SDG 10: Reduced inequalities
Reduce inequality within and among countries

With 193 governments coming together to agree a common framework to tackle 17 major world issues by 2030, business engagement to achieve them is seen as critical. So how do you understand the implications of the SDGs and prioritise them? How do you quantify and minimise the potential risks, and explore the opportunities?

This is an extract from PwC's Navigating the SDGs: a business guide to engaging with the UN Global Goals 2016 on SDG 10 Reduced inequalities. For more on the other 16 SDGs, go to www.pwc.com/globalgoals

pwc

www.pwc.com/globalgoals

What's the global challenge?

- Economic inequality, or the gap between rich and poor is widening, both globally and within countries. **The richest 1% globally currently have more wealth than the other 99% of the world**, while 70% of people live in countries that have worse inequality than 30 years ago.[1]
- In developed and developing countries alike, the **poorest half** of the population often **controls less than 10% of its wealth**.[2]
- Across **OECD** countries, the gap between the richest 10% and the poorest 10% is at a record level. In 23 OECD countries, however, the top 10 percent earn more than the bottom 40 percent combined, with the Palma ratio in the United States (1.74), Turkey (1.99), Mexico (2.93), and Chile (3.26) showing the most severe levels of income inequality.[3]
- **Inequality threatens long-term social and economic development**. While some degree of income inequality may incentivise hard work, skills development and entrepreneurship, high levels of inequality harm economic growth and make poverty reduction more difficult.[4]
- **Unequal societies suffer from** increased levels of **unemployment, social instability** (including households in financial distress and higher divorce rates) and **crime**. High inequality is directly correlated with a reduction in social mobility from generation to generation – for example the UK and US have the highest levels of wealth inequality and the lowest levels of social mobility out of the developed countries.[5]
- **Developing countries lost $991.2 billion in illicit financial outflows** in 2012 alone, and the rate of increase of such losses is almost twice as fast as global GDP.[6] Such outflows include illegal activities such as crime and corruption, but **tax evasion** is also a major component. The impact on global development is severe, such figures dwarf the combined total of foreign direct investment and official development assistance received, therefore directly holding back economic growth in developing countries.
- Safe and regular migration and mobility of workers is a key aspect of reducing inequality, with many of the **global poor dependent on remittances** (i.e. money sent home to families by migrant workers). Total remittances globally are over double the level of global official development assistance, and remittances form 20% of GDP in some of the poorest countries (such as Gambia, Lesotho, Liberia and Comoros). However, the transactional costs of sending remittances are extremely high, globally averaging over 7%.[7]

Why does it matter for business? And what can business do?

High levels of inequality are correlated with lower economic performance and social problems such as crime, both of which provide a less stable business environment. A prosperous and secure middle class generates demand for companies' goods and services and widens the market for profits.

- There is evidence that **excessive executive remuneration** is negatively related to company performance – the higher-paid the CEO relative to their peers, the worse the stock returns.[8] **High pay differentials** can result in lower staff morale, however the pay differential between the top and bottom earning direct employees can be very high: it averages 262:1 in the FTSE 100, for example.[9,10] Some companies provide **stock options** to lower grade employees, which both acts as a long-term performance incentive, but also benefits a wider range of staff financially. **Compensation transparency** within a company can promote more equality within employee groups.[11]

? *What is the ratio of your highest paid executive's earnings to the lowest paid worker in your organisation? What policies could you put in place to increase transparency of employee pay – for example allowing employees the right to disclose their salary voluntarily? Do your employees have stock options as part of their compensation?*

- Business can help improve **social mobility** and thereby contribute to higher levels of equality, including in developed countries such as the UK and US.

? *Could you consider initiatives such as **apprenticeship schemes** which aim to widen access and diversity among your applicants? Do you ensure that all **interns** are paid a **living wage** so that family income is not a barrier to gaining work experience?*

- **Migration remittances** are a key component of GDP for developing countries, in particular the Least Developed Countries, as well as for the poorest households in those countries.

? *Do you have **equal opportunity policies** for foreign workers? Are you aware of whether workers in your company or supply chain are providers of remittances? Are there creative ways you could support such employees to **lower the transaction** costs associated with their remittances?*

- Corporate **tax transparency** is an increasingly topical subject. As businesses become increasingly global, the tax contributions they make in their different countries of operation are coming under greater and greater scrutiny. Bodies such as the OECD are promoting the need for international agreement and cooperation to address the issues of tax **base erosion and profit shifting** (BEPS),[12] issues which deprive some countries (and not infrequently developing countries) of much needed revenue. Progress on this could help achieve a fairer global distribution of tax revenues and **reduce inequality among countries**.

? *What is your company policy on tax transparency? Could you contribute to the policy debate around improving global financial markets and tax systems?*

You could also think about:

? *Setting a **cap on the ratio of top-to-bottom pay** between your CEO and lowest paid direct employees. Or pegging the rise in executive pay to company performance.*

? *Your **tax impact** both in your domestic operations and in your overseas supply chain. What could be done to increase the positive impact your company leaves in the local economy?*

Key links to other SDGs:

Goal 1 – No poverty: inequality is directly related to poverty, with the gap between rich and poor in society affecting the relative level of poverty of the poorest. Inequality reduces social mobility, so dampens poverty reduction efforts.[13]

Goal 4 – Quality education: access to education is closely linked to equality of opportunity. Educational performance and therefore tertiary education access is linked closely to household income – so economic inequalities are perpetuated through generations as education and therefore earning potential is affected.

Goal 5 – Gender equality: gender discrimination underpins pervasive economic inequality between men and women. Women earn 24% less than men globally on average.[14]

Goal 8 – Decent work and economic growth: inequality is closely related to reduced workers' rights and increased focus on large corporations. Countries with the strongest labour union policies also have the least income inequality, as collective bargaining power tends to lead to fairer and higher wages.[15]

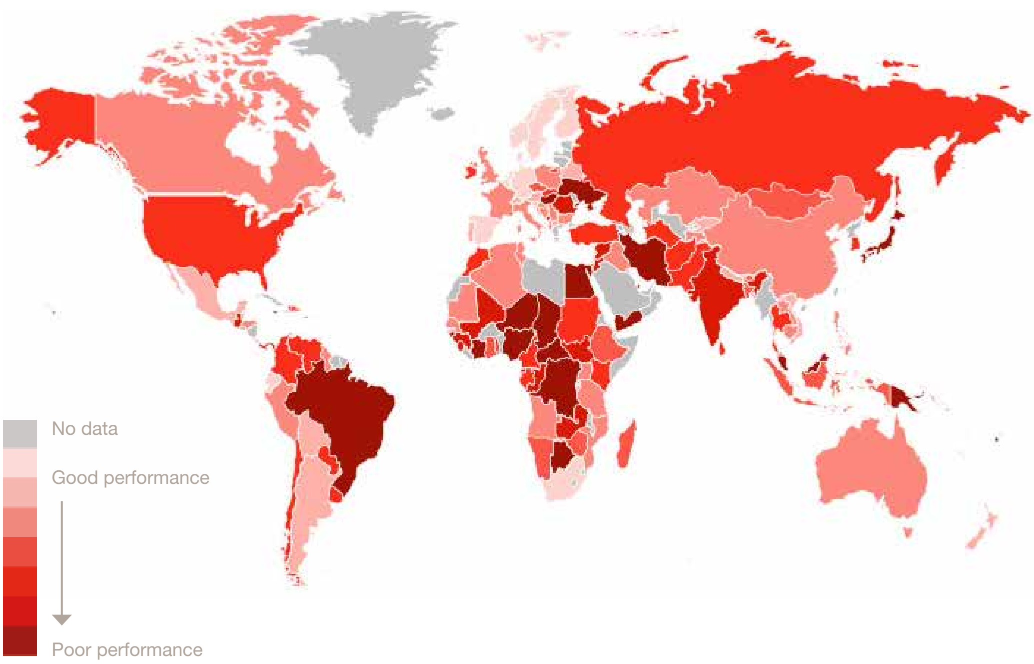
Goal 17 – Partnerships for the goals: increasing the tax revenues of developing countries is a key enabler for implementing the SDGs. Companies can help by organising their business affairs to pay more taxes to host countries.

Targets *in focus*

This SDG has ten targets, the first of which is "By 2030, progressively achieve and sustain income growth of the bottom 40 percent of the population at a rate higher than the national average". Target 10.3 shown in the heat map is "Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard". For details on the remaining targets, please see 'Global Goals and targets' on page 5.

The lie of the land – exploring the distance to cover to achieve

Target 10.3: Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard



Company: Westpac Group

Sector: Financial Services

Region/country of impact: Pacific region

Aligns to: SDG 5 and SDG 10

Case Study

Australian bank tackles financial exclusion within the Pacific region

Global Challenge: Vast numbers of people across the world are still regarded as "unbankable". This could be due to their gender, social status, physical ability or poor infrastructure where they live. In order to improve the financial and economic status of those currently excluded from the system, there is a need for more financial institutions to recognise this as an issue and also to recognise the opportunity.

Business Response: Westpac has focused on issues which are material to them as a financial institution and where they can use their skills and resources to make a meaningful impact. One of their sustainability objectives is to "increase access to financial services in the Pacific". The region's geography and limited infrastructure as well as the subsistence livelihoods of many Pacific Islanders all contribute to poor financial inclusion. Within their 2013-2017 sustainability strategy, Westpac set out a target to provide access to basic and affordable banking to an additional 300,000 Pacific Islanders, with the aspiration that 50% of these will be women; their approach includes a combination of 'in-store' banking, the choice of a basic account, and a financial literacy programme.

Benefits: For many, having a bank account is a fundamental step for improving their money management as well as having a safe place to store their income or savings. Financial literacy support will help new customers to make better financial decisions. This is especially crucial in the case of women who often don't hold the social status but are responsible for running households and managing their family finances; their improved financial knowledge might empower them and increase their status within their household and community.

Over time this strategy will increase Westpac's customer base and revenue. An additional benefit to the company is that by diversifying and looking for new customers, Westpac is also planning ahead for the demographic trend of an aging population in Australia.

Improved access to financial services within Pacific Islands will make it easier to receive remittances; encourage the creation of small businesses and in turn, contribute to the economic development of the region.

Source: Westpac

Global Goals and targets

Please note 'Targets' are referenced as n.1 n.2 n.3 etc. 'The means of implementing the targets' are referenced as n.a n.b n.c etc.

Goal 10. Reduce inequality within and among countries

10.1 By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average

10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

10.3 Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard

10.4 Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality

10.5 Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations

10.6 Ensure enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions in order to deliver more effective, credible, accountable and legitimate institutions

10.7 Facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies

10.a Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organization agreements

10.b Encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes

10.c By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent

Sources

1 Oxfam, An Economy For the 1%: How privilege and power in the economy drive extreme inequality and how this can be stopped, 2015 http://bit.ly/1SZ7sHQ

2 WEF, Outlook on the Global Agenda 2015 bit.ly/1y26gcp

3 Kroll, Sustainable Development Goals: Are the Rich Countries Ready?, 2015 http://bit.ly/1WqAjbj

4 IMF Staff Discussion Note, Redistribution, Inequality, and Growth, 2014 http://bit.ly/1dzoFjl

5 Bloomberg Visual Data, The Great Gatsby Curve: Declining Mobility, 2013 http://bloom.bg/MP2PkO

6 Global Financial Integrity, Illicit Financial Flows from the Developing World: 2003-2012, 2014 http://bit.ly/1znGr5K

7 World Bank, Remittance Prices Worldwide - Issue 16, 2015 http://bit.ly/21wFnbv

8 Cooper, M., Gulen, H., and Rau, P.R., Performance for Pay? The Relation Between CEO Incentive Compensation and Future Stock Price Performance, 2014 http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1572085

9 European Observatory of Working Life, High pay differentials can lead to low staff morale, 2014 bit.ly/1nDe81K

10 One Society, A third of a percent (the pay of UK low-paid workers compared to that of their CEOs): The gulf between employees' pay and chief executives' pay and the adverse impacts on UK plc, 2011 bit.ly/1XxlVdO

11 Card, D., Mas, A., Moretti, E., and Saez, E., Inequality at Work: The Effect of Peer Salaries on Job Satisfaction, 2011 http://eml.berkeley.edu/~moretti/ucpay.pdf

12 PwC, Tax transparency and country by country reporting: BEPS and beyond, 2015, webpage http://www.pwc.co.uk/services/tax/tax-transparency-country-by-country-reporting.html

13 The Institute for Fiscal Studies, The Impact of Parental Income and Education on the Schooling of their Children, 2005 http://www.ifs.org.uk/wps/wp0505.pdf

14 UN Women, Progress of the World's Women 2015-2016: Transforming economies, realizing rights, 2015 http://progress.unwomen.org/en/2015/

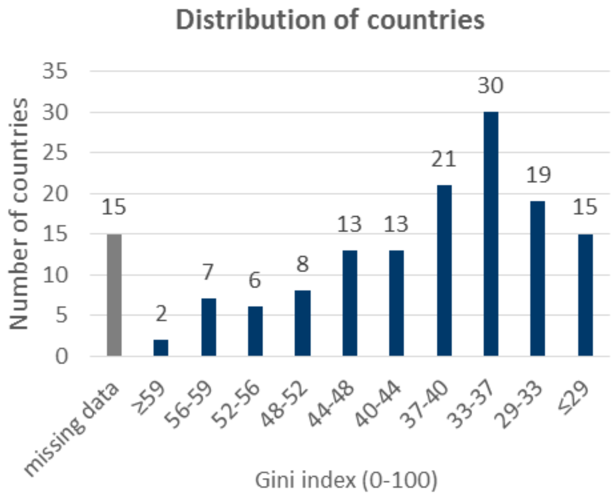
15 Canadian Foundation for Labour Rights, Sran, G., Lynk, M., Clancy, J., and Fudge, D., Unions Matter: How the Ability of Labour Unions to Reduce Income Inequality and Influence Public Policy has been affected by Regressive Labour Laws, 2013 http://www.law.harvard.edu/programs/lwp/papers/CFLR%20Unions%20Matter_2.pdf

How well are countries performing against the indicators that sit behind the SDG goals and targets?

SDG 10 Indicator Profile: Gini index
(NB. this table is from the SDG Index & Dashboards - Global Report)

10 REDUCED INEQUALITIES

Gini index (0-100)



Country	Value/Rating	
Denmark	24.9	🟢
Sweden	25	🟢
Czech Republic	25.6	🟢
Ukraine	25.6	🟢
Iceland	25.7	🟢
Norway	25.8	🟢
Slovakia	26	🟢
Belarus	26.5	🟢
Finland	26.9	🟢
Romania	27.4	🟢
Afghanistan	27.8	🟢
Bulgaria	28.2	🟢
Germany	28.3	🟢
Montenegro	28.6	🟢
Kazakhstan	29	🟢
Austria	29.1	🟢
Serbia	29.6	🟢
Pakistan	30	🟡
France	30.6	🟡
Korea, Rep.	30.7	🟡
Luxemb.	30.8	🟡
Egypt	30.8	🟡
Tajikistan	30.8	🟡
Netherlands	30.9	🟡
Iraq	30.9	🟡
Slovenia	31.1	🟡
Hungary	31.2	🟡
Armenia	31.3	🟡
Japan	32.1	🟡
Bangladesh	32.1	🟡
Australia	32.6	🟡
Canada	32.6	🟡
Poland	32.7	🟡
Nepal	32.8	🟡
Belgium	33	🟡
Mali	33	🟡
Moldova	33	🟡
New Zealand	33.3	🟡
Burundi	33.3	🟡
Kyrgyzstan	33.4	🟡
Ethiopia	33.6	🟡
Switzerland	33.7	🟡
Croatia	33.7	🟡

Country	Value/Rating	
Azerbaijan	33.7	🟡
Portugal	33.8	🟡
India	33.9	🟡
Ireland	34.3	🟡
Greece	34.3	🟡
Albania	34.5	🟡
Niger	34.5	🟡
Spain	34.7	🟡
Latvia	34.8	🟡
Sudan	35.3	🟡
Sierra Leone	35.3	🟡
Jordan	35.4	🟡
Vietnam	35.6	🟡
Estonia	36	🟡
UK	36	🟡
Italy	36	🟡
Cambodia	36	🟡
Tunisia	36.1	🟡
Bosnia and Herzegovina	36.2	🟡
Sri Lanka	36.4	🟡
Mongolia	36.5	🟡
Lao PDR	36.7	🟡
Lithuania	37.6	🟡
Tanzania	37.6	🟡
Yemen	37.7	🟡
Bhutan	38.1	🟡
Indonesia	38.1	🟡
Liberia	38.2	🟡
Iran	38.3	🟡
Benin	38.6	🟡
Cameroon	38.9	🟡
Israel	39.2	🟡
Togo	39.3	🟡
Guinea	39.3	🟡
Thailand	39.4	🟡
Burkina Faso	39.8	🟡
Chad	39.8	🟡
Turkey	40	🔴
Russia	40.1	🔴
Senegal	40.3	🔴
Mauritania	40.5	🔴
Nicaragua	40.5	🔴
USA	40.8	🔴

Country	Value/Rating	
Morocco	40.9	🔴
Qatar	41.1	🔴
Cote d'Ivoire	41.5	🔴
Gabon	41.5	🔴
China	42.1	🔴
Georgia	42.1	🔴
Angola	42.7	🔴
Ghana	42.8	🔴
Philippines	43	🔴
Macedonia	43.6	🔴
Malawi	43.9	🔴
Madagascar	44.1	🔴
Uganda	44.3	🔴
Congo, Dem. Rep.	44.4	🔴
Argentina	44.5	🔴
Venezuela	44.8	🔴
Uruguay	45.3	🔴
Jamaica	45.5	🔴
Mozamb.	45.7	🔴
Malaysia	46.2	🔴
Dominican Republic	47.2	🔴
Mexico	47.2	🔴
Congo, Rep.	47.3	🔴
Gambia	47.3	🔴
Kenya	47.7	🔴
Peru	48.1	🔴
El Salvador	48.3	🔴
Nigeria	48.8	🔴
Ecuador	49.3	🔴
Cabo Verde	50.5	🔴
Costa Rica	50.7	🔴

Country	Value/Rating	
Rwanda	50.8	🔴
Swaziland	51.5	🔴
Panama	51.9	🔴
Chile	52.1	🔴
Paraguay	52.4	🔴
Lesotho	52.5	🔴
Suriname	52.9	🔴
Brazil	54.7	🔴
Colombia	55.9	🔴
Guatemala	55.9	🔴
Bolivia	56.3	🔴
CAR	56.3	🔴
Honduras	57	🔴
Zambia	57.5	🔴
Haiti	59.2	🔴
South Africa	63.1	🔴
Namibia	63.9	🔴
Algeria	n/a	⚪
Botswana	n/a	⚪
Cyprus	n/a	⚪
Guyana	n/a	⚪
Kuwait	n/a	⚪
Lebanon	n/a	⚪
Malta	n/a	⚪
Mauritius	n/a	⚪
Myanmar	n/a	⚪
Oman	n/a	⚪
Saudi Arabia	n/a	⚪
Singapore	n/a	⚪
Trinidad and Tobago	n/a	⚪
UAE	n/a	⚪
Zimbabwe	n/a	⚪

Source : World Bank (2016), OECD (2016). Years : 2003-2012. Detailed metadata and quantitative thresholds used for each indicator are available online at www.sdgindex.org. Data refer to the most recent year available during the period specified.

Source: Sachs, J., Schmidt-Traub, G., Kroll, C., Durand-Delacre, D. and Teksoz, K. (2016): An SDG Index and Dashboards – Global Report. New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN). All indicators are based on published data. Each data point is coloured as "green", "yellow" or "red", indicating whether the country is close or at SDG achievement (green), is in a "caution lane" (yellow), or is seriously far from achievement as of 2015 (red), on that indicator. Thresholds are based on the authors' analysis and expert assessments. For more detail, see www.sdgindex.org pwc.com/globalgoals