Enhancing Social Cohesion as a Means of Sustainable Poverty Eradication[1]:

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Introduction

Social cohesion is attracting considerable attention among policy makers across the world. The global recognition of its importance comes against a background of rising sentiments backed up by alarming evidence that the fruits of growth are not being equally shared. The corrosive effects of deep inequalities in both developed and developing countries are increasingly visible in social discontent and declining levels of trust in governments, and have largely impacted on the 2030 Agenda which has taken the focus away from poverty and given greater attention to social cohesion.

This paper argues that enhancing social cohesion through a comprehensive policy package is crucial to sustainable poverty reduction. A cohesive society can be understood as a society that strives for social integration and builds up the necessary social capital to create a common sense of belonging, and as a place where prospects exist for upward *social mobility*[2]. Drawing on the evidence gathered by the OECD Development Centre through research and policy work with developing countries, the paper illustrates with concrete examples how the three pillars of a cohesive society – social inclusion, social mobility and social capital – can act as a means of sustainable poverty reduction, and through which channels.

Conceptually, social cohesion impacts on poverty reduction by sustaining long-term growth (growth sustainability) and by ensuring the inclusion of the disadvantaged in the growth process, and greater equity in the distribution of its benefits (growth with equity). While growth paths are indeed necessary to reduce poverty, they are unlikely to be sustainable in contexts where social cohesion is low or deteriorating. At the same time, economic growth in which social inequalities are wide, exclusion widespread and the scope for voicing dissent small is unlikely to contribute much to poverty reduction.

Enhancing social cohesion is equally relevant in advanced OECD countries and in developing countries where inequality within countries remains high and much wider than in OECD countries. For example, Brazil has made considerable progress in reducing the income gap but it is still 50 to 1, and in South Africa, inequality now stands at over 100 to 1.[3] In Southeast Asia, inequality is exacerbated by the region's large informal labour markets where earnings are typically low.[4] There is mounting evidence to suggest that rising income inequality goes hand-in-hand with increasing inequality in education, health status, job quality and even life expectancy. Thus there is a clear need

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[1] Background paper prepared for the expert group meeting on « Strategies for eradicating poverty to achieve sustainable development for all », UN Headquarters, New York, 8-11 May.

[2] OECD (2011): Perspectives on Global Development 2012: Social Cohesion in a Shifting World, OECD.

[3] OECD (2014), *All on Board: Making Inclusive Growth Happen*, OECD Publishing, Paris.

[4] OECD (2015), *Economic Outlook for Southeast Asia, China and India 2015: Strengthening Institutional Capacity*, OECD Publishing, Paris.

to discuss what can be done for countries at different stages of development to foster social cohesion as a valuable goal in itself and as a means of sustainable poverty reduction.

The paper is organised as follows. Section II provides examples of how making social inclusion more central in policy monitoring and policy making is instrumental in addressing poverty challenges in a much more coherent manner. The role of social mobility as an engine for sustainable poverty reduction is illustrated in Section III. Section VI discusses the centrality of building social capital that works for all. The last section concludes with some key messages for the design of strategies to eradicate poverty.

Social inclusion

Social inclusion has become more central in global and national development strategies, not least since excessive disparities in well-being outcomes can cause social instability and threaten progress. While various definitions have been developed to describe social inclusion, it is commonly understood as the provision of certain rights to all individuals and groups in society, such as decent work, education and training, health care, basic income or adequate housing. Social inclusion is a key pillar of a cohesive society, one that is central to eradicating poverty.

Challenges to social inclusion outcomes include series of stigmatised markers, such as social class, skills levels, ethnicity, gender, place of residence, disability status, age, sexual orientation and others, all of which may be used to single-out implicitly or explicitly individuals or communities in ways that contribute to social exclusion. Under this approach, policy makers should be concerned with the promotion of a normative vision of society, in which individuals, groups or institutions are interconnected within a wider social system, and their relationships are maintained and enhanced in a harmonious way. The examples below highlight why shifting the policy dialogue towards a social inclusion framework is critical for sustainable poverty eradication.

Example #1: Looking beyond the bottom quintile and considering income changes in the entire distribution to support a more holistic policy dialogue on poverty

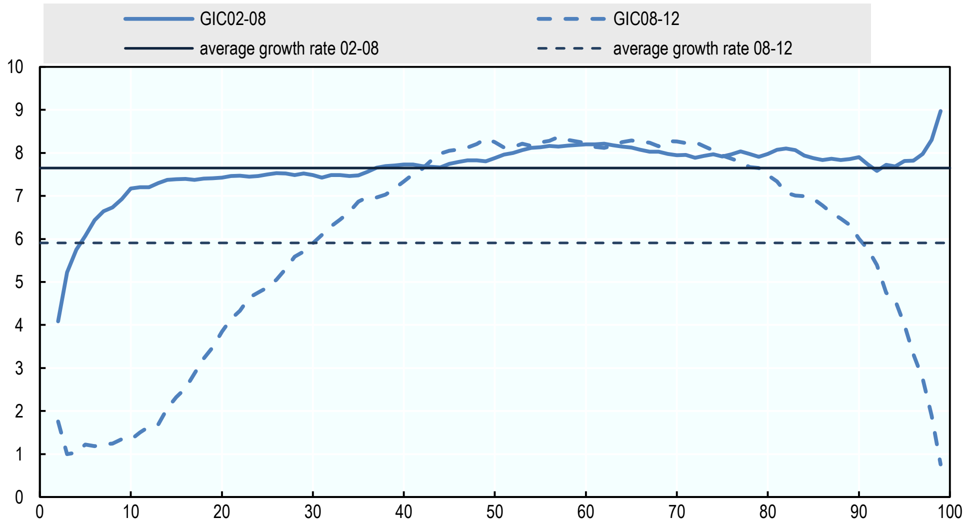
Delivering on the new global agenda and ensuring that no one is left behind starts by a thorough understanding of the extent to which both poorer and richer households benefit from economic development, and who is benefiting the most. By capturing the income changes of the poor and the non-poor both in absolute and relative terms, one can assess the extent to which past growth performance was inclusive, identify the scope for redistributive policies that can benefit the poor, and infer information about which reform packages can sustain growth and make it pro-poor.

In the OECD social cohesion policy review of Vietnam[5], growth incidence curves (GICs) which shows income growth at different percentiles of the income distribution were computed to monitor the distribution of income growth beyond the bottom quintile and inform the policy debate on poverty from a more holistic perspective (Figure 1). The GICs showed that between 2002 and 2008, a period of high average growth rates in Vietnam, the richest households, followed by the middle class has gained more from economic performance, while the distribution of gains favored less those

[5] OECD (2014): Social Cohesion Policy review of Vietnam, Development Centre Studies, OECD Publishing.

households in the bottom 20 percent. In more recent years, between 2008 and 2012, growth was neither pro-poor nor pro-rich, but benefited most the middle class. While these results confirmed that recent economic reforms in Vietnam were instrumental in reducing the prevalence of absolute poverty, they showed that the poor had however benefited very little from the growth performance, at least compared to the middle class. Such findings were instrumental in making the case for more redistributive policies as income growth was the lowest at the bottom of the income ladder.

Figure 1. Growth Incidence Curves (GICs) of Adult-Equivalent Total After-Tax Income in Vietnam, 2002-2012



Source: VHLSS. Note: A new sample frame was introduced in the VHLSS since 2010, based on the 2009 census.

Example#2: Applying a social inclusion lens to solve the last mile problem of eliminating extreme poverty in East Africa

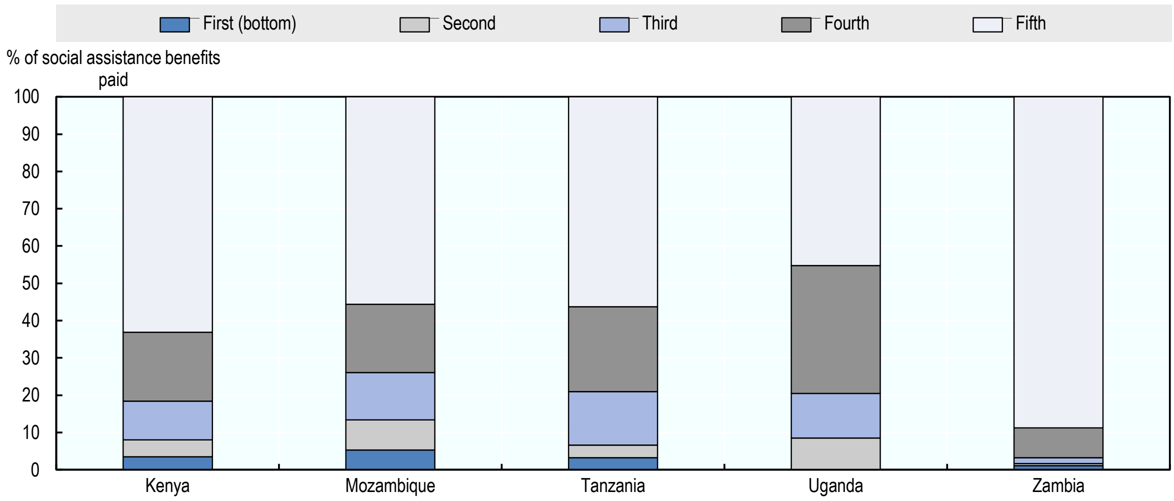
Agenda 2063 and SDG #1 both target the eradication of poverty. Yet OECD analysis on the future of social protection in East Africa[6] shows that this is unlikely to occur for a long time unless a social inclusion lens is applied to targeting social assistance schemes. The study forecasts economic and social trends of key interest to social protection planners in Ethiopia, Kenya, Mozambique, Tanzania, Uganda and Zambia to estimate the rate at which these economies and their per capita incomes will grow, and the impact this growth will have on poverty. It shows that at the current rate of progress, economic growth alone will take generations to reduce headcount poverty across the six countries in East Africa, largely due to a combination of rapid population growth and high inequality. Accelerating the decline in poverty will thus require governments to find a solution to the last-mile problem – the challenge of reaching the extreme and chronic poor through social assistance.

The study finds that accelerating the decline in extreme poverty in Africa will require that individuals who are currently excluded from the benefits of economic growth have greater access to social assistance.. Yet, it shows that due to major errors of exclusion (when individuals whom the

[6] OECD (2017), Social Protection in East Africa: Harnessing the Future, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264274228-en

government considers to be in greatest need of transfers do not receive them) and errors of inclusion (when individuals whose need for such programmes is not so great receive transfers), the poverty reduction impact of social assistance remains weak (Figure 2).

Figure 2. Incidence of social assistance benefits across the sample countries



Source: OECD (2017) based on World Bank (2016), ASPIRE database.

The study further argues that while in theory achieving perfect targeting in the sample countries would allow current spending on social assistance to eliminate extreme poverty, this is not feasible. Global experience indicates indeed that attempts to reduce inclusion errors typically increase the level of exclusion errors while efforts to reduce exclusion errors increase inclusion errors[7]. Attempts to eliminate errors of inclusion may also be administratively challenging and financially very costly. In addition there is an important political economy aspect to the debate around targeting. Devoting a significant amount of government resources to a programme which only benefits the poorest members of society is challenging, since they typically lack a political constituency. Moreover, such schemes risk being perceived as ill-deserved hand-outs that will encourage dependency and dis-incentivise participation in the labour force. On the other hand, the middle class might be more in favour of such programmes if they benefit from them as well.

All in all, a social inclusion perspective on social assistance targeting in East Africa shows that the primary focus shall be on reducing errors of exclusion even at the cost of increasing errors of inclusion, recognising that the financial and political costs of trying to achieve perfect targeting might outweigh its benefits.

Example#3: Addressing the employment challenge of out-of-school youth: how crucial is the promotion of youth entrepreneurship to give disadvantaged young people a real chance to find decent work?

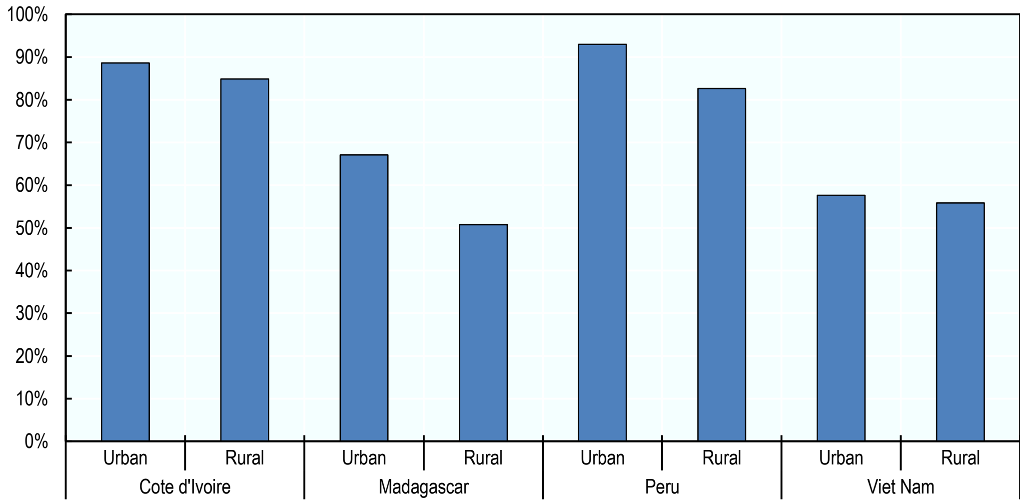
For many young people in the developing world, entrepreneurial activity is the sole entry point into the labour market and the only way out of poverty. Yet only a tiny portion of youth entrepreneurs

[7] Coady, David. Targeting of transfers in developing countries: review of lessons and experience/ David Coady, Margaret Grosh, John Hoddinott. p. cm. – (World Bank regional and sectoral studies) ISBN 0-8213-5769-7

record high performance levels in terms of profits, employment generation, productivity or other factors. In this context, how much hope shall policy makers place on entrepreneurship programmes as a solution to the youth employment challenge in developing countries?

OECD research on youth entrepreneurship[8] challenges us to think deeply about the role of youth entrepreneurship as a solution to the youth employment challenge, in particular for the most disadvantaged. It shows that many young people engage in entrepreneurship, most often for lack of a better job. The majority of youth entrepreneurs operate as small informal businesses in petty trade and services and few possess basic business skills. By and large, youth entrepreneurship is less financially rewarding than wage employment (Figure 3). Only a tiny proportion of youth entrepreneurs, the most educated with good managerial skills, can be considered top performers who generate both high profits and jobs. These findings raises serious doubts about entrepreneurship as a solution to the employment challenge for the large number of the out-of-school youth in developing countries, as these young people rarely meet the necessary conditions to move from subsistence self-employment activities to more successful entrepreneurship.

Figure 3. Share of young entrepreneurs with profits below average youth wage



Note: Agriculture excluded. Youth are aged 15-29 and adults 30-64.
Source: OECD (2017). Côte d'Ivoire ENSETE 2014, Madagascar ENEMPSI 2012, Peru ENAHO 2014, and Viet Nam HBIS 2014.

In the context of Africa, moreover, evidence from the African Economic Outlook[9] shows that while entrepreneurial activity rates are among the highest in the world, those are often taking place in sectors where there is a low potential for pan-african trade and local economic development. At the same time, small and medium enterprises are the ones that generate the largest number of jobs.

[8] OECD (2017): From Subsistence to Performance: Unlocking Youth Entrepreneurship Potential in Developing Countries, OECD Publishing, Paris.
[9] African Development Bank, OECD, UNDP (2017): African Economic Outlook.

Overall, this suggests that that while unlocking the youth entrepreneurship potential in developing countries is important, there is a need to find other and more effective ways to respond to the employment challenge of youth in developing countries, in particular for the large number of the out of school and least educated youth. In this respect, there is a strong case to reorient government interventions towards local private sector development as a way to foster wage employment creation combined with skills development programmes tailored to the needs of the out-of-school youth.

Social mobility

Social mobility is a key dimension of social cohesion, one that is central to a long-term perspective on poverty reduction. In essence, it concerns the movement of individuals or groups of people in social position, such as income classes, employment status or career structure, and measures the real extent to which equality exists in a society. Social mobility can be upward or downward and either intra-generational (occurring within a generation) or inter-generational (occurring between generations). "Absolute" social mobility refers to the total amount of movement of people (e.g. an increase/decrease in household income irrespective of a change in the distribution of income), while "relative" social mobility refers to the upward or downward movement of a member of one social class compared with a member of another class.

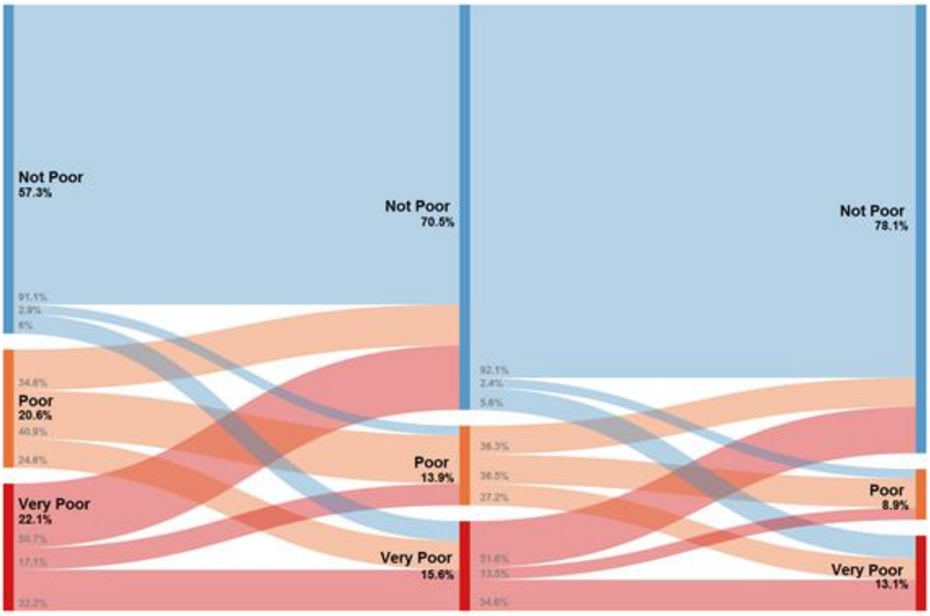
Example #4: Monitoring income mobility in Cambodia as a first step towards a more effective strategy for sustainable poverty reduction

In the 2017 OECD Social Protection System Review (SPSR) for Cambodia[10], administrative data from the Identification of Poor Households Programme (IDPoor database) were analysed to shed new light on the dynamics of poverty and understand the role of social insurance to prevent the emerging middle class from falling back into poverty. The IDPoor is a targeting mechanism administered by the Ministry of Planning to determine eligibility for government or donor anti-poverty programmes. The database follows households across time at intervals averaging about two years. Figure 4 shows the transitions of households between these three waves, corresponding to the years 2008/09, 2010/11 and 2013/14, respectively.

A key finding of the Review is that significant movement in and out of poverty can be observed for households categorized as poor or very poor. Over half of households that were classified as non-poor remained out of poverty over the three waves. Among those categorized as "poor" in each of the first two waves, about one third transitioned out of poverty while one third remained poor and one third fell into extreme poverty. About half of the very poor in each of the first two waves transitioned out of poverty but about 6% fell back into extreme poverty thereafter.

[10] OECD (2017): Social Protection System Review for Cambodia.

Figure 4. Poverty Transitions in Cambodia based on administrative data



Source: OECD (2017) based on the IDPoor data.

The results of the analysis were used to inform the national policy debate in Cambodia on social protection. An important policy message was about the importance of monitoring income mobility in order to develop more effective poverty reduction strategies that would include the expansion of social insurance schemes to protect the non-poor from falling into poverty.

Example #5: Reconciling fiscal policy with equity and poverty reduction

Fiscal policy – how governments raise and spend public revenues – can be a powerful instrument for tackling inequality and poverty, ensuring sustainable funding for social policy and public investments, promoting income mobility, and ultimately fostering social cohesion. In that sense, the way taxes and expenditures are allocated in a society is at the heart of the social contract, while public confidence in fiscal institutions is essential to ensuring fiscal performance and preserving the social contract[11]. The level of trust in the government is often determined by the extent to which fiscal policies such as taxes and transfers are perceived to be effective and equitable[12]. When the fiscal system fails to reduce the gap between richer and poorer individuals it undermines fiscal legitimacy, damages the social contract and jeopardises the building of more equitable societies.

Empirically, studies looking at the effect of fiscal policy on inequality and poverty find mixed results. In advanced OECD countries, fiscal policies (both taxes and transfers) reduce the Gini coefficient on

[11] OECD (2011): Perspective on Global Development 2012: Social Cohesion in a Shifting World. OECD Publishing.

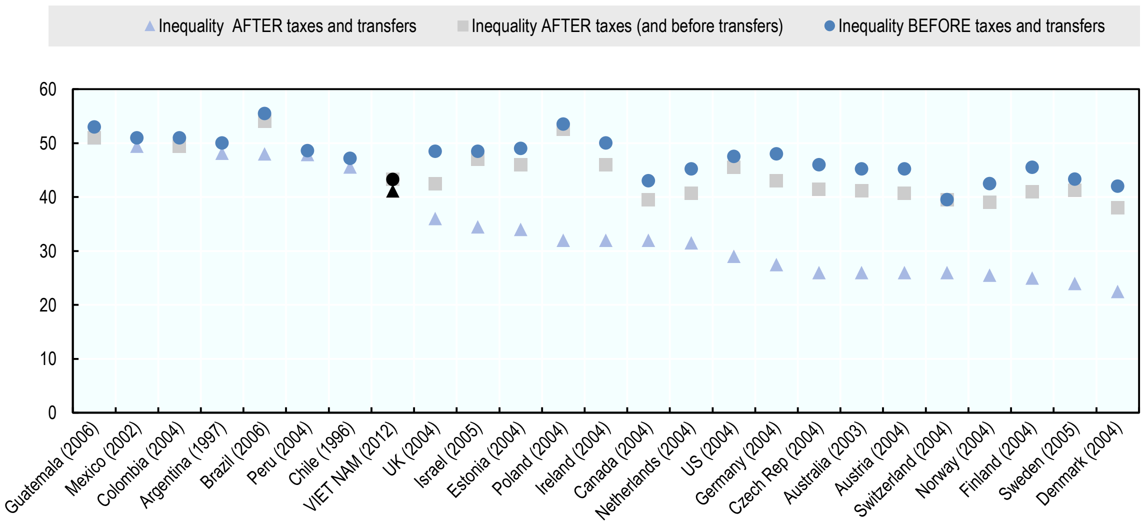
[12] OECD (2008), Latin American Economic Outlook 2009, OECD Publishing, Paris, http://dx.doi.org/10.1787/leo-2009-en.

average by 15 points[13]. In Latin America and some countries in Asia, this effect is far less pronounced with a reduction of less than 2 Gini points[14] . Other evidence for developing countries shows that fiscal policy tends to slightly reduce inequality but increase poverty[15].

As part of its policy dialogue with developing and emerging countries, the OECD Development centre is building new evidence on the importance of fiscal policy for equity and the financing of effective social policy. Revenue and expenditure measures are mutually reinforcing; people pay the taxes that fund the public services and social protection transfers from which some or all people benefit. Considering only the revenue or expenditure side of the fiscal framework when analysing government efforts to reduce poverty and inequality provides only a partial picture[16].

The 2014 OECD Social Cohesion Policy Review for Vietnam[17] discusses the effect of taxes and transfers in OECD and non-OECD countries. The results show that personal income tax (PIT) in Vietnam had little effect on redistribution and that public transfers had only a small effect on inequality reduction (Figure 5).

Figure 5. Inequality before and after taxes and transfers



Source: Authors' calculation based on VHLSS 2012 for Viet Nam; OECD, 2008 for Argentina, Chile, Mexico and Peru, and OECD, 2013a for remaining countries.

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[13] OECD (2011), Divided We Stand: Why Inequality Keeps Rising, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264119536-en.

[14] OECD (2008), Latin American Economic Outlook 2009, OECD Publishing, Paris, http://dx.doi.org/10.1787/leo-2009-en.

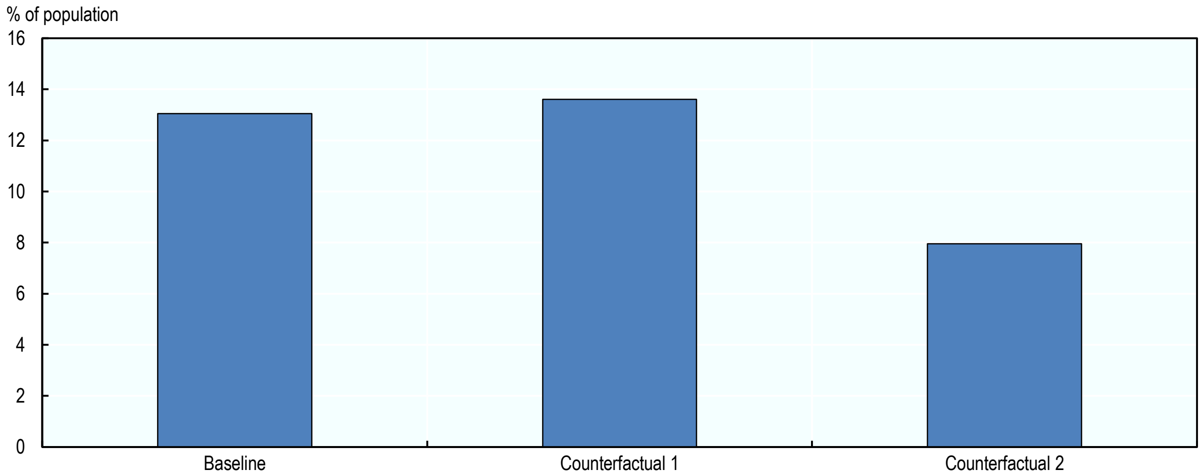
[15] Lusti 2016;:

[16] Bastagli, F. (2015), "Bringing taxation into social protection analysis and planning", ODI Working Paper, No. 421, The Overseas Development Institute, London, www.odi.org/publications/9671-bringing-taxation-social-protection-analysis-and-planning-working-paper.

[17] OECD (2014), Social Cohesion Policy Review of Viet Nam, Development Centre Studies, OECD Publishing. http://dx.doi.org/10.1787/9789264196155-en

In the 2017 OECD Social Protection System Review for Cambodia, an assessment of the coherence of fiscal and social policies was undertaken. The results show first of all that overall Cambodia's tax system is progressive: wealthier households pay a larger share of taxes and direct and indirect taxes reduce inequality across the income distribution. However, taxes make everyone worse off and push about 5.1% of the population into poverty. At the same time, the relatively low coverage and value of social protection transfers mean these are too modest to offset the effect of taxation, let alone lift people out of poverty(Figure 6).

Figure 6. Poverty headcount rate according to taxes and transfers in Cambodia: baseline and counterfactual scenarios (2014)



Notes: Baseline (status quo) = transfers and taxes; counterfactual 1 = taxes, no transfers; counterfactual 2 = transfers, no taxes.
Source: OECD (2017) based on NIS (2014), *Cambodia Socio-Economic Survey 2014*.

Overall, the results of the OECD reviews were instrumental in identifying a number of pro-poor fiscal policy reforms, including the re-design of fiscal policy to ensure progressivity, reduce tax avoidance and unlock the potential of fiscal policy as a real redistributive instrument (Vietnam), as well as the need to re-calibrate taxes and transfers so that the combined effect of taxes and transfers could reduce poverty and improve equity (Cambodia).

By providing policy-relevant analysis and promoting government learning for the design of more equitable and pro-poor fiscal policy, the reviews were also able to turn the evidence and knowledge into actions through a series of policy dialogues that sought to engage governments toward fiscal policy reforms while also contributing to the global debate around SDGs 1 (poverty eradication), 8 (inclusive growth) and 10 (reduction of inequality), and further supporting the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, where domestic resource mobilization is central.

Social capital

Social capital corresponds to “the rules, norms, obligations, reciprocity and trust embedded in social relations, social structures and society’s institutional arrangements which enable members to achieve their individual and community objectives”[18] . It can be broadly defined as “the norms and networks that facilitate collective action”[19] . Putnam characterises social capital as “features of social organisation, such as trust, norms and networks that can improve the efficiency of society by facilitating co-ordination”[20]. He states that social capital has productive value in that it allows individuals to achieve objectives normally beyond their reach. The OECD defines social capital as a resource for facilitating co-operation within or among social networks with shared norms, values and understandings[21] . The OECD Perspectives on Global Development[22] report argues that social cohesion is crucial for the peaceful management of collective action problems that naturally arise in transforming societies. The creation of trust and solidarity and the nurturing of the belief that everybody, regardless of sex, age or ethnic identity can benefit from these new opportunities, is essential.

Example #6: Why tackling gender discrimination in social institutions matters for inclusive growth

Deeply entrenched formal or informal laws, social norms or practices often pose significant and enduring obstacles for women in many rich or poor countries worldwide. By measuring these discriminatory social institutions in key areas that affect a woman’s life, the Social Institutions and Gender Index (SIGI), produced by the OECD Development Centre, has been instrumental in documenting the persistence and prevalence of gender discrimination across countries at different stages of development.

Discriminatory social institutions underlie many gender inequalities and poverty among women. Research using the OECD Development Centre’s Social Institutions and Gender Index (SIGI) documents how discriminatory family codes, restricted physical integrity, son bias, restricted resources and assets, and constrained civil liberties translate into gender gaps in outcomes related to education, employment and empowerment. Early marriage and pregnancy, for example, cut short girls’ education at the secondary level. In Uganda, pregnancy or marriage is cited as the main reason for dropping out of school by 11% to 21% of girls, depending on the region[23].

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[18] Narayan, D. (1997) : « Voices of the poor – poverty and social capital in Tanzania » Environmentally and Socially sustainable Development Studies and Monographs Series, No 20. World Bnak, Washington DC.

[19] WOECD (2001), *The Well-being of Nations: the Role of Human and Social Capital*, OECD, Paris.oolcock, M. and D. Narayan (2000), “Social capital: Implications for development theory, research, and policy”, World Bank Research Observer, Vol. 15/2, pp. 225-249.

[20] Putnam, R. (1993), Making Democracy Work: Civic Traditions in Modern Italy, Princeton University Press, New Jersey.

[21] OECD (2001), The Well-being of Nations: the Role of Human and Social Capital, OECD, Paris.

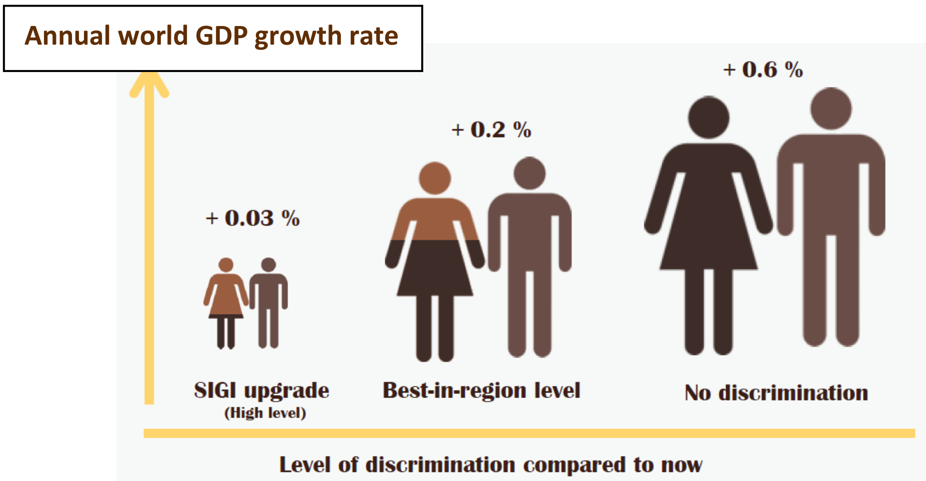
[22] OECD (2011), Perspectives on Global Development 2012: Social Cohesion in a Shifting World, OECD Publishing, Paris, http://dx.doi.org/10.1787/persp_glob_dev-2012-en.

[23] OECD (2015) : Uganda SIGI report. http://www.oecd.org/dev/development-gender/The%20Uganda%20SIGI%20Country%20Study.pdf

Reaching gender equality is also gaining ground as "smart economics" – a way to boost inclusive growth through increased human capital and enhanced productivity. It is now well established that gender inequality in outcomes is bad for growth, especially when it comes to gender disparities in education and labour. Recent analysis by the OECD Development Centre[24] further indicates that gender-based discrimination in social institutions also impedes economic growth beyond those outcomes.

The analysis shows a robust negative relationship between gender discrimination in social institutions and aggregate income per capita. This negative influence is found to be stronger for low-income countries and seems to affect the level of income by lowering both the level of human capital and labour force participation among women, and total factor productivity. The study also estimates the economic costs of gender discrimination in social institutions as well as the potential gains countries could achieve by having more equal social institutions. The income loss associated with current levels of gender discrimination could be substantial, reaching an estimate of over USD 12 trillion, or an equivalent of 16% of current global GDP. Yet, a gradual dismantling of gender-based discrimination in social institutions could yield substantial economic benefits, leading to an annual increase in the world GDP growth rate of 0.03 to 0.6 percentage points by 2030, depending on the policy scenario envisaged (Figure 7).

Figure 7: Annual increase in the world GDP growth rate associated with greater gender parity in social institutions



Source: Ferrant and Kolev (2017).

All in all, these results underscore the importance of tackling gender discrimination in social institutions to support both growth and inequality reduction. In addition, as discriminatory social institutions seem to represent an additional growth bottleneck for low income countries, unlocking this growth potential could be particularly beneficial for the world's least developed countries.

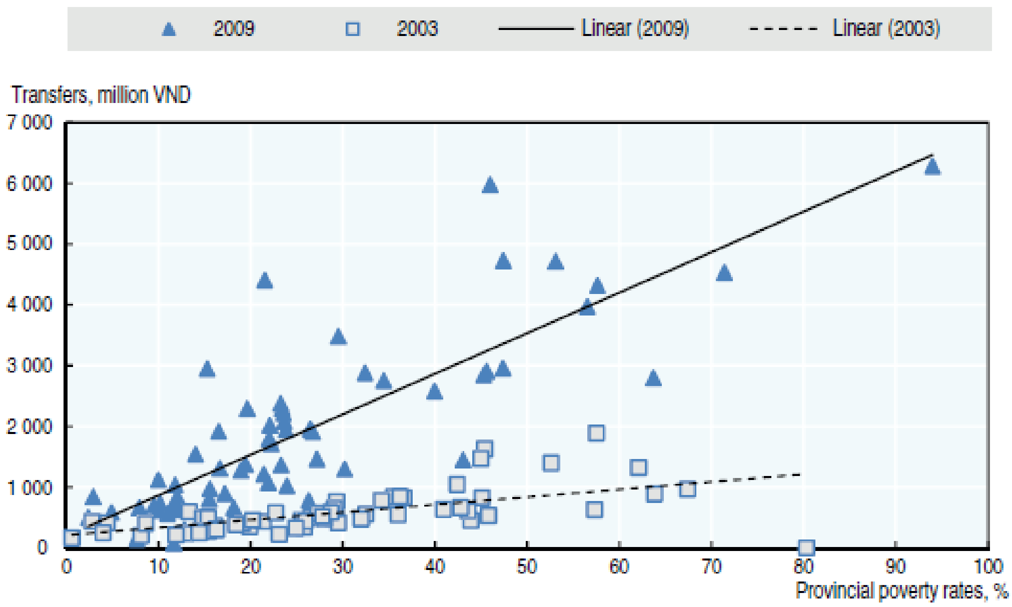
[24] Ferrant and Kolev (2015) : Does gender discrimination in social institutions matter for long-term growth? Cross-country evidence. OECD Development Centre Working Paper No. 330.

Example #7: Achieving poverty reduction through greater accountability and better governance: the role of satisfaction surveys to assess the poverty reduction impact of fiscal decentralisation in Vietnam

Fiscal decentralisation can be instrumental in strengthening fiscal legitimacy and reducing spatial inequalities. In principle, fiscal decentralisation is believed to improve accountability and responsiveness in providing social services. Decentralised institutions can provide space for people to participate in local decision making, and are generally assumed to better address the needs of local constituencies. Political, administrative and fiscal decentralisation is considered to hold great potential for development and many developing countries have embarked on this course. Pro-poor fiscal transfers can further help reduce spatial inequalities and are often considered an important pillar of a country's social contract and a driver of territorial cohesion.

Analysis undertaken in the 2015 OECD Social Cohesion Policy Review for Vietnam shows that fiscal transfers to provinces have been pro-poor but there is little evidence that these have translated into improved public services. One the one hand, analysis shows that the correlation between net transfers and poverty rates at province level is positive and gets steeper over time (Figure 8). As part of decentralisation, equalisation mechanisms were put in place to transfer budgetary resources to provinces to meet overall national development objectives. On the other hand, according to the Viet Nam Provincial Governance and Public Administration Performance Index (PAPI) surveys, perceptions of the quality of public service delivery in Viet Nam are weakly correlated with fiscal transfers in the respective provinces.

Figure 8: Fiscal transfers and poverty rates by provinces in Vietnam, 2003-2009



Source: OECD (2015): Social Cohesion Policy Review for Vietnam.

All in all, the results highlighted the importance of improving transparency of allocation formulas from province to lower levels and increased participation at commune level in decision making as a way to translate expenditure into better service delivery. One key recommendation in that respect is to increase the involvement of districts and communes in budget planning and decision making and ensure that the budget process allows enough time to include commune-level consultations. Budget allocations could be further decentralised through participatory planning mechanisms at commune level to ensure public services meet the needs of the local population.

CONCLUSION

This paper has sought to discuss the centrality of social cohesion as a means for poverty reduction. It did not attempt to provide a comprehensive review of the role of social cohesion for poverty reduction. Rather it tried to be selective by drawing upon the engagement of the OECD Development Centre with developing and emerging countries. In doing so, the paper provided several concrete examples of how fostering a social cohesion agenda in society can act as an effective and sustainable means for poverty reduction. The following key messages summarise the main lessons learned from these examples:

- **Effective strategies to reduce poverty call for government interventions affecting not only directly the poor but also the middle class and top income earners.** In the first place, this requires going beyond traditional poverty monitoring and considering income changes throughout the entire income distribution to assess the scope for building more inclusive societies (example #1). Analysis of social mobility shall be an integral part of an evidence-based dialogue on poverty. Policies that reduce intra and intergenerational inequalities are more likely to contribute to sustained poverty reduction. It is therefore necessary to move away from a narrow focus on poverty interventions towards the inclusion of measures such as the expansion of social insurance schemes for the non-poor to protect them from falling into poverty (example #4) as well as broader tax reforms that can reduce the scope for tax evasion and tax avoidance, and make tax policy a more effective redistributive tool (example #5).

- **There is a strong need to reconcile social protection with fiscal policy.** Unlocking the potential of fiscal policy to tackle poverty and inequality in developing countries is important (example #5) and politically timely, not least since a number of emerging trends are likely to increase fiscal demands in the developing world. On the one hand, the pressure for greater public spending is increasing in many developing countries. On the other hand, social inclusion and domestic resource mobilisation are becoming more central in the global agenda[25]. Government interventions shall seek to identify the appropriate balance between public social spending and taxes for redistribution and poverty reduction, expand public social spending without jeopardizing fiscal sustainability, enhance domestic revenue mobilisation to finance the extension of social protection and pro-poor spending without inducing countervailing effects on poverty, and relatedly, design taxes and transfers, and improve compliance, in a way to ensure that the poor do not end up as net tax payers.

- **Extreme poverty eradication requires simplifying poverty targeting mechanisms for social protection through the lens of social cohesion.** In many low income countries, the extreme poor are largely inelastic to growth strategies and the only way to lift them out of poverty is through the extension of social assistance programmes. Yet, attempts to reach out the extreme poor through poverty targeting mechanisms often lead to massive errors of

[25] SDGs 1, 8 and 10 refers respectively to poverty eradication, inclusive growth and the reduction of inequality, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development has put domestic resource mobilization at the core of the global development agenda.

exclusion (example #2). In developing countries, where administrative capacity is often low, the primary focus for targeting social assistance shall be on simplifying registration mechanisms to reduce errors of exclusion even at the cost of increasing errors of inclusion, recognising that the financial, social and political costs of trying to achieve perfect targeting might outweigh its benefits.

- **There is a need to reconsider the role of youth entrepreneurship in strategies to promote decent work for youth and to find other and more effective ways to respond to the employment challenge of youth.** The challenges that confront the out-of-school and least educated youth of today and into the future call for a change of course in public policy and the development of innovative solutions that could promote a coherent vision within the poorest countries on the way to address the specific employment challenge of these youth (example #3). While unlocking the youth entrepreneurship potential in developing countries is important, there is a strong case to reorient government interventions towards local private sector development as a way to foster wage employment creation combined with skills development programmes tailored to the needs of the out-of-school youth.
- **Promote good governance by developing accountability mechanisms especially at provincial and local municipal level.** Transparent and accountable governance is key to the creation of trust and the building of more cohesive societies, and it can help reduce poverty by improving service delivery. The absence of adequate accountability mechanisms may indeed lead to frustration with poor service delivery that can altogether threaten social cohesion and jeopardize the expected dividends resulting from pro-poor fiscal transfers from central to sub-national governments. Good governance is necessary at all levels, from the global to the local, yet some levels of governance require special attention. In decentralised countries, developing accountability mechanisms is especially important at provincial and local municipal level, since it is at these levels that the major part of the national budget aimed at alleviating poverty is spent (example #7).
- **Tackling gender-based discrimination in social institutions is an engine for inclusive growth.** Deeply entrenched discrimination in formal or informal laws, social norms or practices often poses significant and enduring obstacles for women in many rich or poor countries worldwide. There is a strong case for including policies and programmes that directly target discriminatory social institutions in national growth strategies (example #7). Tackling gender discrimination in social institutions will support both growth and inequality reduction, while helping countries reach the ambitious targets of gender equality as SDG 5 captures.