



Inequality

Why it matters and what can be done

April 2011

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* Disclaimer: The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI or ActionAid International

Preface

ActionAid commissioned this report on to draw together existing ActionAid cross country research on different inequalities and the potential of redistributive policies. The aim is to provide a basis of knowledge and understanding on the issue. Specifically, ActionAid is interested in why different inequalities are a problem and what redistributive policies might reduce these inequalities. This knowledge will feed into ActionAid's work on alternatives, and particularly into ActionAid's National Development Strategy (NDS) project. Using a combination of local programming, country research, coalition building, advocacy and lobbying, the NDS project aims to influence governments to adopt an alternative National Development Strategy that recognises the social and economic rights of all citizens and lays out a practical vision for state-citizen led development founded on principles of (i) redistribution of wealth for social justice and the reduction of inequality; (ii) self reliant growth & full and fair employment (iii) ecological justice and (iv) women's rights through, e.g., recognition of the care economy. In 2011 the NDS project focussed on demonstrating how an alternative model of domestic financing, using a redistributive tax system, can address inequalities in the social (education and health) and productive (land and natural resource are ActionAid's interests) sectors and the care economy. This paper supports this work by providing broad evidence base. The confirmation that current growth models create and increase multiple inequalities which lead to crises and that these crises further exacerbate existing inequality within countries, suggests strongly that inequality should be a focus of our work and that we must look beyond the current growth models for solutions. A focus on inequality and redistribution could signal a new approach to national advocacy work, as any policy can be analyzed through a redistributive lens. Actionaid can ensure that national development strategies, which are frameworks for advocacy, are politically motivated and redistributive.

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Executive summary

Inequality between people and groups of people, and worry about inequality among policy makers, is on the rise. The concern is for good reason. High inequality – of incomes, of gender, of access to education or health, or of ownership of assets like land - is morally unacceptable to many. High inequality means that some individuals and groups – genders, geographies, religions and ages – are systematically deprived of their rights. Inequalities in access to power make it harder for some groups to claim their rights from governments. High inequality also has negative effects on poverty reduction and on a country's growth and stability. Large inequalities, either at the outset or because of the growth path taken, mean that growth is less effective at reducing poverty. Large inequalities can restrict growth, if it means that the skills and talents of a significant part of the population are unused. Reducing inequalities, particularly gender inequality, has been shown to promote faster growth. Persistent inequalities can trap groups and regions in permanent poverty. Inequality, on almost every dimension, is also bad politics, in that a very unequal society is also often a less stable society as it is unlikely to represent views, especially of the marginalised. And current trends make inequalities more, not less, important: as a larger proportion of the world's poor live in middle income countries, so poverty is as much about inequalities within countries as about absolute lack of resources. And as we face a world where growth might be limited due to environmental constraints, reducing inequalities globally becomes a more important route to ending poverty worldwide.

'Inequality' is not one thing, but is made up of multiple and overlapping inequalities in such things as gender, income, wealth, educational and health outcomes, social status and political power, geography, religion and race; all which interlink and interact with each other. For this reason it is hard to define one single measure or dimension of inequality to form the basis of analysis, and doing so would leave out some crucial aspects of inequality as people actually experience it. Income inequality is the indicator most often used in analyses of how resources are distributed within societies. However, other inequalities, like in access to education or health services, or in political influence, or in the distribution of other resources like land, can be just as important in determining outcomes for individuals and groups. In this report, we highlight how different inequalities interact. However, income inequality, while not necessarily always the most important, is the dimension of inequality with most data available and serves as a useful, though hardly comprehensive, proxy for other inequalities. For this reason much of the discussion is about income inequality.¹

In recent years some countries with high income inequality have seen it reduced, when governments have chosen to address the issue, while some low inequality countries, where governments have not addressed distributional questions, have seen an increase. Both these experiences can provide useful lessons for policy makers seeking ways to tackle inequality while also pursuing other objectives such as economic growth.

Brazil is one of the most unequal countries in the world, but in recent years income inequality has been falling. Part of the reason lies in Brazil's economic growth path – steady growth, driven by both external and domestic demand and encouraged by macroeconomic stability and government investment, has converged with falling unemployment and a rise in real wages. In addition, redistribution of incomes by the government in the form of a very extensive cash transfer programme for families and pensioners has been a crucial part of bringing down both inequality and poverty in Brazil. Finally, expanded educational opportunities for poor people have contributed to reduced poverty and inequality through better jobs. However, problems remain in Brazil's largely untouched inequalities in wealth such as land, its regressive

¹ As noted, income inequality and GDP is a reductionist way of measuring inequality. It is also flawed in itself since it hides different realities. For example, a country may have a high GDP, but a high inequality. This is addressed later in this paper and within a separate paper on growth for ActionAid by the same author.

tax system which sees the middle classes bearing much of the burden, and the only very slow drop in inequality between races and between men and women.

Vietnam has seen impressive progress on both poverty and growth in recent years. Starting from a relatively equal base, thanks to an egalitarian land distribution, growth in agriculture has been rapid, poverty-reducing and equitably distributed. Since the government switched to a policy of focusing on industrialisation, income inequality has started to rise as growth has been more concentrated on a number of growth poles in urban areas and rural areas close to transport links. The government has now increased its focus on redistribution, through more spending on infrastructure and the development of improved policies on health, education and social protection.

Both of these countries provide a stark contrast with others, such as Nigeria, where a lack of concern for inequality has led to rising income inequalities in the last twenty years, and a failure to reduce poverty. Inequality clearly matters, and if governments choose not to address inequality, it will almost certainly rise. But if they do decide to tackle it, then redistribution of incomes and assets, enhancing the opportunities available to poor people through education, and a growth strategy that purposely includes poor people are all feasible and effective components of an agenda on inequality. Ensuring that resources and opportunities are fairly distributed should be a core part of countries' national development strategies. We hope this report will provide useful indications of how that can be accomplished.

1. Why does Inequality Matter?

Inequality has, in the past, been seen as a bit of a minority concern to the economic policy establishment – even an irritating sideshow to the real business of promoting growth. No longer. The World Economic Forum – convenors of the annual power fest in Davos, Switzerland – cite inequality as one of their top five issues for 2011. The International Monetary Fund’s Managing Director lambasted inequality in a recent speech for ‘threatening economic and social stability’. And the United Nations Children’s Fund (UNICEF) has recently announced that inequality will be at the heart of all that it does.

Whilst these actors are new to championing inequality, NGOs like ActionAid have been arguing the importance of inequality for many years, and the current environment offers an opportunity to get this issue on the policy agenda. In order to be effective, it will be important to be clear about why inequality is important and what the most important policy tools for tackling it are. This paper first outlines the main findings in the academic literature about why inequality is important. It then outlines key regional trends in inequality and policies to deal with it, before turning to case studies of selected countries, and finishing with an agenda for action.

Rather than ‘inequality’, it is more useful to think of ‘inequalities’ – the multitude of social, economic and political inequalities which shape individuals’ interactions with each other, their economic opportunities, and their political influence. The inequalities relevant to people’s quality of life go beyond income. Inequalities in access to education, or health services, inequalities in political representation, inequalities in the ownership of land or other assets, or of social status, all combine and interact to create the complex social and economic structures that influence the lives of every member of a society.

Inequalities are felt not just among individuals. Some of the most pernicious and hardest to tackle are inequalities among demographic groups. Gender inequalities are a fact of life in almost every society. In addition, inequalities between ethnic groups, between people living in different regions, between people of different ages, and between religious groups and social castes, all interact to create the widespread injustices seen in most, if not all, societies.

1.1 Ten reasons why inequality is important

For an organisation like ActionAid, which places rights at the heart of its worldview, inequality represents a rupture in the social order and makes the achieving what follows from the realisation of rights – the basis of a socially just society – impossible. Rights are integral and inalienable, and it cannot be acceptable for some individuals or groups to have more rights – whether to political participation, to food, to health or to education – than others. A rights-based approach virtually demands a concern about inequality, and perhaps needs no further argument. However, given that not all of ActionAid’s partners or targets are motivated by the same rights-based approach, we offer ten further reasons why inequalities should be tackled as a matter of urgency:

1.1.1 The moral economy case

At the heart of much concern about inequality is the moral case – that there is a point at which the gap between rich and poor becomes morally unjustifiable, particularly when combined with absolute deprivation among the poorest. There is a long academic tradition of investigating this ‘moral economy’ approach, from James Scott’s work on the ‘moral economy’ of peasant movements in Asia to Naomi Hossain’s work on responses to the financial crisis of 2008-9 (Scott, 1977; Hossain & Eyben, 2009). The term refers to the common values of a group or community, such as those around acceptable prices of food, acceptable ways to ration scarce resources such as land or water, or acceptable levels of inequality. Moral

economies are formed at the community level, and differ from a single universal concept of 'morality', such as that promoted by religious groups.

Moral economies are usually formed at national or sub-national level, but international development has its own moral economy. It would be possible to achieve the MDGs in a particular country, for example, in circumstances where inequalities in attainment of different development outcomes such as educational enrolment or maternal mortality levels widened and where the situation of the very poorest was unchanged. Some recent evidence (e.g. (Save the Children, 2010)), indicates that this is what is happening in some cases. Most of us would have an instinctive moral reaction against that. Since at its heart the international development project is, at least in part, a moral one, this reaction deserves to be taken seriously.

While this is at the heart of why many people care about inequality, it is an argument that is less usable with policy makers concerned with the impact of policies on growth and numerical indicators of poverty reduction. For this reason, it is also useful to examine the more instrumental arguments about the impact of inequality, and how inequality links to strategies to accelerate growth and poverty reduction.

1.1.2 Inequality can make poverty permanent for some groups

Inequalities between groups – so-called 'horizontal inequalities' – can form a barrier to poverty reduction. Whether based on caste, location, gender or race, they restrict the mobility of individuals from particular groups. So, for example, indigenous people comprise one third of the nearly one billion extremely poor rural people worldwide (United Nations, 2010). Poverty among scheduled castes in India, including those once known as 'untouchables', is much higher than among the rest of the population. Recent work by ODI has shown how spatial inequalities can create poverty traps for people living in particular locations (Bird, Higgins, & Harris, 2010). Often these group and geographical economic inequalities are also reflected in lack of access to political power, potentially creating unrest and instability (Stewart, 2007). Without attention to these group dimensions of inequality, the barriers to progress they present for some individuals, and the dynamics of power in which they are bound, the global project to eliminate poverty cannot be achieved.

Gender inequalities in particular have persisted across almost every society and through different phases and levels of economic development. Pre-existing socially and culturally defined inequalities have meant that as economies change, women are likely to be found in the lowest paid and least prestigious jobs or to own the least assets. In almost every country, women are less represented than men in positions of political and economic power, further reducing the probability of policies or other action to reduce inequalities. Gender inequalities illustrate the interconnected nature of different inequalities and the persistence of group inequalities across time and space – both of which imply the need for government action to tackle what would otherwise be a source of persistent injustice.

1.1.3 Less inequality means better politics

More unequal societies are more likely to be violent, less coherent, and to have less stable political systems. This is of course not a universal rule. But recent research does point to a positive link between more equity and more stable political systems and better policy, less subject to the interests of particularly powerful groups (summarised in (Vandemoortele, 2009). This is not simply a question of narrowing the gap between top and bottom, but also of creating a large and stable middle class who can contribute to both political and economic life (Birdsall, 2010).

The dynamic between inequality and politics is two way – while reduction in inequalities can improve the functioning of political systems, so improved political participation, particularly of marginalised groups, can

increase the chances of governments making policy choices which reduce inequalities. For example women's participation in parliament in South Africa led to the formation of gender budgeting processes. This in turn made significant impact on budget reform: a specially appointed commission found the tax policy and pension fund laws discriminatory, and both have been amended. In addition, the Ministry of Finance responded to the claim that there was skewed budget allocation towards unnecessary defence expenditures by reducing that expenditure from 9.1 percent of the budget in 1992/93 to 5.7 percent in 1997/98. (Parliamentary Strengthening) Participatory and decentralised governance structures can facilitate civil society engagement in these political processes.

1.1.4 Growth accompanied by rising inequality leads to slower poverty reduction than growth where inequality stays the same or falls

The initial rate of inequality affects how much growth contributes to poverty reduction, but so does what happens to inequality during growth. Periods of economic growth almost always benefit some groups more than others, and almost always there are some who lose out. Following the influential 'Kuznet's Hypothesis', it used to be assumed that inequality must grow as countries developed – rising inequality might, according to that theory, almost be seen as a sign of economic success. More recent work has shown that this hypothesis does not hold for today's developing countries (Ferreira & Ravallion, 2008).

Instead of being an iron law of economics, governments have choices about the extent to which rising inequality is allowed to accompany growth. India and Brazil provide contrasting experiences of this in recent years. In India, where rapid economic growth has been accompanied by rising inequality, each one percent increase in the size of the economy reduces the poverty rate by less than one per cent, while in Brazil, where growth has gone together with falling inequality, a one per cent increase in the size of the economy reduces poverty by more than three per cent (Ravallion, 2009).

1.1.5 A more equitable starting point improves the link between growth and poverty reduction as countries develop.

This is partly a mathematical tautology – a more equitable distribution of incomes means that new resources created through growth are likely to be distributed more equitably. So, for example, a country with 2% annual growth and a 40% poverty rate will halve poverty in 11 years if it starts out relatively equal with a Gini coefficient of 0.3, or in 35 years if it starts out relatively unequal with a Gini of 0.6 (Ferreira & Ravallion, 2008). In the country with high income inequality one more entire generation is condemned to poverty than in the low-inequality country. These calculations are done on the basis of income inequality, but the same seems to hold true of inequalities in health, education and even empowerment (Ferreira & Ravallion, 2008).

But it is also a historical fact: those countries, like the "Asian tigers," that started out with a less unequal distribution of assets and incomes saw growth contribute more to poverty reduction than in many countries in Latin America where the link between the two was much weaker (Ravallion, 2009).

1.1.6 High inequality can harm economic growth

Far from there being a trade-off between growth and fair distribution, much recent research points to a complementarity between the two. The World Bank's World Development Report of 2006 (World Bank, 2005), and its report on Latin American growth in 2006, illustrate that extremes of inequality are bad for growth (Perry, Arias, Lopez, Maloney, & Servén, 2006). However, this argument is quite sensitive to what particular aspect of inequality is being considered (Kanbur, 2010). Inequalities in income seem to be less associated with reduced growth, while inequalities in education, access to credit, or other assets which

affect the extent to which individuals or groups can contribute to growth do seem to be linked to reduced growth rates.

Gender inequality, for example, has been shown to reduce growth. One study estimates that gender inequalities in education might reduce growth rates by between half and one per cent in countries with high inequalities between boys and girls compared with those with low inequalities (Klasen, 1999).

1.1.7 Lower inequality can promote faster economic growth

On the flip side, it's worth thus highlighting that the argument in the inverse. There is some evidence that greater gender equality in education and greater inequality between rich and poor in access to credit and other productive assets, such as land, could increase growth rates (Morrison, Raju, & Sinha, 2010; Banerjee, 2010). A recent survey of the literature found that expansion of educational opportunity was one of the factors behind impressive growth rates in East Asia (Permani, 2009).

A virtuous circle can be created, in which expanding the educational system and reducing inequalities in access to education can be a means for both enhancing growth and reducing inequality. This seems to have been part of the explanation for falling inequality in many Latin American countries over the last ten years (Lopez-Calva & Lustig, 2010).

1.1.8 Less inequality means more stable growth

The experience of the financial crisis of 2008 brought issues of stability back to the fore in economic policy makers' minds. There is evidence that both within-country inequality and huge inequalities between countries fuel economic instability. At the national level, high inequality can lead to high levels of consumer debt, as an increasingly squeezed middle class borrow to finance the growth in consumption that they expect as a matter of course. This is arguably one cause of the high levels of consumer debt and mortgage default in the UK and the USA, which contributed to the financial crisis (Kumhof & Ranciere, 2010). Income inequality can also reduce domestic demand in the economy, since fewer people have spare income for consumption, forcing manufacturers to be almost entirely dependent on volatile export markets. And finally the huge concern in the G20 and elsewhere about the growing level of global imbalances shows just one destabilising consequence of growing global inequality (Vandemoortele, 2009)

1.1.9 Increasingly poverty will be about inequality within countries as well as about absolute levels of resources

New analysis shows that the majority of the world's extremely poor people (below the \$1.25 a day poverty line) live in middle income countries (Sumner, 2010). This is the result of a number of countries moving from low to middle income status in the last ten years, but retaining large numbers of poor people. This indicates that within countries, poverty will increasingly be a function of how resources and new opportunities are distributed, rather than an absolute lack of resources. Most poor people live in countries which are growing, in many cases quite rapidly. Ending poverty will be as much about asking how the benefits of growth are distributed within countries and what the transmission mechanisms are between growth and poverty reduction for different groups as it will be about transferring resources between countries in the form of aid or other financial flows.

1.1.10 If growth is to be limited by environmental constraints, reducing inequality becomes an ever more important means to reducing poverty

Recent rises in food and fuel prices have put issues of scarcity and growth firmly back on the international agenda. Barring a major technological breakthrough, the world is going to have to find some mechanism to

ration energy use if climate change is to be controlled, and this in turn will have an impact on economic growth. If growth is to be limited, then by definition the redistribution of existing economic resources becomes a more important way of reducing poverty. This is not yet being discussed meaningfully at fora like the G20, for understandable political reasons, but before long academic discussions will have to be translated into political reality.

1.2 Trends in global inequality:

1.2.1 Income inequality

At a global level, inequality between people has been rising almost continuously since the mid-1980s. The global Gini coefficient, a measure of income inequality where 0 is perfect equality and 1 is total inequality, has risen from around 0.68 in 1988 to 0.71 in 2002. The richest 10 per cent of the world's population take about 57 per cent of all income, while the poorest 10 per cent take 0.6 per cent (Milanovic, 2009). While inequality between countries is a hugely important dynamic and influences inequalities within countries, for example through trading relationships, this paper is concerned only with inequalities within countries.

Within low and middle income countries, there has been something of an inequality convergence, as the countries that were most unequal in 1990 have been becoming less so, and the lowest inequality countries have experienced a rise in inequality in the last 20 years (table 1).

Table 1: Trends in Inequality, developing countries, 1990-2007

Country group	Average Gini 1990	Average Gini 2007
20 lowest Gini in 1990	0.26	0.31
20 highest Gini in 1990	0.57	0.48
Country group		
	Number of countries falling Gini 1990-2007	Number of countries rising Gini 1990-2007
20 lowest Gini in 1990	0	20
20 highest Gini in 1990	17	3

Source: World Bank World Development Indicators

This data needs to be interpreted carefully, since data quality is poor and few countries have two data points to allow this comparison. The low inequality countries in 1990 are almost all the former Soviet republics, where inequality of both assets and incomes was previously held low by government policy and where the transition to a market economy has been particularly brutal and unbalanced. Three of these are Asian countries, and two are African. The high inequality countries in 1990 are all in Africa or Latin America, and in the latter countries in particular inequality is falling mainly as a result of government policies deliberately designed to tackle the problem, particularly of income inequality, and its attendant social and political consequences. The comparison illustrates how, in low inequality countries where there is perhaps less political reason to address inequality as a policy objective, inequality is rising, while in countries where governments have decided to act inequality can be brought down. It is an illustration of both the perils of inaction and the potential for action.

1.2.2 Wealth inequality

Inequalities in global wealth – the distribution of financial assets, goods, land and property among people – are hard to measure and less routinely studied than income or consumption inequalities. But from the perspective of growth and poverty reduction, they may be more important. Research from the United Nations University shows that global wealth is more unequally distributed than incomes. As with income, it is possible to calculate a global Gini coefficient for wealth, where a score of 0 means wealth in the form of land, property etc is perfectly equally distributed, while 1 means total inequality, or one person holding all of a society's wealth. At the global level, the Gini coefficient for wealth is estimated at 0.89 compared to 0.71 for income inequality. The top ten per cent of people by wealth owned 85 per cent of the world's assets in 2000, with the richest one per cent owning 40 per cent of the entire world's wealth. The bottom fifty per cent of adults own around one per cent of all wealth (Davies, Sandstrom, Shorrocks, & Wolff, 2007).

1.2.3 Gender inequalities

Inequalities between men and women are some of the most persistent in the world. While health and educational inequality between men and women does seem to be declining, with a shrinking gender gap in school enrolments and falling maternal mortality in many regions, inequalities persist. Two thirds of illiterate adults worldwide are women, and women in developing countries are less likely than men in those countries to have access to the internet (all data in this section from (UN-DESA , 2010)).

In the areas of income and work, inequalities are slower to fall. The pay gap between men and women in formal sector employment persists in every country for which data is available, and women spend an average of twice as long as men on domestic and care work. Even when women's lower labour force participation is taken into account, women work at least half an hour longer each day than men in Africa, Asia and in Europe and the USA. This has obvious impacts on income and wealth inequality, and contributes to women's lack of visibility and inequality in political participation.

These inequalities are improving slowly over time, but faster progress will depend on the actions of governments and other institutions. Inequalities of power make this a slow process. While things have been improving – in 1995 women made up an average of 10 per cent of parliamentarians worldwide, by 2009 the figure was 17 per cent – we are far from parity. In the private sector too, only 13 of the 500 largest corporations in the world had a female Chief Executive Officer in 2010.

1.3 Conclusion

Inequality is important. For both rights, moral and instrumental reasons, governments wanting to pursue poverty reduction, economic growth and political stability need to pay attention to trends in inequality – of, at a minimum, assets, incomes and education – and actively seek to reduce it among all groups for example of different genders, ages, religions, geographies and races. The evidence from recent trends shows that even if countries start from a position of relative equality, without active attention from governments inequality will almost certainly rise, and in some cases very rapidly. However, the evidence also indicates that governments can choose strategies to reduce inequality without sacrificing other objectives. These strategies will be examined in more detail in the rest of this paper, through case studies of Brazil and Vietnam where governments have made very different choices about when and how to tackle inequality as part of a strategy of growth and poverty reduction. These cases have their own unique dynamics, driven by national level social and political developments, but they also represent different policy choices which will echo developments in other countries. The impact on inequality in each is described as an overview rather than in huge detail and aims to provoke discussion and further thinking.²

² Two page notes giving detail on the current situation of inequalities accompany this report.

Inequality and poverty in Brazil

Brazil has amongst the highest income inequality in the world – with the richest 10% of Brazilians receiving 50% of the nation’s income, while the poorest 10% receive less than 1%. Brazil’s income spans virtually the whole range of global income – with the poorest Brazilians as poor as the poorest in South Asia, while the richest are as rich as the top earners in Germany (Milanovich, 2008).

But poverty and inequality in Brazil have both been falling in recent years. The percentage of people living on less than \$1.25 a day fell from 1% in 1987 to 5% in 2007, and income inequality fell from a Gini coefficient of 0.61 in 1990 to 0.55 in 2007.

Table 2: Brazil trends 1987-2007

	1987	1997	2007
Poverty headcount at \$1.25/day	17%	12%	5%
Poverty headcount at \$2/day	29%	23%	13%
Gini coefficient	0.56	0.59	0.55
Annual GDP growth	4%	3%	6%

Source: World Bank World Development Indicators

Brazil’s social and economic policy can be divided into four different phases, with growth, poverty and inequality interacting differently in each.

1.4 1950s-1980s: Import-substituting industrialisation,

Like much of Latin America, Brazil’s legacy from the colonial period included a highly unequal pattern of land distribution and an economy geared towards the export of primary commodities. The first problem proved impossible to tackle, given the political and economic clout of the landowning elites. But the second was addressed, as in other countries in Latin America, through a concerted policy of ‘import-substituting industrialisation’ (ISI). ISI was successful at developing local industries, some of which became major exporters, and most of the ISI period saw high growth rates. However, for the majority of Brazilians ISI meant poor quality goods at high prices and a failure to increase employment sufficiently to employ the vast numbers of Brazilians moving from the countryside to the large cities. In addition, the neglect of the countryside meant that many of the poorest Brazilians were unable to benefit from any new opportunities that ISI created. From 1960 to 1970, the richest 10 per cent of Brazilians saw an increase in their share of total income from 28 per cent to 48 per cent (Green, 2003). Politics in this period was dominated by the military from 1964 onward, and focused on repressing the majority while offering the minority – the middle classes and the few waged workers in successful companies – stability and growth.

Brazil became a predominantly urban society during this period – while in 1970 more than half of the population and more than half of the poor were living in rural areas, by 1981, 77 per cent of Brazilians were urban. This may have helped poverty reduction, since growth seems to have had a higher impact on urban poverty. One per cent growth in urban areas reduced poverty by the same percentage, while in rural areas the corresponding decline was just 0.6 per cent. This may be partly explained by higher inequality in rural areas, a legacy of very unequal land ownership patterns (Menezes-Filho & Vasconcellos, 2004).

1.5 1980s: Stagflation

With the oil price shock of the late 1970s and the debt crisis of the 1980s, all Latin American economies were faced with a decade of crisis. Inflation, which at very high levels always hits the poor hardest, rocketed up to over 900 per cent. Attempts to deal with the crisis by freezing prices, raising wages, and focusing on growing exports did control the situation temporarily, but failed to address the underlying

problems. Inflation was the biggest problem – four new currencies were introduced in the five years from 1986 to 1991, but this failed to reduce the extraordinarily high rates of inflation (Green, 2003). Growth was low and intermittent, with several years of negative growth during the 1980s. From 1986 to 1991 inequality and poverty both rose (Menezes-Filho & Vasconcellos, 2004).

1.6 Mid 1990s: Macroeconomic stabilisation

Deregulation and reform started in earnest in the 1990s. From 1990, trade barriers were lowered and non-tariff barriers removed, bringing the average tariff down from 55 per cent in 1987 to 14 per cent in 1992 (Menezes-Filho & Vasconcellos, 2004). Combined with an overvalued exchange rate, this led to an increase in imports of 257 per cent, while exports increased by 151 per cent, leading to a widening trade deficit. This was financed in part by sizeable capital inflows (Green, 2003).

From the time of the 'Real plan' in 1994, inflation fell and stayed relatively low, and this stability does seem to have had some impact on poverty, with a small decline in the poverty headcount during the 1990s. However, as elsewhere, the cost of stability and lower inflation was rising unemployment, and poverty reduction was very unevenly distributed between Brazil's regions. This growth and stability was short-lived, with the Asian and Russian financial crises of 1997 and 1998 triggering a loss of confidence in Brazil among investors. Brazil's reserves fell by \$30 billion in two months as investors retreated to what they saw as safer places for their capital (Green, 2003).

The period after 1994 also saw the introduction, initially at a regional level, of some of the social programmes which were scaled up to such impressive effect under President Lula from 2003. The 'school grant' programme in Brasilia, introduced in 1994, offered a cash payment, based on the value of one month's minimum wage, to poor families whose children had an attendance rate at school of 90 per cent or above. By 1998, this programme was estimated to have reached 26,000 families, or 80 per cent of the eligible population, and pushed 10,000 of those families above the poverty line. A similar programme, on a smaller scale, was also implemented in Recife from 1997 to 2000, with similarly impressive results (Lavinias, n.d.). In 2001 a national programme was introduced, which was estimated to reach around 5 million households, or 5 per cent of the population (Hanlon, Barrientos, & Hulme, 2009).

Non-contributory pensions were also introduced in the 1990s, with a rural pension in 1991 and a pension for urban residents in 1993. The rural pension has been credited with a fall in the rural poverty rate from the mid-1990s onwards (Menezes-Filho & Vasconcellos, 2004). Both are paid at the level of the minimum wage (Hanlon, Barrientos, & Hulme, 2009).

Education rates also improved in the late 1990s, with primary enrolment rates rising from 89 per cent in 1994 to 96 per cent in 1999. As with social policy, some of the innovations and improvements were introduced at local level, as in Minas Gerais, where more localised control of schools led to the state getting the best results in national tests (Economist, 1999). The results can be seen in changes in the labour market during the period after 2000. In 1999, just 17 per cent of the workforce had a primary education and 19 per cent a secondary education. By 2006, 43 per cent had primary education and 29 per cent had secondary education, reflecting the investment in education of 10 years previously. However, tertiary education rates have barely changed, from seven to nine per cent of the workforce, illustrating the challenges for Brazil's education system in years to come (World Bank, 2011).

Despite temporary periods of calm, these three periods were most notably defined by instability, and by frequent shocks which tended to hit the poor hardest, often increasing unemployment or leading to high inflation. Poverty and inequality see-sawed during this period, with poverty falling in the 1970s, rising in the 1980s, falling in the late 1990s and rising again in the late 1990s. Brazil entered the new millennium as a less poor, but more unequal society than in the middle of the last century, with serious questions about growth was to be sustained and how poverty was to be reduced.

1.7 2003-present: growth and redistribution

The election of President Lula in 2002 marked a shift in Brazil's thinking about poverty and inequality. While Lula generally kept to the relatively conservative economic policies of his predecessors, social policy was transformed.

Since 2004 the main driver of Brazil's growth has been domestic consumption and investment, aided by poverty reduction and the growth of the middle class (Azeredo Santos). A further boost has come from rising prices of primary commodities on international markets – though Brazil's export volumes went up by 90 per cent between 2000 and 2008, values nearly trebled (World Bank, 2011). Growing confidence in the economy can be seen in both the increase in external investment and the growth of a domestic credit market. Loans from the banking system had been falling during the 1990s, hitting a low of 24 per cent of GDP in 2002, but rose again to 42 per cent of GDP by 2008 (Baltar et al, 2010).

However, there has been no major transformation of Brazil's economic structure. Agriculture has contributed between 5-7 per cent of Brazil's GDP since 2002, industry 27-30 per cent and services 63-67 per cent. Agriculture and industry each employ around one-fifth of the workforce, while around three-fifths are employed in the services sector. Brazil's highly urbanised population means that it is growth in services sector, rather than in agriculture, which is the most poverty-reducing of the three sectors (Ravallion, 2009).

The government's 'growth acceleration plan', launched in 2007, with the second phase announced in 2010, was designed to promote faster and more sustained and equitable economic growth. This was focused on developing infrastructure, with housing, energy and transport receiving the major shares of investment through the programme in both phases (Loudiyi, 2010). The impact on some of Brazil's urban slums has been dramatic and positive (Saunders, 2010).

Each percentage increase in growth in Brazil between 1993 and 2005 reduced poverty by 3.2 percent. This is much faster rate of poverty reduction per unit of growth than was achieved in either India or China during this period (Ravallion, 2009). The success of poverty reduction in Brazil was partly caused by the improved macro-economic stability after 1994, and partly by the social programmes and changes in labour markets which began in the 1990s and were accelerated after 2002.

The various cash transfer programmes were consolidated into one grant, the 'Bolsa Familia', and by 2009 11.6 million households, or around 26 per cent of the population, were receiving the monthly payments. All families earning less than 15 per cent of the minimum wage per head are eligible. In 2007, 6.6 million people received pensions, and 1.3 million a disability allowance. Seventy-four million people, or 39 per cent of the population receive some form of cash transfer. The total cost of all the transfers is around 39 billion reals, or \$22 billion, which amounts to about 1.5 per cent of Brazil's GDP (Hanlon, Barrientos, & Hulme, 2009).

The programme has been successful at reducing poverty and hunger for millions of households. And it has been successful at reducing gender and racial inequalities in education. For example:

- The positive impact of the *Bolsa* program on school enrolment is stronger for girls than for boys, and the negative impact of the *Bolsa* program on drop out rates is stronger for girls than for boys.
- The *Bolsa* program is more effective increasing the enrolment rates of blacks, mulattos and indigenous children than it is for white children, which suggests that it equalizes enrolment rates by race (Glewwe & Kassouf, 2008).

Between 2003 and 2008 the real increase in the minimum wage was over 38 per cent (Baltar et al, 2010). The government established an annual adjustment of the minimum wage, using a formula which takes into account both inflation and GDP growth over the previous two years, ensuring that the minimum wage rose faster than inflation and boosting the income of the poorest workers by nearly 40 per cent from 2003 to 2008. The cash transfers are linked to the minimum wage, so the increase in the minimum wage after 2005 was of particular benefit to all poor Brazilians, not just those with jobs

According to Brazilian government statistics, unemployment fell from over 12 per cent of the economically active population in 2004 to just over 7 per cent in 2008 (Azeredo Santos), and the proportion of the population in formal employment rose from 36 to 41 per cent, while those in informal work fell (Baltar & al, 2010). The increase in formal employment, and therefore the proportion of workers covered by the protections of labour legislation, was partly a product of economic growth, and partly due to government policies (Baltar & al, 2010). The government's capacity to monitor employment and to prosecute violations of the labour law was improved from the late 1990s onwards, leading to an improvement in formalisation rates. In addition, the process of formalisation for small enterprises was eased, contributing to a rise in the number of SME employees in the formal sector (Baltar & al, 2010). Cash transfer programmes may also have had some gendered impact on employment, though the results from current research are somewhat contradictory. One study (Oliveira, 2007) reports that women receiving cash transfers were more likely than men to increase their employment, while another shows no impact and a third show that mothers receiving cash transfers tended to work fewer hours (Soares & Silva, 2010).

The combination of the improved educational enrolment rates in the 1990s and the expanded social protection systems, labour and wage policies of the Lula period have led to falling poverty and inequality in Brazil. In 2001, 22 per cent of Brazil's population had an income of less than \$2 per day, with 11 per cent living on less than \$1.25. By 2008, those percentages had fallen to 13 per cent on less than \$2 a day, and 5 per cent on less than \$1.25.

Brazil's success in reducing inequality is impressive. The Gini coefficient fell from 0.59 in 2001 to 0.53 in 2007 (Hailu & Soares, 2009). Regional inequalities have been falling too, with incomes in the poorest region, the North East, rising faster than the national average. Recent work by Nora Lustig and colleagues identifies three main causes: redistribution of incomes through social protection policies, wage policies and narrowing differentials between skilled and unskilled labour due to market changes and government education policies (Lustig & Lopez-Calva, 2010).

However, a few caveats are needed. The reduction in inequality took place only for income inequality. Assets became more unequal, if anything, during this period: the Gini coefficient for land ownership, for instance, increased very slightly from 0.86 in 1995 to 0.87 in 2006. The tax system too has not promoted redistribution, with those on lower incomes paying a higher proportion of their incomes in tax than those on higher incomes, and a gradual shift towards more income from indirect, and therefore more regressive taxes. Perhaps for reasons of political difficulty, neither of these issues have been part of the government's agenda to reduce inequality.

The importance of education is of particular interest. In a highly urbanised society, where most poverty reduction will take place through expanding employment opportunities in the services or manufacturing sector, education is the key asset which allows poor people to enter the market and increase their incomes. This contrasts with more agrarian societies, where, though education is still important, the key asset for poor people is as likely to be a minimum of land tenure.

1.8 Conclusion

From having been at the mercy of economic events for most of the 1980s and 1990s, since the late 1990s the Brazilian government has been playing a much more interventionist role in driving growth and reducing poverty and inequality. The results have been dramatic, with historically high and sustained growth rates, falling unemployment, rising wages, falling poverty and falling inequality. Three policies in particular take the credit: an increase in primary and secondary level education, a huge programme of cash transfers, and an increase in the minimum wage. Future challenges will be to continue to develop and improve the education system, and to ensure that reductions in poverty and inequality are maintained and reach the most deprived and excluded, particularly in geographically remote regions and among the country's black population, whose poverty rates are consistently higher than the white population.

The omens are good. Brazil's economy continues to flourish, on the basis of both external and domestic demand, and the popularity of the government's policies was illustrated by the election of Dilma Rouseff in 2010, on a promise to continue with the social and economic policies of the Lula era. Its relatively democratic governance process also may ensure that policies are more redistributive and that these policies have impact on power dynamics, since civil society participation in decision making and in tracking and monitoring decisions can ensure that power dynamics shift.

2. Inequality and policy in Vietnam

The figures on growth and poverty reduction in Vietnam are well-known but still hugely impressive. With an average annual growth rate of 7 per cent since 1990, and an increase in exports of 21 per cent a year in the same period, Vietnam is well on the way to becoming a middle income country in the next few years.

Poverty reduction has been rapid. The proportion of the population estimated to be living on less than one dollar a day fell from 64 per cent to just over 21 per cent between 1993 and 2006. Health and education indicators have also improved, with under-five mortality, for example, falling from 56 to 14 deaths per live births between 1990 and 2008 (Vandemoortele & Bird, 2010).

However, during this period inequality also increased. Starting from a relatively low base – a Gini coefficient of 0.36 in 1998 – inequality rose steadily, to a Gini coefficient that may have been as high as 0.43 in 2006, according to the Asian Development Bank, though the World Bank has a rather lower figure of 0.38. This reflects the concentration of both growth and poverty reduction regionally – with less than four per cent of the urban population below the poverty line in 2004, compared with 59 per cent of the population in the poorest rural region (Asian Development Bank, 2006) – and ethnically, with the poverty rate among the dominant Kinh and Hoa ethnic groups at 10 per cent in 2006, compared with 52 per cent for minorities (Baulch, Nguyen, Phuong, & Pham, 2010)

While gender inequalities in Vietnam have been less acute than in other Asian countries, women are still less likely to be employed than men, and to be paid less when they do work: women's wages are between 62-72 per cent of men's depending on the sector. Despite this, the withdrawal of the state from many services following economic reforms has led to women typically working more hours than men once domestic work is taken into account. Rural women, for example, work around eleven hours per day, compared with seven hours for men (Kabeer & Anh, 2006).

Table 3: Vietnam trends 1993-2006

	1993	1998	2006
Poverty headcount at \$1.25/day	64%	50%	21%
Poverty headcount at \$2/day	86%	78%	48%
Gini coefficient	0.36	0.36	0.38
Annual GDP growth	8%	6%	8%

Source: World Bank World Development Indicators

The drivers of growth, poverty reduction and inequality in Vietnam have changed over time and in response to changes in government policy. Three phases can be identified:

- **First phase, 1986-1993:** During this period, agriculture was de-collectivised and marketing liberalised. Growth was high, and because it was concentrated largely in agriculture, where the majority of the very poor live, the impact on poverty was also rapid. Inequality in this period was almost static.
- **Second phase: 1993-1998:** agricultural growth continued and was joined by an industrial and urban focus, concentrated on specific 'growth poles' around major cities. Rates of growth and poverty reduction remained high, but inequality started to rise as a consequence of regionally uneven development.

Third phase: 1998-present: while growth and poverty reduction continued apace, inequality has risen more quickly. Policy attention has shifted to the need to create better systems for health provision and for supporting particularly vulnerable groups such as pensioners.

Government policy in this period has been dominated by the twin objectives of growth and poverty reduction. While it has clearly been highly successful in both, some of the shifts in inequality can be explained by the interplay and trade-offs between the two objectives.

2.1 First phase: pro poor growth in agriculture

During the first phase of reform, the two objectives were entirely compatible and as a result inequality did not rise. Agricultural reforms (see box), provided new opportunities to the rural poor, who comprised the majority of the population. It was the expansion and relatively equal distribution of new opportunities in agriculture which has meant that the 'poverty elasticity of growth' – that is, the amount of poverty reduction per unit of growth – in Vietnam has been extremely high, higher than in China, India, or other comparable countries (Klump & Bonschab, 2004). High agricultural growth even reduced inequalities within the Mekong River Delta region where agricultural opportunities were particularly good (Klump & Bonschab, 2004).

Agricultural policies in Vietnam

Much of Vietnam's success in achieving both growth and poverty reduction is due to its agricultural policies. Both land and the agricultural marketing system were among the first policies to be reformed after the reform period began in 1986. The rural poverty rate has gone down from 66 per cent in 1993, to 25 per cent in 2004. From 1994 to 2004, average household income in rural areas grew by 61 per cent (Asian Development Bank, 2006)

Before 1986, land was collectivised and held at village or commune level. Marketing was controlled with farmers required to sell a fixed proportion of their crop to state marketing agencies at a fixed price. In 1988, the Vietnamese government issued Resolution 10, setting out guidelines for de-collectivisation of agriculture. Use rights to land of between 20 years (for annual crops) and 50 years (for perennial crops) were distributed, with no more than 4 hectares of farmland going to each household.

Agricultural marketing was also liberalised, with food crop and input markets completely liberalised. Trade in rice, the most important food crop, was liberalised with internal marketing and export controls lifted (until the food price spike of 2008). Import restrictions on fertilisers were also reduced, and prices fell. However, not all imports were liberalised, and some trade restrictions remain in place which are on balance helpful to the poorest Vietnamese (Klump & Bonschab, 2004).

The 1993 Land law formalised these reforms and gave households the right to transfer, inherit, mortgage and lease land on which they have use rights. Uptake was huge, with nearly 11 million land titles issued by 2000 (Klump & Bonschab, 2004). Land was distributed in a highly equitable way between households, which laid the foundations for pro-poor growth during the first part of Vietnam's reform period.

However, within households it has tended to be men who control the land rights. Although the Vietnamese constitution and the Land Law provide for equal rights for men and women over land, including the possibility to register land in both husband and wife's names, in practice only 10-12 per cent of land use certificates are in women's names. This can cause problems in cases of divorce or death, or if women are seeking loans in their own right and need collateral (UN, 2005).

However, absolute limits on the amount of land means that Vietnam has one of the highest labour/land ratios in the region, with only Bangladesh having more people per hectare than Vietnam (4.2 people/ha in Bangladesh, 3.2 in Vietnam)(Klump & Bonschab, 2004). To maintain future growth and cope with a growing population, sources of growth outside agriculture had to be sought.

2.2 Second phase: growth poles and growing inequalities

In the second and third phases of Vietnam's recent economic history, while growth and poverty reduction have continued to be impressive, inequalities have started to develop.

The second phase, covering the 1990s from around 1993 to the East Asian economic crisis of 1998, was a period of rapid industrial and urban development, concentrated around 'growth poles', particularly the major cities of Hanoi and Ho Chi Minh City. An attempt to create third growth pole in the central region of DaNang has been less successful. These three areas were responsible for two-thirds of annual GDP growth, demonstrating how concentrated Vietnam's growth has been. The strategy of growth poles has been deliberately developed by the government as the fastest route to growth.

This led to growing regional and rural/urban inequalities, as some groups were more able to benefit from new opportunities than others. It is important to stress that extremely few, if any, groups have lost out in absolute terms during Vietnam's recent period – inequalities have been caused by different rates of improvement.

In rural areas, those that were closest to cities and to transport links were able to benefit most from the new market opportunities created by a growing urban population and increased exports. By the late 1990s more than half of farm outputs were commercialised in the south of Vietnam, while in the Northern regions only one third of what was produced was sold on local markets. The inequality was particularly pronounced in rice, where farmers in the South, many of whom produced a surplus of rice, gained from rising prices and expanding exports, while farmers in the North, who were frequently net buyers of rice, lost out from the higher prices and did not have the same access to new export opportunities (Klump & Borschab, 2004).

These regional inequalities coincided strongly with ethnic inequalities. While poverty has fallen for all groups, it is increasingly concentrated among ethnic minorities. By 2006, the poverty headcount was just ten per cent for the majority Kinh and Hoa, but 52 per cent for ethnic minorities (Baulch, Nguyen, Phuong, & Pham, 2010). The sources of ethnic minority poverty are many – they tend to be concentrated in more remote areas, where land is less productive and harder to improve through irrigation. They have been less likely to diversify out of agriculture or within agriculture into different, more commercialised, crops. They tend not to speak Vietnamese, which presents a further barrier to accessing markets, jobs and government services (Baulch, Nguyen, Phuong, & Pham, 2010). In rural areas ethnic minorities are two and a half times less likely to have regular waged employment than the majority Kinh group, and receive lower wages when they are in work (Baulch, Nguyen, Phuong, & Pham, 2010).

Changes in social provision have also increased different inequalities. While a decline in quality and increase in the cost of education following the spread of user fees, the gender gap in education may be widening. In rural areas, 47 per cent of boys and 40 per cent of girls complete primary school, while in urban areas the figures are 64 and 55 per cent respectively. The decline in the provision of public services such as workplace crèches has also increased demands on women's time. One survey revealed that in Ho Chi Minh City women spend six hours on household a day to men's 1.5 (Long et al, 2000).

The 1990s were also characterised by a rapid rate of capital intensive industrial development. Throughout the 1990s, agriculture's share of GDP fell while that of manufacturing and industry rose, until by 2005 the two were equal (World Bank, 2011). While the majority of the population are still employed in agriculture, with only one in five households relying mainly on wage labour, increases in employment and rising wages in the major cities led to growing rural/urban inequalities during the 1990s. The two biggest cities in Vietnam, Hanoi and Ho Chi Minh City (HCMC) employ one quarter of all waged workers in the country, and wages there are 80 per cent higher than in rural areas (Klump & Borschab, 2004).

Migration to these growth poles has been an important part of poverty reduction strategies for many households. Remittances have been shown to boost consumption and reduce vulnerability in the households where migrants leave from. However, again the opportunities to benefit have been unequally distributed. The more educated and able-bodied are more likely to migrate, with ethnic minorities comprising a smaller share of migrants (four per cent) than their population share (14 per cent) (Klump & Bonschab, 2004).

One distinctive feature of Vietnam's reform programme has been the attempts made by government to compensate losers – or at least those who could be easily identified, many ethnic minorities for example, never gained. The several hundred thousand employees of state owned enterprises, for example, who lost their jobs as companies were reformed or liquidated, were compensated with both incomes and benefits maintained. This was costly in budgetary terms but important for maintaining political support for the reforms (Rama, 2008).

2.3 Third phase: government action on inequality

In the early phases of economic reform, health spending as a proportion of GDP fell from five per cent in 1994 to three per cent in 2002. Health outcomes reflected this low priority: stunting among ethnic minority children, for example, increased slightly between 1998 and 2006 (Baulch, Nguyen, Phuong, & Pham, 2010).

In the same period education spending increased, from 7.8 to 10.4 per cent of GDP, and has continued to rise. According to UNESCO, the pupil teacher ratio in primary education fell from 30 in 1999 to 20 in 2007. Dropout rates are low, at around 8 per cent of all children, and 98 per cent of teachers are trained. However, there are inequalities in access to education at all levels – children in the poorest 20 per cent of households are nine times less likely to participate in early childhood programmes than children from the richest 20 per cent, and twice as many children from the poorest twenty per cent of households are in the bottom of the distribution for educational opportunity overall. This overlaps strongly with ethnic inequalities – the Hmong group make up one per cent of the population but 90 per cent of Hmong 17-22 year olds are in the bottom 20 of the national distribution for years spent at school (UNESCO, 2010).

Since 2002, growing decentralisation of government finances which led to higher transfers to poorer areas, and an increase in targeted programmes for the very poor have led to what the World Bank's chief economist for Vietnam describes as 'substantial income redistribution' (Rama, 2008). The benefits of this investment are starting to show: since 2002, the percentage of ethnic minority villages that have electricity has increased from 62 per cent to 95 per cent, the average distance to the nearest hospital has dropped from nearly 20 kilometres to just under 5, and the distance to the nearest public transport from over 11 kilometres to around 6 kilometres. There is some evidence from recent household surveys that incomes are rising as a result. (Baulch, Nguyen, Phuong, & Pham, 2010).

Decentralised budgeting has been part of an attempt, though limited, at political decentralisation. This has had mixed results. Where it has allowed a more flexible and responsive approach to tackling poverty there is some evidence of success, but there is also a danger that those provinces that have less poverty and more capacity to raise funds at local level will benefit most, further increasing regional inequalities (Klump & Bonschab, 2004).

Social protection spending has also increased significantly since 1998, and targeting has improved, with a higher proportion of ethnic minority households, for example, now receiving cash transfers, and assistance with health costs. Around one quarter of Vietnam's poor have been reached by the 'Health Care for the Poor' programme, launched in 2002 (Asian Development Bank, 2006).

However, problems remain. There is some evidence that poverty among particularly poor groups in particularly poor areas is beginning to rise, meaning that in the future inequality might be caused by falls in the income of the poorest as well as rising incomes at the top. There is a need to better understand the economic lives of the poorest and in particular ethnic minorities, in order to ensure that policies and programmes designed to target poverty are appropriate to their needs. And studies suggest that the current system of social transfers is not sufficiently redistributive, with disproportionate resources devoted to higher income areas and households. In addition, the revenue raising system is highly dependent on indirect taxes, which often impact disproportionately on the poor, although agricultural tax for farmers was abolished in 2003. More reforms may be needed to make the system more effective both in reducing poverty and tackling growing inequality (Klump & Bonschab, 2004).

2.4 Conclusion

Vietnam's recent history is largely a positive one, with high rates of growth and poverty reduction, and limited increases in inequality. The key to this has been a relatively equitable distribution of assets in agriculture and a high growth rate in that sector, meaning that much of the benefit of growth, especially in the early stages, went to poor people.

However, there are signs that this strategy is subject to diminishing returns, and that in the future meeting the three objectives of high growth, fast poverty reduction and minimal inequality will be harder. Growth may become more fragile in an increasingly unstable international environment. There are signs, like a relatively high inflation rate, current account deficit, and high sovereign spreads, that Vietnam's macroeconomic position might not be as stable as it has been previously. In addition slow demand caused by slow growth in Europe and the USA could limit Vietnam's largely export-led growth in agriculture and manufacturing (World Bank, 2010).

Poverty reduction too may become harder, as increasingly it will be concentrated among the hardest to reach groups. Reaching the poorest will involve both increasing their involvement in agricultural marketing, and facilitating their migration to employment opportunities in urban areas. Education, particularly up to secondary level, will be key to success in both, but given the ethnic profile of the poorest it will be necessary to ensure that policies are planned and monitored in a participatory way, taking into account the particular social and cultural characteristics of different groups. The differential impacts of reform on men and women need to be addressed, in particular the heavy burden of care work that fell on women following reductions in state services.

Finally, although trying to rebalance the pattern of growth is crucial in the long term, in the medium term if the pattern of growth remains regionally and ethnically unequal, then a more extensive system of social protection and social spending on infrastructure will be needed to contain the trend towards rising inequality. This will be challenging both in terms of resources and in terms of ensuring the necessary levels of institutional capacity and flexibility to properly target and deliver the needed support.

3. Tackling Inequality: Options for policy

It is almost certain that if governments choose not to tackle inequality deliberately, then inequality will increase. Both of these case studies show that in periods where inequality was not a specific focus of policy, inequality rose, and both offer knowledge on the type of economy and set of policies that might reduce different inequalities, or stop them from rising so dramatically. It would be interesting to explore these questions further, and compare inequalities experienced in Brazil and Vietnam to other countries. For example, the fact that inequality will rise inexorably unless specifically prevented can also be made by looking at the experience of Nigeria, where successive governments have failed to tackle growing inequalities. As a result of this neglect, the World Bank estimates the Gini coefficient for Nigeria increased from 0.39 to 0.43 between 1985 and 2004. Over eighty per cent of the population live on less than two dollars a day. GDP growth, which has averaged 6 per cent a year since 2002, has failed almost completely to address poverty in Nigeria. It would be interesting also to explore some issues in more depth, for example, the impact of on women of agricultural economies: Nigeria and Vietnam and the impact of having democratic governance structures whether policies are in place, and whether they then have impact on power.

The case of Vietnam shows that rising inequality can go together with falling poverty, and be caused by an acceleration of incomes at the top of the distribution rather than by falling incomes at the bottom. However, there is a point at which the negative effects of inequality, as described in the first section of this report, become a reason for action, whether motivated by political, social or economic concerns. Both Brazil and Vietnam have reached that point and governments are successfully addressing some inequalities. However, particularly in the case of Brazil, others – such as inequalities in asset ownership – are being left untouched. Action to address inequality will take time, and it's likely that in any real scenario the policies below would have to be sequenced over several years.

Given all of this, what are the options for governments seeking to tackle inequalities? The main instruments for tackling inequality are government revenue raising and spending policies, and regulation of private sector behaviour.

- On the revenue raising side, as has been mentioned above, a progressive tax system is key to enhancing equality within a society.
- Revenues raised – whether from a progressive tax system or not – can then be spent in ways which reduce inequality by redistributing of incomes through cash transfer programmes; by equitable spending on public services, subsidies, public works or other instruments for transferring incomes, goods or services within societies. Gender budgeting has had a big impact in the way that budgets are allocated so that they reduce the inequalities between women and men.
- Regulation has a place too, to ensure that wages in the private sector are compatible with limiting inequality, to require that companies to invest and operate in ways which contribute to the reduction of inequality, and to control the ownership and transfer of assets to enhance equality of wealth and opportunity.

The role of civil society in ensuring redistributive policies

Civil society can play multiple roles in ensuring that governments implement and then deliver on redistributive policies; and then to ensure that the policies have impact and change power. The case below includes three options; advocacy, social audit and monitoring public policy and budget.

India's National Rural Employment Guarantee scheme (NREG) is an example of where civil society succeeded in putting pressure on the government to implement a redistributive programme across the whole country. The rights to work and livelihood have been enshrined in the Indian constitution since independence. There were ad hoc schemes to support the fulfilment of these rights in different states, but the coverage was unequal – both across states and in terms of who was supported. Following civil society pressure in different states, the NREG now ensures, on demand, 100 days of employment a year to all households at a minimum wage. Civil society had a substantial role in conceiving and formulating the policy. Where civil society pressure was highest, in Andhra Pradesh, the scheme is considered to be most successful. In addition, one of the reasons for the success of the programme is civil society's efforts to pressure government to continually strengthen implementation. Organisations find evidence for improvements through participatory monitoring and planning. People-driven social audit processes in Rajasthan and state sponsored initiatives in Andhra Pradesh (*Mazdoor Kisan Shakti Sangathan I & II*) have identified gaps in programming which state governments are seeking to improve, for example, around the distribution of wages or the type of wages. The important aspect to note here is that the change is incremental and that the full impact of policies will be felt only after many years. Civil society must concentrate thus on the type of redistribution most pressing for the context. In India, the rural public work schemes were important given the changing nature of agriculture and poverty in the country. Many small holder farmers – finding agriculture increasingly unviable and inconsistent – relied on alternative employment. Public works filled this gap. (National Rural Employment Guarantee: issues & Upendranadh, 2010)

Civil society could also be involved in campaigning or advocacy for change. One change that civil society might aim to achieve is the right to participation in governance. Where local governments and citizens have more control over budgets, plans and decision making processes, inequalities can be reduced: those people experiencing inequality can better control the policies and can hold duty bearers to account on implementation, as well as seeking empowerment through the process. ActionAid's Economic Literacy, Budget and Governance work focuses on the expenditure side of state financing. This supports communities to tracking budget inflow and hold local power holders accountable for change. It also allows the possibility of undertaking gender budgeting and budget tracking in order to ensure that the needs of women are acknowledged and reflected in the budgets and that their and their rights are fulfilled.

3.1 Tackling inequality through redistribution of incomes

The most successful example of reducing inequality in the case studies examined above is partly due to a redistribution of incomes. Brazil's cash transfer programmes have been broad enough and substantial enough to be responsible for around one third of the reduction in inequality in the country over the last eight years. This has been a popular and successful programme in Brazil. Its success, and that of the 'Oportunidades' programme in Mexico, has spurred a much greater interest in cash transfer programmes in many countries.

Cash transfer programmes can have a triple effect – reducing poverty and inequality and also contributing to local economic growth, as poor people consume more, invest more and are more able to participate in the economy. However, cash transfers are not the only instrument for redistributing incomes. Other policies include the minimum wage, which require companies to transfer a certain amount to their workforce, as in Brazil, or government guarantees of a publicly-funded 'income floor' for all citizens, as in

India, Which policy is most appropriate in a given context will depend on factors such as the level of formal and informal sector employment.

Some inequalities are more easily tackled through social protection than others. Income inequalities at the household level have been reduced in Brazil, but inequalities between men and women have not been significantly addressed by this programme. The national context and the design of social policies will determine whether over the medium to long term, a given set of social protection instruments has a transformative effect in contributing to the undermining of underlying social and political inequalities. In the long run, other changes to political, economic and social structures to ensure the provision of other rights in policy, will almost certainly be needed to overcome deeply rooted inequalities and enable poor people to fully exercise their rights and freedoms.

Thus far, examples of effective redistribution of incomes has been largely on the spending side. For this policy to be truly progressive and redistributive over the long term, it must be combined with a progressive tax system where those with the highest incomes pay the largest proportion of those incomes in tax. This condition has not yet been filled in any of these case study countries, and in most developing countries the majority of tax revenue is raised through indirect taxation such as VAT, which is less likely to be redistributive. Civil society organisations such as ActionAid are increasingly focused on advocating for fairer tax systems, at both national and international level.

3.2 Tackling inequality through redistribution of wealth

Tackling inequality through redistribution of incomes alone will not put the economy on a path to lower inequality. In many countries, as in Brazil, inequalities in wealth are far larger, and politically much harder to address, than inequalities in income. However, the example of Vietnam shows how redistribution of wealth, in the form of land, can lay the groundwork for growth which does not increase inequality.

The relevant form of wealth will differ in different situations. In a primarily agrarian economy, secure land tenure is clearly one of the most important forms of wealth, particularly for the poor. In a more urbanised society, ownership of urban property, through granting property rights to slum-dwellers, for example, can be a key form of asset distribution. And everywhere enabling poor people to build up financial assets through access to secure savings institutions is essential for a fairer distribution of wealth.

3.3 Tackling inequality through improving opportunities

A second key factor in Brazil's falling inequality, and in Vietnam's relatively egalitarian growth path, has been access to education. Education is one crucial way of ensuring that all inequalities in one generation are not inevitably passed down to the next. The benefits of this redistribution are starkly clear for girls. Not only are all health and economic indicators better for girls who attend school (compared to their mothers' generation) (UNESCO; 2010) but also girls are less likely to marry early and thus continue into other forms of education (child info). So investment in universal, high quality and free education must be part of a strategy to reduce inequality.

Thanks to the expansion of primary education over recent years, the full extent of what is needed if education is to successfully reduce inequalities is becoming clearer. Firstly, quality counts as much as quantity. In too many countries the focus on increasing the number of children in school has come at the cost of the quality of their education once they get there. The lesson for governments and for donors is that providing access to primary education is a more expensive business than was perhaps thought. If quality falls in the state sector, then inequalities resurface as those who can afford it buy their children a better education in private schools, so education becomes a means of passing on, rather than overcoming, inequalities.

Secondly, primary education is just the start. In several countries, such as Brazil, it is no longer a lack of access to primary education that is the main marker of poverty, but secondary and even tertiary education. And if people are to be properly equipped to take advantage of whatever opportunities present themselves, then increasingly a secondary education will be a minimum requirement.

Improving education will of course have positive effects that go far beyond reducing inequality – effects on growth, on poverty, and on people’s wellbeing. But the full costs of providing an education for all people that is actually effective in enabling them to play full part in economic and social life have perhaps been underestimated.

A second dimension to improving opportunities is improving health care and reducing inequalities in health outcomes, which can condemn individuals to a life of poverty and also pass on inequalities through malnutrition and stunting. But providing effective health care is expensive, and even those countries, like Brazil, that have made great efforts to reduce inequality have been slowest to deal with inequalities in health. One positive example is Bangladesh, where a decades-long commitment to improving health services has led to improvements in health outcomes for the poorest. However, the investment in health has not proved able to overcome some of the underlying inequalities, particularly gender, which affect health outcomes. Even when provided with improved facilities, education and resources, girls are still more likely than boys to die before their fifth birthday. This is perhaps an indication of the limits to direct government action in tackling some of the most deep-rooted inequalities in many societies.

3.4 Tackling inequality through growth

Tackling inequality through redistribution and growth are entirely compatible. Brazil shows how successful such a strategy can be – redistribution in the form of cash transfers went together with increasing wages and employment.

Growth is not something that governments can just leave to the private sector. Any process of growth is guided and framed by the parameters that governments set through regulation and the incentives they provide. Through instruments such as the tax system, trade policy, employment law and social protection schemes, governments can choose to prioritise different objectives – growth that is more environmentally sustainable, for example, or growth which promotes employment. Among these are policies that would have the effect of reducing inequality while boosting growth.

3.4.1 Policies which enhance poor people’s opportunity to benefit from growth

A fairer distribution of assets and of education are key to exploiting the opportunities provided by growth. Governments can also directly improve opportunities by subsidising key inputs such as fertiliser (as in Malawi and other countries).

A second set of interventions that governments can make directly is in infrastructure. Here experience is mixed – the Brazilian government has made improving infrastructure for poor people a major part of its growth and poverty reduction strategy. In Vietnam, too, improved infrastructure was a part of the story of high growth and poverty reduction, but did lead to rising inequalities as those households nearer to improved infrastructure were able to increase their incomes fastest. It may be that this is the type of inequality that governments would decide should be traded off against faster growth, at least in the short term. And a starker example is Nigeria’s 7-point agenda, where infrastructure development is likely to be entirely concentrated on larger towns and improving the export possibilities of larger companies, and have very little effect on either poverty or inequality.

3.4.2 Policies which improve poor people's share in the benefits of growth

Redistribution of the benefits from growth is not only a matter for the public sector. Brazil's minimum wage policy ensured that the profits from growth were distributed more fairly within the private sector too, through real wage rises. Improvements in education can have a similar effect, though over a longer period, by increasing the returns that poor people get for their labour. In addition laws on union organisation and an equal treatment of unions and the private sector in government policy can allow the organisations of poor workers to claim a higher share of profits for themselves. And Brazil's example shows how improved government capacity for monitoring and enforcing labour laws can have a significant effect on the extent to which poor people are able to benefit from the work they do.

3.4.3 Growth which creates employment

In the end, the growth which reduces both inequality and poverty is growth which creates jobs. Even in primarily rural societies, it is employment, particularly in recent years, which has been the key to the poverty-reducing effects of growth. And the more urbanised a country is, the more true this is. In Vietnam, it was jobs in agriculture that were the key, in Brazil it was jobs in the service sector.

Apart from public works programmes and jobs in the public sector, there is a limit to what governments can do to create jobs directly. Certainly, they can create a climate – and here macroeconomic stability is of particular importance in all the examples discussed above – where job creation is more likely to happen. And through education policies they can create a workforce that is ready for jobs once they are created. And through cash transfers they can kick-start domestic demand and create more opportunities for new jobs to be created – domestic demand has been a key driver of economic growth in Brazil, for example. But a coherent policy agenda on jobs is somewhat lacking in the field of development. This should be a priority for a future research and advocacy agenda.

4. Conclusion

Inequality matters. There are many good reasons why a government might want to tackle it since high levels of inequality signal denials of rights and counteracts growth, poverty reduction, and political stability.

Every country has its own path and every government takes decisions on policy based on the particular circumstances and political priorities in that country. But we can learn from past experience – and especially we can learn that if a government does nothing then inequality is likely to increase.

Any government policy can and should be analysed through an inequality lens, to establish who gains and who loses from any proposed change. In addition, governments which want to tackle inequality as a policy objective can build on the policy options from this report. A degree of macroeconomic stability is important, as is an effective trade policy which balances the needs of consumers with those of producers, national level ownership and the growth of domestic demand. From Brazil, we can learn that redistribution of incomes through cash transfers is both feasible and effective. From Vietnam, that equitable distribution of land is key to reconciling high rural growth with low inequality. And from too many other countries, that failure of governments to tackle it will almost certainly lead to rising of all inequality, growing poverty and an increasingly unhappy and unstable society.

Future research and challenges

The study of inequality as a part of understanding the dynamics of poverty is relatively new, and the key questions are still emerging. From this report, a number of issues emerge which might be useful to take further:

- **Data:** data sets on asset ownership as well as income inequality do exist, and information on land ownership, household goods and housing quality is routinely collected in large scale surveys such as the Demographic and Household Surveys run by USAID or UNICEF's Multiple Indicator Cluster Surveys. But this information is not well used by researchers on inequality. Compilation of a database on asset inequality would provide useful information to complement the current focus on income inequality.
- **Gender:** the measurement of gender inequalities tends to focus on incomes, and on social and political power. One further aspect to gender inequality which intersects with both of these is time and the different demands on how men and women use their time. More data, used more systematically, would allow this aspect of inequality to be better integrated into the debate. A further aspect to gender inequality is the study of economies: how do women fare in different agricultural economies? What type of economy provides best opportunities for women? What social policies can account for greater gender equality?
- **Sectoral issues:** the case studies indicate that one way of assessing the interrelationships between inequality, economic growth and poverty is to take a sectoral view and assess how agricultural, service based or industrial economies might have different issues to confront and different policy options available. This could be a subject for future research.
- **Macro economics:** the question of macroeconomic stability and inequality is under-researched. It is likely to be a question of degrees and trade-offs – what level of macroeconomic stability is beneficial, and at what point does instability become a problem? What are the costs and benefits of different policies to achieve different levels of stability?
- **Governance:** to what extent does devolution of power and finances from central to local government reduce the inequalities between the centre and the periphery? The Vietnam report suggests that in a devolved system of governance based on just and democratic principles the citizenry can better participate in decision-making processes, hold policy makers to account, monitor developmental processes, track the budgets and allocations as well as analysing the revenue sources tax/aid, and gain access to information. These are all means to reduce inequalities and ensure that the basic needs through universal service provision is attained. However, more evidence on impacts would be useful before it is seen as a policy ask.

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Acknowledgements

This report was funded written by Claire Melamed at ODI and funded by ActionAid International.

The following individuals supported the process to its current state. Thanks to: Christy Abraham, Tunde Aremu, Soren Ambrose, Adriano Campolina, Kate Carroll, Elisa Huguency, Benson Ileri, Anne Jellema, Jesper Lauridsen, Akanksha Marphatia, Tari Masamvu, Rachel Moussie, Gilbert Muyumbu, Jorge Romano, Anna Thomas, Aulo Re, Nixon Otieno, Nguyen Tat Quan.

This paper was built on national reports undertaken by ActionAid Malawi, Kenya, Nigeria, Bangladesh and Vietnam