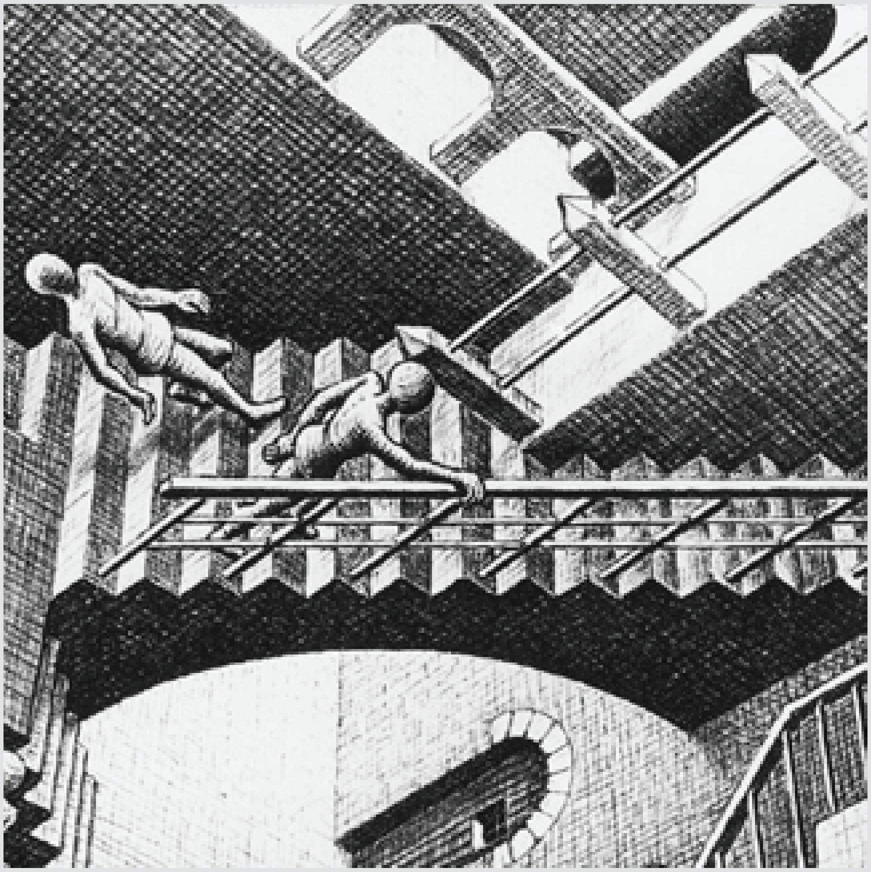
7 A policy framework for addressing inequality in developing countries



A policy framework that systematically and comprehensively addresses inequalities should focus on moderating income inequality, on closing gaps in education, health and nutrition, and on tackling prejudice, stereotypes and other cultural norms that reinforce discrimination.

7.1. Introduction

At the outset of this Report, it was noted that inequality of outcomes and that of opportunities are highly inter-dependent. Without equal opportunities, systemic patterns of discrimination and exclusion prevent the poor and disadvantaged groups from accessing economic, political and social resources, resulting in inequality traps — and the persistence of inequality across generations. Equal opportunities can level the playing field so that the circumstances of birth (such as race, gender, rural or urban location) do not adversely influence an individual's chances to get ahead in life.

Moreover, the capture of economic and political resources by richer households — reflected for instance in public expenditure biases — implies that levelling the playing field remains, politically, a highly contested process. Equalizing opportunities is critical for advancing more equitable outcomes. Apart from such instrumental reasons, equal opportunity has intrinsic value. It is, simply put, the right thing to do.

However, equal opportunities by themselves are unlikely to enhance the well-being of low-income households and disadvantaged groups if income inequalities are rising at the same time. When children from richer households can go to college without accumulating massive debts or access better health care because they can afford to pay for such services, it becomes difficult to argue that incomes do not matter for opportunities to get ahead in life. Equitable outcomes can hardly be derived from unjust starting points.

Since the inequality of outcomes and that of opportunities are interlinked and mutually reinforcing, a comprehensive policy framework to reduce inequality needs to address both.

The mix of policies and how they are sequenced to address inequalities are context-dependent and specific to the needs and requirements of each country. Nevertheless, priority should be given to deeper and more persistent gaps. For example, a country going through rapid urbanization might be experiencing declines in income inequality, but widening gaps in education or health might need to be prioritized.

Based on the analysis of the preceding chapters, this report proposes a comprehensive policy framework to help policy makers better navigate the complexities and challenges of forming appropriate policies to address inequality based on three related pillars:

- Moderating income inequality
- Closing gaps in health, nutrition and education
- Addressing social exclusion by promoting agency, combating discrimination and transforming inequality-reproducing cultural norms

Moderating income inequality:

- Since extreme income disparities limit the ability of individuals and households to get ahead in life, moderating income inequality is necessary for accessing opportunities that promote human well-being.

- Moderating income inequality is critical for leveraging improvements in gender inequality and other forms of horizontal inequality. As noted in this report, a key factor underpinning gender inequality is the unequal bargaining power of women at the household level. In that context, gender equality in livelihoods and earnings improves their fallback position and thus their ability to negotiate for resources at the household level. Gender equality in income is therefore the key to leveraging changes in other domains due to its effect on gender unequal norms and stereotypes.

- Given the high correlation between income inequality and inequality in non-income aspects of well-being, moderating income inequality will be essential for closing gaps in education, health and nutrition outcomes. Indeed, 87 percent of the variation in the ratio of child mortality rates between the richest and lowest quintile, for example, can be attributed to variations in income/wealth inequality.

Closing gaps in education, health and nutrition:

- The capacity to be well-nourished and healthy constitutes the very meaning of a good life. Extreme deprivations in these aspects of human well-being are inherently odious, especially when they are persistent for specific disadvantaged groups in the population. Indeed, the evidence indicates the persistence of significant gaps in education, health and nutrition achievements between income/wealth quintiles, gender and rural and urban populations.

- Improved outcomes with respect to education, health and nutrition also lead to improved growth prospects. For instance, quality education and good health allow individuals to increase their productivity and contribute to economic growth.

- Even as higher incomes will help reduce inequalities in health, nutrition and education outcomes, income alone may be insufficient to close gaps completely. Evidence indicates that, to varying degrees, other factors also count: public expenditure policies, service delivery modalities, institutional capacity constraints, unresponsive governance and biased social norms all play a role in reproducing inequality between households and specific groups within the population.

Tackling prejudice, discrimination and social exclusion:

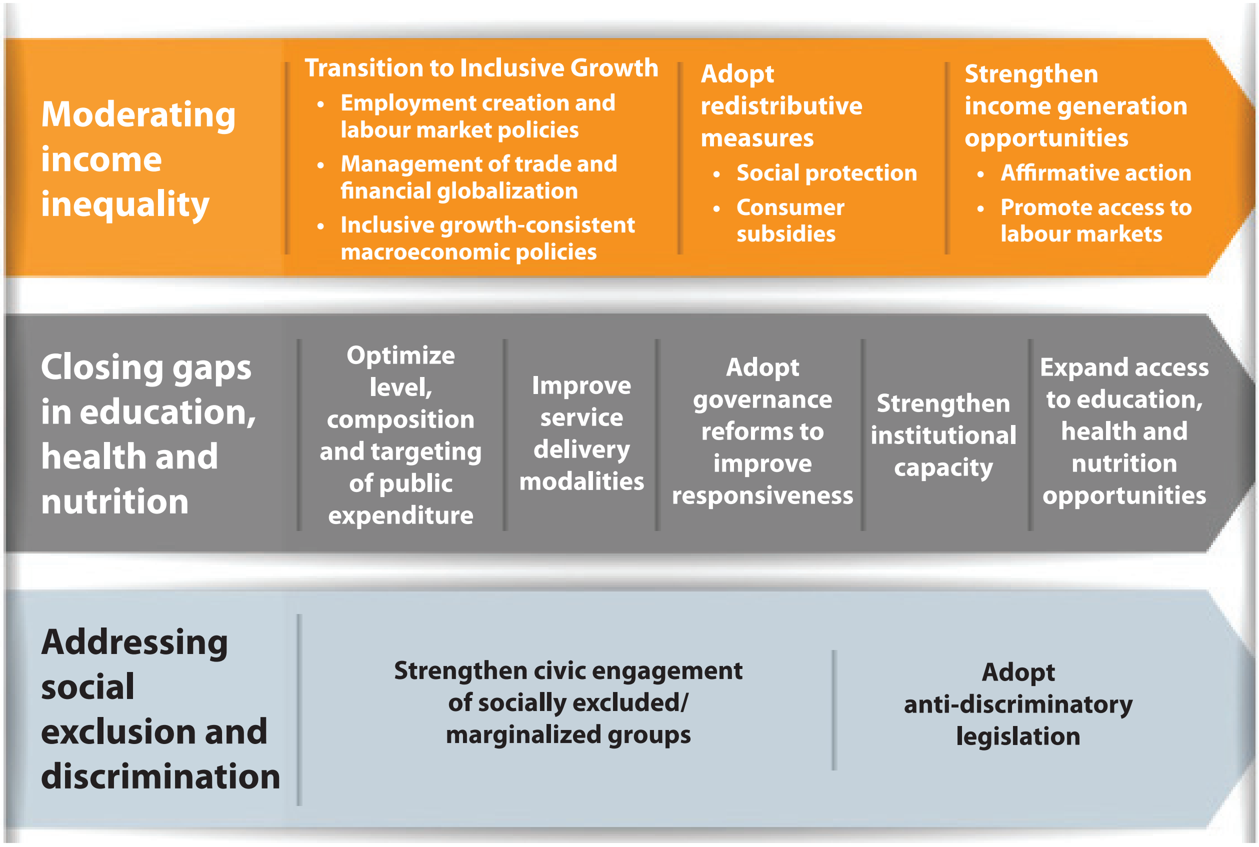
- Prejudice, discrimination and social exclusion are deeply embedded in social, economic and political processes of a society. They serve to reinforce inequalities of outcomes and opportunities by preventing individuals and socially excluded groups from pursuing a life of their own choosing.

- Even as anti-discriminatory legislation and universal service provision can help promote equal opportunity and inequality gaps in outcomes, tackling prejudice and social exclusion will require other fundamental interventions: strengthening the agency, voice and political participation of such groups so that they can be empowered to shape their environment, and the decision making processes that matter for their well-being.

Policy makers across many countries of the developing world have noted the urgency of addressing inequality. But, as pointed out in this report, implementing an inequality-reduction agenda will require creating political space for such change. Making policies for redistribution viable will require specific actions that create political space for inequality reduction, such as facilitating civic engagement and inclusive participation — especially of vulnerable groups and socially excluded populations.

Further, an inequality reduction agenda needs to be anchored in human rights principles and universally adopted standards, such as the UN Charter, the Millennium Declaration and the Universal Declaration for

Figure 7.1. Policy framework to address inequality



Human Rights. This ensures that governments and policy makers are accountable to all citizens for the impact that their decisions (such as those regarding taxation, public expenditure and engagement of civil society) have on the distribution of well-being. A strong accountability component to the policy framework can ensure that inequality reduction is based on the principle of equal human rights for all citizens and prevent the adoption of subjective notions of fairness, which might be the outcome of political negotiation in which the most disadvantaged are often voiceless.

This chapter is organized as follows: section 2 focuses on policies that can moderate income inequality. Section 3 considers policies needed to close gaps in education, health and nutrition. Section 4 focuses on policies that address prejudice and social exclusion and points to strategies that can be adopted to create political space that allows for their greater participation and empowerment. The final section concludes. It should be pointed out that several policy instruments discussed in the following sections can help achieve one or more policy objectives. For instance, even as social protection instruments such as cash transfers can help address inequality in the distribution of income, they can also help close gaps in education, health and nutrition.

7.2. Moderating income inequality

The inevitability of rising inequality during economic development and of the trade-offs that are implied has not found widespread support in empirical studies. This implies that not only can the poorest countries aspire to pursue broad-based growth, but also that rising inequality is no longer a short-term price worth paying for long-term economic development, because high or rising inequality can even slow down future growth. In other words, it is possible to moderate income inequality without jeopardizing long-term growth.

Income inequality has been on the rise in many developing countries since 1995. Moreover, countries that experienced more rapid growth and graduated to higher income groups also found inequality rising faster than other countries. This, then, points to the fact that something about the current pattern of growth in fast-growing countries is excluding large portions of the population from gaining from its benefits.

Thus, at its core, moderating income inequality will require that countries transition towards inclusive growth. It has been noted earlier that inclusive growth is widely understood to be economic growth that results in broadly shared well-being. Inclusive growth can be promoted through three principal routes:

a) By changing the patterns of economic growth such that the incomes of low-income households grow more than the average
b) Through redistributive measures that contribute to growth while reducing inequality
c) By expanding opportunities for low-income households and disadvantaged groups to access employment and income generation options

Underpinning an inclusive growth strategy should be a consistent macroeconomic framework. All too often, macroeconomic policies have been concerned with the narrow objective of macroeconomic stability (i.e., keeping inflation and deficits low). But, as the evidence makes clear, macroeconomic stability has often been achieved at the expense of rising inequality — and sometimes at the expense of growth itself.

7.2a. Promoting inclusive growth patterns

One path towards inclusive growth is through policies that shift the pattern of growth so that the benefits accrue disproportionately to low-income and poor households. This is perhaps the most sustainable route to moderating income inequality since it affects the primary distribution of income and does not require substantial redistributive efforts from the government.

Furthermore, this path towards inclusive growth is good for economic growth. Raising the income of poor and low-income households has the potential to boost domestic aggregate demand because they tend to have a higher marginal propensity to consume compared to higher income households and are more likely to spend their extra income on goods and services that are produced domestically.

Indeed, several developing countries such as China and India are pursuing strategies to raise the income of low-income households. For instance, in February 2013, China unveiled plans to empower the poor and reduce inequality — by lifting 80 million people from poverty by 2015. The plan aims to boost minimum wages to at least 40 percent of average salaries, loosen controls on lending and deposit rates and increase spending on education and affordable housing (Salidjanova, 2013).

India's 12th Five-Year Plan (2012-2017) is also explicitly focused on "faster, sustainable and more inclusive growth." The plan aims to "create adequate livelihood opportunities and add to decent employment commensurate with the expectations of a growing labour force" through the acceleration of the pace of job, creation particularly in the manufacturing sector (Government of India Planning Commission, 2011).

Three sets of policy measures are necessary to shift the pattern of growth such that the incomes of low-income households increase more than the average:

i. Employment and income generation and labour market policies

ii. Managing financial and trade globalization

iii. Inclusive growth consistent macroeconomic policies

Employment and income generation and labour market policies

Employment and income generation

An inclusive pattern of growth is first and foremost a pattern of growth that prioritizes the creation of productive employment. Economic growth can only reduce inequality if its benefits are shared widely across the population. Furthermore, employment represents a very significant channel through which the income generated from growth can be distributed, particularly since low-income households rely mostly on labour income for their livelihoods. Thus, if countries are to reduce inequality sustainably, the economy needs to create a sufficient number of jobs to secure employment for the majority of the population (quantity); the employment generated needs to provide sufficient income, security and stability to workers (quality); and it needs to be accessible to all groups within a population (equal access). Indeed, unequal access to quality employment is a key reason accounting for the persistence of horizontal inequalities, including gender inequality. Vulnerable employment is much more pervasive among women than men, underlining the comparative disadvantages that women face in accessing more secure and better jobs as wage earners.

Economic growth can only reduce inequality if its benefits are shared widely across the population.

However, in many countries, growth has been anything but inclusive. In fact, jobless growth (i.e., growth without a commensurate increase in decent and productive employment in the formal sector) has been an important factor contributing to increases in inequality worldwide. In the period before the global economic and financial crisis, particularly since the early 2000s, many economies achieved high growth rates. Yet the response of employment to growth (the employment elasticity of growth) was low. An examination of recent global growth and employment trends shows that, when growth rates were falling sharply, the employment-to-population ratio decreased slightly from 61.2 percent to 60 percent, but when the world economy was growing steadily, the employment-to-population ratio remained stagnant around 60 percent (ILO, 2012).

The employment elasticity of growth has systematically fallen since 2000 in regions such as sub-Saharan Africa, the Middle East and Latin America and the Caribbean (Kapsos, 2005). With little job creation, many low-income households have ended up engaged in low-productivity sectors with inadequate earnings, lack of security and unsafe conditions. Even the Asia Pacific region, which anchors the global economy, has more than one billion people who remain in vulnerable employment (UNESCAP, 2013).

Small and Medium Enterprise Promotion

Any attempt to achieve inclusive growth by generating employment for the tail end of the income distribution in developing countries needs to consider small and medium enterprises. Small and medium enterprises are responsible for over two thirds of employment in developing countries, with the poor disproportionately represented in this sector (Fajnzylber, et al., 2006). Furthermore, the expansion of small and medium enterprises can boost employment more than large firm growth because small and medium enterprises tend to be more labour-intensive. Empirical studies in eight African countries show that household enterprises were responsible for generating more new jobs than large corporations (Fox and Sohnesen, 2012). A recent World Bank study estimated that, if each self-employed worker created a single additional job, such additional job creation would amount to 8 percent of total employment in Kenya, 5 percent in Egypt and 4 percent in Costa Rica, as a share of the working age population (World Bank, 2013).

However, small and medium enterprises often face difficulties accessing finance and markets, which limits their capacity to grow and expand. Governments can implement a number of policies to help these firms to be more efficient and competitive, while at the same time creating relatively good-income jobs, by improving the business environment under which they operate.

Lack of capital is a major hindrance to start-up and a major impediment to staying in business or expanding operations for small and medium enterprises. Some countries have started experimenting with small and medium enterprise financing through central bank mechanisms along with special public funds to stimulate and guarantee bank loans linked to their business plans (e.g., India, China, Indonesia, Malaysia) (ADB, 2009). Others, through regulations, encourage affordable credit to small and medium enterprises that operate in strategically important sectors.

To help small and medium enterprises adopt new technologies and access new markets, governments can act as facilitators of information on topics such as improved production methods, products and markets, technical support services and vocational training. Governments can also strengthen business links between small and medium enterprises, large enterprises and government by providing incentives for contracting with small and medium enterprises. Some governments, for examples, have quotas for a proportion of government procurement to be contracted to small and medium enterprises.

Integrating entrepreneurs with large-scale enterprises is another practical strategy to support small and medium enterprises. Malaysia's development strategy was based on developing a manufacturing sector, mainly driven by consumer goods production, including electronics and machinery. The strategy deliberately ensured that small and medium enterprises were integrated with the industrial sector as providers of inputs and raw material to bigger firms (Kawanabe, 1995).

Employment Guarantee Schemes

Employment can be enhanced, especially in rural areas, through government-sponsored employment guarantee schemes. In such schemes, the government acts as employer of last resort. This is an important tool to absorb low-skilled poor workers and allow them to earn a basic income. The main aim is to raise the income of poor families by directly creating jobs and acting as a safety net to guarantee a certain level of income for those otherwise unemployed, while putting in place much needed economic and social infrastructure (ADB, 2012).

Work projects are usually labour-intensive, public service and infrastructure programmes such as building rural roads, street cleaning and reforestation. However, in many countries, employment guarantee schemes are still viewed as contingency measures to counteract the impact of shocks and are therefore implemented as temporary measures.

Evidence indicates, however, that scaling up employment guarantee schemes can be effective for reducing inequality, including horizontal inequalities. Moreover, the infrastructure built increases labour productivity, the cost per net job created is often much lower than for alternative policies, and the programme wage becomes the *de facto* minimum wage, reducing minimum wage enforcement costs.

Labour market policies

In addition to employment creation, there is growing recognition that fostering inclusive growth requires stronger labour market institutions. Indeed, labour policies have been a driver of higher income inequality

Box 7.1. Agricultural development

Raising agricultural productivity is essential for improving the income levels of low-income and poor households in rural areas and for reducing inequality. Even as most poor households in developing countries are situated in rural areas, with agriculture the largest employer of the poor globally, this sector has long been neglected, weakening its capacity to reduce inequality and poverty. Many developing countries have experienced a sharp drop in agricultural productivity growth consequent to declines in public investment in agriculture and in extension services and to cuts in agricultural credit and input subsidies.

Policies that improve agricultural productivity focus on three issues: land, infrastructure and finance. Very unequal land distribution (arising for historical and/or geographic reasons) hinders agricultural development by concentrating land into large units with high capital intensity (Eastwood, Kirsten and Lipton, 2010). When rural families have access and secure control to land, they are likely to grow more food and see their incomes rise (IFAD, 2013). Small farms also employ more people per hectare than larger units, generating more employment. The division of large farms into smaller units often results in greater food production per hectare. This is happening in a number of countries. In India, for example, the legislated land reform since the 1960s that set ceilings for the ownership of land has been associated with poverty reduction (Besley and Burgess, 2000). In China, the shift from large farms to smallholdings (from 1977 to 1985) witnessed an unprecedented increase in farm output that enabled millions of households to exit poverty.

However, past land reform has often been problematic, as it resulted in the further concentration of land in the hands of the more powerful. Innovative forms of land reform include the paying of market value to landowners for their land, the distribution of micro-plots, resettlement schemes, restitution, land leasing and sharecropping. The benefits of land redistribution to the poor in low-income countries are also more likely in the presence of support services by the government, including, *inter alia*, agriculture extension and marketing facilities.

Improved access to infrastructure, including physical and social infrastructure, is also key to improving agricultural productivity. Often, rural areas are isolated and have limited access to markets and services. The provision of rural infrastructure, including telecommunications, transport, water supply networks and energy, is thus a key requirement for raising the productivity of the sector. Finally, rural financing is also essential to improving agricultural productivity. Development of the financial sector provides farmers access to productivity-enhancing equipment, which can translate into improved income (Feijen and Claessens, 2006).

over the past three decades (see chapter 3d). To this end, several countries (for instance, Brazil, Malaysia, the Philippines and Viet Nam) have adopted or revised minimum wage policies and introduced related wage reforms. In fact, since the beginning of 2012, minimum wages have been introduced or raised for the first time in more than 20 countries in Asia Pacific. Malaysia was the most recent to establish a comprehensive national minimum wage in January 2013. Likewise, the new daily minimum wage of 300 Thai baht (THB), or approximately US$10, per day set in Thailand came into effect across the country in January 2013.

Adopt Minimum Wage Policy

The minimum wage is one of the most common labour market legislations, with over 90 countries having such a law, although these vary greatly in their value, scope, complexity and enforcement (ILO, 2008). The principal aim of minimum wages is to set a wage floor that ensures that all workers share in productivity gains.

Setting a minimum wage that effectively improves the distribution of income, however, can be problematic. On the one hand, a minimum wage needs to be high enough to allow an adequate or decent standard of living. On the other, it should not be so high that it prices low-skilled poor workers or certain groups like youth out of employment.

Critics argue that, since the minimum wage applies only to low-skilled workers, it might increase the risk of the poorest remaining or becoming unemployed. This criticism has been challenged by a large number of economists and policy makers who believe that modest increases in the minimum wage will improve the well-being of low-wage workers without adverse effects on employment (Maning, 2003; Card and Kreuger, 1995; UNCTAD, 2012). For instance, it is estimated that the recent increase of the minimum wage in Thailand could increase employment growth by 0.6 percent and real GDP growth by 0.7 percent by 2015, compared to a baseline scenario of no minimum wage increase.

The effect of minimum wages on inequality in Brazil provides an interesting example. Between 2003 and 2010, the real minimum wage increased by 80 percent in Brazil. A study looking at income inequality from 1995 to 2009 found that two thirds of this reduction was due to improvements in labour market earnings, while one third was due to cash transfers. Minimum wage increases were found to be responsible for one quarter of the labour market effect and, by extension, for 16 percent of the total reduction in inequality (Soares, 2010).

Minimum wages can also have other positive externalities. There is evidence that, by serving as a benchmark for individual wage negotiations, a minimum wage can help increase pay even of informal workers (Keifman and Maurizio, 2012).

Strengthen Collective Bargaining

Collective bargaining reduces wage inequality because it helps establish standard rates for comparable work across businesses and for particular occupations within establishments, with less differentiation of wages among workers and even less discrimination against women and minorities. Furthermore, with collective bargaining, the wage gaps between occupations tend to be lower. Collective bargaining also reduces wage inequality indirectly. Wage and benefit standards set by collective bargaining are often followed in workplaces not covered by collective bargaining, especially in sectors and industries where there is a large coverage of unions. Indeed, collective bargaining is associated with lower wage inequality between the top and bottom deciles of the income distribution (ILO, 2008). A review in developed and developing countries of collective

Box 7.2. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

One of the largest programmes worldwide, India's national rural employment guarantee scheme was launched in 2006 in 200 of the most backward districts of India (of 640 districts in all). This programme recognizes the right to work as a legal right and provides every rural citizen who meets a set of specific requirements the right to 100 days of remunerated employment per year.

The core funding for the programme is provided by the central government and state governments make additional contributions. The number of households who accessed employment reached 38 million in 2010/2011, which amounted to more than 1,200 million person-days of work.

According to the Act, employment must be provided within 15 days of demand within a 5-kilometre radius of the village (or else extra wages of 10 percent must be paid) or else an unemployment allowance must be paid by the state at its own cost. The Act also contains provisions for how soon NREGA job seekers must receive a work opportunity. The work focuses on the creation of productive assets and ensures that it is labour-intensive by not allowing contractors or machinery to create these assets.

In terms of inequality, an important characteristic of this programme is the large number of women who have used it, with female participation reaching 49 percent in 2010/2011. The programme has been credited with positive impacts such as increasing rural wages, reducing distress migration, improving infrastructure, reducing unemployment and underemployment, encouraging agricultural productivity and reducing malnutrition.

Source: *Bonner et al. (2012); Jagannathan (2011); Sjoblom and Farrington (2008); Zepeda et al. (2012)*

bargaining effects on inequality suggests that, in most countries, there is less wage inequality in unionized sectors compared to non-unionized sectors (Hayter and Weiberg, 2011).

Unfortunately, collective bargaining coverage has decreased considerably in the past decades in developing countries, due mainly to increases in informal labour arrangements, higher unemployment, increasing subcontracting and other forms of non- standard employment relationships.

Collective bargaining can take place at two levels: either at the enterprise level or the industrial or sector level. Issues that are collectively bargained can include wages, contracts of employment, labour contracting, maternity rights, health benefits, hours of work, leave, occupational health, safety and environment, housing conditions, grievance procedures, transport of workers, elimination of child labour and even measures to counter HIV/AIDS.

At the same time, governments, too, can vigorously promote collective bargaining and improve its reach and effectiveness by passing and enforcing legislation that encourages the formation of unions and by looking for innovative ways to extend unions to the informal sector in an effort to help informal workers have some form of representation and protection.

Managing financial and trade globalization

Employment and labour policies alone will not be sufficient to shift growth patterns in favour of poor and low-income households. Policies also have to address the drivers of inequality that are associated with globalization, such as international trade and finance. Indeed, the empirical evidence presented in this report shows that trade and financial globalization are significant drivers of increases in income inequality in the past 30 years.

Managing financial globalization

Private capital flows have become a significant source of investment in many developing countries. For instance, in a few countries in Africa (Uganda, Cameroon, and the Gambia), foreign private capital stocks constitute 30 percent of GDP (Bhinda and Martin, 2009).

International capital flows are highly volatile and such volatility can jeopardize the stability of economic growth itself. For instance, large capital inflows — especially into asset markets — can destabilize growth and result in banking sector crises if reversed. As shown by Stiglitz (1998), countries that experienced a banking or financial crisis between 1975 and 1994 registered a 1.3 percent lower growth rate in the subsequent five years than other countries.

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Moreover, financial globalization has adverse impacts on income inequality for a variety of reasons. First, the prospect of capital flight has led many governments to adopt a conservative fiscal policy stance, which has limited revenue and resulted in public expenditure cuts, especially in social and infrastructure sectors (Stiglitz, 2000). Capital flight can lead to a sharp devaluation of the real exchange rate, leading to increases in the price of strategically imported goods (such as medicine and food), which weakens the purchasing power of low-income households. Capital flights can also lower the demand for labour, resulting in falling real wages and increases in unemployment.

As more developing countries have become integrated into global financial markets, they compete for foreign direct investment and export market shares by lowering minimum wages, labour standards and tax rates. Lower tax revenues have constrained the ability of governments to increase public investment, whereas lower wages have increased income inequality.

Managing and minimizing the volatility of international capital flows is hence necessary to stabilize the growth process and to ensure that the distributional impacts associated with financial globalization do not worsen income inequality. One measure that manages disruptive capital inflows includes limiting the quantity and areas of the financial sector into which such flows may enter. Capital controls and other macro-prudential measures have also become more popular in recent years. Brazil, Indonesia, South Korea and Thailand, for instance, have introduced defensive measures against capital flows that include preventing maturity and locational mismatches, reducing financial fragility and reducing currency risk and speculative pressures (UNESCAP, 2013).

The international community can also help governments mitigate the impacts of crises induced by financial volatility by supporting adequate financing facilities to prevent crises from occurring, deepening and spreading through contagion. One of the key lessons learned from the most recent financial and economic crises is that emergency financing needs to be on a large scale, rapidly disbursed and made available to countries that may suffer contagion effects (UNDP, 2011).

Managing international trade

An important feature of globalization over the past 30 years has been the integration of many developing economies into international trade markets. While trade liberalization has supported greater international economic integration, there is also evidence that these trends have contributed to increasing income inequality.

For instance, trade liberalization has increased the pace of skill-biased technical change because, in open markets, heightened competition increases the incentive for investment in cost-saving and productivity-enhancing technologies. This, in turn, has increased the wage premium for high-skilled workers and contained wage growth for other workers. Indeed, evidence shows that the skill bias in technology has been more pronounced in sectors that experienced greater trade liberalization (Wood, 1994; Theonig and Verdier, 2003). Moreover, the need to compete in international trade markets has encouraged changes in labour market institutions, leading to the weakening of labour collective action platforms, such as unions and the declining real value of minimum wages.

While action to tackle inequality must be taken at country level, it should be emphasized that decisive progress will be possible only in the presence of conducive international policy frameworks.

While action to tackle inequality must be taken at country level, it should be emphasized that decisive progress will be possible only in the presence of conducive international policy frameworks. It is clear that the causes underpinning increasing income inequality are limited if addressed exclusively through domestic interventions. For instance: industrial policy aimed at promoting investment in sectors with larger proportions of high-skills jobs are dependent on the structure of international intellectual property regimes; the taxation of financial transactions cannot be effectively enforced in a context of high mobility of financial capitals without adequate coordination across countries; similarly in a context of high trade integration, coordinated efforts are indispensable to ensuring the full realization of international labour standards. It is therefore necessary to address the issue of policies to manage financial and trade globalization not only within countries, but also — in a prospective of global governance — within international economic coordination mechanisms.

Inclusive growth consistent macroeconomic policies

Transitioning to inclusive growth pathways will require macroeconomic policies that are consistent with promoting the objectives of growth and moderating income inequality. However, the dominant macroeconomic policy paradigm during the past 30 years has not prioritized economic growth and employment creation. Macroeconomic policies in most developing countries since 1980 have focused mainly on stabilization (defined as keeping inflation at a very low levels and achieving a primary budget surplus or a very low deficit-to-GDP ratio).

This paradigm — dubbed "the Washington Consensus" by Williamson (1989) — achieved a reasonable degree of macroeconomic (price) stability across developing countries, but it has also come at the expense of higher income inequality and slower growth. Indeed, the performance of developing countries in terms of growth and distribution was worse during the Washington Consensus era (1980-2000) than from 1960 to 1980, when achieving growth was a central priority of macroeconomic policies (Cornia, 2012).

A macroeconomic strategy to promote inclusive growth, though, will have to prioritize economic growth, employment creation and macroeconomic stability.

Monetary policy

Policy makers in developing countries traditionally prioritized very low inflation as the target of monetary policy. However, this has led many developing countries into 'stabilization traps' of low inflation with low or no growth (UNESCAP, 2013:141). A tight monetary policy targeting low inflation (below 5 percent annually) uses high interest rates to curb price inflation. High interest rate increases the output gap and suppresses growth, investment and employment creation. In other words, inflation targeting is achieved at the expense of the key drivers of any inclusive growth strategy: growth and employment creation.

Monetary policy that is consistent with an inclusive growth strategy will have to go beyond the singular focus on low inflation and prioritize growth and equality. This means that governments can target a moderate rather than low level of inflation that keeps interest rates low and encourages investment, growth and employment creation.

Adopting more flexible monetary policies also supports long-term growth by giving governments the policy space to fight crises (Blanchard et al., 2010). For instance, during economic crises, governments should have the space to relax inflation targets and lower nominal interest rates to avoid a contraction in investment and growth that would worsen income distribution.

Moreover, intermediate inflation targets can have positive distributional impacts for poor and low-income households by reducing the real value of debt held by them, since these households generally tend to be net debtors. This can help poor households build assets, acquire credit and repay accumulated debts faster.

In sum, adopting flexible and countercyclical monetary policy will support inclusive growth by prioritizing growth itself, reducing growth volatility, and increasing the ability of poor households to accumulate productive assets by reducing the real cost of credit.

Exchange rate policies

Closely related to monetary, trade and financial liberalization management policies are exchange rate policies. In the past 30 years, many developing countries adopted either a fixed-peg or free-float exchange rate regime. Both regimes have left countries prone to currency crises and were not conducive to growth, especially given the appreciation of real effective exchange rates induced by large international capital inflows.

Capital account liberalization in developing countries led to an appreciation of real effective exchange rates and, as a result, an overexpansion of imports at the expense of local production. This, in turn, led to a depression of growth and employment.

Additionally, domestic firms that lost competitiveness due to the increase in real effective exchange rates were pushed to cut costs by reducing employment and wages, all of which meant a deterioration in income distribution.

Moreover, the appreciation of real effective exchange rates in countries that adopted fixed-peg exchange rate regimes increased the risk of currency crises (e.g., the Asian crisis of 1997, the Argentinian crisis of 2001 and the Russian crisis of 1998), with severe consequences for growth, inequality and poverty.

Therefore, exchange rate policies that are consistent with inclusive growth should stay away from 'two-corner' solutions of either fixed or free-floating regimes and adopt an intermediate exchange rate regime. Such a regime is a managed float that combines exchange rate flexibility and discretionary intervention by the central bank in the currency market. Governments following intermediate exchange rate regimes are better able to maintain a competitive real effective exchange rate, which has been shown to be a key factor in supporting growth (Rodrik, 2003; Gala, 2007).

Indeed, a growing number of countries have adopted 'intermediate' exchange rate regimes (Williamson, 2003: Frenkel and Rapetti, 2008) and the evidence in support of an intermediate regime is mounting (Bordo,2003; Corden, 2002; Edwards and Savastano, 1999). The historical experiences of many countries show that, for less financially mature countries, intermediate regimes are preferable, since they reduce the chances of currency crises and maintain a competitive real effective exchange rate that supports a balanced current account and that strengthens export sectors that generate employment, particularly for the poor.

That being said, there is no one-size-fits-all approach to exchange rate regimes. As Frankel (1999) points out, the choice of exchange rate regime is country- and time-specific. If exchange rate policies are to be consistent with an inclusive growth strategy, policy makers have to consider the impact of the exchange rate regime on growth and income distribution.

Fiscal policies

Traditionally, taxes and public expenditure have played a major role in improving incomes and consumption among low-income households. However, since the mid-1990s, the equalizing effect of fiscal policy appears to have remained stagnant in developing countries in part because of increasingly regressive tax systems (UNCTAD, 2012). The Washington Consensus set of policies prioritized low fiscal deficits while advocating for lower income and corporate taxes. As a result, most countries cut public expenditures drastically, especially public investments and social spending, with disastrous effects on the redistributive role of government policies (UNESCAP, 2013).

Yet fiscal policy management can play a key role in promoting inclusive growth. First, countercyclical fiscal policy (for instance, adopting expansionary fiscal policies during economic slowdowns and crises) promotes stability and minimizes the impact of economic crises on low-income households. Second, fiscal policies can play a redistributive role that ensures that households that were excluded from growth can still enjoy the benefits of growth.

7.2b. Redistributive measures to improve the distribution of income

Redistributive policies can promote growth while reducing inequality through a number of channels. First, redistribution can raise the incomes of low-income households that have a higher marginal propensity to consume relative to richer households. This, in turn, boosts domestic demand and thus economic growth (Taylor, 2009). Second, redistributive measures can also expand opportunities by directing public expenditures towards improving human capabilities. Higher levels of education and health raise productivity and thus economic growth (Seguino, 2012). Redistributive measures most commonly adopted by countries include (a) a range of social protection programmes and (b) consumer subsidies for basic goods.

Social Protection

Social protection can contribute to the reduction of inequality by providing households with a minimum of income security necessary for investing in human capital and income-generation activities. Regular and reliable income transfers can help to unlock productive entrepreneurial capacity, increase labour force participation and boost local development and job creation (Barrientos and Nino-Zarazua, 2010; Samson 2009). By guaranteeing access to essential goods and services such as health, education and nutrition, social protection can also play a key role in reducing unequal opportunities for low-income households and socially excluded groups. Finally, social protection can lower the risks and vulnerability of low-income and vulnerable households to crises and shocks (Barrientos, 2008; Fiszbein and Schady, 2009).

In other words, social protection affects the well-being of poor households through three channels: first, by directly reducing income poverty through a transfer of purchasing power to beneficiaries; second, by providing insurance/protection against risk or shocks; and, third, by providing investment income as additional returns or income from productive investment and employment generated through the participation in social protection programmes (Fiszbein et al., 2013).

Generally, social protection programmes can be classified into either of two categories: social insurance or social assistance programmes.[1] Social insurance programmes aim to provide individuals and households with protection to cope with contingencies and events such as disability, maternity or unemployment (Barrientos and Hulme, 2008; Sabates-Wheeler and Devereux, 2008; World Bank 2012a; Asian Development Bank, 2003).

Box 7.3. Seguro Popular in Mexico

Seguro Popular in Mexico was launched in 2003 and has insured 52.6 million previously uninsured Mexicans, mostly belonging to the poorest four income deciles. By 2012, the programme contributed to providing universal health insurance coverage in the country.

Seguro Popular offers health coverage to people regardless of their employment status and its fees are based on an individual's capacity to pay. The law exempts from payment the four poorest income deciles as well as families in deciles IV–VII where there is a pregnant woman or a young child. Household data reveals that the proportion of out-of-pocket health expenditures in poor households has fallen from 13.7 percent in 2002 to 11.4 percent in 2010.

The programme covers 284 basic health services (estimated to include over 95 percent of reasons why patients seek services). It also covers catastrophic medical expenses, such as those related to HIV/AIDS or several types of cancer. If paid out of pocket, these expenditures represent at least 30 percent* of a household's capacity to pay.

The increased coverage provided by the programme has been extended to marginalized groups such as indigenous populations. The enrolment of indigenous persons increased by 47.9 percent between 2006 and 2012, representing approximately 9 percent of *Seguro Popular* enrolees, which is in line with the percentage of the indigenous population in the overall population (9.4 percent).**

** Threshold used in Knaul et al., 2012. WHO recommends a 40 percent threshold (Xu et al., 2005)*

*** Estimate of the National Commission for the Development of Indigenous People (CDI).*

***Source:** Knaul, F. M. et al. (2012), National Institute of Public Health (2012), National Commission for the Development of Indigenous Peoples (2011), Xu et al. (2005).*

These programmes include, for example, health insurance, unemployment benefits and pension programmes that are generally contributory (Barrientos and Hulme, 2008).

However, when social insurance programmes function only in the context of formal employment, they can, in fact, be regressive.[2] In Peru and Mexico, for example, Lustig et al. (2011) find that the distributive impact of formal and public sector pensions is regressive[3] in relative terms, which means that they "make the post-transfer distribution worse than the pre-transfer one" (Esquivel et al., 2010:208).

Formal social insurance can also leave out individuals who cannot participate in the labour market, such as persons with severe disabilities, children and, in some cases, the elderly (Cecchini and Martínez, 2012; World Bank, 2012a) as well as their caregivers (who are commonly women).

It is important to extend social insurance programmes to those workers outside the formal sector. Indeed, doing so can substantially moderate income inequality.

Social assistance programmes aim to provide households and individuals a minimum of income security to meet basic needs and to invest in human capabilities. Specific programmes include targeted cash and in-kind transfers such as conditional cash-transfer programmes, food stamps, school feeding programmes, subsidies and fee waivers. Such programmes are normally tax-financed (Barrientos and Hulme, 2008; World Bank, 2006).

In recent years, more focus has been placed on the potential of social assistance programmes to reduce inequality. Cash or in-kind transfers allow households to invest in human capital., skills and productive assets such as land or livestock, which can allow households to move beyond subsistence levels (DFID, 2011; Fiszbein and Schady, 2009; Cecchini and Martinez, 2012; Kahhat, 2010; World Bank, 2012a). A DFID study on cash transfers (2011) cites evidence that 15 percent of the beneficiaries of Ethiopia's main cash transfer

Box 7.4. Impact of conditional cash transfers on inequality in Latin America

There is mounting evidence that targeted conditional cash-transfer programmes in Latin America have contributed to reducing inequality. Mexico's conditional cash-transfer programme, Oportunidades, is responsible for almost one fifth of the decline in the Gini between 1996 and 2006 (0.502 in 1996 to 0.494 in 2006) (Esquivel et al., 2010). Estimates indicate that 13 percent of the fall in inequality in Brazil between 2001 and 2007 is on account of Bolsa Familia, the country's conditional cash-transfer programme (Barros et al., 2010).

Another study of five countries in the region (Argentina, Bolivia, Brazil, Mexico and Peru) (Lustig et al., 2011) concludes that the improvements in income redistribution in these countries can be attributed in part to the introduction of large-scale targeted cash-transfer programmes such as Oportunidades and Bolsa Familia, as well Asignación Universal por Hijo in Argentina, Bono Juancito Pinto in Bolivia and Juntos in Peru. The study uses household level data for one given year for each country to assess the distributive impact of a range of fiscal interventions and finds that targeted cash transfers are progressive in absolute terms, meaning the poor receive more than the rich in per capita terms (Lustig et al., 2011; Esquivel et al., 2010). In fact, in each country, the cash-transfer programmes mentioned above are among the most progressive, if not the most progressive, social programmes in absolute terms.

Source: *Barros et al. (2010), Esquivel et al. (2010), Lustig et al. (2011), Fiszbein and Schady (2009).*

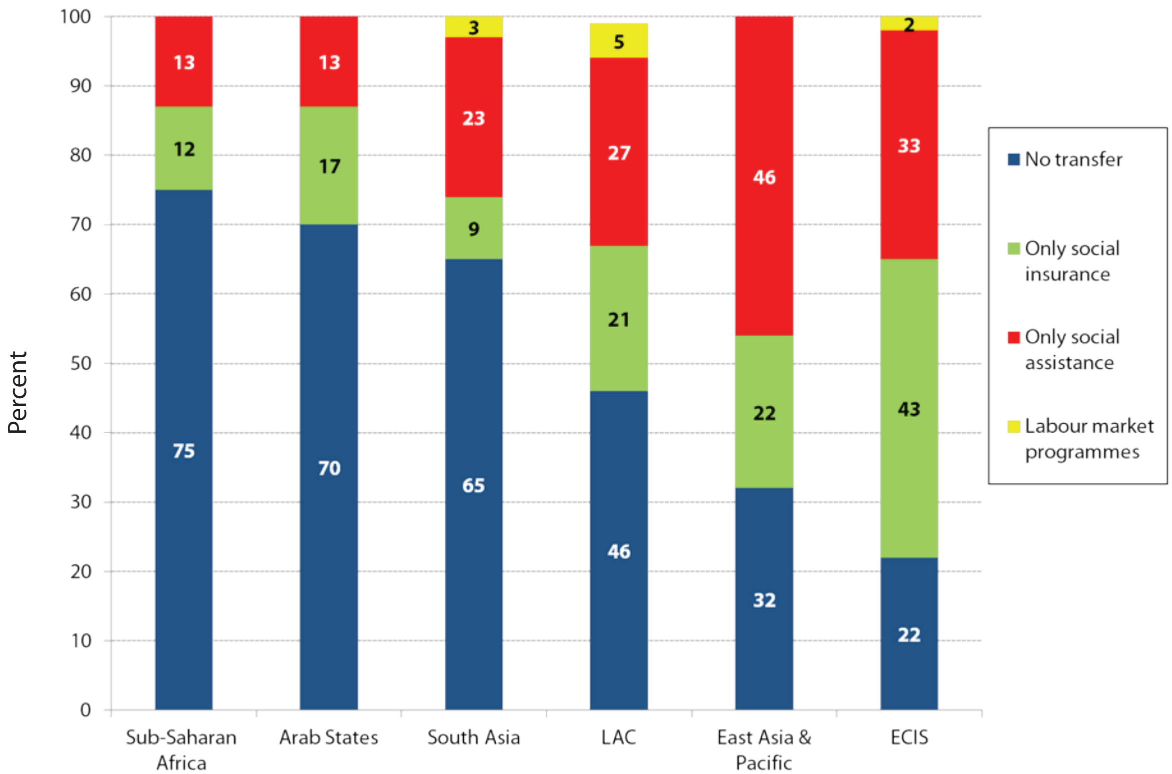
programme, the Productive Safety Nets Programme, invested in farming and livestock. A study by Gertler et al. (2007) found that an average of 12 percent of the transfers received by beneficiaries of the Mexican conditional cash transfer programme Oportunidades went to productive activities such as agriculture and micro-enterprises.

Indeed, recent evidence from Latin America indicates that cash transfers targeted to poor households have had a noticeable re-distributive effect and can be considered responsible for a part of the decline in inequality in many countries in the region (López-Calva and Lustig, 2010). In South Africa, evidence indicates that the Gini fell by three percentage points because of the system of cash grants, which include the Child Support Grant and the Old Age Pension. Furthermore, cash grants almost doubled the share of national income that went to the poorest quintile, pointing to its redistributive impact (DFID, 2011).

Despite the potential that social protection holds for inequality reduction, social protection coverage is still low in developing countries. In sub-Saharan Africa, for instance, only 25 percent of the population is covered by social assistance or social insurance and the situation is similar in the Arab States and in South Asia.

Since many social protection programmes are financed through public expenditure, the expansion of coverage and the sustainability of programmes depend mainly on the availability of domestic resources for financing these interventions in the long run. For many developing countries, and particularly for least-

Figure 7.2. Coverage of social protection and labour, by region



Source: *World Bank (2012, Fig. 3.3, p.23).*

developed countries, affordability of social protection is a concern, given competing priorities and constrained resources. However, recent studies indicate that social protection programmes can be affordable.

As policies that directly affect the cost of basic household goods, such as food or fuel, consumer subsidies can play an important role in reducing inequality.

Recent studies by the ILO in collaboration with the IMF in Benin, El Salvador, Mozambique and Viet Nam (Report of the Social Protection Floor Advisory Board, 2011) and with the EU in Burkina Faso, Cambodia and Honduras (ILO-EU, 2013) find that some major social protection floor programmes would cost in the vicinity of 2 percent of GDP. For example, in Honduras, a package containing modest targeted benefits for the elderly, the disabled, children and the unemployed, as well as basic health and maternity care, would cost between 1.26 percent and 2.5 percent of GDP between 2012 and 2020 (ILO-EU, 2013).

Recently, The United Nations Economic and Social Commission for Asia-Pacific (UNESCAP, 2013) estimated public investment needs for delivering social protection benefits in two policy areas — income security for the elderly and income security for persons with disabilities — in 10 countries in the region (Bangladesh, China, Fiji, India, Indonesia, Malaysia, the Philippines, the Russian Federation, Thailand and Turkey). In terms of income security for the elderly, granting benefits equivalent to the national poverty line in each country to all persons 65 and older, with administration costs of 5 percent, would be affordable for most countries, ranging between 1 percent and 4 percent of GDP by 2030. Providing income security for all persons with disabilities aged 15 to 65 would require between 0.14 percent of GDP in China to 0.87 percent of GDP in Bangladesh by 2030.

In terms of financing, the UNESCAP analysis (UNESCAP, 2013) finds that, in Asia Pacific, there is room to increase overall government expenditures, as the countries in the region are at or below the average spending for countries with comparable levels of GDP per capita. Furthermore, there is also scope for enhancing tax revenues in general in the region. The analysis also finds that the effects of additional spending are sustainable in terms of debt sustainability and price stability as long as they happen in the context of stronger macroeconomic fundamentals including higher labour force participation rates, accelerated earnings and investment growth.

Consumer subsidies

As policies that directly affect the cost of basic household goods, such as food or fuel, consumer subsidies can play an important role in reducing inequality (Bibi and Nabli, 2010; UNDP, 2012). Food expenses represent a large percentage of low-income households' budgets in developing countries (Banerjee and Duflo, 2007). Overall, as noted by de Janvry and Sadoulet (2009), basic good prices have a significant impact on the economic welfare of low-income households in a large majority of developing countries. For this reason, consumer subsidy policies have a great potential to improve the tertiary distribution of income, reducing the costs of household goods for which low-income households spend a disproportionate share of their incomes.

In addition to direct reductions in household expenses on basic household goods, consumer subsidies have an immediate impact on nutrition and consumption as well as the general well-being of low-income households (Brown and Gentilini, 2006; Jha and Bharat, 2010; Bibi and Nabli, 2010). Moreover, these policies can play an important role improving low-income individuals' ability to work, to perform well in school and to develop healthy social relationships, all of which are critical factors for reducing inequality (Coady, 2004).

Box 7.5. Consumer subsidy policies: operational mechanisms and targeting strategies

Operational Mechanisms

1. Government fixes the price of basic goods at lower-than-market price, using various policy instruments such as price ceilings, tax exemptions or transfers to domestic producers.
2. Government purchases basic goods from domestic producers or imports to distribute these goods at a subsidized price or for free, commonly through government distributional stores or warehouses or licensed private retail outlets.
3. Government grants a fixed amount of money to eligible households to purchase specific basic goods at market prices.

Targeting Strategies

1. Universal, granting unrestricted access to all individuals
2. Self-targeted, granting unrestricted access to all individuals, but subsidizing commodities that appeal only to a specific targeted group (e.g., the poor)
3. Means-tested targeted, granting access only to eligible households whose income or welfare level is below a certain level
4. Geographical targeted, granting access to households residing in specific locations, typically with high poverty levels or highly isolated
5. Demographic targeted, granting access to individuals from particular age, gender or some other demographic characteristic group

Source: *Alderman and Lindert (1998), Coady (2004), Coady et al. (2004).*

Consumer subsidy policies can be designed by combining different operational mechanisms and targeting strategies (see Box 7.5). These operational mechanisms can be divided into three general groups: (i) those where the government fixes the price of basic goods at lower-than-market prices, using various policy instruments such as price ceilings, tax exemptions or transfers to domestic producers; (ii) those where the government purchases basic goods from domestic producers or imports to distribute at subsidized prices or for free; and (iii) those where the government distributes a fixed amount of money to eligible households to purchase specific basic goods (Coady, 2004; Coady, et al., 2004). In addition, consumer subsidies could use various targeting strategies, ranging from universal access, to using self-targeted strategies (i.e., granting universal access to all individuals in principle while focusing subsidies only on specific goods that appeal only to low-income households), to strict mean-tested eligibility targeting (Coady, et al., 2004).

Depending on fluctuations in the prices of food and other basic commodities and population dynamics, universal subsidies on basic goods can take up very large portions of national budgets. For instance, the total expense on food subsidies in India represented US$12.4 billion, or 1 percent of the GDP (compared to 3 percent directed to education[4] in 2009 (Jha et al., 2011) and around 2 percent of the GDP in Egypt in 2009 (World Bank, 2010).

Even targeted consumer subsidies are vulnerable to issues such as leakages, with benefits going to individuals who were not intended as beneficiaries; high distribution and administrative costs, linked to transportation of goods and eligibility control costs; and corruption issues, such as store owners or distributors re-selling subsidized goods at higher prices (Bibi and Nabli, 2010; Cunha, 2010; World Bank, 2010; UNDP, 2012). For this reason, inequality-sensitive, effective and enforceable targeting strategies, together with measures aimed at

Box 7.6. Improvements to food subsidy—Philippines case

In an effort to improve targeting to poor households, the Government of the Philippines implemented the Family Access Card as a rapid response to the 2008 food crisis. The Family Access Card is issued to eligible poor households to access subsidized rice. It contains a bar code that identifies eligible poor households, reducing fraud leakages and improving the targeting to poor households. The Filipino Government's efforts to improve the targeting have shown positive results. Between 2006 and 2009, the proportion of poor households with access to subsidized rice nearly doubled, increasing from 26 percent to 48 percent. Additionally, despite leakages to the non-poor, evidence indicates that the rice subsidy program is progressive. The poorest 10 percent of Filipinos received around 16 percent of the programme's benefits, while the poorest 40 percent received 60 percent of the benefits in 2009.

Source: *Fernandez and Velarde (2012).*

reducing distribution and administrative costs, are critical to ensuring that the impact of consumer subsidies on inequality reduction is maximized (Coady and Skoufias, 2004; Coady et al., 2004).

Policies such as self-targeted subsidies, in-kind consumer subsidies of basic goods, food vouchers, ration cards and smart cards are being implemented as ways to improve targeting and reducing administrative costs of consumer subsidies. For example, self-targeted food subsidies were adopted in Morocco and Tunisia to better reach low-income households and to discourage wealthier households from using the subsidy, offering goods less appealing to the non-poor (UNDP, 2012). The implementation in Tunisia improved targeting, reaching the poor 1.1 times more than the non-poor and reducing fiscal expenses associated with consumer subsidies from 4 percent to 2 percent of the GDP by 1993 (Alderman, 2002; Tuck and Lindert, 1996).

Taxation

Redistribution though can be made possible only when fiscal policy makes it a priority. Mobilizing domestic resources is necessary for governments to be able to provide basic services and transfers to the poor that can improve the distribution of income. Most developing countries do not generate enough tax revenues to support progressive public spending. While tax ratios for advanced economies average 26 percent of GDP, ratios in developing economies fall in the range of 15 percent to 20 percent of GDP (see Figure 7.3).

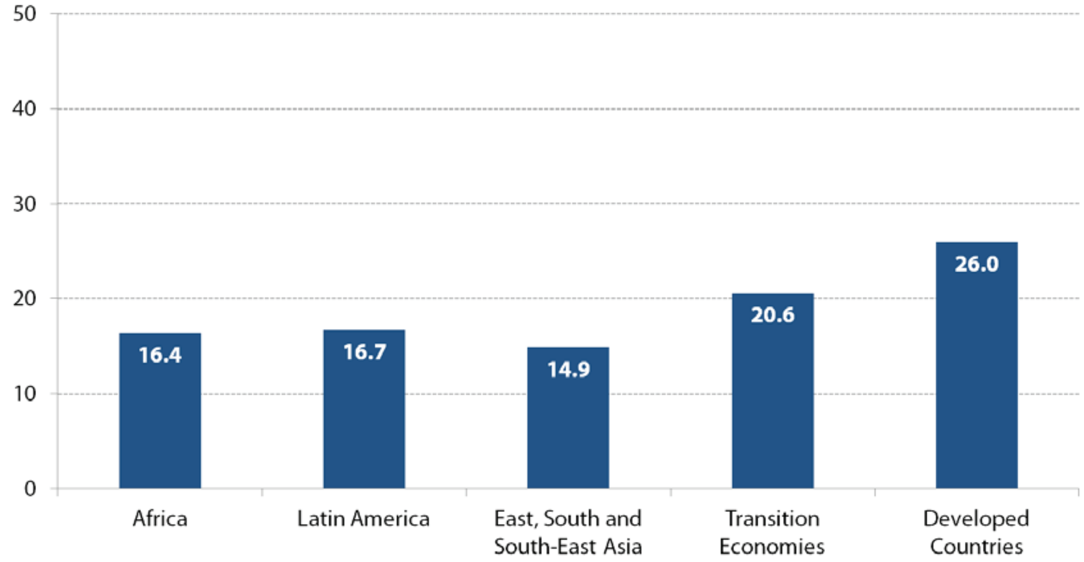
Thus, there is room in developing countries to mobilize additional resources. However, this needs to be done in a way that shifts the distribution of tax burden away from low-income households and towards those at the top end of the income distribution.

Policy measures to mobilize additional domestic revenue and improve the redistributive impact of tax systems include (i) improving the progressivity of tax systems, (ii) expanding the tax base, (iii) curbing tax evasion and avoidance, and (iv) improving tax administrative capacity.

Improve the progressivity of the tax system

If tax systems are to improve income inequality, they need to progressively tax higher income households more than those at the tail end of the distribution. The progressivity of a tax system depends largely on (i) the

Figure 7.3. Tax revenue, 2006–2010 (percent of GDP)



Source: *UNCTAD (2012).*

share of direct taxes in total revenue and (ii) the extent to which taxes rates differ according to income level groups (UNCTAD, 2012).

To strengthen direct taxation, income and property taxes should to be redesigned to ensure that they account for a greater share of overall revenue. Receipts from personal income taxes in developing countries tend to be low, with less than 5 percent of the population paying personal income, compared to 50 percent in developed countries, and only about 15 percent of income is taxed (IMF, 2011). Property is also relatively lightly taxed in developing countries.

The progressivity of tax schedules can be improved by increasing the number of tax brackets, increasing the threshold at which income taxes are first owed, or raising the top income tax rate (see Box 7.7 for an example of such reforms in Uruguay).

However, even when well-designed tax brackets are in place, the effectiveness of rate progressivity can be undercut by high personal exemptions and deductions that benefit those with high incomes. These include exemptions of capital gains, generous deductions for medical and educational expenses, and low taxation of financial income, which typically benefit higher tax brackets.

In general, indirect taxes such as VAT tend to be regressive, since the poor tend to spend a higher proportion of their income on goods and services than the rich do. They, however, can be made more progressive by taxing goods and services consumed by the rich and poor at different rates, such as basic food items. It can also increase tax rates on goods generally consumed by the rich, such as luxury goods (Prasad, 2008).

Box 7.7. Tax reform in Uruguay: from a regressive to a redistributive tax system

Few countries exemplify the effects that tax reform can have on equity and redistribution as clearly as Uruguay. In 2007, the Uruguayan Government implemented a set of tax reforms including a progressive labour income tax, a flat capital income tax and reduced indirect taxes with the aim of improving fiscal balance while redistributing income.

Personal income went from formerly being taxed at two brackets, with rates of 2 percent and 6 percent, to a system of 6 tax brackets with rates ranging from 0 percent to 25 percent. The reforms taxed capital income at a flat rate of 12 percent. Corporate income taxes were simplified, introducing one tax to replace several *ad hoc* taxes. Indirect taxation was lowered as part of the reform, with VAT rates decreased by 1 point and 4 points, and the tax base was increased to include certain goods and services before tax.

Tax administration was also modernized through technological and infrastructure improvements. The government dedicated efforts to increase tax morale and decrease evasion through a combination of stricter enforcement and fiscal education campaigns targeting younger generations.

As a result, tax revenue grew at a yearly average rate of 7.3 percent, while the ratio to GDP increased from 18.2 percent to 18.9 percent between 2006 and 2010. The contribution of indirect taxation to total revenue fell significantly from 74 percent to 54 percent, while the contribution of direct taxation rose from 17 percent to 35 percent. Empirical evidence on the impact of the reform on distribution confirms that these reforms reduced the tax burden of the poorest taxpayers while increasing that of the richest, reducing inequality by 2 Gini points.

Source: *Martorano (2012).*

Certain excise taxes, when applied to goods consumed by the higher income groups, such as tobacco, alcohol and cars, are another way of raising additional revenue while improving progressivity (Ross and Chaloupka, 2001, cited in IMF, 2011).

Expanding the tax base

Besides improving the progressivity of taxes, it is important to expand the tax base in developing countries as a way to mobilize additional resources. This means looking for ways to tax firms operating outside the rule of law. Since the informal sector represents a large share of GDP,[5] its potential as a source of tax revenue is significant (Schneider and Klingmair, 2004; Schneider et al., 2010). A recent study in developing countries estimates that taxing the informal economy could add between 35 percent and 55 percent to total tax revenues in some countries (Brautigam et al., 2008).

It is critical, however, that firms in the informal sector be taxed in a way that improves the distribution of income. Although commonly associated with survival activities, free-entry, little capital, low labour productivity and family-based labour, the informal sector has a modern side characterized as more entrepreneurial and capital-intensive, with more hired workers per firm, more dynamic technology, and substantial incomes (Ranis and Stewart, 1999). Thus, many tax evaders in the modern informal sector operate well above the margin of subsistence. A progressive tax schedule can ensure that larger informal companies comply with taxes, improving revenue collection, while the smallest are taxed at very low rates.

Furthermore, small informal businesses are burdened by a number of costs such as penalties and bribes that tend to be discretionary and can be higher than tax rates (Alm et al., 2003; Joshi et al., 2012). Bringing these firms into the tax system could reduce the burden of penalties and bribes and actually increase their profits. The payment of taxes by firms in the informal economy is also a way to engage them with the state and to provide them with services that would not be available if they operated outside the law. These include access to credit, increased opportunities to engage with large firms and government, and access to training and support programmes. Recent studies of small firms in Mexico and Sri Lanka provide some empirical evidence that formalization (taxation being a large component of this) has positive effects on firm profits, growth and survival rates (Fajnzylber et al., 2009; Mel et al., 2012, quoted in Joshi et al., 2012).

Curb tax avoidance

Tax avoidance and tax evasion are important barriers to revenue mobilization in developing countries.[6] On the one hand, loopholes, incentives and exceptions in tax regulations make it possible for taxpayers to legally avoid taxation. On the other hand, weak capacity to enforce and prosecute and low tax morale provide incentives for tax evasion practices.

To curb tax evasion, governments could look to simplify their tax systems and dissolve incentives and loopholes that do not serve specific goals. Some countries have been successful in reforming their tax systems to avoid distortionary tax exemptions. For example, a General Tax Law introduced in Mozambique in 2009 ended the special low-rate regime for large projects, increased the taxation of mining and petroleum companies and eliminated a 25 percent tax break over eight years for mining investment (Energy Information Administration, 2010). Similarly, a major tax reform took place in Uganda in 1997 that eliminated tax holidays and selective incentives, implementing a 30 percent tax rate on company income and greatly simplifying investment licensing (OECD, 2007).

Addressing loopholes and incentives needs to go hand-in-hand with legislative reforms to strengthen the tax systems. This includes improving enforcement, punishment and prosecution of violators, with strict penalties effectively executed by courts. The Tanzanian Revenue Authority, for instance, has taken important measures in recent years to eliminate tax loopholes and to improve the enforcement of legal sanctions against tax fraud. Until 2003, all tax investigations, including fraud and evasion, were settled within the Tanzanian Revenue Authority, which was seen as contributing to a lack of transparency. Since then, all fraud and tax evasion cases are referred to the Legal Services Department and more cases are tried in courts.

Strengthen tax administrative reforms

Finally, a well-functioning tax administration system remains critical for mobilizing resources. Successful tax administration reforms have moved towards coherent systems, in semi-autonomous revenue authorities protected from political interference, and with independence in operations and human resource management (Cornia et al., 2011). There is mostly only anecdotal evidence on the impact of revenue authorities, but this points towards an improvement in the effectiveness of revenue collection and of managerial and staff capacity (IMF et al., 2011). Creating and updating reliable databases of taxpayers is also an important mechanism to improve the effectiveness of tax authorities. Segmenting the taxpayer population between small, medium and large taxpayers, who have very different needs, can also help enable a better allocation of administrative resources and facilitate compliance. Generally, it is more important to allocate resources and staff to ensure compliance of large taxpayers, while the tax collection for small enterprises needs to be simplified. To this aim, many countries have set up large taxpayer offices that attend to the largest enterprises (usually a few hundred thousand per country).

7.2c. Improving opportunities for employment and income generation

Even if the pattern of growth moves towards inclusivity and governments are successful in implementing redistributive policies that favour lower income households, certain groups and disadvantaged populations face persistent unequal chances to access employment and income-earning opportunities. Disproportionately limited opportunities of specific groups arise as a result of formal discrimination in employment or education, for example.

Even if the pattern of growth moves towards inclusivity and governments are successful in implementing redistributive policies that favour lower income households, certain groups and disadvantaged populations face persistent unequal chances to access employment and income-earning opportunities.

Indeed, horizontal or group-based inequalities are the result of systematic discrimination and exclusion, typically based on preconceived stereotypes and prejudice. Their origins are commonly found in historical roots of dominance, slavery and the persistent deprivation of economic resources and access to human capital (Stewart and Langer, 2007; Stewart et al., 2010). These inequalities persist, creating inter-generational transmissions of group-specific inequalities (Stewart and Langer, 2007). Evidence, nonetheless, indicates that policies and changes in traditional social norms have the potential to break group-based inequalities. Inclusive growth policies have to adopt specific measures to ensure the inclusion of all in the benefits of the growth process.

Legislative or administrative reforms to improve access to employment and income

Dismantling horizontal or group-based income inequality typically requires legislative or administrative reform to repeal discriminatory provisions or to address discriminatory practices. Statutory or customary barriers to access or ownership of assets, for example, systematically affect certain groups. Assets are commonly used for economic activities (for example, land), as collateral for credits or to protect households during unexpected economic shocks. This is particularly important among those whose main source of income is directly linked to these assets. For example, prohibitions to land ownership or inheritance among women because of traditional cultural norms or lack of legal regulations largely contribute to increasing gender-based differences. This is specially the case in societies where women are forbidden from working outside their homes and where women's main source of income comes from working the family land (Deininger et al., 2010).

Evidence shows that interventions that give women formal ownership of land increase the income and productivity of women farmers (Menon and Rodgers, 2013). Different modalities of allowing land tenure for females include reforming inheritance laws so they do not discriminate against women, enabling them to participate in land sales and rental markets, government land titling and registration programmes.

For example, large-scale land registration programs in Ethiopia and Rwanda have had large positive effects on land investments and farm productivity, especially among female-headed households (Deininger, 2011; Ali et al., 2011). Similarly, land-use rights held by women in Viet Nam resulted in higher household expenditures, higher education for women and lower daily hours of housework (Menon and Rodgers, 2013). The reform of inheritance laws in India, which granted women the right to inherit or own land or capital property through amendments to the Hindu Succession Act, increased women's land inheritance, but also improved their control over economic resources in the household and their intra-household bargaining power, as shown in an increase in school attendance among girls (Luke and Munshi, 2007; Deininger, et al., 2010).

The recognition of collective rights is another legislative reform aimed at decreasing inequalities in asset ownership, particularly for indigenous groups (O'Neil and Piron, 2003). In Nicaragua, for example, collective property rights over land were granted to the Mayangna community of Awas Tingni (Feiring et al., 2003). This supported the recognition under the Nicaragua's constitution of the multi-ethnicity of the country.

Affirmative action policies are a common legal instrument aimed at improving the income-generating opportunities of specific groups (Holzer and Neumark, 2006). Affirmative action policies allocate jobs, public contracts, credit, access to higher education and legislative seats on the basis of belonging to a disadvantaged group (UNDP, 2004).

Affirmative action policies can use quotas or more flexibly defined goals and can be voluntary or legislatively mandated. Quota systems hold either a number or a percentage of positions for targeted groups, including racial/ethnic groups, women and people with disabilities. For example, legislation in Peru and Jamaica mandate that 5 percent and 3 percent of posts in government agencies be held by people with disabilities (Zero Project Employment Indicators, 2013). In India, quotas have been used to promote the employment of scheduled castes and tribes in the public sector.

Evidence suggests that affirmative action has reduced intergroup inequalities in places where it has been effectively implemented. In India, for example, the allocation of government jobs, admission to higher education and legislative seats to scheduled castes and tribes has helped members of these groups climb out of poverty and join the middle class. In South Africa, where since 1998 The Employment Equity Act requires employers to have demographically representative workforces, there have been significant increases in the proportion of top and middle managers who are black (UNDP, 2004).

Affirmative action policies, however, are not without controversies. Opponents argue that they can actually increase tension between groups and, if less qualified candidates are chosen strictly because of membership to a specific group, this can further perpetuate discriminatory stereotypes. Also, in places where affirmative action policies were intended as temporary measures to improve opportunities of specific historically disadvantaged groups, it has been difficult to exit from them. In India, for example, the intention was to end reservations once affected groups caught up, but, instead, the preferences have become self-perpetuating. Reserved legislative districts, which were supposed to end 10 years after the Constitution of 1950, have been extended at 10-year intervals and increased in range (UNDP, 2004). These caveats need to be taken into account when designing affirmative action policies to reduce group-based inequalities.

Promoting access to labour markets

Also affecting income-generating activities are barriers to participating in productive employment. These barriers can relate to skill sets, information gaps or mobility constraints of individuals and groups. For instance, skill constraints imply that individuals lack the appropriate technical skills to respond to the demands of prospective employers. This is likely to be the case for high school drop-outs or low-skilled workers. Information constraints in the labour market, coupled with poor social networks to find jobs, implies that the poor and other vulnerable groups have limited information on employment and income-earning opportunities. In addition, mobility constraints that are tied to poor infrastructure and underdeveloped transportation systems imply that people may not be able to move to where the jobs are.

Thus, policies to promote the higher employability of the poor and disadvantaged groups should involve a package of instruments that address different barriers to access employment and income generation opportunities. Measures such as establishing employment information systems, job fairs and career counselling initiatives can provide workers (such as youth) with information to understand the job market. Skill training programmes (technical and vocational) for low-skilled workers and programmes that facilitate the entry of graduates into labour markets can promote access to employment. Improving transit access to employment and removing bottlenecks to the mobility of labour can also help improve access to income-generating activities.

In Peru, for example, a series of measures was taken to prioritize access to employment among youth, who are systemically marginalized from labour markets. A youth employment action plan that included a reduction in time and costs related to job applications, skills training, work experience programmes, career guidance services and a labour market information system was established in 2009. More than 390,000 young people were assisted with the measures of the action plan by the end of 2012 (ILO, 2012).

Improving the access of women to the labour market must also address gender-based discrimination and the specific barriers that women face when entering productive employment. Constraints such as a lack of maternity protection (including maternity leave and care for dependents), or bans to labour market regulations for part-time job creation leave women working in the informal sector (Dannecker, 2000; World Bank, 2012a).

Some examples of government effort to expand childcare in an effort to improve gender equality in the work place include Chile and India. Since 2005, the Chilean Government has significantly increased the number of free public nursery and kindergarten for children living in the poorest areas of the country (from 14,400 public nurseries in 2005 to 64,000 in 2008 and from 84,000 kindergartens in 2005 to about 127,000 by 2009) and launched the Chile Crece Contigo programme, which provides free childcare for the most vulnerable 40 percent of the population. In India, the National Rural Employment Guarantee Programme (NREGA), includes on-site care centres, among other worksite facilities (e.g., medical aid, drinking water and shade) (ILO, 2012a).

Access to credit

Access to finance is another constraint faced by the poor and disadvantaged groups for income generating opportunities. This is particularly true for isolated groups in remote rural areas. Without access to finance, poor individuals have to rely on their own limited savings and earnings to invest in their education, to become entrepreneurs, or to take advantage of promising growth opportunities. For this reason, policy makers need to place much effort on facilitating the access of low-income households and disadvantaged groups to finance and financial services.

Factors that typically constrain access to finance include geography or physical access. For example, Ethiopia has less than one bank branch per 100,000 people and Botswana has 1 branch per 10,000 square kilometres. Delivery channels that can help in this regard include mobile branches, whereby trucks drive through remote areas and provide financial services at a scheduled frequency, and non-branch outlets such as corresponding banking agreements, whereby bank services are sold by non-financial corporations on behalf of the bank.

Another barrier limiting access to finance is lack of proper identification and documentation for isolated groups. For instance, banks in Bangladesh, Cameroon, Chile, Nepal and Zambia require at least four documents, including a passport or ID card, a recommendation letter, a wage slip and proof of domicile. But 60 percent of Cameroon's population works in the informal sector and cannot produce a wage slip. In fact, 61 percent of the overall population of sub-Saharan Africa is unable to provide a formal proof of domicile. Improvements in this requirement would not require great sophistication or cost. Several developing countries are using relatively inexpensive IT solutions to provide citizens with such identity cards. For example, the Government of Indonesia launched a project in 2010 to provide electronic identification cards (e-KTP) to around 172 million people. The card carries 27 data points, including blood type, employment status, physical and mental disabilities and biometric fingerprints, and can be used as an identification proof for banking, insurance and taxation purposes. Bolivia and Nepal also use 'smart' identification cards for inclusion in other financial services such as biometric ATMs (Gelb and Clark, 2013).

Apart from such non-price barriers, price barriers also limit access to finance. Many institutions have minimum account balance requirements or fees that are beyond the reach of many potential users. For instance, in Mexico, 70 percent of those without accounts cite high fees and minimum balances as a key constraint. Alternative banking institutions like credit unions and community development banks can improve access to banking products and related services such as insurance for all citizens and small and medium enterprises.

7.3. Closing gaps in education, health and nutrition

The analysis presented in this report has shown that inequalities in material well-being are not limited only to the domain of income, but that large and persistent gaps in education, health and nutrition outcomes exist between households across income, spatial and gender dimensions. For instance, while almost all children from households in the highest income quintile in Latin America and the Caribbean, the Middle East and East Asia finish primary education, only 80 percent of children in the poorest quintile are able to do so. Gaps in nutrition are also quite stark, with children from the lowest wealth quintiles anywhere from two times to five times more likely to be stunted than children from the highest wealth quintiles in most developing regions.

Public expenditure especially in the social services can have a big impact on equalizing and improving education, health and nutrition outcomes for different groups, especially the poor, who cannot access services at market prices.

Moreover, trends in inequality in health and nutrition outcomes across wealth quintiles over the past two decades do not show signs of improvements. During the 2000s, inequality in fertility rates between households in different wealth quintiles actually increased in Latin America and sub-Saharan Africa. Similarly, the gap in child mortality rates between the poorest and richest wealth quintiles increased in South Asia during the same period. Malnourishment rates fell much faster among rich households than among poor households across all regions.

Gaps in education, health and nutrition outcomes are also evident between rural and urban households. Children living in urban areas are more likely to complete primary school than children in rural areas. In some regions, the rural-urban gap in primary school completion rates can be as much as 30 percent. Inequality between urban and rural households in health and nutrition outcomes is actually increasing in some regions. For instance, gaps in fertility rates between urban and rural areas increased in sub-Saharan Africa and the Middle East.

Gender inequality in education, health and nutrition outcomes is also quite significant. Gender gaps in educational attainment are falling, but still remain persistent across all regions, with male children 14 percent more likely to finish primary school than their female counterparts in regions like sub-Saharan Africa and South Asia. Moreover, the gender gap in health and nutrition actually increased in some regions of the developing world from 2000 to 2010. Across all regions, girls are not just more likely to die before the age of five than boys, but improvements in male child mortality rates were larger than those for female children.

In sum, there are wide and persistent gaps between households across wealth, spatial and gender dimensions in all non-income indicators of material well-being, especially in health and nutrition. Moreover, while there are some improvements in the distribution of education outcomes as measured by primary completion rates, the gap in health and nutrition remains persistent — or is even growing.

While income inequality is an important determinant of inequalities in education, health and nutrition, it does not fully explain their persistence. Furthermore, economic growth on its own is no guarantee for improvements in well-being, especially for poor households and other marginalized and disadvantaged groups. Therefore, closing gaps in education, health and nutrition will require additional policy measures.

Policy measures that can help close gaps in education, health and nutrition outcomes include:

a. Increasing public expenditure in social services, with a specific focus on the sectors with the largest disparities and targeted to groups with the lowest levels of education, health and nutrition outcomes
b. Strengthening service delivery programmes and modalities
c. Strengthening institutional capacity to deliver social services and implement programmes
d. Instituting governance policies to promote institutional responsiveness
e. Expanding access to opportunities for disadvantaged groups and low-income households to access services

7.3a. Public Expenditure

In the previous section, the macroeconomic role of public expenditure in moderating income inequality and promoting inclusive growth was discussed. Yet public expenditure especially in the social services can have a big impact on equalizing and improving education, health and nutrition outcomes for different groups, especially the poor, who cannot access services at market prices.

The provision of basic social services such as education, health and nutrition is a key function of governments and an important instrument to promote human development and to ensure a more equal distribution of outcomes. In fact, various international initiatives, such as the MDGs and the Universal Declaration of Human Rights, promote the universal provision of services. Also, most developing countries have legislation that demands universal provision of goods and services. However, the reality on the ground is that programmes and services very often favour certain groups or leave others behind.

Basic social services need to be available in sufficient quantity; physically and economically accessible; affordable without being a disproportionate burden for the poorest; and of good quality in terms of relevance and cultural propriety.

The provision of social services does not just help achieve universal human rights, but also contributes to inclusive growth. For instance, investments in health can contribute to growth, since healthier workers are likely to be more productive. Investments in education also increase labour productivity and higher levels of education are associated with higher wages. Moreover, the return on investment in education is found to be particularly high for less developed countries (UNESCAP, 2013).

The adequacy of public expenditure policies in addressing gaps in education, health and nutrition largely depends on the level, composition and distribution of public spending as well as the mix of policy instruments that governments use to provide services and opportunities to all. Tackling gaps in education, health and nutrition will require a public expenditure policy that has the objectives of:

i. Increasing the level of public expenditures in education, health and nutrition sectors
ii. Prioritizing expenditure in the social sectors that exhibit the largest gaps
iii. Targeting low-income households or disadvantaged groups that lag behind in education, health and nutrition outcomes.

Expanding the level of public expenditure

Improving equality is easier when resources are plentiful and growing and when governments are able to improve the reach and quality of social services and social protection (UNDESA, 2004).

Indeed, evidence shows that increases in spending in key social sectors can lead to improved outcomes and have a significant impact on levels of inequality (de Mello and Tiongson, 2008; Holzner 2010; Sylwester, 2002; Chen and Zhang, 2009; Martinez-Vazques, 2008). In Latin America, for example, an increase in public expenditure in education from 4.1 percent to 5.2 percent of GDP between 2000 and 2010 was accompanied by an improvement of secondary enrolment rate from 72 percent to 86 percent (UNCTAD, 2012) and by a reduction in the gap in years of education across income quintiles (Cruces and Gasparini, 2011). Similarly, a study for African countries finds that a 10 percent increase in per capita public health expenditure could reduce under-five child mortality by 25 percent or it could lead to a 21 percent reduction in the infant mortality rate (Anyanwu and Erhijakpor, 2009). This supports the proposition that government expenditure on basic services, such as health and education, matters for outcomes.

Optimizing the composition of public expenditures

Aggregate expenditure, however, is insufficient and does not guarantee improvements in the distribution of education, health and nutrition, especially if spent ineffectively. The total redistributive effect of public spending will largely depend on its composition, based on the specific needs of each country (Lustig et al., 2011; Cuesta, 2013). Certain interventions tend to be much more effective in reducing inequality in specific outcomes than others.

Public expenditures should flow towards the social services with the biggest gaps. That means, for example, that expenditures on the health sector in rural areas need to grow faster than expenditures in urban areas. In countries where secondary school enrolment rates lag behind primary completion rates, more resources should be directed towards secondary education. Large gaps in nutrition outcomes across wealth quintiles imply that expenditures should target those at the tail end of the distribution.

Although spending in education, health, nutrition, social protection and infrastructure are all necessary to decrease gaps in well-being, which of these areas receive higher resources and what interventions are favoured within these categories matter to a great extent. Studies that measure the effectiveness of certain interventions in reducing inequalities in national contexts should be used to determine how to allocate resources across sectors and programmes. For example, a study of six Latin American countries reveals that, in the region, public spending on education and health has been more equalizing (in terms of income) than cash transfers (Lustig et al., 2013).

Also, within sectors, certain interventions are more equalizing than others. Spending on primary and secondary education has a greater equalizing power than spending on tertiary education (Cuesta and Martinez-Vazquez, 2012). Total social public spending on education in Zambia, for instance, is found to be regressive because of its focus on tertiary education, which disproportionately benefits the top quintile (Cuesta et al., 2012). Investments in early childhood development are also proven to have strong redistributive power while being highly cost-effective. Public investments in infrastructure, especially in rural and geographically isolated areas, have strong positive growth and inequality-reducing benefits.

Even with low levels or cuts on spending, interventions can be equalizing if the focus of spending remains on the sectors that stands to benefit groups at the tail end of the distributions more than others. For instance, although the Philippines experienced a cut in education spending from 4 percent to 2.8 percent of GDP between 1998 and 2003, the country's focus on basic education for the poor, allocating a significantly greater percentage to primary and secondary compared to higher tertiary education, ensured a redistributive effect (Manasan et al., 2008). Similarly, Thailand has achieved universal health service coverage, despite spending less than the recommended WHO 2030 benchmark of 5 percent of the GDP on health (UNESCAP 2012).

Ensuring access for poor, excluded and disadvantaged groups

Furthermore, the distribution of policies and how they are targeted matters for equality. Not all expenditures benefit households of different income levels or different groups to the same extent (Martinez-Vasquez, 2008). Social policies that aim to address unequal outcomes need to focus on the sectors, geographic locations and groups that are more isolated and disadvantaged. This means that policy priority should be given to increasing the availability and quality of social services and programmes for the poorest and most excluded groups. For example, unequal geographic location-based access to health services in countries such as Zambia or Indonesia largely explained the non-progressive effect of public health spending (Cuesta et al., 2012; World Bank, 2013).

Investments in infrastructure can also reduce gender inequalities by reducing women's unpaid care burden. Investments in basic water and energy, for example, reduce the time women spend in household unpaid labour, allowing them to spend more time in paid labour. This not only reduces income inequality across genders, but also improves the mothers' health, which, in turn, benefits children's well-being (Seguino, 2013).

Improving the quality and relevance of public basic services is also very much needed to reduce inequality in education, health and nutrition outcomes. It is often the case in developing countries that the poor or disadvantaged groups receive access to lower quality public services, even though they stand to benefit more from these services. Therefore, improvements in the quality of social services provided will disproportionately help poor and disadvantaged households improve their education, health and nutrition outcomes. For example, differential quality of schooling prevents enrolment and completion of primary and secondary levels of educations from translating into equal opportunities to enter the labour force. There is a need to match curricula with the evolving needs of the poor and disadvantaged (Mehrotra, 2000; Ghai, 2000) and focus on preparing students for transition to work. This will not only improve the earning capacity of graduates, but also provide more incentives to attend school, especially for those facing high opportunity cost to education.

7.3b. Service delivery modalities and programmes

Beyond focusing on the level, composition and targeting on public expenditure to improve equality, closing gaps in education, health and nutrition requires specific programmes and interventions that provide social services to low-income households and disadvantaged groups.

In general, interventions for inequality reduction need to cut across sectors and deliver integrated packages of services tailored to the specific needs of the groups left behind. More specifically, interventions that work towards reducing inequalities in education, health and nutrition include (although not exclusively) multi-sector early childhood development programmes, integrated local service delivery systems and community-based programmes.

In general, interventions for inequality reduction need to cut across sectors and deliver integrated packages of services tailored to the specific needs of the groups left behind.

Early childhood development

Early childhood development programmes are a set of interventions that have proven to be effective in reducing gaps in education, health and nutrition in tandem. These programs are aimed at children from birth until they enter primary school and include health, nutritional and cognitive development components as well as educational services for caretakers (UNESCO, 2007).

Early childhood development programmes are designed to work across sectors to achieve a series of mutually reinforcing objectives to improve the well-being of children. They directly provide health and nutrition services to participating low-income and disadvantaged children while also providing the stimulation, support and attention to improve their school readiness and chances earn higher future incomes. They also serve as *de facto* childcare, allowing the mothers of participating children to increase labour force participation and higher earnings (Deutsche, 1998).

A large body of evidence shows that intervention during the early years of a child's life can compensate for disadvantages at birth, regardless of individual characteristics such as poverty, gender and ethnicity, and thus can have a significant impact in equalizing well-being outcomes (Deutsche, 1998; World Bank, 2006; UNESCO, 2007; Heckman, 2011; Woodhead et al., 2009; Currie, 2001). Furthermore, evidence shows that it can also have positive impacts on the future earning capacity of children.

Early childhood programmes can also reduce gender inequality. The impact of participation on health has been found to be higher for girls than for boys (Jukes, 2006). Similarly, girls who participate in early childhood programmes are much more likely to begin school at the appropriate age and complete primary school than girls who do not (Arnold, 2004). Among Nepalese children who took part in an early childhood programme, an equal proportion of girls and boys began first grade, compared with 39 percent of girls and 61 percent of boys who did not participate (Arnold et al., 2000).

Integrated service delivery systems

For services to be delivered in a way that improves the outcomes of the most disadvantaged groups, they need to be continuous and organized around individuals and communities' specific needs and characteristics. However, service delivery systems in developing countries are often characterized by high levels of fragmentation, which leads to gaps in access and quality of services, particularly in the most remote areas and among the most disadvantaged groups (McIntyre et al., 2008).

Integrated delivery systems are networks of providers and organizations that aim to deliver a coordinated continuum of services to a defined population and are accountable for the outcomes of the population served. Integrated systems in health, for instance, include services from pregnancy and birth through childhood, adolescence, adulthood and elderly care.

Integrated delivery systems that group relevant services under one scheme and overcome issues of fragmentation can improve access to services and avoid fallouts of beneficiaries as they transition from one level of service to another.

For example, an integrated vision of education could help decrease dropout rates from primary to secondary schools. This Report has provided evidence that there is a significant drop from primary school completion rates to secondary school enrolment and that an existing gender gap in primary school only widens in secondary education. This indicates that there are particular barriers faced by children, especially girls, during this transition that need to be addressed for overall improvement in educational attainment. This requires an integrated vision of educational services that includes inter-sectoral interventions. Such policies include school feeding programs, flexible schooling models for working children, school-based health interventions and various types of financial subsidies and conditional cash transfer systems.

Integrated services are particularly common in the areas of maternal and child health and nutrition services. For example, in the Lao People's Democratic Republic, an integrated maternal neonatal and child health services package, being implemented since 2009, aims to reduce stunting through the delivery of nutritional products to pregnant and lactating women and to children aged 6 months to 23 months.

Community-based programmes

Interventions that support participatory, community-based programmes focused on improving outcomes in education, health and nutrition can also have an important impact in closing gaps in well-being. Families and communities are uniquely positioned to assess, analyse and take action to address specific bottlenecks in the delivery of services and interventions that aim to improve their well-being. Furthermore, by involving beneficiaries in programme design, implementation and evaluation, participatory programmes help empower communities, create a sense of ownership and foster accountability to poor clients. Community outreach and community-based services are also useful strategies for reaching isolated groups or those who would not otherwise seek services.

For example, a community-based health and family planning initiative was established in Navrongo, a disadvantaged and remote community in Ghana, with the objective of decreasing high infant mortality and high fertility rates. The programme aimed to overcome the previously identified problems of underuse of nurses at health care facilities and the unwillingness or inability of individuals in rural communities to seek health services. To do this, the programme directly involved community leaders and community members in health care decisions and relocated nurses from health centres to rural villages. In four years, the programme became associated with a reduction in fertility rates of 15 percent and a drop in child mortality by 60 percent (Ashford et al., 2006; Russell, 2008).

Another example of a successful community-based health programme is that of Pakistan, which aims to improve health equality by training and deploying female community health workers, known as 'lady health workers', to address unmet health needs of rural populations and slum dwellers. The workers are residents of the communities in which they work and must be recommended by the community. Each lady health worker is attached to a government health facility, from which they receive training, a small allowance and medical supplies. Evidence shows that the population served by lady health workers has substantially better health indicators than the control population (WHO, 2008).

Community engagement is vital not only in the provision and use of health services, but also in the promotion of improved health practices and behaviours, such as hand-washing with soap to reduce the incidence of diarrhea and early and exclusive breastfeeding to reduce child mortality. Promoting such measures at the community level has the potential to improve health outcomes for all, particularly those who face more barriers to accessing education and health services.

Community-based programmes can also help decrease disparities in educational outcomes by mobilizing resources, improving accountability of schools to the communities that they serve and ensuring the responsiveness of education to local needs. For example, community involvement in schools in Guinea not only increased gross enrolment rates, but also improved the quality of services by resulting in drops of student-teacher ratios by 10 percent. Additionally, it significantly increased the number of students who passed the secondary school entrance exam from 36 percent in 1997 to 60 percent in 1999 (Miller-Grandvaux and Yoder, 2002).

Furthermore, community engagement can impact the extent to which individuals seek educational services. For example, in South Sudan, work in sensitizing communities about the importance of sending children, in particular girls, to school is reported to have increased girls' enrolment by 96 percent (Miller-Grandvaux and Yoder, 2002).

Institutional bottlenecks often prevent interventions and services from reaching low-income households or disadvantaged groups.

7.3c. Strengthening institutional capacity for equality

While the previous section focused on the programmes and interventions that deliver in closing gaps in education, health and nutrition, this section will focus on the institutional capacity necessary to effectively implement these programmes.

Institutional bottlenecks often prevent interventions and services from reaching low-income households or disadvantaged groups. For example, health clinics in developing countries often face shortages of trained doctors and nurses, equipment and mechanisms to cooperate with other related social services. Building institutional capacity to improve the performance of delivery channels has the potential to improve the access and quality of services and increase uptake among poor and marginalized communities.

Some important tools to build institutional capacity include improving the quantity and quality of human resources to deliver services, strengthening local governments so that services reach the most marginalized communities and enabling inter-sectoral coordination so that services are comprehensive.

Improve human resources to deliver services

Sufficient and adequate human resources to deliver services that are distributed equally across communities are necessary for closing gaps in well-being. It is also essential that the personnel understand the local context and be trained on sensitive issues pertaining to the communities in which they work. Without more and better-trained service delivery staff, quality services will not reach the poorest, most remote rural and ethnic minority communities.

Often, marginalized areas in developing countries have difficulty attracting qualified health workers and teachers. Measures to encourage a more equal distribution of personnel include implementing compensation schemes that provide incentives to work in deprived or remote districts. Incentives can be in the form of monetary compensation, such as hardship bonuses, or non-financial rewards, such as training and career opportunities, subsidized housing, schooling or food, or improved working conditions. In Ecuador, for example, teachers in remote areas receive additional pay as well as priority in being granted tenure, which has resulted in a significant reduction in the disparities in the distribution of teachers across communities (UNICEF and UN WOMEN, 2013).

Other modalities of ensuring an equal distribution of human resources include periods of compulsory service for those recently trained or recruited. In Indonesia, for example, recently graduated doctors must serve five years in rural areas or shorter periods in the most remote regions. In nine years, this measure was able to rise staffing by 97 percent in rural areas and by 200 percent in the most remote regions (UNICEF and UN WOMEN, 2013).

Also, it is important that service delivery personnel meet the specific needs and requirements of the clients they serve. This might require ongoing training in culturally and linguistically appropriate service delivery. Health workers, for example, should be sensitive to traditional medicinal practices preferred by their clients.

Decentralization and strengthening local government capacity

Decentralizing service provision to local government, which is closer to where services are used, better knows local conditions and can be held accountable for the quality of services, is another important mechanism to ensure the delivery of effective, efficient and quality services that are well adapted to the demands of the local context and the specific needs of communities. Decentralization can positively influence the ability of local governments to provide services by increasing their funding and improving their administrative functions. It can also strengthen the participation of citizens in local government by instituting regular elections, improving access to information and fostering mechanisms for participation in decision-making (Mansuri and Rao, 2012).

For example, in order to deal with unequal access to public health services, the Government of Indonesia introduced decentralization policies, granting greater control over public health spending to district-level local governments. Results indicate that the decentralization policy improved the public health service use, particularly for the poorest half of the population (Kruse et al., 2009; World Bank, 2013).

However, it is often the case that the resources and capacities of local governments to deliver quality services are low and unequally distributed. These gaps can reproduced inequality further, as the local governments of areas with fewer resources and capacities tend to deliver poorer quality services than those with better financial and human resources. Some evidence suggests that, as the distance of a locality from major urban centres increases, so does the inequality in access to basic services (Sikander and Shah, 2010). Also, local governments in different types of territories face different constraints and difficulties. Those in rural areas face isolation, long distances, small populations and the resulting higher costs of providing basic services. Those in urban areas tend to have more resources, but face more complex issues with regard to transportation, lack of housing, sanitation and security (IFAD, 2011). Improving the capacities of local governments to formulate interventions that reach all groups in their communities and eliminate barriers to equitable outcomes can go a long way in addressing an unequal distribution of services.

Specific measures are in fact needed to ensure that institutions operate not only efficiently, but also responsively to the needs and aspirations of those who are lagging behind.

Capacity to collaborate across sectors

The capacity to collaborate across sectors is also extremely important to implementing integrated service delivery systems and to improving the distribution of well-being, particularly when it pertains to health. Inter-sectoral collaboration is needed across different departments and agencies within a government or different levels of government and with social service providers, community-based organizations and other relevant stakeholders.

Effective inter-sectoral collaboration requires a shared vision of the problem to be addressed, a strong relationship among partners, clear leadership, adequate, sustainable and flexible resources, and efficient structures and processes for collaboration (Dahaner, 2011).

Some ways to encourage inter-sectoral collaboration include the provision of specific funding dedicated to inter-sectoral work or national or state legislation mandating that sectors work together. For example, the district of Catacahi in Ecuador has successfully implemented inter-sectoral collaborations in health through the provision of specific funding set aside in each region to support inter-sectoral work (WHO, 2008a).

7.3d. Governance policies to promote institutional responsiveness

Institutional capacity, as shown in the previous section, is critical to the reduction of inequality in non-income dimensions of well-being. However, it is not sufficient. Specific measures are in fact needed to ensure that institutions operate not only efficiently, but also responsively to the needs and aspirations of those who are lagging behind.

Even if governments have the capacity to design and implement policies for reducing inequalities in well-being, there can be a significant disconnect between the spirit of these policies and their implementation on the ground due to the uneven influences of different sectors of a society. Effective accountability mechanisms are therefore needed to ensure the full implementation of inequality-reducing measures, particularly those based on public expenditures. A variety of instruments within the broad realm of social accountability, such as social audits, citizen report cards and public expenditure tracking surveys, can be used to this purpose (UNDP, 2006; Benequista, 2010).

A social audit is a mechanism of public accountability through which citizens participate in formally structured assessment processes aimed at evaluating government performance. Citizen report cards are participatory surveys documenting users' feedback on services, including issues of availability, reliability, quality, the responsiveness of service providers and hidden costs arising from corruption. Public expenditure tracking surveys are initiatives that facilitate citizen groups' tracking of spending trends and analysis of their consistency with budget allocations. These mechanisms have been used in many countries and contexts with direct impact on the promotion of equitable and efficient service delivery. As a result of public expenditure tracking surveys in the education sector in Uganda, for instance, the estimated misuse of funds for government-run primary schools went from 87 percent during the period from 1991 to 1995 to between 10 percent and 20 percent between 1999 and 2000 (Kanungo, 2004).

While mechanisms of social accountability have a great potential to ensure government responsiveness, a number of conditions must be fulfilled to ensure their effectiveness (UNDP, 2011a). The first element is an enabling legislation recognizing citizens' right to access public information and the value of civil society's involvement in the monitoring of public institutions. In addition, it is important to ensure the objectivity and independence of the process through which data for the audit is collected as well as the ability of participating civil society organizations to understand relevant technical issues. Furthermore, evidence shows that social accountability mechanisms like the ones mentioned above tend to work only when service users are willing and able to challenge the authority of those who, in the process, control the services contesting the power relations that generate unequal access (World Bank, 2006; McGee and Gaventa, 2011).

Corruption can also greatly hinder the implementation of policies and programmes to reduce disparities in education, health and nutrition (Gupta et al., 1998; UNDP, 2008). It can, for instance, fuel tax evasion and divert tax revenues, thus harming the progressivity of the social expenditure levels and increasing the actual cost of public services aimed at benefiting people with lower incomes and marginalized populations. It also perpetuates unequal access to critical opportunities for social mobility, such as those provided by education. In addition, it has been shown that corruption is not gender-neutral and is one of the elements compounding women's disadvantage in access to key services and opportunities for economic advancement (Huairou Commission and UNDP, 2012). The promotion of transparency and the eradication of corruption are therefore critical measures for the reduction on inequality.

Fighting corruption will require systemic interventions through an integrated approach that must be transparent, non-partisan, evidence-based and impact-oriented. Key components of such an integrated approach will include targeted institution-building and the pursuit of social and situational prevention strategies (UNODC, 2003).

Institution-building measures for anti-corruption should be undertaken at multiple levels of the state machinery. Civil service reform (with a focus on employee culture and the creation of positive incentives) and judicial system reform (aimed at strengthening independence, quality and consistency of judicial decision-making) are examples of broad-based anticorruption measures with a direct impact on service delivery. It has been calculated, for instance, that, by introducing an automated case management system and other measures to increase the transparency of its commercial court system, the Government of Serbia managed to reduce the inventory of pending cases by 24 percent, thereby drastically diminishing the opportunity cost of seeking remedy in the judicial system (Commission on the Legal Empowerment of the Poor, 2008).

Broad-based interventions may need to be complemented by more targeted measures, such as the establishment of specialized anti-corruption institutions, accompanied by appropriate measures to ensure their autonomy and effectiveness. In addition — and perhaps most important in the context of inequality reduction — the engagement of the private sector, civil society organizations and the media can yield major results in major anticorruption efforts. For instance, the "Stop Stock Out Campaign" had a very large impact in ensuring access to essential medicines for all in Kenya and Uganda by combining community monitoring and media campaigns (UNDP, 2011b).

7.3e. Improving opportunities for low-income households and disadvantaged groups

Besides the implementation of programmes to address inequality and measures to improve the capacity and accountability of governments, disadvantaged groups need to be reached through specific reforms that address the particular access barriers that they face, including social norms that allow for exclusion and discrimination. As evidenced in the analysis presented in this report, social norms are significant in explaining inequality in education, health and nutrition outcomes across gender and place of residence.

Inequalities in education across gender can be a consequence of a low demand for girls' education if services do not take into account their specific needs. Reforms to make schools more adequate for girls include training teachers and administrators in gender sensitivity, hiring female teachers and investing in gender-sensitive infrastructure such as latrine facilities. In Nigeria, for example, the government aimed to address gender gaps in education through a female teacher-training scholarship scheme that increased female teachers in rural primary schools. The scheme funded training courses for young women from marginalized areas (particularly remote rural areas) who agreed to return to their rural communities to teach in primary schools. As of 2011, a total of 3,246 candidates were pursuing their education under the scheme.

Disadvantaged groups need to be reached through specific reforms that address the particular access barriers that they face, including social norms that allow for exclusion and discrimination.

Inequalities in education and health between urban and rural households are likely to result from longer distances to services for rural households and discrimination to certain ethnic groups in rural areas. Where limited access is a consequence of long distances to where services are provided, policies that direct greater resources to geographically isolated regions can be especially effective. There is evidence that increases in investments in infrastructure can improve levels of well-being. A study based on a sample of 73 countries found that a 10 percent improvement in a country's infrastructure index is associated with a 5 percent reduction in child mortality, a 3.5 percent reduction in infant mortality and a 7.8 percent reduction in maternal mortality (Leipziger et al., 2003).

Language barriers can be another important obstacle for certain groups to access services in education and health. In multi-ethnic or multi-linguistic contexts, for example, providing services exclusively in the national language, on the grounds of creating ethnic or linguistic unity or shared cultural values, often provokes resistance and places minority groups at an even greater disadvantage in accessing services (Swain, 2005). Cultural sensitivity and awareness are particularly important in access to health, where services must be respectful of the culture of individuals and local medicinal practices. Jambi Huasi ("Health House" in Kichwa) in Ecuador is a health clinic geared towards the health needs of indigenous populations in the city of Otavalo.

The clinic offers traditional indigenous health practices as well as Western medicine and serves over 1,000 people every month. Its main focus is family planning and reproductive health, but it also offers traditional herbal remedies, general medicine and dentistry. The clinic also does outreach and education based on traditional culture, values and language (UN DESA, 2009).

Ensuring access to marginalized groups involves shifting people's mindsets. Disability is a good example. For a long time, disability has been seen through the lens of a 'medical model'. In this approach, disability is seen as a 'problem' that is inherent in the individual and that must be addressed through medical interventions. In contrast, the 'social model' of disability focuses on the elimination of social barriers that prevent persons with disabilities from enjoying the same human rights as other people. By focusing on the elimination of barriers rather than conceiving persons with disabilities as problems to be fixed, the social model empowers persons with disabilities to participate in all dimensions of life as active, contributing members of society. In practice, the application of such an approach requires the appropriate combination of mainstreaming and targeted interventions. For instance, persons with disabilities often share the same health needs as the general public. Therefore, ensuring that persons with disabilities can attain the highest possible level of health care will require, first and foremost, intervention in the health care system to remove the barriers that prevent persons with disabilities from accessing general health care. In some cases, though, it will also be necessary to establish adequate specialized services responding to especially complex needs related to certain primary conditions, e.g., multiple sclerosis, cystic fibrosis, severe arthritis or schizophrenia.

7.4. Addressing social exclusion by promoting agency, combating discrimination and transforming inequality-reproducing cultural norms

Processes of social exclusion — driven by multiple economic, social, political and cultural factors — prevent individuals and groups from meaningfully contributing to the shaping of their environments and from living a life of their own choosing. As such, they play a major role in entrenching inequalities of outcomes and opportunities.

Political space for inequality reduction requires viable pro-equalization majorities, which, in turn, are contingent upon the capacity of marginalized and disadvantaged groups to organize politically in order to have their voices heard. In other words, the effective contestation of unequal power structures necessarily involves the removal of the multiple barriers that block the meaningful participation of entire segments of society in economic, cultural and political life.

As noted in chapter 6, most policy makers perceive that there is limited political space for action on inequality in their countries. However, political space for inequality reduction can be created through specific actions aimed at expanding the domain of political feasibility. Two areas of work are, in this sense, of critical importance: broadening participation in public and political life by strengthening the agency, voice and political participation of those who have been left behind by development processes; and combating discrimination, also by undoing prejudices, stereotypes and other cultural norms that reproduce and justify inequality.

7.4a. Broadening participation in political and public life

Civic engagement — through participation in political parties and other forms of collective organizing — is essential to the aggregation of individual preferences into explicit policy demands (Przeworski et al., 1999;

Edwards 2009). In fact, coordinated mobilization is indispensable for people who wish to pursue a common interest and, as noted by Robinson (2010), solving collective action problems is probably the single most important factor contributing to a group's capacity to claim specific policies. For this reason, in a very fundamental sense, the realization of greater equality is predicated on the achievement of greater voice and political space by those who have been excluded from the benefits of development.

While it is important for civic spaces to remain autonomous from the state, there is a lot that government can do to legitimize and facilitate civic engagement and inclusive participation (Fowler, 2003; CIVICUS, 2013). A first critical step is the establishment of a regulatory environment, based on a strong recognition of the freedoms of association and expression that are conducive to the formation and effective functioning of civil society organizations. A second important step is the promotion of a political environment in which civil society organizations are seen as legitimate and valuable interlocutors of public authorities and in which formal spaces are established for civic engagement — what Fowler (2003:9) calls "arrangements where contending ideas about the public good can be advanced and negotiated".

Political space for inequality reduction requires viable pro-equalization majorities.

Especially important for creating the political space for inequality reduction are mechanisms that ensure the involvement of civil society in policy debates on national development plans and budget priority setting. In particular, more than 20 years after the first experience in Porto Alegre (Brazil), participatory budgeting remains an extremely vital experience with a great potential to deliver inequality-reducing budget choices (UNDESA, 2008). In South Africa, for instance, the South African NGO Coalition has been able to significantly influence the budget process over the years by providing inputs based on large-scale consultations in multiple poor and marginalized settings (UNDESA, 2005, 2008).

While overall strengthening of civic spaces is important, a generic promotion of civil society may not be sufficient to generate momentum for inequality reduction. Attention should also be paid to the specific economic, social and cultural barriers that prevent the poor and marginalized from participating in public life. Civil society organizations must themselves be inclusive, accountable and transparent if they are to effectively promote greater social justice. Legislation and other mechanisms — such as voluntary codes of conduct — can contribute to promoting the application of democratic standards to the internal workings of civil society organizations. In addition, measures should be taken to address constraints such as those involving the availability of time, sufficient technical understanding of relevant policy issues, and limited access to social capital, all of which often prevent low-income individuals from engaging in the public sphere.

As political parties remain the main vehicle in most democratic systems through which policy demands are articulated and negotiated in the political arena, their ability to represent different segments of society and support a truly inclusive democracy — in which nobody is left out of the public dialogue based on income or other grounds — is critical to distributional outcomes. In order to strengthen the ability of political parties to perform their democratic function, the following measures could be considered: encourage programmatic versus clientelistic approaches by creating an environment in which, for each election, political parties are required to develop a political platform that clearly outlines policy preferences; promote, through appropriate regulations, transparency in financing, budget and procurement practices; and encourage the application of democratic standards to the internal processes of political parties from leadership selection to internal decision-making (International IDEA and UNDP, 2009).

Promoting voter participation and the integrity of electoral processes is another way to ensure that the voice of all citizens — regardless of their income or other conditions — is heard. Action in this area will span many issues, including: fairness of boundary delimitation and districting; independence and capacity of electoral management bodies; voter registration and regulation of eligibility to elect and be elected; campaign regulation, including media coverage and campaign financing; and management of actual election operations — just to mention a few of the relevant issues (International IDEA, 2002). Promoting women's participation in elections as voters and candidates and encouraging political participation of vulnerable and marginalized groups such as youth, persons with disabilities and minorities are also important interventions to ensure that electoral processes have the potential to serve as a transformative tool for democratic governance.

New technologies hold great potential to create inclusive citizen networks. For instance, platforms based on simple SMS capacity for collecting and mapping inputs from citizens such as *Ushahidi* —originally developed to track election violence in Kenya — have enabled initiatives as diverse as the mapping of community needs in Chisinau (Moldova), the tracking of plant disease in Argentina and the documenting of instances of xenophobia in South Africa, just to mention a few (UNDP, 2012). In order to make this potential even more relevant to inequality-reduction, action should be taken to ensure that all individuals, regardless of their economic or social status, can have easy and cheap access to relevant communications platforms and technologies as well as to the skills to use them.

7.4b. Promoting normative frameworks that are conducive to inequality reduction

As dominant groups benefit from better access to resources, they have an incentive to maintain the conditions of inequality that benefit them (Darity, 2005). For this, they rely on crafting inequality-justifying ideologies. These ideologies are translated into stereotypes and norms that define the ways in which groups supposedly differ and embed these beliefs into social interactions as well as into legal and cultural institutions (Seguino, 2013; Darity et al., 2010; Stewart, 2002). Statutory and customary barriers based on these stereotypes and norms can block certain groups from gaining access to, or ownership of, certain assets, as is the case, for example, with limitations to women's inheritance (Deininger et al., 2010; Cooper, 2001). Other expressions of inter-group differences are the systematic exclusion of groups from receiving educational or health services, from fully participating in the labour market, or from being politically recognized or represented.

Because prejudice and discrimination are often embodied in the law itself and other public institutions, inter-group inequalities tend to persist, creating inter-generational transmissions of group-specific inequalities (Stewart and Langer, 2007; Darity, 2005). As group affiliation is a major foundation of identity, group-based discrimination can also affect the way individuals recognize themselves, thus preconditioning detrimental behaviours, justifying unfounded social stereotypes, and perpetuating discriminatory responses from other groups (Stewart et al., 2010).

Prejudice and discrimination are based not only on gender, racial, ethnic or cultural grounds, but also on economic grounds. In fact, the poor as a group also experience discriminatory practices based on stereotypes. The poor are often perceived as being responsible for their situation because they are 'lazy', 'dishonest', 'disinterested in education' or are 'unwilling' to make other efforts that could improve their lot (OHCHR, 2011). These beliefs translate into regulations that, directly or indirectly, target the behaviours of the poor and penalize these people. Some measures may be directed at removing the "image of poverty" (OHCHR, 2011) by, for example, removing homeless persons from public spaces.

Civic engagement, in and of itself, can greatly contribute to shifting people's opinions, interpretative schemes and attitudes, as noted by Habermas (1992) in his reflections on the action of "opinion-forming associations" operating in the public sphere to refashion the messages of the constituted authority. However, voice and participation alone may not be sufficient to fully reverse deeply entrenched inequalities. In order to have effective contestation, one would have to assume that disadvantaged groups have the power to actually translate their voices into action for change — which is not the case for all social groups (Seguino, 2009).

On the other hand, ideologies, norms and stereotypes, although persistent, are not static and can respond to policy interventions (Diekman et al., 2004; Darity, 2005). There is a space, therefore, for specific interventions addressing the norms underpinning the inter-generational transmission of group-based inequalities. These include: effective enactment of anti-discriminatory legislation; improving access to justice for the poor, marginalized and disadvantaged; introduction of affirmative action policies; and engagement with the media and other public opinion makers.

The introduction of anti-discriminatory legislation based on the human rights principles of equality and non-discrimination, together with the reform of existing discriminatory laws, may not be always sufficient, but is nonetheless greatly important. Legislative reform to increase access of disadvantaged groups to better livelihoods and overall control over material resources through employment, credit, property and ownership of resources can, for instance, have an effect on their bargaining power and consequently on their opportunities (Seguino, 2013). The reform of inheritance laws in India improve women's inheritance rights not only increased women's land inheritance, but also improved their control over economic resources in the household and their intra-household bargaining power, as shown in an increase in school attendance among girls (Luke and Munshi, 2007; Deininger et al., 2010). These policies can be supplemented with interventions directed at the dominant group, such as policies that distribute the care burden more equitably between men and women (Seguino, 2013).

Collective rights could be another corrective measure aimed at granting equal rights to historically excluded groups (O'Neil and Piron, 2003). An interesting example of collective rights is the property rights over land granted to the Mayangna community of Awas Tingni in Nicaragua. The Inter-American Court of Human Rights ruled in favour of the Mayangna community, granting them property rights on their land and obligating them to demarcate and title the Awas Tingni territory (Feiring et al., 2003; UN DESA, 2009). This supported the recognition of the country's multi-ethnicity under Nicaragua's constitution.

Ensuring that people can access justice systems (state systems as well as traditional and other non-state justice systems) allows for the peaceful resolution of disputes and provides fair, independent remedies for grievances involving discrimination and the unequal distribution of benefits and entitlements in society. It is essential that disadvantaged groups be able to access justice in order to claim rights and entitlements that can help them address the underlying causes of exclusion and marginalization. Furthermore, legal identity is fundamental for inclusion in society and a key to citizenship and active participation in development processes. Support for justice institutions and empowering people to claim their rights and entitlements, such as through legal aid and legal awareness, can be significant means of reducing the barriers that imprison groups in cycles of poverty and inequalities. Additionally, action must be taken to address the specific barriers faced by poor and marginalized groups in accessing justice, including costs associated with accessing justice systems, lack of information and lack of legal recognition as well as institutional barriers such as lack of resources, corruption and lengthy court procedures.

Affirmative action interventions that aim at directly promoting the socio-economic status of specific groups in the areas of education, employment and business creation (Holzer and Neumark, 2006) are a common way of trying to improve the opportunities for disadvantaged groups, but they can also help break deeply held stereotypical beliefs. These policies can use quota systems, holding either a number or a percentage of positions for targeted disadvantaged groups. Quotas have been established for racial and ethnic groups, women and persons with disabilities. The Indian quota system is a positive example of the use of affirmative action to reduce group-based inequalities. Used in India to reserve a number or share of positions for historically disadvantaged minorities (i.e., scheduled castes and scheduled tribes, as well as women), these quotas covered jobs in public and private sector enterprises, political seats and education (Prakash, 2009; Pande, 2003; Pande and Ford, 2011). Evidence indicates the attainment of increased high-skill employment levels and household expenditure among scheduled casts (although not as great among scheduled tribes) (Prakash, 2009; Howard and Prakash, 2011).

This policy framework advocates for the moderation of income inequality through inclusive growth pathways and for increased efforts to close gaps in education, health and nutrition and to tackle prejudice, discrimination and exclusion.

The media are a key tool to shape the public's opinion towards redistribution. Media outlets constitute the main communication channel from which citizens receive the political and social information and value cues that they use to form opinions (Hughes and Prado, 2011). Individuals' support of policies to address inequalities is influenced by how inequality is framed as a policy issue and it is based on the information that they have about the capacity of the state to address this issue (e.g., the operation of the tax system or the efficiency of public projects). Shifts in media policies that ensure diversity in groups, worldviews and lifestyles represented in the media can influence perceptions of equity (Hughes and Prado, 2011). Generally, the media have tended to reinforce an elite dominant worldview and contributed to the acceptance of a status quo that favours them. Media diversity can allow a wide range of ideas, voices and lifestyles to enter public discussions and increase the possibility of support for change. Featuring the voices of the disadvantaged could have important implications for the elites' and non-elites' appetite for redistribution. Public services media systems that allow ownership of media across civic and political groups can improve the diversity and capacity of media outlets to shape public opinion towards the reduction of inequality.

Beyond strengthening civil engagement, opening policy space for inequality reduction might require raising the concern and engagement of the business community, based on the conception that reducing inequality is beneficial for all. Because the business community controls strategic material resources, it has the power to initiate or deter policies, but also the explicit incentives for maintaining a status quo that favours it. Historical evidence from the emergence of welfare states in Europe provides an example of how elites can be prompted to take action if they (i) perceive poverty or inequality as a threat to them (through risk of social uprisings, contagious disease or shortage of labour, for example), (ii) feel some responsibility towards the poor, and (iii) believe that something can be done about it (de Swaan, 1988, as cited in Blofield, 2011).

Thus, shaping the opinions of the elites so that they feel a responsibility towards distributional outcomes in their countries and influencing their perception that governments lack the competencies to address issues of inequality can affect the business communities' engagement in inequality reduction. A recent study of the elites' perceptions of poverty in Brazil provides evidence that the elites do see the poor as a threat to physical security and property. However, it also shows that they have no confidence in the government's ability to address issues of inequality and poverty and, in general, have no sense of responsibility towards the poor. Positioning inequality reduction as a means to increase public security and focusing on the progress made in this area could be important strategies to change the elites' perception of state capacity and to move them towards greater engagement in inequality reduction (Reis, 2011).

Finally, building support and momentum for inequality reduction requires that policy makers develop and pursue a coherent, evidence-based and values-driven policy narrative with clear objectives and action points that compels stakeholders to act. This narrative should highlight government achievements in inequality reduction to build confidence in the government's capacity and emphasize the benefits of redistribution for all. Furthermore, a coherent policy strategy should bring relevant policy together within a single overarching framework and redirect resource from short-term disconnected initiatives towards interlinked and comprehensive policy actions.

7.5. Conclusion

Evidence provided in this analysis has shown that the inequality of outcomes and that of opportunities are interlinked and mutually reinforcing. The report puts forward a comprehensive policy framework to address inequality in all of the dimensions that matter for well-being, focusing especially on those households and groups who remain consistently on the margins of economic, social and political life. This policy framework advocates for the moderation of income inequality through inclusive growth pathways and for increased efforts to close gaps in education, health and nutrition and to tackle prejudice, discrimination and exclusion.

Notes

1. In many cases, labour market interventions such as public work and training and skills programmes are included in social protection (Asian Development Bank, 2003; World Bank, 2012a; Barrientos and Hulme, 2008).
2. Cecchini and Martínez, 2012; Barros et al., 2010; ECLAC, 2011; Esquivel et al., 2010; Gasparini and Cruces, 2010; Jaramillo and Saavedra, 2010; World Bank, 2012a; Barrientos and Hulme, 2008; UNICEF, 2012.
3. This means their coefficient is higher than the market income Gini (Lustig et al., 2011)
4. Public expenditure on education includes government spending on educational institutions (public and private), education administration and transfers/subsidies for private entities (students/households and other private entities). UNESCO Institute for Statistics, Source: World Development Indicators: *http://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS*
5. On average, the informal sector accounts for 40 percent of economic activity in developing countries (IMF, 2011).
6. Avoidance is the use of legal means to avoid paying taxes; evasion is the use the illegal means.

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