

Addressing Inequalities: Policies for Inclusive Development

A two-day workshop organised by the Inter-Regional Inequality Facility and held at UNECA, Addis Ababa, 11-12 July 2005

Workshop Report

Purpose

The main purpose of the workshop was to highlight and discuss ways in which policy-makers can tackle inequality. It brought together researchers and policy-makers from governments and research institutions in Asia, Africa and Latin America, with the aim of sharing evidence and experiences both on which policies can address inequality most effectively and how to bring about policy change.

Organisation

The workshop was organised by the Inter-Regional Inequality Facility, a collaboration between the Inter-American Development Bank, the African Development Bank, the Asian Development Bank, the New Partnership for African Development and the United Nations Economic Commission for Africa. The Facility was established in September 2004 with initial funding from the UK Department for International Development. Its objective is to promote inter-regional dialogue and knowledge sharing on the issue of inequality: how it affects development, and how it can be addressed by policy. The Facility funds research, exchanges and advocacy activities which strengthen South-South dialogue on this issue, and help build a coalition in favour of a more equal and inclusive development process.

Background

Earlier in 2005 the Inter-Regional Inequality Facility commissioned a series of three synthesis papers designed to review the most recent evidence in Africa, Asia, and Latin America on:

- levels of inequality in its various dimensions, e.g. income, education attainment, access to public services, political participation;
- recent trends in inequality in those same dimensions;
- the effects of inequality, e.g. on economic growth, poverty reduction, and progress toward the Millennium Development Goals (MDGs);
- the causes of recent trends in inequality, including the effects of external shocks (e.g. macroeconomic crises and adjustment), government policies (e.g. market liberalisation), and social and cultural factors (e.g. discrimination).

Copies of these papers are available at: http://www.odi.org.uk/inter-regional_inequality/papers_regionalsyntheses.html.

Three key messages emerged from these syntheses. First, inequalities are widespread throughout the developing world, and are in no sense limited (as was once thought) to a small number of middle-income countries. To give one example, although Latin America is typically considered to be the region with the highest levels of income inequality in the world, the most recent evidence suggests that income inequality is just as high, on average, in Sub-Saharan Africa. To give another, although levels of income inequality are quite low, by international standards, in South Asia, gaps between the literacy rates of young men and women are among the highest in the world.

Second, inequalities show a remarkable degree of persistence. According to a recent World Bank study¹, the high levels of inequality in Latin America extend back to colonial times. To give a more recent example, according to the latest estimates neither South Asia or Sub-Saharan Africa are on track at the regional level to meet the targets under MDG 3 ('Promote Gender Equality and Empower Women'), and no region is on track in terms of raising women's representation in national parliaments.²

Third, inequalities have a number of adverse consequences. Research in Asia, Africa and Latin America has clearly established the dampening effect that inequality has on progress towards MDG 1 ('Eradicate Extreme Poverty and Hunger'), and in particular the target of reducing \$1-a-day poverty by 2015. Other research also suggests that slow progress to the various MDG targets among the poorest and most disadvantaged groups has hindered progress toward the targets at the national level.³ Studies have also shown the adverse effects of inequality on economic growth, and social and political stability.

Inequality, therefore, appears to be a widespread problem showing little tendency to go away on its own accord. Despite this, concerns may nonetheless remain about the ability of policy to effectively address inequality. For instance, higher taxes can have adverse effects on savings, investment and long-run growth. Targeted transfers risk creating a poverty trap, by generating high marginal tax rates for those on low incomes, as well as carrying a high administrative burden. Furthermore, even

1 Ferranti, de D., Perry, G., Ferreira, F. and Walton, M. (2004). Inequality in Latin America: Breaking with History? World Bank, Washington D.C.

2 UN Millennium Project (2005). Investing in Development: A Practical Plan to Achieve the Millennium Development Goals. Earthscan, London, p.15.

3 UNDP, UNICEF (2002). The Millennium Development Goals in Africa: promises and progress. Report prepared at the request of the G-8 Personal Representatives for Africa, June 2002, New York.

if effective policy instruments for addressing inequality are available, there may be significant political constraints to implementing those policies in practice, particularly if those in power tend to lose out, at least in the short run.

This state of affairs provides the essential motivation for the workshop: to examine the advantages and disadvantages of different policy instruments for tackling inequality in its various dimensions, and the political processes through which different policy instruments for tackling inequality have been implemented in the past.

Structure

The structure of the workshop was organised around four key sessions, each covering an important area through which governments can address inequality:

- transfers and safety nets;
- labour markets and training;
- access to public services;
- affirmative action.

Each session consisted of a series of presentations, commissioned and prepared in advance, of existing policy initiatives under each of these headings, drawn from Asia, Africa and Latin America. This followed by comments from discussants (who were either policy-makers or researchers specialised in each field) and a plenary discussion. Copies of the agenda and background papers presented at the workshop are available at http://www.odi.org.uk/inter-regional_inequality/events.html.

There was also a session, at the beginning of the workshop, which discussed the state of existing research on inequality in Asia, Africa and Latin America. There was also a session on the second day of the workshop on the role of monitoring and evaluation in addressing inequality.

Proceedings

Discussion at the workshop covered a wide range of issues and questions, but it is possible to highlight three of four key points and conclusions which emerged.

First, it was noted that there is a lot of overlap between policies for addressing inequality and both policies for reducing poverty and policies for increasing economic growth. Does the 'inequality' policy agenda offer anything different – any real 'value-added' – to the 'growth' or 'poverty' policy agendas? In answering this question, it was felt that one area which did not feature in other policy agendas was affirmative action. Such policies were typically regarded to have adverse effects on efficiency, and therefore did not feature in the growth agenda. Their impact on poverty was also

uncertain (in part because of the adverse effects on efficiency), which meant they were not central to the poverty agenda either.

Second, it was accepted that there were no universal prescriptions for addressing inequality: different contexts and settings required different policy instruments. To give one example, universal public works programmes were common in South Asia but were considered to be inappropriate in South Africa, where unemployment was longer-term and more structural. At the same time, cash transfers were well established and effective in South Africa, but were considered to be difficult to implement on a wide scale throughout South Asia because of fiscal constraints.

Third, it was noted that the political will to address inequality could emerge from a variety of different sources. These included the effects of economic crises (e.g. transfers in Indonesia and Colombia), the empowerment of end-users, donor support, domestic political champions, and the results of independent impact evaluations.

Fourth, it was accepted that there other policy areas on which further research was required. These included land reform, which was a crucial issue in terms of tackling inequality in Southern Africa, and taxation, which was a vital prerequisite for many of the policy initiatives discussed at the workshop (given uncertainties about the longer-term sustainability of donor financing). It was also agreed that there were other relevant cases under the existing policy areas covered at the workshop. These included the experience of affirmative action in the United States, on which there was a very large literature, and of cash transfer programs specifically designed for post-conflict situations and vulnerable children.

Finally, it was agreed that inter-regional dialogue on inequality was useful and should continue. The workshop had offered a chance for an open-minded and eclectic debate, and had heard from a diversity of ideas and perspectives on why inequality matters and how it can and should be addressed by policy. In terms of future directions, it was felt that a focus on concrete policy instruments was critical, and that the most interesting policies were those which were nationally driven and funded mainly by domestic taxation. Discussion of the advantages and disadvantages of different instruments should be based on rigorous impact assessments. Continued inter-regional dialogue would best be promoted through a series of focused conferences or workshops addressing different policy areas, based for example on the recent World Bank supported workshops on conditional cash transfers (see http://www1.worldbank.org/sp/safetynets/CCT_workshop_4-04.asp).

Evaluation and feedback

Workshop participants were requested to fill out an evaluation questionnaire. The results of this questionnaire are being analysed and will be made available shortly.

[Analysis of questionnaires to be included here].