Understanding global and local inequalities: an EU-AFD initiative

15/01/2018 – AFD, Paris
Speakers

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John Crowley, Chief of Section for Research, Policy and Foresight, UNESCO
Rohen D’Aiglepierre, Research Officer, AFD
Anda David, Research Officer at AFD
Hélène Ehrhart, Research Officer, AFD
Pierre Gaudin, Head of the Foreign Aid Unit at the French Treasury (Economy and Finance Ministry)
Gaël Giraud, Chief economist of the AFD
Murray Leibbrandt, Professor of Economics at the University of Cape Town
Françoise Millecam, Head of Sector Employment and Social Inclusion, DEVCO B3
Alex Prats, Inequality Lead, Oxfam Intermón
Martin Ravallion, Professor of Economics at Georgetown University
Finn Tarp, Director, UNU-Wider

15/01/2018
Welcome remarks

Vincent Caupin, Director, Economic Assessment and Public Policy Department
French Agency for Development

15/01/2018
Welcome remarks

Jean-Louis Ville, acting Director People and Peace,
DEVCO B3

15/01/2018
Global inequality and sustainability

Gaël Giraud
Chief Economist of AFD

15/01/2018
I. Current trends on growth and inequalities

II. Climate change and inequalities
Main argument of Piketty’s theory

• The first law of capitalism

\[ \alpha_k = \frac{(Y_n - W)}{Y_n} = \frac{(Y_n - W)}{pK} \frac{pK}{Y_n} = r_k \beta_k \]

• The second law of capitalism

\[ \beta_k \rightarrow \frac{s}{g}, \]

• So, if inequalities of wealth and of income grow over time (?)

\[ r_k > g, \]
The second law

• Consequence of the Solow model (1968):

\[ \dot{K} = I - \delta K. \]

\[ C = W + S = Y \]

\[ Y = F(K, L) = AK^\alpha L^{1-\alpha}. \]

\[ S/Y = s \text{ constante.} \]

• Only one long-term equilibrium:

\[ \beta_k \rightarrow \frac{s}{g} \]
Criticism of Piketty

• Validity of the Second Law of Capitalism (Acemoglu, Varoufakis, Taylor ...)

• $r > g$ so what? (Acemoglu, Mankiw, IMF ...)

• Cambridge controversy over capital (Varoufakis, Giraud ...)

• A model without money? Is money neutral?
• However ...
Return of capital versus growth

Figure 10.10. After tax rate of return vs. growth rate at the world level, from Antiquity until 2100

The rate of return to capital (after tax and capital losses) fell below the growth rate during the 20th century, and may again surpass it in the 21st century. Sources and series: see piketty.pse.ens.fr/capital21c
Income inequality – top 1%

Figure 8.8. The transformation of the top 1% in the United States

The rise in the top 1% highest incomes since the 1970s is largely due to the rise in the top 1% highest wages. Sources and series: see piketty.pse.ens.fr/capital21c.
Income inequality – top 0.1%

**Figure 9.5. The top 0.1% income share in Anglo-saxon countries, 1910-2010**

The share of the top 0.1% highest incomes in total income rose sharply since the 1970s in all Anglo-saxon countries, but with varying magnitudes. Sources and series: see piketty.pse.ens.fr/capital21c.
Wealth inequality

Figure 10.6. Wealth inequality: Europe and the U.S., 1810-2010

Until the mid 20th century, wealth inequality was higher in Europe than in the United States.
Sources and series: see piketty.pse.ens.fr/capital21c.
Inheritance

Figure 11.11. Which fraction of a cohort receives in inheritance the equivalent of a lifetime labor income?

Within the cohorts born around 1970-1980, 12-14% of individuals receive in inheritance the equivalent of the lifetime labor income received by the bottom 50% less well paid workers. Sources and series: see piketty.pse.ens.fr/capital21c
Nuances

• Poverty is not just a matter of income or wealth (Multidimensional poverty, relational capability, etc.)
• Human rights and democracy. (Oversight of the SDG!)
• Climate change is going to affect especially the poor (Shock Waves, World Bank)...
The elephant curve from Christoph Lakner and Branko Milanovic
The original elephant graph

Figure 2. The original elephant graph

Loch Ness monster
I. Current trends on growth and inequalities

II. Climate change and inequalities
Climate Change Vulnerability Index

Source: Maplecroft 2014
Climate change and inequalities

- At the global level, the richest 10% is the source of 50% of greenhouse gas emissions (GHG), while the poorest 50% contribute 10% of GHG.

<table>
<thead>
<tr>
<th>Policy choices</th>
<th>No climate change</th>
<th>Low-impact scenario</th>
<th>High-impact scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of people in extreme poverty by 2030</td>
<td>Additional number of people in extreme poverty due to climate change by 2030</td>
<td></td>
</tr>
<tr>
<td>Prosperity scenario</td>
<td>142 million</td>
<td>+3 million</td>
<td>+16 million</td>
</tr>
<tr>
<td>Poverty scenario</td>
<td>900 million</td>
<td>+35 million</td>
<td>+122 million</td>
</tr>
</tbody>
</table>

Source: Rozenberg and Hallegratte, forthcoming.
Note: The main results use the two representative scenarios for prosperity and poverty. The ranges are based on 60 alternative poverty scenarios and 60 alternative prosperity scenarios.
Climate change and inequalities: thought experiments

• A 10-50 Pareto rule for income and emission.

• David, Espagne & Giraud (2018):
  
• Piketty-Chancel (2015). Is it about reducing inequalities?
• Perfect egalitarianism worldwide: $8,000 /cap/year (PPA 2014) : 6,5t CO2-e
• Kahneman & Deaton (2010) : 100% marginal income tax above the happiness threshold ($75,000 /cap/year). Idem.
• $6,300 /cap/year —> Carbon neutrality.
• Are the top 30% ready?
• Country specific median income : CO2 emissions divided by 9
• World median income: CO2 emissions divided by... 50!
Climate change and inequalities

- Kaushik Basu in *Beyond the invisible hand*:
- Necessity to change the law and norms as a game-theoretic coordination tool.
- Pb: indeterminacy of strategic stability (Mertens (1991)).

- The concept of *commons* by Elinor Ostrom: An alternative to the privatisation of society.

Carbon emissions per capita (Giraud et al. 2017)

- Carbon budget: 1000 Gt (2000-2050)
- Target: Average per capita emissions in 2030 of 4.7 tons of CO2-e (6.7 tons today).

<table>
<thead>
<tr>
<th>Country</th>
<th>2030 Emissions</th>
<th>Today Emissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Sudan</td>
<td>0.5</td>
<td>12</td>
</tr>
<tr>
<td>South Africa</td>
<td>9</td>
<td>4.6</td>
</tr>
<tr>
<td>France</td>
<td>5.7</td>
<td>4.6</td>
</tr>
<tr>
<td>USA</td>
<td>17.5</td>
<td>4.4</td>
</tr>
<tr>
<td>China</td>
<td>6.5</td>
<td>4</td>
</tr>
</tbody>
</table>
2°C-compatible carbon emissions per capita in 2030 (Giraud et al. (2017))
2°C-compatible national carbon budget in 2030 (Giraud et al. (2017))
Climate and debts

Figure: Diagram of the Economy-Climate interactions.
Scénario 1 (orange) : Absence d'intervention publique ;
Scénario 2 (rouge) : Mise en place d'une taxe carbone (tranche haute de la recommandation du rapport de la commission Stern-Stiglitz) ;
Scénario 1 (bleu) : Taxe carbone du Scénario 2 avec une subvention du secteur publique pour la décarbonation ;
Thank you for your attention

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afd.fr
Global Inequality: Trends and Issues

Finn Tarp, Director, United Nations University World Institute for Development Economics Research (UNU-WIDER)

15/01/2018
Introduction
Opening remarks

• Thank you!

• Issue of inequality has been core and centre in the research agendas of UNU-WIDER since the very beginning in 1985 (more than 1,300 entries on the WIDER web-site: https://www.wider.unu.edu/)

• Three examples:
  – The World Income Inequality Data Base (WIID)
  – The September 2014 WIDER development conference on inequality measurement, trends, impacts and policies: http://www1.wider.unu.edu/inequalityconf/
  – Ongoing project on inequality in the developing giants: China, India, South Africa, Brazil, Mexico
What do people have in mind?

- Income inequality attracts a lot of attention in media and elsewhere (the SDGs for example): but what do people have in mind/discuss?
- Take Vietnam as illustration: Annual aggregate growth of 6.9% per year for 30 years
  - Recall: $T \times G = 69 \Rightarrow$ doubling time 10 years
- Three individuals in 1986, 1996, 2006 and 2016:
  - Individual 3: 1986: 1,600; 1996: 3,200; 2006: 6,400; 2016: 12,800
- **Absolute** progress, **absolute** inequality and **relative** inequality
Global inequality: relatively lower, absolutely higher
In RoIWi with Miguel Niño-Zarazúa and Laurence Roope
Aims

1. What are the most recent trends in global inequality (among all people independently where they live)? Has global inequality increased or declined?

2. Have these trends been homogenous across regions and countries?

3. Is the picture of global inequality trends using standard ‘relative’ measures of inequality consistent with the picture using ‘absolute’ measures?
Relative versus absolute measures

• The predominant ‘relative’ inequality measures (such as the Gini Index): values remain unchanged when every income in an income distribution is uniformly scaled up or down by the same proportionate factor.

• The less commonly used ‘absolute’ inequality measures (such as the Standard Deviation and Absolute Gini): values remain unchanged when every income in an income distribution has the same income added to, or subtracted from, it.
Data

• We employ quintile data from the latest version of the UNU-WIDER World Income and Inequality Database (WIID): the longest and most comprehensive database of income distributions available.
General results
Trends in global inequality from a relative and an absolute perspective

- Relative Gini
- Absolute Gini
What happened across world regions?

• In contrast to global inequality, we find substantial differences across world regions

• Both relative and absolute inequality increased substantially and steadily throughout 1975–2010 in North America, Europe and Central Asia, South Asia and sub-Saharan Africa, with some ups and downs along the way according to relative inequality

• Absolute inequality rose in Latin America, East Asia and the Pacific, while relative inequality fell in those regions
Relative ‘within’ regional inequality

• Within each region we also observe important variations. In Europe, for example:

• Some countries have experienced a steep rise in inequality since the 2000s: Denmark, Sweden, France and Bosnia and Herzegovina

• Other countries have observed a decline in inequality throughout the 2000s: Belgium, Italy, Norway, and Ireland

• Some countries have experienced a relatively flat trend in domestic inequality throughout the 2000s: United Kingdom, Finland, and Czech Republic

• Some countries have experienced a decline in inequality during the 1990s and until the mid-2000s but then a clear increase in inequality after the 2008 financial crisis: Greece, Slovenia, Spain, Bulgaria, Malta, Slovak Republic

• Other countries have experienced first a rise in inequality, and then a fall in inequality since the 2008 financial crisis: Netherlands, Switzerland, Iceland, Poland, Hungary, Romania
Counterfactual scenarios – an example
Counterfactual scenarios

• **Counterfactual scenario 1**: All countries assumed to have their actual incomes per capita and population sizes in 2010, but suppose that instead of their actual domestic distributions of income, all countries had the same quantile shares as those of Sweden in 2010.

• Sweden has had historically one of the lowest relative income inequalities in the world, reflecting a very unique social and economic model of redistribution.

• **Counterfactual scenario 2**: Same as scenario 1, except that all countries are assumed to follow a Rawlsian ‘maximin’ approach, i.e. income growth always occurred below the median individual.
## Results

<table>
<thead>
<tr>
<th>Inequality Measure</th>
<th>Values in 1975</th>
<th>Counterfactual 1 In 2010</th>
<th>Counterfactual 2 In 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Absolute measures</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Standard Deviation</td>
<td>10,184</td>
<td>13,898</td>
<td>11,861</td>
</tr>
<tr>
<td>Absolute Gini</td>
<td>3,964</td>
<td>6,043</td>
<td>5,569</td>
</tr>
<tr>
<td><strong>Relative measures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gini</td>
<td>0.739</td>
<td>0.569</td>
<td>0.524</td>
</tr>
<tr>
<td>Coeff. of Variation</td>
<td>1.899</td>
<td>1.309</td>
<td>1.117</td>
</tr>
</tbody>
</table>
Most recent trends – based on the WIID
Income inequality in SSA

- Sub-Saharan Africa remains the most unequal region in the world
- BUT, there is a lot of heterogeneity within the region:
  - Some countries have experienced an **increase** in income inequality (Botswana, Ghana, Kenya, Mauritius, Uganda)
  - A few countries have observed a **U-shaped Gini**, reaching an inflection point in the early 2000s (Nigeria, Tanzania, Zambia, Malawi)
  - Other countries have experienced a marginal **decline** in income inequality since the 2000s (Cameroon, Ethiopia, Gambia, Lesotho, Mali, Niger, Senegal, S. Leone, Swaziland and South Africa)
- Southern Africa account for a large share of the level of income inequality in the sub-Saharan region
Income inequality in selected regions 1970–2015 (population-weighted)
The effect of omitted top incomes on inequality estimates
Omitted top incomes

- Widely recognized that the highest income earners are significantly undersampled in household surveys
- Ignoring top incomes can generate substantial measurement errors and affect not only the levels, but also the trends of income inequality
- There have been innovations in both: i) data generation (e.g. World Wealth and Income Database (WID) that includes top income shares from tax records, and ii) analytical methods that account for the bias from missing top incomes in the estimation of income inequality
- Unfortunately, tax data remains very limited for most countries
What Do Jorda and Niño-Zarazúa find?

In 2010, undersampling the richest in HH surveys generate a downward bias in global inequality estimates that ranged between 17% and 38% (according to mean log deviation measure)
What is the effect of top incomes on income inequality in sub-Saharan Africa?
Conclusion
Results in a nutshell

1. Using standard ‘relative’ inequality measures, global inequality **declined** over the past three decades (but note no Lorentz dominance so an increase is possible with sufficiently strong aversion to inequality)

2. There exists substantial **heterogeneity** in inequality trends **across** and **within** regions
   - Southern Africa drives high levels of income inequality in SSA

3. When using ‘absolute’ inequality measures, we find that global inequality has **increased dramatically**

4. Income inequality estimates are underestimated because of the omission of top earners in household surveys (but trend?)
Discussion (1)

- Niels Bohr: argued in his complementarity theory that with observations where we believe we see the same thing we often see something different and therefore will arrive at different insights. And the point is that these insights are not necessarily contradictory or meaningless – they are, yes, complementary (and we cannot say which measure is right and which is wrong).

- So taken together, echo Atkinson and Brandolini (2010) in emphasizing how central the choice of measure is to any discussion of what has happened to global inequality levels during recent decades.

- While relative global relative inequality would seem to have fallen steadily and quite substantially over the decades (driven by a dramatic decline in inequality between countries) it nevertheless remains staggeringly high.
Discussion (2)

- Absolute inequality measures show global inequality increased substantially during the period 1975-2010 – growth in income in India and China had only a very modest dampening impact on the increased absolute inequality.

- Over the past 35 years, relative inequality has fallen and hundreds of millions of people in the developing world have been lifted out of poverty – a major achievement!

- One may ask: Would different policies have managed this without the increase in absolute inequality? The debate should and will continue!

- The existing heterogeneity in experiences across countries/regions and time would seem to suggest that there is room of manoeuvre for policy to influence outcomes (see Ravallion ECINEQ WP 2017 – 435)
Thank you!
For more visit: www.wider.unu.edu
Helsinki, Finland
Mainstreaming the reduction of inequalities in development cooperation: why and how
Françoise Millecam
15/01/2018
Defining inequality

• Vertical inequality: inequality among individuals or households
  - within a country (vertical distribution); predominant approach.
  - Inequality between countries (inter-country inequality)
  - In the world as a whole (global inequalities).

• Inequality between groups with common identity (horizontal inequality)
  – By race; ethnicity; religion; region; citizenship; gender; class; location.....
Inequality of what? How do we measure it?

• In the past primarily inequality in income as accepted measure of utility/welfare following economists’ traditional view of equation of utility/welfare/income.

• Most measures relate to income (e.g. Gini; Palma; Atkinson)
But increasingly accepted that income is a very narrow measure of progress.

• Sen: capabilities or freedoms, or what people can be or do. Open-ended.
• Inequalities in what?: four major dimensions and many sub-elements:
  – Economic (assets, incomes, employment..)
  – Social (access to services)
  – Political (power at many levels)
  – Cultural status or recognition (language/religion/cultural practices).
• DEVCO takes plural approach in assessing inequality
Trends in developing countries

- Rising within country inequality in last decades of 20th century – global and within countries.
- Less clearcut in first decade of 21st C;
- LA reduced inequality but from extremely high levels.
- Africa mixed.
- Asia and developed country mainly worsening.
- Country variation suggests policy matters
Classification of countries by level of inequality and by region

Developing countries

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>East Asia and Pacific</td>
<td>0</td>
<td>3</td>
<td>8</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Eastern Europe and Central Asia</td>
<td>0</td>
<td>5</td>
<td>16</td>
<td>7</td>
<td>28</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>2</td>
<td>17</td>
<td>6</td>
<td>0</td>
<td>25</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>0</td>
<td>1</td>
<td>10</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>South Asia</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>10</td>
<td>14</td>
<td>16</td>
<td>0</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12</strong></td>
<td><strong>40</strong></td>
<td><strong>63</strong></td>
<td><strong>7</strong></td>
<td><strong>122</strong></td>
</tr>
</tbody>
</table>

*Note:* Countries are classified according to the value of the Gini coefficient for the distribution of household consumption per capita.

4 Gini pts in 17 SSA countries (but rose in 12 rises) 2000-11

Averag Gini coefficient (un-weighted) of consumption expenditure/c, 1993-2011

13 Falling Gini: B. Faso, Cameroun, Ethiopia, Gambia, Guinea, G. Bissau, Lesotho, Madagascar Mali, Niger, Senegal, S. Leone, Swaziland

7 Rising Gini: Botswana, Cote d’Ivoire, Ghana Kenya, Mauritius, S. Africa, Uganda

4 Inverted U-shaped Gini: Angola, Mauritania, Mozambique, Rwanda

5 U-shaped Gini: CAR, Malawi, Nigeria Tanzania, Zambia
Why bother on inequalities?

• **Inequality and poverty.**
• From 1990s reducing poverty a central development objective.
• Elasticity of poverty reduction with respect to growth depends on level and change in inequality.
• In contexts of high inequality, growth does little to reduce poverty.
Why bother on inequalities?

• Education, health and nutrition – aspects of basic capabilities or HD

• Evidence shows more equal incomes tend to increase education and reduce educational inequality; two way causality.

• It is claimed that inequality reduces overall health outcomes (Wilkinson and Picket; questioned by Deaton).

• Higher inequality, worse health and nutrition of poor.
Why bother on inequalities?

• Evidence shows with higher inequality brings more criminality. Fajnzylber:
  – ‘Crime rates and inequality are positively correlated within countries, and particularly, between countries, and this correlation reflects causation from inequality to crime rates, even after controlling for other crime determinants’.

• Strong evidence of correlation between HI and civil war (Gurr, 1970; Stewart 2000, 2008; Cederman et al 2013). Risk of social unrest

• Gender inequality and domestic violence: relationship – Peterson, Yodanis

• Health inequalities which are morally unacceptable
More equality needed: but is more inequality inevitable?

- Kuznets hypothesis 1955: inverted U curve.
- Rising inequality unavoidable in early stages of development as workers shift from low-productivity to high productivity sectors.
- And reduced inequality at higher stages of devt. questioned by recent upturn in inequality
• Need to differentiate between primary, secondary and tertiary income inequalities
1) Primary income inequalities: result of production activities and their inequality has two origins: unequal distribution of production factors (land, labour, and capital) and unequal returns to these factors.

2) Secondary income inequalities: determined by fiscal and social transfers.

3) Tertiary income inequalities: results from the incidence of public expenditures.
Distribution of incomes in selected countries, before and after taxes and transfers.
### Sectoral Policies to Tackle Inequality (Georg-August University Gottingen)

<table>
<thead>
<tr>
<th>Policy Issue</th>
<th>Research finding</th>
<th>Policy implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tackling asset inequality</td>
<td>Land inequality an important driver of asset inequality in many low-income and lower middle-income countries with large agricultural sectors. Insecure tenure can reduce investments of the poor</td>
<td>Land reform with redistribution component an important policy-lever. Tenure reform should focus on improving tenure security for current users.</td>
</tr>
<tr>
<td>Land Reform</td>
<td></td>
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</tr>
<tr>
<td>Education and health policies</td>
<td>Pro-poor education and health policies can reduce inequality in human capital and promote economic growth; educational inequality important driver of overall inequality</td>
<td>Focus public health and education expenditures on basic education and health care, enable the poor to access higher education and health (though loans, and insurance schemes, respectively)</td>
</tr>
<tr>
<td>Credit policies</td>
<td>Lack of access to capital a significant constraint for the poor to invest; capital markets do not work for them and many microcredit schemes bypass the poorest and/or lead to high indebtedness;</td>
<td>Support microcredit institutions that reach the poorest and provide sustainable credit (usually with subsidy element)</td>
</tr>
<tr>
<td>Gender policy</td>
<td>Gender inequality exacerbates income inequality via educational inequalities, health inequalities, inequalities in access to financial services, etc. which in turn reduces growth and pro-poor growth.</td>
<td>Thus, promoting female education, employment and access to health care (also to constrain fertility) will decrease gender inequality and thus promote more equality in income.</td>
</tr>
</tbody>
</table>
### Sectoral Policies to Tackle Inequality

<table>
<thead>
<tr>
<th>Improving returns to asset for the poor</th>
<th>Infrastructure</th>
<th>Agricultural policies</th>
<th>Labor market policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural infrastructure can improve the functioning of agricultural input and output markets</td>
<td>Promote the construction of rural roads and associated market infrastructure</td>
<td>Inequality heavily affected by low agricultural productivity of poor producers, related to low access and use of modern inputs and seeds, lack of infrastructure, extension services, etc.</td>
<td>Unequal distribution of employment and earnings key driver of inequality, particularly in middle-income countries; active labor market policies including minimum wages and training initiatives can reduce labor market inequality there</td>
</tr>
<tr>
<td>Prioritize access to seeds and modern inputs for poor farmers through subsidy schemes, starter-packs, targeted extension services, etc.</td>
<td>Invest in education and training of the poor; improve access to labor markets through dedicated services for them; provide incentives for formalization; consider minimum wages (in middle-income countries);</td>
<td></td>
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</tbody>
</table>
### Increasing redistribution by the state

<table>
<thead>
<tr>
<th>Fiscal policy</th>
<th>Fiscal policies are especially important for (i) fighting inequality directly via a progressive tax regime as well as for (ii) financing social transfers and public expenditure benefiting the poor. Tax/GDP ratios generally low and increases have tended to help lower inequality, esp. in middle-income countries.</th>
<th>Increasing the tax per GDP ratio through reducing exemptions, closing tax loopholes and tax evasion, and some increases in progressive taxation (e.g. luxury VAT, commodity taxation); re-orient public spending towards the poor by increasing access to government services, asking for co-payments among non-poor, and introducing new pro-poor programs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social policy</td>
<td>Transfers to the poor (including conditional cash transfer programs and non-contributory social pensions and child grants) decrease poverty, lower inequality, can promote human capital investment, and risk-taking by the poor.</td>
<td>Promote social protection programs that are broad in coverage, easy to administer, and fiscally sustainable (costs less than 1-2%/GDP)</td>
</tr>
<tr>
<td>Improving public sector management</td>
<td>Poorly functioning public sector (government and state-owned enterprises) lowers ability to effect redistributive policies</td>
<td>Strengthen state capacity through improved financial management and public oversight; analyze distributional impact of public spending; harden budget constraints for state-owned enterprises.</td>
</tr>
<tr>
<td>Other policies with inequality implications</td>
<td>Macroeconomic and monetary policy</td>
<td>Trade policy</td>
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<td>-------------------------------------------</td>
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</tr>
<tr>
<td><strong>Low inflation and competitive exchange rates are both important for macroeconomic stability and for fighting income inequality.</strong></td>
<td><strong>Set targets for low inflation, manage exchange rate and capital inflows, ensure low fiscal deficits;</strong></td>
<td><strong>Trade liberalization is important for macroeconomic stability, economic growth and diversification, but can be inequality-enhancing.</strong></td>
</tr>
<tr>
<td><strong>Removing export-bias and enhancing free trade (especially regional and South-South trade) is generally desirable. Temporary protection of infant industries and prevention of re-primarization (undermining industrialization by returning to a focus on agriculture and resource extraction for exports) is advisable for poor countries. Maintain competitive exchange rate</strong></td>
<td></td>
<td><strong>Focus on improving agricultural productivity and earnings for poorest; promote labor-intensive industrialization; accommodate rural-urban migration; promote infrastructure and agriculture in backward regions.</strong></td>
</tr>
</tbody>
</table>
## International Trends and Policies that can Affect Within-Country Inequality

| Tax transparency and compliance | Capital flight and tax evasion by wealthy individuals, and tax avoidance by multinational companies reduces tax revenues and redistribution by the state; | OECD processes to reduce tax evasion by individuals and tax avoidance by multinational companies should ensure developing countries benefit fully from new rules and systems |
| Trade Policy | Further trade liberalization in rich countries in agriculture and services can promote pro-poor exports; trade facilitation can promote pro-poor exports | Complete Doha Development Round (or alternative processes) focusing on facilitating exports from poorer segments of developing countries, focusing on agriculture, services, and trade facilitation; |
| Capital and labor flows | Capital flows can provide much-needed resources for pro-poor growth; but many capital flows, esp. short-term flows as well as most FDI will likely increase inequality; also, short-term capital inflows are destabilizing; remittances can help reduce inequality if migration of the poor is facilitated; | Regulation and management of short-term capital inflows important to prevent financial crises; transparent immigration policy can facilitate remittances and migration of poorer segments of population. |
Skills and inequalities

- unequal access to skills (horizontal inequalities): in particular for women/girls and vulnerable groups: people with disabilities, indigenous people

- how does the absence of skills affect inequalities? What is the relationship between skills and wage inequalities?
Illustrating the complexity: Do skills matter for wage inequality?
IZA World of Labor 2016

**KEY FINDINGS**

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skills matter for wages at the individual level: skilled workers</td>
<td>Differences in skills and in their distribution account for only a small fraction of differences in wage inequality between countries.</td>
</tr>
<tr>
<td>have, on average, higher wages than unskilled workers.</td>
<td>Differences in the prices of skills (or how skills are rewarded) account for a much larger proportion of cross-country differences in wage inequality.</td>
</tr>
<tr>
<td>Differences in skills can explain a significant share of the wage</td>
<td>The prices of skills are determined, at least in part, by labor market institutions, which have an important impact on the distribution of wages.</td>
</tr>
<tr>
<td>gap between certain socio-economic groups.</td>
<td>A large portion of cross-country differences in wage inequality remains unexplained by skills or skill prices.</td>
</tr>
<tr>
<td>Changes in the demand for skills, driven by technological change,</td>
<td></td>
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<tr>
<td>globalization, population aging, and organizational changes, have</td>
<td></td>
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<tr>
<td>increased the return to skill and, thereby, wage inequality.</td>
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<tr>
<td>Wage inequality tends to be lower in countries that are better at</td>
<td></td>
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<tr>
<td>meeting the demand for skills.</td>
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</tr>
</tbody>
</table>
How can development cooperation contribute?

At global level:

All development partners committed to SDG 10
- Recognise and advocate need for policy change
  - Changing measure of progress
  - Promote fairer international trade agreements
  - Promoting social dialogue and the Decent Work Agenda
  - Raising taxation (progressive taxation) and expenditure – Addis action plan
  - Building alliances with like-minded donors
  - Supporting civil society
How can development cooperation contribute? (2)

At country level:
– Assessing levels of inequalities at country level
– Sustaining and increasing social transfers and supporting social protection systems, in particular ILO recommendation 202 on social protection floors
– Continuing investing in quality education
– Addressing territorial disparities
– Adopting more equalising expenditure patterns
– Supporting social protection systems
– Continue mainstreaming gender equality
Coherence with EU internal policies

- Social justice is a European value
- European pillar of social rights
- Resolution adopted by the European Parliament on 16 November 2017:
A step by step approach

• 1) Informing
• 2) Documenting
• 3) Increasing knowledge of staff and developing tools
• 4) Influencing and Supporting equalising policies – including in MICs
• 5) Working with civil society
• 6) Forging alliances with like-minded partners
DEVCO work on inequalities (1)

- Income Inequality and Poverty Reduction in Sub-Saharan Africa – Study A4
- Policy brief 'How can development cooperation better contribute to the reduction of income and social inequalities in developing countries' – European Research Network
DEVCO work on inequalities (2)
- 'Trends in poverty and inequality and further clustering of developing countries' – ODI (A1)
- Study "Addressing inequality through EU Development Cooperation – response to the 2030 Agenda" – B3
- Research Facility on inequalities, under GPGC 2016 – with AFD (B3)
"It is precisely because the force of circumstances tends continually to destroy equality that the force of legislation should always tend to its maintenance"

"C'est précisément parce que la force des choses tend toujours à détruire l'égalité, que la force de la législation doit toujours tendre à la maintenir."

Du contrat social (1762) de Jean-Jacques Rousseau
Thank you
Assessing Policy Inclusiveness

John Crowley

15/01/2018
Assessing Policy Inclusiveness

Conference « Understanding Global and Local Inequalities: An EU-EFD Initiative »
15 January 2018, AFD Paris
Outline of the presentation

• UNESCO and Global and Local Inequalities: Key Messages from the 2016 World Social Science Report

• An analytical framework for inclusive policies

• The Inclusive Policy Lab
World Social Science Report 2016 | Challenging Inequalities: Pathways to a Just World
Key Messages on Inequalities

Key message 1 | Economic and political power are increasingly concentrated in the hands of a small number of people. This can threaten growth, social cohesion and the health of democracies.

Key message 2 | Global economic inequality declined during the first decade of this century, largely due to the reduction of poverty in countries like China and India. This favourable trend could however be reversed if inequality within countries continues to increase.

Key message 3 | Inequalities within countries are on the rise
Key Messages on Inequalities

Key messages 4 | Inequalities should not be understood and addressed only in relation to income and wealth. They interact across seven key dimensions: economic, political, social, cultural, environmental, spatial and knowledge.

Key message 5 | Current levels of inequality threaten our capacity to address other global priorities.

Key message 6 | Reducing inequalities is a requirement for human rights and justice, and is essential for success in other global priority areas, such as environmental sustainability, conflict resolution and migrations.
Key messages on Inequalities

Key message 7 | Successful pathways to address inequality combine policies and action in context-specific ways.

Key message 8 | Collective action by citizens is opening spaces for additional solutions to inequality that can inspire inclusive policy innovation.

Key message 9 | There are important inequalities in the knowledge produced about inequalities – by sub-field.

Key message 10 | A new social science research agenda is needed to accompany and inform pathways toward greater equality.
Target 16.7

Ensure responsive, inclusive, participatory and representative decision-making at all levels
• 16.7.1
Proportions of positions (by sex, age, persons with disabilities and population groups) in public institutions (national and local legislatures, public service, and judiciary) compared to national distributions

• 16.7.2
Proportion of population who believe decision-making is inclusive and responsive, by sex, age, disability and population group
UNESCO’s Inclusive Policy Markers

Inclusive policies need to be:

- Multidimensional
- Intersectional
- Relational
- Dynamic
- Contextual and multilayered
- Participatory
# Multidimensionality

<table>
<thead>
<tr>
<th>Dimensions of Exclusion and Inclusion</th>
<th>Markers of Inclusive Policies</th>
<th>Design Considerations</th>
</tr>
</thead>
</table>
| Multidimensional                      | Transversal and overarching objective | • System or portfolio of interventions  
• Supra-goal at the priority setting level  
• Allocation of resources based on needs |
|                                     | Continuum of interventions     | • Integrated and multidimensional continuums  
• Coordinating mechanisms |
|                                     | Public sector innovation       | • Trying, testing, improving approach  
• Inclusion of user communities  
• New technologies in design and delivery |
|                                     | Integrated and policy-sensitive evidence | • Integrated approach to data  
• Equity-weighted data  
• Timely data |
# Intersectionality

<table>
<thead>
<tr>
<th>Dimensions of Exclusion and Inclusion</th>
<th>Markers of Inclusive Policies</th>
<th>Design Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intersecting risks and drivers</td>
<td>Exclusion risks and their intersections</td>
<td>• Group conditions and individual characteristics</td>
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<tr>
<td></td>
<td></td>
<td>• Differentiated yet shared risk</td>
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<td></td>
<td></td>
<td>• Cumulative disadvantage</td>
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<td></td>
<td></td>
<td>• Intra-group inequalities</td>
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<td>Removal of drivers of exclusion</td>
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<td>• Structural, behavioural and policy-related drivers</td>
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<tr>
<td></td>
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<td>• Bottlenecks and loopholes with exclusionary potential</td>
</tr>
<tr>
<td>Tailored policy design and service delivery</td>
<td></td>
<td>• Needs and preferences of intended beneficiaries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Not exclusive but fitted interventions</td>
</tr>
<tr>
<td>Analysis of differentiated and distributional policy effects</td>
<td></td>
<td>• Inter-sectoral spillovers of risks</td>
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<tr>
<td></td>
<td></td>
<td>• Group- and category-specific corollaries</td>
</tr>
<tr>
<td>Weighted breadth and depth of intervention</td>
<td></td>
<td>• Intensity, structure and persistence of exclusion</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Types of risks and drivers</td>
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<td></td>
<td></td>
<td>• Depth of coverage</td>
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</tbody>
</table>
**Relationality**

<table>
<thead>
<tr>
<th>Dimensions of Exclusion and Inclusion</th>
<th>Markers of Inclusive Policies</th>
<th>Design Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relational</td>
<td>Equality of opportunities and outcomes</td>
<td>Symptoms and structural causes</td>
</tr>
<tr>
<td></td>
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<td>Efficient use of opportunities; comparable outcomes</td>
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<tr>
<td></td>
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<td>Quick wins and long-term inclusive goals</td>
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<tr>
<td></td>
<td>Delivery of services (supply-side) and adequate access or uptake (demand-side)</td>
<td>Public service network</td>
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<td></td>
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<td>Causes of low uptake</td>
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<td></td>
<td>Terms of inclusion</td>
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<td></td>
<td>Distribution of public expenditure</td>
<td>Redirection of resources</td>
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<tr>
<td></td>
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<td>Group distribution of benefits</td>
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<tr>
<td></td>
<td></td>
<td>Public awareness and value to society at-large</td>
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<td></td>
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<td>Role of international actors</td>
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<tr>
<td></td>
<td>Relation between the mainstream and the excluded populations</td>
<td>Targeting all parties</td>
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<td>Meaningful dialogue</td>
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</table>
## Dynamism

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<thead>
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<th>Dimensions of Exclusion and Inclusion</th>
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<tbody>
<tr>
<td>Dynamic</td>
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<td></td>
<td>Built-in duration</td>
<td>Persistence of exclusion</td>
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<td>Panel or longitudinal data</td>
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<td>Historical and contextual analysis</td>
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<td></td>
<td>Long-term and anticipatory character</td>
<td>Non-linearity; unplanned results</td>
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<tr>
<td></td>
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<td>Nascent and emerging areas of need</td>
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<td></td>
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<td>Anticipatory policy making</td>
</tr>
<tr>
<td></td>
<td>Proactive and reactive functions</td>
<td>Early-stage interventions</td>
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<tr>
<td></td>
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<td>Reactive measure</td>
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</tbody>
</table>
**Contextuality**

<table>
<thead>
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</tr>
</thead>
</table>
| Contextual and multi-layered         | In-country coherence and coordination | - Horizontal coordination  
- Policy coherence  
- Vertical coordination  
- Capacity and institutional fit at all levels |
|                                      | Regional and sub-regional coordination | - Soft law mechanisms  
- Non-standardized instruments |
## Participation

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Participatory</td>
<td>Procedural improvements</td>
<td>• Participation as a normative goal</td>
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<td></td>
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<td>• Participation throughout the policy circle</td>
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<td></td>
<td>• Guaranteed and institutionalized avenues</td>
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<td></td>
<td>Transformative participation</td>
<td>• Susceptibility to marginalization in participatory processes</td>
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<tr>
<td></td>
<td></td>
<td>• Levelling the field</td>
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<td></td>
<td></td>
<td>• Capacity to engage</td>
</tr>
</tbody>
</table>
UNESCO’s Inclusive Policy Lab
An online platform for on-the-ground results

http://en.unesco.org/inclusivepolicylab/
Q&A

Global Inequalities

- Gaël Giraud, Chief economist of the AFD
- Finn Tarp, Director, UNU-Wider
- Françoise Millecam, Head of Sector Employment and Social Inclusion, DEVCO B3
- John Crowley, Chief of Section for Research, Policy and Foresight, UNESCO
The Research Facility on Inequalities

Alessandro Batazzi
European Commission – DG DEVCO

15/01/2018
- Research facility funded by the EU under the Development Cooperation Instrument

- Implementing agency: Agence Française de Développement (AFD)

- EUR 4 M - 3 years

- Research projects on inequality in DCI eligible countries to increase knowledge and build a shared and coordinated response in the fight against inequalities
Objectives

- **Specific Objective 1**: Global Research on drivers, dynamics, & most successful policy responses
- **Specific Objective 2**: Country- & city-based research projects and support partner governments in the designing of relevant public policies to address inequalities.
Objectives (contd.)

Build coordinated response against inequalities between all dev. partners

- **Specific Objective 3:** Develop policy recommendations for EU Member States development agencies and partner countries
Organisational Set-up

DECISION-MAKING: OPERATIONAL & STRATEGIC

EC
EU Member States
Observers (other EU MS agencies)

Scientific Advice

DISSEMINATION, DISCUSSION & SHARING

Development Policy Working Group

Common EU Strategy on Inequalities-Implementation of the 2030 Agenda
Country/City-studies: Selected Areas
Global research Projects

Objective:
- To develop original global and thematic research on the drivers and dynamics of economic and social inequalities in low and middle income countries
- To identify successful policies to address inequalities

Suggested themes
- Patterns of growth: sector composition of economic growth, macroeconomic policy, initial levels of inequality, inequalities and labour policies.
- Trade policies and inequalities
- Distributional incidence of tax policies.
- Distributional incidence of spending policies: social spending (particularly health, education, social protection) including its impact on horizontal and spatial inequalities.
- Inequalities and decentralization.
Global research Projects (contd.)

- European donor + research center (North-South cooperation ideally)

- Commitment from the donor partner to fund min. 25% of total budget

- Budget of max EUR 125,000/project

- 2 years

- Call launched by AFD on Aug. 15

- 4 Proposals reviewed and being evaluated by Scientific Committee
Do you have any questions?

For More info:

Alessandro BATAZZI
Programme Officer - EU policies
European Commission - DG DEVCO - Unit B3 – Migration, Employment
Email: Alessandro.BATAZZI@ec.europa.eu
Q&A
Understanding global and local inequalities: an EU-AFD initiative

15/01/2018 – AFD, Paris
Public Policies, Private Higher Education Development and Inequalities

Rohen d’Aiglepierrre
(with Etienne Gerard, Nolwen Henaff)

A joint program with
Institut de recherche pour le développement (IRD),
UMR 196 CEPED (IRD – Université Paris-Descartes)
15/01/2018
Content

• Education plays a crucial role in the production and the fight against inequalities within and between countries, and in social cohesion.

• The question of inequality in higher education has gained importance with the increase in enrolments in many countries in the world over the past twenty years.

• The rapid increase of the private provision of higher education in emerging and developing countries has taken part in the massification of higher education.
Inequality in Access to Education

Ratio of bottom quintile to top quintile

AE = advanced economies; CIS = Commonwealth of Independent States; EDA = emerging and developing Asia; EDE = emerging and developing Europe; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SSA = sub-Saharan Africa
Objectives

• identifying to what extent and how public policies in developing countries take into account higher education inequalities, and which inequalities they try to redress;

• analysing to what extent and how public policies take into account the extension or strengthening of the private provision of higher education and of its role in raising or reducing inequalities;

• understanding how private higher education providers position themselves inequalities.
Methodology

- A **multidisciplinary project**: sociology, education science, economics, demography
- **Comparative studies**: India, Vietnam, Mexico, Peru, Senegal and the Democratic Republic of Congo
- International and local **scientific literature**
- **Secondary sources** (official documents, texts of laws, reports, studies, quantitative databases (ministries, household) surveys, media ...);
- An **analysis of inequalities in public and private higher education** through available information and data (gender, socioeconomic categories, spatial distribution, identity groups or minorities, quality of education)
- **Interviews** with higher education policymakers and with stakeholders involved in national and international higher education institutions or public-private partnerships (institutions' leaders, teachers, etc.)
Outcomes

• Identify in the selected countries of the policies that have worked to reduce inequalities in access to higher education, conditions of success in higher education studies, or inequalities in the teaching profession.

• Conduct a qualitative and quantitative analysis of the criteria governing access to public and private higher education, study conditions, certification of academic qualifications, etc. For different categories of students and populations.

• Identify the factors of production of inequalities in higher education considered by public policies, and the indicators used to measure and correct them.

• Analyze the quality, relevance and comparability of indicators developed by the government to measure and correct inequalities.

• Develop a conceptual framework and typologies on inequalities and private higher education.
Research Project: Taxation and Inequalities

Hélène Ehrhart (AFD)

Project with the Institut de Recherche pour le Développement (IRD – DIAL)

15/01/2018
• **Context:**
  Focus on reducing inequalities (SDG)
  Focus on increasing domestic tax revenues (Addis-Ababa Conference)
  => Underlines the crucial redistributive role of fiscal policies

• **Team:**
  – 5 senior researchers
    • IRD (Lisa Chauvet, Laure Pasquier-Doumer, Anne-Sophie Robilliard)
    • AFD (Hélène Ehrhart)
    • Université Paris Dauphine (Marc Raffinot)
  – 3 junior researchers (Marin Ferry, Siyavash Eslami Loutij)

• **Output:**
  – 3 research papers, 4 policy briefs, 1 dissemination seminar
Part 1. What is the impact of fiscal policy on inequality? The cases of Côte d’Ivoire, Mali and Senegal

- **Objective:**
  Provide a picture of the distributional impact of taxes, transfers and public spending in three western African countries

- **Methodology:**
  Micro-simulations based on household surveys following the Commitment to Equity (CEQ) Methodology (Lustig and Higgins, 2013; Inchauste and Lustig, 2017)
Part 2. How does the tax mix affect the evolution of within country income inequality?

• Objective:
  Examine how both the objective of collecting more taxes and the tax mix affect inequality within countries

• Methodology:
  Quantitative analyses based on individual household surveys and macro-level data for a sample of 50 developing countries worldwide
Part 3. What is the effect of inequality on tax compliance in Africa?

- **Objective:**
  Identify how the level of inequality affects the individuals’ attitudes toward taxation

- **Methodology:**
  Quantitative analyses using the Afrobarometer studies (tax compliance attitudes) and various measures of inequality
Country- & city-based research projects

Anda David
AFD

15/01/2018
• Objective: to respond to the needs of partner countries and to contribute to designing and implementing appropriate public policies to fight inequality.

• Strong collaboration between Government, local researchers, DUE and AFD.

• Capacity building dimension.
COUNTRY BASED STUDIES
Burkina Faso

“Life course inequalities – trajectories of education, health and labor outcomes”

– Original data from 2 population observatories (Nouna and Ouagadougou)
– Longitudinal analysis on the inequality dynamics
– Urban/rural comparison
– Public partner: Ministry of Education and Ministry of Health
– Co-implementing institutions: Institut Supérieur des Sciences de la Population (ISSP) and Institut des sciences des sociétés (INSS)
Cameroon

“Structural change, growth patterns and their impacts on inequality”

– The project will build on some of the government’s strategies (support to entrepreneurship, private sector support etc.) within the development of the DSCE

– Important dimension to be taken into account: high tensions between the English- and French-speaking communities, fueled by the inequality of opportunity and of access to power.

– Potential public partner: Ministry of Planning

– Potential co-implementing institution: University of Yaoundé II
“The role of spatial approaches and informality in the fight against inequality”

– The research project will respond to the political will to address territorial inequalities and promote inclusion of vulnerable informal workers.
– In-depth analysis of spatial inequality and the outcomes of pro-poor growth strategies.
– Inequality diagnostics.
– Public partner: National Development Planning Commission
– Co-implementing institution: ISSER
Ivory Coast

“Strategies to overcome inequality in a post-conflict context”

– Aim: providing an input for the 2021 National Development Plan.

– Analysis of the main drivers of income and access inequalities in the aftermath of the civil war and the link between perceived inequalities and social cohesion

– Focus on the redistributive impact of the policies considered by the government under its NDP

– Institutional partner: Ministry of Planning
– Co-implementing partner: LAMPE
Kenya

“The drivers of regional and urban inequalities in Kenya”

– Analysis of the drivers and dynamics of spatial and urban inequalities in relation with public spending and taxation.

– Focus on the alternative of direct taxation.

– Co-implementing institution: KIPPRA
Mexico

“Shedding light to the political economy barriers to fighting inequality”

- Research question: the determinants of the high degree of inertia of inequality in the Mexican context
- Specific focus on the structural model of the Mexican economy and its implications for inequality, mainly in terms of productivity and wage pressure
- Co-implementing partner: CIDE, ColMex
Senegal

“*How to design climate change adaptation policies able to reduce inequalities and poverty while promoting ecological intensification?*”

– Analysis of the impact of several CC adaptation policies on inequality: climate services, subsidizing inputs...

– Special emphasis on climate services (including weather insurance)

– Part of the action plan of the implementation of the national framework for climate services

– Public partner: Ministry of Agriculture

– Co-implementing partners: ISRA, University of Thiès
South Africa

“Understanding the dynamics of the earnings distribution in South Africa”

– Follow-up of the EU-PSPPD and the AFD-PII-UCT projects

– Analysis of the drivers of the earnings distribution and their impact on income inequality, in connection with the minimum wage reform

– Public partner: DPME and StatSA

– CO-implementing institution: UCT
Tunisia

“Targeted social protection for the informal sector to combat inequalities”

– The policy responses adopted in the aftermath of the Arab Spring have benefited the relatively privileged.
– Analysis of the policy options for extending social protection programs
– Focus on the role of informality in designing the unique identification system which will be used for the social protection and employment programs.
– Public partner: MDICI
– Co-implementing institution: ITCEQ
• 2 addition country studies with Oxfam

• Burkina Faso and Vietnam

• Implementation of the Oxfam Inequality Framework
CITY BASED STUDIES
Bolivia – La Paz & El Alto

“Urban inequalities related to access to water and sanitation”

– Huge crisis in the water sector in 2016
– Analysis of the evolution and determinants of inequality of access since the privatization (1997) and return to public management (2007) in the sector
– Public partner: Municipalities
– Co-implementing institutions: CIDES-UMSA, Centro Agua, CERES
Jordan - Amman, Irbid, Kerak

“Urban inequalities in cities hosting refugees”

– Analysis of the dynamics of urban inequalities in terms of labor market access, income, housing and basic service since 2010

– Focus on informal labor and informal housing

– Public partner: Municipalities

– Co-implementing potential partner: University of Amman
South Africa - Johannesburg, Cape Town, Durban

“Urban planning and inequality of access to housing”

– Analysis of proactive planning policies on “spatial transformation” implemented since the end of apartheid

– Focus on measuring progress in reducing urban inequalities through various public policies at national, regional and local levels

– Public partner: Municipalities

– Co-implementing potential partners: African Center for Cities, UCT
THANK YOU!
The Oxfam and LSE Inequality Framework

Àlex Prats

15/01/2018
Content

1. Why an Inequality Framework
2. The Oxfam and LSE Inequality Framework
3. Putting the Inequality Framework into practice
1. Why an Inequality Framework

1. Going beyond income and wealth towards a more comprehensive account of inequalities
2. Achieving greater consistency across countries and regions
3. Increasing the effectiveness of programmes for Inequality reduction
2. The Oxfam and LES Inequality Framework

- Developed by Oxfam and LSE’s III, with support by the Atlantic Fellowship Programme
- Based on Sen’s Capability Approach. Emphasis on capability-inequality, not on capability-deprivation
- Builds on UK’s Equality Measurement Framework
- Inputs provided by over 60 experts and practitioners
- (Still work in progress)
2. The Oxfam and LSE Inequality Framework

- 7. Individual, family and social life
- 6. Participation, influence and voice
- 5. Comfortable, independent and secure living conditions
- 4. Financial security and decent work
- 3. Education and learning
- 2. Personal safety and Legal Security
- 1. Life and Health
2. The Oxfam and LES Inequality Framework

| For every domain of life – capability ...
<table>
<thead>
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<tbody>
<tr>
<td>What this domain matters</td>
</tr>
<tr>
<td>Sub-domains</td>
</tr>
<tr>
<td>Indicators and Measures</td>
</tr>
<tr>
<td>Candidate drivers</td>
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<tr>
<td>Policy options for inequality reduction</td>
</tr>
<tr>
<td>Body of evidence on drivers and policies (over time)</td>
</tr>
</tbody>
</table>
## 2. The Oxfam and LES Inequality Framework

### Example of sub-domains

<table>
<thead>
<tr>
<th>1</th>
<th>LIFE AND HEALTH</th>
<th>Inequality in the capability to be alive and live a healthy life</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td><strong>1.A:</strong> Avoid premature mortality through disease, neglect, injury or suicide</td>
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<tr>
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<td><strong>1.B:</strong> Be protected from being killed or murdered.</td>
</tr>
<tr>
<td></td>
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<td><strong>1.C:</strong> Be protected from natural and non-natural disasters</td>
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<tr>
<td></td>
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<td><strong>1.D:</strong> Achieve the highest possible standard of physical health</td>
</tr>
<tr>
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<td></td>
<td><strong>1.E:</strong> Achieve good mental health</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>1.F:</strong> Achieve good sexual and reproductive health</td>
</tr>
</tbody>
</table>
2. The Oxfam and LES Inequality Framework

**Example of candidate drivers**

<table>
<thead>
<tr>
<th>1. Life and Health</th>
<th>1.1. Unequal access to quality and timely healthcare</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.2. Unequal access to clean water, adequate sanitation and good nutrition</td>
</tr>
<tr>
<td></td>
<td>1.3. Unequal exposure to accidents, disasters and environmental risks</td>
</tr>
<tr>
<td></td>
<td>1.4. Harmful social and cultural norms that make certain groups be at greater risk of premature death or poor health</td>
</tr>
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<td></td>
<td>1.5. Legal impunity, state violence, corruption and institutional discrimination</td>
</tr>
<tr>
<td></td>
<td>1.6. Unequal distribution of security and protection infrastructure and resources</td>
</tr>
<tr>
<td></td>
<td>1.7. Lack of regulation of companies whose activities compromise public health</td>
</tr>
<tr>
<td></td>
<td>1.8. Unequal knowledge regarding health</td>
</tr>
</tbody>
</table>
2. The Oxfam and LES Inequality Framework

Adaptability through Countryfication

- Sub-domains
- Indicators and measures
- Variables of disaggregation: sex, age, ethnicity...
- Drivers
- Policy options
2. The Oxfam and LES Inequality Framework

**Merits**

- Solid theoretical underpinnings
- Multidimensional approach
- Allows for the analysis of intersecting inequalities
- Integrates vertical, horizontal and spatial inequalities; Inequalities of opportunities and of outcomes
- Adaptable to different contexts
- Flexible entry points: all domains, one domain, driver, policy
- Powerful hook to bring different actors together
2. The Oxfam and LES Inequality Framework

Challenges

• Sen’s Capability Approach also has its critiques
• Problems with data \(\rightarrow\) Data advocacy
• Primary surveys are expensive
• It can get big
Putting the Inequality Framework into practice

• 2 on-going pilots: Guatemala and Spain
• Implementation with DEVCO/AFD in Vietnam and Burkina in 2018
• Exploring implementation at local level in Spain’s Basque Country in 2018
• Exploring regional implementation in European Union, West Africa and Centroamérica
• Website to be launched in spring
Q&A

Presentation of the research projects funded under the research facility

- Rohen D’Aiglepierre, Research Officer, AFD
- Anda David, Research Officer at AFD
- Hélène Ehrhart, Research Officer, AFD
- Alex Prats, Inequality Lead, Oxfam Intermón
Inequality and social cohesion in South Africa

Murray Leibbrandt

15/01/2018

Input from the “Social Cohesion, Inequality and Inclusive Development” partnership between the French Development Agency and the University of Cape Town
A tale of two papers...

• The South Africa context highlights the need to explore the link between inequality and social cohesion

• Our Main Results:
  • Perceived inequality is key for inter-racial interactions and thus for social cohesion.
  • Higher inequality may adversely affect social cohesion as it reduces inclusiveness at the provincial level.
    – Implication – we need to know the level of inequality at a local level, both in income terms and in other dimensions.

• We explored the spatial disparity of inequality in South Africa
  – Main result:
    • High inequality can be found within both high poverty and low poverty areas.
    • Spatial clustering of inequality is less pronounced than spatial clustering of poverty
Social cohesion and inequality in post-apartheid South Africa

• Apartheid had two elements:
  
  - **Racial segregation** in terms of social contact and integration e.g. segregation of public facilities and spaces, interaction, social events
  
  - **Socio-economic segregation** e.g. dictating property / housing ownership, and employment and economic opportunities by racial groups

• The apartheid regime therefore limited inter-racial contact, and dictated socio-economic opportunities

• The legacies of both racial and socio-economic segregation continue to have an impact on society today
The desire to have a cohesive society has apparently declined in the recent period.
Research motivation

• Popular perceptions
  -- Social cohesion worsened in the recent period
  -- Partially due to increased inequality

• There appears to be some quantitative evidence in support from the IJR but this is yet to be rigorously explored.

• Was the apparent rise in social division over the last decade driven by an increase in inequality?
  - What sorts of inequality?
    - Vertical (inequality among individuals)?
    - Horizontal (inequality between groups)?
    - Inequality at national level or more localized?
Data

• South African Reconciliation Barometer Survey
  – quantitative questionnaire consisting of 100 items (most 5-point Likert scales), most items remained from 2003-2013 to yield comparable data
  – Sample sizes: 2000 metro, 1500 non-metro; equal representation of male / female respondents; sample frames were based on census enumerator areas

• SA census 2011

• Additional data: Google maps, Aid watch, StatsSA municipal GDP figures
What happened to social cohesion?

• Measurement of social cohesion necessary for quantitative analysis, but a difficult task.

• Two measures:
  – individual behaviour in terms of interracial social interactions
  – beyond individual level → SCI
Major changes in interracial social interactions by race since 2003

Desire to talk to people of different race
- more often
- sometimes
- less often
- never
- don't know

Desire to learn customs of people from other races
- strongly agree
- agree
- uncertain
- disagree
- strongly disagree
Are Inter-racial interactions more frequent with higher living standards?

Percentage often or always engaging in inter-racial talk and socialization by LSM, 2013
Both group behavior by race and LSM are important

Inter-racial talk and socialization by LSM and race groups, 2013 (often + always)
Perceived inequality by race group, 2008 and 2013

- **White**
  - Improved a great deal: 30%
  - Improved somewhat: 20%
  - Stayed the same: 40%
  - Worsened somewhat: 10%
  - Worsend a great deal: 5%
  - Don't know: 5%

- **Asian/Indian**
  - Improved a great deal: 35%
  - Improved somewhat: 15%
  - Stayed the same: 35%
  - Worsened somewhat: 10%
  - Worsend a great deal: 5%
  - Don't know: 0%

- **Coloured**
  - Improved a great deal: 30%
  - Improved somewhat: 25%
  - Stayed the same: 30%
  - Worsened somewhat: 10%
  - Worsend a great deal: 5%
  - Don't know: 0%

- **Black/African**
  - Improved a great deal: 25%
  - Improved somewhat: 20%
  - Stayed the same: 35%
  - Worsened somewhat: 15%
  - Worsend a great deal: 5%
  - Don't know: 0%
A social cohesion index

<table>
<thead>
<tr>
<th>5 Dimensions of Social Cohesion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inclusion</strong></td>
</tr>
<tr>
<td><strong>Belonging</strong></td>
</tr>
<tr>
<td><strong>Social relationship</strong></td>
</tr>
<tr>
<td><strong>Participation</strong></td>
</tr>
<tr>
<td><strong>Legitimacy</strong></td>
</tr>
</tbody>
</table>
Evolution of social cohesion over the recent years

SARB
What happened to inequality?

Intra-race group inequality, LSM Ginis

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2008</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population</td>
<td>0.267</td>
<td>0.284</td>
<td>0.207</td>
</tr>
<tr>
<td>Race</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>African/Black</td>
<td>0.214</td>
<td>0.265</td>
<td>0.193</td>
</tr>
<tr>
<td>Coloured</td>
<td>0.144</td>
<td>0.173</td>
<td>0.111</td>
</tr>
<tr>
<td>Indian/Asian</td>
<td>0.107</td>
<td>0.098</td>
<td>0.099</td>
</tr>
<tr>
<td>White</td>
<td>0.072</td>
<td>0.097</td>
<td>0.067</td>
</tr>
</tbody>
</table>
## Horizontal inequalities of LSM - GCV by race and ethnicity

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2008</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Race</td>
<td>0.38</td>
<td>0.32</td>
<td>0.23</td>
</tr>
<tr>
<td>Ethnicity</td>
<td>0.36</td>
<td>0.32</td>
<td>0.19</td>
</tr>
</tbody>
</table>
Poverty at the local level

Patterns of income poverty and multidimensional poverty at the municipal level
What about inequality at the local level?

Patterns of income inequality and deprivation variance at the municipal level.
Spatial autocorrelation of poverty and inequality
Inequality reduction through aid policies: what challenges for economic policy makers?

Pierre Gaudin
Head of the Foreign Aid Unit, French Treasury

The views expressed here are personal, aimed at fostering debate and reflection on inequality reduction. They do not represent French government policy or positions.

15/01/2018 - AFD, Paris
Introduction

- An increasingly topical concern
  - SDGs

- The presentation will:
  - focus mainly on Africa, a priority area for French foreign aid
  - deal mainly with income inequality
Presentation Outline

1. Several challenges and issues for aid and development policy-makers

2. Working towards better integration of inequality reduction in developing economies' public policies

3. What can foreign aid do / do better?
Challenges and issues for aid and development policy-makers
A now well-established rationale on the link between inequality and growth/development

- Inequality hardly avoidable
  - but **opportunity inequality** can be addressed

- **Growth policies can increase inequality**
  - IMF 2017: “Macrostructural policies and income inequalities in LIDCs”

- **Excessive inequality can damage growth**
  - Several simulations made
    - IMF, Oct. 2015 *Sub-Saharan African Regional Economic Outlook*:
      “Annual economic growth in sub-Saharan African countries could be higher by close to 1 percentage point if inequality were reduced to the levels observed in the fast-growing Association of Southeast Asian Nations (ASEAN)”
  - "social capital" in some growth theories
... but some, relatively classical prioritization issues (1/2)

- In some countries inequality reduction is not necessarily the first potential driver of development
  - In some fragile States and particularly low-income economies, the main drags on growth can be the lack of physical and human capital (IMF, Oct. 2015 Sub-Saharan African Regional Economic Outlook)
    - *Traditional aid programmes could remain the main tool to use*

- In middle-income African countries, inequality playing a larger role
  - *A priority area for targeting inequality through aid policies in these countries?*
... but some, relatively classical prioritization issues (2/2)

- **Reaching the largest overall impact on development vs. fighting inequality**
  - concentrate on high-density urban areas vs. reaching out to more isolated rural populations?

- **Concentrate on the least developed countries (LDCs), or also help vulnerable populations in (upper) middle-income countries (U-MICs)**
  - Concrete operational issues:
    - national and international aid targets
    - "graduation" and how best to support "graduating" countries, especially when they are marked by strong inequality (e.g. Latin America)
By definition, foreign aid ("ODA") operates cross-country redistribution: transfer of funds from advanced economies to developing economies

- ... although to a much more limited extent than, for instance, redistributive policies within Western economies

Relatively limited evidence as it comes to aid's impact on within-country inequality

- hard to measure

Foreign aid in "social" sectors (education, health...) can have a counter-redistributive effect, by not being sufficiently targeted at the poorest, most vulnerable parts of the population

- The same statement applies even more to national social policies in developing countries
A need to act on different levels, and drivers, of inequality across countries

- A Southern Africa specificity
- Natural resources and their mismanagement
- Illicit flows, corruption, tax evasion
- Gender inequality
- Bad policies
- ...

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Additional challenges

- How to reach the most isolated populations?

- The appropriate level of redistribution is a highly political choice. Country sovereignty at stake; may have led to a certain reluctance to act in the past.
Working towards better integration of inequality reduction in developing economies' public policies
First, sound macroeconomic and structural policies

- **Sustainable fiscal policy + domestic revenue mobilization (DRM)**
  - Including *sharing fiscal revenue between central and local government*, to support equal development of all areas (DRM now part of AFD's mandate)
  - Counter-cyclical action

- **Avoid too heavy cuts in social spending as part of international bailout programmes**

- **Growth policies**
Increased access to basic services, in particular in terms of infrastructure and human capital

- Work towards **universal health coverage**

- **Quality primary and early secondary education**, accessible to the widest possible share of the population

- Can "conditional cash transfers" (CCTs) help? How to make them sustainable in the long term?

- **Communication networks** and access to **electrical power**

- **Financial inclusion** (microfinance, mobile money...)


Progressivity and better targeting of tax, public spending and public services

- Targeting the most vulnerable sections of the population

- Tax:
  - Increase domestic revenue mobilization by fighting tax evasion, especially by the top earners; fight illicit financial flows
  - Widen tax bases
  - Reduce tax exemptions
  - 21 guidelines adopted by French-speaking Finance Ministers in October 2017

- Putting in place and expanding basic social protection schemes
Improving the management of natural resources

- Transparency (EITI...)
- Reducing tax exemptions and loopholes
- Fighting corruption
Technology can help

- Financial inclusion

- Strengthened access to basic services through mobile payment
What can foreign aid do / do better?
Be aware that aid cannot do it all

- **Country policies** remain a major driver

- **Focus on how to influence them** - through multilateral institutions, through bilateral and regional political dialogues
Continue to operate cross-country redistribution, focusing on the countries most in need

- **Preserve the focus of ODA**
  - Cf. ongoing debate on ODA-eligibility of hurricane-hit Caribbean countries

- **Maintain concentration on LDCs/LICs**
  - Concentration targets for AFD in France

- **Keep aid operations in UMICs focused on vulnerable sections of the population, or highly specific topics**
  - e.g. criteria for AFD grants in South Africa: social cohesion, climate change

- **Continue conducting specific operations towards fragile States**
  - which can often suffer surges in inequalities, following institutional, social and economic vulnerabilities and conflicts
Incorporate inequality reduction more systematically into strategic frameworks and the conduct of projects

- Incorporate an "inequality reduction" item in all aid strategic documents, also covering the drivers of inequality

- Ensure local communities are consulted / sufficiently taken on board in projects. Can help to take into account the interests of all sections of the population
Support governance and legal frameworks, and other institutional setups that can foster equality

- "Rights-based-approach”

- Especially for girls and women: eliminate legal restrictions in all fields (access to financial services, economic rights...)

- Support and finance "counter-powers": civil society, NGOs...

- Domestic revenue mobilization (DRM)
Act on several sectors

- **Strengthen support to basic education**
  - a **topical question**: World Bank's latest World Development Report, replenishment of the Global Partnership for Education (GPE), Gordon Brown's plan for an IFFEd...
  - an important factor in **opportunity inequalities**
  - **girls’ education** an essential aspect, as well as **quality** of education

- Promotion of and help in setting up **social protection floors**
  - political support, technical assistance, reduction of the informal sector

- Continue to support **modernization of agriculture**
Continue working on the best, innovative ways to reach some of the most vulnerable, isolated populations

- **Access to public or private services**
  - autonomous power production
  - financial services through mobile money
  - water or electricity access through mobile money
  - Telemedicine

- **local language education**, and **“non-formal” education** as ways to reach more isolated parts of the population?
Maintain a strong level of support for gender equality

- Continue **mainstreaming** gender in foreign aid

- Continue working on **demographics**, in particular on ways to accelerate Africa's demographic transition

- Need to look more at development economics research by **women**? Cf. A recent post by Alice Evans on the Oxfam blog
Measures and Policies for Fighting Poverty and Inequality

Martin Ravallion

15/01/2018
Messages

Most of the developing world has made good overall progress in reducing the incidence of extreme absolute poverty.

But there are continuing challenges in addressing inequality and relative poverty, and in assuring that none are left behind.

The policies exist and there is experience to draw on. What is often missing is the political will and the administrative capability for effective implementation.
Road map

• **Why do we care?**
  – The ethical and economic arguments for why we need to worry about inequality and poverty.

• **How are we doing?**
  – Short histories of overall progress against inequality and poverty. Are the poorest left behind?

• **How can we do better?**
  – Objectives and constraints; policy options; recommendations for thinking about better policies.
Why do we care about inequality?
Why do we care about inequality? Ethics

Ethical concerns about:

– fairness of processes, such as unfair trades
– unequal opportunities in life, esp. from conditions of birth
– unequal outcomes in life; utilitarian objections; and/or implications for the next generation
– objectionable specific inequities (ethnic, gender, geographic) especially if due to discrimination.
Why do we care? Costs of inequality

• High inequality threatens prospects for future economic growth, and dampens the impact of growth on poverty.
  – Credit constraints facing the poor and middle class.
  – Political impediments to reform and public good provision.
  – Social costs of higher crime, weaker social cohesion.

• Countries starting out with high inequality have a harder time growing their economy, and a harder time assuring that their growth is pro-poor.
Debates about inequality and development

• Unevenness in growth processes => higher inequality emerges, as some poor people take up new opportunities, leaving others behind at least initially (Lewis, Kuznets).

• One view: “Poverty trumps inequality.” If the poorest are also making good progress then rising inequality is acceptable (Rawls).

• Another view raises concerns about high inequality even when poverty is falling
  – Re-emergence of high-end inequality; high returns to rentiers and their idle children (Piketty; Stiglitz). New Gilded Age.
  – Concerns that this will undermine (economically and politically) overall social progress, including for poor people.
Some inequalities matter more

- Inequalities of opportunity perpetuate poverty across generations and are especially damaging to the economy.
- Inequalities in outcomes today can lead to future inequalities of opportunity.
- Absolute inequality matters more to many people. Which has more inequality in your view?
  - State A: (1, 2, 3)
  - State B: (2, 4, 6)
- Roughly half the students asked this say that State B has higher inequality. Yet most (relative) inequality measures (such as Gini index) say that there is no difference.
- Perceptions on the ground often differ to the numbers quoted by economists and statisticians!
How are we doing?
A (super) short history of inequality and poverty
A (super) short history of inequality

• Rising global inequality from 1820 to about 1990.
  – Driven mainly by divergent growth processes: today’s rich world takes off from the early C19th (though some late starters).

• The pattern changed dramatically toward the end of the C20th. Falling global relative inequality in the new Millennium.
  – Driven by convergent growth processes, esp., high growth in Asia.

• At the same time, average inequality within countries has edged upwards since 2000.

• Signs of inequality convergence: tends to rise when low, fall when high.
Global relative inequality and its between- and within-country components

Theil index

Total global inequality
Inequality between countries
Inequality within countries

Source: Bourguignon (2016).
Example: Rising inequality in Indonesia

After long period of stable/declining inequality since 1970

If this trend continues then Indonesia will have the same (post-tax and transfer) inequality as Brazil in about 10 years time.
A (super) short history of poverty

- Absolute global poverty: Long-run decline over 200 years.
- Relative poverty: Social exclusion effects on welfare => weakly relative measures are required for welfare consistency.
  - Poverty line rises with mean but not proportionally
  - By contrast, strongly relative measures—such as 50% of mean—are implausibly low in developing countries.
- Bounds on global poverty:
  - Lower (absolute) bound: World Bank $1.90 line
  - Upper (weakly relative) bound: predicted national poverty line based on the mean for that country and date.
Global poverty rates for lower (absolute) and upper (relative) bounds

On track for SDG1, but last few % may well be harder

Slower progress against relative poverty, and rising share who are no longer absolutely poor but still relatively poor.

Upper bound: weakly relative

Lower bound: absolute in real income

Global headcount index of poverty (%)

 Bounds on poverty in Indonesia

• Declining incidence of poverty despite rising inequality.
• However, little decline in number for upper bound.
• Rising numbers of relatively poor.
Are the poorest being left behind?
Conflicting views

- “The poorest of the world are being left behind. We need to reach out and lift them into our lifeboat.” U.N. Secretary-General Ban Ki-moon, 2011
- “Poverty is not yet defeated. Far too many are being left behind.” Guy Ryder, ILO
- Yet economists appear to tell a very different story. Adages such as “a rising tide lifts all boats” or claims that “growth is good for the poor” or that there has been a “breakthrough from the bottom”

How can we understand such different claims?
The counting approach may miss what is happening at the floor

Floor stays put  Poorest left behind

Same reduction in the incidence of poverty but without leaving the poorest behind
Arguments for monitoring the floor

• Mahatma Gandhi’s talisman:
  – “Recall the face of the poorest and weakest person you have seen and ask if the step you contemplate is going to be any use.”

• SDGs: “ensure no one is left behind.”

• Social policies aim to raise the floor
  – Statutory minimum wage rates: first appeared in late 19th century in an effort to help raise the consumption floor.
  – Basic-income guarantee (BIG): a fixed cash transfer to every adult. A firm floor.
  – Social policy as a “right of citizenship” rather than something to be targeted based on “need.”
Yes, the poorest have been left behind!
Fewer people living near the floor, but little change in the floor.

Rising absolute inequality

Near zero gain at bottom
And globally it looks like this!
Rising absolute inequality coming from top few %

Source: based on estimates by Lakner and Milanovic.
Much less progress in raising the consumption floor globally

Mean consumption ($ per person per day)

Overall mean for developing world

No sign that the new Millennium raised the floor

$0.67 on average (about $1.00 in 2011 PPP)
Indonesia has made somewhat more progress in raising the floor

Mean consumption ($ per person per day; 2011 PPP)

Overall mean for Indonesia

Elasticity=0.3

Consumption floor

Mean consumption ($ per person per day; 2011 PPP)
Policies to help assure pro-poor growth
Economic growth remains crucial, especially in poor places

• Growth has been distribution neutral on average
  – Falling inequality in some growing economies and in some periods (Indonesia 1970-90)
  – But rising in other countries/periods (Indonesia since ‘90s).
• Growth has been the main proximate source of progress against absolute poverty, incl. in Indonesia.
• Little evidence of an aggregate trade off between growth in market economies and equity, but tradeoffs in policy design.
• Some degree of redistribution may even be good for growth, which can also finance more pro-poor policies.
How to achieve more pro-poor growth?

Literature and policy discussions point to the need to:
• Develop human and physical assets of poor people => quality services
• Make markets work better for poor people (credit, labor, land)
• Remove all negative discrimination (race, gender)
• Remove biases against the poor in public spending, taxation, trade and regulation
• Invest in local public goods/infrastructure not neglecting poor areas, incl. agriculture and rural development
• Remove restrictions on migration (between and within)
• Foster labor absorption from urban economies, esp., small and medium sized towns
Human development is crucial for fighting poverty and inequality

• Socio-economic gradients in schooling and health care everywhere help perpetuate poverty and inequality across generations.

• Generalized gains in schooling can be inequality increasing initially; need for focusing on poor families.

• For a country such as Indonesia, education expansion (quality and quantity) tends to be pro-poor.
Redistributive policies to complement pro-poor growth
Lessons from the advanced economies

• Fiscal incidence studies suggest that redistributive policies—mainly taxes and transfers—have reduced inequality substantially (OECD, IMF).
  – Average Gini for market incomes = 0.49
  – Average Gini for disposable income = 0.31

• (Though redistributive effort has not typically increased with the higher inequality of market incomes since mid-1990s.)

• The types of policies have varied over the history of the (current) advanced economies, in line with administrative capabilities and aggregate resources.
Fiscal incidence in Indonesia

• Fiscal incidence studies: Indonesia does less redistribution than found in Latin America, but it also has less inequality.

<table>
<thead>
<tr>
<th>Gini</th>
<th>Market income</th>
<th>Final</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>0.39</td>
<td>0.37</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.58</td>
<td>0.44</td>
</tr>
</tbody>
</table>

(Lustig, 2016)

• Indonesia devotes 5% of GDP to social spending (transfers, pensions, health and education) vs. 24% in Brazil.

• Energy subsidies favored over transfers in Indonesia.
  – High government revenues from the commodity boom 2003-12.
  – But too much went into energy subsidies, favoring non-poor.
  – 4% of GDP on energy subsidies vs. 0.4% on targeted transfers.
Rising use of direct interventions in the developing world, incl. Indonesia

• Two main forms:
  1. Direct non-contributory income transfers to poor or vulnerable families; with or without conditions.
  2. Workfare schemes use work requirements for targeting.
• Today almost every developing country has at least one such program, though often with limited coverage.
• Roughly one billion people currently receive assistance.

But are these interventions reaching the poor?
Uneven coverage of poor people

The share of the poorest 20% receiving help from the social safety net (SSN) programs in developing countries.

- Only about one third of those in the poorest quintile are receiving help from SSNs.
- And worse performance in poorer countries.
- Indonesia is doing relatively well.

Source: WB’s ASPIRE data set

SSN=Non-contributory transfers targeted to poor and vulnerable people.
A new role for redistributive interventions, but many challenges ahead

- Success against relative poverty and in raising the floor will almost certainly require more effective redistributive policies.
- Constraints include information, incentives, financing and political economy. Administrative capacity is key.
- High marginal tax rates on the poor must be avoided; poverty traps due to fine targeting.
- Information constraints can be severe. Reliable fine targeting is rarely feasible in practice in developing economies.
- Method of financing is key to overall impact.
A menu of current policies

- Public services (health, education, security)
  - Targeted or universal
- Cash transfers
  - Targeted, state-contingent) or universal
  - Conditional (e.g., PKH) or unconditional
- Microfinance
- Workfare schemes
  - Low wage rate
  - Assets of value to poor people
- Minimum wage rate (if enforceable)
- Progressive income tax
- Stronger tax enforcement on companies and the rich
A policy proposal to consider seriously, for both pro-poor growth and redistribution

• **Basic full income**
  – Universal; all citizens ("poor" or not)
  – Cash *plus* imputed values of key in-kind services (health, education)
  – Cash accumulates in an account for children until age 18 (say)

• Financed by cutting other subsidies and programs that bring little benefit to the poor

• + progressive income tax when administratively feasible

• Supportive ID system (e.g., *Aadhaar* in India, but privacy concerns).
Six recommendations
1. Tailor policies to the realities of the setting
2. Tap local information but with effective state support
3. Focus on poverty reduction not finer “targeting” per se
4. Protect and promote
5. Monitor and evaluate
6. Learn from mistakes
Further reading:

economicsandpoverty.com

Thank you for your attention!
Q&A

Local inequality and social cohesion

- Anda David, Research Officer, AFD
- Pierre Gaudin, Head of the Foreign Aid Unit at the French Treasury (Economy and Finance Ministry)
- Murray Leibbrandt, Professor of Economics at the University of Cape Town
- Martin Ravallion, Professor of Economics at Georgetown University
Concluding remarks and ways forward

Hélène Djoufelkit, Deputy Director, Economic Assessment and Public Policy Department
French Agency for Development

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Jean-Louis Ville, acting Director People and Peace,

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