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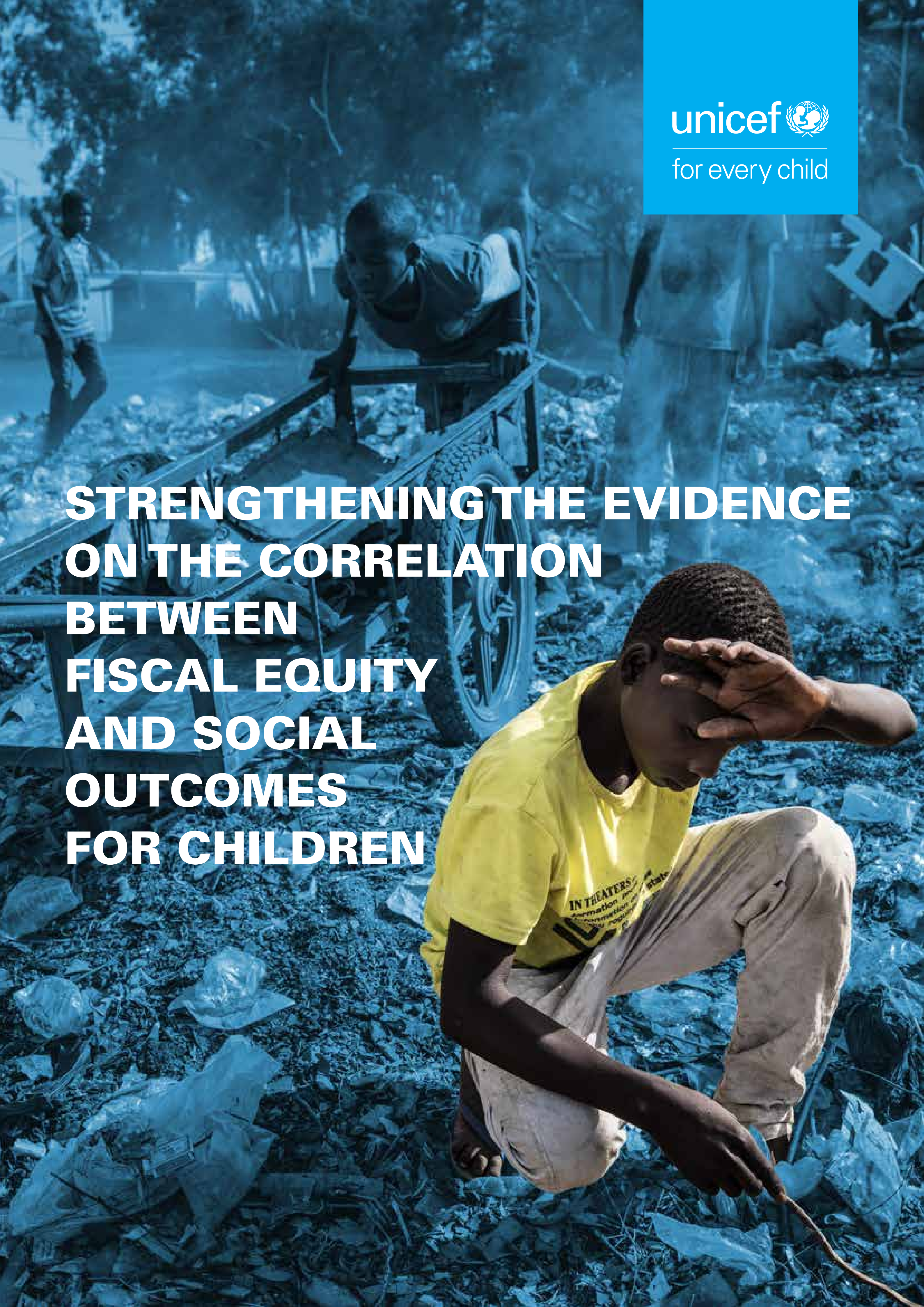

STRENGTHENING THE EVIDENCE ON THE CORRELATION BETWEEN FISCAL EQUITY AND SOCIAL OUTCOMES FOR CHILDREN

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Research note

Cover Photo

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(Wearing yellow shirt) Muhammad Modu, 15, an internally displaced person from Malori, digs through a rubbish dump in a gated compound just off the main road that runs through the Mairi Garage Market in Maiduguri, Nigeria for saleable items on March 24, 2016. Muhammad sifts through the smouldering refuse of his middle class surroundings. With the sun pounding down on him and the smoke eating at his plastic flip-flops, his body feels like it's on fire. But the hardest part, he says, is waiting for the trash to arrive. You never know if you'll find much to make the wait worthwhile. After two to three days of this painstaking work, Muhammad gathers enough material to sell for N150-200, or 75 cents to a dollar.

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Acknowledgment

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Acronyms

COVID-19	Coronavirus Disease of 2019
CPI	Consumer Price Index
EU	European Union
FISP	Farmer Input Support Programme
GDP	Gross Domestic Product
HDI	Human Development Index
IHDI	Inequality-adjusted Human Development Index
ILO	International Labour Organization
MZN	Mozambican Metical
OLS	Ordinary Least Squares
PIT	Personal Income Tax
PPP	Purchasing Power Parity
SCT	Social Cash Transfer
SDG	Sustainable Development Goals
SSA	Sub-Saharan Africa
UNICEF	United Nations Children's Fund
VAT	Value Added Tax
ZMW	Zambian Kwacha

KEY MESSAGES

Universal access to social services and social protection is critical to human development and is a right to be realized in an equitable manner by all segments of the society.

For a universal agenda to be realized, it is critical to adequately reach the unreached and leave no one behind. This entails protecting and extending coverage to explicitly realise the right of the poorest and most disadvantaged groups to social protection. Fiscal equity is critical for equitable and universal social protection to be realised.

The level of social protection spending is correlated with reducing monetary and multidimensional poverty, and the degree of impact is correlated with equity of spending.

The share of social protection spending that goes to the poorest quintile has a statistically significant effect on poverty and inequality: a 1 percentage point increase in the share of social protection spending going to the poorest quintile is associated with a 0.34 percentage point reduction in poverty headcount at $1.90 a day, and with a 0.44 percentage point reduction in Gini index.

Countries spending higher share of their GDP on social spending, specifically social protection, have lower absolute poverty and inequality. The poverty and inequality reducing impact of the equity measure is as important as the impact of the share of social protection spending in the GDP.

Tax-benefit policies can be successful in reducing poverty and inequality if they are rolled out in a progressive and equitable manner, to ensure that poorest households are not negatively impacted.

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

- **Universal access to social services is fundamental to sustainable human development and yet faces major challenges.** The poorest and most disadvantaged populations are disproportionately impacted when they are unable to access social services, leading to them being left behind in social and economic development. A universal approach can only be achieved if the right to access social services is realised by all segments of the society, and in an equitable manner.

- **In recent years, a wealth of evidence was generated on the importance of Universal Social Protection in reducing poverty and inequality and improving well-being.** A universal approach aims to ensure the right to social protection to all segments of the society in an inclusive and equitable manner. To ensure universality, it is key to adopt equity as a key principle and protect the right of the poorest and most disadvantaged groups to social protection.

- **The main question this report attempts to answer is whether greater equity in government social spending, specifically, social protection, has a positive impact on equitable access to social services and well-being outcomes.** We focus on measures of income distribution, specifically absolute poverty and inequality, and empirically assess how they are affected by the distribution of social protection spending.

- **Although these outcomes reflect just one of the dimensions of well-being, there is strong evidence to suggest that absolute poverty and inequality are negatively associated with other aspects of well-being,** such as children's health, cognitive development and social, emotional and behavioural development. This report combines an analysis at the macro level for a large number of countries and a micro-level analysis of two case studies using microsimulation techniques.

- **We have analysed the impact of equity in social protection spending (all government spending on social insurance and assistance benefits) on absolute poverty and inequality, using a large dataset with country-level indicators.** For that purpose, we have compiled a panel dataset of 535 observations from 101 countries over years 1998–2017. Out of these, 326 observations belong to 28 European Union (EU) member states and 209 observations to non-EU countries. Our approach was to regress the measures of distributional outcomes (absolute poverty and inequality) on the indicators of equity in social protection spending, controlling for the level of spending and the country wealth measured by per capita Gross Domestic Product (GDP).

- **While it will vary by country, inequity in the distribution of social protection spending results from the composition of spending that tends to favour those in the highest income quintiles.** On average, in the countries covered by this analysis, only 14 percent of overall social protection spending is going to the poorest quintile. This share drops to 9 percent when the EU countries are excluded from the sample. As has been extensively documented, national social protection systems in developing countries tend to provide social protection, especially contributory coverage, to workers in the formal sector of the economy. Although social protection programmes in developing countries have relatively

- **More specifically, for non-EU countries we find that a 1 percentage point (pp) increase in the share of social protection spending going to the bottom quintile is associated with a 0.34 pp reduction in poverty headcount at Int$1.90 a day, and a 0.44 pp reduction in the Gini index.** The two latter findings confirm what proponents of equity in public spending have been arguing: more equitable distribution of social protection spending is critical for reducing absolute poverty and inequality in low- and middle-income countries.

- **The presence of a significant gap in equity of social protection spending between the EU member states and non-EU countries included in the study signifies that there is a large potential in improving equity in social protection spending in low- and middle-income countries.** This may take decades to converge to the levels observed in EU countries, even under situations of considerable increases in government social protection spending. Existing distributional inequalities in social protection spending seem to constrain, at least partly, the effectiveness of social spending in low- and middle-income countries.

- **The report draws attention to the significant gaps in the availability of data on equity of social protection spending and well-being outcomes in low- and middle-income countries.** Our study has focused on the impact of equity in government social protection spending on the material well-being outcomes, due to the small number of low- and middle-income countries for which the data on equity in other types of social spending (education- and health-related) is available. Another limitation is that we could not include child poverty measures in our analysis due to the lack of data for a sufficiently high number of low- and middle-income countries.

- **The report has analysed how the distributional outcomes could be improved though changes in tax-benefit policies, using two countries as case studies.** The countries under examination are Mozambique (a low-income country) and Zambia (a lower-middle-income country). This analysis used the tax-benefit microsimulation models for each country. The use of the common modelling platform enabled comparisons to be made that have not hitherto been possible. For both countries common income concepts, a common time point, international absolute poverty lines and a per capita equivalence scale were used.

- **The existing tax-benefit systems of the two countries appear to reduce income inequality to a small extent (by 12 per cent in Mozambique and by 4 per cent in Zambia), yet are mostly ineffective in regard to poverty reduction.** This happens because the tax-benefit policies affect only a small minority of each country's population. Many individuals are largely unaffected by the tax and benefit system, apart from indirect taxes: the benefits are very narrowly targeted, and their amounts are small, and many individuals are too poor to pay direct taxes.