAC), Economic and Social Commission for Asia and the Pacific (ESCAP) and Economic and Social Commission for Western Asia (ESCWA)— have a mandate to assist Member States in addressing inequality and supporting the work to advance the integration of the three dimensions of sustainable development: economic, social and environmental.

The regional commissions have come together to prepare this report, which synthesizes regional findings and lessons learned in the conceptualization, design and implementation of public policies and programmes oriented towards greater equality. The report reaffirms the importance of the regional dimension both in improving knowledge about key aspects of inequality and in removing the barriers to more egalitarian societies, taking into account the complexities of different world regions. In particular, an effective translation of equality-oriented policies must be flexible enough to consider local, national and regional specificities.

All around the world, there is a growing recognition that social inequality gives rise to adverse social, environmental and economic consequences, stratified by economic status, age, sex, disability, race, ethnicity, origin or religion. However, history has also shown that social inequality can be successfully addressed and is not an inevitable outcome. Ignoring inequality therefore means failing to understand how to improve people’s living conditions.

As this report highlights, inequality includes—but transcends— income inequality and relates to the uneven exercise of rights, unequal access to opportunities and capacity development, and unequal results. Promoting greater equality not only helps to safeguard the economic, social and cultural rights of all people, but also fosters growth, development and greater social justice.

The central claim of this report is that social protection, health, education, labour and fiscal policies can play a key role in addressing inequality. However, the question of how to identify, design and implement equality-oriented public policies cannot be answered in abstract terms. With this in mind, the present report contributes comparative empirical evidence and analyses public policies and their linkages to inequality throughout different regions. The ultimate challenge is how to translate this evidence into economic and social policies in different country contexts: this report is intended as an effort and contribution towards achieving this wider goal.

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## Introduction

The 2030 Agenda for Sustainable Development reflects a consensus on the need to move towards more egalitarian, cohesive and solidarity-based societies, and calls for “no one to be left behind” on the road to development. In resolution 70/1, adopted by the General Assembly in September 2015, “Transforming our world: the 2030 Agenda for Sustainable Development”, the States Members of the United Nations expressed their “wish to see the Goals and targets met for all nations and peoples and for all segments of society”, and pledged to “endeavour to reach the furthest behind first”.

This universal, comprehensive agenda has rights-based equality at its core. Furthermore, inequality has been growingly recognized in several countries as a key socio-economic problem, which is negatively impacting the capacity to develop and to improve the welfare of the population. Inequality thus needs to be addressed by multidisciplinary public policies which are appropriate to country conditions.

This report, which is the result of collaboration among the United Nations Regional Commissions, takes an interregional perspective on those public policies and programmes that can contribute to reduce inequality, with a focus on social protection, health, education, labour and fiscal policies. As an interregional collaborative product, it attempts to distil findings and lessons learned in the conceptualization, design and implementation of pro-equality public policies and programmes. The goal is not to produce a template, but to disseminate knowledge on various social and economic policies aimed at reducing inequality, contributing to illustrate that inequality is not an inevitable outcome of the development process.

The report sends out four key messages. The first is on the need to comprehend the multidimensional nature of inequality. Pro-equality policies and programmes must address various dimensions of inequality beyond income, including —but not limited to— gender, race, ethnicity, age, disability, migratory status and territory of residence (DESA, 2016 and 2017; ECLAC, 2016). ECLAC (2016) has termed these various dimensions, as the “social inequality matrix” and highlighted how they intersect, overlap and exacerbate each other. Similarly, ESCWA (2018) has examined the link between equality of opportunity, outcome and autonomy in the Arab region. It is argued here that, albeit geographical, cultural and historical variations throughout the world exist, the various dimensions of inequality hold appropriate analytical value to interrogate policies in terms of its egalitarian impact. As it will become apparent throughout this document, empirical evidence tends to back-up the existence stratified access to social protection, health, education, other basic services, as well as to labour market participation (DESA, 2016) along income, gender, race, ethnic, age and territorial lines. In turn, the report attempts to disentangle the effect of these policies, not just on the most basic axis of inequality, namely income, but on the various and interconnected manifestations of inequality.

The second message involves the crucial role of the labour market as a central and organizing feature of the economy and society. The labour market is the key link between the economic and social spheres, and most people derive their income from the labour market. In this sense, income inequality can be reduced via labour-intensive economic growth and public policies that promote the expansion of productive employment and decent work. However, this dynamic requires active policies such as the formalization of employment and increases in the minimum wage. Moreover, distributive policies linked to increased returns to labour and the creation of more productive and quality jobs require to be supported and complemented by better access to basic services and the strengthening of the social protection system.

The third is that pro-equality policies need to be understood in light of the rights-based approach, which lies at the core of the 2030 Agenda for Sustainable Development. To break the vicious cycle of inequality, public policies must be gauged in terms of entitlement to rights. From this perspective, the design and implementation of pro-equality social protection, labour, health and education policies needs to be geared towards the exercise of economic, social and cultural rights.

Finally, the fourth message is about the goal of universalizing social protection, education and health, placing equality at the centre of public policy by way of expanding coverage beyond restrictive targeting. Although, as this report shows, there is no single model that suits all, every country, depending on its development stage, fiscal capacities and local context, has space to design, implement and progress towards a more universal and solidarity-based model. The experience of developed countries in the construction of the welfare state —and in particular the variations with respect to their “welfare regimes” observed and typified by Esping-Andersen (1990)— holds important lessons in terms of equality (see box 1).

### Box 1

#### Three types of welfare regimes in developed countries

Esping-Andersen (1990) identifies three types of welfare regimes, depending on the relative strength and role played by the state, market and families: liberal, continental and social democratic. Liberal regimes tend to subsidize low-income households through small cash transfers, minimizing the role of the state and promoting the role of the market as welfare provider. Countries like the United States, Great Britain and Australia are the typical cases for liberal regimes. Continental regimes, located mostly in continental Europe, assign a key role for the state in providing welfare. However, they usually present important differences between socio-economic strata in terms of access and quality. As a result, their capacity to redistribute is limited. In addition, they build their welfare architecture on a relatively traditional family model.

Finally, social democratic regimes, characteristic of the Nordic countries, like Sweden and Finland, attempt to minimize the relative weight of the market in providing welfare through basic welfare services. In these regimes access to welfare is not related to the individuals' position within families. That is, they ‘defamiliarize’ welfare by diminishing the importance of families in providing welfare, and more specifically care. These regimes tend to demonstrate a high capacity to reduce age, gender and class inequalities. By contrast, liberal and continental regimes tend to assume family—and more specifically women—as the main provider of welfare and care.

Source: Esping-Andersen, G. (1990). *The three worlds of welfare capitalism* (Princeton University Press). Princeton, N.J.

The central claim of this report, in summary, is that social protection, health, education, labour and fiscal policies can play a central role in addressing inequality. However, the question of how to identify, design and implement equality-oriented public policies cannot be answered in abstract terms. It is in this line that the present report aims to contribute by offering comparative empirical evidence and analysing public policies and their linkages to inequality throughout different regions. The ultimate challenge consists on how to build on this evidence in order to improve economic and social policies in different country contexts. This report should consequently be read as an effort and contribution to this wider goal.

The remaining of this document is structured as follows. Chapter I outlines briefly the context of inequality and poverty throughout the different regions of the developing world. The aim is to set the stage for the following analysis by highlighting differences between and within regions in inequality and poverty estimates. With regard to inequality, the chapter contrasts market generated income inequality with income inequality after taxes and transfers, highlighting the importance of equality-oriented public policies and programmes to mediate and correct market outcomes. The chapter also stresses the importance to capture inequality beyond income considering its multidimensional dimensions and strong connection to the uneven exercise of rights and unequal access to opportunities, capacity development and unequal results. The chapter also points to the uneven progress made across regions with respect to poverty reduction.

Chapter II has been elaborated by the Economic Commission for Africa (ECA). It is structured around two main sections. The first section examines socioeconomic inequality through various axes, such as the labour market, gender, spatial and access to finance. It stresses that inequality has been historically structured around inherited land tenure systems, enclave-type of production like oil and mining, and urban-rural cleavages expressed in different working conditions, such as wages or the formality of the job. Regarding the inequalities in the labour market, the study highlights the persistence of vulnerable employment among the working poor and the significant unequal access to the labour market by gender and age. This reinforces lower productivity and income. Gender gaps, are also observable in access and completion rates in education or in the labour market, as evidenced by unemployment rates. Spatial imbalances are demonstrated through rural-urban disparities in education, health, stunting and neonatal mortality. With respect to inequalities in financial access, ECA highlights disparities in access to credit or holding a bank account in a formal financial institution, transaction fees and meeting minimum financial requirements. The chapter also highlights the dissimilar subregional features in all facets examined.

The second section describes different patterns in inequality trends in Africa and links them to underlying public policies. It reveals three common features of countries that have experienced a decrease in their Gini coefficient over the 1993-2011 period: i) historical lower income inequality; ii) positive growth performance over the period and; iii) pro-poor investment. With regards to the latter, the study stresses the importance of investment in agriculture. Investment can be undertaken in various forms and include direct support through subsidies to households that are labour-poor, cash-transfer programmes and physical infrastructure to improve connectivity, such as road networks. ECA also highlights specific policies to address the gender gap, such as free health care programmes for children and mothers, and educational programmes with a gender focus. In the case of spatial inequalities, improvement in water and sanitation facilities is critical, as well as broader sectoral plans in agriculture and rural development. Various policies that facilitate access to financial services for all have also been promoted. ECA also reveals an integrated approach to address the various forms of inequality tackling at the same time, gender, age and spatial inequalities.

The chapter concludes by stressing that the relationship between economic growth and income inequality is not fixed and that inequality can be moulded by policies. It also emphasises that cost-sharing in education or health reinforces inequalities. Evidence tends to support the importance of closing the gender gap, and that improved access to health and infrastructure is key to address inequality. It also highlights the importance of pro-poor social investment by means of social protection targeted programmes. Spatial inequality remains a challenge and requires a more active role of sub-national administrative units. With respect to the lack of a comprehensive pro-equity public policy, ECA puts forward five policy considerations, which highlight the need to: i) improve the policy impact on inequality through higher social investment connected to social protection schemes for the excluded; ii) integrate spatial and gender driven inequalities in policy design and implementation; iii) provide income support and targeted social protection to reduce the reliance on cost-sharing for access to health and education; iv) promote decentralization to facilitate spatial equality and; v) the need for further research on the drivers behind the many dimensions of inequality.

Chapter III, prepared by the Economic Commission for Latin America and the Caribbean (ECLAC), focuses on social protection policies to address inequality. ECLAC highlights that social inequality in Latin America and the Caribbean is a multidimensional phenomenon strongly conditioned by a heterogeneous production structure. Social inequalities in the region are shaped by the socio-economic stratum and the axes of gender, race and ethnic origin and territorial inequalities, as well as those connected to the life cycle. In its analysis the chapter follows each of these axes. First it provides evidence to sustain the importance of minimum wage policies and policies that address labour and productive inclusion to address socio-economic driven stratification. It then proceeds to examine three policies that help to reduce inequality between women and men: i) care policies; ii) policies aimed at women's labour and productive inclusion; and iii) pensions. The next section centres on life-cycle inequalities and highlights different equality-oriented policies for childhood and adolescence, before addressing the challenge of the transition from education to work during youth. ECLAC also examines pension systems, including both, contributory and non-contributory allowances. It stresses that pension systems constitute a central part of social protection systems and have been a key policy to reduce poverty and extreme poverty in old age. In what follows, the chapter presents actions that address race and ethnic inequalities, such as better and more accurate statistical data to inform policies, participatory approaches and respect of the affected population in the implementation of policies, as well as affirmative action and the establishment and promotion of rights. Territorial inequalities are addressed in terms of equality-oriented policies that reduce the urban-rural divide, such as social protection efforts that target households in rural areas. ECLAC also highlights policies that focus on the reduction of segregation within cities, through the promotion of universal and equitable access to physical and social infrastructure and urban services, equitable access to the city's resources, services, and economic opportunities, resilience and social protection for addressing impacts of climate change and disasters linked to human settlements in high-risk areas.

The chapter concludes by highlighting the importance of policies that are universal but sensitive to difference. It also asserts the need for rights-based public policies with an integrated perspective. ECLAC underscores that tackling inequality means to advance in universal social protection, health and education policies, as well as in the eradication of poverty. Based on the regional experience of equality-oriented policies, ECLAC calls for the articulation of social, economic and environmental policies. These should be based upon the coordination of sectorial policies with policies focused on specific groups (e.g., children, indigenous populations, the elderly). ECLAC considers that the inclusion of gender as a cross-cutting theme is imperative for equality-oriented policies. In addition, the chapter notes the importance of accurate statistical measurement that can be disaggregated along different dimensions, such as age, sex, race, ethnic origin, migratory status, geographic location and disability. It also calls for the critical importance of participatory mechanism and transparency in public policies.

In chapter IV, the Economic and Social Commission for Asia and the Pacific (ESCAP) presents the regional view on Asia and the Pacific. It first summarizes the major trends of socioeconomic inequality. These are grouped into three categories: (i) inequality of outcome (income or wealth); (ii) inequality and decent work; (iii) inequality of opportunity. In the context of the recent trend of increasing income inequality within many countries in the region, the chapter highlights the deviations with respect to the earlier more equitable development path in Asia and the Pacific. The study also emphasises the mixed record in employment generation. Using the proxy indicator of "full-time employment" to examine inequality in decent work, the study explores new ways to identify which population groups are furthest behind in the region's developing countries. The chapter then comprehensively examines inequality of opportunity, measuring inequality in 14 areas, including access to education, health care, nutrition and full-time employment, and access to basic household services, such as electricity, clean fuels and basic sanitation. It finds significant variation, with opportunities being unequally distributed in many of the region's fastest developing countries.

The chapter moves on to describe policies to address inequalities. These are framed into four categories: (i) social protection; (ii) education; (iii) employment and; (iv) fiscal policies. ESCAP points out that most of social protection benefits are tied to formal jobs and have, in consequence, a

regressive impact on inequality. Although, steps are being taken towards the implementation of a social protection floor, most schemes are fragmented and address short-term poverty alleviation. Even though health outcomes have improved over the last twenty years there remain significant inequalities in access to healthcare. High-income countries in the region have established effective systems for universal health coverage. Poorer countries feature a lack of access to affordable and good quality health services for those in most need. Significant progress was made in primary school enrolment over the past 20 years. The quality and targeting of investment in education, however, remains an issue and is more important for educational outcomes than total expenditure. ESCAP highlights the importance of minimum wages, macroeconomic policy supportive of wage-led growth to decent jobs, economic growth and employment generation. In the same line, trade union membership and coverage by collective bargaining agreements also raises workers' income. Moreover, effective industrial policy, combined with education and public employment services is considered essential to ensure labour market needs are met with the required skills. Here, the promotion of lifelong learning is crucial for encouraging job mobility. ESCAP also points to the increasing importance of green jobs in the face of environmental degradation. It also emphasises the importance of fiscal policies to address inequalities through a progressive taxation system, which would imply in most cases reforms in income and corporate tax.

ESCAP's chapter concludes by offering a six-point agenda for closing socioeconomic development gaps. First, it highlights the need for creating a macroeconomic framework that supports job-rich, inclusive growth. Second, it stresses expanding social protection coverage. Third, ESCAP underscores the need for providing universal access to education, health care and basic infrastructure such as clean water sanitation and energy. Fourth, it calls for promoting gender equality and women's economic empowerment. Fifth, it highlights the need to improve financial inclusion to enable people to save for emergencies, as well as to borrow for household and business needs. Finally, programmes targeting vulnerable groups are critical to reach those who are being left behind.

Chapter V was elaborated by the Economic and Social Commission for Western Asia (ESCWA). It provides a study on the importance of addressing informality for the reduction of inequality. The chapter is structured around three sections. The first section reviews the interplay between informality and inequality. It stresses the compounded problems in reducing informality. This is expressed for instance through the duality of informality: on the one side, as a provider of job opportunities and sources of income and, on the other side, as harmful for fiscal policies and a bottleneck to poverty reduction efforts. The second section examines the prevalence of informality in the Arab region in more detail. It highlights the growth of the informal economy in recent years and the demographic dividend as a missed opportunity for reducing informal employment.

In the third section, ESCWA outlines some policy options for the Arab region. Firstly, the chapter emphasizes that the heterogeneity of the informal economy should be recognized for the adequate design and implementation of public policies. Moreover, there still exist different views on what is meant by formalization and how it can be achieved. In this context, ESCWA follows closely the recommendations of the International Labour Organization (ILO) and calls for an integrated policy framework adapted to each specific country. Special emphasis is placed on the role of sustainable micro, small and medium enterprises, the creation of an enabling policy and regulatory environment that reduces barriers to formalization and developing a national social protection floor for all, including the informal economy. ESCWA also highlights ILO's adoption of recommendation 204: *Transition from the Informal to the Formal Economy* that stresses first the support and recognition of informal workers. In this regard, ESCWA asserts that Arab governments should consider regulating their labour markets in such a way that an adequate level of income and social protection is provided.

So far, policies in the region have not been able to address growing informality adequately. To reverse this outcome, a framework that recognizes the importance of the informal economy and the rights of workers, should aim towards making informal activities part of a growing formal economy, offering decent jobs, productivity gains and economic growth.



The main policy challenge can be synthesized in finding the right balance of incentives for formality and of disincentives for remaining informal. In policy terms, this would be based on an approach anchored in social dialogue and in adapting taxation, financing and the social security system to the informal economy with the goal of facilitating transitions to formality. ESCWA makes a call for more detailed country-specific studies on informality to feed the formulation of a comprehensive and integrated framework based on ILO's recommendation 204 and shaped by national specificities. ESCWA also discusses whether the complete formalization of the informal sector is the most appropriate route to follow and stresses the importance of the reduction of injustices in the informal sector based on a path towards inclusive and just development.

Finally, chapter VI examines worldwide evidence on the redistributive dynamics of social policies at two ends of the life cycle, namely social protection for families and early childhood and pensions and incomes for old age, drawing on two new international studies (Filgueira and Manzi, 2017 and Filgueira and Rossel, 2017). The chapter shows that there is a clear trend among countries throughout the world to prioritize social investment for old age vis-à-vis early childhood. In this regard, social protection for families and early childhood is a relatively new development. This chapter emphasizes that countries that have favoured a more universalistic welfare regime tend to have a stronger connection between social policies and inequality reduction. However, it warns against a simple 'copy and paste' of existing social policies as much is determined by the specific institutional context and how policies are actually designed and implemented.

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# I. Setting the stage: inequality and poverty in world regions

## Introduction

This chapter presents some stylized facts on inequality and poverty in the world regions covered by the United Nations Regional Commissions, as a means to set the background for the following chapters on regional findings and lessons learned in the conceptualization, design and implementation of public policies oriented towards greater equality.<sup>1</sup> Although inequality and poverty are two different phenomena, it is important to remind that they are connected, as lower inequality for instance facilitates pro-poor growth and poverty reduction.

In our attempt to provide comparable data on inequality and poverty, we rely mainly on summary statistics that are based on household incomes or consumption expenditure. In particular, to examine inequality throughout different world regions, we rely on the Gini index.

To this respect, some important facts have to be pointed out. First, even though many other measures to capture income inequality (responding to different value judgments about the importance or weight to be ascribed to inequality at different locations of the distribution) or non-income measures of inequality exist, the Gini coefficient is an indicator for which reliable and comparable statistical information is available.<sup>2</sup>

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<sup>1</sup> The regional groupings and their composition used in the charts presented throughout this chapter correspond to those covered by the United Nations Regional Commissions (ECA, ECE, ECLAC, ESCAP and ESCWA). See table A.1 for a list of countries belonging to each region.

<sup>2</sup> Not all distributions refer to income: expenditure, inequality in land, assets and tax payments are also the focus of inequality measures. In recent years, Piketty, Atkinson and Saez have put the analysis of top incomes at the centre of the debate. Their World Top Incomes Database (<http://topincomes.g-mond.parisschoolofeconomics.eu/>) combines different data sources: national income and wealth accounts, household income and wealth surveys, fiscal data coming from taxes, such as income, inheritance and wealth (<http://wid.world/methodology/#library-general>). Even focusing only on income or consumption expenditure, there is no single best measure of inequality, as different indicators —such as quantile ratios, quantile participation, the Theil index and other generalized entropy measures or the Atkinson index— point to different aspects of the distribution. Additionally, the functional distribution looks at the share of capital and wages in total income or wealth. For a more detailed review of inequality indicators, see Atuesta, Mancero and Tromben (2018).

Second, although inequality is typically measured by a relative measure of income or expenditure inequality such as the Gini coefficient, this indicator has its limitations. For instance, the Gini coefficient does not capture transfers at the extremes of the distribution, as it is more sensitive to dispersion of income or expenditure in the middle of the distribution; furthermore, being based on household incomes or expenditures collected through household surveys, it underestimates wealth located at the top of the distribution. Thus, alternative measures, including other relative income or expenditure measures, absolute measures of income inequality, measures considering top incomes or measures comparing the share of wages and capital are needed to get a clearer picture of the situation (Bárcena, 2017).

Third, inequality includes, but transcends income, expenditures and the ownership of assets and relates to the uneven exercise of rights, unequal access to opportunities and capacity development, and unequal results in different aspects of wellbeing. From this perspective, studies that aim to capture the different social dimensions of inequality focus less on one single statistical measure and examine the multiple dimensions of inequality, looking at gender, ethnic or race, life-cycle and territorial disparities. These dimensions intersect and exacerbate one other, and manifest themselves for instance in differences in educational attainment, access to health services and social protection by population group.<sup>3</sup> As it will be illustrated throughout the different chapters of this report, the examination of the multiple dimensions of inequality over different social areas is key for the analysis of equality-oriented social policies as it delivers important information on the most disadvantaged social groups.

Fourth, regions and countries around the world are of course very different and difficult to compare. To begin with, they start from different levels of initial distribution of income and wealth, as well as from very different historical trajectories with respect to economic and social public policies. This diversity is in turn linked to differences in government expenditures and tax composition. Thus, for an adequate assessment of regions' and countries' equality-oriented policies such differences must be considered.

Fifth, income (or consumption expenditure) should not be regarded as the definitive reference for inequality and poverty. Inequality and poverty, which are the result of underlying structural conditions and manifold social differences, can be expressed through multiple dimensions, such as those of the social inequality matrix (ECLAC, 2016) and of multidimensional poverty measurement.

All development indicators, in particular, must be disaggregated according to different dimensions, beyond income. To this regard, target 17.18 of the Sustainable Development Goals points out to the necessity to analyze “data disaggregated by income, gender, age, race, ethnicity, migratory status, disability, geographic location and other characteristics relevant in national contexts”.

## **A. Equality-oriented public policies: beyond the equality-efficiency trade off**

It is at least since the period of global economic stagnation and high unemployment of the 1970s that equality-oriented policies have come under the attack of mainstream economists, who have blamed the social expenditures of the welfare state for those problems. This position has been underpinned by Okun's (1975) theoretical argument that there exists a trade-off between equality and efficiency; that is, societies cannot aim simultaneously at both goals. Public policies influenced by this view have thus focused on reducing social expenditures, for these would increase the fiscal deficit, reduce savings and consequently impact long-term growth. Hence, lowering taxes, especially for the rich, and reduce redistributive policies would create the incentives to boost growth.

In recent years, theoretical arguments and robust evidence in favor of equality-oriented policies, contrasting Okun's theory, have been growing. Even though a certain degree of inequality is deemed

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<sup>3</sup> ECLAC's *Social Inequality Matrix* (2016) is an example of such an effort to examine multiple inequalities.

necessary for a market economy to operate (Chaudhuri and Ravallion, 2007; Lazear and Rosen, 1981), increasing levels of inequality might actually hamper growth prospects. Stiglitz (2012) emphasizes the impact of inequality on rent-seeking behavior of the wealthiest people to avoid market competition, hereby eroding political institutions. Rajan (2010) underscores the impact of inequality on people's debt and the 2008 financial crises in the United States. Alesina and Perotti (1993) demonstrate that inequality can be detrimental for social cohesion and social stability; this, in turn would avert investment and growth. The recognition that inequality is a key socio-economic problem that can be addressed through social policies is also present in Chang's (2002) historical review of development strategies. The author underscores that the reduction of inequality was an implicit goal of the policy instruments used by East Asian countries for their productive take-off. His research shows the importance of social policies to address prevailing social conflicts in most East Asian countries. For instance, Japan, South Korea and Taiwan grew faster between the 1950s and 1980s than countries in similar development stages which were comparatively less equal. That is, Japan grew faster than the United States, and South Korea and Taiwan grew faster than Latin American countries during the same period.

Recently, various international organizations have reaffirmed the importance of equality for economic growth. The IMF has presented evidence that more equal countries are able to sustain higher growth and that redistribution, except in extreme cases, tends to encourage growth (Berg and Ostry, 2011; Ostry, Berg and Tsangarides, 2014). In turn, the OECD (2014b and 2014a; Cingano, 2014) on the basis of evidence for the most advanced countries, claims that inequality, the highest in last 30 years, hampers further growth perspectives. In this context, the OECD recommends the adoption of public policies that can reduce inequality, including well designed taxes and transfers, and investment in education for the poorest 40%.

Furthermore, the case of the Nordic countries of Europe (Finland, Norway, Sweden, Denmark and Iceland) illustrates how redistributive policies and acceleration of economic growth can go hand in hand. In these countries, which share features connected to the size of the economy, the welfare state and the organization of the labour market, social policies have been essential to articulate the goal of a more egalitarian society with the requirements of a market economy. The 'Nordic model' has aimed to balance market forces with the needs of society, as illustrated by the case of social protection and labour market policies (Vartianen, 2014) and the use of coordinated social, economic and labour policies in reaction to the consequences of the 2008 financial crisis (Dølvik et al., 2015).

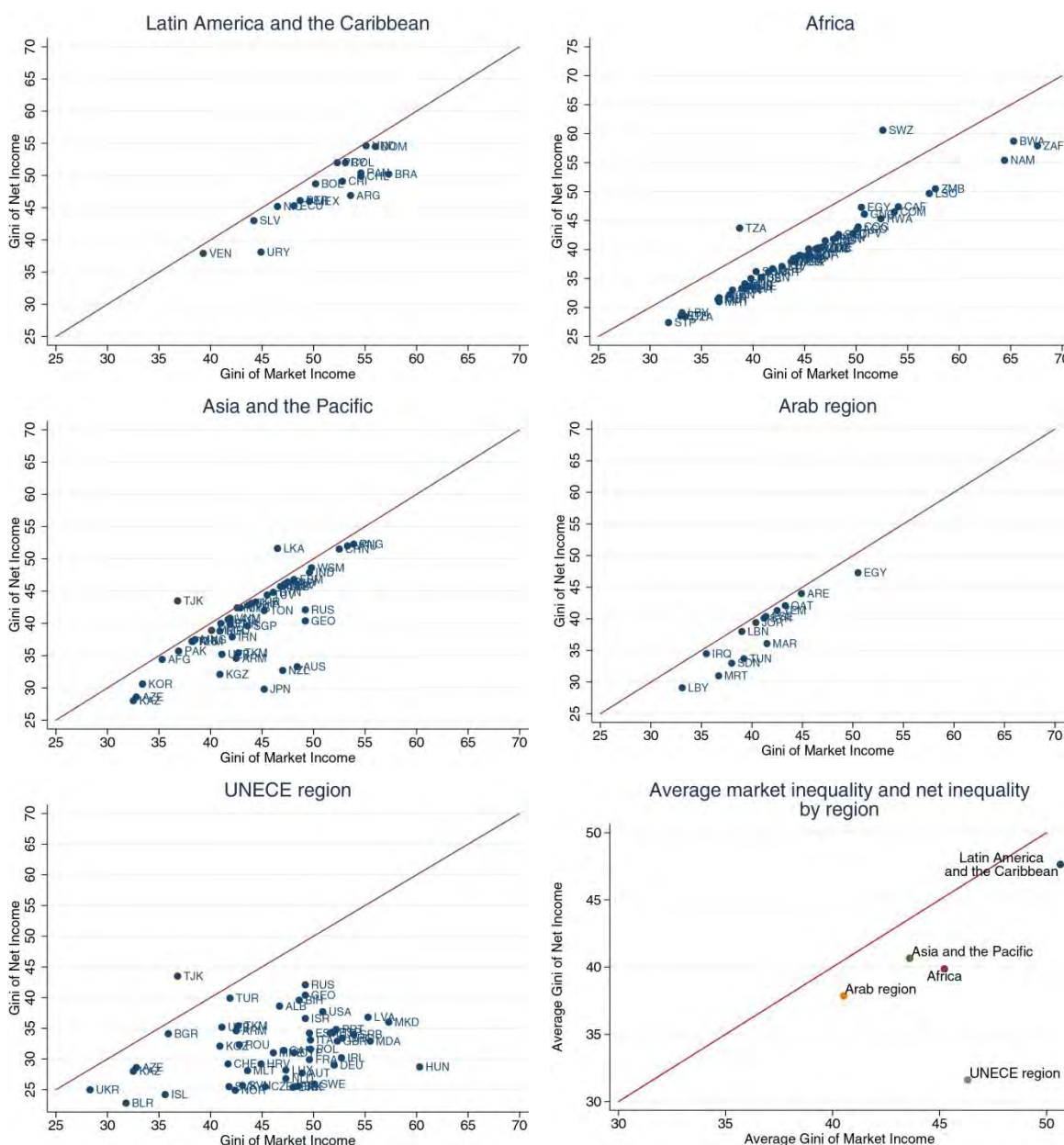
## B. Income inequality

Cross-country data on inequality is of limited availability. The present section uses the Solt (2016) Standardized World Income Inequality Database (SWIID) for estimates of the Gini index of income inequality and data prepared by Hanni, Martner and Podestá (2015) on the basis of household surveys for Latin America and the Caribbean. Both datasets have the advantage that they distinguish between the Gini coefficient for market inequality and the Gini coefficient of net inequality. The latter represents disposable income inequality, and is adjusted for direct taxes and cash transfers. Comparison between the Gini coefficient for market inequality and net inequality helps to explain the reduction of income inequality via government transfers and taxes. However, as Solt (2016) acknowledges, market-income inequality should not be considered as an indicator of a 'pre-government' situation. There are a series of government policies that impact income distribution but are not considered as redistributive policies, such as transport, housing subsidies or on-the-job training programmes. All of these policies are not included in government transfers.

Figure I.1 compares net inequality (on the vertical axis) with market inequality (on the horizontal axis) for countries in the different regions covered by the United Nations Regional Commissions from the year 2000 onwards. At the 45-degree line, the level of net and market inequality is identical. Countries below the 45-degree line have higher market inequality than net inequality (after taxes and transfers).

As the vertical distance between an observation and the 45-degree line increases, the differences between net inequality and market inequality grow, showing increasing levels of redistribution.

**Figure I.1**  
**Market and net inequality by region, latest available year (2002/2016)<sup>a</sup>**



Source: Own elaboration based on *SWIID Version 6.1*. Figures based on latest Gini available from the year 2000 onwards for 166 countries. Africa (53 countries), Asia and the Pacific (46 countries), Arab region (14 countries), UNECE region (52 countries). Data for 17 Latin American and Caribbean countries are around 2011 and were drawn from Hanni, Martner and Podestá (2015) based on household surveys.

<sup>a</sup> Average market inequality and net inequality by region based on simple average.

A first conclusion is that in all regions most countries show some level of redistribution. This is despite the enormous heterogeneity across countries in inequality levels and redistributive tax and transfer systems. However, the chart shows just one moment in time, obscuring inequality dynamics over time.

Second, UNECE region's countries engage in larger amounts of redistribution than countries in other regions. After Latin America and the Caribbean, the UNECE region shows the highest level of market inequality, but after redistribution it is the most equal region. Whereas Latin America and the Caribbean reduces its regional average Gini of market inequality of 0.51 to a regional average Gini of net income of 0.48, UNECE region improves from 0.46 to 0.32. In other words, while Latin America and the Caribbean improve income inequality via government transfers and taxes by 5.9%, UNECE region does it by 31.8%.

Third, after UNECE region, African countries —whose Gini of market inequality ranges from 0.32 to 0.67— engage in most redistribution efforts, reducing inequality by 11.9% (from 0.45 to 0.40).

Fourth, Latin America and the Caribbean displays on average the highest level of inequality, both before and after redistribution. In addition, Latin American and Caribbean countries tend to be roughly clustered around a more limited area of the 45-degree line, showing, on average, more homogenous patterns of inequality and redistribution.

Fifth, the Arab region has the lowest level of market inequality (0.41) and is second after redistribution (0.38), only after UNECE region. However, on average Arab countries have similar levels of redistribution (6.6%) than countries in Asia and the Pacific (6.8%) and Latin America and the Caribbean (5.9%).

Figure I.1 suggests that policies aiming to reduce inequality can be successful, as shown by the case of the UNECE region. That policies matter in determining inequality has also been shown recently by the evidence presented in the *World Inequality Report 2018* (Alvaredo and others, 2017), which illustrates the divergent path in inequality between Western Europe and the United States.

## C. Income and multidimensional poverty

For a better understanding of the diverse starting points for the implementation of equality enhancing policies, this section turns to a brief discussion of poverty throughout different world regions. The poverty estimates are drawn from the World Bank's World Development Indicators and OPHI's Global Multidimensional Poverty Index (MPI). Whereas the World Bank poverty estimates are based on income, the MPI is a measure of poverty that complements income-based poverty measures by capturing deprivations with respect to education, health and living standards. The MPI evaluates poverty at the individual level and was developed by OPHI with the United Nations Development Programme (UNDP) for inclusion in UNDP's flagship *Human Development Report* in 2010. Non-income aspects of poverty are also taken into account in various publications by the UN Regional Commissions, which aim to measure poverty from a multidimensional perspective (e.g., ECLAC, 2014; ESCWA, 2017; UNECE, 2017).<sup>4</sup>

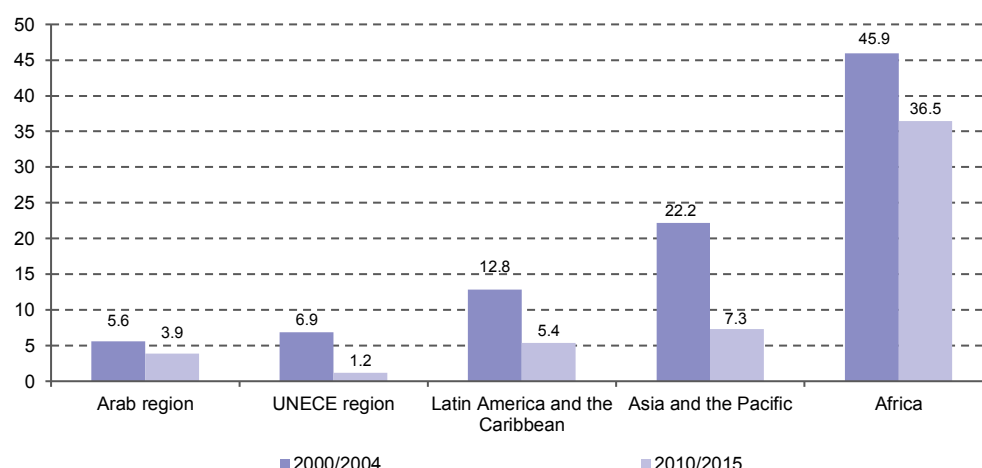
Our analysis is based on two comparable income poverty headcount ratios provided by the World Bank. The first is the extreme poverty rate defined as the percentage of population living on less than US\$1.90 a day in 2011 purchasing parity terms.<sup>5</sup> The second headcount ratio is set on US\$3.20 a day in 2011 purchasing parity terms.

<sup>4</sup> The importance of complementing income-based poverty measures with a multidimensional index is also reflected by the fact that income poverty and the MPI do not necessarily move together (Alkire, Roche and Vaz, 2014).

<sup>5</sup> The US\$1.90 a day poverty line is assumed to capture some of the poorest countries' national poverty lines. It is the updated version of the US\$1.25 international poverty line mentioned in SDG target 1.1, "By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day".

A first conclusion that can be drawn is that, based on simple country averages, the extreme poverty (see figure I.2) and poverty (see figure I.3) headcount ratios decreased between 2000/2004 and 2010/2015 in all regions. Figure I.2 shows that extreme poverty is almost not an issue negligible in the UNECE region, it remains a problem for the Arab region, Latin America and the Caribbean and Asia and the Pacific, but is a big issue for Africa, where about 37 percent of people still live in extreme poverty. When the examination of poverty is based on the line set at \$3.20, although the pace of poverty reduction is similar, figures are substantially higher. Although the African region reduced its poverty levels on average by more than 10 percentage points over the period, the poverty headcount remains at about 59 percent. In the case of the Arab region, while extreme poverty is under 4 percent, the poverty headcount ratio at \$3.20 is over 15 percent.

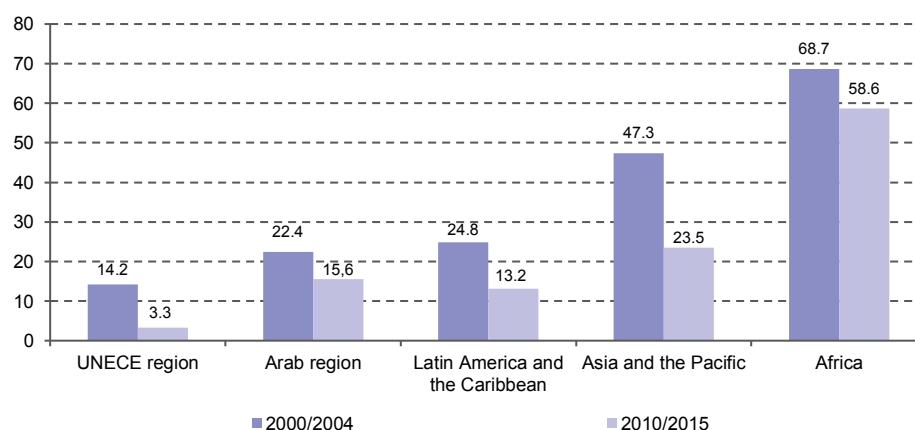
**Figure I.2**  
**Poverty headcount ratio at \$1.90 a day (2011 PPP), by region, 2000/2004–2010/2015<sup>a</sup>**  
(Percentages of the population)



Source: Own elaboration based on World Development Indicators.

<sup>a</sup> Simple averages. Latin America and the Caribbean (18 countries in 2000/2004 and 2010/2015), Arab region (7 countries in 2000/2004 and 8 countries in 2010/2015), Africa (35 countries in 2000/2004 and 2010/2015), UNECE region (39 countries in 2000/2004 and 33 in 2010/2015), Asia and the Pacific (28 countries in 2000/2004 and 26 countries in 2010/2015).

**Figure I.3**  
**Poverty headcount ratio at \$3.20 a day (2011 PPP), by region, 2000/2004–2010/2015<sup>a</sup>**  
(Percentages of the population)



Source: Own elaboration based on World Development Indicators.

<sup>a</sup> Simple averages. Latin America and the Caribbean (18 countries in 2000/2004 and 2010/2015), Arab region (7 countries in 2000/2004 and 8 countries in 2010/2015), Africa (35 countries in 2000/2004 and 2010/2015), UNECE region (42 countries in 2000/2004 and 2010/2015), Asia and the Pacific (28 countries in 2000/2004 and 29 countries in 2010/2015).

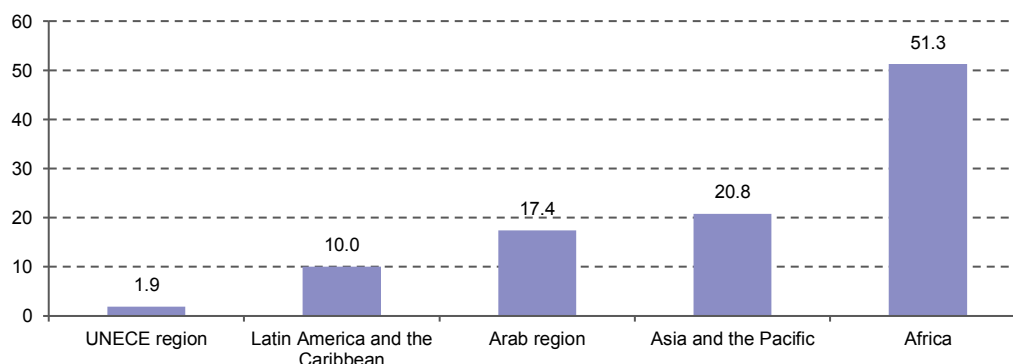
A second conclusion is that while poverty rates have declined in all regions, improvements have been uneven among countries, as can be observed in the annex (figures I.A1.1 to I.A1.10). The reduction in extreme poverty and poverty levels between 2000/2004 and 2010/2015 in percentage points is most remarkable in the cases of Ecuador and the Plurinational State of Bolivia in Latin America and the Caribbean, Mauritania in the Arab region, China, Bhutan, Vietnam and the Republic of Kyrgyzstan in Asia and the Pacific, and the Republic of Kyrgyzstan, Tajikistan, Armenia, Kazakhstan and Moldova in the region covered by the Economic Commission for Europe. In Africa, the most notable reductions of extreme poverty have taken place in Tanzania, Chad, Uganda and Guinea. The poverty reduction ranking changes when measuring progress by percentage change. In the case of Latin America and the Caribbean, reduction in extreme poverty or poverty is most remarkable in Peru, Ecuador and Chile. In the Arab region, Jordan and the West Bank and Gaza stand out. In Africa, percentage change reduction in extreme poverty or poverty is most remarkable in Mauritania and Egypt. The Ukraine, Armenia, the Russian Federation, the Republic of Kyrgyzstan, Kazakhstan and Moldova register the highest declines in the region covered by the Economic Commission for Europe. In the case of Asia and the Pacific, most remarkable progress has been achieved by Mongolia, Armenia, China, Bhutan, Vietnam, the Russian Federation, Kazakhstan, Kyrgyzstan, and Thailand.

Third, the goal of ending extreme poverty is far from being reached for many countries in Africa and some countries in Asia and the Pacific (e.g., Lao People's Democratic Republic, Solomon Islands and India), as well as in Guatemala, Honduras and Haiti in Latin America and the Caribbean and Yemen in the Arab region. On the other side, the UNECE region has basically solved the problem of absolute extreme income poverty. However, several countries, mainly from the Former Soviet Union, still have 10 percent of the population living under \$3.20 a day.

Moving to multidimensional poverty, we make use of the MPI, which is an internationally-comparable measure identifying deprivations across three dimensions (health, education and standard of living). People are considered multidimensional poor if they suffer acute deprivation in 33% or more of the weighted indicators. Ten key indicators are grouped around the three dimensions: nutrition and child mortality (health), years of schooling and children enrolled (education) and cooking fuel, toilet, water, electricity, floor, and assets (standard of living). Because of data constraints, country MPI comparability over time is limited (Alkire, Roche and Vaz, 2015), and thus we only present the latest MPI results available at the time of writing.

As can be observed in figure I.4, Africa is the region that registers the highest percentage of people living in multidimensional poverty (52.3), followed by Asia and the Pacific (27.7), the Arab region (14.0), Latin America and the Caribbean (10.0%) and UNECE region (1.9). Country-level data on the MPI is presented in the annex (see figures I.A1.11-I.A1.14).

**Figure I.4**  
**Poverty headcount ratio: population in multidimensional poverty, by region, 2006/2016<sup>a</sup>**  
(Percentages)



Source: Own elaboration, based on Alkire and Kanagaratnam (2018). Multidimensional Poverty Index Winter 2017-18.

<sup>a</sup> Simple averages. UNECE region (14 countries), Latin America and the Caribbean (19 countries), Arab region (11 countries), Asia and the Pacific (25 countries), Africa (49 countries).

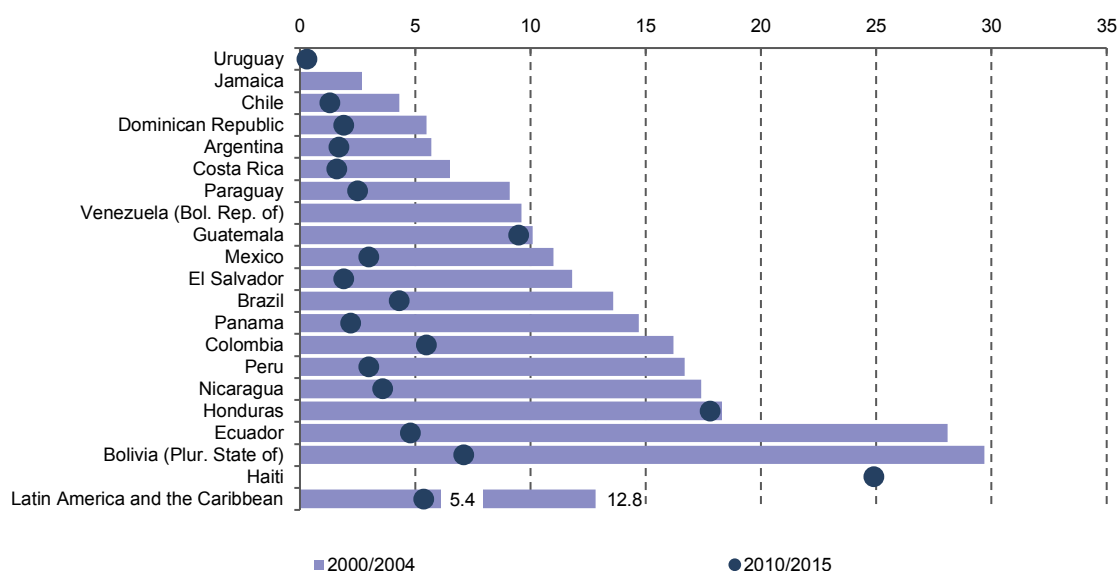


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## Annex I.A1

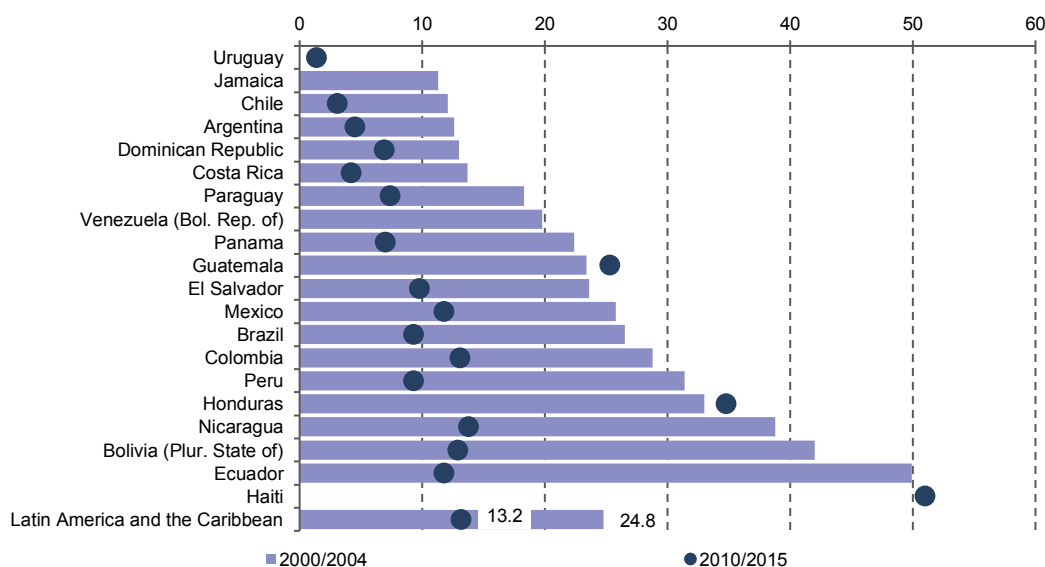
**Figure I.A1.1**  
**Latin America and the Caribbean (20 countries):**  
**poverty headcount ratio at \$1.90 a day (2011 PPP), around 2000/2004 and 2010/2015<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on World Development Indicators.

<sup>a</sup> Latin America and the Caribbean is simple average.

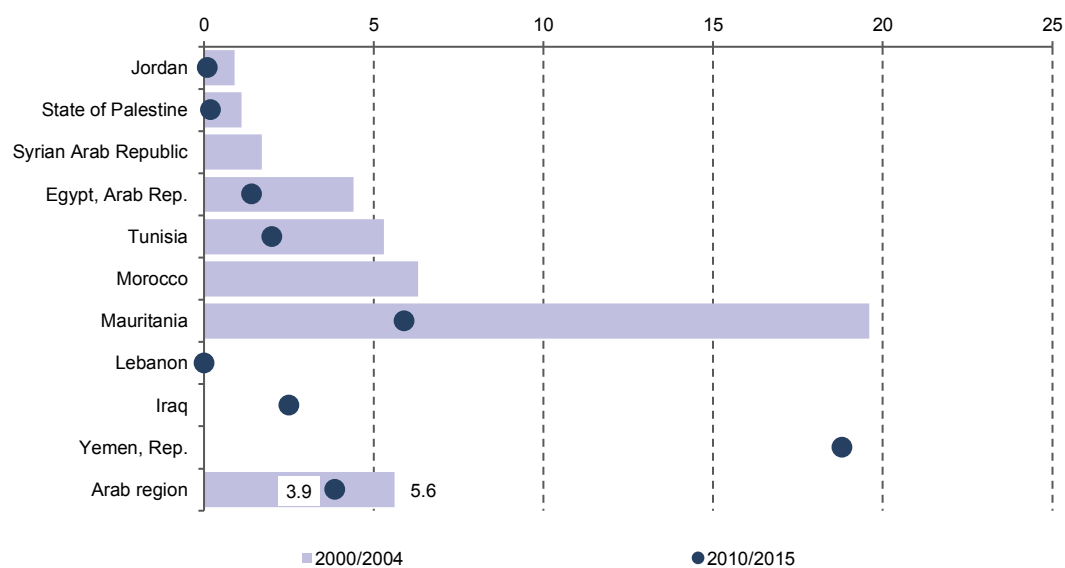
**Figure I.A1.2**  
**Latin America and the Caribbean (20 countries):**  
**poverty headcount ratio at \$3.20 a day (2011 PPP), around 2000/2004 and 2010/2015<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on World Development Indicators.

<sup>a</sup> Latin America and the Caribbean corresponds to simple average.

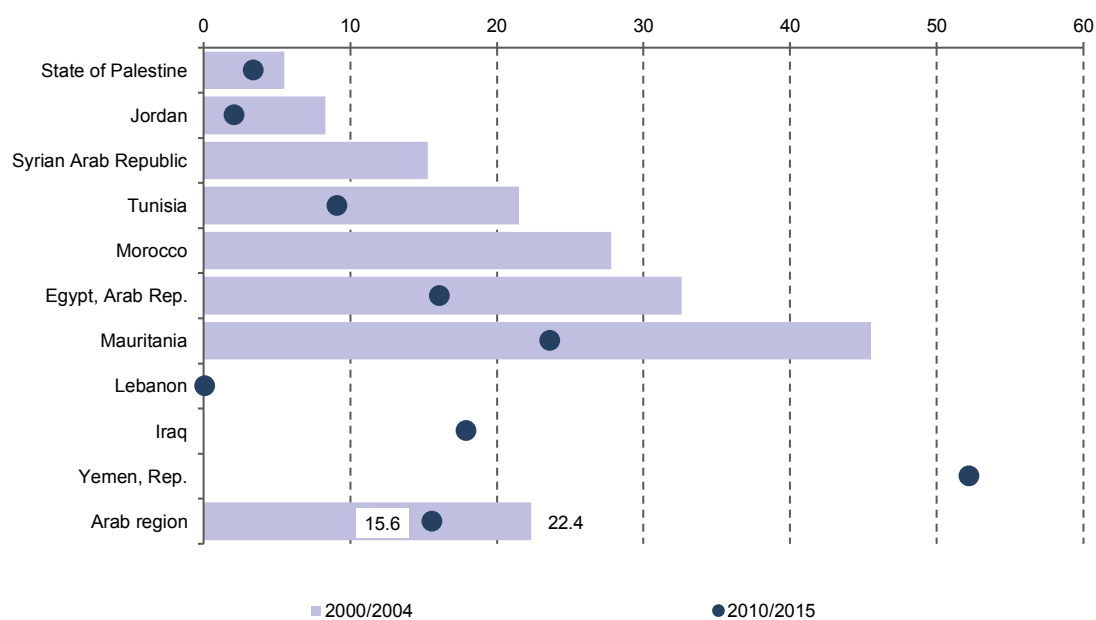
**Figure I.A1.3**  
**Arab region (10 countries):**  
**poverty headcount ratio at \$1.90 a day (2011 PPP), around 2000/2004 and 2010/2015<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on World Development Indicators.

<sup>a</sup> Arab region corresponds to simple average.

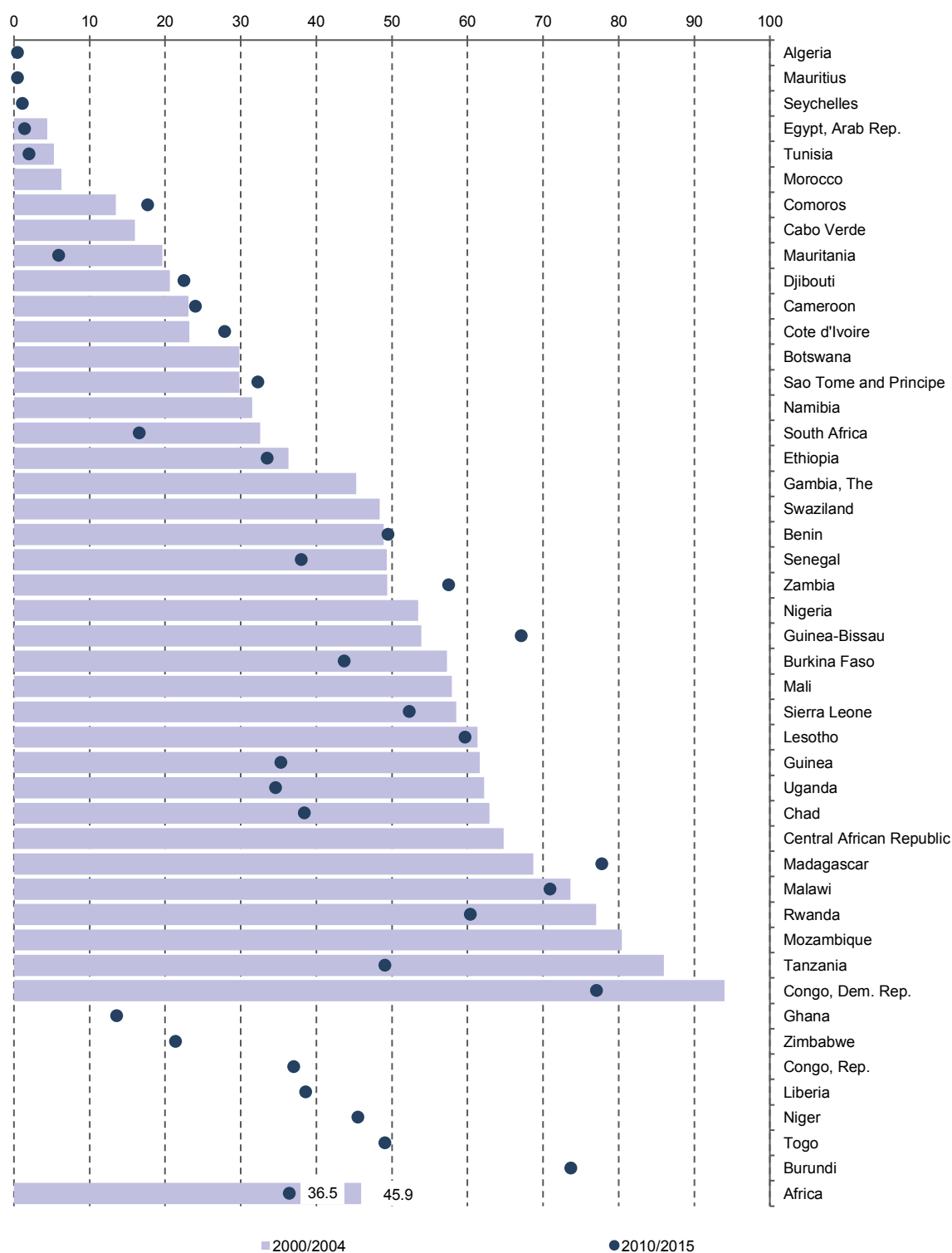
**Figure I.A1.4**  
**Arab region (10 countries):**  
**poverty headcount ratio at \$3.20 a day (2011 PPP), around 2000/2004 and 2010/2015<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on World Development Indicators.

<sup>a</sup> Arab region corresponds to simple average.

**Figure I.A1.5**  
**Africa (45 countries):**  
**poverty headcount ratio at \$1.90 a day (2011 PPP), around 2000/2004 and 2010/2015<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on World Development Indicators.

<sup>a</sup> Africa corresponds to simple average.

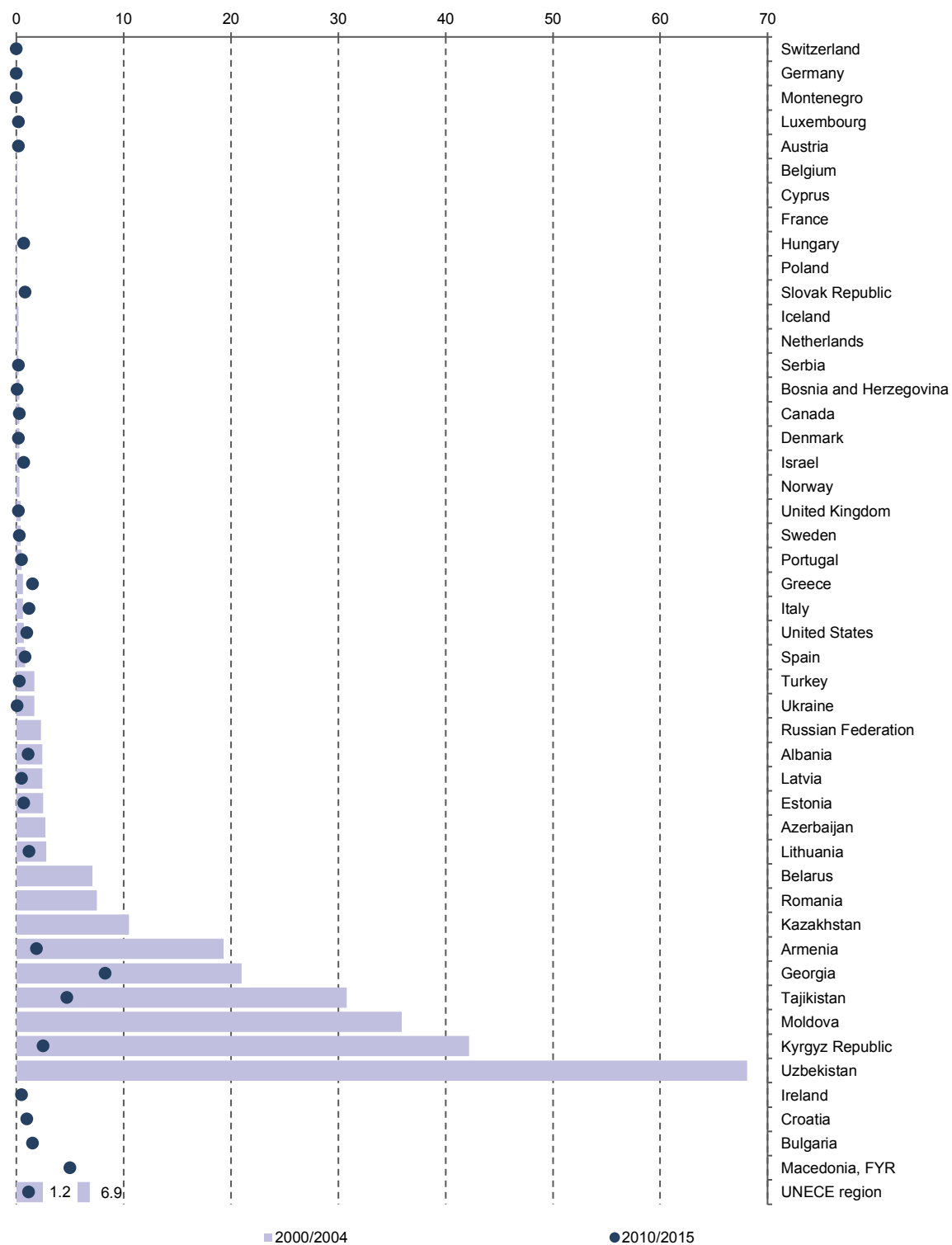
**Figure I.A1.6**  
**Africa (45 countries):**  
**poverty headcount ratio at \$3.20 a day (2011 PPP), around 2000/2004 and 2010/2015<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on World Development Indicators.

<sup>a</sup> Africa corresponds to simple average.

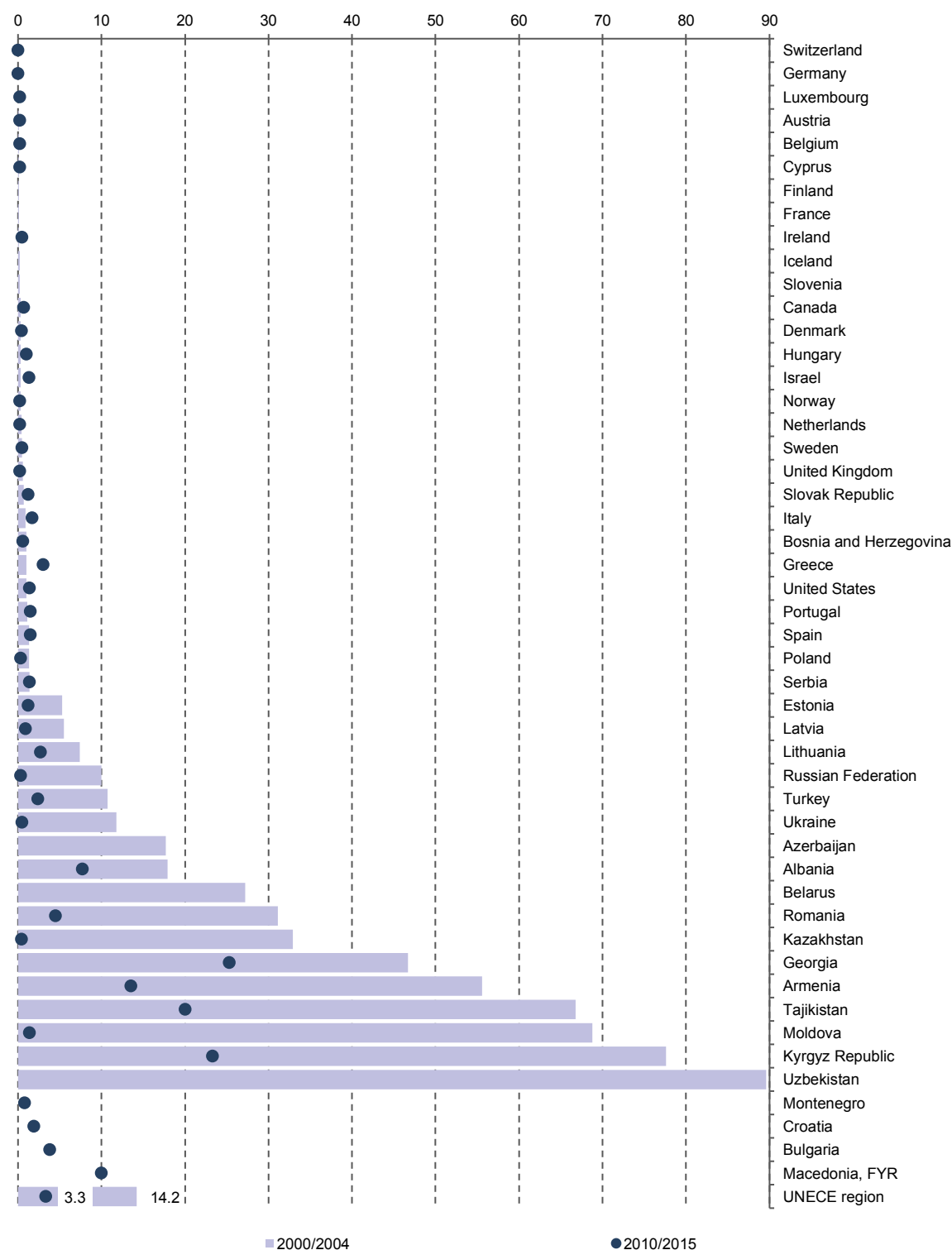
**Figure I.A1.7**  
**UNECE region (47 countries):**  
**poverty headcount ratio at \$1.90 a day (2011 PPP), around 2000/2004 and 2010/2015<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on World Development Indicators.

<sup>a</sup> UNECE region corresponds to simple average.

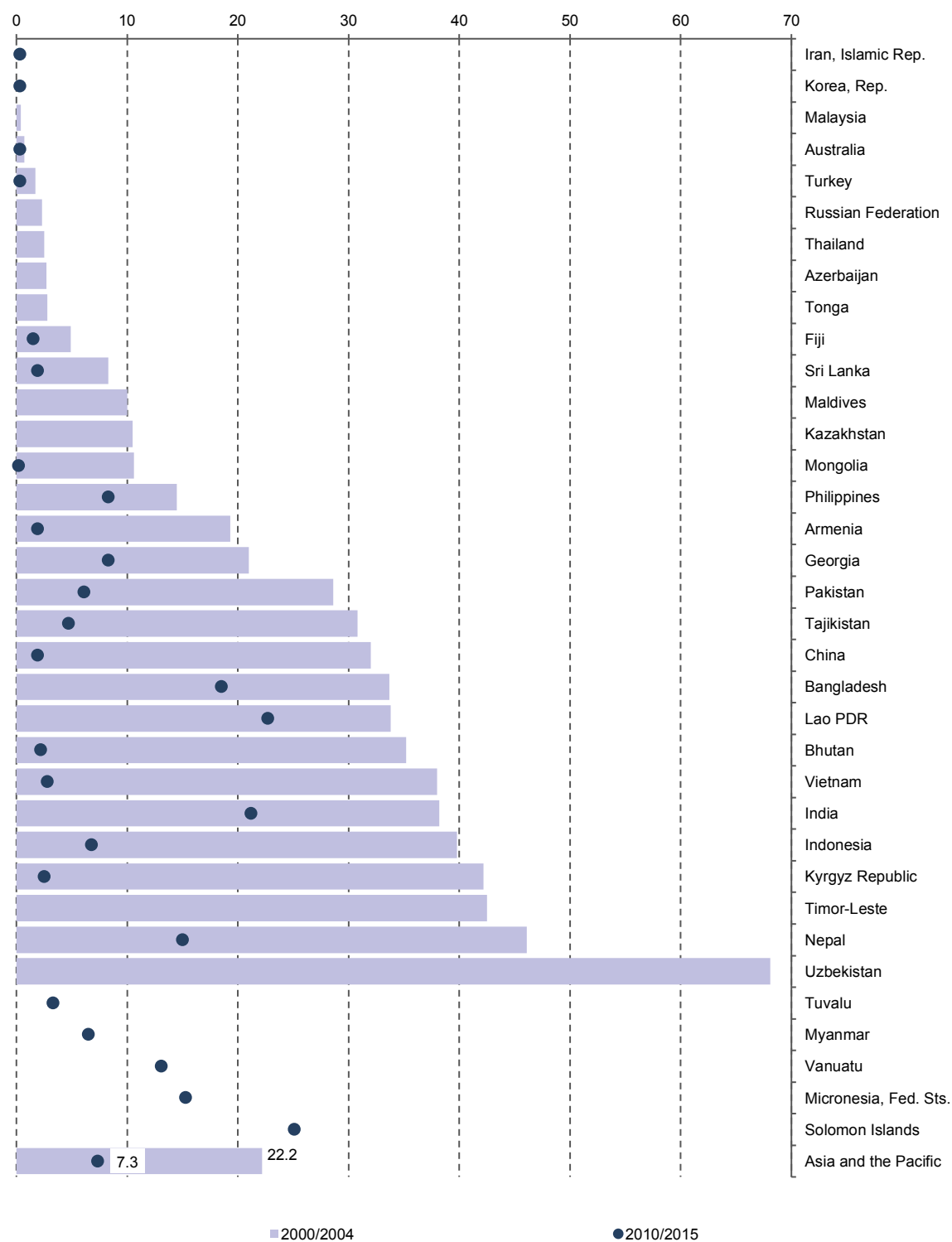
**Figure I.A1.8**  
**UNECE region (49 countries): poverty headcount ratio at \$3.20 a day (2011 PPP),**  
**around 2000/2004 and 2010/2015<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on World Development Indicators.

<sup>a</sup> UNECE region corresponds to simple average.

**Figure I.A1.9**  
**Asia and the Pacific (35 countries): poverty headcount ratio at \$1.90 a day (2011 PPP),**  
**around 2000/2004 and 2010/2015<sup>a</sup>**  
*(Percentages of the population)*

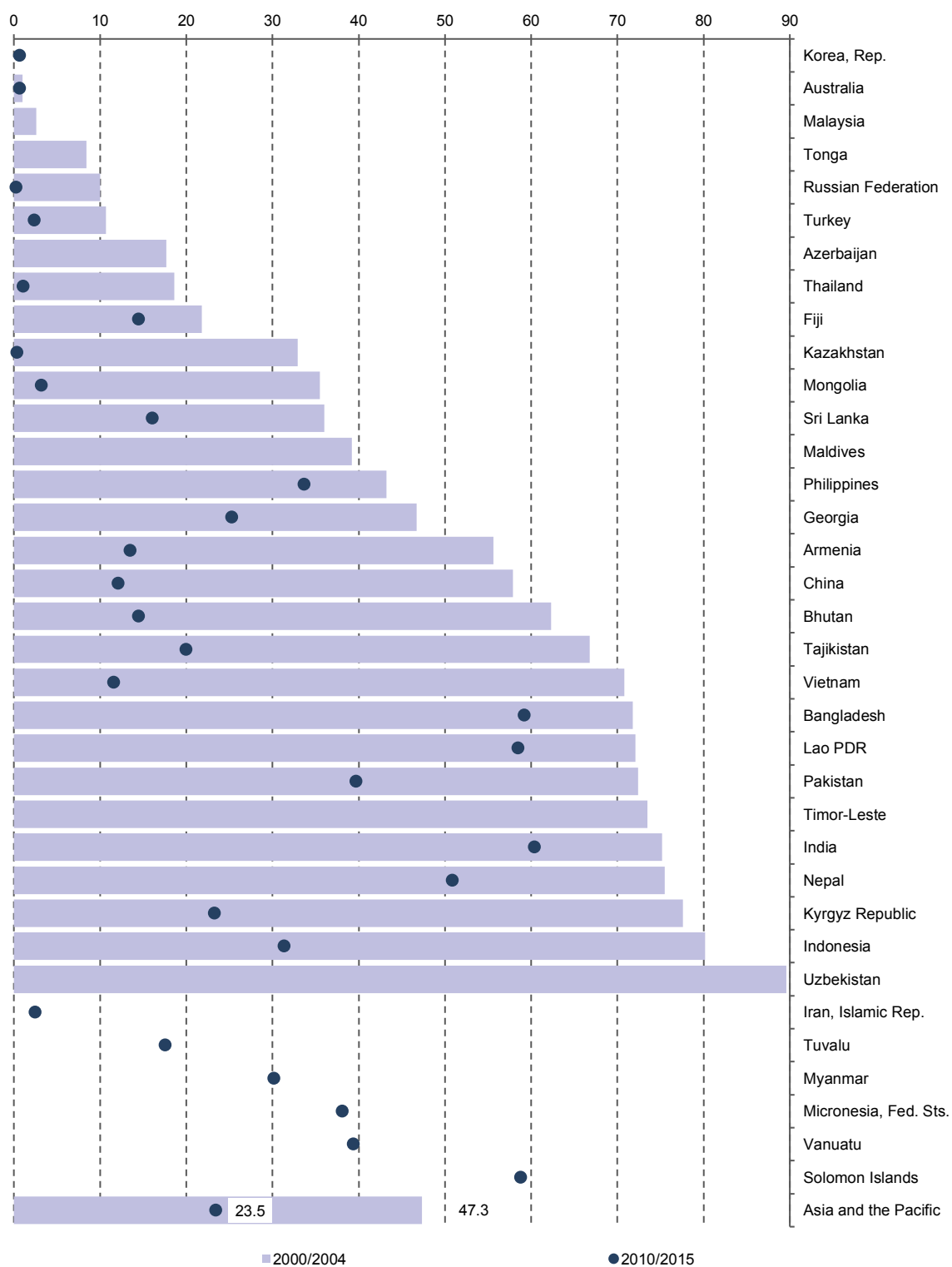


Source: Own elaboration based on World Development Indicators.

<sup>a</sup> Asia and the Pacific corresponds to simple average.



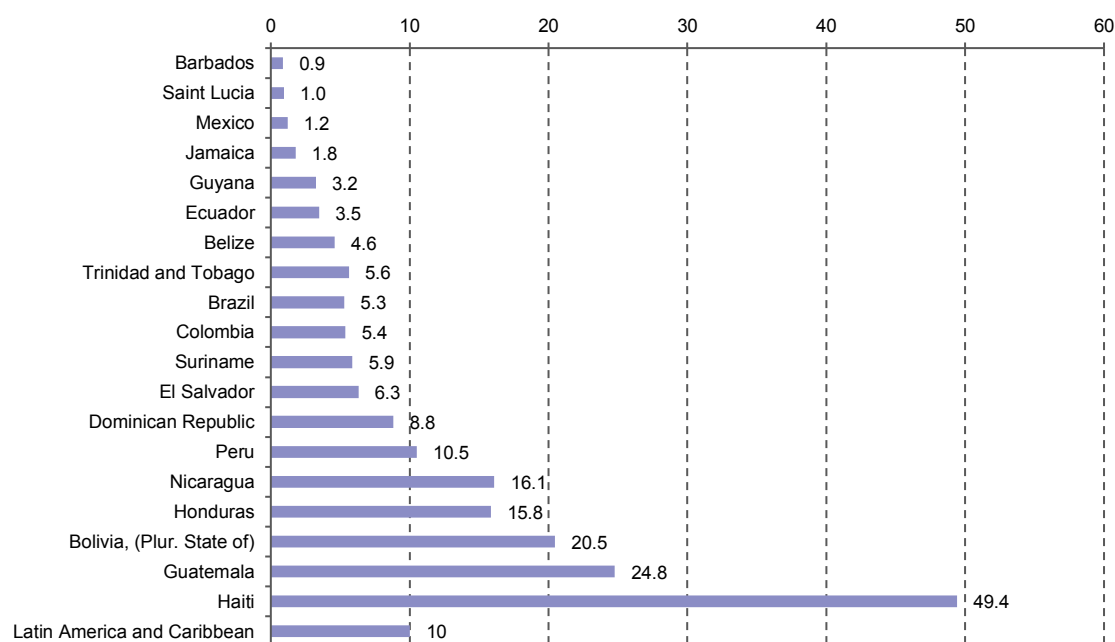
**Figure I.A1.10**  
**Asia and the Pacific (35 countries):**  
**poverty headcount ratio at \$3.20 a day (2011 PPP), around 2000/2004 and 2010/2015<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on World Development Indicators.

<sup>a</sup> Asia and the Pacific corresponds to simple average.

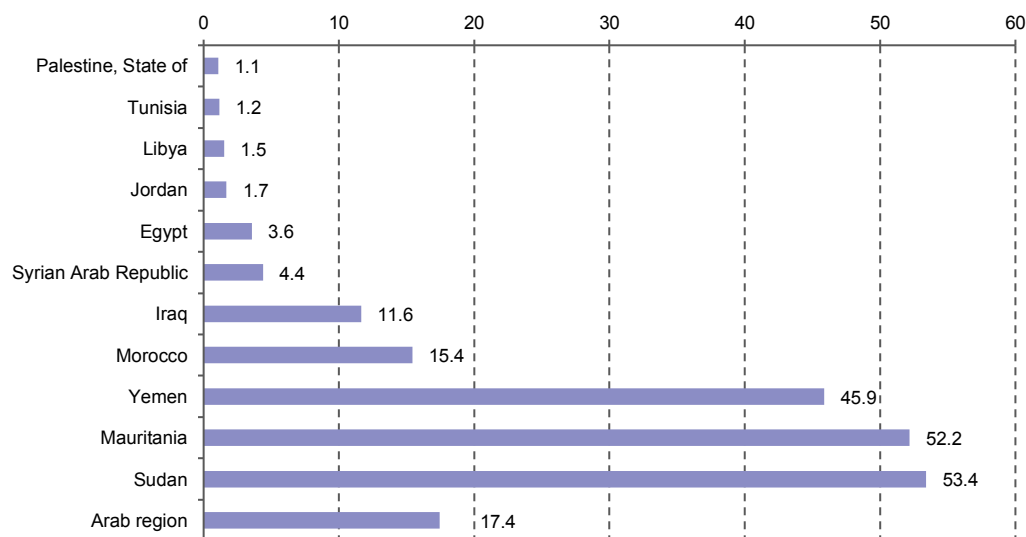
**Figure I.A1.11**  
**Latin America and the Caribbean (19 countries):**  
**population in multidimensional poverty, by country, 2006/2015<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on Alkire and Kanagaratnam (2018), Multidimensional Poverty Index Winter 2017-18.

<sup>a</sup> Simple average.

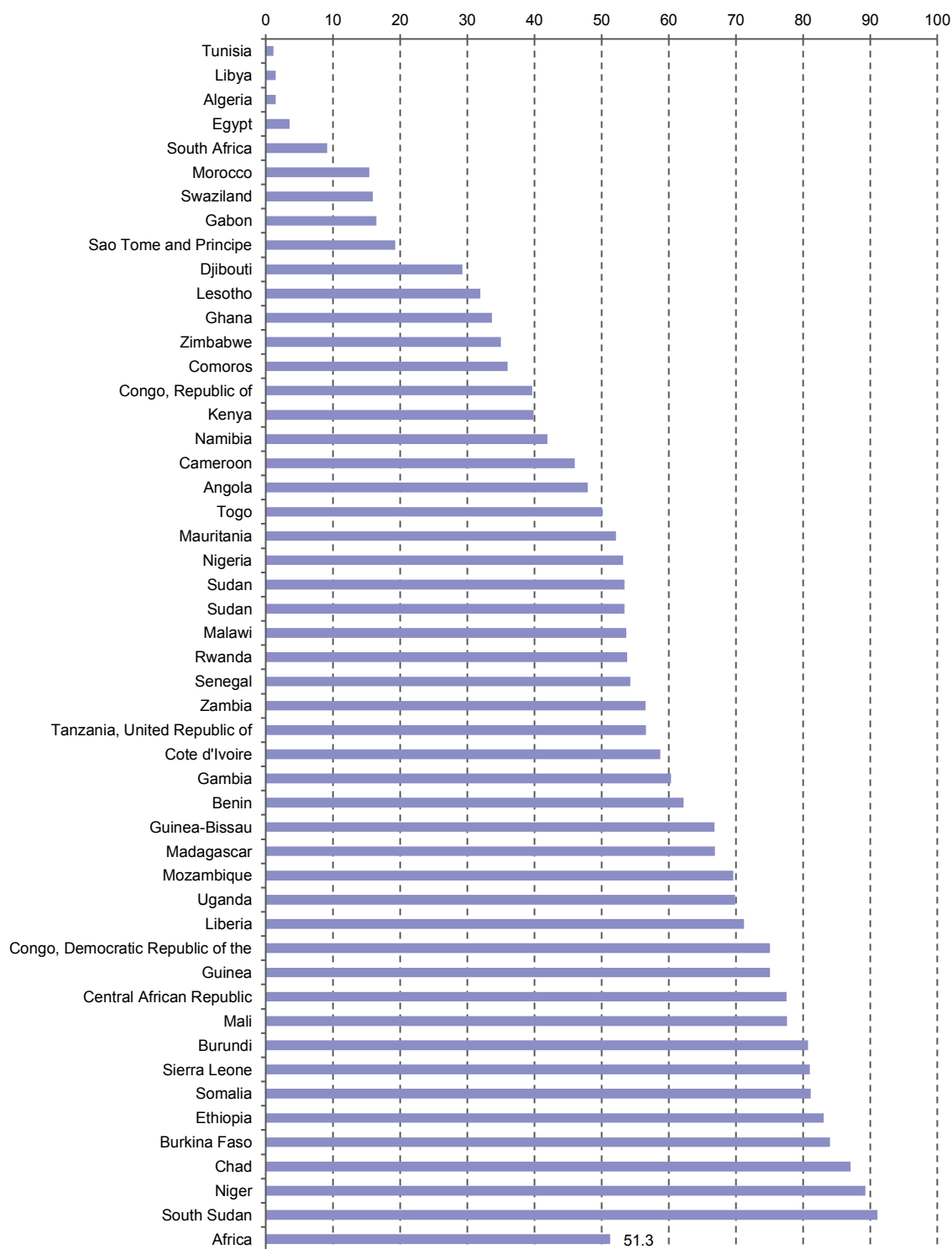
**Figure I.A1.12**  
**Arab region (11 countries): population in multidimensional poverty, by country, 2007/2014<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on Alkire and Kanagaratnam (2018), Multidimensional Poverty Index Winter 2017-18.

<sup>a</sup> Simple average.

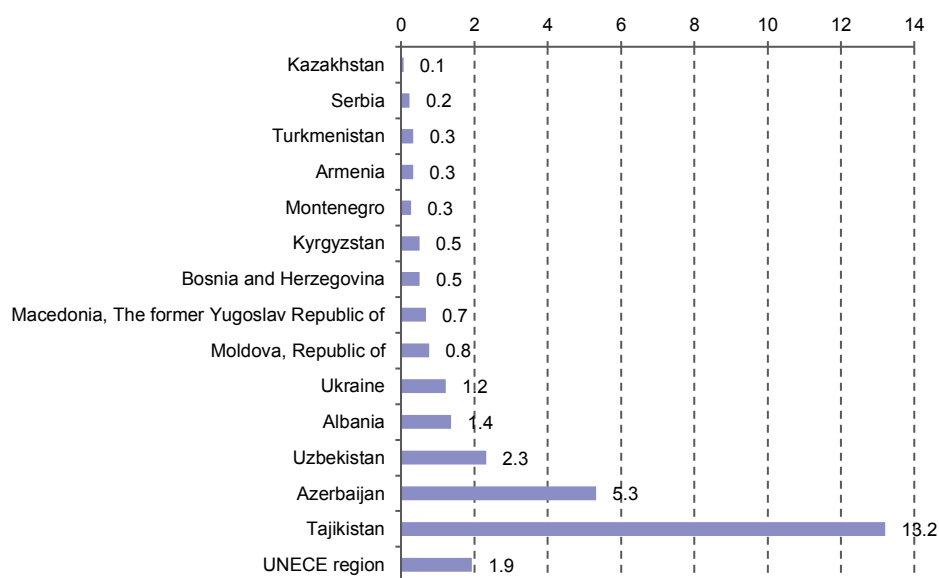
**Figure I.A1.13**  
**Africa (49 countries): population in multidimensional poverty, by country, 2006/2016<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on Alkire and Kanagaratnam (2018), Multidimensional Poverty Index Winter 2017-18.

<sup>a</sup> Simple average.

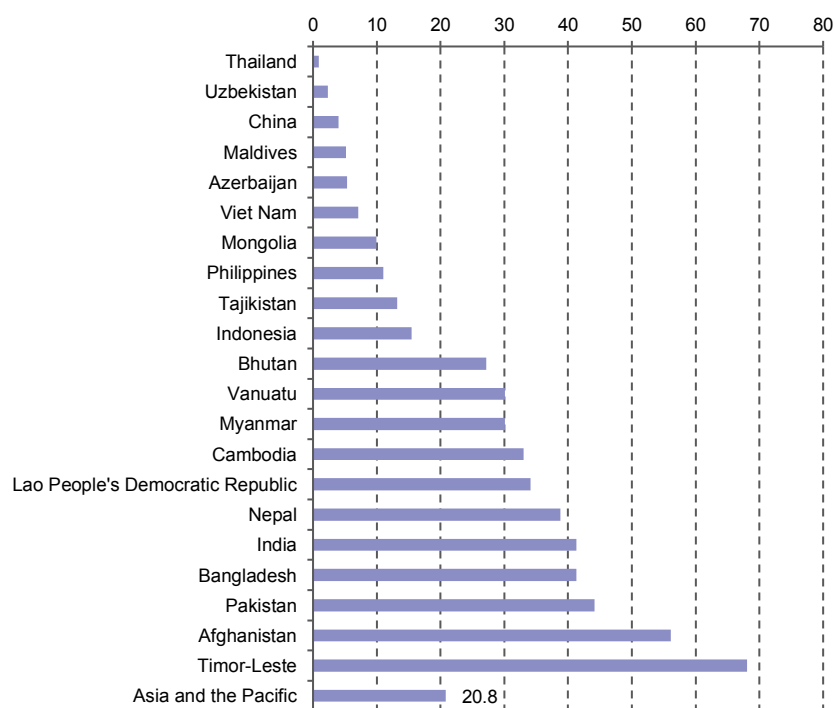
**Figure I.A1.14**  
**UNECE region (14 countries):**  
**population in multidimensional poverty, by country, 2006/2016<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on Alkire and Kanagaratnam (2018), Multidimensional Poverty Index Winter 2017-18.

<sup>a</sup>Simple average.

**Figure I.A1.15**  
**Asia and the Pacific (25 countries):**  
**population in multidimensional poverty, by country, 2007/2016<sup>a</sup>**  
*(Percentages of the population)*



Source: Own elaboration based on Alkire and Kanagaratnam (2018), Multidimensional Poverty Index Winter 2017-18.

<sup>a</sup>Simple average.

**Table I.A1.1**  
**Member states by United Nations Regional Commissions<sup>a</sup>**

UNECE (56 member states)	ESCAP <sup>b</sup> (49 member states)	ECLAC <sup>c</sup> (33 member states)	ECA (54 member states)	ESCWA (18 member states)
Albania	Afghanistan	Anguilla	Algeria	Bahrain
Andorra	Armenia	Antigua and Barbuda	Angola	Egypt
Armenia	Australia	Argentina	Benin	Iraq
Austria	Azerbaijan	Aruba	Botswana	Jordan
Azerbaijan	Bangladesh	Bahamas	Burkina Faso	Kuwait
Belarus	Bhutan	Barbados	Burundi	Lebanon
Belgium	Brunei Darussalam	Belize	Cape Verde	Libya
Bosniaand Herzegovina	Cambodia	Bolivia (Plurinational State of)	Cameroon	Morocco
Bulgaria	China	Brazil	Central African Republic	Mauritania
Canada	Fiji	Caribbean Netherlands	Chad	Oman
Croatia	Georgia	Chile	Comoros	Palestine
Cyprus	India	Colombia	Congo	Qatar
Czech Republic	Indonesia	Costa Rica	Côte d'Ivoire	Saudi Arabia
Denmark	Iran (Islamic Republic of)	Cuba	Djibouti	The Sudan
Estonia	Japan	Curaçao	Egypt	The Syrian Arab Republic
Finland	Kazakhstan	Dominica	Eritrea	Tunisia
France	Kiribati	Ecuador	Ethiopia	The United Arab Emirates
Georgia	Korea (Democratic People's Republic of)	El Salvador	Equatorial Guinea	Yemen
Germany	Korea (the Republic of)	Grenada	Gabon	
Greece	Kyrgyzstan	Guadeloupe	Gambia	
Hungary	Lao (People's Democratic Republic)	Guatemala	Ghana	
Iceland	Malaysia	Guyana	Guinea	
Ireland	Maldives	Haiti	Guinea-Bissau	
Israel	Marshall Islands (the)	Honduras	Kenya	
Italy	Micronesia (Federate States of)	Cayman Islands	Lesotho	
Kazakhstan	Mongolia	Turks and Caicos Islands	Liberia	
Kyrgyzstan	Myanmar	British Virgin Islands	Libya	
Latvia	Nauru	United States Virgin Islands	Madagascar	
Liechtenstein	Nepal	Jamaica	Malawi	
Lithuania	New Zealand	Martinique	Mali	
Luxembourg	Pakistan	Mexico	Mauritania	
Malta	Palau	Montserrat	Mauritius	
Monaco	Papua New Guinea	Nicaragua	Mozambique	
Montenegro	Philippines (the)	Panama	Morocco	
Netherlands	Russian Federation (the)	Paraguay	Namibia	
Norway	Samoa	Peru	Niger	
Poland	Singapore	Puerto Rico	Nigeria	

Table I.A1.1 (conclusion)

<b>UNECE</b> (56 member states)	<b>ESCAP<sup>b</sup></b> (49 member states)	<b>ECLAC<sup>c</sup></b> (33 member states)	<b>ECA</b> (54 member states)	<b>ESCWA</b> (18 member states)
Portugal	Solomon Islands	Dominican Republic	Rwanda	
Republic of Moldova	Sri Lanka	Saint Kitts and Nevis	Sao Tome & Principe	
Romania	Tajikistan	Sint Maarten (Netherlands part)	Senegal	
Russian Federation	Thailand	Saint Vincent and the Grenadines	Seychelles	
San Marino	Timor-Leste	Saint Lucia	Sierra Leone	
Serbia	Tonga	Suriname	Somalia	
Slovak Republic	Turkey	Trinidad and Tobago	South Africa	
Slovenia	Turkmenistan	Uruguay	South Sudan	
Spain	Tuvalu	Venezuela (Bolivarian Republic of)	Sudan	
Sweden	Uzbekistan		Swaziland	
Switzerland	Vanuatu		Tanzania	
Tajikistan	Viet Nam		The D.R Congo	
The former Yugoslav Republic of Macedonia			Togo	
Turkey			Tunisia	
Turkmenistan			Uganda	
Ukraine			Zambia	
United Kingdom of Great Britain and Northern Ireland			Zimbabwe	
United States of America				
Uzbekistan				

<sup>a</sup> Associate members not considered.

<sup>b</sup> Considering only member states of Asia and the Pacific. The ESCAP also includes 4 other European and North American nations that have historical, economic and cultural ties with the region.

<sup>c</sup> Considering only Latin American and Caribbean member states. The ECLAC also includes 13 other Asian, European and North American nations that have historical, economic and cultural ties with the region.



## II. Regional view: inequality in Africa

### Introduction

Africa has experienced strong economic growth over the past two decades (1995-2015), averaging a yearly 5 percent in GDP growth rate. Emerging out of decades of slow growth if any at all, the continent is currently home to seven of the world's 10 fastest growing economies (SEAR, 2015). However, economic growth in Africa fell by more than half from 3.7 per cent in 2015 to 1.7 per cent in 2016 due largely to a decline in commodity prices since 2014 that affected current accounts and government revenue, bearing down on domestic currencies and creating inflationary pressures. Recent increases in commodity prices globally surged growth performance to 3.1 percent in 2017 (ECA, 2018).

The impact of this economic performance has not had the expected drop in poverty levels. The quality of the economic performance with narrow sources of growth and consequent few job opportunities created are among the drivers of low poverty reduction (ECA, 2016; ECA, 2017a). Indeed, poverty headcount has dropped from 54.3 percent in 1990 to 41 percent in 2013 (ECA, 2017a). Equally importantly, the population growth in Africa was on average 2.6 percent over the period 1990 to 2015 (ECA, 2017a; UNFPA, 2016). This has resulted in the total number of the number of people living below the poverty line remaining constant at approximately 390 million people (ECA, 2017a).

In Africa, an important aspect is the poverty gap (see figure II.1). The depth of poverty<sup>6</sup> on the continent is a discerning characteristic compared to other global regions. Africa's poverty gap is nearly twice the global gap —15.2 per cent versus 8.8 per cent. On average consumption of the poor in Africa other than North Africa is \$ 1.16 a day (2011 PPP), which is \$0.74 below the international poverty line (Beegle et al., 2016). This in part drives the inadequate pace of poverty reduction notwithstanding moderately good economic performance over the last 15 years and underlines the challenge of achieving the Sustainable Development Goal targets of eliminating poverty on the continent by 2030 (ECA, 2017a). The variation by subregion and country is significant.

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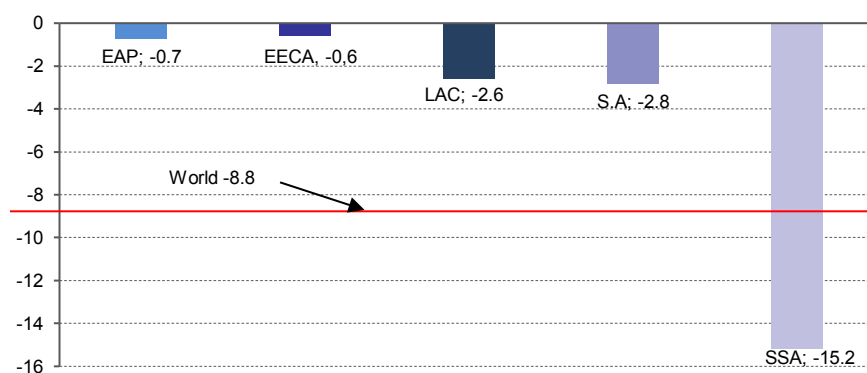
<sup>6</sup> The poverty gap index (P1) measures the extent to which individuals fall below the poverty line (the poverty gaps) as a proportion of the poverty line. The sum of these poverty gaps gives the minimum cost of eliminating poverty, if transfers were perfectly targeted. The measure does not reflect changes in inequality among the poor.



Equally important, the high average distance from the poverty line is crucial in the inequality of opportunities and outcomes. The cost-sharing schemes<sup>7</sup> with households in the public provision of education and health currently in force in Africa exacerbates the “income distance” faced by low-income groups in accessing education and health.

The low access to public services is partially driven, through the use of cost-sharing schemes, by the availability of household income. The inequality of opportunities to public services such as education and health substantially drives low labour force participation in formal markets of low income households. The low earning potential of the informal sector reaffirms the inequality of income as an outcome.

**Figure II.1**  
**Selected world regions, poverty gap (depth of poverty) by region, 2013**  
(Percentages)



Source: ECA (2017).

Note: EAP: East Asia and Pacific; EECA: Eastern Europe and Central Asia; LAC: Latin America and the Caribbean; SA: South Asia. Middle East and North Africa (MENA) is not shown as the depth of poverty is very low.

## A. Socioeconomic inequality

### 1. Income Inequality: a snapshot

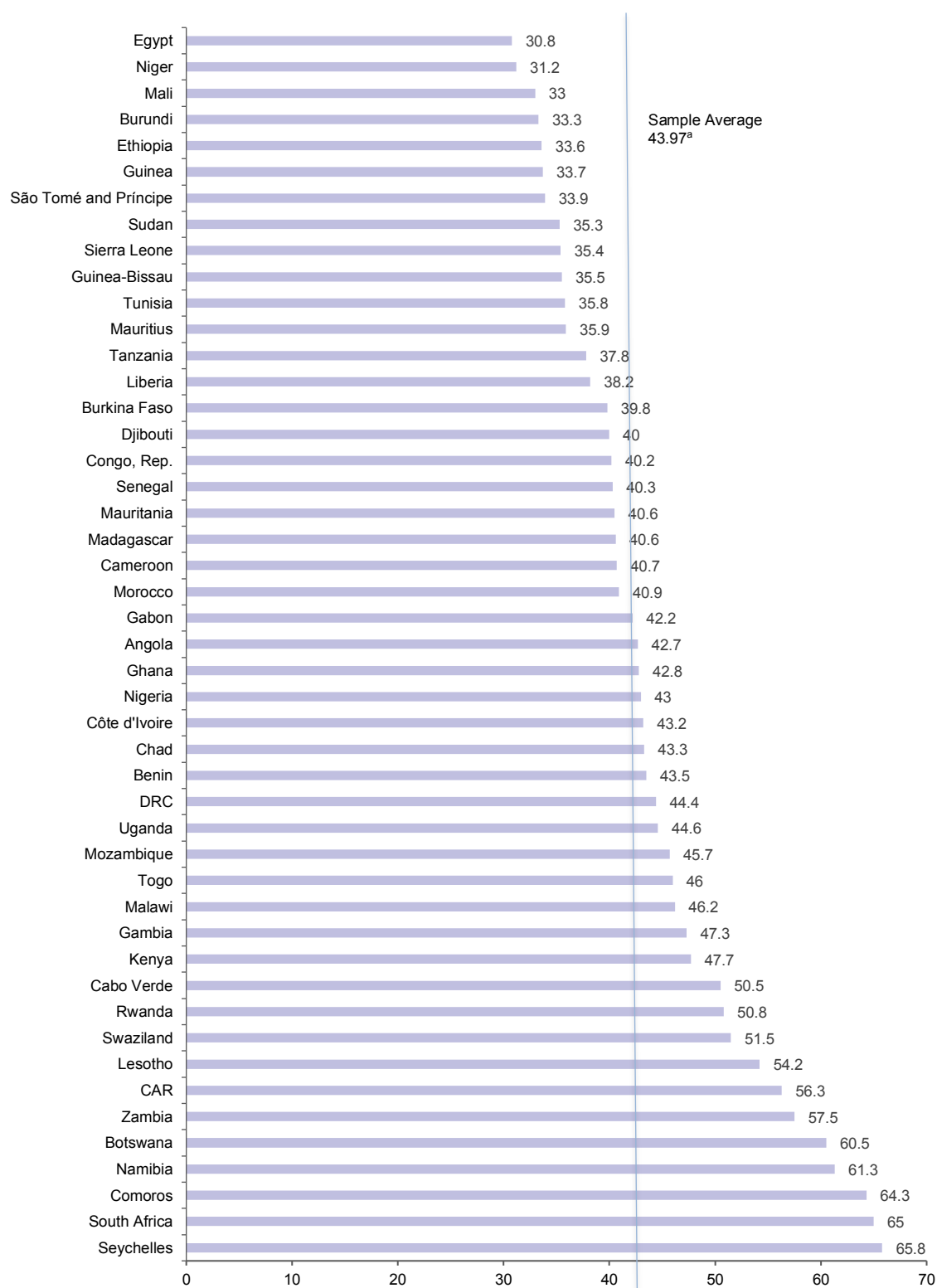
The sustained period of growth in African countries has strengthened, albeit insufficiently, per capita incomes, decreased poverty and led to steady improvement in living standards, health and education. However, the progress is still slow and hampered by high levels of income inequality. Economic growth provides less poverty reduction because the absolute increases in income associated with rising average incomes are smaller for the bottom quintiles, unless distinctive income equality measures are complementary to growth (Chandy, 2015).

Africa has the second highest income inequality after Latin America. An unweighted average of 0.43 Gini coefficient (income inequality) is reported in Africa with large variations across subregions and countries (see figure II.2). However, if the 7 African countries as “outliers”<sup>8</sup> reporting high income inequality (latest average 0.51) are excluded the average Gini coefficient compares with other developing regions (UNDP, 2016). The variation across countries is substantial from 0.28 in Algeria to 0.43 in Togo, Chad and Nigeria and over 0.60 in Botswana, Namibia and South Africa (ECA, 2017a).

<sup>7</sup> Cost sharing can be either Out-of-pocket payments (OOPs) defined as direct payments made by individuals to health care providers at the time of service use, and/or user fees where the client pays a partial payment of the service provided.

<sup>8</sup> The countries are Angola, Central African Republic, Comoros, Botswana, Namibia, South Africa and Zambia (Gini above 0.55).

**Figure II.2**  
**Africa, Gini index, latest year available between 2000 and 2014**



Source: Economic Commission for Africa (ECA), on the basis data from the African Centre for Statistics.

<sup>a</sup> Simple average.

### (a) Inequality trends

The cross-country variation is also reflected in subregional differences in income inequality. Hence, in Africa, it is difficult to derive a comprehensive storyline for Africa around the nature and pattern of inequality. In the early 90s average income inequality was 0.45 and has dropped to the current level of 0.43 (UNDP, 2016). This overall small decline has been driven predominately by the low-income inequality countries. The distinction between high and lower income inequality across African countries is driven by inherited land tenure systems and enclave type of production and a differing urbanization process (see box II.1).

#### Box II.1

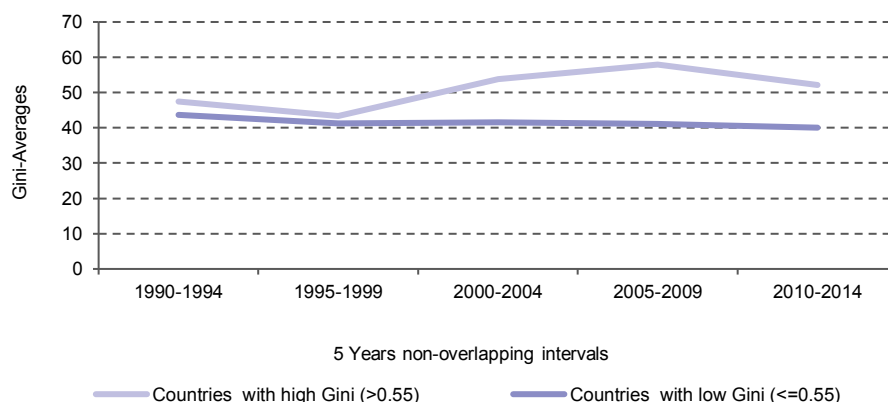
##### Variation in Gini and some structural drivers of inequality

The variation in Gini can be categorized by type of land tenure systems, enclave type of production and dualistic urban sectors. Firstly, average land concentrations can be grouped into communal and “white settlers” systems with an average of 0.43 land concentration for the former largely in West and Central Africa and 0.80 in the latter in Southern Africa. In the countries with lower land concentration of West and Central Africa rapid population growth had an effect on marginal land use, low yields and increased inequality. The estate sector of Southern Africa led to capital and skill intensive sectors and low agricultural wages. Secondly, oil and mining concentration in countries in Southern Africa tend to grow more slowly and have higher income and asset concentration. This has driven the primary commodity sector that has had low backward and forward linkages and few employment opportunities. Thirdly, the difference in urban formal wages differ substantially and are much higher than rural wages and the rural and urban informal sectors. These varying structural features do have a dampening effect of economic growth on inequality. However, the positive changes in Gini do indicate that structural features are amenable to policies.

Source: UNDP (2016).

The WDI latest data on income inequality of 45 countries, with at least two data points, shows that Gini has decreased from 0.43 to 0.40 between 1990 and 2014. However, variations from the magnitude of the initial Gini provides a more interesting picture. Countries with higher Gini ( $>0.55$ ) have had their income inequality increased from 0.47 to 0.52 over the same period (see figure II.3). Furthermore, during the period 2005-2009 the high-income inequality countries report a decrease in their Gini. This seems to be consistent with (i) the second part (2005-2009) of the 1990 to 2013 growth spell and a more rapid decrease in poverty; (ii) the rate of economic growth has a stronger effect on income inequality in higher unequal countries (World Bank, 2016a; UNDP, 2016).

**Figure II.3**  
Africa, Gini coefficient, 1990-2014



Source: Economic Commission for Africa (ECA) on the basis of WDI data.

## (b) Trends in income inequality and its decomposition

The complexity of the nature and trends of income inequality and the specificity of Africa's income inequality can be partly explained through the variation in Gini within countries and across countries. The level of African inequality continues to be explained mostly by differences within countries, which accounts for around 60% of overall inequality in 2008 (see table II.1). These results stand in sharp contrast to the results at the global level where between-country differences remain the dominant source of inequality (Lakner and Milanovic, 2015).

**Table II.1**  
**Inequality in Africa 1993-2008**

	1993	1998	2003	2008
Gini for Africa	0.52	0.52	0.54	0.56
Average country Gini	0.47	0.45	0.45	0.45
Average country Gini (population weighted)	0.44	0.44	0.43	0.44
African mean log deviation	0.47	0.47	0.51	0.57
Within country contribution to log deviation (percent)	73.4	71.3	64.3	59.7

Source: Jirasavetakul and Lakner (2016).

## 2. Drivers of inequality

The role of African economic structures in driving income inequalities is reinforced and feeds into the non-monetary aspects of inequality. Suffice to say that public investments are often not equitably spread within countries that might drive inequality along spatial grounds. The gender feature as a variable of uneven opportunities to education, health, financial access and labour markets is also important. In short, inequalities in income can be traced to various dimensions of unevenness in the growth process that arises from policy factors and from constraints to access to public services and inputs, such as land and credit (Ali and Zhuang, 2007).

The section will analyze inequalities of opportunities across labour markets, gender, location and financial access with income inequality as a critical additional variable that exacerbates the inequalities of opportunities outlined in the previous section.

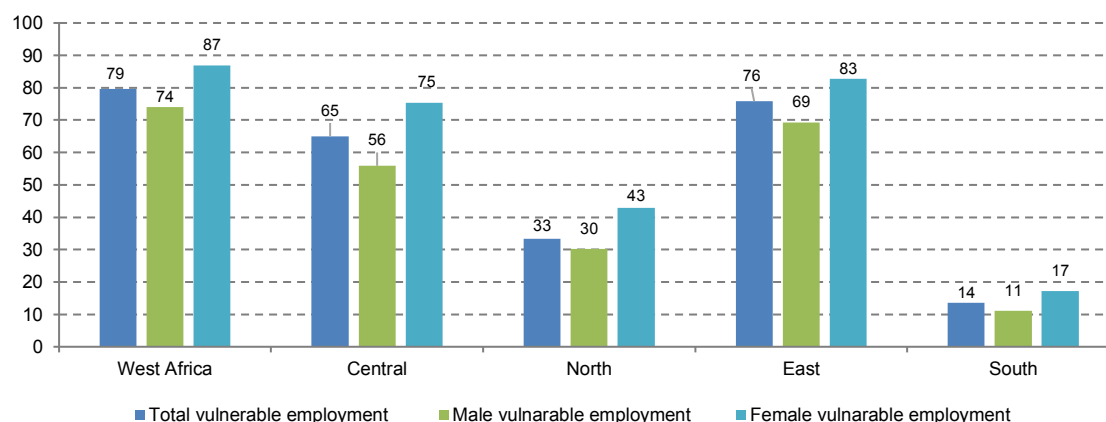
### (a) Labor market inequalities

The nature and response of the labour market in the growth-poverty-inequality is crucial. Labour demand responses during the growth episodes often shapes and influences the distributional consequences from growth. For example, the technology skill premium generally demanded by knowledge intense industries drives an important distinction not only between unskilled and skilled workers, but reinforce the unequal access to opportunities of both incomes from labor and building human capital.

High level of informalities and vulnerable employment largely characterize the African labor market. Youth and female unemployment are increasingly higher than male unemployment rates in all regions. Due to lack of decent jobs, most of the population in Africa is engaged in vulnerable employment, which is largely concentrated in the informal sector. Over 52.8 percent of the working population in Africa, excluding North Africa lived below the \$1.90 a day in 2000 and this has decreased to 33.5 percent in 2015 (ECA, 2017a).

The working poor are often engaged in vulnerable employment, which represents 66.1 percent of total employed and varies across subregions. In East Africa it represents 75.8 percent while Southern Africa vulnerable employment is 13.5 percent. This large difference could reflect definitional differences of what constitutes vulnerable employment across the African subregions (ECA, 2017a; ECA, 2016).

**Figure II.4**  
**Vulnerable employment in African subregions, 2014**



Source: Economic Commission for Africa (ECA), based on ILO data.

Youth unemployment registered a regional average of 21.1 percent, it was highest in North and Southern Africa with 33.4 percent and 31.6 percent respectively. Labour market participation by age and sex highlights the unequal opportunities in finding decent jobs. Total youth unemployment is higher than total unemployment and within this, female rates are particularly overrepresented (see table II.2).

**Table II.2**  
**Africa, youth unemployment, by age, gender and subregions, 2013**  
(Percentages)

Region	Total	Female	Male
Africa	21.1	14.1	9.7
West Africa	13.7	15.7	12.0
Central Africa	13.7	16.5	11.9
North Africa	33.4	44.9	29.4
East Africa	13.0	15.3	11.6
Southern Africa	31.6	34.6	29.2

Source: Economic Commission for Africa (ECA), based on ILO data.

Africa's growth has had a limited impact on welfare of women and youth. This perpetuates significant gender and age gaps in gainful employment in the formal sector. This age and gender unequal access to labour market reinforces low productivity and income and buttresses income inequality across these demographic and gender categories.

Unequal access to labour markets by young people and women in particular is not only an age and gender bias but has a direct link to inequality of outcome. This occurs in two ways. Firstly, the predominance of working poor and vulnerable employment in Africa does signify lower income for the majority of households and therefore inadequate access to public services that bear a shared cost with the households. Indeed, preliminary data in this regard shows that in Africa, between 2000 and 2009, in 40 countries for which data is available, household spending on health constitutes more than 50 percent of total health spending (Sambo et al., 2013). Secondly, specific access to education by young people is again, among other factors, dependent on household income. Women are particular vulnerable to cultural barriers besides the income factor. These features reaffirm the marginalization

of these groups from labour markets and potential higher incomes through employment and consequent reiteration of inequality of outcome. Indeed, a Tanzania case study on informality reveals that education is a strong determinant of one's employment status. Notwithstanding the heterogeneity in the nature of informal employment in Tanzania, preliminary data shows that the wider the gap between levels of education, the wider the income inequality among employees (ECA, 2017c).

## (b) Gender

Gender gaps in human capital assets are particularly evident in access to education and health which places women at a disadvantage in employment opportunities.

### Gender inequality in education

The continent has almost achieved gender parity at the primary level, which increased to 86 girls per 100 boys in the 1990s to 96 girls per 100 boys in 2013. However, the aggregate figures do mask continuing gender disparities in access and completion of primary school cycles exacerbated by wealth differentials and spatial factors. Girls, rural dwellers and those from the bottom quintiles begin to start losing out in access to primary education. Table II.3 indicates that the differential access to education across wealth quintiles, gender and location starts at the primary level, and leads to the persistence of inequalities of educational opportunities being carried over into the labour market where women, as shown above, predominate in informal and/or vulnerable employment.

**Table II.3**  
**Access and completion rates at primary level by social characteristics of individuals**  
**(from 35 African countries), 2006-2011**

	Total	Gender		Location		Quintile of wealth		Gender and Location			
		Girls	Boys	Rural	Urban	Q 1, 2 and 3	Q 4 and 5	RG	RB	UG	UB
Access	81.6%	80.0%	83.1%	77.5%	91.2%	76.2%	90.4%	75.4%	79.4%	90.0%	92.4%
Completion	54.8%	52.5%	57.1%	44.6%	71.5%	41.7%	70.9%	41.4%	47.3%	69.0%	74.2%
		Gender, Location and Wealth						Disparities			
		RG Q 1, 2 and 3	RG Q 4 and 5	RB Q 1, 2 and 3	RB Q 4 and 5	UG Q 1, 2 and 3	UG Q 4 and 5	UB Q 1, 2 and 3	UB Q 4 and 5	B/G	U/R
Access		73.1%	83.8%	77.3%	87.9%	80.5%	92.1%	83.9%	94.4%	1.04	1.18
Completion		36.2%	57.2%	42.4%	63.0%	48.8%	73.4%	52.1%	78.9%	1.09	1.60

Source: Economic Commission for Africa, based on Economic and Demographic Surveys. RG= Rural Girls, RB= Rural Boys, UG = Urban Girls, UB = Urban Boys, Q123=Quintiles 1, 2 and 3, Q45 = Quintiles 4 and 5.

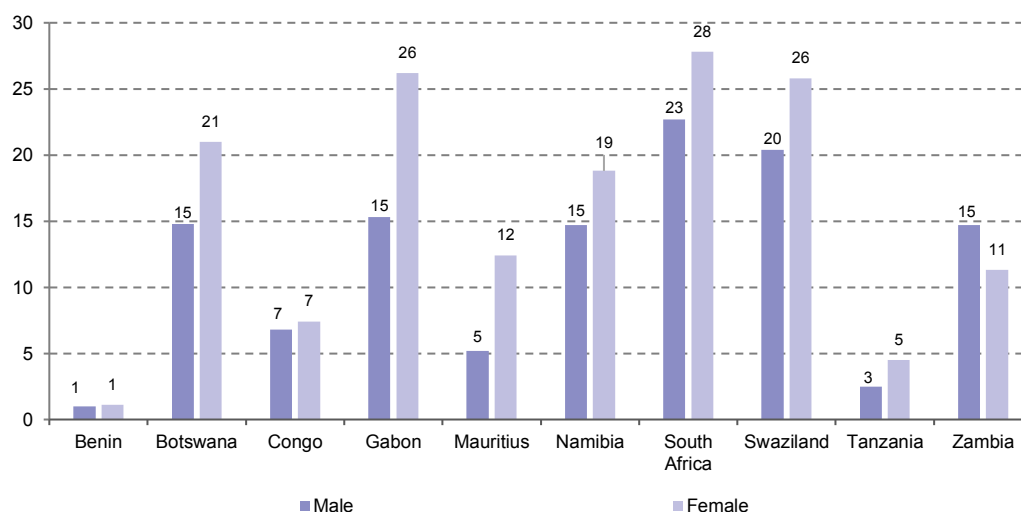
The limited access by rural poor women to education spill over into the labour markets (see next section). Furthermore, gender access is not simply determined by income and location but social and cultural barriers to access can be important drivers. Evidence from Uganda and Kenya reveals that the Gender Parity Index for girls' secondary schooling did not increase substantially after introduction of free secondary education, implying that the proportion of girls that did not join secondary school remained higher than that of boys. This calls for urgency in identifying and addressing the underlying obstacles to access to education beyond availability of free schooling opportunities (ECA, 2016). The Tanzania case-study reveals that the 2001 policy of free fee basic education aimed at increasing gender representation in primary schools showed that the indirect cost to basic education (such as transport, books and uniforms), induce households particularly those in the lower-income brackets to prioritise boys over girls in enrolment to schools.

## Gender inequality in labor markets

Research findings indicate that rate of unemployment was significantly higher for women than men (see table II.2). This is a critical hindrance to economic performance, as large gender gaps in labour market participation are found to reduce overall productivity, with an estimated income loss of 20 percent in North Africa and 8.5 percent in Africa, excluding North Africa. This is partly explained by the disproportionate time that women devote to childcare and domestic activities.

For the continent as a whole, the unemployment rate stood at about 38.3 percent for women, compared to 17.6 percent for men (2.2 times higher than for men). These average figures show that disparities persist within the continent, with a strong female disadvantage in terms of unemployment (see figure II.5 and appendix A).

**Figure II.5**  
Unemployment rate in selected African countries, by gender, latest available year  
(Percentages)



Source: Economic Commission for Africa (ECA), on the basis of International Labour Organization, KILM, 8<sup>th</sup> Edition, 2014.

Limited or lack of skills especially technical skills, burden of unpaid care work, limited access to and control over resources are among the many factors that constrain women to engage in the informal sector and trap them into inequality of opportunity and outcome. In Tanzania, the informal sector employs 40-60 percent of the urban women labour force and 70-80 percent of women in rural areas. In Namibia, 60 percent of informal sector businesses are controlled by female entrepreneurs, and women dominate in informal sector activities, both in urban and rural areas. Women also earn significantly less than their male counterparts. For instance, the women-to-men wage ratio is as low as 0.6 in countries like Algeria, Mauritania and Cote d'Ivoire, and just above 0.8 in Egypt, the highest in the region (UN, 2014).

### (c) Spatial imbalance

In Africa spatial and regional inequality, of economic activity, incomes and social indicators, is on the increase and have begun to attract considerable policy interest. In general, spatial inequality is a dimension of overall inequality, and it is more significant in Africa whereby spatial and regional divisions are important in terms of the effective policy space for resource mobilization at local levels or transfers from central Governments.

### Rural-Urban inequality in education

As was mentioned above, rural-urban disparity in literacy and school attendance varied tremendously across the five African regions (see table II.4).

**Table II.4**  
**Africa, rural-urban inequalities in education, by subregions, 2016**

(Percentages)

Subregion	Indicator	Urban	Rural
West Africa	Literacy	64.8	30.4
	School Attendance rate	47.5	21.9
Central Africa	Literacy	80.6	57.3
	School Attendance rate	53.2	26.7
North Africa	Literacy	75.9	60.9
	School Attendance rate	65.0	48.8
East Africa	Literacy	87.3	65.7
	School Attendance rate	38.3	19.8
Southern Africa	Literacy	90.0	75.6
	School Attendance rate	52.6	37

Source: Economic Commission for Africa (ECA) on the basis of data from WDI 2016.

These findings validate several country studies (Kimalu et al., 2001; Okojie et al., 2001; Dava et al., 2000; and Boateng et al., 2001) which reveal that students in rural areas consistently underperformed compared to their urban counterparts by substantial margins in Africa, excluding North Africa. Analysis of indicators of education in Kenya by Kimalu et al. (2001) showed that there is a prevalence of rural-urban access inequalities to education in African countries. In Cote d'Ivoire, at the subnational level, inequality in education (i.e., the mean years of schooling and the gross enrolment rate) was higher in the north-west and the north of the country (ECA, 2017c). Inequality in terms of access to secondary school decreased over time but increased in the Centre (by 37 per cent), in the Centre-north (43 per cent), in the North-east (20 per cent) and in the North-west (55 per cent) (ECA, 2017c).

The spatial variation in access to education is a reflection of: (i) a heterogeneous development which tends to gravitate towards skills and infrastructure differences within national boundaries, and (ii) policy interventions that tend not to take cognizance of differing social outcomes across location.

### Rural-Urban Health Inequality (Infant Mortality Rates)

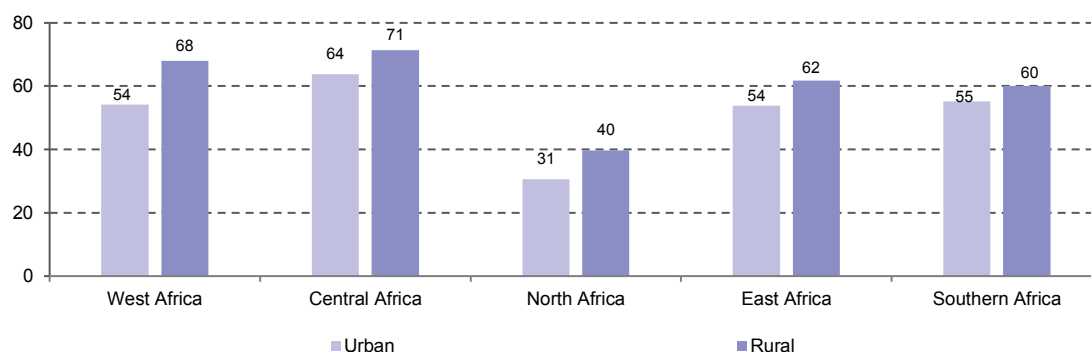
When disaggregated by location, infant mortality rates (IMR) show a high prevalence in rural areas compared to urban centers across all African regions. In Cote d'Ivoire, inequality in access to health infrastructure, measured as the average distance between a given household place of residence and the location of the nearest health infrastructure, increased between 2008 and 2015. Indeed, in 2015 it was higher in rural areas (0.7) than in urban areas (0.4) in 2015, expressed in the general entropy model utilized.<sup>9</sup>

<sup>9</sup> ECA (2017c) uses a general entropy model that computes values that vary between 0 and  $\infty$ , with 0 representing an equal distribution and a higher value representing a higher level of inequality, expressed as:

$$GE(\alpha) = \frac{1}{\alpha(1-\alpha)} \left( \sum_{i=1}^n \frac{w_i}{N} \left( \frac{y_i}{\bar{y}} \right)^{\alpha} - 1 \right)$$



**Figure II.6**  
Regional averages of IMR by location, latest available year

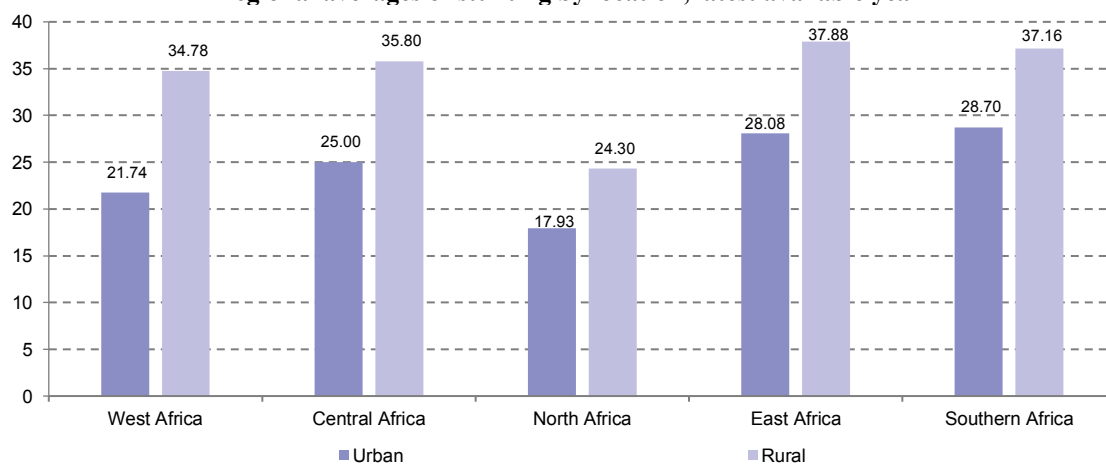


Source: Economic Commission for Africa (ECA) on the basis of *Demographic and Health Surveys in African regions*.

### Rural-Urban Nutritional Inequality (Stunting)

When disaggregated by location, average child stunting rates (height for weight) again illustrate inadequate/ unequal access to nutritional and health services by location. Children in rural areas in Africa suffer from more severe child stunted growth compared to their urban counterparts. The analysis further shows that on average, East African subregion has highest prevalence of chronic malnutrition (37.9 percent) in rural areas against (28.1percent) in urban areas. Southern Africa is in the second position with an average of 37 percent prevalence of malnutrition in rural areas against 28.1 percent in urban area. Central African subregion also has an average of 35.8 percent in rural areas against 25 percent in urban areas. West African subregion has average 34.8 percent chronic malnutrition in rural areas against 21.7 percent in urban area (see figure II.7).

**Figure II.7**  
Regional averages of stunting by location, latest available year



Source: Economic Commission for Africa (ECA) on the basis of data from DHS and MICS.

The subregional variations in stunting are also reflected in country specific differences. In Tanzania location disparities over time portray some interesting traits particularly over time (see table II.5). In Tanzania the large difference between male and-female trends in stunting is due to increased stunting figures of boys. Indeed, stunting rates for boys increased by 10 percent between 2005 and 2010 whilst girls stunting rate have increased by less than 2 percent over the same period.

**Table II.5**  
**Tanzania, location and gender-based disparities in stunting (height for age), 1991-2015**

	Urban	Rural	Diff.	Ratio	Male	Female	Difference	Ratio
1991	36.7	48.1	-11.4	0.8	48.1	45.3	2.8	1.1
1999	26.1	47.6	-21.5	0.5	44.9	42.7	2.2	1.1
2004-05	28.5	40.5	-12.0	0.7	38.6	36.8	1.8	1.0
2010	31.5	44.5	-13.0	0.7	48.6	38.5	10.1	1.3
2015	24.7	37.8	-13.1	0.7	36.7	32.2	4.5	1.1

Source: Economic Commission for Africa (ECA), based on Tanzania DHS (1991; 1999; 2005; 2010 and 2015).

The difference in child stunting between rural and urban areas has actually increased during the period 1991 and 2015, yet the improvement in rural areas was higher than urban progress on stunting. The difference in the gender bias in child stunting increased from 2.8 percentage points to 4.5 percentage points between 1991 to 2015 (ECA, 2018).

The spatial differential (rural-urban) across education and health is further aggravated by the cost-sharing schemes to access these public goods. For example, in Tanzania neo-natal mortality figures depict both a location bias and the mortality outcomes that differ across wealth quintiles. The access to health services is biased towards urban and higher income groups and the 5<sup>th</sup> quintile to 1<sup>st</sup> quintile ratio is 1.3 although improving from 1.9 in 2007-2008 (ECA, 2018).

**Table II. 6**  
**Tanzania: area and wealth-based inequality in neonatal mortality**

*(Per 1,000 live births)*

	Urban	Rural	Diff.	Ratio	Quintile V	Quintile I	Diff.	Ratio
1991	52	37	15	1.4	NA	NA	NA	NA
1999	52	43	9	1.2	NA	NA	NA	NA
2004-2005	37	33	4	1.1	31	33	-2	0.9
2007-2008	46	29	17	1.6	39	21	18	1.9
2010	31	27	4	1.1	41	31	10	1.3
2015	43	24	19	1.8	37	20	17	1.9

Source: Economic Commission for Africa (ECA), based on Tanzania DHS (1991, 1999, 2005, 2010 and 2015).

Indeed, in terms of access to health facilities Out of Pocket Payments and therefore cost-sharing with households have increased in nearly all African countries from \$15 per capita in 1995 to \$38 in 2014 (World Bank, 2016b). This has again reinforced the link between low-income groups inequitable access to health leading to a lower health status. This in turn partially drives the inadequate participation in economic activities and the inequality of output. This again reaffirms that cost-sharing in accessing public goods results in inequalities of outcomes and the reiteration of income inequality.

#### **(d) Financial access**

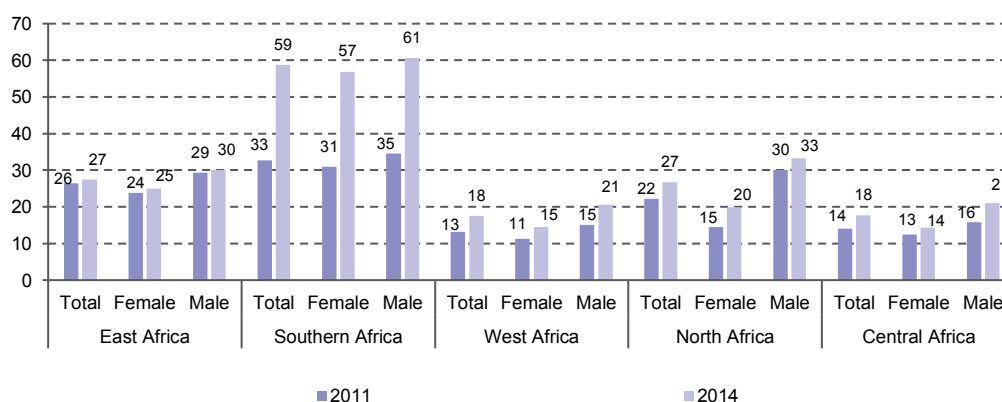
Existing literature has shown that financial globalization facilitates efficient allocation of capital and promotes international risk-sharing, it can also increase income inequality. This can be due to the concentration of foreign assets and liabilities in relatively higher skill-intensive and technology-intensive sectors. Financial deregulation and globalization are also some factors underlying the increase in financial wealth, relative skill intensity and wages in the finance industry, one of the fastest -growing sectors in advanced economies (Phillippon and Reshef, 2012).

Financial development reduces information and transaction costs associated with loans and thus decreases the funding constraints of economic agents (including households). In addition to affordability and restriction constraints (Tchamyou and Asongu, 2017), transaction costs represent a critical inhibiting factor of access to finance for the poor, partly due to information asymmetry between lenders and borrowers in the banking industry. Sharing information has the advantage of reducing adverse selection (from the lenders' side) and moral hazard (from the borrower's side).

Additionally, financial deepening appears as another important channel of inequality in two main perspectives. On the one hand, financial deepening can provide households and firms with greater access to resources to meet their financial needs, such as saving for retirement, investing in education, capitalizing on business opportunities and confronting shocks (Dabla-Norris and others, 2015). On the other hand, financial development boosts top incomes the most in the early stages of development (Roine and others, 2009). The concentration of savings among rich households may also lead to an increase in inequalities as a disproportionately representing a larger share of access to finance, serving to further increase the skill premium and potentially the return to capital (Claessens and Perotti, 2007).

In Africa, only 20 percent of the population have access to financial services. Financial access varies across subregions. Southern Africa is the subregion where financial institutions are more developed compared to other regions (see figure II.8). Close to 60 percent of the population (from the age of 15) has a bank account in the formal financial institution. This analysis also shows that West and Central Africa are lagging behind in terms of the percentage of the population with a formal account. In Côte d'Ivoire the share of households that have access to credit from financial institutions decreased from 2002 (8.1 per cent) to 2015 (5.4 per cent), notwithstanding the increasing number of financial institutions in Côte d'Ivoire (ECA, 2017b).

**Figure II.8**  
**Africa, account at a financial institution by subregions**  
(Percentage of persons aged 15 and above)



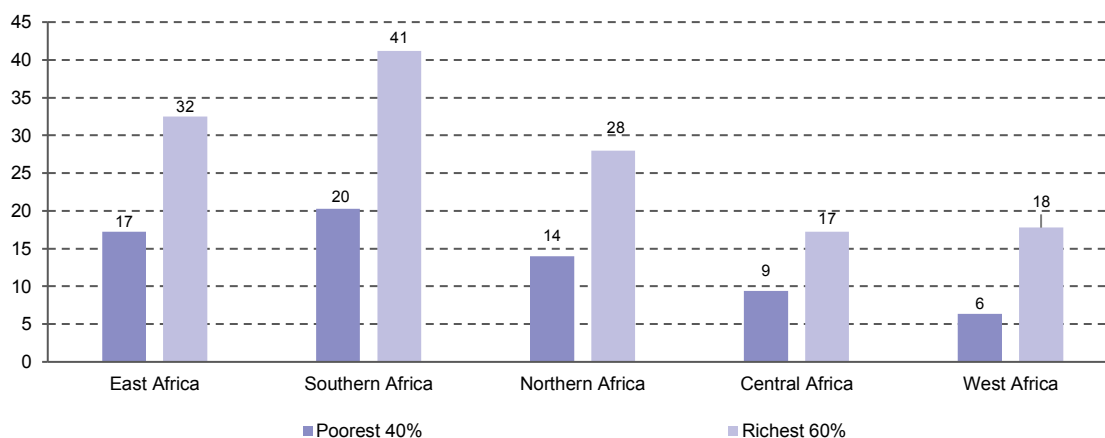
Source: Economic Commission for Africa (ECA) on the basis of data from WDI 2016.

These underlying constraints partly explain why less than 20% of the African population has access to formal financial services. Moreover, in spite of the population density there are very limited communication services and infrastructure needed to enhance financial access. The above services can be available to Small and Medium Enterprises (SMEs). However, low income individuals may find difficulties in meeting the eligibility criteria such as providing collaterals or requirements for documentations. Among the (approximately) 80% remaining, some individuals and SMEs can meet such eligibility requirements but may still be excluded from the formal financial services because of, inter alia, high transaction fees (cost barriers) or minimum requirements as savings (MFW4A, 2013; Tchamyou, 2018). Relaxing these barriers has many advantages for individuals and SMEs: contribution to higher incomes, job-creation, increased productivity, ultimately improves growth and therefore decreased in income inequality (Beck and others, 2007).

Furthermore, access to financial services by women is less than that for men, re-affirming the inequalities of opportunities in education and health.

Indeed, financial data by income quintile shows a substantial wealth bias in favor of the richest quintile (see figure II.9).

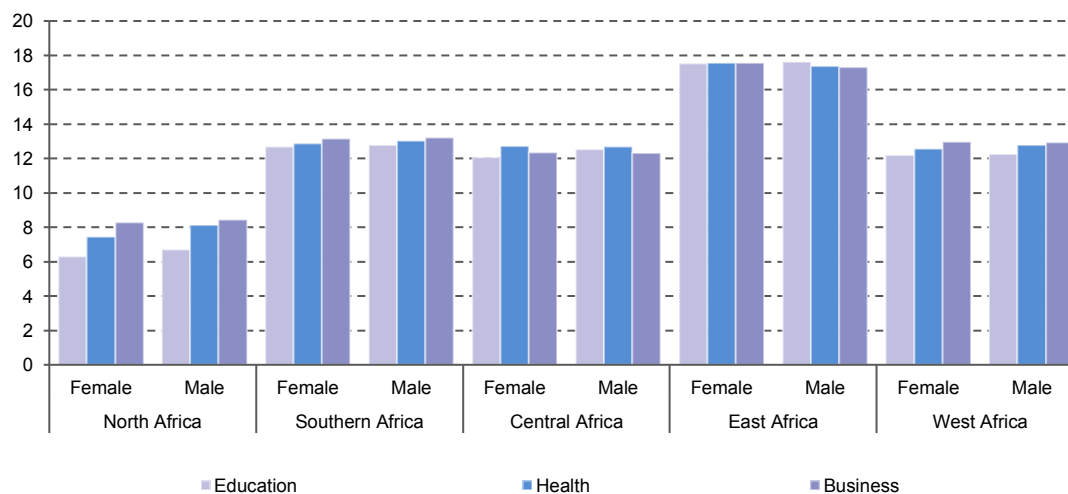
**Figure II.9**  
**Account at a financial institution by income quintile, 2011**  
(Percentage of persons aged 15 and above)



Source: Economic Commission for Africa (ECA) on the basis of data from FINDEX (2017).

The features of a differing subregional access, location, gender and income in access to finance mirror access to education and health. This seamless link between income poverty and access to public goods on the continent can be observed in borrowing patterns wherein education and health feature as prominently as business (see figure II.10). The public policies of providing free tuition for primary and increasingly for secondary education and the introduction of free health cost, for example for children and pregnant women has not decreased cost-sharing with households for public goods, exacerbating inequalities of opportunities.

**Figure II.10**  
**Africa, reasons for borrowing, 2014**  
(Percentage of persons aged 15 and above)



Source: Economic Commission for Africa (ECA), on the basis of data from FINDEX (2017).

## B. Factors contributing to the decline in inequality of some countries

The second Chapter of the 2016 UNDP report on “Africa Inequality Study” has proposed an Integrated Inequality Database (IID-SSA) to measure inequality in Africa. The IIS-SSA dataset summarizes all Gini coefficients from international databases and national sources (WIDER’s WIIDv3. 0b database; The World Bank’s Povcal database and the World Bank’s International Income Distribution Database (I2D2). It is a selection of the best time series of country Gini coefficients for the period 1993-2011. This is a more rigorous compilation of data and while previous data sets on income inequality have resulted in indicative trends this deeper data sets provide improved information on movements in Gini and how public interventions on inequalities of opportunities have contributed to this decline.

The analysis of 29 countries in Africa shows consistent decline in inequality in 13 countries, mostly West African countries: Ethiopia; Madagascar; Cameroon; Burkina Faso; Gambia; Guinea; Guinea-Bissau; Mali; Niger; Senegal; Sierra Leone; Lesotho and Swaziland. The *Africa inequality study* (UNDP, 2016) emphasized that differences in research findings in inequality dynamics may not only depend on differences between years and countries considered, but also on the choice of dataset used for analysis. Moreover, the same study argued that the reason for the variation of inequality dynamics at different rates can be found in the divergence of inequality trends experienced by countries of the region (see table II.7).

**Table II.7**  
**Inequality trends in 29 countries in Africa, 1993-2011**

Income Inequality (Gini 1993-2011)				
Subregion	Declined	Increased	Increased before declining	Declined but rising (in 2011)
North Africa			Mauritania	
Central Africa	Cameroon			Central Africa Republic
East Africa	Ethiopia	Kenya	Rwanda	Tanzania
	Madagascar	Uganda		
West Africa	Burkina Faso	Cote d’Ivoire		Nigeria
	Gambia	Ghana		
	Guinea			
	Guinea-Bissau			
	Mali			
	Niger			
	Senegal			
	Sierra Leone			
Southern Africa	Lesotho	Botswana		Malawi
	Swaziland	Mauritius		Zambia
		South Africa		

Source: Economic Commission for Africa (ECA), on the basis of information in Cornia (2016) and ECA (2017).

The thirteen African countries that have had a drop in Gini over the years 1993-2011 are generally from West and Central Africa. The positive changes in income inequality are both driven by lower initial inequality and by growth patterns (see box II.1). Recent results show that a 10 percentile decrease in inequality increase the length and sustained growth by 50 percent. From a policy

perspective, this result implies that achieving high growth is not a sufficient condition for eradicating poverty, unless it is augmented by some social protection and redistribution policies to lift those below the poverty line (UNDP, 2016).

## 1. Growth and poverty gap

The economic performance trends in Central and particularly in West Africa provide context to their observed drop in Gini as reported in table II.7. Although growth is not enough to secure poverty reduction, its potential contribution to the fall in inequality should not be underestimated. The West and Central African countries had an average growth rate of 3.5 percent over the years 1993-2011 with wide variations across countries. Within the Central Africa subregion, Cameroon has led the growth performance reflecting both increased government spending and increased public demand. In West Africa the improved agricultural production in Burkina Faso, Senegal did contribute to this positive growth trajectory over the period under review. The other countries with a declining Gini were Ethiopia that clipped a high economic growth rate of 7.6 percent on average followed by Lesotho and Swaziland registering a 3.8 and a 3.3 percent and Madagascar tailing with a growth rate of 2.7 percent over the period (ECA, 2018).

It is important to reiterate that the growth impact is likely to differ by country in Africa, excluding North Africa, depending primarily on the inequality attributes of countries. The Central and West African countries that have improved income inequality have historically had a more equitable distribution of income (UNDP, 2016).

The poverty gap of these countries varies with Ethiopia, Guinea, Mali, Niger and Senegal below the average poverty gap of 15.2 percent while the others differ above the average of 15.2 percent. The lower poverty gap in the countries mentioned, namely Ethiopia, Guinea, Mali, Niger and Senegal are more amenable to poverty reduction policies. The pro-poor investments generally associated with poverty reduction strategies and programmes, social investments in education and health, do have a positive effect income inequality.

## 2. Pro-poor investments

Countries with declining income inequality over the period 1993 to 2011, as seen in table II.7, showed also a higher percentage of Government expenditure on education. This varied across the same countries from 14 percent in Guinea to 24 and 27 percent in Senegal and Ethiopia, above the African figure of 13 percent (ECA, 2017a). The prioritization of education spending linked with improved social outcomes of completion of primary school and literacy provided improved equality of opportunities.

The health expenditures followed a similar pattern. The spending figures of the countries with a declining income inequality was on average 10 percent of Government expenditure compared to the African average of 7.9 percent (ECA 2018).

The access to credit and finance particularly for young entrepreneurs and women and therefore financial inclusion is an often-cited part of a pro-poor programme (Beck et al 2004). There has been a trend of improved inclusion over the period 2011-2014 (see table II.8). Although this is not aligned to the period of declining income inequality (1993-2011) the introduction of particular financial inclusion policies could have occurred prior to the observed decrease in income inequality. In six of the 13 countries access to financial institutions did improve.

**Table II.8**  
**Selected African countries, account at a formal financial institution**  
**(countries where the Gini has declined from 1993 to 2011)**

*(Percentage of people aged 15 and above)*

Countries where Gini has declined	2011				2014			
	Male	Female	Rural	National	Male	Female	Rural	National
Cameroon	18.8	10.9	13.8	14.8	13.8	8.9	10.5	11.4
Ethiopia					22.6	21.0	18.7	21.8
Madagascar	6.5	4.6	5.0	5.5	6.0	5.5	2.8	5.7
Burkina Faso	15.7	10.8	12.0	13.4	15.1	11.8	12.0	13.4
Guinea	4.4	2.9	1.7	3.7	8.5	3.8	4.0	6.2
Mali	9.6	6.9	5.8	8.2	16.1	10.5	11.2	13.3
Níger	1.6	1.5	0.8	1.5	4.4	2.5	3.5	3.5
Senegal	6.2	5.5	4.2	5.8	16.0	8.2	7.0	11.9
Sierra Leone	18.0	12.8	13.8	15.3	17.5	11.1	9.9	14.1
Lesotho	20.2	16.9	16.0	18.5				
Swaziland	29.7	27.4	28.3	28.6				

Source: Economic Commission for Africa (ECA), on the basis of data from the Global Financial Inclusion Database of the World Bank (2017).

Note: Data is not available for the Gambia and Guinea-Bissau.

In short, although the evidence is preliminary so far, the African countries that have had a decrease in their Gini over the period 1993 to 2011 also had a series of concomitant socio-economic features of importance in driving income inequality: (i) a general historical lower income inequality; (ii) positive growth performance over the period under consideration; and (iii) pro-poor investments that were above the African averages.

These three factors lead to an improvement in the drivers of monetary inequality through both a notable sustained economic performance and pro-poor investments. This has been complemented by a general lower initial income inequality of the countries concerned that as pointed out above is more conducive to positive changes in income inequality. Moreover, the amenability of public policies on pro-poor investments, including improved inequalities of opportunities, tends to be the norm (see next sections). In short, a process driven agenda that contributes to improved income inequality/inequality of outcomes. Indeed, the drop in Gini in the 13 countries identified over the period 1993-2011 have had some commonalities in their public policies addressing the inequality of opportunities. The features will follow the structure of the report.

### 3. Labour markets

Increased investments in agriculture have featured regularly in improving both rural infrastructure and employment. For example, the public expenditure reviews of say Burkina Faso and Senegal have identified agricultural productivity gains as an important part of modernization of the sector. For example, the Productive Safety Net Programme (PSNP) of Ethiopia consists of direct supports, i.e. grants to households that are labor-poor and cannot undertake public works, and grants to households whose adults participate in public work projects. Beneficiaries include orphans, pregnant and lactating mothers, elderly households, and other labor-poor, high-risk households with sick individuals, such as people living with HIV and AIDS, and the majority of female-headed households with young children. Reviews of PSNP implementation have shown that several positive changes have taken place in the study areas in terms of nutrition, attitudes, and risk-taking behavior. Beneficiaries are reportedly

eating better-quality and more food and no longer sell food to pay for short-term household needs, such as medicines or school-fees. Cash-transfers have also enabled more investment in household livelihood activities and enhanced asset-building in targeted communities (World Bank, 2016a). This while directly creating employment in rural areas also contributed to improved opportunities in labour markets generally. The largest conditional cash transfer programme in Africa, with a coverage of approximately 7 million people, is largely rural and has resulted in improved educational attendance, health status of beneficiaries and overall improved access to public services.

The improved participation in the labour markets was also done through improved physical infrastructure in Sierra Leone. Sierra Leone has done a reasonably good job of keeping the bulk of its main roads in good or fair condition. The portion of the road network in good or fair condition increased from 42 percent in 1992 to 53 percent in 2008. This was achieved largely through rehabilitation projects made necessary by years of neglect before and during the war. This has improved the percentage of rural population that live within two kilometers of the current road network regardless of its condition. This number is about 40 percent for Sierra Leone. If we extend the distance that people may walk to a road to 5 kilometers, then the share of population with access increases to about 73 percent.

## 4. Gender

The use of fiscal allocation priorities to assess factors determining improved gender equality of opportunities does not feature regularly, except for some gender budgeting innovations seen in Rwanda among others (ECA, 2018). However, there have been some interesting policy interventions that are quite specific to the countries with a decreasing income inequality or inequality of outcome.

For example, in Burkina Faso a package of policy interventions that address equity and gender concerns in education and in particular secondary education were implemented. The Forum for African Women Educationalists (FAWE) Gender-Responsive School intervention package includes: bursaries for needy girls, Gender- Responsive Pedagogy (GRP) and management training, Information and Communication Technologies (ICT) training, Science, Mathematics and Technology (SMT) programme for girls, TUSEME (let us speak, in Burkinabe), a girls' empowerment programme, guidance and counselling desks, sexual maturation programme, community participation and gender-specific facilities. This led to an increase in enrolment for girls in lower secondary education by five percent over a 10-year period, 1999-2010.

Furthermore, the involvement of the rural communities and young people in designing the public interventions contributed to increasing the incomes, helping in girls' education and skill acquisition. Cameroon is another example of implementing gender parity policies. Cameroon introduced a specific gender policy that combined spatial and educational policies. The support to rural households through various interventions including income support and affirmative action There was an increase in gender parity in the rural areas from 94 to 99 girls per 100 boys over the period 2010 to 2014 (ECA, 2016).

Sierra Leone introduced a Free Health care programme for children under 5 and mothers. This has resulted in notable health gains in the vulnerable groups. This was as mentioned above based on road infrastructure and improvement to health facilities. The combination of infrastructure and free provision of public goods is an interesting point in the inequality of opportunities policy scenario. The "peace dividend" and the reconstruction of the country's infrastructure together with providing services is an important feature of welfare enhancement in the country. From 1990 to 2013, Ethiopia reduced its maternal mortality ratio from 1.400 to 420 deaths per 100.000 live births, by using low-cost impact interventions through the deployment of the Health Extension Program, especially in rural areas (ECA, 2014). The program has succeeded in bringing services closer to the people, particularly rural dwellers who historically have had challenges in accessing health services and who live in areas where the maternal mortality ratio is highest.



## 5. Spatial inequalities

Spatial inequalities partly drive both the inequalities in opportunities within countries, which in turn results in varying inequality of outcomes. In Sierra Leone the Gini varies from 0.27 to 0.42 and the drop in Freetown between 2005 and 2011 from 0.31 to 0.27 led the positive change in income inequality or inequality of outcome. In Sierra Leone the public expenditure review proposes the localization of projects and activities to diminish spatial variation in inequalities.

The literature on the positive impact of developing improved water and sanitation on health and education is well known. On average, 1,700 boreholes equipped with hand pumps, modern wells and 135 terminals water fountains were built annually. A limited number of rehabilitations are added to these figures. This had the effect of improved household time allocation for water gathering, generally by women, to human capital development.

In Ethiopia, certain traits of tackling inequality of opportunities were anchored within a sectoral plan on agriculture and rural development. The Ethiopian Agricultural Transformation Agency (ATA) developed a gender mainstreaming strategy to promote gender equality across all of its programming and organizational development processes. This strategy aims to ensure that all of the ATA's work contributes to gender equality by monitoring and adjusting the impact that all of its programmes and activities have on both women and men. The strategy includes increasing the participation of women and girls in the ATA's prioritized programme areas; creating more opportunities for women and girls to have equal access to, and control over vital resources; balancing the workload for rural women and enabling girls to invest in agricultural activities; addressing challenges to existing attitudes and practices that perpetuate gender inequalities in the agriculture sector.

## 6. Financial Inclusion

The contribution of financial inclusion to reducing inequality of opportunities takes on increased resonance with cost-sharing schemes with households in the provision of public services. The fact that the data available shows as high a proportion of borrowing for health and education as business development is extremely relevant (see figure II.10).

As was observed, the positive decrease in income inequality is a predominately West and Central Africa phenomenon over the period 1993 to 2011. In this regard, within West Africa financial inclusion has been a decisive factor towards women's economic empowerment. In 2012, the Economic Community of West African States (ECOWAS) established the Federation of Business Women Entrepreneurs to promote women's economic empowerment. Also, the Central Bank of West African States' financial inclusion strategy aims at financial inclusion for 70% of the adult population of its member states by 2020. Countries, including Côte d'Ivoire (2013-2018), Ghana (2012-2017), Niger (2014-2018) and Sierra Leone (2017-2020), have also already designed National Financial Inclusion Strategies to ensure access to financial services for all. These measures reveal the credence with which the African woman's role is recognised as vital to the economic development of the country (IMF 2016).

The Bank of Sierra Leone launched the National Strategy for Financial Inclusion, which will accelerate access to financial services for over 87% of the economically active population who are currently left out of the formal and regulated financial system. The National Strategy is part of the national agenda to contribute to a deep, competitive and stable financial system that delivers transformative financial services: to make financial services available, accessible and affordable to all Sierra Leoneans and Micro and Small and Medium Enterprises (MSMEs), and support inclusive and resilient private-sector led growth. This is a national plan with measurable targets, namely the G-20 Financial Inclusion indicators, tracked on a quarterly basis. In Ethiopia the Government has developed a national financial inclusion strategy based on four pillars, namely (i) strengthening financial infrastructure; (ii) ensuring supply of financial instruments; (iii) building a strong financial consumer protection framework (iv) improve financial capability.

## C. Conclusion

Income inequality remains a major concern in Africa. This is not only due to the intrinsic value of social justice but also to its debilitating effect on economic growth. Income inequality or inequality of outcomes, has been historically high with a clear distinction between ‘communal’ agricultural land structures and estate systems, with a lower inequality in the former than the latter.

The trends in income inequality (Gini) across African countries show that there has been a decline and this decrease has been driven by countries reporting lower Gini. This points towards two aspects. Firstly, there is a different relationship between economic growth and inequality across varying Gini. Secondly, the positive change in Gini shows that inequality of outcomes are amenable to policy change.

The evidence gathered shows that public policy is being used to reduce or eliminate inequality of opportunities. This lies at the heart of inclusive sustainable growth and “leaving no one behind”. What is important is that income inequality coexists with non-income inequality in the form of unequal access in the form of unequal access to education, health, labour markets among different populations groups classified by gender, location and income. Indeed, the African continent presents a particular challenge of income being a variable that affects access to education and health. Indeed, the borrowing for education and health bears this point out.

### 1. Public policy

The spending on education and health among other public services follows the pro-poor spending of the Poverty Reduction Strategies. The cost-sharing scheme with households limits the access of low-income groups. This in turn stems their participation in labour markets and the persistence of inequality of outcomes or the reconfirmation of pre-existing income distributions.

The countries that have had a decline in income inequality what has been observed is an increase in pro-poor investment. Within the pro-poor investments improvements in tackling the inequality of opportunity has also been observed. Indeed, the countries that have introduced certain programmes projects that have contributed to a declining Gini have certain commonalities. Firstly, a voluntary policy direction of improved women empowerment or improved access to health that tackles inequality of opportunities. The programmes on safety nets in Ethiopia, free medical care in Sierra Leone and improving infrastructure for heightened access for gender parity in Burkina Faso to mention a few have complimented pro-poor spending on health and education with targeted programmes. Secondly, the evidence indicates that a combination of pro-poor social investments with social protection targeted programmes are the norm.

The public interventions on lagging regions and the spatial contribution to inequality of opportunities is rather lacking in programmes on inequality. Notwithstanding evidence to the contrary, the role of sub-national administrative units in driving inequality of opportunities and the complimentary role of fiscal decentralization in addressing this is not considered a policy priority. The development of educational and health facilities in urban and peri-urban areas has further complicated inequality of opportunities.

Similarly, the financial inclusion feature of women empowerment, increasing access to credit for micro and small sized entrepreneurs are not considered policy priorities. Some of the countries that have had a declining income inequality have had some financial inclusion programme but the data available indicates its relatively small size.

In short, the public interventions on addressing inequality of opportunities that partly contributed to a declining inequality of outcome have not been part of a comprehensive pro-equity public policy.

## 2. Policy considerations

- Improve impact of fiscal policy on income inequality. The pro-poor investments in providing higher quantity of education and health have assisted in driving income inequality down. The quality of fiscal policy can be enhanced through a combination of higher social investments combined with social protection schemes for the excluded;
- Improve design of pro-poor investments through integrating spatial and gender considerations. The quality of public policies in addressing inclusion is a necessity if inequalities of opportunities are to be tackled;
- Provide income support and other social protection programmes to alleviate cost-sharing in the access to public goods such as education and health. Cost-sharing in the provision of health and education should be substantially reduced through a combination of targeted social protection to lower income groups;
- Revitalize fiscal decentralization policies that ensure a more homogenous access to public goods through rural infrastructure, adequate resource allocation and capacitating local administrations among others;
- Conduct further research on the various drivers of inequality of opportunities to achieve the highest impact of growth and public investments.

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### III. Latin America and the Caribbean: social protection policies to address inequality

#### Introduction

An adequate understanding of inequality is paramount before discussing public policies aimed towards greater equality. To this respect, ECLAC (2016a) in its report presented to the Regional Conference on Social Development in Latin America and the Caribbean, titled *The Social Inequality Matrix in Latin America*, has attempted to deepen its analysis on social inequality in the region. This chapter will use the framework developed in that report to better understand inequality.

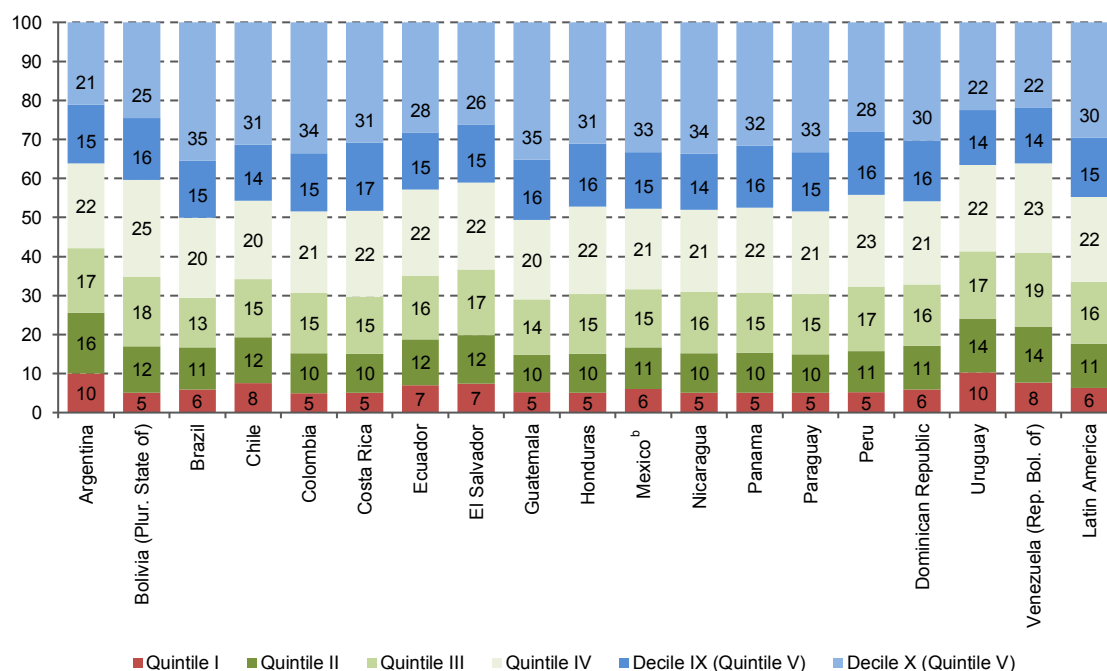
ECLAC (2016a) highlights that social inequality in Latin America is a multidimensional phenomenon and is strongly conditioned by the prevailing production structure, which is characterized by great heterogeneity. Disparities move then from the production vector into employment and the social domains and intertwine with gender relations, ethnic and racial relations and relations over the entire life cycle and even patterns of territorial development (Bárcena and Prado, 2016).

Socio-economic stratum —whose key elements are how resources, productive assets and power are distributed, as well as the structure of ownership— is one of the predominant axes of the inequality matrix, and its clearest manifestation is income and wealth inequality. According to the most recent household survey data, in 2016 the Gini coefficient on personal income showed an average value of 0.467 for 18 countries in Latin America (ECLAC, 2018).<sup>10</sup> Furthermore, the income of the wealthiest quintile (quintile V) in the region accounted for about 45% of total household income, while that of the poorest quintile (quintile I) was barely 6% (see figure III.1) (ECLAC, 2018).<sup>11</sup>

<sup>10</sup> Average on the basis of 2016 data, except for Brazil, Chile and the Plurinational State of Bolivia (2015) and the Bolivarian Republic of Venezuela, Guatemala and Nicaragua (2014).

<sup>11</sup> The data corresponds to 2016 for most of the countries under analysis and is drawn from household surveys carried out by the countries of the region to measure income, and may be employment, multipurpose, or income and expenditure surveys. The surveys, compiled and harmonized regularly by ECLAC, are part of the Household Survey Data Bank (BADEHOG).

**Figure III.1**  
**Latin America (18 countries): share of total income, by income quintile, around 2016<sup>a</sup>**  
*(Percentages)*



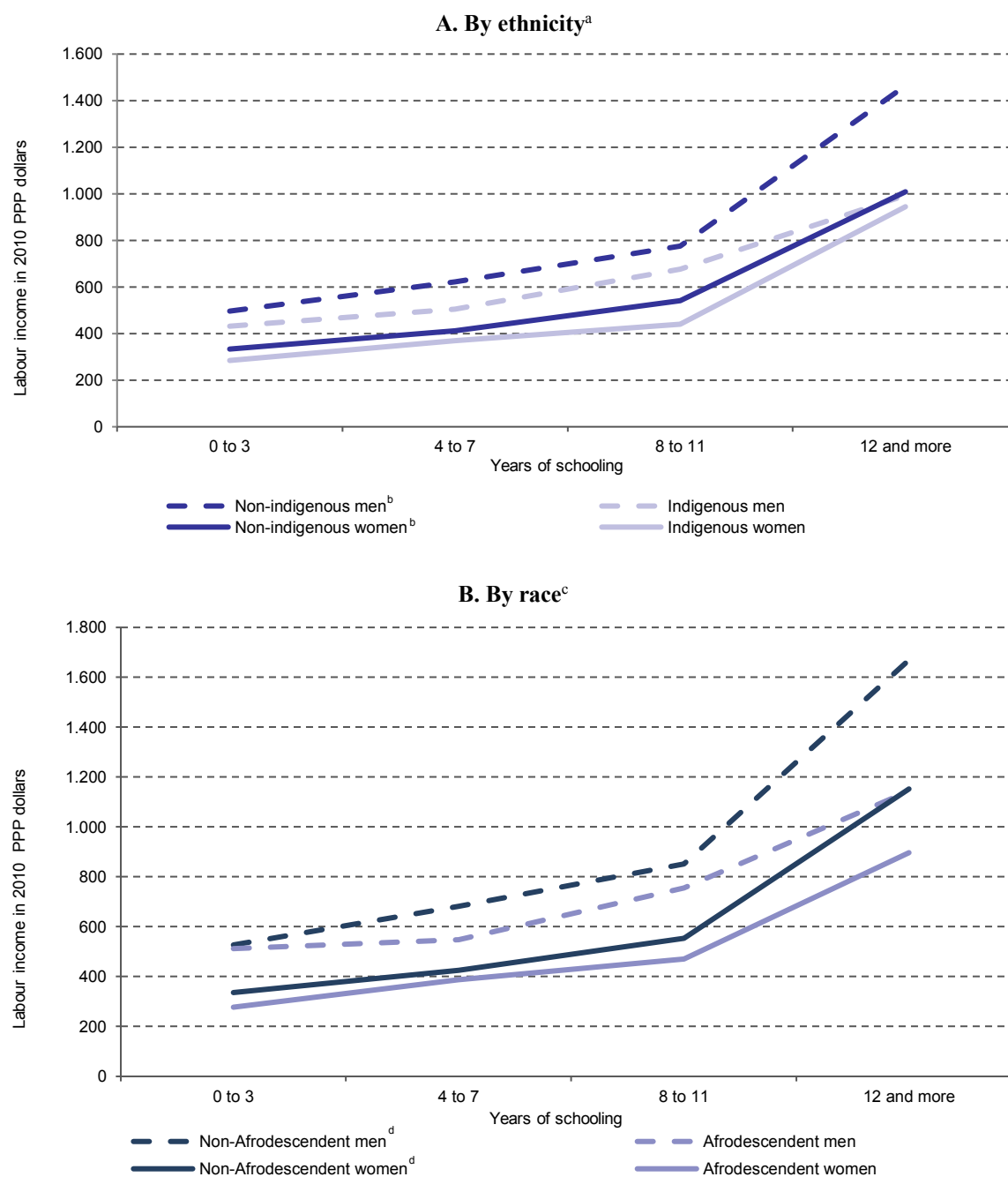
Source: *Social Panorama of Latin America 2017*, p. 36, Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the Household Survey Data Bank (BADEHOG).

<sup>a</sup> Household quintiles organized by per capita income. Data refer to 2016, except in the cases of Brazil and the Plurinational State of Bolivia, which refer to 2015, and the Bolivarian Republic of Venezuela, Guatemala and Nicaragua, which refer to 2014.

<sup>b</sup> The 2016 figures for Mexico were estimated based on the 2016 statistical model for the continuation of the social conditions module of the national household income and expenditure survey, prepared by the National Institute of Statistics and Geography (INEGI) to mitigate the lack of comparability of the 2016 survey with the 2008-2014 series (see [online] <http://www.beta.inegi.org.mx/proyectos/investigacion/eash/2016/>).

Nevertheless, social inequalities in the region are also shaped by the axes of gender, race and ethnic origin and territorial inequalities, as well as those connected to the life cycle. This means that the actual divide in the social, economic and geographical spheres are co-constituted through these various axes of the matrix. Inequalities born out of socio-economic stratum, gender, race, ethnic, territorial and life cycle intersect, reinforce and connect with each other in complex ways (see figure III.2 for an example of how different inequalities intersect, accumulate and exacerbate in the labour market). It follows that the characteristics and mechanisms of reproduction and persistence of the inequality matrix are traceable in the main areas of social development and the exercise of rights. The outcome is stratified access to, among other things, production resources, education, health care, decent work and social protection (ECLAC, 2016a). The aim of this chapter is thus, to identify public policies that have been able to mitigate these results, focusing on social protection.

**Figure III.2**  
**Latin America: average monthly labour income for the employed population aged 15 and over, by sex and years of schooling, national total, around 2015**  
*(In 2010 PPP dollars)*



Source: ECLAC based on the Household Survey Data Bank (BADEHOG).

<sup>a</sup> Includes Plurinational State of Bolivia (2015), Brazil (2015), Chile (2015), Ecuador (2016), Guatemala (2014), Mexico (2016), Nicaragua (2014), Peru (2016) and Uruguay (2016).

<sup>b</sup> Excludes Afrodescendent population.

<sup>c</sup> Includes Brazil (2015), Ecuador (2016), Peru (2016) and Uruguay (2016).

<sup>d</sup> Excludes indigenous population.



In what follows, public policies linked to the notion of social protection and which address each of the axes of the social inequality matrix are examined. Social protection includes a wide range of policies aimed to the exercise of economic, social and cultural rights and is structured around three key components non-contributory social protection, commonly referred as social assistance; contributory social protection, known as social security; and labour market regulation (Cecchini and Martínez, 2012). Increasingly, care is considered as a fourth pillar of social protection (Rico and Robles, 2017).

Social protection thus provides a variety of instruments that can be combined in various ways to impact the different axes of the social inequality matrix.

## **A. Public policies that address socio-economic stratification**

ECLAC has identified the labour market as the master key to equality. The importance of the labour market is reflected by the fact that the labour income accounts for 80% of total income of Latin American households and 74% in the case of poor households (ECLAC, 2015). However, as the labour market reflects the social relations of production, it can be either a factor that facilitates the reduction of poverty and inequality or a factor of reproduction of these same conditions. The capital-labour relation expressed in the labour market is a profoundly unequal one and reflects a highly heterogeneous production structure which leads to a development model that sustains inequality. This is expressed by the prevalence of low-productivity economic sectors, disparities in access to the labour market and to rights (such as possession of a contract and affiliation to social security), and by income gaps.

This section briefly highlights two policies that address inequality in the labour market: minimum wage policies and policies that address labour and productive inclusion.

### **1. Minimum wage policies**

Minimum wage policies can be highlighted as a key factor for promoting better salaries for workers at the lower end of the income distribution. As well as raising the floor of the formal wage structure, minimum wages serve as a reference for wages in the informal sector (the “lighthouse effect”) (ECLAC, 2015). For minimum wages to play their role, however, measures must be in place to ensure compliance with labour standards and the policy must be viewed as a long-term strategy under a robust economic policy and in the framework of strengthened labour institutions. It is also important to ensure that the level set for the minimum wage is consistent with macroeconomic and production policies and considers the existing wage structure (Weller and Roethlisberger, 2011).

Minimum wages serve as a critical policy tool to improve the income of the working poor, promote equality and widen internal demand. The OECD (2016) also asserts that the minimum wage can lower working poverty, increase productivity and skill use. Furthermore, minimum wages have positive impact in reducing labour income gaps related to gender as well as race and ethnicity. Minimum wages can have positive effects by reducing income gaps between men and women, since the latter are overrepresented at the base of the wage pyramid and usually a larger proportion of employed women than employed men receive the equivalent of the minimum wage. In the case of Brazil, for example, according to Guimarães (2012), in the period 2004-2011, there was a large reduction in income gaps between men and women and between whites and Afro-descendants: in that period the average income earned from their main job by those aged 16 years and over rose in real terms by 29% for men, 36% for women, 28% for whites, 44% for Afro-descendants and 47% for women of African descent. Guimarães (2012) argues that these significant differences in favour of women and Afro-descendants were associated with the higher representation of these groups among those earning the equivalent of the minimum wage.

ECLAC (2014) has found that stronger minimum wages have been one of the engines driving the reduction of poverty and inequality in the region. Most countries in Latin America have registered an increase in the real minimum wage between 2000 and 2016. The exception is Paraguay that

recorded a slight fall.<sup>12</sup> In contrast, Brazil increased its real minimum wage over the same period in 108.7% in real terms, while the percentage of occupied people that received a wage under the minimum wage in 2014 was 21.3% (ECLAC, 2017a).<sup>13</sup> In the context of falling unemployment and relatively strong economic growth, the increase in the minimum wage in Brazil led to inequality reduction among wage earners (Maurizio, 2014).

## 2. Policies for labour and productive inclusion<sup>14</sup>

To transform the labour market into a more equitable space, decent work has to be promoted. This includes policies, beyond the minimum wage, that encourage formalization of employment and of business and that strengthen access to social protection. Policies that promote labour and productive inclusion are also critical. These have been expanding in the region as a way to strengthen labour inclusion of the most disadvantaged groups—including young people, women, people living in extreme poverty or people with low levels of education (ECLAC, 2017b) and to create alternatives in autonomous income generation.

Labour and productive inclusion programmes translate into three types of policies aimed mostly on working-age youth and adults living in conditions of poverty or vulnerability. First, on the supply of labour through remedial, or second-chance, education and the provision of job training, second, on the demand side, by promoting self-employment and micro-enterprise, and direct or indirect job creation, and third, through employment and labour intermediation services.<sup>15</sup>

As regards to policies that address labour supply, the most important programmes in the Latin America and the Caribbean refer to technical and vocational training programmes and remedial (second-chance) education and combating school dropout programmes. As of 2017, 45 out of 68 programmes examined were technical and vocational training programmes targeting mostly individuals between 18 and 35 years, as well as women. Sometimes, job training is combined with childcare services to allow women attend courses.<sup>16</sup>

Assessments of these programmes show that training programmes tend to have positive impact on the employability of their participants, increase their wages and the probability of formalization (Attanasio, Kugler and Meghir, 2009; Bravo, 2003; Castillo, Ohaco and Schleser, 2014; CONEVAL, 2010; DNP, 2008; Montagner and Muller, 2015; Petterini, 2010; Van Gameren, 2010).

In Latin America, most of the population living in a situation of indigence, poverty and vulnerability have very few years of schooling. To respond to this situation, in 9 countries of the region there are also 15 programmes that offer scholarships to counter secondary school dropout and to enable young adults who dropped out of the education system to complete their studies. These programmes use a variety of economic incentives: (i) cash transfers conditional on school attendance and achievement (for example, the School Attendance Bonus and the School Achievement Bonus of the Ethical Family Income in Chile, and the PROG.R.ESAR and the cash transfer basis of Argentina's "Youth with More and Better Work" programme); (ii) scholarships (the Educational Commitment Programme of Uruguay), and (iii) transport subsidies (+Capaz in Chile).

<sup>12</sup> Available data on the ratio of workers earning less than the minimum wage, shows that the two extreme cases are Mexico and Chile: whereas in Mexico about 30% of workers earned less than the minimum wage in 2014, this percentage falls to 17% in the case of Chile (ECLAC, 2017a).

<sup>13</sup> Variations in the real minimum wage for Latin American countries between 2000 and 2016 are drawn from the CEPALSTAT Database, based on official country data.

<sup>14</sup> This section draws from Chapter III of the Social Panorama of Latin America 2015 (ECLAC, 2016b).

<sup>15</sup> ECLAC maintains a database of labour and productive inclusion programmes as part of the Database of non-contributory social protection programmes in Latin America and the Caribbean (see [online] <http://dds.cepal.org/bpsnc/>), which responds to the mandate of the Regional Conference on Social Development in Latin America and the Caribbean.

<sup>16</sup> For instance, there are programmes in Argentina, Chile, and Uruguay. For a more detailed discussion see ECLAC (2016b) Box III.6.

Most support for labour demand concentrates on self-employment, as there are 29 such programmes in 14 countries. Programmes that support self-employment mostly focus on training and access to capital. Training programmes include issues relating to saving and finance, micro-enterprise and economic planning. Access to capital tends to be for own-account and micro-enterprise activities, mostly through seed capital or microcredit. A common challenge is to include measures to formalize these jobs. Evidence is not promising and supports best results when users are motivated and display relatively higher educational levels (Farné, 2009).

Increase in labour demand through direct job creation is undertaken mostly through public offerings of temporary jobs. These tend to focus on unskilled labour, in activities related to public works and local and community infrastructure projects. Indirect job creation is achieved through public economic subsidies. These usually are temporally restricted and facilitate the hiring by private firms of young people and adults living in conditions of poverty or belonging to groups considered vulnerable through the reduction of labour costs by covering part of the wage. Evidence tends to support that positive short-term effects disappear with the closing of the project (Chacaltana, 2003; DIPRES, 2009; DNP, 2007; IDB, 2012).

Indirect job creation occurs through public economic subsidies usually for a defined time period, for the hiring by private firms of young people and adults living in conditions of poverty or belonging to groups considered vulnerable. The subsidies encourage hiring, since they reduce labour costs by covering part of the wage (for example, PROEMPLEAR in Argentina, the Youth Employment Subsidy and the Women at Work bonus in Chile) and social security contributions or tax obligations (ECLAC/ILO, 2014). Wage subsidies could lead to job replacement rather than the creation of new jobs or result in the hiring of employees, for example, young people, who would have gotten the job even without the programme. However, J-PAL (2013) highlights that these programmes have the potential to incentivize employers to move from the informal to the formal sector, register their employees, and thus increase formal employment.

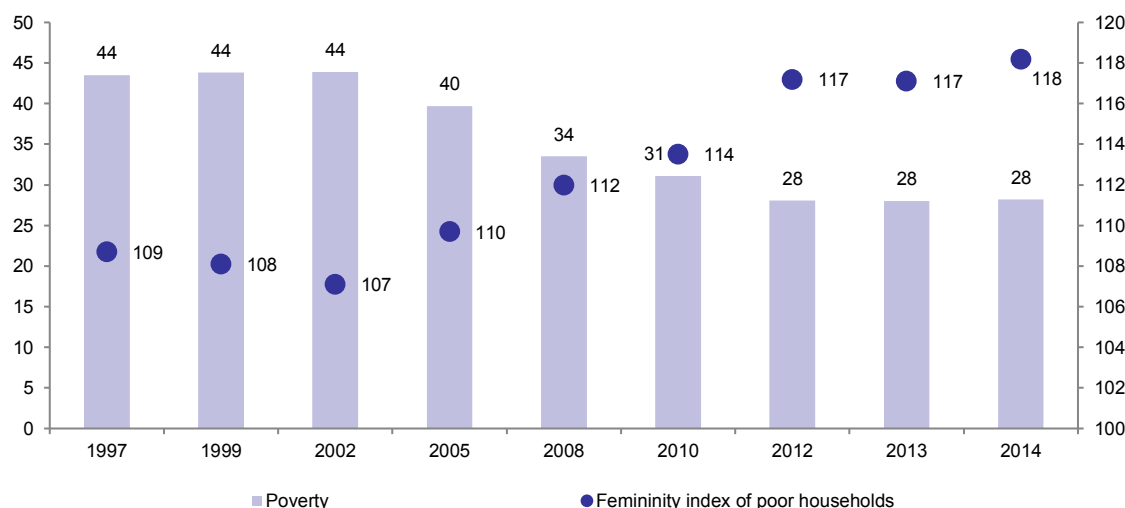
Finally, labour intermediation services try to match labour demand and supply, by providing information on vacancies in private firms and public organizations to participants of labour and productive inclusion programmes. There are few evaluations of public labour market intermediation services and these tend to be contradictory in terms of their success. Soares and Sátyro (2010) report negative evaluations for Brazil while Van Gameren (2010) informs of positive results in Mexico.

## **B. Public policies that address gender inequality**

ECLAC's (2016c) view on gender inequality takes into account three dimensions of women's autonomy: physical, economic and decision-making. As regards to economic autonomy, available statistics in the region indicate that women, despite having on average more years of schooling than men, still have lower rates of employment in the labour market. Moreover, they receive lower wages for similar jobs and tend to work mostly in low-productivity sectors. This is connected to both structural forms of gender discrimination and the unequal distribution of paid and unpaid work between women and men, with women enduring most of unpaid care work for dependents, be they children, older persons or persons with disabilities.

Nearly one third of Latin American women (29%) do not have own income and are economically dependent (ECLAC, 2016c). Monetary poverty has thus a greater incidence among women aged 20-59 years. In 2014 the percentage of poor women was 18% higher than that of poor men considering the same age group (see figure III.3). This situation is further compounded by the other two dimensions of autonomy. Physical autonomy is linked, among others, to violence against women and the respect for sexual and reproductive rights. Decision-making autonomy is connected to increased participation in hierarchical positions within government and companies. All three dimensions of autonomy have to be addressed to close the gender gap of inequality.

**Figure III.3**  
**Latin America (18 countries): poverty and femininity index of poor households, 1997-2014**  
*(Percentages and index)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries. The femininity index of poor households reflects the percentage of poor women aged 20-59 years compared with the proportion of poor men in the same age group, adjusted by population structure.

The rest of this section focuses on three specific social protection policies adopted in Latin America that address different phases in life and contribute to greater economic autonomy for women, as well as to reducing inequality between women and men: (i) care policies; (ii) policies aimed at women's labour and productive inclusion; and (iii) pensions.

## 1. Care policies

In Latin America, care work is undertaken almost exclusively by women, taking the form of unpaid domestic work or paid work in the labour market. How a society organizes the distribution of care work is a concrete example of the sexual division of labour and is a central element to explain the persistence of gender inequality.

This section highlights two policies considered critical for addressing care. The first refers to the institutional framework and the second to the articulation of care and labour market policies. The first point emphasizes a systematic and integrated public-policy response, for the nature of care policies is eminently intersectoral and multidimensional. Accordingly, the implementation of care policies involves different public institutions and includes legal, regulatory, organizational, technical, operational, investment and financing dimensions. Institutions range from those that are specifically devoted to caring for these population groups or problems (children's institutes, institutions for persons with disabilities, or older persons) to those that focus on gender issues (machineries for the advancement of women). Most policies in this domain are not exclusively centred on care, but either target the integrated development of early childhood or are set in the framework of national policies for older adults. One exception is Costa Rica that has both a National Network for Child Care and Development (REDCUDI) and a Progressive Care Network for Integrated Care of Older Persons (ECLAC, 2016b; Rico and Robles, 2016). Today, in the region only Uruguay has an integrated care system.

All Latin American countries have some type of policy in relation to care, such as provisions for maternity leave, childcare services, and day services or long-stay facilities for older persons. However, public care services provided to dependent older persons within the home, as well as care services for dependent persons with disabilities, are less widespread. This situation

demonstrates the still-limited capacity of the region's care policies to provide a comprehensive response to the risks associated with care needs, and to prevent these risks from increased household vulnerability.

A second fundamental challenge is the articulation of care policies and labour market policies fostering women's economic autonomy. To this regard, the crucial factor seems to be access to high quality child care, stable care policies and measures that reconcile labour and family responsibilities (Sojo, 2011). Lessons from the region on the successful articulation of care and labour market policies also highlight the provision of care services to dependent people, interventions to prevent early parenthood, training and employment programmes for women in deprived socioeconomic situations, and policies that reduce occupational segregation and income gaps (ECLAC, 2014).

## 2. Women's labour and productive inclusion

Women —especially those living in poverty— find it hardest to enter the labour market and although they have succeeded in increasing their labour market participation rates, they are disproportionately employed in unstable jobs —which lead to unequal access to social protection— and receive lower wages. Women are occupied largely in the categories of unskilled self-employed jobs and in domestic employment. In addition, the proportion of women who work as unpaid family members is more than double that of men. This occupational segregation is one of the most salient features of gender inequality and has direct negative consequences for the economic autonomy of women (ECLAC, 2016b).

To promote gender equality through women's labour and productive inclusion in Latin America, policies connected to qualification, skill certification and professional engagement have been crucial. These policies can be classified into three categories. Those who target: (i) women in occupations considered traditionally for men only; (ii) women in traditionally female occupations, aimed at improving their employability through skill certification mechanisms, promoting empowerment and education in contents that include management skills, women's rights and civic education; and (iii) women's groups linked to cooperative activity and micro-enterprise. The latter policy aims to address the problem of poverty and promote the formalization of informal production activities, providing knowledge as a way of formulating development projects in firms that can attract financing (Yannoulas, 2005).

Three brief examples serve to illustrate each of these policies in the region. In 2008, Uruguay's National Women's Institute launched the quality with gender equity model that includes a programme to encourage women to enter predominantly male activities. This is accomplished through specific training opportunities for women, the creation of mechanisms and benefits relating to co-responsibility for family care and non-sexist language in job vacancy announcements. Public institutions that joined the programme include the National Ports Administration (ANP), the National Electricity Plants and Distribution Administration, the National Telecommunications Administration and the State Sanitary Works. Argentina provides a second example, with a training programme aimed at the professionalization of paid domestic and care work, which is a traditionally female occupation. The initiative is part of the Continuing Education Programme of the Ministry of Labour, Employment and Social Security, and is structured around the provision of specific and cross-cutting knowledge and skills. Third is a programme dedicated to women entrepreneurs in Mexico. The National Programme for Micro-enterprise Financing (PRONAFIM) offers microcredit to promote productivity and competitiveness through gender inclusion. The main forms of support consist in granting credit lines and providing technical assistance and training for professionalization, operational efficiency and innovation (hardware, software and technology). This is supported by incentives for expansion through the establishment of branches, agencies and promoters.<sup>17</sup>

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<sup>17</sup> For a more detailed discussion see ECLAC (2016b) box III.3.

### 3. Pensions<sup>18</sup>

Over the life course, women accumulate a series of disadvantages in the labour market compared to men. Women more often engage in part-time jobs, unpaid work and face lower wages for doing the same job. Pension systems then reinforce inequalities generated in the labour market and by the sexual division of labour. As a consequence, women face higher risk of poverty in old age. The socioeconomic disadvantage of older women has been recognized as one of the main issues linked to gender inequality.

In this regard, pension reforms can play a central role in closing gaps. ECLAC (2014, 2016c) asserts that due to the great inequalities and budgetary constraints prevailing in Latin America, future pension systems should be based on a solid social covenant and new gender contract.

Pension systems in Latin America tend to be characterized by various combinations of low coverage, insufficiency and a relative larger share of non-contributory pensions in the case of women. From 2005 onwards various countries in Latin America —such as Argentina, the Plurinational State of Bolivia, Costa Rica, Chile and Uruguay— have enacted either structural or parametric reforms with an inclusive shift.<sup>19</sup> These reforms have been able to reduce the gender gap in various ways, including through the expansion of benefits for those outside the labour market; compensations for those who perform domestic and care services; the expansion of benefits for seasonal workers; or through maternity bonuses and the introduction of non-contributory pensions for all workers who have lower contribution densities. Other measures have included changes to mortality tables<sup>20</sup> and invalidity pensions, which mostly benefit women as major caregivers. Another example is the two-tiered replacement rate (enacted in Costa Rica), since it has direct redistributive effects: the higher the income level, the lower the replacement ratio; and, vice versa, the lower the labour income, the higher the percentage of earnings that the pension replaces. Reductions in the gender gap have also resulted through constitutional change, as the case of Brazil illustrates. In this case, social security was enshrined as a right with benefits starting at the minimum wage and covering rural women workers. Brazil was also the first country in the region to include affirmative action measures for women in its pension system.

As a result, although these reforms were not always focused exclusively on women, increase in contribution and coverage rates favored disproportionately women, contributing to a reduction of the gender gap. However, disparity in the amounts received, is more resistant to change.

At least three lessons from the pension reforms undertaken in Latin America can be identified to contribute to close the gender gap. The first lesson of the reforms points to the integration of care as one of the contingencies to be covered and to the recognition and compensation of unpaid care work. Pension systems that include domestic workers, which are predominantly women, include Brazil, Chile, Costa Rica, Ecuador and Uruguay. A second lesson refers to differentiated retirement ages for women and men. Ten Latin American countries currently maintain differentiated retirement ages. In cases where the intention is to provide some form of compensation for care work, this would represent affirmative action, since women workers could at least choose to retire a few years early. Nevertheless, earlier retirement needs to be accompanied by measures to make up for the fewer years of contribution, as it happens in Brazil. Moreover, in a context of longer life expectancy and problems in financing the system, the retirement age difference has come to be seen as compensation for the unpaid work done by women of all ages. A

<sup>18</sup> This section draws on the ECLAC's Social Panorama 2017, Chapter 4 (2018).

<sup>19</sup> Pension system reforms can be classified as structural or parametric (ECLAC, 2006; Gill, Packard and Yermo, 2005; Mesa-Lago, 2008). Structural reforms lead to the creation of a new pension system, while a parametric reform is one that involves changes to the parameters of the pension system and, therefore, does not change the structure of the existing model (e.g.; increasing the contribution rate, raising the retirement age, changing the access conditions for benefits reducing benefits through lower replacement rates).

<sup>20</sup> In some countries mortality tables differentiated by sex have a detrimental impact on women due to women's longer life expectancy.

third lesson refers to formalization of domestic work. Formalization has benefited women; nonetheless, it had unequal impacts on the income gaps between men and women across countries. Whereas in Brazil, Ecuador, Panama and Paraguay, formalization had a positive effect on reducing labour income gaps between men and women, the cases of Colombia, Mexico, Peru and the Plurinational State of Bolivia, show the necessity to integrate formalization processes with other policies that seek to reduce the labour income gap. For example, in Colombia, formalization was greater among men than among women. This shows the requirement to design and implement policies that enable to balance formalization among women and men.

In summary, it is important to recognize the right to social security as an entitlement for the entire population, and establish this right as a standard for all society, the public domain and the market. Pension system design is extremely important for the exercise of women's rights and their economic autonomy. More specifically, care work and domestic work should be regarded as a contribution by women to society as a whole. Only its integral consideration makes pension systems and the rest of social protection viable.

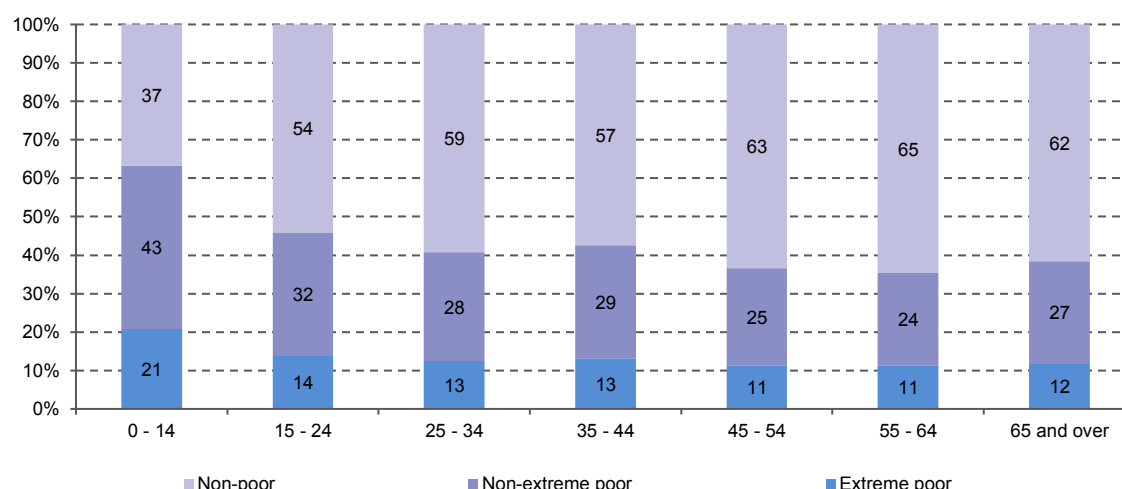
### **C. Public policies that reduce life cycle inequalities<sup>21</sup>**

A focus on the life cycle in public policy, is crucial to understand the complexities of social inequality. ECLAC (2016a and 2017a; Cecchini and others, 2015) considers age as an axis of social inequality and identifies different stages of the life cycle (first childhood, childhood, adolescence, youth, adulthood and old age)<sup>22</sup> which need specific policies. It also recognizes that these different stages in the life cycle are differently affected by extreme poverty and poverty (see figure III.4). As a consequence, public policies should aim to support people throughout the different stages of their lives in response to their specific risks and vulnerabilities. For instance, children experience higher levels of poverty. This situation is exacerbated when childhood overlaps with other dimensions of the inequality matrix. For instance, indigenous children exhibit higher mortality rates than non-indigenous children. Youth is another important turning point, as at this age future inequalities are shaped by educational attainments. A clear cleavage exists between those which did not complete their primary education and those that completed secondary education. In the case of the former, 30% of men 65 or older receive a contributory pension, compared to 66% in the case of the latter. This situation is compounded by gender, as only 21% of elderly women who completed primary education receive a pension, compared to 62% of those who completed secondary education. As a result, public policies that address inequality should include a life cycle perspective that considers the chain of inequalities running from childhood to old age. This recognizes the specific needs and risks that change over the lifetime.

<sup>21</sup> As during adulthood inequality is mostly channeled through the labour market, this stage overlaps with the axes of social-economic stratification addressed earlier. For that reason, in this section just the other three stages of the life cycle are addressed.

<sup>22</sup> There are no standardized age definitions for these categories, which sometimes overlap. For example, although the Convention on the Rights of the Child (United Nations, 1989) defines childhood as lasting until the age of 17 inclusive, youth is often defined as starting at 15. Besides the difficulty of delimiting age ranges conceptually, their meaning, being a social construct, varies by context. In recent times there has also been a trend towards postponement or extension of various stages.

**Figure III.4**  
**Latin America (18 countries): income poverty by age group, 2014**  
*(Percentages)*



Source: ECLAC, *The Social Inequality Matrix in Latin America* (p. 45). Elaborated on the basis of special tabulations of household surveys conducted in the respective countries.

## 1. Childhood and adolescence

Over the last few decades Latin America has made substantial progress with respect to the welfare of its child population. This improvement is expressed in indicators such as child mortality and chronic malnutrition rates, particularly for the poor (UNICEF, 2016). Still, large inequalities remain and children are worse-off in most areas of social development (ECLAC, 2017a).

Experience from Latin America highlights that at childhood, equality-oriented policies should aim at three distinct but interrelated areas: expansion of preschool education, increasing the quality of preschool education and elimination of child labour (ECLAC, 2017a). Throughout the region, access to preschool education is characterized by great heterogeneity among countries, ranging from 38% in Honduras to 86% in Uruguay for children between 3 and 5. Another challenge is the quality of preschool education—which refers to facilities, size of courses and teaching quality among others—which is strongly shaped by socioeconomic conditions. Third, child labour still persists in the region ranging from 2.1% in Costa Rica to 34.4% in Haiti for those aged from 5 to 17 years. This not only undermines children from enjoying rights such as education and leisure, but is itself a serious violation of their rights (Ullman and Milosavljevic, 2016).

For adolescents, completion of secondary education is a priority, and thus educational policies have aimed to reduce school drop-out rates, mostly with scholarships, monetary transfers focused on the most needed and more recently by redesigning the content of curricula and improving education quality (UNESCO/LLECE, 2008). The extension of the school day has been also recognized as a successful policy for improving educational outcomes (Bellei and others, 2013). Another key policy has been vocational education (UNESCO/IIEP, 2012).

A cross-cutting policy is to address the increasing segregation observed in the region between public and private education (Arcidiácono and others, 2014), which tends to replicate existing inequalities. When designing and implementing educational policies, it is important to consider the various dimensions of inequality, integrating for instance the territorial dimension (Rossetti, 2014) and a gender perspective.



## 2. Youth

A mayor challenge at this stage of the life cycle is the transition from education to work (Gontero and Weller, 2015). This challenge is particularly strong for those —especially women— who are neither employed in the labour market nor studying. In Latin America, in 2014 the percentage of youth not in employment, education or training for men ranges from 4.7% in the Plurinational State of Bolivia to 13.8% in Dominican Republic, while for women these percentages are higher, ranging from 22% in the Plurinational State of Bolivia to 44% in Honduras (ECLAC, 2016a). In addition, those who are able to enter the labour market do so often in precarious and unstable jobs, without social protection.

In terms of the secondary education challenge, three features stand out from the Latin American experience. Policies tend to address: first, the expansion of coverage, with particular attention paid to the most excluded groups; second, the improvement of education quality and relevance; and, third counteracting the impact of high socioeconomic segmentation in secondary education. Although the percentage of young people attending secondary education has risen in most of Latin American countries, completion of secondary education remains an ongoing challenge. The education system in Latin America has been expanding its coverage, but simultaneously replicating inequalities observable along the social inequality matrix. As a consequence the full right to education is not anymore so much a matter of access but equal quality (Trucco, 2014).

With respect to labour policies for youth, from the Latin American experience it is possible to ascertain three interrelated areas of policy intervention (ECLAC, 2017b), namely: (i) building capacities that facilitate change in the productive structures; (ii) promoting decent work as the ultimate goal of career paths (Abramo, 2013; ECLAC, 2016b), and (iii) encouraging reconciliation between education and training, work and family life. Thus, technical and vocational education and training, labour inclusion policies, and reconciliation policies represent a priority. Technical and vocational education and training has the potential to reduce inequality by serving disadvantaged groups. Both short-duration training—which can facilitate the access to specific jobs—and lifelong education—allowing to update knowledge and skills—are needed (Mercadante, 2017; Trucco and Ullman, 2015). Labour inclusion policies for young people are a critical aspect of equality-oriented policies at this stage of life; they should go beyond training and require integrated intersectoral policies that can act in concert in various fields. These include: promotion of strategies to facilitate the transition from school to work; increased formalization of work and access to social protection (including care); consideration of young people in rural areas; active involvement of young people in programme design, implementation and monitoring; and affirmative action measures to close social gaps (ECLAC, 2015).

Third, policies should aim to reconcile studies, work and family and personal life. A major challenge for reducing inequality is responding to the need of young people to reconcile their education and work with their family and personal lives. A clear expression of this difficulty is young people who are neither studying nor employed in the labour market. Policies in Latin America that have been shown to contribute to reconcile the different aspects of life include: developing measures to allow young parents to enroll and continue in school; implementing or expanding care systems; establishing policies that promote joint responsibility in domestic work and care duties within the family; expanding and respecting maternity and paternity leave; increasing the flexibility of workday schedules for young students who also work, and improving urban transport systems to facilitate travel between school, the workplace and home (ECLAC, 2017b).

## 3. Old age<sup>23</sup>

Pension systems, which include both contributive and non-contributive allowances, constitute a central part of social protection systems and have been a key policy to reduce poverty and extreme poverty in old age, as well as inequality, throughout Latin America. In terms of its impact, in 2016 in

<sup>23</sup> Section based on the Social Panorama of Latin America 2017 (ECLAC, 2018).

Latin America the poverty rate dropped from 46.7% to 15.2% for people 65 years old and over when receiving pensions (ECLAC, 2018). Non-contributory pensions have been critical in this process.

From the Latin American experience on pension reforms, the main policy challenges can be synthesized in the balance of three dimensions, namely, coverage, sufficiency and financial sustainability. This tri-dimensional challenge is compounded by the accelerated aging process in Latin America, which has meant additional pressure for pension systems.<sup>24</sup> This process is characterized by at least three salient features: first, the feminization of old age, as women surpass men, on average, by 7 years in life expectancy; second, the end of the demographic dividend by 2020; and third, old aged will surpass children younger than 15 by about 2036. As a result, the financial challenges to sustain pension systems in Latin America will only increase. This is exacerbated by the requirement to keep up with non-contributory pensions to defend progress made in poverty and inequality reduction.

Despite the progress made in the last decade, the contributory system is not enough to address poverty and inequality in old age. This is reflected by looking at the change in coverage of the contributory system between 2000 and 2014. Even though average contributory coverage has increased by adding 58.7 million people, it would take about half a century for the region to attain average coverage levels similar to that of Uruguay in 2014 (87.2%). Today, there are still 142 million economically active people (more than 50% of the total) that are unprotected or not covered by contributory pension schemes (ECLAC, 2018, p. 144).

The expansion of non-contributory pensions to those 65 years and over—which has increased from 3.7% in 2000 to 23.8% in 2015—has been critical for the reduction of poverty and inequality. However, the sufficiency of pensions received remains a huge challenge, as the amount of the allowance represents between 12.1% and 38.5% of the minimum wage in eight countries of the region.<sup>25</sup>

Recent pension reforms in Latin America—be they structural or parametric—offer various lessons, in terms of contribution to the reduction of poverty and inequality. First, individual savings alone—as in individual capitalization schemes—are not able to match the requirements of social protection coverage in Latin America. Second, underpinning the progress in poverty and inequality reduction is the expansion of coverage based on reforms conceiving social protection as a right, which tend towards solidarity-based systems, either contributory or non-contributory. Third, strengthening the incentives to attract self-employed workers, and as discussed earlier, including measures that close the gender gap in the pension system is crucial.

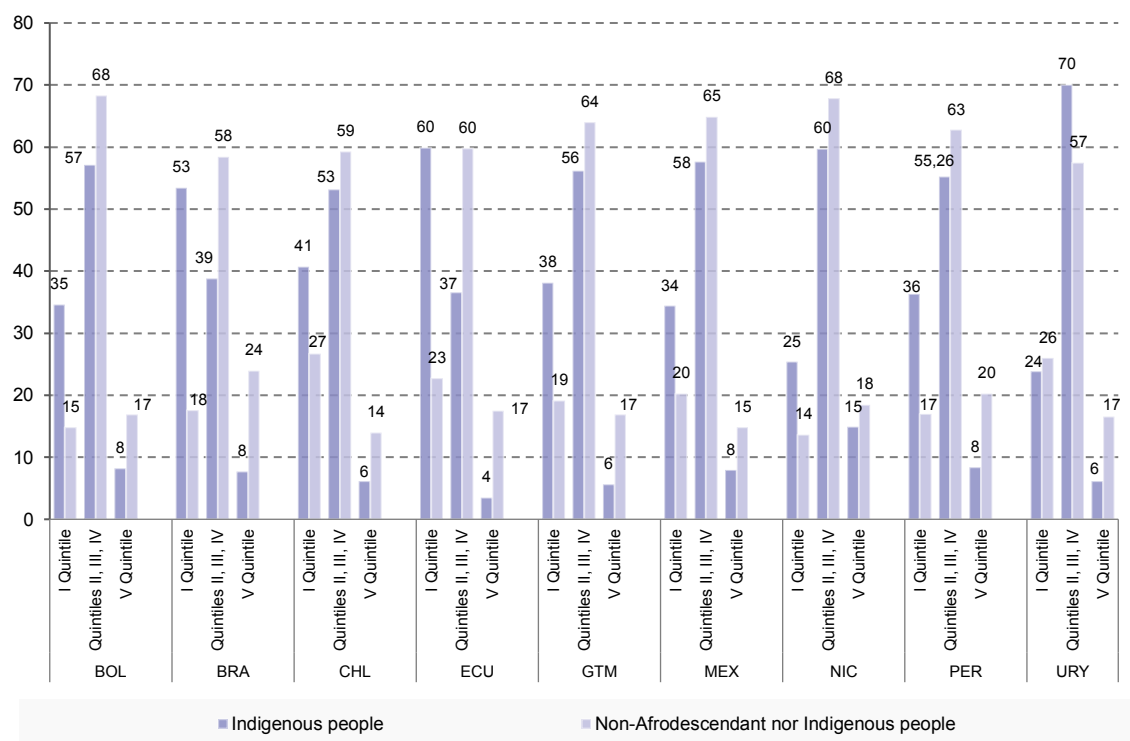
## **D. Public policies that reduce race and ethnic inequalities**

Ethnic and racial inequalities constitute one of the structural axes of the matrix of social inequality in Latin America, affecting two main groups: indigenous peoples which often pre-date the boundaries of nation states and Afrodescendants that were brought to the continent as slaves. The political and economic disadvantages experienced by these groups are widespread across Latin America and go back to the colonization process. ECLAC (2017a) asserts that about 130 million Afrodescendant people are living in the region, which accounts for approximately 21% of the total population. In addition, there are over 800 Indigenous peoples representing approximately 45 million people in Latin America. Both groups suffer deep inequalities in all areas of social development and are overrepresented in the lowest-income socioeconomic stratum as expressed in higher unemployment and lower wages (see figure III.5) for poverty between the indigenous and non-indigenous population (Del Popolo, 2017).

<sup>24</sup> By 2065 the number of 65 years old and above will increase fourfold, reaching about 196 million (CELADE, 2016).

<sup>25</sup> The average amount of non-contributory pensions as a percentage of the minimum wage for 2015 has been calculated based on household survey data of eight countries of the region: Bolivia (Plurinational State of), Chile, Costa Rica, Ecuador, Mexico, Panama, Paraguay and Peru (ECLAC, 2018).

**Figure III.5**  
**Latin America (9 countries): distribution of the indigenous population and the non-indigenous population by per capita household income quintiles, about 2016**  
*(Percentages)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the tabulations of national household surveys of Bolivia (Plurinational State of) 2015, Brazil 2015, Chile 2015, Ecuador 2016, Guatemala 2014, Mexico 2016, Nicaragua 2014, Peru 2016 and Uruguay 2016.

## 1. Indigenous peoples<sup>26</sup>

In what follows, five policy lessons regarding ethnic-driven inequality are briefly examined. First, sound public policies require accurate data. However, until recently indigenous peoples were invisible to statistical information that summarizes their underlying realities. The region has made some progress, while in 1990 only two censuses included the criteria of self-identification, by the 2010 round the question was already present in 21 countries. As a consequence, due to demographic growth but also to better statistics it is estimated that around 2010 some 45 million indigenous persons were living in Latin America (8.3% of regional population), in contrast to 30 million that had been estimated in 2000.

Second, Indigenous peoples' territorial rights and their rights to participation and to free and informed consent are critical instruments for an equality-oriented development. One important reason for this is that inequality between indigenous and non-indigenous people is inscribed in historically embedded national laws that institutionalize inequality. The advance of social protection for indigenous peoples is therefore strongly linked to the establishment of rights. At the international level, two instruments have been critical: the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) adopted in 2007 and ILO's Indigenous and Tribal Peoples Convention, 1989

<sup>26</sup> This section draws mainly on the book "Los pueblos indígenas en América (Abya Yala): desafíos para la igualdad en la diversidad", Del Popolo, Fabiana (ed.), 2017.

(No. 169) issued in 1989.<sup>27</sup> Both instruments affirm indigenous peoples' equality with respect to all other members of society. Although they strengthen the claim of indigenous peoples to their rights, especially to their territories, resources and self-determination, their translation and effective enforcement in national laws remains a challenge. This has resulted in a surge of socioenvironmental conflicts where indigenous peoples face extractive industries such as mining and oil, and large agribusiness projects (Del Popolo, 2017). An important lesson is therefore that equality-oriented policies that aim to address ethnic divides require implementing territorial rights and rights to participation and to free and informed consent on extractive projects. An advance in this direction is for example the enshrined recognition of indigenous peoples' rights in the constitutions of the Plurinational State of Bolivia, Brazil and Ecuador.

Third, public policies have to take into account the urban dimension of ethnic-driven inequalities. An increasing proportion of the indigenous population is residing in urban areas (about 50% according to the 2010 Census round in 10 countries). This fact is important for the design and implementation of public policies that aim to reduce ethnic-driven inequalities as they not only relate to material deprivation but also to the loss of identity and to the full exercise of rights.

Fourth, the gap in health status between Indigenous and non-Indigenous peoples remains unacceptably broad. Public policies that aim to address health inequalities experienced by indigenous peoples should address systemic discrimination. On the one hand, health policies and institutions should have an intercultural approach and include sexual and reproductive health. On the other hand, it is important to strengthen and develop a participatory approach. This is valid for the definition of statistical health indicators as well as for the definition of policy priorities with a special emphasis on youth and women and the acknowledgement of traditional practices and cosmovisions. Third, in areas with presence of extractive industries it is paramount to examine its health impacts. Fourth, health policies have to highlight a gender approach that considers violence and the critical role of women in the productive and reproductive areas. Moreover, successful public policies have been those that seek to establish an integral approach that connects health policies with other sectorial policies able to account for the social and political subordination and territorial dispossession.

Fifth, there persists an educational cleavage between indigenous and non-indigenous-people. From the experiences in Latin America it is possible to identify at least six lessons to reduce such education gaps: first, the requirement of active participation of the affected population in the implementation of educational programs; second, assuring free education for indigenous children, including those schools that teach in indigenous language; third assert culturally appropriate teaching including effective integration of indigenous language in coherence with indigenous cosmovisions, histories and knowledge; fourth, promote the education of indigenous women; fifth, implement affirmative action in tertiary education; and sixth, increase public investment in education for indigenous populations.

## 2. Afrodescendants

As with indigenous peoples, some lessons can be drawn from the Latin American experience in tackling racially driven inequalities. First, with the exception of few countries, such as a Brazil, Colombia and Ecuador racial inequalities may be considered the least visible of inequalities. In this sense, as for indigenous populations national statistical systems need to be further developed to include self-identification of Afrodescendent persons.

<sup>27</sup> The UN Declaration enshrined and affirmed the inherent collective human rights of Indigenous Peoples. It serves as a framework for justice and reconciliation between indigenous people and states grounded in international human rights. ILO Convention 169 recognizes and protects indigenous peoples' land ownership rights. It sets a series of minimum UN standards regarding consultation and consent. It is an international treaty open for ratification which has been ratified so far by 15 countries in Latin America and the Caribbean: Argentina, Plurinational State of Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru and the Bolivarian Republic of Venezuela ([http://www.ilo.org/dyn/normlex/en/f?p=1000:11300:0:NO:11300:P11300\\_INSTRUMENT\\_ID:312314](http://www.ilo.org/dyn/normlex/en/f?p=1000:11300:0:NO:11300:P11300_INSTRUMENT_ID:312314)).

A second lesson is the need to implement at the national level the International Convention on the Elimination of All Forms of Racial Discrimination, adopted by the United Nations General Assembly in resolution 2106 (XX) of 21 December 1965, which entered into force on 4 January 1969, and the Durban Declaration and Programme of Action Adopted by consensus at the 2001. Both help to provide a framework for the design and implementation of policies aimed at historical reparation and affirmative action for the development and well-being of Afrodescendent people. At the national level, Brazil's 1988 Constitution declared racism as a crime for which there is no possibility of bail or statute of limitation.

Third, the right to health, including sexual and reproductive health, has been enshrined in various international human rights instruments, including the Durban Declaration and Programme of Action. In Latin America, policies should aim to ensure that Afrodescendent people, especially women and girls, can exercise that right, and should include Afrodescendent traditional medicine to reduce inequalities in indicators of maternal mortality, pregnancy in adolescence, chronic diseases and HIV/AIDS, among others.

Fourth, the right to education is regarded as a fundamental tool towards reducing racial-driven inequalities. Although major progress has been made in expanding education coverage and access, important challenges remain at the upper secondary level and tertiary education. Tertiary education is of fundamental concern for the advancement of Afrodescendants, as it can be seen by the creation of specific university policies. Nicaragua is one of the few countries where education indicators are better for Afrodescendants. This has been reached in part through the establishment of two community universities on the Caribbean coast. Another country which highlights affirmative action to help Afrodescendent youth gain admission to universities is Brazil, where success has been quite remarkable. Higher education attendance rate for Afrodescendent youth rose from just over one third in 2004 of the figure for non-Afrodescendants and non-indigenous to nearly two thirds by 2014.

Fifth, another critical aspect for reducing racial inequalities is the building an appropriate institutional framework.<sup>28</sup> Although some countries have taken affirmative action, mainly in education and the labour market, few have made progress in strengthening traditional communities and political participation. Four major policies can be identified in the region: (i) preventing and tackling racism, which includes laws that prohibit racist expressions and the creation of observatories that trace and report racisms; (ii) affirmative and status enhancing actions, which include quotas reserved for Afrodescendants in universities and jobs, in addition to the awarding of scholarships;<sup>29</sup> (iii) strengthening of traditional Afrodescendent communities, a critical policy for advancing social progress but not sufficiently widespread; and (iv) participation in decision-making and inclusion in development plans are also crucial for overcoming racial inequalities.

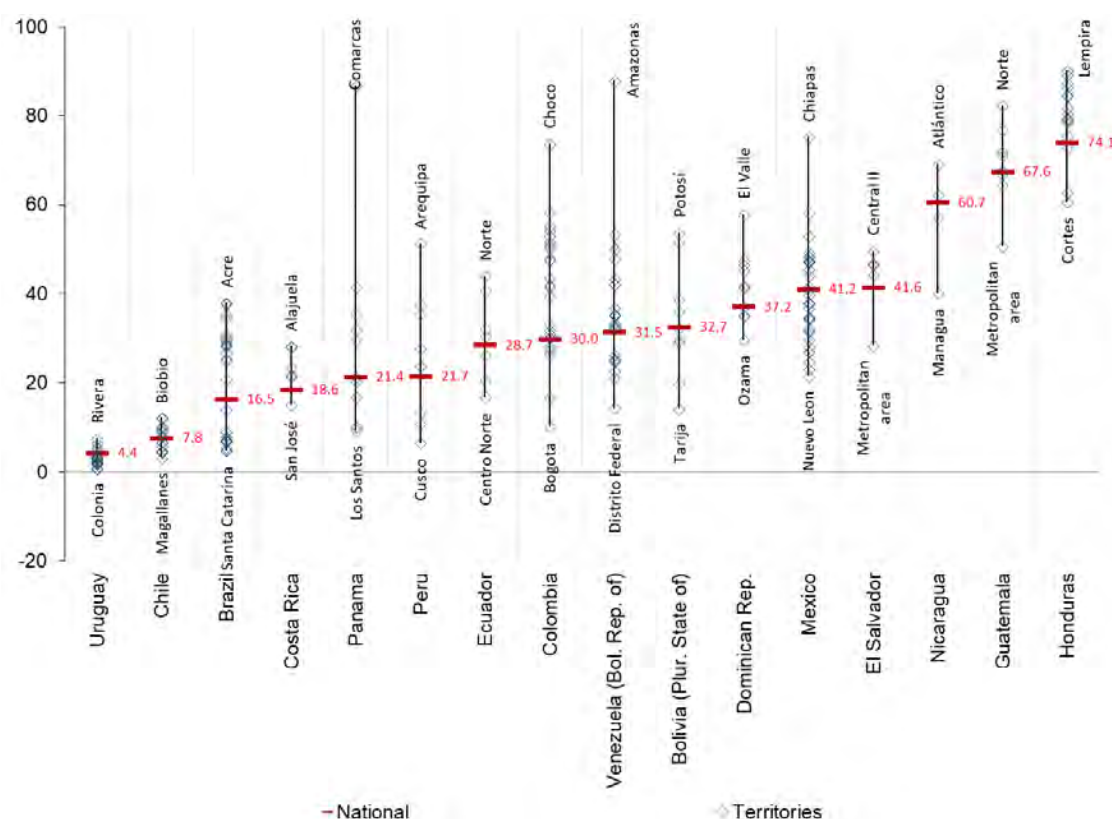
## **E. Public policies that reduce territorial inequalities**

Similarly to the other axes of the social inequality matrix, territorial imbalances are reflected in uneven patterns of economic and social development. The territory is the space where social inequalities crystallize, connect and intersect. The territorial dimension of inequality can be observed when comparing the national poverty rate with the highest and lowest poverty rates at the territorial level (see figure III.6 below). Beyond economic disparities, territorial inequalities are also observed in terms poverty rates, access to basic services and education (ECLAC, 2016a).

<sup>28</sup> See ECLAC's Social Panorama 2016 (2017a) and Rangel (2016).

<sup>29</sup> Brazil has quotas reserved for Afrodescendent and indigenous students at universities and public technical education institutes. In addition, it has a scholarship programme in private universities and some postgraduate programmes have also adopted a quota system.

**Figure III.6**  
**Latin America (18 countries): population living in poverty by territory**  
 (Percentages)



Source: ECLAC (2016), The Social Inequality Matrix in Latin America.

This section analyzes public policies that reduce disparities between territories. This includes not only the urban/rural divide but also territorial segregation in cities with regards to quality access to infrastructure, education and health services, and universal access to social protection and care systems.

## 1. The urban-rural divide<sup>30</sup>

FAO/ECLAC/ILO (2010, 2012) show, based on 12 country studies, that social security coverage in rural areas continue to be lower than in urban areas. This is strongly linked to rural workers' higher levels of independent work, informality, temporal jobs and non-waged family work when compared to urban workers. As a result, coverage of contributive social protection shows a reduced scope in rural areas. This is compounded by the general trend to demand the same requirements to access social security in rural areas as in urban areas, without taking into account rural workers conditions.

In terms of social protection policy efforts, a notable exception is Brazil where the importance of social protection programs for reducing national and regional disparities is exemplified by *Bolsa Família*, *Benefício de Prestação Continuada (BPC)* —a non-contributory pension scheme addressed to poor elders over 65 years-old and to persons with disabilities— and *Previdência Rural*, the non-contributory rural pension system.<sup>31</sup>

<sup>30</sup> Based mostly on Rossel (2012).

<sup>31</sup> The contribution of *Previdência Rural* and *BPC* to the reduction poverty in rural areas was about 17 percentage points in 2014 (Valadares and Galiza, 2016).

Beyond Brazil, in recent years throughout Latin America the non-contributory component of social protection has been a critical territorial-equality oriented policy, particularly for those not covered by social security in rural areas. This has been mostly expressed by the extension of coverage of conditional cash transfer (CCT) programs in rural areas. The evaluations of these programmes indicate positive impacts in various dimensions of well-being and development, particularly for children. The non-contributory pillar of social protection has to some degree offset the coverage limits of social security in rural areas. However, CCTs are not enough, and large sectors of the rural population do not receive any social protection allowance.

Other enduring challenges for people living in rural areas include, among others, weak infrastructure and scarce decent employment possibilities. Countries in Latin America display limited labour institutions and regulatory frameworks in rural areas. This is illustrated for instance by less labour rights for rural workers, minimum wage or collective negotiations. Even large middle-income sectors of rural society do not receive any form of social protection.

Thus, there is a need to widen both the contributory and non-contributory pillar of social protection in rural areas, recognizing the specificity of rural work and its various categories, such as temporal work, rural farm and non-farm activities, non-waged family workers, as well as the important role of women in rural development.

## 2. Reducing segregation in cities

Latin America and the Caribbean is the most urbanized developing region in the world. High degrees of socioeconomic residential segregation still mark regional metropolises, large cities and medium and small human settlements. Despite progress over recent decades, urban slums remain one of the most visible manifestations of this segregation in Latin American cities (Martínez and Jordán, 2009).

In order to address spatial segregation in cities, the Regional Action Plan proposed by ECLAC, MINURVI and UN-Habitat (2018) proposes six action areas: (1) National urban policies; (2) Urban legal frameworks; (3) Urban and territorial planning and design; (4) Financing urbanization; (5) Local implementation; and (6) Monitoring, reporting and revision mechanisms. The Action Plan promotes in particular: (1) inclusive cities “free of poverty and inequality in all its forms and dimensions, that eliminate socio-spatial segregation and exclusion and that guarantee equality of rights, opportunities, and safe and inclusive access to the city and to its productive fabric” (ECLAC/UN-Habitat/Minurvi, 2018, p. 22); (2) sustainable and inclusive urban economies that ensure equitable access to opportunities and resources; (3) urban environmental sustainability; and (4) effective and democratic governance from a right to the city approach based on inclusive and transparent public policies and decision-making processes. Specific policies include: the promotion of universal and equitable access to physical and social infrastructure and urban services; universal access to health; full and productive employment and decent work; equitable access to the city's resources, services, and economic opportunities; resilience and social protection for addressing impacts of climate change and disasters linked to human settlements in high-risk areas.

## F. Concluding remarks

The social inequality matrix —which considers the inclusion of difference as theoretically and operationally important— provides an integrated framework for the analysis of social development trends and pro-equality public policies in Latin America and the Caribbean. In the region, socio-economic stratification derived from the production structure overlaps and reinforces itself with disadvantage triggered by gender, racial/ethnic, life cycle and territorial issues. The social inequality matrix thus allows for a deeper perspective that takes into account the underlying social, economic and political conditions of inequality. For the design and implementation of equality driven public policies, the interdependence of these various dimensions should always be considered.

The challenge to achieve development with equality confronts the region with strongly embedded structural productive heterogeneity, external vulnerability and a State that reveals institutional weakness. This challenge is further compounded with the future of work and climate change. In this context, the Latin American and the Caribbean experience on equality-oriented policies points to the critical importance of social policies to address inequality. It implies aiming for social development policies that are universal but sensitive to difference and developing rights-based public policies with an integrated perspective (ECLAC, 2016a). Tackling inequality means to advance in universal social protection, health and education policies, as well as in the eradication of poverty.

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## **IV. Promoting Equality: a regional view from Asia and the Pacific<sup>32</sup>**

### **A. Major socioeconomic inequalities, their trends and key drivers**

#### **1. Inequality of outcome: income**

Asia and the Pacific, the world's fastest growing region, has led the world in poverty reduction over the past decades. Between 1990 and 2013, GDP per capita more than doubled, from US\$ 4,700 to \$10,400 (2011 PPP) (ESCAP, 2017). As a result, extreme poverty also declined sharply, falling from 29.7 to 10.3 per cent between 2000 and 2013. Relative inequality between countries in the Asia-Pacific region also declined, as poorer countries grew at faster rates than richer countries (Frey, 2018). The gains of this remarkable economic growth, however, did not reach everyone. In 2013, 400 million people were still living in extreme poverty. ESCAP estimations confirm that several Asian and Pacific economies experienced a rise in income inequality during this period. On average, the region's inequality, as measured by the population-weighted Gini coefficient, increased by close to 5 percentage points: from 33.5 in 1990-1994 to 38.4 in 2010-2014 (figure IV.1).<sup>33</sup>

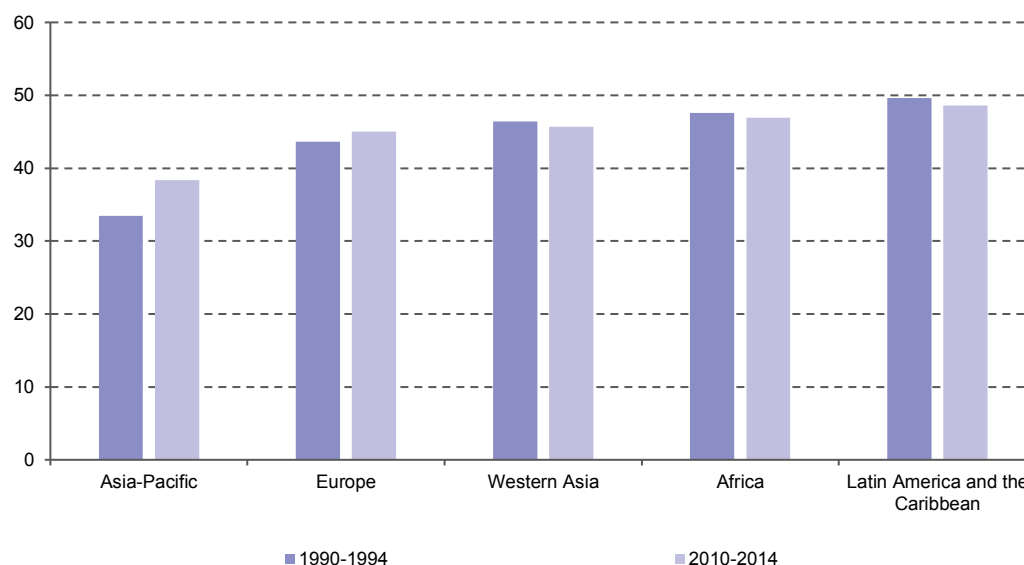
Figure IV.1 also shows the population-weighted income Gini coefficient of other regions: Europe, the Arab region, Africa and Latin America and the Caribbean. Despite a significant increase in income inequality in the Asia-Pacific region, its population-weighted Gini coefficient is still about 7 percentage points lower than that of Europe and more than 10 percentage points lower than that of Latin America and the Caribbean (Basu, 2017). Nevertheless, the rising trend in Asia-Pacific goes contrary to most other regions. Also, it is worth noting that the market-income Gini in figure IV.1 does not take taxes and transfers into account (for such data, please see figure I.1 in chapter I).

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<sup>32</sup> This chapter draws on materials and findings from the ESCAP theme study prepared for the 74th Commission Session entitled "Inequality in Asia and the Pacific in the era of the 2030 Agenda for Sustainable Development".

<sup>33</sup> The usual data source for income distribution measures, such as the Gini coefficient, is household surveys, which often do not capture high-income individuals thus underestimating inequality. Recent research by Thomas Piketty and his collaborators are attempting to overcome the limitations of household surveys through the World Wealth and Income Database by combining different data sources, such as national accounts, survey data, fiscal data, and wealth rankings, to obtain more accurate measures of inequality. See <http://wid.world/>.

**Figure IV.1**  
**Gini coefficients by region, changes between early 1990s and early 2010s<sup>a b</sup>**



Source: ESCAP (2018a).

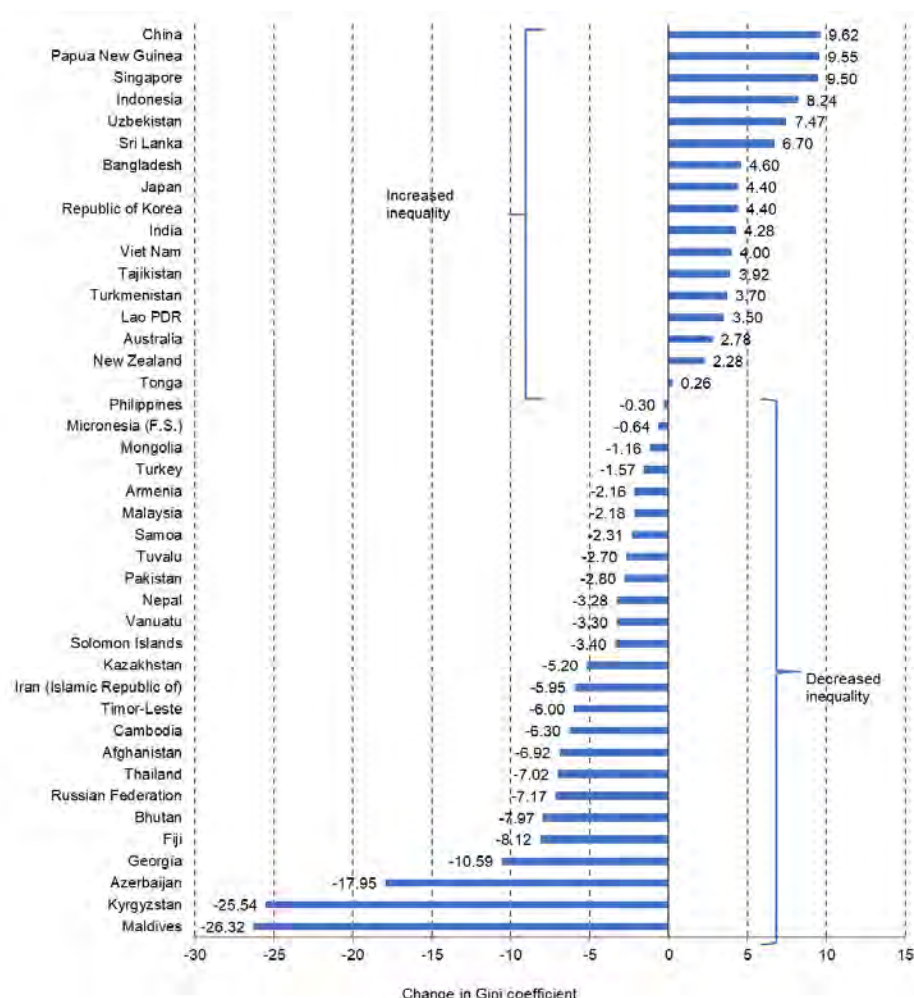
<sup>a</sup> The regional classification is based on the United Nations Regional Commissions. For Asia and the Pacific, data are available for 46 countries, including the region's developed countries (Australia, Japan and New Zealand). For the UNECE region, only European countries are included. The Gini coefficient of each country was calculated as the simple average of the available Gini coefficients within each 5-year period (1990-1994 and 2010-2014). Each region's Gini coefficient is calculated as the weighted average of the Gini coefficients of the countries in the region using population weights.

<sup>b</sup> The dataset of Gini coefficients used in this report draws on data from: i) "All the Ginis" dataset as developed by Branko L. Milanovic, which consists of data sets of the standardized Gini from various sources [online] [www.gc.cuny.edu/Page-Elements/Academics-Research-Centers-Initiatives/Centers-and-Institutes/Stone-Center-on-Socio-Economic-Inequality/Core-Faculty,-Team,-and-Affiliated-LIS-Scholars/Branko-Milanovic/Datasets](http://www.gc.cuny.edu/Page-Elements/Academics-Research-Centers-Initiatives/Centers-and-Institutes/Stone-Center-on-Socio-Economic-Inequality/Core-Faculty,-Team,-and-Affiliated-LIS-Scholars/Branko-Milanovic/Datasets); ii) UNU- WIDER's World Income Inequality Database (WIID), specifically WIID3.4 released in January 2017 [online] [www.wider.unu.edu/project/wiid-world-income-inequality-database](http://www.wider.unu.edu/project/wiid-world-income-inequality-database); iii) Standardized World Income Inequality Database (SWIID) developed by Frederick Solt [online] <http://folt.org/swiid>; iv) Inequality Project of the University of Texas's Estimated Household Income Inequality Data Set (EHII) [online] <https://utip.lbj.utexas.edu/data.html>; v) Asian Development Outlook 2012: Confronting Rising Inequality in Asia [online] [www.adb.org/sites/default/files/publication/29704/ado2012.pdf](http://www.adb.org/sites/default/files/publication/29704/ado2012.pdf); and vi) ESCAP Statistical Database [online] [http://data.unescap.org/escap\\_stat/#data](http://data.unescap.org/escap_stat/#data).

Sharp inequality increases in the region's most dynamic and populous countries led the overall rising trend in income inequality. Between 1990-1994 and 2010-2014, the market income Gini coefficient soared by 9.6 percentage points in China, 8.2 percentage points in Indonesia, 4.6 percentage points in Bangladesh and 4.3 percentage points in India. These four countries are among the five most populous countries in the region, representing over 70 per cent of the population in 2015.<sup>34</sup> In 60 per cent of the Asian and Pacific countries, income inequality declined, but often from very high levels (figure IV.2). The sharpest fall in inequality occurred in Maldives, followed by Kyrgyzstan, Azerbaijan and Georgia, reflecting the recovery of those countries from the economic crisis that followed the breakup of the Soviet Union (see Ivaschenko, 2002 and Slay, 2009).

<sup>34</sup> In 2015, the population of China, India, Indonesia and Bangladesh was 3.1 billion, compared with a population of 4.4 billion for the whole Asia-Pacific region.

**Figure IV.2**  
**Changes in the Gini coefficient by country, 1990 and 2014**  
*(Percentage points)*



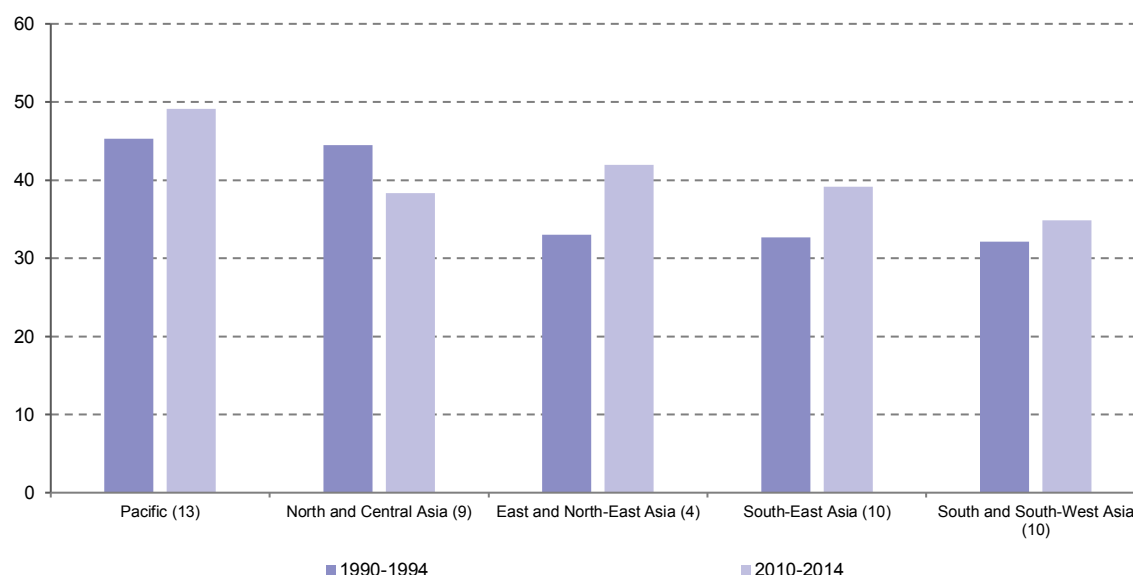
Source: ESCAP (2018a). *Inequality in Asia and the Pacific in the era of the 2030 Agenda for Sustainable Development*. (Bangkok).

Note: Labels next to each bar show each country's average market income Gini coefficient for 2010-2014. The Gini coefficient of each country was calculated as the simple average of the available Gini coefficients within each 5-year period (1990-1994 and 2010-2014).

Of all subregions, North and Central Asia experienced the sharpest decline in income inequality, with the Gini coefficient dropping on average 11.4 percentage points for six of the nine countries for which data are available (figure IV.3). As a result, in 2010-14, this subregion had an average Gini coefficient of 38.3, similar to the region's average. In South-East Asia, the picture is mixed, with Indonesia and Singapore experiencing increases in income inequality and others including Malaysia and Thailand seeing declines, albeit from higher levels. On average, however, the population-weighted Gini coefficient rose from 32.6 to 39.1, a similar increase in magnitude to that seen across the entire region.

South and South-West Asia also saw mixed developments, with an average increase in the Gini coefficient from 32.1 to 34.8. Bangladesh, India and Sri Lanka experienced increases in income inequality, while the Islamic Republic of Iran, Pakistan and Turkey saw decreases. In East and North-East Asia inequality rose in China, Japan and the Republic of Korea, but decreased in Mongolia, with the subregional average increasing from 33 to 41.9. In the Pacific, 6 of the 13 countries for which data are available experienced an average drop in the Gini coefficient of 3.4 percentage points; however, income inequality increased in the subregion's most populous countries, Australia, New Zealand and Papua New Guinea, and the average Gini coefficient for the subregion edged up from 45.3 to 49.1.

**Figure IV.3**  
**Changes in Gini coefficients by subregions, 1990/1994 and 2010/2014**



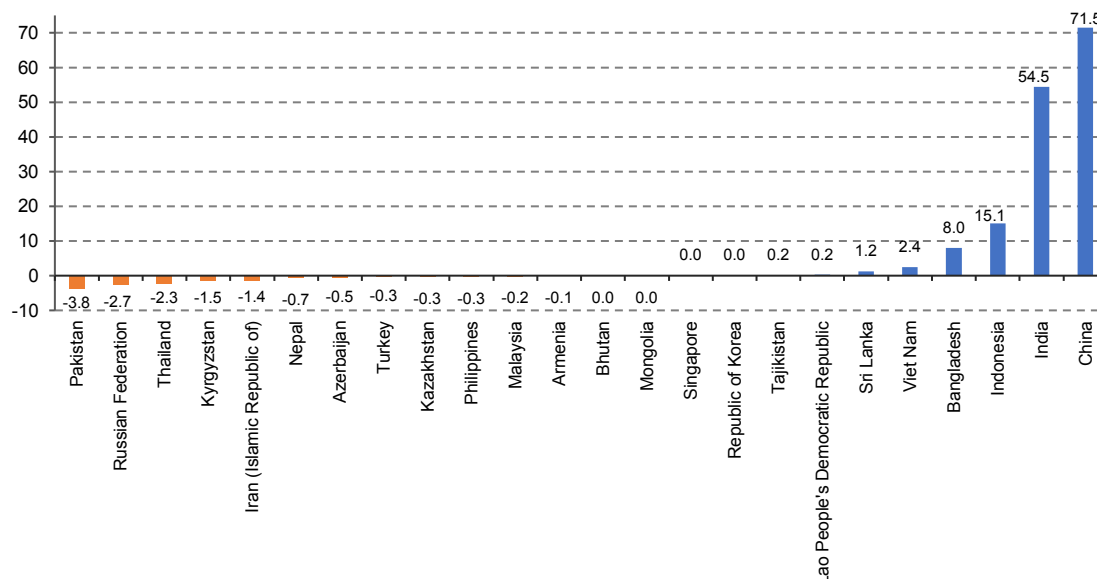
Source: ESCAP (2018a). *Inequality in Asia and the Pacific in the era of the 2030 Agenda for Sustainable Development*. (Bangkok).

Note: The subregional classification is based on the United Nations ESCAP's classification of Asia and the Pacific. The Gini coefficient of each country for each of the subregions was calculated as the simple average of the available Gini coefficients within each 5-year period (1990-1994 and 2010-14). Each subregion's Gini coefficient is calculated as a weighted average of the Gini coefficients of the countries in the subregion using population weights. The number of countries with available data on the Gini coefficient in each subregion is noted in parentheses.

The negative long-term effects of high income inequality are well-documented: inequality has a stifling impact on economic growth, it threatens social cohesion and disrupts efforts to build prosperous, sustainable societies. ESCAP's estimates confirm the adverse impact of inequality on economic growth, suggesting that a 1 percentage point increase in the Gini coefficient reduces the GDP per capita, on average, by US\$ 154 for the countries in Asia and the Pacific region (ESCAP, 2018a).

While the adverse impact of inequality on economic growth is an important reason in itself, lower economic growth also harms efforts to reduce poverty. ESCAP has estimated the impact of changes in inequality on extreme poverty in 24 selected countries between 1990 and 2014. The analysis found that in ten countries of the region for which inequality increased over the period —Bangladesh, China, India, Indonesia, Lao People's Democratic Republic, Republic of Korea, Singapore, Sri Lanka, Tajikistan and Viet Nam— an additional 153 million, representing about 5 per cent of their combined population, could have been lifted out of poverty if inequality had not increased. On the other hand, in 14 countries —Armenia, Azerbaijan, Bhutan, Islamic Republic of Iran, Kazakhstan, Kyrgyzstan, Malaysia, Mongolia, Nepal, Pakistan, Philippines, Russian Federation, Thailand, and Turkey— in which income inequality declined during the period, the improvement in income distribution helped 14 million people come out of extreme poverty (figure IV.4).

**Figure IV.4**  
**Poverty impact of income inequality, selected Asia-Pacific countries, 1990-2014**  
*(Population in millions)*



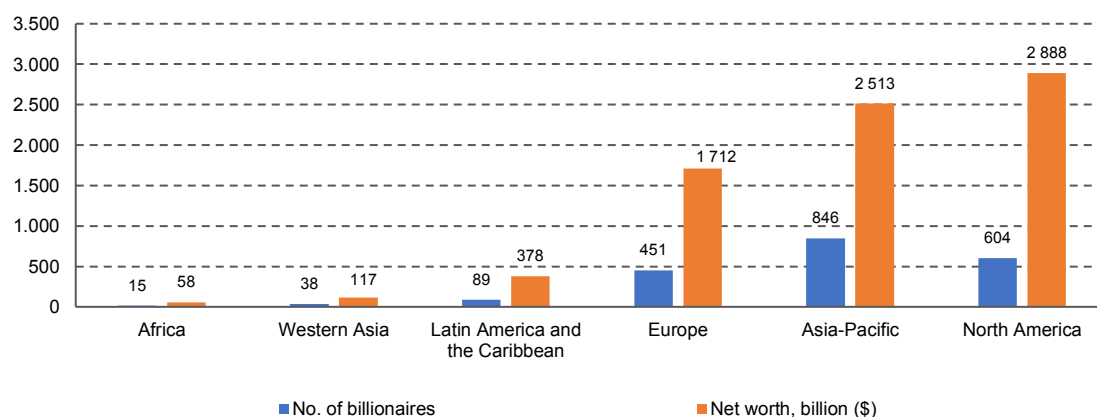
Source: ESCAP (2018a), *Inequality in Asia and the Pacific in the era of the 2030 Agenda for Sustainable Development* (Bangkok).

## 2. Inequality of outcome: wealth

Income and wealth inequality have grown hand-in-hand in the Asia-Pacific region. Although systematic data on wealth inequality are scarce, some clues can be obtained through publicly available information on the net worth of the world's billionaires. Forbes' billionaires list, for instance, shows that in several countries in the Asia-Pacific region, the billionaires' combined net worth amounted to more than half of those nations' entire economic output (GDP) in 2017.

Asia and the Pacific also has the highest number of billionaires (846 in 2017) than any other region, with an aggregate net worth second only to that of billionaires in the United States (figure IV.5). In 2017, their combined net worth of more than US\$2.5 trillion was more than seven times higher than the combined economic output of the region's least developed countries.

**Figure IV.5**  
**Comparing billionaires' net worth in Asia-Pacific and other regions, 2017**  
*(Numbers)*



Source: ESCAP, based on Forbes online (accessed on 9 January 2018).



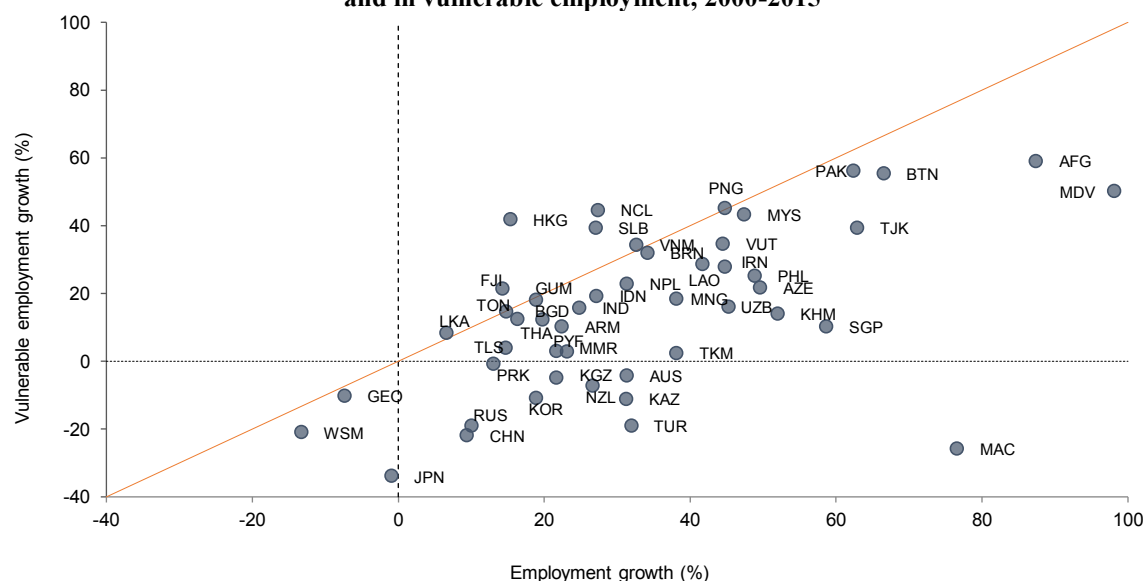
### 3. Inequality and decent work

While economic growth, and the accompanying increases in average income and wealth, are transforming the Asia-Pacific region, the average worker has not necessarily benefitted. The Asia-Pacific workforce accounts for over two billion people, nearly 60 per cent of the global workforce. Wage and salaried employment has generally increased in the region over the past two decades, and just under half of the population now work as employees. Working poverty has also steadily declined for both men and women. Yet, differences within the region remain stark, as for example 17.3 per cent of workers are in extreme poverty in South Asia, compared to 4.8 per cent in East Asia.

The main reason behind the gaps in decent work is that almost 1 billion people, or half of the workforce, are in vulnerable jobs in the region, and in South Asia some three quarters of the workforce are in vulnerable jobs (ILO, 2017). Vulnerable employment is often associated with inadequate earnings, low productivity and hazardous working conditions. As populations continue to expand in many countries in Asia and the Pacific, creation of decent jobs has not been rapid enough to meet the rising numbers of labour market entrants. With no alternative, people are forced to make a living in vulnerable and often informal work (ESCAP, 2018b). While not all workers in the informal economy are poor, there is a frequent overlap; trapped in hazardous, low-paid jobs without any protection or security, these workers have few opportunities to escape poverty (ILO, 2013).

The extent of vulnerable employment is illustrated for the period 2000–2015 in figure IV.6. In countries above the diagonal line, such as Fiji, Papua New Guinea and Sri Lanka, vulnerable employment increased faster than overall employment. In countries below the diagonal line, but above the horizontal dotted line, which is the majority of the region's developing countries, overall employment increased faster than vulnerable employment, indicating a falling share of vulnerable jobs. Nevertheless, there was still an increase in the absolute number of vulnerable workers. In Afghanistan, Bhutan and Pakistan, for example, the overall employment increase of 60 to 80 per cent was accompanied by a 50 per cent increase in vulnerable employment. Only in a few countries, located below the dotted line, did the absolute number of vulnerable workers fall—as in China, the Russian Federation and some OECD members (ESCAP, 2017).

**Figure IV.6**  
**Asia and Pacific (48 countries): Change in total employment**  
**and in vulnerable employment, 2000-2015**



Source: ESCAP calculation using ILO (2017), KILM (9th edition).

Note: Vulnerable employment refers to the ILO's definition and consists of own account workers and contributing family members.

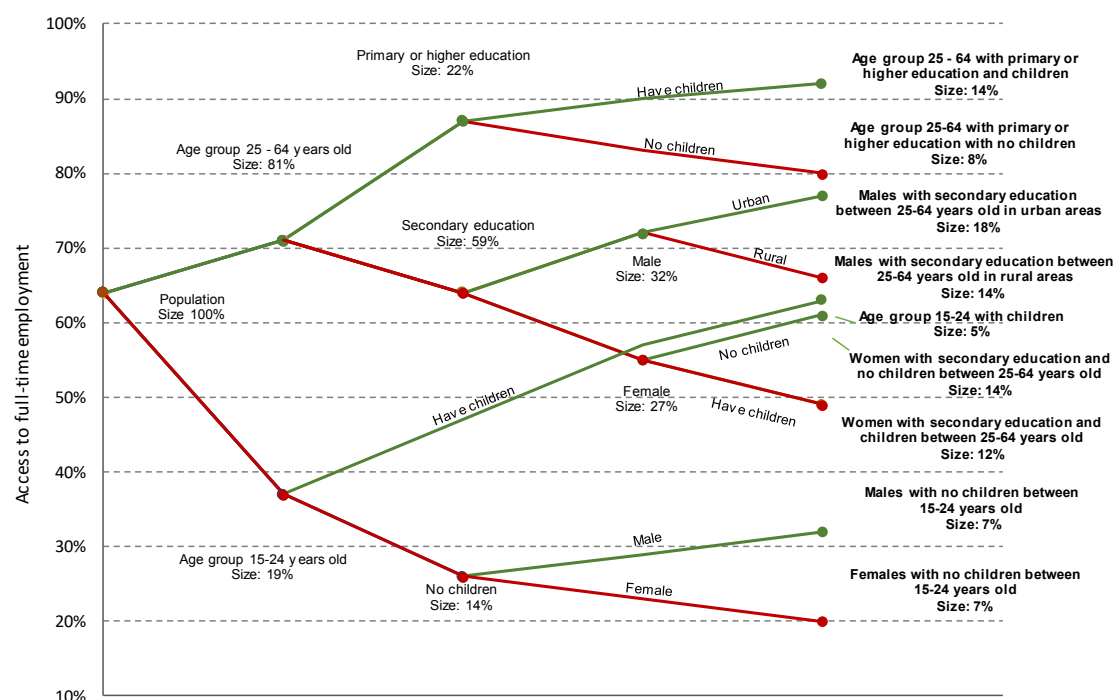
Reflecting this trend, the labour share of GDP is declining from 61.1 per cent in the early 2000s to 53.9 per cent in 2015 (ESCAP, 2016). The labour share represents the compensation to employees as a percentage of GDP. It includes wages and social insurance contributions payable by the employer. A higher proportion of GDP going to workers suggests a higher level of equality, while a declining share means that productivity growth is disproportionately increasing the income of capital owners.

Voice in the workplace and access to social protection, both components of “decent work”, are also low. Among the 14 countries for which data are available, Hong Kong, China currently has relatively higher union membership at 23.9 per cent of the workforce, Thailand has the lowest, at just 3.6 per cent (ILO, 2016). Moreover, because social protection is often tied to formal sector jobs, non-poor, male groups tend to have better coverage than poorer groups and women (ADB, 2016a and 2016b).

To identify the groups in the labour force with the lowest access to decent work, ESCAP has used the World Gallup Poll’s variable “Employed full-time for an employer index” as a proxy. The index falls in line with employment classifications used by the ILO, whereby employees are considered to be in higher quality jobs, and, conversely, own-account workers and contributing family members are considered to be in vulnerable employment.

Using the classification tree approach, an algorithm splits the value of the target indicators into groups, based on predetermined circumstances, namely: gender (male or female); age (15–24, 25–49 and 50–64); level of education (primary or lower, secondary, and higher); marital status (married or not); residence (rural or urban); and whether or not respondents have children. To illustrate how different circumstances interact to produce either a disadvantage (or advantage) for accessing decent work (full-time employment), the example of Turkmenistan is used (figure IV.7).

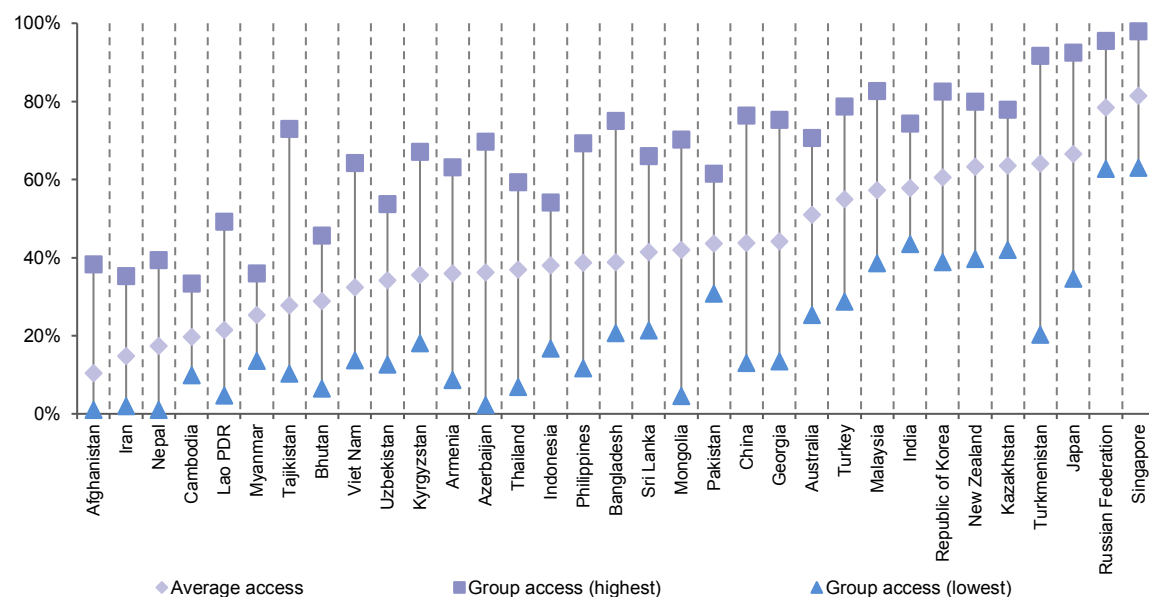
**Figure IV.7**  
**Classification tree highlighting differences in access to full-time employment in Turkmenistan, 2015**



Source: ESCAP calculations based on latest Gallup survey for ESCAP members in Asia-Pacific.

Analysis was conducted for 33 countries and the results are summarized in figure IV.8. The upper mark of each bar represents the access rate of the most advantaged group (those with the highest access) for each country. The lowest mark represents the access rate of the most disadvantaged group (with the lowest access). The middle mark is the average access rate by which countries are sorted.

**Figure IV.8**  
**Asia-Pacific (33 countries): gaps in access to full-time employment, latest available year, (2012/2016)**  
*(Percentage of population)*



Source: ESCAP calculations based on latest Gallup survey for ESCAP members in Asia-Pacific (see annex table A1), ESCAP (2018b).

Note: For developed countries, the level of full-time employment may reflect choice of the individual and is not a matter of access to full-time work.

As an example, Singapore, the Russian Federation and Japan have the highest average levels of full-time employment, and while the gap in access is low in the first two countries, Japan has a relatively wide gap with 58 percentage points between the groups with the highest level of full-time employment and those with the lowest level. Afghanistan, the Islamic Republic of Iran and Nepal have the lowest average access to full-time employment. In Afghanistan, just 10 per cent of the population are in full-time employment; yet the gaps are high. Overall, Turkmenistan, Azerbaijan, Mongolia and China have the widest gaps in full-time employment.

To achieve the SDG targets and meet human rights standards, it is necessary to ensure that all men and women have the opportunity to access work that enables them and their families to live in dignity. Aside from decent work, however, there are several other conditions that need to be in place to ensure that women, men and children across the region have access to equitable opportunities.

#### 4. Inequality of opportunity: access to basic services

Inequality of opportunity is concerned with access to key dimensions necessary for meeting aspirations regarding quality of life. It has economic dimensions (e.g. unequal access to decent work, financial services, etc.), social dimensions (e.g. unequal access to health care, education, nutrition, etc.) and environmental dimensions (e.g. unequal access to water, sanitation, clean fuels, electricity, access to land and natural resources, etc.).

To gain an understanding of inequality of opportunity across the Asia-Pacific region, several categories or indicators have been selected that encompass basic, yet critical opportunities for individuals and households. The indicators of opportunities for individuals are: secondary education, higher education, modern contraceptives, professional help during childbirth, decent work and (absence of) stunting, wasting and overweight among children. The indicators of opportunities for households are: access to basic drinking water, basic sanitation, electricity and clean fuels, and ownership of a bank account. To summarize the opportunities for households, an additional indicator combines these five categories.

The dissimilarity index (D-index) is a useful tool for measuring the distribution of access to a certain opportunity across societies (for a more detailed discussion see ESCAP, 2018a). The D-index measures how all population groups fare in terms of access to a certain opportunity. For example, two countries with identical secondary education attainment rates may have a different D-index if the distribution of attainment in one country excludes certain groups. Like the Gini coefficient, the D-index takes values from 0 to 1, 0 meaning no inequality, and 1 maximum inequality. Unlike the Gini coefficient, the ideal level of a D-index is 0, whereby everyone has access to an opportunity.

It is calculated for all 14 individual or household-based indicators of opportunities critical for human well-being, and presented in table IV.1.

The most unequal opportunities are higher educational attainment and access to clean fuels, followed by ownership of a bank account (table IV.1). The countries where inequality in access is large in a wide range of opportunities are: Afghanistan, Bhutan, Lao People's Democratic Republic, Pakistan and Timor-Leste.

Lao People's Democratic Republic has the highest inequality of all countries in three opportunities: professional help in childbirth, secondary and higher educational attainment. Timor-Leste also tops the inequality list for three opportunities: access to clean fuels, ownership of a bank account and access to modern contraceptives. Afghanistan exhibits the highest inequality in terms of access to full-time employment and in access to clean water. Pakistan experiences the highest inequality in terms of children's nutrition (prevalence of stunting and wasting).

On the other hand, almost all North and Central Asian countries have low inequality in access to opportunities, thanks to a tradition of universal provision of basic services. Kazakhstan has the lowest inequality in three opportunities (safe sanitation, non-stunted children and secondary education), and below-average inequality in all other opportunities. Turkmenistan is in a similar category, with the lowest inequality in terms of electricity and clean fuels access, as well as professional help during childbirth.

**Table IV.1**  
**Asia-Pacific (21 countries): Calculated D-indices for all opportunities, latest year (2000/2015)**

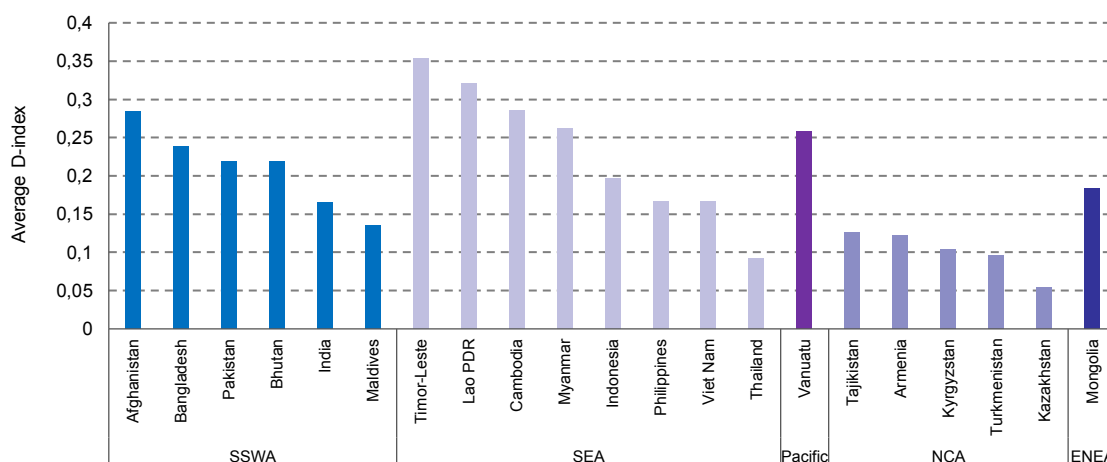
Calculated D indices													
Household-based							Individual-based						
Energy		Financial inclusion		WASH		Multiple deprivation	Child Nutrition (0-5 years)		Women's Health (15-49 years)		Education		Employment
Electricity	Clean fuels	Bank account	Basic drinking water	Basic sanitation			Not stunted	Not wasted	Professional help in childbirth	Modern contraception	Secondary education	Higher education	Full-time employment
Afghanistan	0.09	0.42	0.41	<b>0.14</b>	0.29	0.65			0.15	0.18	0.28	0.35	<b>0.55</b>
Armenia	0.00	0.01	0.26	0.03	0.15	0.36	0.04	0.02	<b>0.04</b>	0.21	0.02	0.22	0.31
Bangladesh	0.19	0.55	0.34	0.01	0.20	0.58	0.09	0.02	0.01	0.11	0.26	0.33	0.19
Bhutan	0.19	0.28	0.35	0.01	0.13	0.43	0.05	0.01	0.02	0.06	0.31	0.37	0.31
Cambodia	0.27	0.46	0.44	0.11	0.30	0.68	0.06	0.01	0.01	0.12	0.35	0.45	0.33
India	0.07	0.36	0.04	0.01	0.28	0.41	0.08	0.01	0.00	0.15	0.23	0.32	<i>0.12</i>
Indonesia	0.02	0.28	0.32	0.09	0.19				0.22	0.10	0.20	0.30	0.25
Kazakhstan	0.00	0.01	0.07	0.02	<i>0.00</i>	<i>0.09</i>	<i>0.02</i>	0.01	0.02	0.08	<i>0.02</i>	0.18	0.15
Kyrgyzstan	0.00	0.09	0.27	0.04	0.01	0.30	0.04	0.01	0.02	0.13	0.03	<i>0.14</i>	0.32
Lao PDR	0.17	0.63	0.37	0.08	0.23	0.66	0.12	0.01	0.01	0.12	<b>0.39</b>	<b>0.50</b>	0.37
Maldives	0.00	0.04	0.08	0.01	0.02	0.14	0.04	0.02	0.02	0.18	0.37	0.41	
Mongolia	0.15	0.33	<i>0.03</i>	0.10	<b>0.42</b>	0.44	0.03	0.00	0.02	0.10	0.17	0.26	0.26
Myanmar				0.07	0.19		0.07	0.01	0.01		0.33	0.41	0.30
Pakistan	0.04	0.45	0.35	0.03	0.22	0.53	<b>0.13</b>	<b>0.03</b>	0.01	0.18	0.25	0.34	0.17
Philippines	0.08	0.39		0.03	0.11		<i>0.00</i>	<i>0.00</i>	0.10	0.10	0.13	0.24	0.30
Tajikistan	0.01	0.14	0.16	0.07	0.01	0.41	0.05	0.02	0.02	0.20	0.10	0.25	0.30
Thailand	0.00	0.18	0.05	<i>0.01</i>	0.01	0.23	0.03	0.01	0.02	<i>0.05</i>	0.14	0.21	0.27
Timor-Leste	0.38	<b>0.71</b>	<b>0.52</b>	0.12	0.28	<b>0.75</b>			0.29	<b>0.22</b>	0.24	0.42	
Turkmenistan	<i>0.00</i>	<i>0.00</i>	0.22	0.08	0.01	0.25	0.02	0.01	0.01	0.15	0.05	0.29	0.16
Vanuatu	<b>0.43</b>	0.60		0.05	0.14		0.06	0.02	0.02	0.11	0.23	0.36	
Viet Nam	0.00	0.30	0.33	0.04	0.13	0.45	0.09	0.02	0.01	0.07	0.21	0.28	0.27

Source: ESCAP (2018a) calculations using data from the latest DHS and MICS surveys for countries in Asia-Pacific. For the list of DHS and MICS surveys used see annex table A.2 in ESCAP (2018c). For Employment (last column), the World Gallup Poll was used as in ESCAP (2018b).

Note: The best and the worst performer in each opportunity are highlighted with italics and bold, respectively.

Averaging the D-indices for individuals and households by country confirms the patterns described earlier, but also highlights which countries have relatively higher inequality across all opportunities (figure IV.9). In addition to Afghanistan, Lao People's Democratic Republic, Pakistan and Timor-Leste, which had the highest inequality in individual opportunities, Cambodia, Myanmar and Vanuatu also appear as particularly unequal across the board of opportunities. At the other end of the scale, Maldives and Thailand stand out, together with several North and Central Asian countries as having achieved a relatively equal distribution of opportunities across various population groups for most opportunities. In the middle of the distribution are some of the region's most rapidly developing countries, including India, Indonesia, Philippines and Viet Nam. India, in particular, made tremendous progress over the past few years in achieving almost universal access to financial services for all households, as well as in increasing women's access to professional help during childbirth.

**Figure IV.9**  
Average D-indices in Asia-Pacific countries, grouped by subregion, latest year



Source: ESCAP calculations using data from the latest DHS and MICS surveys for countries in Asia-Pacific. See annex table A3 for further details.

Note: South and South-West Asia (SSWA), South-East Asia (SEA), North and Central Asia (NCA), East and North-East Asia (ENEA).

The contribution of each of the circumstances to inequality measured in terms of the D-index can be estimated, and ESCAP's decomposition results show that different circumstances weigh differently in shaping inequality for each opportunity and country, although common threads can be found (ESCAP 2018a).<sup>35</sup>

The results point to the important links between a mother's education, children's nutrition, school completion and employment prospects, particularly for the region's developing countries. These patterns are repeated across all opportunities studied and sketch an image of the following four most important drivers of inequality in access to opportunities in Asia and the Pacific:

- **Education has a prominent role in shaping inequality in access to all opportunities.** Education, when viewed as a "circumstance," matters in different ways depending on the opportunity: for children's nutrition, it is the education of a mother; and for securing full-time employment, it is the individual's own level of education. The highest education level in the household is also important for determining access to all basic household-level services, but mostly associated with ownership of a bank account. Given that basic literacy is necessary for accessing, understanding and operating banking services, this association is not surprising.

<sup>35</sup> See Annex 2 for an explanation of the analytical framework followed. Data on the D-index decomposition is available upon request.

- **The rural-urban divide is behind much of the observed inequality in access to opportunities.** Together with education, the rural-urban divide is among the most prevalent circumstances in determining inequality in access to various household-based opportunities, particularly basic water and sanitation, electricity and clean fuels, but also individual-based opportunities like secondary and higher education attainment. Interestingly, across all household-related opportunities, countries with higher D-indices (hence higher inequality) are also those where the rural-urban divide is most important.
- **Gender is an important determinant of inequality in education and full-time employment.** Being a woman explains the bulk of inequality in access to full-time employment more frequently than any other factor, including education. The impact of being a woman or a man with respect to secondary and higher educational attainment is interesting because it goes both ways, depending on the country.
- **Wealth is overall the most common driver of inequality of opportunity in all countries.** It is the most important circumstance with respect to inequality in secondary and higher education attainment, stunting levels, but also in access to most household-related opportunities.<sup>36</sup> While being a proxy for many social, economic and environmental disadvantages, its importance in determining inequality of opportunity is striking and confirms the expectation and intuition that disadvantages are intertwined. The prominent role of wealth in shaping these inequalities further emphasizes the intergenerational inequality trap, where inequality of outcome (wealth) has a direct bearing on inequality of opportunity, transmitted across generations.

Knowing that inequality of opportunity is broadly associated with these four circumstances opens the door to deeper exploration of the data to see exactly which groups are the most marginalized and which groups have benefitted most from development. Identifying these two sets of groups could help policymakers better focus policy and programmes to tackle inequality, particularly with regards to the provision of basic services. ESCAP is doing so in a series of policy papers focused on various thematic areas, including clean energy, education, nutrition, decent work and others (e.g., ESCAP, 2018c).

## B. Public policies to tackle inequalities

### 1. Social protection

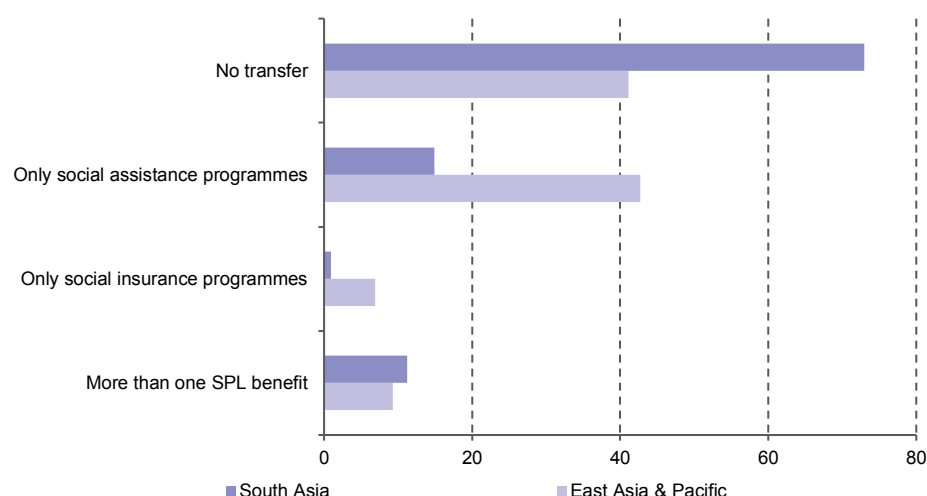
Inequality reduction will largely depend on efforts made by countries to reach the furthest behind. Social protection is a right, and development of a social protection floor, leading to universal protection, is part of a package of policy measures to promote equality of opportunity and outcome. In line with ILO social protection standards, ESCAP identifies social protection as income security and health care over the life cycle, including in cases of old age, unemployment, sickness, disability, work injury, maternity or loss of a breadwinner. Social protection fulfills basic social and economic rights, as well as preventing people from falling into poverty and reducing the depth and duration of poverty.

In Asia and the Pacific, the importance of social protection has also been reflected in the adoption of the “Declaration on Strengthening Social Protection” by the member states of the Association of Southeast Asian Nations (ASEAN) in 2013. The Declaration stated that everyone is “entitled to have equitable access to social protection that is a basic human right”.

<sup>36</sup> The wealth index, which has been used for this analysis, is a composite index reflecting a household’s cumulative living standard that is developed by the DHS and MICS researchers and combines a wide range of household assets and characteristics.

At present, social protection coverage varies widely, and there remain significant gaps (figure IV.10). Overall, public social protection and health expenditure in Asia and the Pacific is estimated at 5.3 per cent of GDP, just above Sub-saharan Africa's expenditure of 4.2 per cent, and well below the 26.7 per cent of GDP spent in Western Europe (ILO, 2014). Looking at coverage across the lifecycle, governments in Asia and the Pacific allocate just 0.2 per cent of GDP to child and family benefits, compared to 2.2 per cent in Western Europe. In terms of unemployment protection, some 7 per cent of unemployed workers receive benefits in Asia Pacific, below the global average of 12 per cent and the one billion people in vulnerable employment lack basic social protection. Coverage of older persons is higher, as some 47 per cent of men and women above statutory pensionable age receive an old age pension, compared to 21.5 per cent in Africa and 93 per cent in North America (ILO, 2014).

**Figure IV.10**  
**Asia and the Pacific: coverage of social protection and labour in total population,**  
**latest available year**  
*(Percentages)*



Source: World Bank, Aspire. Available at: <http://datatopics.worldbank.org/aspire/region/east-asia-and-pacific>.

Note: The figure refers to data from East Asia and the Pacific and South Asia, using World Bank country groupings, countries' most recent data between 2008 and 2016.

The Social Protection Indicator (SPI) (ADB, 2016a and 2016b), which takes into account government spending on social insurance, social assistance and labour market programmes in 25 countries in Asia<sup>37</sup> and 13 countries in the Pacific,<sup>38</sup> reports that currently overall spending is higher on social insurance, meaning benefits are tied to formal sector, better-paid jobs. Consequently, the non-poor receive more social spending as a share of per capita GDP (2.8 per cent and 1.7 per cent in Asian and in Pacific countries respectively) than the poor (0.9 per cent and 0.2 per cent respectively) (ADB, 2016a). Similarly, men have greater coverage than women and receive twice as much spending as a share of per capita GDP than do women (ADB, 2016a). Schemes in place also tend to be fragmented. They are also often targeted to specific vulnerable groups and attached to conditionalities.

<sup>37</sup> Armenia, Azerbaijan, Bangladesh, Bhutan, Cambodia, China, People's Rep. of, Georgia, India, Indonesia, Japan, Korea, Rep of, Kyrgyz Republic, Lao People's Democratic Republic, Malaysia, Maldives, Mongolia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Tajikistan, Thailand, Uzbekistan, Viet Nam.

<sup>38</sup> Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Fed. States of, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Vanuatu.



## 2. Health

Significant inequalities in access to health care remain in the region. The key barrier to access is a lack of affordable and universal health-care policies meaning that people are forced to use private savings for treatment. Just nine countries in the region have universal health-care services, while some others are making progress in reducing costs.<sup>39</sup> High out-of-pocket expenses can often prevent poorer people from seeking medical treatment, while others may deplete their savings.

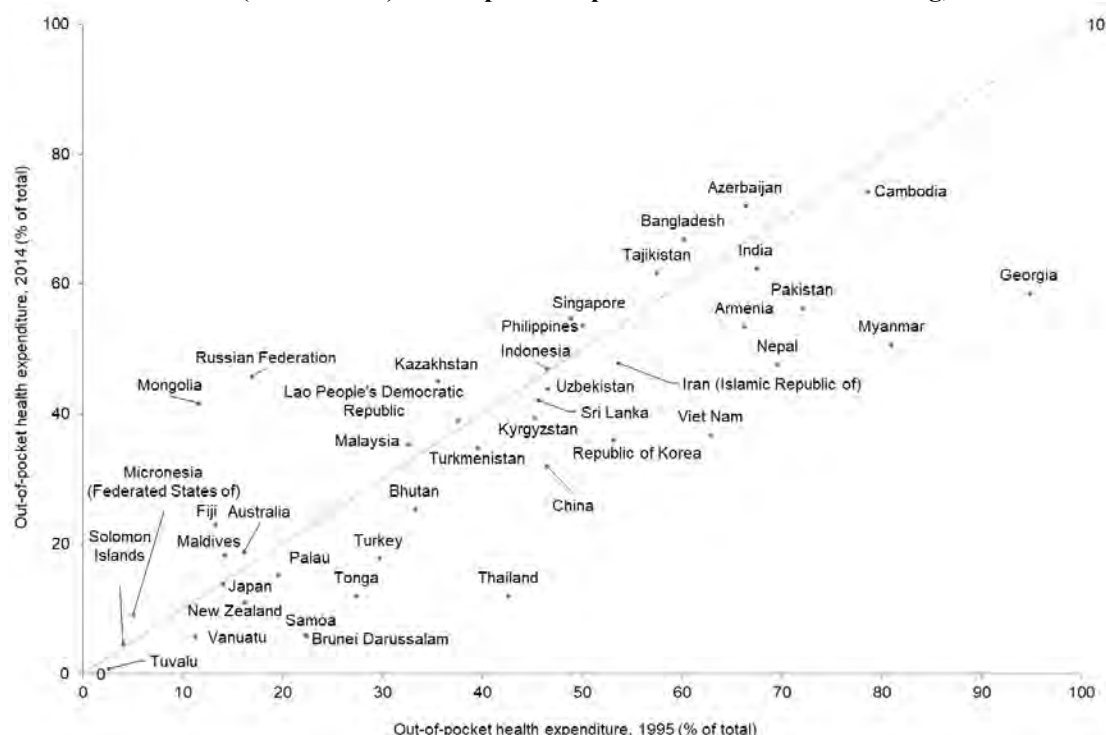
High-income countries in the region have established effective systems for universal health-care coverage using social health insurance, tax-funded systems or a mix of the two. These countries include Australia, Japan, the Republic of Korea, and Singapore. At the same time, some middle-income countries in the region, such as Mongolia and Thailand, have also shown that it is possible to achieve universal health-care coverage at much lower levels of GDP.

Governments in East and North-East Asia and in North and Central Asia spend higher proportions of their budgets on health, leading to lower out-of-pocket expenditures. China, Indonesia and the Philippines have also taken steps to expand health coverage through insurance based schemes in urban and rural areas and significantly increasing access to affordable health services.

On the contrary, low government expenditures in South Asia and South-East Asia translate into lack of access to affordable and good quality health services for those in most need and have led to high out-of-pocket expenditures on health. However, as coverage expands, issues of finance sustainability and payment of service providers become increasingly complex. In some cases, this has resulted in out-of-pocket expenditures rising despite increasing coverage, as fees for medicines, for example may be introduced or increased (figure IV.11).

**Figure IV.11**

**Asia and the Pacific (45 countries): out of pocket expenditure on health decreasing, 1995 and 2014**



Source: World Bank, World Development Indicators.

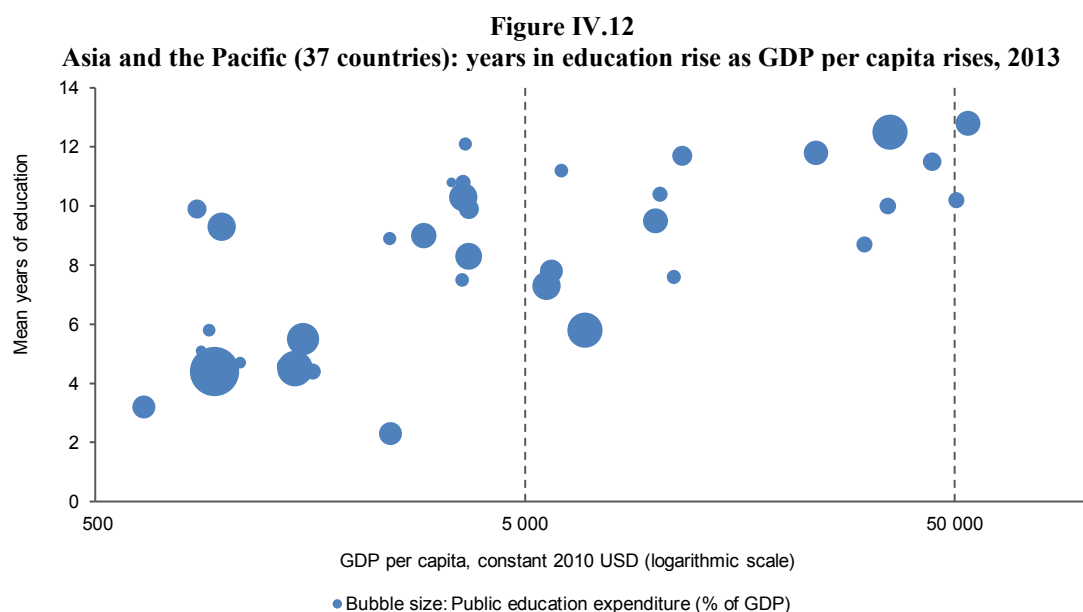
<sup>39</sup> Australia, Bhutan, Brunei Darussalam, Japan, Korea (Republic of), Mongolia, New Zealand, Singapore and Thailand.

### 3. Education

Primary school enrolment has improved significantly over the past 20 years, bringing net enrolment rates up to 95 per cent, with only few countries lagging, including, for example, Afghanistan, Nauru and Pakistan, with enrolment rates at under 80 per cent. At the same time, there is still a long way to go to boost attendance in secondary and tertiary education and completion rates at all levels. Children, particularly girls, coming from low income families, rural areas, and children with disabilities are all more likely to drop out of education.

Public expenditure on education varies widely across Asia and the Pacific, from a high of 10.1 per cent of GDP in Timor-Leste to a low of 0.8 per cent in Myanmar.<sup>40</sup> In many cases investment has lagged behind the rising enrolment rates, creating challenges for the quality and relevance of education. For example, growing class sizes have not always been accompanied by the hiring of more teachers. In Afghanistan, Bangladesh, Cambodia and Pakistan there are over 40 children per teacher in primary schools.

Commitment to —and effectiveness— in funding education varies within the region. Public expenditure on education is not directly linked to per capita GDP, as shown in figure IV.12, with some low-income countries spending similar shares of their GDP on education as higher-income countries. Educational outcomes, as measured by the average years of education, also do not directly reflect spending levels. This mismatch suggests that some countries may be spending more effectively than others.



Source: World Bank, World Development Indicators and HDR estimates based on data on educational attainment from UNESCO Institute for Statistics (2013b), available at <http://uis.unesco.org/>.

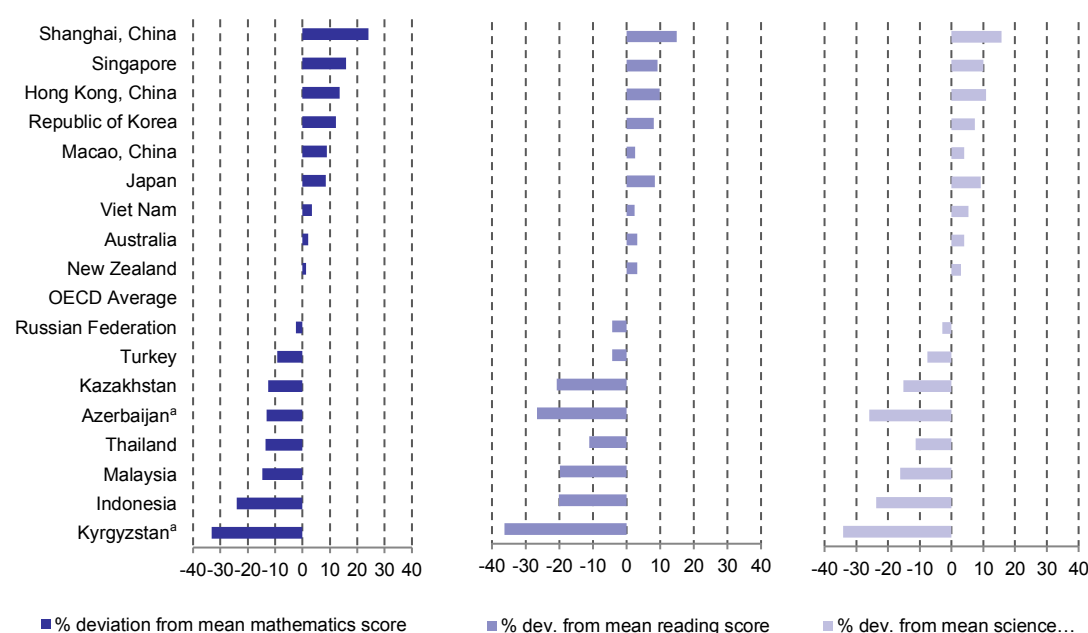
Keeping children in school is one way to reduce inequalities of educational outcome. On average, governments in Asia-Pacific allocate just 0.2 per cent of GDP to child and family benefits, compared to 2.2 per cent in Western Europe (ILO, 2014).

To examine the quality of education, the Programme for International Student Assessment (PISA) provides information on internationally comparable data on students' scores in maths, reading and science. Data are generally only available for more developed countries, and none of Asia-Pacific's low-income countries are covered. In total, 17 of the countries from the Asia-Pacific region

<sup>40</sup> ESCAP. *Online statistical database*. Available at: [http://data.unescap.org/escap\\_stat/](http://data.unescap.org/escap_stat/) [21 July 2017].

are represented, and of these, half have higher scores than the OECD average in all three disciplines, with particularly strong performance in mathematics. In the countries with the highest scores, some 20 per cent of government expenditure is on education, apart from Japan, which spends 9.6 per cent. In comparison, in countries which have lower scores than the OECD mean, spending tells a different story. Azerbaijan, Kazakhstan, Russian Federation and Turkey spend between 7.3 and 13.0 per cent, but perform better than Kyrgyzstan, Indonesia, Malaysia and Thailand where education spending is between 18.1 and 21.0 per cent of government expenditure. This reinforces the premise that, the quality and targeting of investment in education is more important for educational outcomes than total expenditure. Moreover, the value society places on education as well as the support and encouragement pupils get can be very relevant, as evidenced by high outcomes in “Confucian heritage” societies (figure IV.13).

**Figure IV.13**  
**ESCAP (17 countries): deviation from mean PISA scores in mathematics, reading and science, 2012**



Source: OECD, PISA 2012 online statistical database.

Note: Only countries within the ESCAP region were selected.

<sup>a</sup> Data for Azerbaijan and Kyrgyzstan were not available for 2012. Results were compared to 2009 OECD averages.

## 4. Employment

Macroeconomic policy supportive of wage-led growth has triple benefits: it promotes **decent work**, **economic growth** and **employment generation** as more workers are required to produce those goods and services to meet rising demand.

Effective industrial policy, combined with education and public employment services, is essential to ensure that labour market needs are met with the required skills. It also facilitates job matching and supports jobseekers into employment. Public employment services provide labour market information, and link people to training opportunities and jobs. Despite the advantages of active labour market policies, there are few initiatives in Asia and the Pacific. Skills development and training programmes remain limited in developing countries in the region (ADB, 2013).

Green jobs, which are decent jobs contributing to preserving or restoring the quality of the environment, can be an important source of labour intensive, sustainable growth. Some 1.5 billion

workers globally are affected by the transition to a greener economy including those in sectors threatened by the overuse of natural resources, such as agriculture, forestry and fisheries (ILO, 2012).

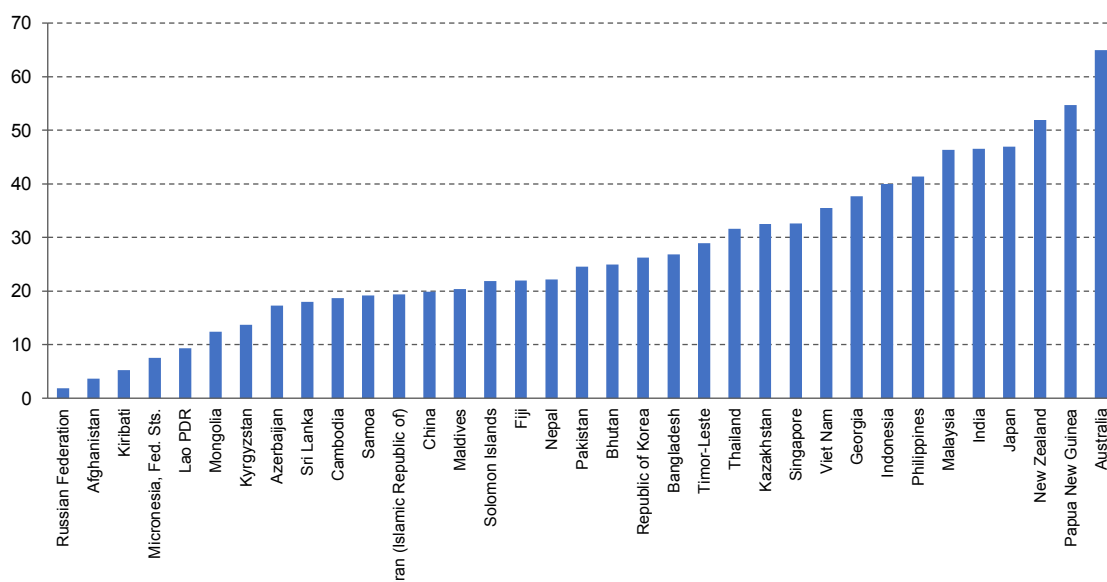
## 5. Fiscal policies

Fiscal policy can influence the extent to which productivity gains, and profit increases, feed back into domestic investment, employment and wage growth. For example, tax income can be channeled to employment boosting social sectors, such as health care, education and transport infrastructure (UNCTAD, 2012). Globally, some 40 million new health sector jobs are expected to be created by 2030, mostly in middle- and high- income countries. This projected increase is expected to generate a shortfall of 18 million health workers to achieve the Sustainable Development Goals primarily in low and lower-middle income countries (ITUC, 2016).

A progressive taxation system is an important tool for reducing income inequalities and support the development of social and physical infrastructure, including a social protection floor (Journard, Pisu and Bloch, 2013). Unlike taxation of personal and corporate income, overdependence on flat rate taxation on consumption tends to harm poorer groups more, because they spend a higher proportion of their income on consumption.

Broadening taxation systems to increase revenue from income and corporate tax will require a shift (figure IV.14). Income tax rates are currently very low in Asia and the Pacific developing countries: in 2011, taxation revenues averaged just 14.8 per cent of GDP, compared to 34.1 per cent in OECD countries and 16.3 per cent in sub-Saharan Africa (ESCAP, 2014). Revenues can be increased by broadening the tax base, increasing progressiveness as well as strengthening the compliance framework and rule of law. In India, for example, tax collection increased by just 1.6 percentage points between 1990 and 2013, with income tax accounting for only 0.5 per cent of GDP (Piketty and Qian, 2009) and in the Philippines only 30 per cent of the population are registered tax payers (The Philippine Star, 2016).

**Figure IV.14**  
**Asia and the Pacific (36 countries): taxes on income,**  
**profits and capital gains (% of revenue), 2009/2016**



Source: World Bank, World Development Indicators.

## **C. Moving forward**

People-centred development is at the heart of the 2030 Agenda for Sustainable Development. If everyone is to benefit from Asia-Pacific's remarkable economic growth, concerted efforts are needed to reduce inequalities and to reach those furthest behind. ESCAP has developed a six-point agenda for closing socioeconomic development gaps.

### **1. Harness the potential of economic growth to create decent jobs**

Creating a macroeconomic framework that supports job rich, inclusive growth is vital. This means promoting wage led growth, by linking wages and productivity at the same time as broadening the fiscal base to support the implementation of a social protection floor. Well-coordinated education, labour market and industrial policies are needed to lift excluded groups, and promote development of job rich and sustainable sectors of the economy. Market driven growth alone will not lead to the trickle-down effects expected, however well-designed policy with wide support can bring about sustainable development with social justice.

### **2. Broaden social protection coverage**

Social protection is central to the 2030 agenda. It can prevent people falling into poverty, lift people out of poverty as well as shorten crisis periods; it empowers vulnerable groups and helps improve resilience and equality of opportunity. The Social Protection floor offers a framework for income security and access to basic social services and ESCAP's Social Protection Toolbox provides support to policy makers and stakeholders moving towards broader and more robust social protection. It provides a database of good practices and facilitates South-South cooperation through access to a network of social protection experts.<sup>41</sup>

### **3. Provide universal access to education, health care and basic infrastructure**

Health and education for all are integral components of the social protection floor. Quality education for all requires investment in school infrastructure, teachers' education and training. Curricula need to enable children to learn problem solving and creativity, and to reflect future labour market needs to ease the school to work transition. Life-long learning and technical and vocational education programmes are also important to enable mobility of young people and adults later in life. Investment in affordable health care is needed to redress health deficiencies and boost capacities of the population. Finally, basic infrastructure, including access to clean water, sanitation and energy, is a human right with large externalities for the whole of society. Expansion of such infrastructure to urban slums and rural areas needs to continue.

### **4. Promote gender equality and women's economic empowerment**

Women face multiple disadvantages: in access to education, health, decent work and political representation. Legal realization of gender equality entails equal rights to ownership, property and inheritance. Gender responsive budgeting ensures government resources and funds are developed, taking into account their implications on gender equality. Men and women both lose out as a result of cultural stereotypes as life choices and opportunities are restricted by gender based expectations. Gender inequality also has a huge economic cost: McKinsey Global Institute estimates that with gender parity, Asian countries as a whole could gain \$4.4 trillion of additional GDP by 2020 if they matched the fastest improving country in the region (Woetzel and others, 2015).

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<sup>41</sup> ESCAP. Social Protection Toolbox. Available at: <http://www.socialprotection-toolbox.org/about> [09 Aug 2017].

## 5. Enhance financial inclusion

Access to financial services is important to enable people to save for emergencies, as well as to borrow for household and business needs. In a number of Asia-Pacific countries, under 40 per cent of people have access to modern financial services, with significant gender gaps. Increasing equality of access to financial services can be promoted through use of new technologies such as mobile banking, branchless banking and other fintech tools. Microbanking, microcredit and cooperatives can also increase access, alongside training in financial literacy.

## 6. Ensure social inclusion of vulnerable groups

To reach those who are being left behind, governments can create programmes targeting vulnerable groups. ESCAP has assisted in developing the Incheon Strategy for Making the Right Real for persons with disabilities in Asia and the Pacific. Young people can face particular challenges, and programmes can be adopted to tackle youth unemployment and reduce numbers of youth not in education or employment. For this purpose, ESCAP is creating a Youth Policy Toolbox —an online source of practice and policy options as well as a training module.<sup>42</sup>

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<sup>42</sup> ESCAP, *Youth Policy Toolbox*. Available at <http://yptoolbox.unescapsdd.org> [24 July 2017].

## Annex IV.A1

### Countries and surveys used

With regards to the Gallup World Poll indicator (used for the “Full-time employment” indicator), the years are as follows:

**Table IV.A1.1**  
**World Gallup Poll years**

Number	Country	Year
1	Afghanistan	2016
2	Armenia	2016
3	Australia	2016
4	Azerbaijan	2016
5	Bangladesh	2016
6	Bhutan	2015
7	Cambodia	2016
8	China	2016
9	Georgia	2016
10	India	2016
11	Indonesia	2016
12	Iran (Islamic Republic of)	2016
13	Japan	2016
14	Kazakhstan	2016
15	Kyrgyzstan	2016
16	Lao PDR	2012
17	Malaysia	2015
18	Mongolia	2016
19	Myanmar	2016
20	Nepal	2016
21	New Zealand	2016
22	Pakistan	2016
23	Philippines	2016
24	Republic of Korea	2016
25	Russian Federation	2016
26	Singapore	2016
27	Sri Lanka	2015
28	Tajikistan	2016
29	Thailand	2016
30	Turkey	2016
31	Turkmenistan	2016
32	Uzbekistan	2016
33	Viet Nam	2016

Source: Based on available DHS and MICS, 21 countries are included in this analysis.

Table IV.A1.2 provides the full list of 21 countries and their survey years (latest and earliest).

**Table IV.A1.2**  
**List of countries and survey years**

Number	Country	Latest Year	Latest Survey
1	Afghanistan	2015	DHS
2	Armenia	2010	DHS
3	Bangladesh	2014	DHS
4	Cambodia	2014	DHS
5	Indonesia	2012	DHS
6	Kazakhstan	2015	MICS
7	Kyrgyzstan	2012	DHS
8	Lao People's Democratic Republic	2011	MICS
9	Mongolia	2013	MICS
10	Pakistan	2013	DHS
11	Philippines	2013	DHS
12	Thailand	2012	MICS
13	Turkmenistan	2015	MICS
14	Viet Nam	2013	MICS
15	Bhutan	2010	MICS
16	India	2006	DHS
17	Maldives	2009	DHS
18	Myanmar	2000	MICS
19	Tajikistan	2012	DHS
20	Timor-Leste	2010	DHS
21	Vanuatu	2007	MICS

### The indicators and circumstances

The indicators depicting inequality of opportunity were selected to correspond to relevant SDG indicators.<sup>43</sup> Table IV.A1.3 explains the framework of the analysis.

<sup>43</sup> General Assembly Resolution 71/313 on the Work of the Statistical Commission pertaining to the 2030 Agenda for Sustainable Development. Available from: <https://undocs.org/A/RES/71/313>.



**Table IV.A1.3**  
**The links between opportunities, circumstances and the SDGs**

Opportunity	Circumstances used to determine groups of the furthest behind/ahead							Closest SDG indicator reference		
	Opportunity	Survey used	Reference group in survey	Wealth: Bottom 40-Top 60*	Residence: Urban-Rural	Education: No/Primary-Secondary-Higher	Sex: Male-Female		Children: Yes-No, Number	Age: 15-24, 25-49, 50-64
1	Secondary education	DHS/ MICS	Household member age 20-35	Wealth	Residence	n/a	Woman/Man	n/a	n/a	4.1.1 Proportion of children and young people: (a) in grades 2/3; (b) at the end of primary; and (c) at the end of lower secondary achieving at least a minimum proficiency level in (i) reading and (ii) mathematics, by sex
2	Higher education	DHS/ MICS	Household member age 25-35	Wealth	Residence	n/a	Woman/Man	n/a	n/a	4.3.1 Participation rate of youth and adults in formal and non-formal education and training in the previous 12 months, by sex
3	Stunting	DHS/ MICS	Child aged 0-5 who has been measured	Wealth	Residence	Mother's Education	Boy/Girl	Number of children <5	n/a	2.2.1 Prevalence of stunting (height for age <2 standard deviation from the median of the World Health Organization (WHO) Child Growth Standards) among children under 5 years of age
4	Overweight	DHS/ MICS	Child aged 0-5 who has been measured	Wealth	Residence	Mother's Education	Boy/Girl	Number of children <5	n/a	2.2.2 Prevalence of malnutrition (weight for height >+2 or <-2 standard deviation from the median of the WHO Child Growth Standards) among children under 5 years of age, by type (wasting and overweight)
5	Wasting	DHS/ MICS	Child aged 0-5 who has been measured	Wealth	Residence	Mother's Education	Boy/ Girl	Number of children <5	n/a	2.2.2 Prevalence of malnutrition (weight for height >+2 or <-2 standard deviation from the median of the WHO Child Growth Standards) among children under 5 years of age, by type (wasting and overweight)
6	Use of modern contraceptive	DHS/ MICS	Women between 15-49 currently in union	Wealth	Residence	Respondee's education	n/a	Number of children <5	15-24, 25-49	3.7.1 Proportion of women aged 15-49 years who have their need for family planning satisfied with modern methods

Table IV.A1.3 (conclusion)

Opportunity	Circumstances used to determine groups of the furthest behind/ahead						Closest SDG indicator reference	
	Survey used	Reference group in survey	Wealth: Bottom 40-Top 60*	Residence: Urban-Rural	Education: No/Primary-/Secondary-Higher	Sex: Male-Female	Children: Yes-No, Number	Age: 15-24, 25-49, 50-64
7 Professional help in birth	DHS/ MICS	Women between 15-49 ever given birth in the last 5 years	Wealth	Residence	Respondent's education		Number of children <5	15-24, 25-49
8 Full-time employment	World Gallup Survey	All men and women 15-64 who are in the workforce	Marital status (see Note 3)	Residence	Respondent's education	Woman/Man	Have children	15-24, 25-49, 50-64
9 Basic drinking water	DHS/ MICS	All households	Wealth	Residence	Highest Education in household (hh)	n/a	n/a	n/a
10 Basic sanitation services	DHS/ MICS	All households	Wealth	Residence	Highest Education in hh	n/a	n/a	n/a
11 Electricity	DHS/ MICS	All households	Wealth	Residence	Highest Education in hh	n/a	n/a	n/a
12 Clean fuels	DHS/ MICS	All households	Wealth	Residence	Highest Education in hh	n/a	n/a	n/a
13 Bank account	DHS/ MICS	All households	Wealth	Residence	Highest Education in hh	n/a	n/a	n/a
14 Household services (Opportunities 9-13 combined)	DHS/ MICS	All households	Wealth	Residence	Highest Education in hh	n/a	n/a	n/a

3.1.2 Proportion of births attended by skilled health personnel

8.3.1 Proportion of informal employment in non-agriculture employment, by sex (proxy)

6.1.1 Proportion of population using safely managed\* drinking water services

6.2.1 Proportion of population using safely managed\* sanitation services, including a hand-washing facility with soap and water

7.1.1 Proportion of population with access to electricity

7.1.2 Proportion of population with primary reliance on clean fuels and technology

8.10.2 Proportion of adults (15 years and older) with an account at a bank or other financial institution or with a mobile money-service provider

1.4.1 Proportion of population living in households with access to basic services

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## **V. Informality in the Arab region: another facet of inequality**

### **A. Introduction: linkages between informality and inequality**

Inequality in the Arab region has evolved to become one of the main social, economic and political challenges of our times. The rich have become richer and the poor have remained embroiled in a struggle to make significant gains in income. It is estimated that 55% of the region's income goes to the top 10% compared to 48% in the United States, 36% in Western Europe, and 54% in South Africa. It is also estimated that the top 1% receive more than 25% of the region's income compared to 20% in the United States, 11% in Western Europe, and 17% in South Africa (Alvaredo and Piketty, 2014). The persistence of inequality is cause for the adoption of sound and coherent policies backed by political will to empower the lowest income earners in a just, equitable and inclusive manner that respects their human rights. However, focusing only on income inequalities is but a piecemeal approach that limits the analysis to a quantitative angle and ignores such social dimensions as gender, age, education, access to resources and decent jobs, opportunities, well-being, health, life expectancy, welfare, assets and social mobility, spatial disparities (rural/urban), among others.

The Arab NGO Network for Development (ANND) (2016) in its *Arab Watch on Economic and Social Rights* claims that informal employment is a major determinant of instability at the global and regional levels whereby it represents between half and three quarters of the non-agricultural workforce in developing countries. The report adds that perhaps the widening share of informal labour in Arab countries in non-agricultural sectors is mainly the result of policies of 'Openness', neo-liberal globalization, youth boom, rural migration in great numbers as a result of neglecting rural areas in general and the agriculture sector in particular, in addition to large waves of incoming migration (ANND, 2016).

Goal 8 of the 2030 Agenda for Sustainable Development calls for promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Within this framework, the economic growth and social protection nexus has recently gained importance in the Arab region, particularly since the notable gains realized by the region in the past two decades in economic growth and GDP were not commensurate with reducing unemployment and were not effectively translated into the creation of decent jobs. Even though the Arab region had managed to create some jobs, participation in the labour force stagnates, primarily owing to the relatively low participation of women and youth in the labour force. According to Chaaban (2013), at

least two thirds of young Arab women (ages 15–29) do not participate in the labor market. Similarly, the ILO (2016) estimated the Arab youth labor force participation rate at 30%, which indeed stands much lower than the rest of the world estimated at 46 %.

At the global level, there is ample evidence of the strong relationship between informality and inequality. For example, Gutiérrez–Romero (2007) reveals that while inequality shapes the size of the informal economy, other factors such as business registration fees in the formal sector as well as the prevailing financial and legal conditions also contribute to affecting the informal economy in any country. She argues that disparities in wealth result in variations in the ability of people to become entrepreneurs in the formal sector owing to the rigid expenses related to entering this sector which influences their occupational choices and pushes them to opt for becoming small entrepreneurs in the informal sector. However, salaries are contingent upon the number of entrepreneurs who establish formal businesses. Hence, low labour market competition resulting from lower numbers of formal businesses leads to lower salaries. As such, a causal relationship is established: higher levels of inequality result in lower prospects for becoming an entrepreneur in the formal sector which eventually leads to lower salaries due to the low market competition and therefore encourages people to join the informal sector.

Similarly, in a study on the relationship between the informal economy and inequality in transition and emerging countries, Dell'Anno (2016) notes that analyzing the interplay between these two phenomena is a challenging endeavor. In developing countries, the informal sector provides employment opportunities and sources of income for low-skilled workers, which can have a positive impact on income distribution and equality. However, informality can harm public finances and the potential for redistributive policies; furthermore, it locks workers into informal jobs, hereby decreasing social mobility.

At the same time, he argues that widespread inequalities have a negative impact on the accumulation of human and physical capital, thus resulting in a rise in informal activities. The implementation of policies aiming at limiting informal activities may also result in an increase in inequality. This is particularly relevant in transition and emerging countries where informality-reducing policies based on tax reduction and the enforcement of tight regulations may augment inequality, slash economic growth and prolong periods of high unemployment. He concludes that a failure to adopt adequate policies which address the diverse underlying interactions between these factors could have a detrimental impact on the whole economy.

Moreover, the shift in the Turkish economy towards a market-oriented export-led structure since the early 1980s, prompted Elveren and Özgür (2016) to look into the likely link between the size of the informal economy and income inequality and this transition in the economic structure. They point to the notable relationship between the informal sector and inequality whereby low-skilled workers resort to the informal sector and accept lower wages and inadequate working circumstances when they fail to find formal jobs. Pervasive informality leads to a loss in tax and social revenues which in turn exacerbate inequality since the government will not have sufficient funds to implement welfare programs and adjust income distribution. Similarly, inequality also triggers a sizeable informal sector as those trapped in poverty find themselves imploring for less expensive commodities produced in the informal sector. Moreover, the authors have found compelling indications of the link between foreign trade competitiveness, unemployment, income inequality and informality. They argue that trade competitiveness reduces labour costs and wages for unskilled workers thus prompting higher income inequality which stimulates the informal economy due to a rise in demand for lower quality goods manufactured in the informal sector. In other words, their work also provides evidence of a strong tripartite pattern between the structure of an economy, the informal sector and inequality.

In his paper, Winkelried (2005) argues that income distribution has a role in determining the size of the informal sector, since it affects the way the market, mainly aggregate demand, behaves and thus influences firm formality status. In other words, the larger the demand, the more the firm benefits from operating in the formal economy. Using data for Mexican cities during the 1990s and early 2000s, he was able to show that higher inequality implies higher informality, and that a larger middle

class implies lower informality. Thus, redistribution towards a larger middle class reduces informality and increases the ability of fiscal instruments to reduce informality.

Ghecham (2017) investigates the impact of the informal sector on income inequality by examining the variation in the income gap between different income groups. His finding points to a dual impact of the informal sector on income distribution. While the informal sector increases the income gap at the top-end of income groups, it reduces it at the bottom-end of income groups. Although results imply that informality can support a certain category of households in generating income that would have been otherwise hard to earn and at the same time lead to income being shared more equally in the society, it can in fact weaken a country's economic prospect. In other words, informality can deteriorate the redistribution of income, leading income to be concentrated in the hands of the top earners, which in turn weakens economic growth and further increases the size of the informal sector.

Rosser and others (1999) focus on the relationship between the level of income inequality and the size of the informal economy in a sample of 16 transition economies between 1987 to 1989 and 1993 to 1994. They find strong empirical evidence of a positive correlation between the two variables. They also find that increases in income inequality are correlated with increases in the share of output produced in the informal economy. They show how the mechanism may operate in both directions with the informal economy and inequality mutually reinforcing each other: an expansionary informal economy leads to higher inequality due to declining tax revenue and undermined social safety nets, and higher inequality leads to higher informality due to declining trust, confidence and social solidarity.

At the same time, the persistence of inequality had a detrimental socio-economic impact, most notably on the informal sector. The interplay between informality and inequality and the prevalence of other factors such as the regulatory environment, has generated considerable debate in the past decades as many studies have shown that high inequality, precisely income inequality, aggravates informality, and vice versa. Informal employees earn significantly less than those in the formal sector. Hence the growth of the informal sector deepens inequality as informal workers earn less than formal workers, rendering the relationship between inequality and informality mutually reinforcing. Nevertheless, this relationship is rather dynamic and variable across regions, countries and economic arrangements. Many Arab economies suffer from a large informal sector that varies in size and composition of informality which has contributed to shaping the patterns and dimensions of inequalities in a variant but mutually reinforcing manner.

## **B. The prevalence of informality**

### **1. A global outlook**

De Soto (1989) advanced a straight forward and simple definition of informality as the collection of firms, workers, and activities that operate outside the legal and regulatory frameworks thereby avoiding taxation and regulation without benefiting from state protection and services. He pointed out that informality can be caused by agents "exiting" the formal sector due to cost-benefit factors; or by the exclusion of agents from the formal sector which becomes restrained.

According to the OECD (2009), many people in developing countries, especially young entrants to the labour market and women, who cannot risk remaining unemployed and without any form of earnings are forced into informal jobs as a survival strategy. Apart from being precarious and low on productivity, informality is also associated with the violation of human rights.

The policy debate on the causes of informality has been prominent for more than two decades, particularly in developing countries where the informal economy is widespread. There seems to be little agreement on the outcomes of informality, i.e. whether it reduces productivity or spurs growth. One flipside of the coin claims that informal employment reduces the competitiveness of the economy which leads to lowering productivity while the other side claims that in emerging economies such as

China informal employment was considered a driver of growth and a trigger of job creation. As for fiscal considerations, informality reduces tax revenues and thus limits contributions to social security systems and hence social protection. The incidence of informal employment becomes a symbol of a deficient and dysfunctional social contract between the state and citizens whereby the state is not providing adequate public goods in terms of quality and quantity desired by citizens, and at the same time, other citizens are evading taxes and other social security contributions thus undermining the ability of the state to deliver those goods (OECD, 2009).

There seems to be overwhelming consensus that informality is a pervasive and multi-dimensional phenomenon manifested in all economies in different magnitudes and dimensions. Its size and determinants are strongly associated with underdevelopment and it is therefore a highly depicted characteristic of developing countries, whereby, according to the ILO and OECD, it comprises more than half of all non-agricultural employment. Informality is shaped by numerous socio-economic variables and approaches, government policies, regulations, legalities, and taxation. Governments have sought formulas to provide informal workers with social protection coverage, as well as access to public services and formal financial support. Accordingly, it constitutes a reflection of the forms of relationships between the state and citizens and is defined as work outside the legal and regulatory framework. As a result, difficulties in measurement are often encountered as the share of informal sector and its characteristics are associated with numerous variables. This is predominantly the case of the Arab region whereby the shy availability of information in some Arab countries as well as the paucity of up-to-date and comprehensive data for the entire Arab region constitute an obstacle to forming a realistic picture of the constitution and complexity of informality and the different dynamics that shape it. More importantly, the relationship between informality and inequality has not been systematically and fully examined in the Arab region.

There is an overall conception that the term “informal economy” is quite diverse as it encompasses substantial variations in terms of workers, enterprises and entrepreneurs all of whom face distinctive challenges that vary in intensity across national, rural, and urban contexts. The term “informal economy” is preferable to “informal sector” because the workers and enterprises are not limited to one sector of economic activity, but intersect in many sectors. The term “informal economy” refers to all economic activities by workers and economic units that are—in law or in practice—not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that—although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs (ILO, 2002).

Together wage workers and own-account workers constitute workers in the informal economy, with the latter suffering from regular shifts, insecurity and vulnerability as much as the former. Unfortunately, workers in the informal economy often remain trapped in poverty as they are denied protection, rights and representation (ILO, 2002).

Employment in the informal sector is an enterprise-based concept and covers persons working in units that have “informal” characteristics in relation to, for example, the legal status, registration, size, the registration of the employees, their bookkeeping practices, etc. Informal employment is a job-based concept and encompasses those persons whose main jobs lack basic social or legal protections or employment benefits and may be found in the formal sector, informal sector or households. Almost all persons employed in the informal sector are in informal employment. However, not all those in informal employment belong to the informal sector: there may be persons working outside of the informal sector (i.e., either in the formal sector or in households producing for own final use) that have informal employment (ILO, 2012).

Though the informal economy is wide ranging and heterogeneous, it can be classified into several categories comprising informal employment inside the informal sector which includes employers, employees, own-account workers, contributing family workers, and members of cooperatives. It also comprises informal employment outside the informal sector such as employees in

formal enterprises (including public enterprises, the public sector, private firms, and non-profit institutions) not covered by social protection, employees in households (e.g. domestic workers) without social protection and contributing family workers in formal enterprises (Chen and Harvey, 2017).

## **2. The dynamics of informality in the Arab countries: a regional glance**

In some Arab countries with sizable and growing labour forces, and where unemployment, underemployment and poverty are prevalent, workers are absorbed by the informal economy not by choice but out of a need to survive. The alternative would be to remain without a job, incapable of generating income and hence becoming vulnerable, which eventually will exacerbate socio-economic inequalities. Although informal jobs are easier to enter and have less demanding pre-requisites for education, skills, technology and capital, they often fail to meet the criteria of decent work. However, by availing goods and services at low prices, the informal economy contributes to meeting the needs of the poor (ILO, 2002).

According to the ILO, as the large majority of workers in the informal economy and their families do not benefit from social protection, they are particularly vulnerable to various inequality-associated risks and contingencies, including health, safety at work, loss of earnings, low job security and no pension benefits. The prevalence of informal employment in many parts of the world, which has worsened as a result of the global crisis, not only affects the current living standards of the population but also constrains households and economic units trapped in the informal economy from increasing productivity and finding a route out of poverty. While the ILO (2014) asserts that it is necessary to facilitate transitions from the informal economy to the formal economy, others have argued that formalizing the informal economy is not necessarily the solution. It remains difficult to ascertain whether this option is the most suitable path for Arab countries, characterized by a large informal economy.

### **(a) The growth of informality in the Arab region**

In an interview about the Arab springs in 2011, de Soto was asked about the causes of the uprisings in the Middle East and he replied "I would say that to a great degree what you've got in the Middle East is an informal revolution. People who were outside the legal system and who would like to work in a legal system that supports them, that they can integrate. But it hasn't been designed yet" (de Soto, 2011).

The informal workforce in the Arab region confronts tremendous challenges; including low and precarious income, instability, daunting working conditions and an unfavorable regulatory environment. This situation is worsened by the lack of legal, social and health benefits and the exclusion from supportive public policies and services, stigmatization and low social standing. Arab workers in the informal economy suffer from insecurity, marginalization and the disproportional effects of structural economic adjustments. Therefore, informality often denotes inadequate employment conditions and is inherently linked to poverty and inequality.

There has been an ongoing debate about the causes and perpetuation of informality. To explain the underlying factors that have led to the growth of the informal economy, Mishra and Ray (2011) provide empirical evidence that supports the existence of a complimentary relationship between the informal economy and corruption and high-income inequalities. They argue that in societies where inequalities are highly manifested, individuals and firms face difficulties in accessing formal credit and modern technology which in turn forces them to resort to informal employment. In general, the growth of informality also implies unjust competition between formal and informal workers who must deal with tax payments and regulation, and a loss of government revenue. This is relevant in Arab countries with prominent socio-economic inequalities.

The ILO (2014) points out that informality is principally a governance issue and that its growth can often be attributed to: inappropriate, ineffective, misguided or badly implemented



macroeconomic and social policies, frequently developed without tripartite consultation; the lack of appropriate legal and institutional frameworks; the lack of good governance for the proper and effective implementation of policies and laws; and a lack of trust in institutions and administrative procedures. Macroeconomic policies, including structural adjustment, economic restructuring and privatization policies, were not targeting employment, have cut-down jobs or failed to create sufficient new jobs in the formal economy. The Arab region is a clear example of this and has demonstrated this unfortunate reality. In fact, the outbreak of protests and ensuing transformations in Tunisia, Egypt as well as the continued conflict in Yemen and Libya illustrate not only the socio-economic challenges grappling this region but weak and ineffective governance structures.

The Arab NGO Network for Development (ANND) (2016, p.9-11) has claimed that “since the eruption of the Arab Spring, Arab countries have been facing major challenges that can almost be described as existential challenges”. Arab countries that have been run by dictatorships for prolonged periods were not able to deliver basic social needs, eliminate inequalities and ensure justice, and uphold the rights of their citizens because of the absence of accountable, impartial and equitable governance structures and lack of respect for political diversity. The absence of basic economic and social rights, like the “right to work, social protection, fair taxation, distribution policies, and many other rights, is considered one of the main factors affecting stability”. This in turn resulted in increasing poverty, spreading unemployment and marginalization which were in fact considered as the catalysts that ignited the protests in the Arab region. Moreover, the shift towards democracy has been compounded by numerous complications and unforeseen challenges, even in countries where peaceful transitions took place such as Tunisia. The spill-over effects of the transitions, whether peaceful or violent, were greatly felt in other countries such as Morocco, Jordan, Lebanon, and even some Gulf states.

#### **Box V.1**

##### **Informal sector in Morocco: urbanization, corruption and taxes**

In Morocco, a study by Bourhaba and Hamimida (2016) has found that in 2015, the informal economy contributed around 43% of GDP. According to this study, among the main contributors to the rapid growth of the informal economy in Morocco are urbanization, corruption and the burden of taxes. Pursuant to industrialization and the improvement in services which result in economic development, cities begin to attract rural inhabitants. However, the inability of the formal sector to take in the excessive labour force resulting from the advent of urbanization pushed a portion of the labour force into the informal sector. In addition, the study also claims that the increase in the informal sector in Morocco could be a consequence of corruption which drives people to opt for the informal sector not only to avert the high cost of regulatory frameworks but to avoid being trapped by the underground economy. The heavy burden inflicted by high taxation is also a detrimental factor behind the proliferation of the informal economy as citizens attempt to conceal their real incomes to evade government taxes. This pushes them into favoring the informal economy which in turn negatively impacts on government revenues. The study highlights that a tax increase of 1% leads to an increase in the informal economy size by 0.11%.

Source: Bourhaba O. & Hamimida M. (2016). An estimation of the informal economy in Morocco. *International journal of economics and finance*; Vol. 8, No. 9; 2016 ISSN 1916-971X E-ISSN 1916-9728 published by the Canadian Center of Science and Education.

To show the significance of the informal sector as one of the main root causes that sparked the protests and movements in Tunisia, we should look at Tarek el-Tayeb Mohamed Bouazizi, a 27 year-old informal worker in a marginalized area in Tunisia who did not gain anything from the consequences of economic growth and development nor was his human dignity and economic and social rights ensured, nor did he benefit from public services or the protection of the law (ANND, 2016). However, the law was definitely not on his side when his only means of subsistence and source of survival for his family was seized. He was oppressed and disregarded and considered inconsequential by the local authorities at the time. He ended up self-immolating. Therefore, in the context of fragile governance structures horizontal and vertical inequalities prevail. Informal workers are neither supported nor protected by the rule of law, but are rather vulnerable citizens who are often oppressed and selectively excluded from benefits and rights, while expected to uphold their duties and liabilities.

While it was noted above that informality is caused by excessive regulation by the state, which creates incentives for economic activity to take place outside the purview of regulations, Kanbur (2014, p.7) argues that “even if the presence of regulation could explain the level of informality, for it to explain *increases* in informality the regulatory burden would have had to have increased. But, in fact, it is well appreciated that in the last two decades of liberalization, the regulatory burden has if anything decreased. The regulation explanation of increasing informality is thus weak at best.” In fact, deregulation explains increasing informality of particular kinds: notably, de-formalization of once-formal jobs and industrial outwork. Deregulation of labor markets has created an environment in which formal firms, seeking to reduce labor costs, are increasingly hiring some workers as core standard workers and others as peripheral workers under informal arrangements (Kanbur, 2014).

The second main causal explanation presented by Kanbur (2014) for increasing informality centers on fundamental trends in technology and trade, which, he argues, have reduced the employment intensity of growth in the formal sector. This phenomenon of “jobless growth”, which has been for decades, a specific phenomenon of the Arab region, implies that the formal economy is incapable of catering to the employment needs of a growing labour force. According to Kanbur, the technology-trade explanation seems to be a more plausible explanation for trends in informality. If we accept this explanation, he notes, “we are also forced to accept that informality is here to stay” since “the forces shaping technology and trade are unlikely to reverse in the next two decades” (Kanbur, 2014, p. 8). He claims that instead of receding as a result of development, the very nature of current development means that informality will increase. Along the same lines, the OECD (2009) also confirmed that informal is indeed normal. But how can the Arab region deal with this assertion amidst its sociopolitical dilemmas, its diverse economic configurations and the enduring conflict and dissension among Arab political entities?

According to Aita (2016), in order to deal with the challenges associated with the expansion of the informal sector in the Arab region, and amidst the growing political turmoil and complexities and the accompanying socio-economic uncertainties, it becomes necessary to come up with a new “employment-decentralization-regional and urban planning” nexus that delineates a framework for research, analyses and policy development that will ultimately link informality, urban growth and the improvement of infrastructure in Arab countries suffering from a dominant informal economy.

### Box V.2

#### Tunisia informal workers: are they better off?

The paucity of data and knowledge about the characteristics of the informal sector in Tunisia, and the extensive proliferation of the informal economy in terms of scope and size, compelled the Tunisian General Labour Union (Union Générale Tunisienne du Travail, UGTT) to carry out a field study on 1,128 informal workers to examine the implications on the economy, notably following the 2011 revolution.

The results indicated that the disparities between the income generated by the formal and informal sectors demonstrate a wide increase in the contribution of the informal economy to the GDP from 30% in 2010 to 38% in 2013. The outcome of this survey also revealed that within the same sector, a civil servant earns half the annual income of an informal worker who typically earns around 18,725 Tunisian Dinars, which somehow challenges the conventional assumption that workers in the formal sector usually earn more than workers in the informal sector. Moreover, the study also revealed a close correlation between the informal sector and the illicit trade and smuggling activities especially in commodities such as tobacco and fuel which are pronounced in certain border regions. Contrary to what one would imagine, despite the precariousness of their work and their awareness of the dangers and threats they are exposed to due to the absence of civil rights, social protection and health security, informal workers, especially self-employed workers, have indicated that they are “satisfied” with the income they generate through trafficking certain products via smuggling corridors and are therefore reluctant to go into the formal sector.

Source: Trabelssi K. (2013). Current state of the informal economy in Tunisia as seen by its stakeholders: Facts and alternatives. Tunisian General Labour Union.

Similarly, Saif (2013) argues that there is a need for new approaches to tackle the burdens and challenges of the informal sector in the Arab region particularly when undergoing economic transformation and when there is undisputed evidence by research groups and the ILO that the informal sector is expanding. Nevertheless, two factors make it very difficult to establish a clear-cut depiction of the informal sector in the Arab region. These are difficulties in measuring the informal sector and the multitude of variations across Arab countries in the size of the informal sector which indicate that the causes of its spread also vary from one country to another. Saif further points out that in some states, such as Egypt, workers and firms prefer the informal economy to evade complicated bureaucratic procedures while in Jordan most want to avoid taxes and in Syria people operate in the informal sector in the hope of escaping the strong grip of the state. However, one common feature present in several Arab countries, is the absence of incentives to participate in the formal sector especially when the services provided by the government are marginal when compared to the financial liabilities and taxes they impose.

Moreover, the informal sector in many Arab countries continues to draw young entrants to the labour force at a time when governments have failed to create job opportunities and enhance the labour conditions and provide incentives that diminish the growth of the informal economy. The result is, considerable numbers of vulnerable citizens, albeit employed, but who are outside the regulated formal economy and who do not enjoy their rights of receiving fair and just protection and social security under labour laws. However, Saif (2013) believes that, in the Arab region, the solution does not necessarily lie in formalizing the informal sector. Governments are thus required to devise new approaches that foster long term solutions and take serious steps towards adopting mechanisms focused on enhancing the skills of informal sector workers and improving their performance, improving their working conditions and increasing their wages, giving them positive incentives in the form of access to funding and resources needed to join the formal sector, and changing the legal frameworks within which they operate.

Accordingly, in a volatile and diversified region such as the Arab region, the multitude of dynamics and considerations that shape the structure of the labour force and the compelling manifestations of the prevalence of the informal economy call for acute measures at the policy and practical levels to cope with a lingering problem that is seemingly here to stay (Saif, 2013).

#### **(b) The demographic dividend of the Arab region: a missed opportunity for reducing informal employment**

There is no doubt that the Arab region is suffering from intertwined and escalating socio-economic and political challenges. Global and regional economic relapses and their fragile recovery in many Arab countries as well as protracted conflict and political unrest continue to stall any potential for growth, job creation and economic stability. Armed conflicts and violence in Iraq, Libya, the Syrian Arab Republic, Yemen and Palestine continued to have an adverse effect on socio-economic development in those countries, with compelling spill-over effects on Egypt, Jordan, Lebanon and Tunisia. The low global oil prices and subsequent slash in oil revenues in the region have additionally burdened the region's economy and constrained growth and fiscal balances.

The Arab region is characterized by heterogeneity in the type and amount of natural resources, the levels of economic and social development as well as the diversity of political systems and ethnic composition. However, Assaad (2014) argues that despite these differences the region shares common features in the labour market, such as a large public sector, high youth unemployment, fragile private sectors, rapidly growing but highly distorted educational attainment, and low and stagnant female labor force participation. In addition, the incidence of public employment is high for politically significant groups such as the educated middle class, citizens of oil-rich monarchies, and members of key sects, tribes or ethnic groups. Employment in the formal private sector is minimal thus leading to a growth in informality especially where the public-sector workforce diminished due to fiscal realities. The result is a dual labour market system (Assaad, 2014).

Assaad (2014) further explains that this dualism is primarily driven by the use of public sector employment as a tool to provide citizens with well-compensated jobs and privileges in exchange for political acceptance. In many countries of the region the main beneficiaries of this phenomenon include the educated middle class. This in turn resulted in extreme unemployment among the young new entrants to the labor markets and as such, many educated young citizens ended up in low-quality informal jobs, hence exacerbating inequality.

In 1950, 72.9 million people in the Arab region represented 2.9 % of the global population. By 1990, the population of the Arab region more than tripled reaching 221.8 million or 4.2 % of global population. By 2010, the Arab region's share of the global population had increased to 5 % of global population (348.4 million people) and is expected to grow further to reach 604 million or 6.3 % of the global population by 2050. Even though decreasing levels of fertility since 1950 have resulted in continuous reductions in the average growth rate of the Arab population and is expected to further shrink to 1 % in the period 2040-2050, population growth in the Arab region continues to be above the world average (ESCWA, 2013).

Owing to distinctive fertility and mortality levels and to international migration, the age structure of the Arab region varies from one country to another. Despite their variations, the countries of the Arab region have been undergoing profound age-structural transitions, albeit at different paces, which will ultimately provoke short and long-term implications on development. All Arab countries are undergoing a shift from high to low rates of mortality and fertility resulting in a demographic "window of opportunity" whereby the working-age population (age 15-64) grows faster than either the population of children (age 0-14) or older persons (age 65+). Effectively, the population structure shifts from high levels of dependency to high levels of working-age population which in turn offers an opportunity for Arab countries to benefit from a "demographic dividend" entailing increased economic productivity, savings and human capital development. In other words, this opportunity is greater when the population has the lowest rate of dependency. Importantly, the potential benefits to be gained from this opportunity are not automatic, but are only possible if governments adopt inclusive and integrated economic and social policies that ensure high-quality education for new entrants to the labour market and enable them to become economically productive (ESCWA, 2013). Otherwise the problem of informal employment as the most viable option for job seekers, especially young job seekers, will continue to grow and exert pressure on an already drained economy.

In 2015, the average economic growth in the Arab region was 0.9 % which is realistically insufficient to absorb the expansion of the labour force and to avert a potential unemployment crisis, especially among the young (ESCWA, 2016). As such, in order to accommodate the growing supply of labour, the region needs to create productive employment opportunities at a much faster rate than before and ensure that the economically active population is absorbed into the formal economy. In the Middle East and North Africa (MENA) region alone (which partially represents the ESCWA region), estimates point to the need to create five million jobs per year to cope with the increase in workforce and productivity rates. Today, all ESCWA member countries continue to face the pressing issue of underemployment of their human resources (ESCWA, 2012). However, given the non-renewable and exhaustible nature of the region's oil and mineral resources and the vulnerability of revenues from agricultural and raw commodities, all countries in the region will have to eventually depend on harnessing people's capacities and abilities if they intend to make any sustainable and durable progress in socio-economic development. Unless this is coupled with adequate labour market policies that launch interventions that ensure the entry of the workforce into formal and secure jobs along with equal opportunities, the informal sector will continue to pose a serious challenge to the Arab region by fostering inequalities.

Hanieh (2016) points out that inequalities that have plagued the Arab region for the past two decades are largely manifested by vast and enduring disparities in the ownership and control of economic wealth, access to resources and markets, and the exercise of political power. Inequalities exist within and between Arab states and are visible in numerous social indicators such as gender,

national origin, age and citizenship status. These disparities are clearly demonstrated in labour market distributions, and have tremendously shaped the growth of the informal employment.

### 3. What can be done? Some policy options for the Arab region

Although the informal economy refers to “different situations with different causes, posing different problems that require different solutions”, there is global consensus that inclusive development is not possible unless rights and opportunities are extended to workers in the informal economy (ILO, 2014). There is enough evidence to suggest that in developing countries the persistence of a large informal economy is incompatible with substantial progress in achieving decent work and undermines the ability of enterprises to become more productive.

As such, the first step towards designing effective interventions to facilitate transitions to formality or to reduce informality is to recognize the heterogeneity of the informal economy, the many different categories of work involved and the various drivers that are leading to both the growth of the informal economy and the informalization of the formal economy. Workers in the informal economy differ widely in terms of “income (level, regularity, seasonality), status in employment (employees, employers, own-account workers, casual workers, domestic workers), sector (trade, agriculture, industry), type and size of enterprise, location (urban or rural), social protection (social security contributions) and employment protection (type and duration of contract, annual leave protection)” (ILO, 2014, p.4). Therefore, it is crucial to keep in mind that providing coverage to such a heterogeneous group requires the implementation of multidimensional and harmonized strategies and mechanisms adapted to the specific characteristics and needs of the different groups, which vary according to national context (ILO, 2014).

#### Box V.3

##### Government initiatives to support the transition to the formal economy in Egypt

The Egyptian Prime Minister recently stated that the size of Egypt’s informal economy has reached 1.6 trillion LE (Egyptian pound). Along the same lines, the Minister of Planning and Administrative Development declared in one of her statements that the integration of the informal sector, which contributes about 40% of GDP, into the formal economy is impeded by diverse obstacles including complicated procedures for business establishment and operations, exclusion from the market, as well as inability to seek funding. To this end, and in order to encourage the informal sector to join the formal economy and in an effort to ensure that all individuals or entities can find adequate and regulated financial solutions at suitable prices, the Central Bank of Egypt (CBE) launched an initiative that fosters “financial inclusion” and provides bank financing for micro, small and medium enterprises.

Source: Egypt Today. Egypt’s informal economy reaches LE 1.6 trillion: PM. September 16 2017, retrieved from <https://www.egypttoday.com/Article/3/23120/Egypt%E2%80%99s-informal-economy-reaches-LE-1-6-trillion-PM>.

Although transitions to the formal economy and decent work are considered by many a desired goal, different views exist about what is meant by formalization and how it can be achieved. Hence, there is no one-size-fits-all solution to the problem of informality. Some believe that it is about expanding the capacity and outreach of institutions primarily and historically designed to address the situation of wage employment in the formal sector. Others consider formality in terms of registration and sanctions for non-compliance with the law, which in turn is regarded by some as counter-productive, since it does not take into account the many avenues towards formalization, the limited choices facing most informal economy actors or the range of incentives which can encourage a genuine movement out of informality. While again others believe that reform should go much further, by rethinking or reinventing policy frameworks, instruments and the culture of outreach to suit the specific conditions of the informal economy.

The limits of a single comprehensive approach suggest that a very diverse and rich range of multidimensional approaches that can be combined into integrated policy frameworks and adapted to each specific country context are more feasible. Such policies should therefore target the following objectives (ILO, 2014, p. 35):

- “promoting formal employment through pro-employment macroeconomic and sectoral policies focusing especially on the development of sustainable micro, small and medium enterprises (MSMEs);
- reducing informal employment by lowering the cost of transitions to formality through the creation of an enabling policy and regulatory environment that reduces barriers to formalization, while protecting workers’ rights and increasing the benefits of being formal by promoting a greater awareness of the advantages and protection that come with formalization (business development services for MSMEs, access to the market, productive resources, credit programmes, and training and promotional programmes to upgrade informal economy units); and
- increasing decent work in the informal economy by developing a national social protection floor for all, implementing a minimum wage and health and safety incentives, organizing workers from the informal economy and encouraging informal enterprises to join together in production conglomerates or cooperatives, and supporting the development of social economy enterprises and organizations.”

However, in an attempt to establish a common ground on what “formalization” actually means and entails, the International Labour Organization convened a two-year standard-setting discussion on the ‘Transitioning from the Informal to the Formal Economy’ at its annual International Labour Conference in 2014 and 2015. The 2015 International Labour Conference culminated in the adoption of recommendation 204: *Transition from the Informal to the Formal Economy* which recognizes that the prevalence of the informal economy in all its dimensions is a main impediment to the realization of the rights of workers; acknowledges that informality has numerous causes, including governance and structural issues, and that the adoption of adequate public policies in a context of social dialogue can accelerate the process of transition to the formal economy; acknowledges that informal workers do not prefer to but end up in the informal sector owing to the dearth of opportunities in the formal economy and the absence of decent jobs and inadequate social protection (ILO, 2015).

Recommendation 204 brings forth some key provisions which member countries should take into consideration when designing coherent and integrated strategies to facilitate the transition to the formal economy. The recommendation further requests governments to assess and diagnose the factors, characteristics, causes and circumstances of informality in their national contexts in order to establish the appropriate legislative and regulatory frameworks and formulate the adequate sustainable and inclusive strategies, policies and measures that will contribute to the transition to the formal economy. As such, recommendation 204 ultimately advocates the establishment of an integrated national policy framework that expedites the transition to the formal economy and should be incorporated into national development strategies or plans as well as in poverty reduction strategies and budgets (ILO, 2015).

In sum, recommendation 204 calls upon governments to “create an enabling environment for informal employees and enterprise operators to exercise their right to organize and to bargain collectively (with employer organizations or government respectively) and to participate in social dialogue in the transition to the formal economy.” Governments are also encouraged to initiate consultations with organizations that represent informal workers and employers concerning the design, implementation and monitoring of policies and programs of relevance to the informal economy, including its formalization. This represents a new approach to formalizing the informal sector in which the self-employed are supported and recognized instead of simply being forced to register their enterprises and pay taxed; and in which informal wage employed in both the informal and the formal sectors and in households are also supported and recognized. Governments should aim at reducing injustices faced by informal workers and increasing the benefits of formalization using a participatory and inclusive approach. Taking on this different approach to formalization will require a change in the deeply rooted outlooks and positions of Arab governments and policy makers about the informal sector (ILO, 2015).

Arab governments should thus consider regulating their labour markets in a manner that ensures transparency, promotes horizontal and vertical mobility among the workforce, stimulates productivity and delivers an adequate level of income and social protection. The salient economic structure of the Arab region consisting of high dependency on natural resources, low levels of industrialization and a sizeable informal economy, combined with a rigid segmentation of the labour market, comprises eminent challenges to policymakers (ESCWA, 2012).

Decades of market-oriented reforms were not entirely effective and expectations about the benefits of top-down economic stabilization, liberalization of markets and strategic privatization including more competitive, diversified and inclusive economies have only partially materialized. While market oriented policies have generated growth, they have not produced a broader economic base, nor did they create jobs or reduce poverty. These policies have also failed to generate sufficient employment opportunities, notably in many Arab countries with significant levels of underutilized labour and large informal economies. The employment challenge is not new to the region and has prevailed on its policy agenda for more than a decade. All previous and recent development visions and strategies put forward by countries in the region have underlined the importance of job creation, the improvement in the quality of jobs and the increase of labour productivity. However, results have not been commensurate with the exerted efforts to formulate the right policies to improve the business climate, attract investment, generate employment and train and educate the workforce (ESCWA, 2012). This ultimately contributed to growing informality in Arab countries.

In sum, what needs to be developed for the Arab region is a policy framework that recognizes the importance of the informal economy and the rights of workers, regulating it when necessary, but mostly seeking to increase its productivity and improve the working conditions of those who work in it so as to facilitate transitions to formality and to reduce vast inequalities between formal and informal sector workers. The goal is to make informal activities part of a growing formal economy, offering decent jobs, productivity gains and economic growth. The challenge for Arab policy-makers is to find the right balance of incentives for formality and of disincentives for remaining informal. Approaches anchored in social dialogue, based on capacity building and opening up access to a full range of resources, as well as tailoring taxation, financing and social security systems to the specific challenges faced by informal economy actors, can make formalization a much more attractive option and have a more sustained impact. Morocco's social dialogue and Egypt's taxation reforms are steps in the right direction in this regard, though they will require sustainability and a broader strategy of intervention than a piecemeal approach.

In the informal economy, working and living conditions are often intertwined. Improving working conditions means improving the physical and psychosocial conditions. It also means improving the income security of workers, and the interface between their work and their personal, family and community lives. Issues such as wage regulation, working time, maternity protection and the work-family balance have traditionally been perceived as largely inapplicable in the informal economy. A priority area of action is therefore to demonstrate that this is not the case and to show what can be done. Governments have a primary role to play in facilitating transitions to formality. Political will and commitment, and the structures and mechanisms for proper governance, are essential. Governments have a lead responsibility to provide an enabling environment for sustainable formal enterprises and to extend the coverage of social security, particularly to groups in the informal economy who are currently excluded (Chen and Harvey, 2017).

Regardless of whether or not we consider informality to be a normal phenomenon that characterizes the Arab countries, and despite considering the transition from the informal to the formal as the rational solution for regulating this sector and reducing the social and economic, political and legal exclusion of informal workers, it is still unclear if the complete formalization of the informal sector in the Arab region is the most suitable path to follow. Bearing in mind the variations that exist across Arab countries in the size and dimension of the informal sector, it becomes necessary for countries of the Arab region to undertake multi-dimensional assessments of the determinants and characteristics of informality. This examination has to include the linkages of informality with

inequality, poverty, governance structure and political dynamics with a view towards formulating a comprehensive and integrated framework. The framework should be based on the ILO's recommendation 204 and shaped by the national specificities and complexities.

In other words, each country needs to find its own formula for regulating the informal sector and devising the requisite mechanisms and monetary and financial initiatives that are in line with its national constituencies. The ultimate goal of these policies is to reduce the injustices of the informal sector and promote inclusive and just development. Changes of this kind are contingent upon tremendous determination whether at the macro, institutional or sectoral levels. In doing so, however, it is imperative to adopt an approach that fosters dialogue among all stakeholders and close partnership with other non-governmental concerned groups (civil society, NGOs, CBOs, etc.) in a participatory and inclusive manner that ensures that the voices of citizens are taken into consideration throughout the process.

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## **VI. Pro-equality policies along the life cycle: early childhood and old age<sup>44</sup>**

### **Introduction**

The stages of early childhood and old age are fundamental to understand the role of pro-equality policies throughout the life cycle, as children and older adults are especially vulnerable to poverty and inequality dynamics, and experience a high level of dependence on the working age population.

The life cycle approach offers a perspective to understand the interconnection between the working age population, children and older people. In this regard, how a society organizes redistributive social policies, such as pensions and child and family benefits, can play a key role in reducing inequality. However, the size, composition, progressivity and effectiveness of these policies vary around the world. These variations have significant implications for children and the elderly, and as a consequence also for society as a whole. The goal of this chapter is thus to improve our understanding regarding pension systems and early childhood policies around the world. From a policy perspective, to know how inequalities manifest at different stages of the life cycle can help allocate resources more effectively.

Social protection policies for families and early childhood are examined in this chapter through family allowances and other types of monetary transfers for families with children, work leaves<sup>45</sup> and early childhood education and care (ECEC) policies. While these policies are not yet, in many countries, thought as a subsystem of social protection, increasingly they are viewed as subset of policies that can and should be considered as an interrelated group of interventions with a general aim: improving family and state capacities to care and grant basic access to goods and services for very young children in order to promote their development.

The recent extension of social protection policies for families and early childhood have evolved out of three increasingly accepted facts and findings: (i) in the first years of their life, children

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<sup>44</sup> This chapter is mostly based on F. Filgueira and P. Manzi (2017), “Pension and income transfers for old age: Inter- and intra-generational distribution in comparative perspective”, *ECLAC Social Policy Series* No. 225 and F. Filgueira and C. Rossel (2017), “Confronting inequality. Social protection for families and early childhood through monetary transfers and care worldwide”, *ECLAC Social Policy Series* No. 226.

<sup>45</sup> Leave policies aim at reconciling work and family responsibilities, allocating monetary transfers and time.

develop a critical set of capacities that if not achieved then will be extremely hard and far costlier to properly achieve later; (ii) in the same way that a long time ago social policy recognized that the elderly confront risks due to diminished capacities, it is accepted today that families are especially vulnerable when they have children and when raising very young children; and (iii) if left to market dynamics, such vulnerability, can put many families in this stage of their cycle in poverty, and with them, their very young children, which has long lasting implications, including the intergenerational transmission of poverty and inequality.

Such findings have clear implications: (i) child poverty and lack of access to basic goods and services should not be thought simply as a problem of particular families but rather a structural problem of our societies; (ii) leaving child welfare up to market forces and family structures and capacities is socially and economically inefficient; and (iii) there must be a guarantor State to safeguard families' living conditions and regulate the actions of their members in this area.

Pension systems confront three distinct problems, with different relevance and combinations depending on the region, level of development and stage of the demographic transition. In many parts of the world pension systems remain narrow in scope<sup>46</sup> with huge problems of coverage. As societies age, this will create a large group of vulnerable people in the elderly population. A second problem is that of sufficiency of the entitlements. While population coverage may be larger, in some cases such coverage is of dismal quality and pension values are inadequate to provide reasonable social protection in old age. Finally, many pension systems face actuarial and financial sustainability issues, requiring large transfers from general revenue and placing a heavy burden through taxes and social security contributions on the active population. As new cohorts become smaller and the elderly population increases, these problems will become more acute.

In many countries a combination of these problems is present. Individual capitalization systems<sup>47</sup> have been one way by which countries sought to deal with both pension levels and financial sustainability. Yet in most cases they have provided a solution to neither of these challenges. More recently, some countries have developed stronger solidarity pillars (non-contributory old age support systems or pensions and minimum pension guarantees) either through targeted or universal programs. Yet, both fiscal constraints and insufficient coverage remain a challenge. Thus, beside both types of innovations —capitalization and basic non-contributory pillars— many of the above-mentioned problems remain and might become critical in the future. If history provides fuel for thought, in most countries pension systems already are or will become one of the major areas of social government spending.

Pension systems and social protection policies for families and early childhood are embedded in a recurring paradox regarding social policies and how their design affects welfare and redistribution. Targeted programs are more redistributive dollar by dollar than universal programs and are supposed to be more effective in dealing with poverty than universal programs. Yet countries with universal social policies are usually more egalitarian and have lower poverty rates than countries with targeted social policies. Indeed, universalistic welfare states raise more people out of poverty and redistribute more than countries that rely on targeted or only contributory social policies.

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<sup>46</sup> Many systems are designed only to cover civil servants and certain privileged categories of workers. Others, while broader, exclude certain categories such as rural workers and domestic workers. Still while some are formally open to all workers who contribute, informality and the requirements in terms of contribution render formality unreal, with many workers who will never reach eligibility.

<sup>47</sup> Individual capitalization systems, also known as private pensions, refer to those pension schemes where, broadly speaking, each individual saves for his/her retirement in an individual account. These savings accounts are usually managed by retirement funds, who then return a given amount to the worker upon retirement. The amount of each pension varies according to the worker's savings accumulation and to the rate of returns obtained in those active years.

Much is explained when we look at inequality before and after transfer and taxes around the world (see table VI.1). Underlying these figures is the fact that countries with universal social policies spend far more in absolute terms and as a percentage of GDP than countries with targeted social policies and also more than countries that only have limited contributory social models. The other part of the equation has to do with taxation: taxation is high and moderately progressive in universalistic countries. In countries where social policies are mostly targeted, taxation is low and while usually progressive in design they have many loopholes for those better off.

**Table VI.1**  
**Inequality indicators across welfare regimes**

	Market income inequality	Inequality after transfer and taxes	% Gini decrease
Nordic countries	0.38	0.26	32
Anglo Saxon countries	0.46	0.34	25
Southern Mediterranean countries	0.48	0.34	29
Latin America	0.48	0.47	4
Asia	0.34	0.30	12
Continental Europe	0.43	0.34	20

Source: Filgueira and Rossel (2017), based on OECD Inequality database 2016.

Nowhere is this pattern of spending and taxation —that explains such apparent paradox— more clear than in the case of early childhood and old age. However, in order to examine pro-equality policies at specific stages of the life cycle, first we have to analyze the demographic processes that characterize different world regions. In this regard, it is possible to draw some stylized facts regarding the demographic trends that interact with the development stage of the countries and shape the social protection challenges for addressing inequality for population groups at the two ends of the life cycle.

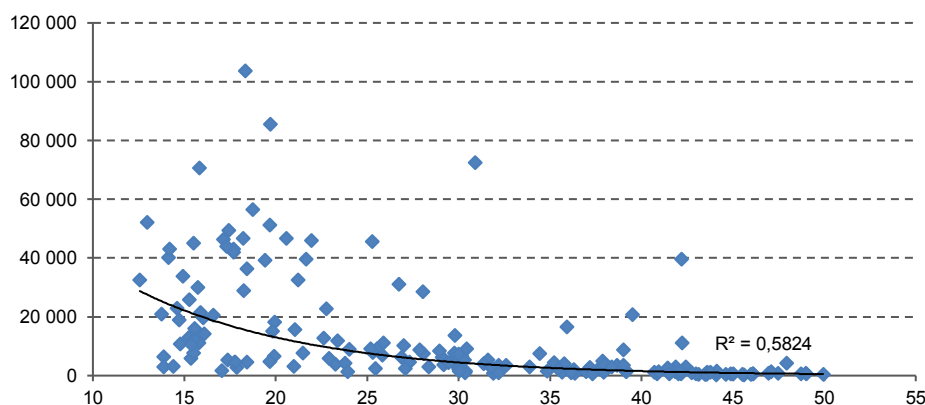
## A. Demographic change and development

There is a strong association between economic and social development and mortality and fertility decline. The demographic transition has become a global phenomenon. Countries undergoing the first stages of the demographic transition lower mortality but still experience high fertility rates. This increases the relative size of the young cohorts and places high dependency rates on such countries. Lowering fertility comes after such stage and creates what has been termed a demographic window of opportunity. This stage occurs when fertility declines and the elderly are not yet a larger share of the population. Thus, it is a window of economic and social opportunity because the dependency rate goes down as there are more active people per dependents (children or the elderly). Overall, it can be stated that, as the processes of economic and social development continue to unfold, fertility will continue to decline in developing countries, the elderly population will continue to increase, and the proportion of children in the overall population will decrease. Dependency ratios will also decrease in most regions of the world, though in some of countries at advanced stages of the demographic transition they are already starting to increase due to ageing.

A brief look at the demographic transition throughout the world reveals some interesting facts. In only 15 years from now, people aged 60 years or more will grow from 901 million to 1.4 billion, and in 2050 it is projected to surpass two billion. Those aged 80 years or over will grow even faster reaching in 2050 almost 440 million from 125 million in 2015 (DESA, 2015a). While these general trends vary by region, few will be spared from confronting massive changes in their age structure, with relevant increases in their elderly population. Over the next 15 years, the number of older persons is expected to grow fastest in Latin America and the Caribbean with a projected 71 percent increase in the population aged 60 years or over, followed by Asia (66 percent), Africa (64 percent), Oceania (47 percent), Northern America (41 percent) and Europe (23 percent).

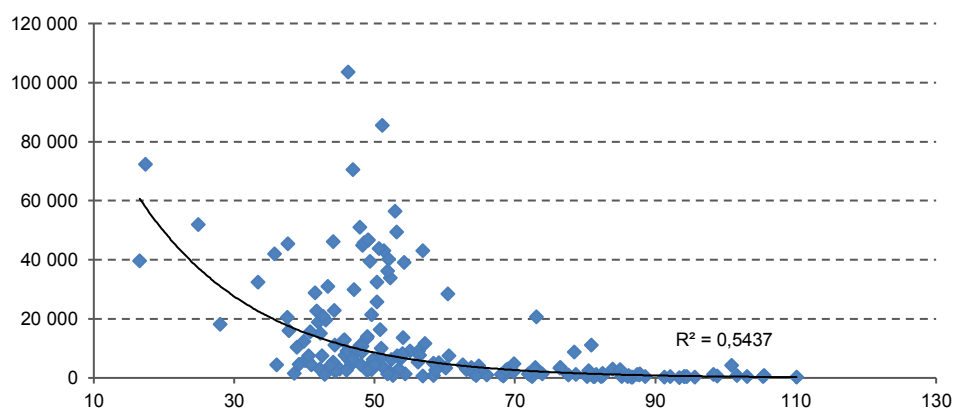
In contrast to what happens regarding the elderly population, the percentage of population under 15 years old is inversely related to economic development (GDP) (figure VI.1). The same happens with dependency ratios (figure VI.2).

**Figure VI.1**  
**WORLD: GDP and population under 15 years old (206 countries) circa 2010**  
*(Dollars and percentages)*



Source: Filgueira and Rossel (2017), based on International Labour Organization (ILO), World Social Protection Report 2014/15 Building economic recovery, inclusive development and social justice, Geneva, ILO.

**Figure VI.2**  
**WORLD: GDP and total dependency ratio (206 countries), circa 2010**  
*(Dollars and ratios)*



Source: Filgueira and Rossel (2017), based on International Labour Organization (ILO), World Social Protection Report 2014/15 Building economic recovery, inclusive development and social justice, Geneva, ILO.

When overall dependency ratios go down, there is economic and fiscal space to further increase spending for social protection. This space, given by the ‘demographic bonus’ emerging from a favorable relationship between dependents and non-dependents is almost finished in more developed (aged) societies, and will be opened for decades in countries that are behind in the ageing process and in the reduction of fertility rates. This “bonus”, however, is not a given; it is an opportunity that, in order to be realized, requires committed action by the State. Furthermore, child spending seems to be quite low in regions undergoing such stages of the demographic transition. While overall social protection spending does increase with higher GDP, it does so led by elderly spending rather than by children spending.

In contrast to the demographic transition in developed countries, countries in the developing world will face a steeper increase in their ageing population and a steeper decrease in their active population than developed countries did, due to drastic fertility drops that occurred in a short time frame. They will also face a lower or uncertain supply of formal stable jobs since economic production will take place not under 20th century industrialization but in the new knowledge and service economy, under the fragmentation of the international division of labour through global value chains and environmental sustainability challenges.

As regards to fertility rates throughout different regions, African countries present the highest rates in the world, reaching on average 4.7 children per woman, and in some subregions (Central Africa, for example) reaching almost 6 children per woman (DESA, 2015b). In recent decades, however, North African and Middle Eastern countries show a declining trend in fertility, combined with a cultural transformation in marriage and childbearing practices (Roudi-Fahimi and Mederios Kent, 2007). Also, in the last decades there has been an increase in women's participation in non-agricultural employment (Mokimane, 2012).

Most Latin American countries have experienced a decrease in mortality and fertility rates, as well as an increase in life expectancy (ECLAC, 2008). As a result, the region's population is ageing and households are becoming smaller (ECLAC, 2005, 2017)<sup>48</sup>. At the same time, changes in divorce and nuptial patterns (with an increase of people living together without being married and a decrease in formal family arrangements) translate directly into changes in the shape of families (Arriagada, 2004; Rico and Maldonado, 2011).

On average, Asia displays the same fertility rate as Latin America and the Caribbean, with Eastern Asian countries having the lowest fertile rates (below 1.6) and Western Asian countries the highest rates, close to 3. Together with many countries in Asia and Latin America, all of Europe and Northern America are low fertility.

However, it is important to emphasize that despite the common demographic transition trend among countries, there is increasing heterogeneity in fertility and life expectancy within countries by socioeconomic status, race/ethnicity and place of residence. That is, fertility rates and ageing processes tend to express the reproduction of inequality.

## B. Consumption and public transfers along the life cycle

A simple way to begin an examination of pro-equality policies at specific ages of the life cycle, in this case for early childhood and old age, is precisely to frame the debate around the distinction between childhood, working age adults and older people. This tripartite distinction is of course a restricted understanding of the concept of life-cycle<sup>49</sup>. However, it allows us to focus the discussion on how

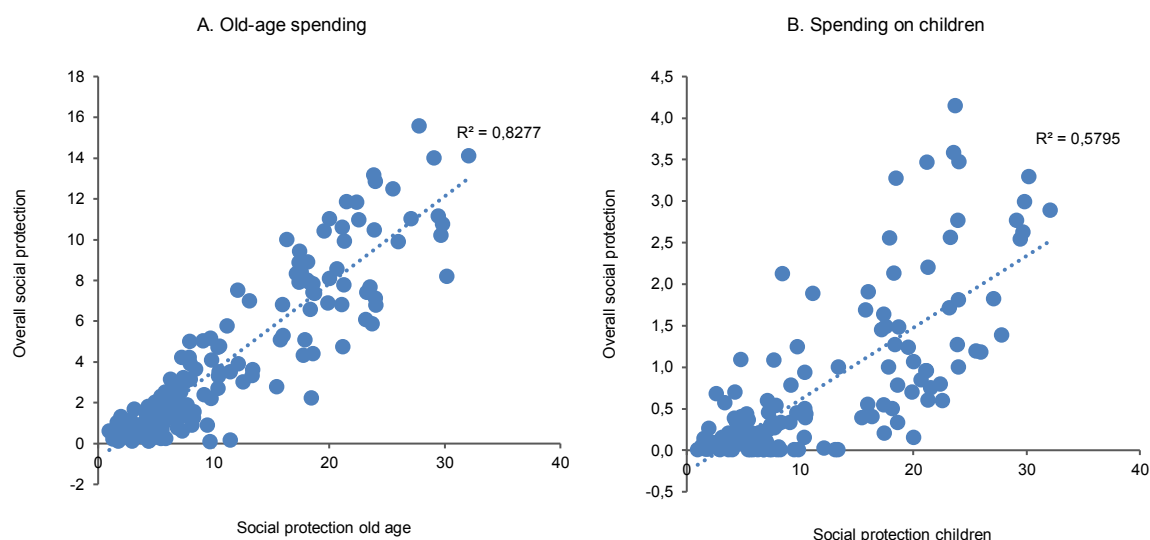
<sup>48</sup> It is important to note, however, that not all Latin American countries are at the same stage in terms of demographic change. There is a group of countries that is far behind in the demographic transition (Guatemala, Haiti, Plurinational State of Bolivia) and where fertility rates are still relatively high. A second group is formed by countries with intermediate fertility rates but different trajectories: Colombia, Ecuador, El Salvador, Panama, Peru, Dominican Republic and the Bolivarian Republic of Venezuela achieved early drops in fertility rates, while this has been more recent in countries like Honduras, Nicaragua and Paraguay. A third group —formed by Argentina, Uruguay, Brazil and Mexico, converges in fertility rates— although with different starting levels and trajectories—that combine with a high life expectancy. Finally, Cuba, Costa Rica and Chile form the most advanced group in terms of demographic transition, with fertility rates that are below the replacement rate and life expectancies higher than 78.5 years (ECLAC, 2010).

<sup>49</sup> There are very important internal divisions within these broad life-cycle categories. For example, early childhood, puberty, adolescence and young adulthood are distinct phases of the earlier stages of the life cycle, just as there are notable differences within the older adult population. For further discussion see for example, Carr (2009) and Settersten Jr. (2003).

working age adults are capable of sustaining children and older people through social protection strategies. Moreover, it permits to examine how these policies interact with the challenges arising from demographic change and inequality.

From a policy perspective, a first insight is to determine whether countries prefer pension over early childhood policies. As can be observed at figure VI.3, while countries' social protection spending on children as a percentage of GDP has a relatively weak association with overall social protection spending as a percentage of GDP, old age spending as a percentage of GDP has a very high correlation with overall spending in social protection as a percentage of GDP.

**Figure VI.3**  
**Overall social protection spending and old age and child social protection spending**  
**as a percentage of GDP (circa 2010)**  
*(Ratios)*



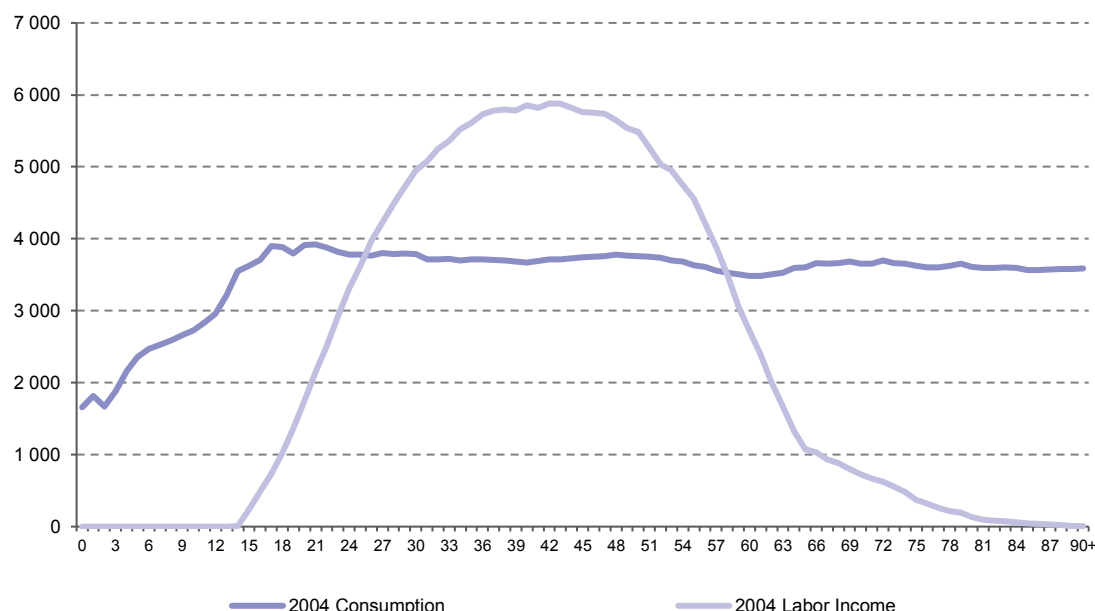
Source: Filgueira and Rossel (2017), based on data from ILO (2014).

The National Transfer Accounts (NTA) Project<sup>50</sup> provides an additional instrument to analyze demographic trends, economic structures and public policy regarding intergenerational transfers. It is a useful tool because it shows if countries place children or the elderly at the center of their fiscal efforts. As Mason and others (2016, p. 28) argue, “[t]ransfer systems serve an essential economic function by shifting resources across and within age groups. Children and, in most societies, the elderly meet their material needs by relying heavily on public and private transfers. As population age structure changes, transfer systems must constantly rebalance with profound implications for economic development and generational equity. How changes in age structure will play out over the coming decades varies greatly depending on each country’s position in the demographic transition and its approach toward intergenerational transfers”. Moreover, the NTA Project provides adequate information to analyze social protection systems considering the life-cycle approach and, more specifically, the extent to which regimes are able to guarantee basic rights through the different stages of life.

<sup>50</sup> The goal of the NTA project is to improve the understanding of the generational economy. The accounts are designed to complement the System of National Accounts, population data, and other economic and demographic indicators. The NTA sheds new light on many areas of importance to policymakers. These include the evolution of intergenerational transfer systems; public policy with respect to pensions, health care, education, reproductive health, and the economic implications of population aging.

The dependency of children and the elderly to meet their consumption needs by income flow generated by the working population can be illustrated by figure VI.4, which is a representative description of consumption and income generation through the life cycle in the case of Thailand.

**Figure VI.4**  
**Thailand: per capita consumption and income flows by age, 2004**  
*(Per capita flows in PPP dollars)*



Source: Filgueira and Rossel (2017), based on selected data from the national Transfer Account Project (NTA).

In the example in figure VI.4, people between 25 and 61 years of age approximately generate more labor income than they consume, while people below 25 and above 61 consume more income than they generate, measured on average per capita spending and labor income generation. Thus, there is a deficit at the age extremes and surplus in middle age. How do societies deal with such unbalanced life cycle of income and consumption patterns? They redistribute income from those with surplus to those with deficit. Note that these curves are not meant to define adequate consumption levels or required income levels, but actual ones. Thus, the only way in which the consumption levels of children and the elderly can be fulfilled, is because someone transfers money from those that generate more income than they consume to those that consume more than they generate.

There are three ways by which such transfers can take place: (i) families do it; (ii) the State does it; or (iii) individuals save or accumulate assets during the working age. It is quite clear that children's average consumption is made up mostly of State (family allowances, public education and health care) and family transfers (room and board, care, clothing, etc.), —as well as, marginally, their own labor income (child labor)<sup>51</sup>. In the case of the elderly, there are four ways by which they can consume: (i) they can generate labor income by remaining in the labor market or in income generating activities; (ii) they can receive income through pensions and care and services through public programs (i.e. public health care); (iii) they can rely on their families, receiving room, board and other services financed by the income of other family members, or (iv) they can rely on assets that they have accumulated previously.

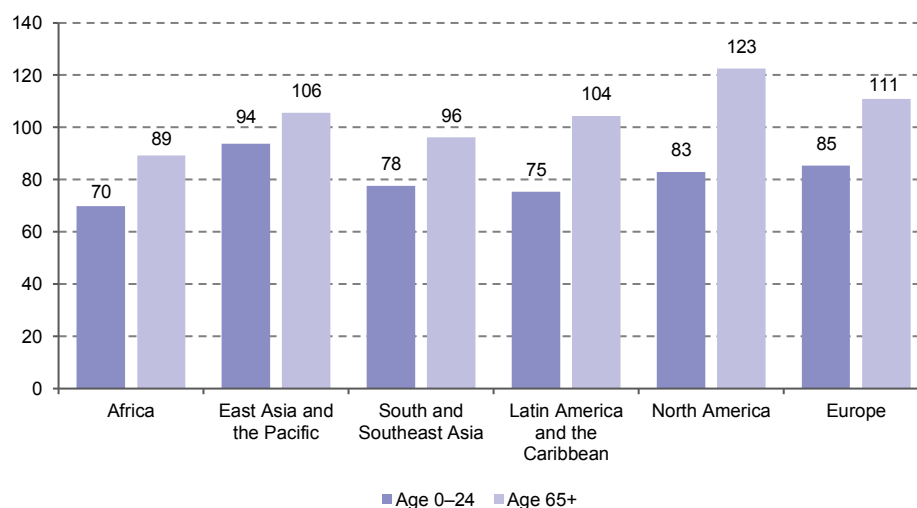
<sup>51</sup> There can also be some asset based reallocations when one considers credit for study, that will be paid later in life, but such reallocations are marginal in general.



It is also important to note that many older adults are also providers of support. One important form is time provided —mostly by grandmothers— to care for their grandchildren. But even if financial flows are considered, the elderly are often important providers of support. They pay taxes and they provide direct financial support to younger generations, particularly in the context of inter-generational households, where pensions received by older adults may be what keep the household out of poverty. A full understanding of the support system is essential to understand the implications of population aging, the role of public and private transfers and the impact on intergenerational equity, inequality of opportunity and children's —and elderly— welfare.

The first analysis that we can develop with these simple analytical and empirical tools is one that allows us to better measure the consumption and income levels across the life cycle in different societies and the aggregate effort that societies make to finance the consumption of the elderly. Overall, the general trend is that children and young people consume less than the average person in their active years in all the regions considered and quite a deal less than the average elderly person except for East Asia and the Pacific where the distance between the elderly and the young is smaller (see figure VI.5).

**Figure VI.5**  
**Consumption level as a percentage of consumption of those aged 25 to 64,**  
**by region and age brackets, latest available year<sup>a</sup>**  
*(Percentages)*

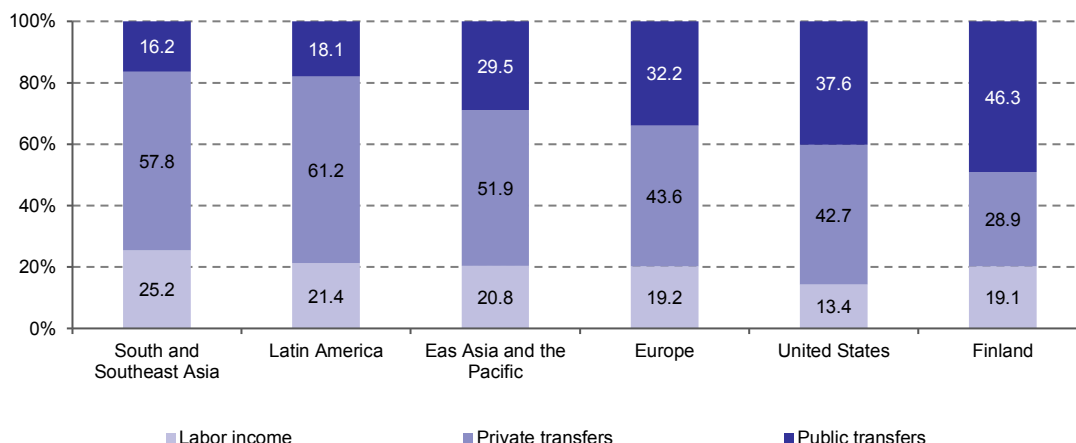


Source: Filgueira and Manzi (2017), based on selected data from the National Transfer Account Project (NTA), NTA comparative data sheet, latest data available.

<sup>a</sup> NTA country data at different points in time, from 1996 to 2008 (<http://www.ntaccounts.org/>).

Regarding the financial sources for consumption in childhood and old age, there is a wide variety among regions. As regards to children and youth, in Europe, and especially in some countries within Europe, the share of consumption that is financed by the State is indeed large, amounting on average to more than 32% of all consumption. In Finland, as in other Nordic countries, it is even higher. East Asia and the Pacific also finance a good deal of children's and young people consumption, but families are far more important here, surpassing 50% of all consumption. Latin America and South and South-East Asia present the worst results with almost 85% of all consumption financed either by their families or their own labor (see figure VI.6). The less consumption is financed by the State, the more children will depend on their families' capacity or their own capacity to generate income, mirroring the original structure of inequality. Inversely, the larger the role of the State, the more likely that redistribution can take place in the early stages of life.

**Figure VI.6**  
**Financial sources of consumption for children and youth (0-25 years)**  
**by regions and selected countries, latest available year<sup>a</sup>**

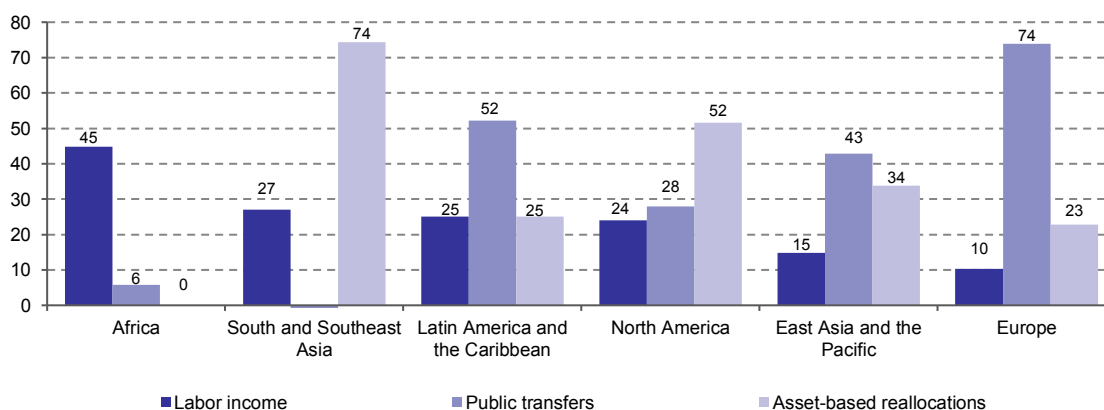


Source: Filgueira and Rossel (2017), based on selected data from the National Transfer Account Project (NTA), NTA comparative data sheet, latest data available.

<sup>a</sup> NTA country data at different points in time, from 1996 to 2008 (<http://www.ntaccounts.org/>).

When looking at the financial sources for consumption at old age, for Africa there is almost no available data for public transfers, so the dominant position of labor income may be overestimated. Still, it comes as no surprise that the region with the least developed retirement income systems presents the highest dependence on their own labor. A larger surprise comes from South and South-East Asia. Because NTA methodology places capitalization and fully funded systems as asset based reallocations, in this region public transfers play almost no role, labor income remains an important source for financing consumption, but it is asset-based reallocation that dominate. In East Asia and the Pacific and in Europe is where labor income plays the least important role. Yet among these two regions the most important differences are in the relative weight of public transfers (central in Europe) and asset based reallocation (more important in East Asia and the Pacific). North and Latin America place a still relatively important role on labor income, but while the lion's share goes to public transfers in Latin America, in North America it goes to either private savings or firm based capitalization systems, and thus fall under the category of asset based reallocations (see figure VI.7).

**Figure VI.7**  
**Financial sources of old age (65+) consumption by source and region, latest available year<sup>a</sup>**

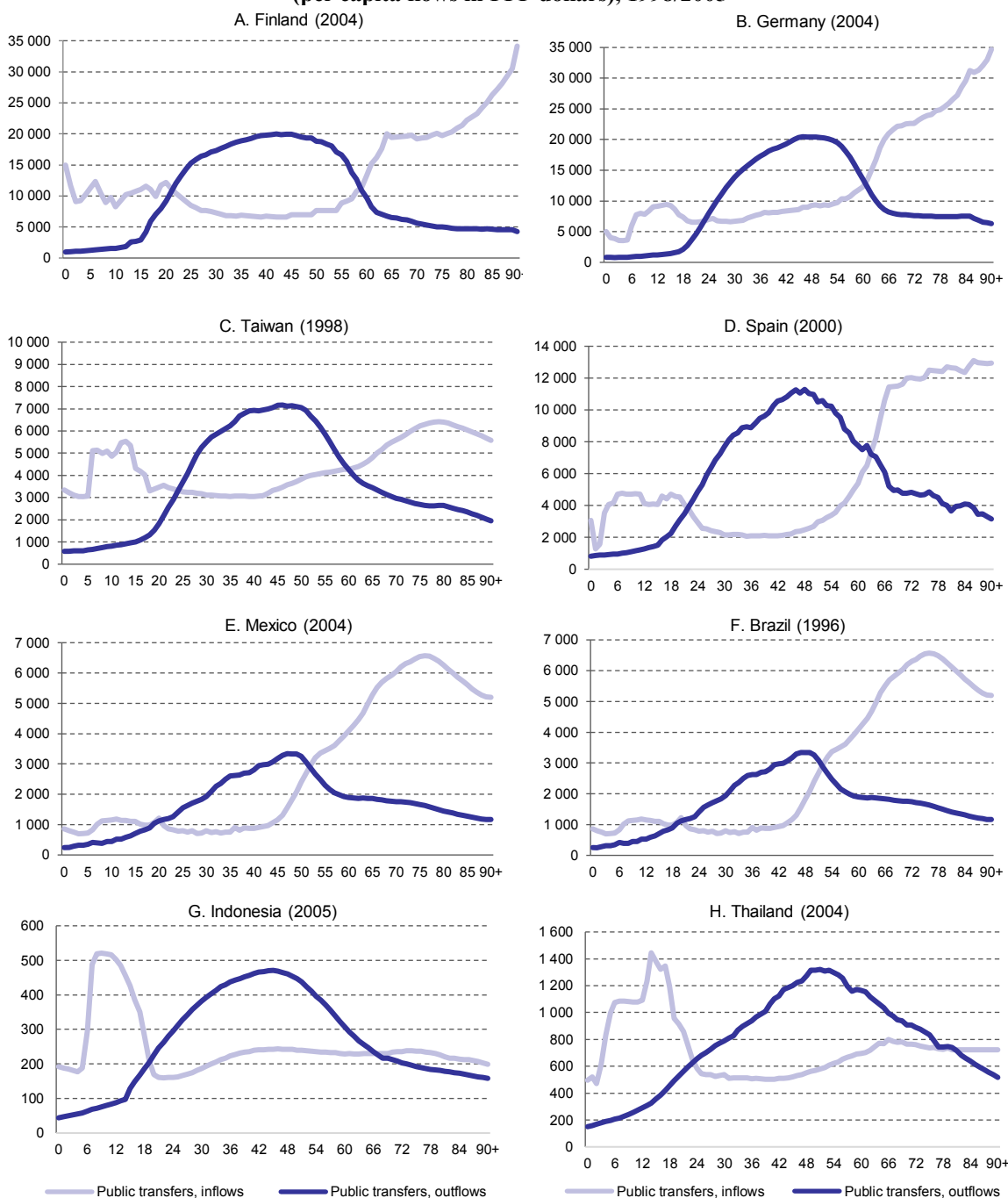


Source: Filgueira and Manzi (2017), on the basis of selected data from NTA comparative data sheet, latest data available.

<sup>a</sup> NTA country data at different points in time, from 1996 to 2008.

A more nuanced way to look at the role the State plays is to observe the way public outflows and public inflows distribute themselves across the life cycle. Figure VI.8 shows for a selected number of countries how states tax and collect money from people (outflows) and how in turn states provide transfers and public services to individuals throughout the lifecycle (inflows).

**Figure VI.8**  
**Public transfers (inflows and outflows) along the life cycle for selected countries**  
**(per capita flows in PPP dollars), 1998/2005<sup>a</sup>**



Source: Filgueira and Manzi (2017), based on selected data from the National Transfer Account Project (NTA). NTA country profiles, latest data available, (<http://www.ntaccounts.org/>).

<sup>a</sup> The x-axes refers to age.

The differences in the distribution of public transfer inflows and outflows along the life cycle are worth mentioning. In very high-income countries such as Finland, Germany, Taiwan, and to a lesser extent Spain, there are stark differences in how the State redistributes income across ages. Finland is a case in which heavy taxation (in the chart, corresponding to outflows in typical active ages) finances a strong welfare State at both ends of the life cycle. In per capita terms, the Finnish State provides between 10 and 15 thousand PPP dollars for each child, and for the elderly from the age of 63 to 80 between 15 and 20 thousand PPP dollars. To do so, it taxes the active population heavily (through social security contributions and general taxes) reaching almost 20 thousand dollars a year in prime age. Germany taxes at similar levels but its intergenerational distribution is rather different: for children, the range of public transfers is quite lower —between five and ten thousand dollars—, but for the elderly it is higher than Finland, mainly because the curve steepens early and it increases at a steady pace, while Finland does not increase flows to the elderly between the ages of 65 and 80.<sup>52</sup>

Spain and Taiwan also provide an interesting contrast. Taiwan taxes far more lightly than European countries and then distributes such taxes with a strong balance between children and the elderly. This is rare, since in almost all developed countries per capita flows are quite higher for the elderly than for children. Spain follows such general pattern, with heavier taxation (outflows) on the active population, even though its GDP per capita is smaller than Taiwan, but most of the difference in taxation goes to the elderly, not to children, where Spain spends in per-capita terms slightly less than Taiwan.

Indonesia and Thailand, while different in their GDP per capita levels, place children at the center of their fiscal efforts and lightly tax the active population. Such is not the case of Brazil where taxation is larger —consider that its GDP per capita is slightly below that of Thailand— with outflows at peak active ages close to four thousand dollars (against 1,500 dollars for Thailand) but with a clear preference for fiscal spending on the elderly and a strong neglect for spending in the early stages of life. Mexico is in this sense more moderate, with smaller tax burdens but a more balanced age profile regarding inflows.

After examining how countries provide transfers and public services to individuals throughout the life cycle, the next two sections address the distributional impact of early childhood policies and pensions.

### **C. The redistributive impact of family and early childhood social protection**

Childhood —and especially early childhood— is a stage of particular importance for the development of human capacities: it is the period when the foundations for a person's future cognitive, affective and social development are set. First, this stage of the life cycle involves risk factors in such sensitive areas for development (in biological, psychological and social terms) as health and nutrition, early stimulation, education, socialization and the possibility of growing and developing within a safe family and community setting. At the same time, infringements of rights at this stage can have deep effects on a child's current well-being and future development prospects.<sup>53</sup> Therefore, this stage in the life course is critical for reverting inequality and overcoming poverty in the long term.

Extensive research has shown the positive effect of family and early childhood social protection policies on families' well-being and inequality (Chaudry et al. 2017; Blossfeld et al. 2017; New Economics Foundation, 2014; Danziger and Waldfogel, 2004; Heckman and Masterov, 2007). In

<sup>52</sup> After the ages of eighty, flows increase substantially, but this is less related to pensions as it is to care systems and health.

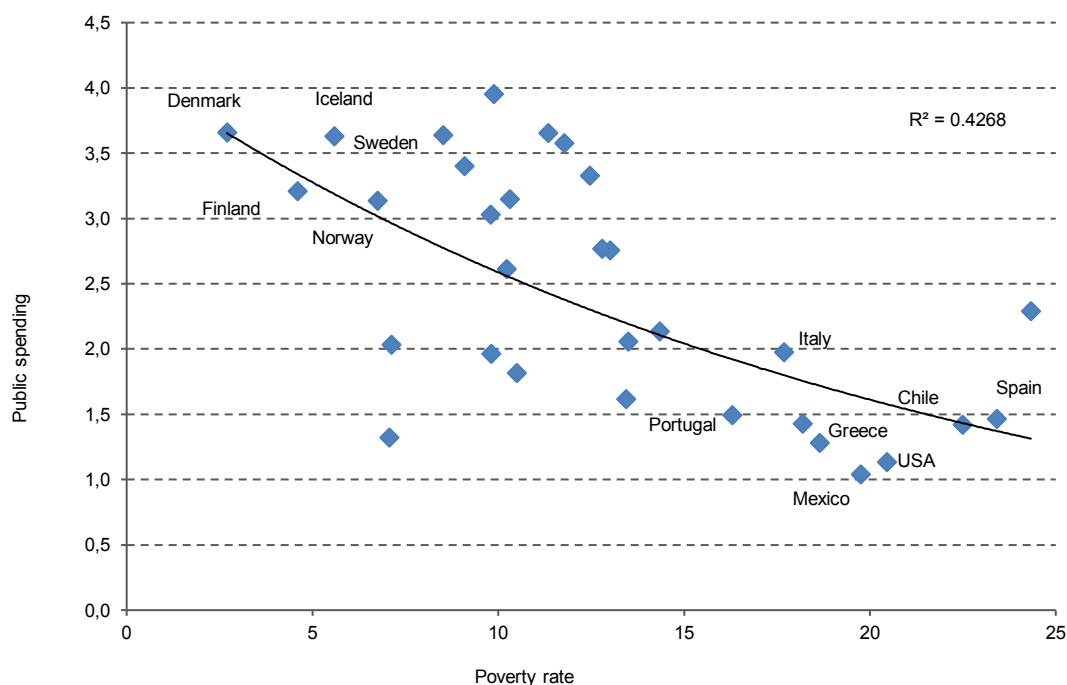
<sup>53</sup> In 2007 an article in *The Lancet* estimated that 200 million children in low and middle income countries were at risk of not attaining their developmental potential due to poverty, stress, maternal risk and lack of access to cognitive stimulation (Grantham-McGregor et al., 2007).

the case of transfers, studies from the developed world confirm that these policies are reducing poverty by 60% or more in countries like Austria, Iceland, Ireland, Sweden, Finland, Norway or Hungary (Richardson and Bradshaw, 2012). This evidence has contributed to sustain the idea that policies aimed at protecting families with children are key to achieve certain levels of well-being and a new ‘welfare equilibrium’ (UNICEF Innocenti Research Centre, 2000; Esping-Andersen, 2002 and 2007). However, this seems to be only true in countries where these policies are more generous, while in poorer countries they are clearly insufficient to maintain families out of poverty. In other words, coverage and quality of policies (for example, value of transfers) are usually not enough in many developing countries to achieve the positive effects that the literature has proven in more developed countries.

Data from the OECD shows how spending on family benefits relates to childhood relative poverty rates (less than 50% of the median household income) (figure VI.9).<sup>54</sup> One could assume that the relationship is relatively straightforward and has to do simply with one of the policies regarding families and children: income transfers to families with children. While this is partly true —countries that spend more on family transfers and tax breaks for families with children have lower poverty rates— the other part of the explanation comes from the fiscal commitment and coverage of early childhood education and care and leave policies for mothers, fathers and families.

This reasoning can be extended to the impact on inequality. As can be seen in figure VI.10, there is a positive correlation between improvements in inequality (as measured through the Gini coefficient) and spending on family benefits.

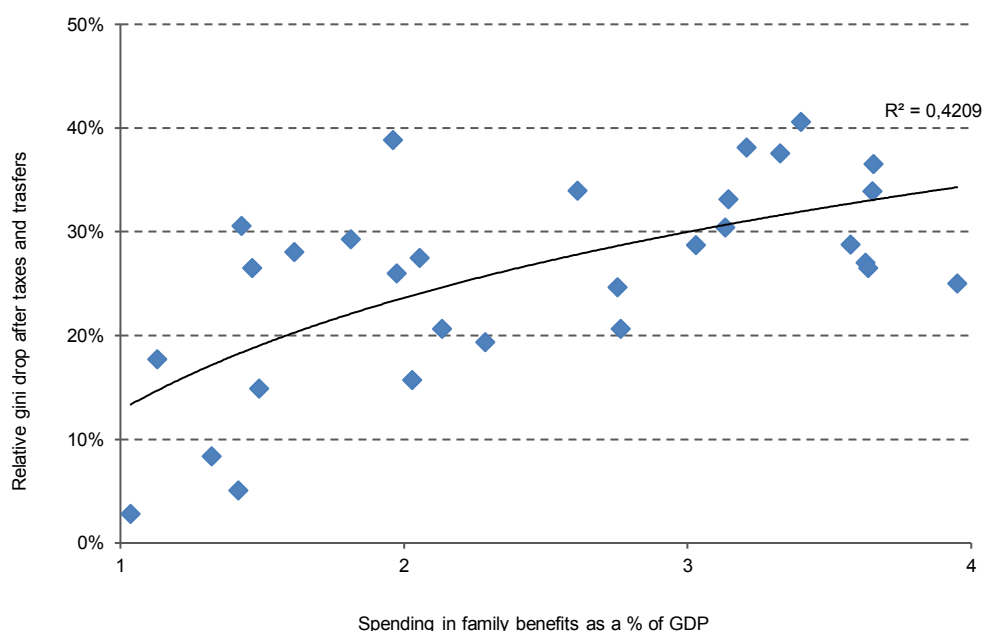
**Figure VI.9**  
**Public spending on family benefits and child poverty rates**  
(As percentage of GDP)



Source: Filgueira and Rossel (2017), based on OECD Family Database.

<sup>54</sup> It is important to note that this are relative poverty rates, thus they are not only a measure of relative deprivation but also a measure of inequality for families with children.

**Figure VI.10**  
**Spending on family benefits and inequality decrease, 2013**  
*(Percentage of drop in the Gini coefficient)*



Source: Filgueira and Rossel (2017), based on OECD Family Database.

Without inferring a causal relationship between the two variables from the previous figure, it is possible to explain some of the essential connections between fiscal efforts in family protection and child care and inequality dynamics through the critical importance of adequate nutrition, care and cognitive stimulation in the early years of life. However, the channels by which childhood spending contributes to lower inequality are various, interconnected and not necessarily direct. For instance, one reason is that family protection and early childhood spending are related to larger rates of female labor participation, which decrease inequality in general, address gender inequality, and lowers child poverty and may, in turn, have an impact on access to pensions for these women. As poor households are often female headed, support for women in the lower end of income distribution, especially in the form of childcare benefits, can be effective in addressing inequality (see Bramley et al., 2016 for the case of the UK). Moreover, children in low-income families benefit more from quality care in early years (New Economics Foundation, 2014).

The Nordic countries combine a strong fiscal commitment and a universal design in most of their family and early childhood social protection policies financed from general taxation. They fall systematically on the lower end of childhood and adolescent poverty rates. On the other end (with high poverty rates) we have three different groups of countries. Poorer countries that also spend less on family benefits (both in absolute terms —to be expected— but also on relative GDP terms) like Chile and Mexico, rich countries that spend little in both absolute and GDP terms and lack universal programs on leaves, care and family allowances (the US), and finally countries with low spending and/or strong contributory limits in the eligibility regarding leaves and family allowances, as well as a relatively recent development in ECEC (the cases of Spain, Italy, Greece and Portugal).

Nordic countries were able to combine a policy package based on the virtuous integration of economic, social and labour policies, with a strong focus on gender equality, as well as on wage equality and high levels of welfare spending. This contributed to three interrelated outcomes that, in turn, favored more efficient, productive and egalitarian societies, characterized by: (i) fertility rates that do not plummet to low/low fertility and that are not stratified among income and educational

groups; (ii) high —and again—, non-stratified patterns of women's labor force incorporation; and (iii) very low child poverty rates, usually lower than overall population poverty incidence.

This is not what happens in other countries as they move forward in the demographic transition. Anglo Saxon countries are unable to provide for more egalitarian patterns of fertility and labor force participation, while Mediterranean countries, while more egalitarian, are unable to solve the trade-off between employment and reproduction thus lowering fertility levels to lowest of low levels and by also limiting incorporation of women into the labor market.

Latin America presents the worst of both worlds: relatively low labor participation and employment for women and especially a highly divergent pattern of fertility and labor force participation.

Unless we choose a universal or very broadly targeted system of social policies to support families and early childhood well-being, and we do so in such a way that is inclusive, efficient and sustainable, we might very well be witnessing the end of the hope for strong and equitable development. The provision of social protection for families and early childhood exclusively through market mechanisms accentuates inequalities over generations.

As with regards to protection policies for families and early childhood that can contribute to confront inequality, the international perspective allows us to draw some conclusions.

First, as the recent experience from European countries, the leaders in child protection systems, has shown, expanding the generosity of transfers and taking special measures during economic crises through family allowances and cash benefits can have an important distributional impact. These countries have also created specific benefits for lone-parents. Regarding work leaves European countries have expanded both length (way further than the 14 weeks recommended by ILO) and the generosity of paid benefits, sometimes merging maternity and paternity/parental leave schemes. Also, some countries have increased flexibility in leave policies, allowing for more workers to take them and use them for a longer period. "Daddy quotas", which reserves a part of parental leave periods for fathers, have become an increasingly common innovation in European leave systems. Regarding child care services, European countries have significantly expanded coverage both by increasing the number of hours' services are available and the population they are open to (for example, expanding the eligibility criteria to children under 2 years old).

Second, in Latin America the last 15 years have also shown major advances with respect to family and early childhood policies. Monetary transfers to families with children, extended leaves for mothers and, more incipiently, early childhood care and education are part of the agenda, and in some cases a policy reality. In this context, over the last twenty years conditional cash transfers (CCT) have become increasingly a major social policy option to assist those who lag behind. However, making CCTs part of an integrated social protection policy and coordinating them with labour and productive inclusion policies remains a challenge (Cecchini and Atuesta, 2017).

Third, laggards in leaves such as Anglo-Saxon countries have advanced in creating a modest leave system, with the exception of the United States, while they have also moved ahead in coverage in ECEC. Regarding family allowances the picture is more mixed. Some universal systems have become more targeted (not narrowly, but targeted nonetheless), but in general they have also protected or even increased value. The Asian developed countries of Korea and Japan have made major strides in catching up with their western counterparts in ECEC and leaves. The rest of Asia remains underdeveloped in all policy areas, though some leave systems have advanced and conditional cash transfer (CCT) programs do exist in a limited number of countries.

Developing countries and Latin America in particular has a long road ahead if it wants to transform what today is an embryo of a family and childcare protection system into a full-blown pillar of their social states. Fiscal costs will be important, but the long run benefits in human capabilities, productivity and equality far outweigh the fiscal costs of setting such system up.

## D. The redistributive impact of pension systems

The different options and combinations of pension systems (see box VI.1) have different intra-generational and intergeneration distributional implications.<sup>55</sup> The small print in each of these alternatives and combinations (such as replacement rates, payroll contributions by employees and employers, tax treatment of pensions, basic pension guarantees, ceilings on pension values, indexation criteria, state role in financing actuarial deficits, and regulations on privately managed individual accounts systems) are as important in distributional terms as the broad options and combinations themselves. In addition, models (with its options, combinations and fine print) do not operate in a vacuum. The distributional effects of such systems are very much dependent on the interaction of choices in design and on the structural social and economic features of societies (dependency rates, longevity, formal and informal employment, gendered rates of economic participation, overall wage and income inequality, etc.).

### Box VI.1

#### Understanding the terminology and types of pension systems

The terminology used with respect to pension systems and their allowances varies among countries. In the literature, the term “pension systems” tends to refer to a selection of allowances connected with the risk of old age, disability and death. In some countries, the term “pensions” refers specifically to those benefits financed by the State for segments of the population in situations of poverty, vulnerability, or to widows’ or survivors’ pensions. “Retirement pensions” on the other hand tend to be considered many times as those wholly or partly funded by contributions made by the workers themselves. These can be frequently supplemented by contributions from their employers and the State. “Social insurance systems” tend to refer to protection for individuals from various contingencies that curtail their earning abilities, or to social insurance in the widest sense. It covers in addition to the risks secured by pension systems, such as diseases, or other health-related situations and unemployment. Although social security refers to a broader set of policies, it is often used as a synonym of social insurance.

Pension systems comprise, first, contributory schemes funded by contributions made by workers, as well as by employers and the State. Second, pension systems include non-contributory benefits, paid for by public funds and provided either universally or on a targeted basis, which complement contributory pensions or provide an old-age or disability pension to those excluded from the system.

With respect to the contributory component of pension systems, there exists a range of characteristics and alternatives in their design. On the one hand, a distinction is made between systems based on defined benefits and those based on defined contributions. In the former, benefits are calculated on the basis of a fixed replacement rate determined by the number of years contributions were made and the worker’s salary and age at the time of retirement. In the latter, there is no explicit commitment regarding the replacement rate of the pension to be received, and the parameter kept stable is the contribution rate. On the other hand, the financial regime varies: it can be a pay-as-you-go (PAYG) scheme, based on a contract between generations in which the current contributions of active workers fund the pensions of retirees, or it can be fully funded, based on funds accumulated and invested in individual savings accounts, with accruals of interest.

Source: Own elaboration, based on ECLAC (2018). *Social Panorama of Latin America 2017* (p. 16-19).

The combinations, fine print and structural conditions foster different political economies, distributional coalitions, and veto points that shape the political actions by players, workers, employers and retirees that will in turn influence the room for reform and change in more or less progressive directions. Given the layers of complexity and causal factors to be considered let us first analyse a simplified version that starts with broad nation-wide basic options.

<sup>55</sup> Grammenos et al. (2006, p. 3) recognize that for the most part, examination has focused on the redistribution between four different groups: (1) Different age groups (intergenerational perspective); (2) Successive cohorts (generational accounting perspective); (3) Between different groups in a given cohort over the life cycle (intragenerational longitudinal perspective), i.e. the balance between total contributions and total benefits for e.g. men, vs. women; blue collar vs. white collar workers, etc.; (4) Across groups or individuals in a given cohort for a given age class (intragenerational cross-sectional perspective). In the case of old age, the idea is to measure the redistributive incidence of pension benefits in terms of inequality or of poverty.



Let us assume three different possible options: a universal flat rate pension scheme financed by general revenue, an earnings-related pay as you go (PAYG) contributory mandatory scheme financed by payroll taxes of employees and employers, and an individual accounts capitalization fully funded scheme financed only by workers' payroll contributions.

In intra-generational terms there is not much debate regarding the preference for a universal flat rate progressive funded system over the other two options.

The first model is the most progressive, as long as general revenue is levied either progressively or in a neutral relative fashion.<sup>56</sup> The State collects money in a progressive or neutral manner and it pays benefits in a flat rate fashion. Thus, while the state collects more from those who have more (in absolute and/or relative terms), it then pays everybody the same amount. If this happens, the State will be taking more money from the rich than the poor and giving equal amounts to all. The pension value will be the same for all people but the replacement rates will be inversely stratified. Imagine the State pays 200 dollars a month in an economy where the lowest quintile has an average income of 300 dollars and the highest quintile of 3,000 dollars. The replacement rate for the poorest quintile will be 66% and for the richest quintile 6.7%. Furthermore, this system can contribute to reducing old age poverty among those that were already poor or vulnerable to poverty.<sup>57</sup> Social risk pooling in this case is meant not at smoothing consumption, but at guaranteeing basic income levels.

In theory, it seems reasonable that PAYG, public funded systems offer greater opportunities for redistributing income among the elderly. In contrast, it could be expected that private pension schemes reproduce the labour market inequalities into old age. However, there are several difficulties in testing these claims with real life evidence. As explained, countries rarely have pure systems; instead, they tend to combine different elements that make each pension design practically unique. Because of the copious variations in pension systems, results regarding which type of system has greater effects on inequality tend to be inconclusive.

The answer, for instance, is not so simple when we compare capitalization and earning related PAYG systems. Let us assume that the capitalization system is the most regressive. This seems reasonable, since it is the one that ties benefits to contributions (based on earnings) in its purest form. Furthermore, since we are assuming that such systems still expect basic years and contributory density for eligibility, they transfer resources from those with irregular contributory records to those with full contributory records or to the administrators, and leave those in the informal sector and fragmented contributory records with no form of support. Unless we allow for those with, say less than ten years of contributions, to collect the money at some point, the resources channelled into the system will go as profit to the manager of the fund or to the pension recipients, while those with full contributory records will get the benefits from their savings and interest generation.

But it is also true that a PAYG system with stringent contributory requirements will do the same, only that in this case the money channeled by those with contributions that are not enough for retirement eligibility, will go either into wages of those state employees administering the system, or to those that ended up being eligible for pensions. The fine print is critical in this case. PAYG systems can be more progressive, but there is no guarantee, and furthermore, they can be less progressive than capitalization funds. Capitalization funds can never be more progressive than their countries' income (especially wage) distribution, but they can be less regressive than highly regressive, low coverage, overtly generous and fiscally unsustainable PAYG systems.

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<sup>56</sup> Relative neutral fashion refers to flat marginal rate.

<sup>57</sup> This is a limited exercise to show how a universal flat rate progressive funded system might work. The aim is not to extrapolate this example to any particular country, as much more information would be necessary.

Let us substantiate these claims with examples. The New Zealand model is highly progressive. It grants a flat-rate universal pension to those aged 65 and over and is based on a relatively progressive system of tax collection. The Chilean model before the recent reforms was a purely individual accounts capitalization privately managed system.<sup>58</sup> Its impact as it started to pay pensions, showed that it was highly regressive and left many of the elderly without any pension support or with inadequate pension benefits. The defined benefit (DB), state managed, mandatory PAYG system, which is still a dominant model throughout the world, shows a wide variety of results, from strongly progressive, to neutral systems to radically regressive systems. Once again, the fine print is critical, and the way in which such critical issues are considered is also relevant.

The variety in real pension systems translates also to the empirical analysis. Van Vliet et al. (2012), for example, compare data from 15 European countries to test whether shifts from public to private pension provisions have had a detrimental effect on income distribution among the elderly. Contrary to their expectations, the authors conclude that relieving pressure from the public system (and translating it to the private sphere), does not appear to increase inequality among retirees. However, as the authors explain, using a dichotomous categorization (“public” or “private”), obscures many relevant differences which could explain these results. For example, even though Denmark has a strong private pension system, its possible negative effects on equality could be counterbalanced by its also strong basic pensions.

Notwithstanding these difficulties, several works have found significant effects of private/public mix on income inequality. A recent update of Van Vliet et al. (2012) has concluded the opposite: a greater participation of private pension systems does increase inequality and poverty among the elderly (Been et al., 2016). These findings are consistent with previous analyses, which also find a link between public expenditure in old age and reduced levels of inequality and poverty (Brown and Prus, 2004; Milligan, 2008; Weller, 2004; Schirle, 2009). Again, this ambiguity in the findings is most probably a product of the particularities of each pension system, which makes it hard to unequivocally categorize them.

To sum up, two facts stand out. First, mature systems in OECD countries in Europe, Oceania and North America prove beyond a reasonable doubt that strong first non-contributory pillars work best for coverage, adequacy of replacement rates for low-income earners and sustainability in inter-temporal terms. Defined benefit (DB) pension systems in these same countries had to be adjusted to achieve sustainability by increasing retirement ages, required value and length of contribution records, or by moving to notional or point systems. Fully funded capitalization systems proved to be inadequate to meet either distributional concerns, adequacy or sustainability. But a third tier of fully funded individual accounts or earning related defined benefit and defined contribution systems (voluntary, mandatory or semi-mandatory) in countries with robust non-contributory systems and with actuarially sound defined benefit systems, can contribute to increase adequacy for high income earners.

Second, many upper-middle income countries and some low-middle income countries combine low coverage, high flat replacement rates, low contributions and early retirement ages in defined benefit systems. These combinations in defined benefit systems are both regressive and unsustainable.

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<sup>58</sup> Before 2008, Chile had a social pension system (PASIS), but its coverage and amount was increased significantly with the reform. Currently, the Solidarity Pension System has two main pillars. First, it established a new non-contributory pension system, the Basic Solidarity Pension (PBS), to replace the welfare pension (PASIS). Under this new scheme, the poorest 60% of the population (64 and over, who do not already receive a pension) is entitled to receive the new non-contributory pension (PBS), whose amount is 50% higher than PASIS. Second, it established the Solidarity Pension Payment (APS), which is run and financed by the State to complement the lowest pensions (see ECLAC, 2017).

## E. Concluding remarks

From the above, it is possible to draw some stylized conclusions. Although inequality is a major feature of the world economy and its regions, it is not inevitable. Pro-equality policies at the extremes of the life-cycle prove relevant to achieve a more egalitarian society. However, countries with very similar development levels might present very different patterns in terms of size, composition, progressivity and effectiveness of the pension system, family allowances, work leaves and child care services. The specific constellation of these patterns can determine the way countries redistribute wealth and incomes. Moreover, these patterns are constituted through, and simultaneously influence, the demographic changes around the world. In this regard, countries in the developing world will face a steeper increase in their ageing population than did developed countries in their past. The faster drop in fertility rates will increase the pace of aging in the future.

From this international evidence it is possible to draw some broad conclusions.

### 1. Protection policies for families and the early childhood

First, compared to pension systems, health care and health insurance and formal education, family policies and early child protection are relatively more recent, have a wider variety of institutional settings and usually carry less weight in the fiscal effort of states. Yet it is also true that these policies have grown significantly both in developed as in developing countries.

Second, in terms of equality policies, the reason to focus on family and early childhood can be explained through the “process of circular and cumulative causation”, to borrow Myrdal’s concept (1957), that tends to increase inequalities over time. This is backed up with increasing scientific evidence regarding the importance and efficiency of early investment in children promoting their capabilities and protecting them from risks. The scientific community and the policy paradigm are agreeing that the foundation of human capabilities takes place between gestation and the first 4 to 5 years of life.

Third, pro-equality policies that focus on the early stage of the life-cycle relate directly with the process of increasing incorporation of women into the labor market and the relatively frozen landscape regarding male incorporation into domestic tasks. It therefore addresses not only economic inequalities, but also gender inequalities. Leaves and ECEC are very much led by family changes and demands. In some cases, this takes place without state involvement. Enterprises and markets provide the basis for leaves and early childhood care. But such a solution is usually fragmented, insufficient and does not reach the large group of women who cannot access such market solutions, or who are not employed by enterprises granting time of work for family and child care. Nordic countries have done it earliest and best leading the world by showing that a highly productivist and egalitarian system is possible when the welfare state focus its efforts in redefining the gender and generational contract. Women and children become their allies for their political and economic project. Protection policies for families and the early childhood can combine, in this sense, to constitute and reinforce gendered patterns of equal opportunities.

Fourth, pro-equality policies at the early stage of the life-cycle can address also racial and territorial inequalities. That is because economic inequality is constituted through multiple social differences. As such, life expectancy and fertility vary not just from country to country, but also within countries along ethnic, racial and territorial lines. In this sense, expanding investments in family allowances and cash benefits, work leaves and child care services along disadvantaged groups can increase economic mobility and contribute to decrease economic inequality.

To sum up, early childhood protection and family protection can play a major role in increasing human capabilities and productivity for society at large and in decreasing inequality and vulnerability for children and young families. In this sense, these policies have a bi-temporal effect—in the short-term by favoring female labour force participation and long-term by promoting human capabilities and inequality reduction. They operate in a critical period where families are most vulnerable and when children are developing their basic cognitive functions. Of course, not all spending in children and families will get

the job done. If family allowances and leaves remain limited to formal workers and if ECEC are of bad quality the promise will not be fulfilled. Good quality universal transfers and services are needed, or at least services and transfers that reach both the lower income groups and the middle classes so as to guarantee access to those most in need and reasonable quality.

## 2. Pension systems

It is also possible to draw some broad conclusions on pensions systems to promote equality based on coverage and sustainability.

First, it is important to advance in the creation of non-contributive pillars, adjusting coverage and quality to the fiscal possibilities of the countries, and evaluating carefully how costs will evolve. In highly unequal societies claw back clauses make sense,<sup>59</sup> yet in both poorer and richer countries slightly lower amounts, for wider coverage seems to be a reasonable trade off.

Second, defined benefit pillars have to be reformed. Replacement rates should not be homogeneous but inversely stratified, retirement ages should be reviewed and incentives to remain in the labor force should be integrated into replacement rates. Contributions in many cases need to increase, and indexation criteria should consider a fiscally sound combination of preserving purchasing power and actuarial sustainability. Notional and points systems are an option. The other option which is to do away with defined benefit pillars altogether and move directly to fully funded capitalization systems might help on issues of sustainability but have demonstrated to be wanting on the goals of both coverage and redistribution.

Third, capitalization systems can still play a third pillar role and be mandatory or voluntary, or a combination. For example, a minimum contribution might be required, but larger ones can also be available on a voluntary basis. The state can subsidize the system insofar as such subsidies are to induce more savings for low income earners.

Finding the right architecture that will foster intergenerational and intra-generational equality and well-being is a major task facing both developed and developing countries. Pension systems do not only impact on today's social and economic structures, but because of their very nature have massive impact on the future health of the social, economic, and fiscal dimensions of the nation-state. Once set in motion, these legally binding systems constitute the most important intergenerational transfer devices<sup>60</sup> in most countries and will create liabilities that have inter-temporal major impacts on nation-states.

Because of their nature, these systems are strongly path-dependent and choices in mature systems are strongly constrained by choices made before. It follows that initial choices in young systems will have a major effect on future possible choices. This is both due to the legal framework they create, the financial liabilities they commit to honor, the type of state collection and delivery capacity they build, and last, but maybe most importantly, because of the political economy they set in motion.

To conclude, it is important to emphasize that both social protection policies for families and early childhood as well as pension systems seek to respond to the uneven exercise of rights and people's unequal access to opportunities and capacity development. Both policies are fundamental to guarantee the right to social security and protection. They are key equality-oriented policies that transcend income and relate to the full exercise of citizenship rights and contribute to the fulfillment of the 2030 Agenda for Sustainable Development. Both policies can facilitate progress towards more egalitarian, cohesive and solidarity-based societies and promote an inclusive model of sustainable development.

<sup>59</sup> Claw back clauses take away benefits at the top. They are not targeted to the poorest, but rather untargeted to the richest.

<sup>60</sup> Family allowances financed from general taxes and public education are other typical state mechanisms of intergenerational transfers. Of course, outside of the state rests the most important realm for intergenerational transfers: the family and very especially transfers that take place within the family.

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The 2030 Agenda for Sustainable Development reflects a consensus on the need to move towards more egalitarian, cohesive and solidarity-based societies, and calls for ensuring that “no one will be left behind” on the road to development. The regional commissions of the United Nations have come together to prepare this report, which synthesizes regional findings and lessons learned in the conceptualization, design and implementation of public policies and programmes oriented towards greater equality.

As this report highlights, inequality includes —but transcends— income inequality and relates to the uneven exercise of rights, unequal access to opportunities and capacity development, and unequal results. Social inequality gives rise to adverse social, environmental and economic consequences, stratified by economic status, age, sex, disability, race, ethnicity, origin or religion. However, social inequality can be successfully addressed and is not an inevitable outcome. Promoting greater equality through adequate social protection, health, education, labour and fiscal policies not only helps to safeguard the economic, social and cultural rights of all people, but also fosters growth, development and greater social justice.

