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COMMISSION STAFF WORKING DOCUMENT

Implementation of the new European Consensus on Development – Addressing inequality in partner countries

Contents

1 — Introduction

Despite increasing incomes per capita, **developing countries remain confronted with high levels of inequality,** higher than they were thirty years ago. This should be **of serious concern** to the European Union for two main reasons. Firstly, inequality runs counter to **the very values that underpin European integration**, such as the promotion of social justice and the fight against social exclusion. In its **external action**, the EU promotes these values by fighting for equality and solidarity. Secondly, **inequality is a threat to sustainable development.** Inequality in its various dimensions is a major brake on economic growth and poverty reduction, as well as a threat to many other aspects of sustainable development, such as social cohesion and resilience, respect for the rule of law, conflict prevention, and environmental protection. Failure to tackle these challenges in turn exacerbates existing inequalities, since they have a disproportionate impact on poor people. The inequality challenge is at the crossroads of the three dimensions of sustainable development: the social, the economic and the environmental.

The 2030 Agenda for Sustainable Development[1] is an **opportunity for positive change.** It includes a Sustainable Development Goal to 'Reduce inequality within and among countries' (SDG 10). In addition, the importance of tackling inequality is stressed throughout the entire 2030 Agenda, as it can accelerate progress towards many of the other Sustainable Development Goals and is essential to fulfil the commitment to leave no one behind.

The reduction of inequality is a clear EU priority: both internally, as enshrined in EU treaties and reflected in the European Pillar of Social Rights, and externally, as the new European Consensus on development makes it a priority of EU development policy to eradicate poverty, tackle discrimination and inequality, and leave no one behind. Reducing inequality is also rooted in the EU's commitments to promote and protect human rights as the principles of non-discrimination and equality are complementing principles of international human rights law.

The EU actively supports its partner countries through policies and initiatives that help tackle inequality in its various forms. However, achieving SDG 10 requires us to go further and strengthen our actions to reduce inequality in our partner countries.

The **main objective of this staff working document is to analyse opportunities to better integrate the reduction of inequality in EU development cooperation**, in line with the European Consensus on Development[2], which calls on the EU and its Member States to mainstream the reduction of inequality in their development cooperation.

This document **highlights the many opportunities that exist today** to enhance the impact of EU development cooperation policies on inequality, further mainstreaming inequality in the programme and project cycle, and strengthening partnerships, data and knowledge. Consistent with the principle

[1] Resolution adopted by the General Assembly on 25 September 2015: Transforming our world: the 2030 agenda for sustainable development, A/RES/70/1.
[2] Joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the European Commission, 2017, The New European Consensus on Development 'Our World, Our Dignity, Our Future'.

of policy coherence for development, these efforts must continue to be supported by actions in other policy areas.

The staff working document is structured as follows:

- Chapter 2 presents the policy framework;
- Chapter 3 illustrates key concepts and inequality trends in developing countries, and discusses why inequality matters for sustainable development;
- Chapter 4 takes stock of how inequality is dealt with currently in EU development cooperation;
- Chapter 5 analyses opportunities to further integrate the reduction of inequality in EU development cooperation;
- Chapter 6 proposes a number of conclusions.

2 — Inequality in the global and European development agenda

Inequality in the 2030 Agenda for Sustainable Development

The 2030 Agenda for Sustainable Development makes the reduction of inequality one of the key objectives to be achieved by the international community by 2030. The Agenda includes a specific Sustainable Development Goal (SDG 10) to ‘Reduce inequality within and among countries’, encompassing different aspects of inequality, such as income inequality, inequality of opportunity, discrimination, and inequality between countries.[3]

Beyond SDG 10, the commitment to reduce inequality is present throughout the entire 2030 Agenda, as one of its key underlying principles is the commitment to ‘leave no one behind’. Leaving no one behind is closely related to the concept of inclusive development and addressing inequality of access and opportunity, and requires us to focus on those who are farthest behind, excluded and marginalised.

There are also several targets and indicators throughout the 2030 Agenda that address different aspects of inequality. This reflects the multidimensional nature of inequality and the interlinkages between inequality and other important aspects of sustainable development. These targets and indicators use terms such as ‘inclusive’, ‘for all’, and ‘equitable’ in relation to health (SDG 3); education (SDG 4); water and sanitation (SDG 6); energy (SDG 7); decent work and economic growth (SDG 8); industrialisation (SDG 9); cities and human settlements (SDG 11); terrestrial ecosystems (SDG 15); and societies and institutions more broadly (SDG 16). SDG 1 on ending poverty and SDG 2 on ending hunger also address some important aspects of inclusion, namely eradicating extreme poverty, expanding social protection, ensuring equal access to resources, and ending hunger and malnutrition. SDG 5 specifically seeks to ‘achieve gender equality and empower all women and girls’.

[3] The full list of targets and indicators of SDG 10 is provided in Annex I.

Inequality in the EU's external action and development policy

Equality and solidarity are explicitly mentioned among the principles guiding the EU's external action.[4] The Global Strategy for the EU's foreign and security policy[5] adopted in 2016, recalls the commitment of the EU and its Member States to fight poverty and inequality, widen access to public services and social security, promote decent work opportunities, notably for women and young people, and promote societal resilience. It also recognises the links between inequality and conflict, calling on the EU to monitor inequality among the root causes of conflict.

These commitments are further emphasised in the new European Consensus on development, which sets out the shared development-policy framework for the EU and its Member States in support of the 2030 Agenda, and puts eradicating poverty, tackling discriminations and inequalities and leaving no one behind at the heart of EU development cooperation policy**.**

The Consensus recognises the importance of addressing inequality, calling on the EU and its Member States to "act to reduce inequality of outcomes and promote equal opportunities for all […] directly assist the poorest and most vulnerable sections of society and […] promote more inclusive, sustainable growth that does not compromise the ability of future generations to meet their needs" (paragraph 36). It also calls on the EU and its Member States to "assess the determinants of – and trends in – economic and social inequalities and […] strengthen their tools and approaches to make them more effective in addressing inequality", and "mainstream the reduction of inequality in their development cooperation and support innovative social practices" (paragraph 37).

The Consensus discusses a number of areas in which the EU and its Member States must work to tackle rising economic and social inequalities in developing countries. Among these is the promotion of progressive taxation and redistributive public policies that focus on: (i) better sharing the benefits of growth; (ii) the creation of wealth and decent jobs; and (iii) improved access to factors of production, such as land, finance and human capital (paragraph 36). Another important area mentioned in the Consensus is the EU's commitment to support efficient, sustainable and equitable social protection systems to guarantee basic income, prevent relapses into extreme poverty, and build resilience (paragraph 37).

The Consensus also underlines that the EU and its Member States will implement a rights-based approach to development cooperation, encompassing all human rights, as a means to promote inclusion, non-discrimination and equality (paragraph 16). Through the rights-based approach, the EU and its Member States will help to ensure that no one is left behind.

The revised European neighbourhood policy and the EU's enlargement policy are specific policy frameworks which have a strong focus on democratic institutions, the rule of law, fundamental rights, public administration reform, and good economic governance, and thereby make a significant contribution to tackling inequalities and discrimination, including gender inequality.

[4] Treaty on European Union, Art. 21(1), 2010 O.J. C 83/01.

[5] Shared Vision, Common Action: A Stronger Europe — A Global Strategy for the European Union's Foreign and Security Policy, June 2016.

Policy coherence for development

EU policies can also have positive spill-overs by reducing inequality in partner countries. One example is EU tax policy, and specifically the requirements for greater financial transparency and corporate accountability, such as the exchange of information between tax administrations, reforms of harmful preferential tax regimes, and country-by-country reporting obligations. Country-by-country reporting obligations require in particular multinational companies and financial institutions to disclose financial and tax-related information for all the countries in which they operate. Such disclosure helps to fight tax evasion and corruption, and creates a framework of accountability for both private companies and governments. By extension, this type of disclosure helps to improve the capacity for tax collection and close the tax-compliance gap in partner countries, hence supporting domestic revenue mobilisation and the provision of better public services.

This highlights the important role of policy coherence for development (PCD), a principle which requires the EU to take into account the objectives of development cooperation in all external and internal policies which are likely to affect developing countries[6]. Impact assessments have been instrumental for the Commission to promote PCD. A useful instrument in this context is the better regulation 'toolbox', which includes a specific tool for assessing the likely effects on developing countries of new policy initiatives[7]. Social aspects, and in particular poverty levels and inequality are specifically mentioned among the potential impact areas that should be taken into account when carrying out qualitative and quantitative impact assessments of new policy initiatives.

3 — Inequality: key concepts and trends

Defining inequality

Unlike poverty – a characteristic that can be defined at the individual level – inequality is a relational concept that refers to differences between individuals or groups and covers various dimensions. **Economic inequality** mainly refers to differences in economic outcomes, such as in income, consumption or wealth. **Social inequality** refers to differences in social outcomes (such as in education or employment), or to differences in social status or position. Social and economic inequality are strongly connected. The concept of **political inequality** refers to unequal influence over decisions made by political bodies, and the unequal outcomes of those decisions. It is closely related to differences in the distribution of political resources, which can lead to the exclusion of particular groups from participation in political processes. **Environmental inequality** is often used to indicate unequal distribution of environmental risks and hazards (e.g. air or water pollution) and unequitable access to natural resources and other ecosystem services (e.g. land, parks and freshwater) between different social groups. Environmental inequality is also closely connected to social and economic inequality.

[6] Treaty on European Union, Article 208(1), 2010 O.J. C 83/01.

[7] European Commission, 2017, Better regulation 'toolbox' complementing the Better Regulation guidelines presented in SWD(2017) 350.

Another important distinction is made between **inequality of outcomes** and **inequality of opportunity**. The first concept refers to differences in outcomes such as those mentioned above, e.g. income or educational attainment. The second concept refers to differences in life chances, for instance the possibility of attaining certain social or economic outcomes, depending on factors such as age, sex, disability, ethnicity or religion. These two concepts are also highly inter-dependent: inequality of opportunity is positively correlated with inequality of outcome (countries with higher degrees of income inequality also experience greater inequality of opportunity). Inequality of outcome, in turn, is strongly driven by inequality of opportunity, as well as by differences in other factors, such as "effort and aptitude". Inequality can be measured both within and between groups. This distinction is often applied to countries. SDG 10, for instance, calls for reducing inequality both **within and among countries**.

A closely related distinction can be made between horizontal and vertical inequality. **Vertical inequality** refers to differences between individuals (or households) within a particular country or region, or in the world as a whole. **Horizontal inequality** instead refers to differences between culturally defined groups of people within a society: for example between the rural and urban population, or between different ethnic groups.

These different dimensions reveal two broad perspectives on inequality, relating on the one hand to starting conditions (social, opportunity, among groups, and horizontal inequality) and on the other to inequality at the end-point (economic, outcomes, within groups, and vertical inequality). Both perspectives are important in understanding and tackling inequality. Moreover, many of these different dimensions of inequality are closely interrelated (inequality of opportunity and outcome; social, economic, political and environmental inequality), and it is difficult to disentangle causal relationship and derive simple answers as to whether policies should prioritise one or the other.

Why inequality matters for sustainable development

Irrespective of moral considerations, there are strong arguments for reducing inequality levels within countries, as detailed in Annex II. Firstly, evidence shows that **inequality acts as an obstacle to sustainable economic growth**. The relationship between inequality and growth is complex, and has received considerable attention from economists. High levels of inequality are, on average, negatively correlated with economic growth, while countries with more equal income distributions tend to growth faster. Recent econometric work also shows that longer periods of growth are associated with lower inequality. While some degree of inequality is to be expected in a market economy, there is no consensus as to the level of inequality for which the negative impact on growth would be minimal.

Secondly, **inequality is an obstacle to poverty reduction**, as economic growth is less efficient in lowering poverty in countries with high levels of inequality. There is thus a double dividend associated with reduced inequality: firstly, it accelerates growth, and secondly it accelerates the pace at which growth impacts poverty reduction (it makes poverty more responsive to growth).

Thirdly, **inequality is a threat to democracy, social cohesion, and peaceful and resilient societies**. The concentration of wealth into ever smaller sections of society places a strain on democracy, undermining its legitimacy and distorting democratic outcomes. Inequality and weakened democracy can facilitate corruption, enable the abuse of power, and enable influence peddling, further eroding good governance. Moreover, evidence shows that horizontal inequality (between groups), whether political or socioeconomic in nature, is linked to conflict: inequality between groups, including gender inequality, increases the risk of violent conflict, while violence and conflict in turn can further worsen inequality. Perceptions of inequality and injustice also act as a trigger of mobilisation and conflict.

Inequality is also holding back women, girls, and other discriminated groups. Cultural and social norms lock girls and women into unequal power relations. This leaves them with little control over decisions that affect their lives, and limits their social, economic and political participation. Gender inequality is often greater when women and girls experience other forms of exclusion caused by factors such as disability, age, ethnicity, sexual orientation, geographical remoteness and religion.

Empirical evidence also illustrates that **income inequality has a negative impact on other sustainable-development outcomes**, such as the sustainable management of natural resources (e.g. land, forest and water) and biodiversity protection- and vice versa. For instance, disadvantaged groups suffer disproportionately from the impact of climate change and environmental degradation, which results in even greater inequality. Economic inequality also has negative impacts on health outcomes, such as life expectancy or nutrition status.

As illustrated in this non-exhaustive overview, high levels of inequality are an obstacle to most dimensions of sustainable development and to achieving the objectives of the 2030 Agenda. There are strong reasons to better integrate inequality in EU development cooperation, particularly given recent trends in income inequality.

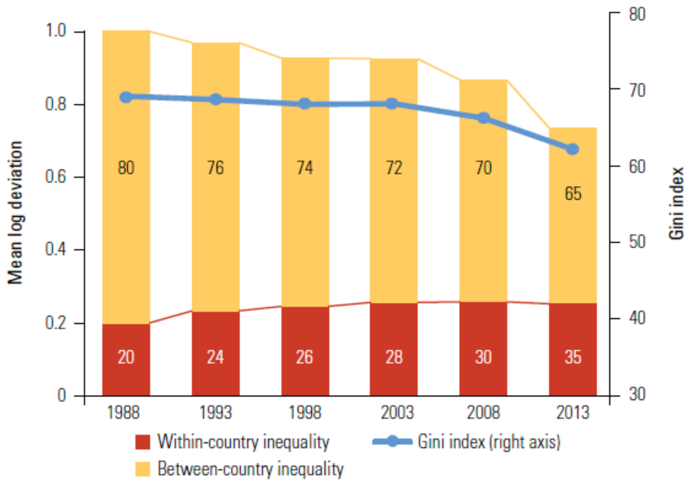
Trends in income inequality

This section presents a short overview of trends in inequality. Even though there are also other ways of looking at inequality, this overview focuses on income inequality as, despite some measurement challenges[8], relatively reliable data is available on this dimension. Moreover, income inequality is very closely associated with other forms of inequality.

Global income inequality declined in 1988-2013 (Figure 1). The reduction in **inequality between countries** appears to be the main factor that drove the downward trend. This is due, in particular, to the rapid income growth and poverty reduction experienced by populous emerging countries (particularly in Asia), where the gap in income per capita with richer countries has narrowed significantly. **Inequality within countries**, instead, has increased between the late 1980s and 1990s and then stabilised in the 2000s and 2010s.

[8] Measuring income inequality poses at least two major challenges. Firstly, unlike data from national accounts such as gross domestic product, income inequality data mostly rely on surveys, which negatively affect the availability and quality of inequality estimates. In particular, data for low- and middle-income countries is scarce. Secondly, there is no single inequality measure able to capture the complexity of income distribution. The Gini index is the most commonly used measure, providing a straightforward tool to produce country rankings and to assess the evolution of inequality in a given population. One of its main shortcomings, however, is that it tends to be overly sensitive to changes in the middle of the distribution, thus underestimating changes in the share of income accruing to the poorest and to the richest individuals. Reflecting the link between poverty and income inequality, the 2030 Agenda puts the focus on the income share held by the poorest segments of the population: target 10.1 of the 2030 Agenda is about progressively achieving and sustaining income growth among the bottom 40% of the population at a rate higher than the national average. Another useful measure is the Palma ratio, which goes further than the Gini index as it compares the income shares of the top 10% and the bottom 40% of the population, and thus makes it possible to better capture the dynamics of inequality.

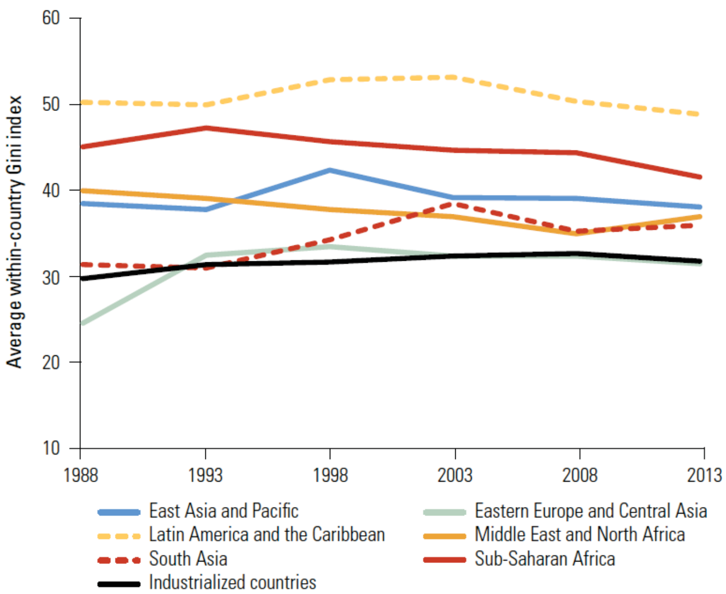
Figure 1. Global income inequality, 1988-2013



Source: World Bank, 2016, Taking on inequality, Poverty and Shared Prosperity Report 2016.

Nevertheless, income inequality trends vary substantially between regions (Figure 2). Inequality levels increased in Latin America in the 1990s, followed by a remarkable reduction in the 2000s and early 2010s. South Asia and industrialised countries showed a significant increase in inequality levels throughout most of the period, whereas the Middle East, north Africa and sub-Saharan Africa experienced a slight decrease.

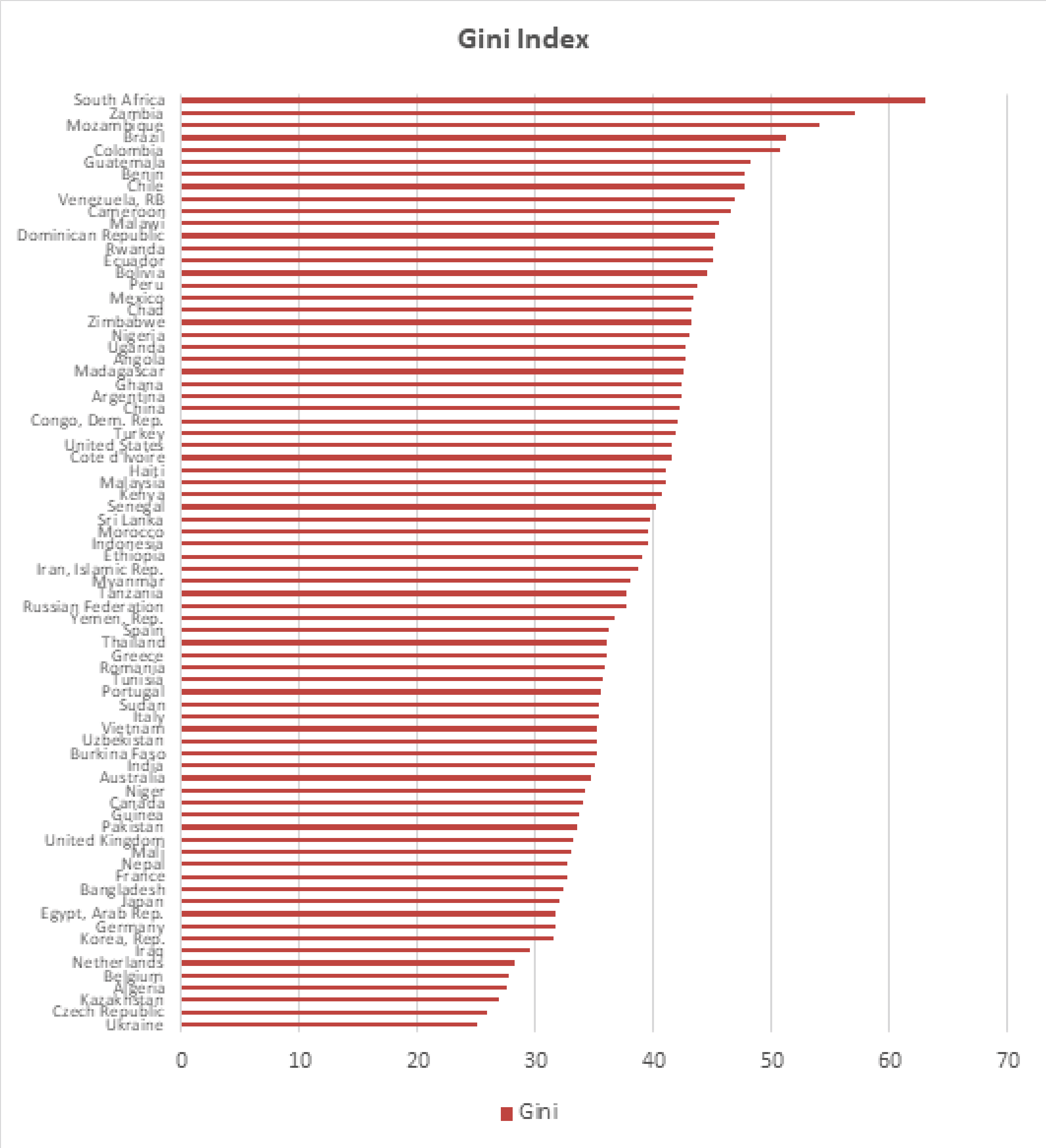
Figure 2. Trends in the average Gini index, by region, 1988-2013



Source: World Bank, 2016, Taking on inequality, Poverty and Shared Prosperity Report 2016.

Despite such decrease, the levels of inequality observed in many countries today are still very high. Among countries with a population above 10 million, **those with Gini coefficients above 40% are mostly developing countries in Latin America and Sub-Saharan Africa** (Figure 3). The list includes a large number of upper middle income countries (12 out of 34), lower middle income countries (8 out of 34) and low income countries (11 out of 34).

Figure 3. Income inequality in selected countries with populations greater than 10 million, 2018

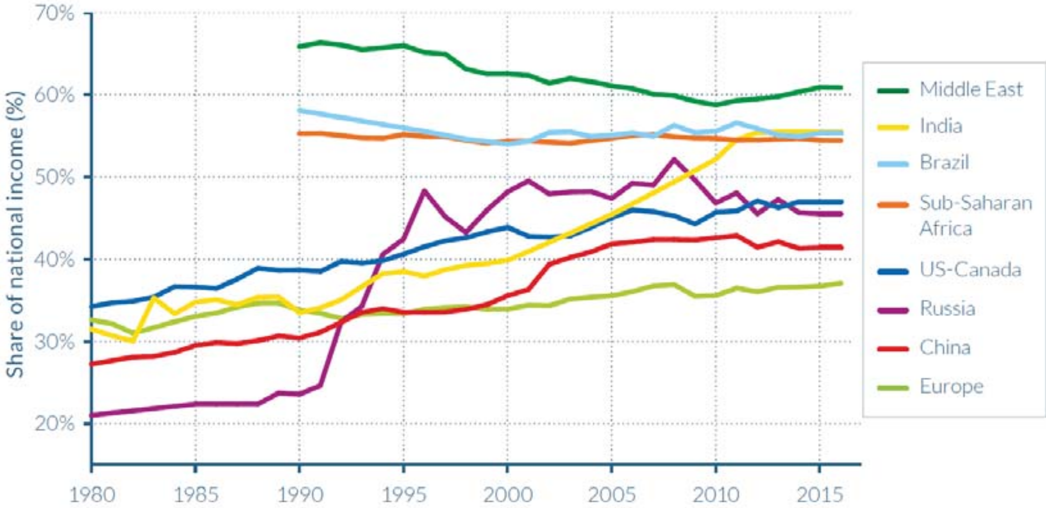


Source: World Development Indicators, November 2018

In contrast to the trends in global income inequality as measured by the Gini index, inequality as measured by the share of income held by the top 10% of the population has increased almost everywhere, although at different paces (Figure 4). Countries that experienced drastic changes in the distribution of income in favour of the top decile include China and India, whereas in Europe the increase in income of the top decile was more moderate. The trends observed are similar if one focuses on wealth, rather than income[9].

[9] Oxfam's report 'Public good or private wealth?' (Oxfam Briefing Paper, January 2019) illustrates how wealth is becoming increasingly concentrated: according to their analysis, in 2018 26 people owned the same wealth as the bottom 50% of the world population (3.8 billion people), down from 43 people the year before.

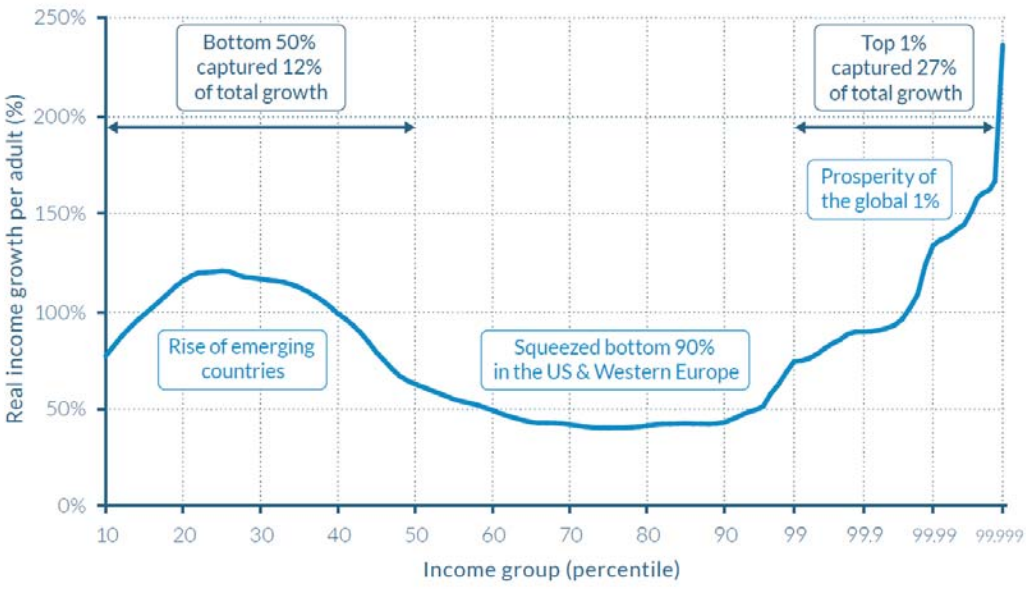
Figure 4. Top 10% income shares across the world, 1980-2016



Source: World Inequality Lab, World Inequality Report 2018

The pace of income growth also varied considerably across income percentiles in 1980-2016 (Figure 5). The first part of the curve displays fairly high growth rates, corresponding to the fast growth in average income per capita experienced in large emerging countries such as China and India. Growth rates are low around percentile 70 to 90, corresponding to modest growth in the incomes of the low- and middle-income groups in advanced economies. Finally, growth rates are very high for top earners, and in particular for top 1% earners, who captured 27% of total income growth over this period.

Figure 5. Global growth incidence curve, 1980-2016



Source: World Inequality Lab, World Inequality Report 2018

4 — Addressing inequality in today's EU development cooperation

This chapter provides an overview of some of the most significant examples of EU development cooperation policies and initiatives in areas that are relevant to addressing inequality, based on three different levels of income distribution (see annex II).

Addressing primary income inequality

Discrimination

Discrimination – the differential treatment of individuals based on criteria such as gender and ethnicity – is a major driver of inequality. It manifests itself in various ways, including unequal access to social services such as education and health[10]; unequal access to employment[11]; unequal access to land and natural resources; and unequal wages[12].

The rights-based approach (RBA) to development cooperation is the key instrument through which the Commission works to address discriminations and promoting equal opportunities for all[13]. This means that all EU funded actions encompass all human rights, with due regard to the working principle of applying all rights, participation and access to the decision making process, non-discrimination[14] and equal access, accountability and access to the rule of law, transparency and access to information[15].

The EU Human Rights Dialogues with non-EU countries are a key instrument used to address discriminations and to mainstream human rights into all areas of EU external policy. Issues discussed in these dialogues include the implementation of international human rights instruments, combating death penalty, torture and other cruel treatment, children and women's rights, freedom of expression, the role of civil society and the protection of human rights defenders.

Employment, decent work, and vocational education and training

Employment and labour-market policies and institutions are key for targeting unemployment, underemployment, wage gaps, low wages, and lack of decent working conditions, all of which are major drivers of primary income inequality.

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[10] See, Klasen, S. (2002). Low schooling for girls, slower growth for all? Cross-country evidence on the effect of gender inequality in education on economic development. *The World Bank Economic Review*, 16(3), 345-373.

[11] Morrisson, C. and J.P. Jütting (2005). Women's discrimination in developing countries: A new data set for better policies. *World Development*, 33(7), 1065-1081.

[12] Nordman, C.J., A.S. Robilliard and F. Roubaud (2011). Gender and ethnic earnings gaps in seven West African cities. *Labour Economics*, 18, S132-S145.

[13] The commitment of the EU and its Member States to implement a rights-based approach encompassing all human rights is translated into practice by the 2014 tool-box 'A rights-based approach encompassing all human rights for EU development cooperation' and the respective Council conclusions.

[14] On gender discrimination, in particular, the EU is firmly at the forefront of the protection and fulfilment of girls and women's rights, and vigorously promotes them in its external relations. The practical framework for putting this commitment into practice is the EU gender action plan 2016-2020 (GAP II).

[15] The EU Human Rights Guidelines on Non-Discrimination adopted by the Council on 18 March 2019 complement and reinforce the RBA, by providing conceptual and operational guidance for the EU Human Rights Policy in external action. They draw on and explain the EU and the international human rights standards and norms on the prohibition of discrimination and on the promotion of non-discrimination and give clear political lines to be used in cooperation and contacts with partner countries, international organisations and civil society organisations.

The EU supports the Decent Work Agenda since its inception[16], and promotes employment that is secure; pays a fair wage; ensures safe working conditions; **promotes equal opportunities** for all; provides for **social protection** and **social dialogue**; and safeguards **rights at work**. In Honduras, for instance, the **EuroLabor** programme aims to establish the bases for the creation of decent employment through building capacity in the government and social actors, especially at local level, to help them address employment challenges. In Mexico, a social-cohesion laboratory aims to strengthen social cohesion by promoting structural reforms that improve equal opportunities in access to employment, but also basic public services, justice, security and human rights in less advantaged regions. Another relevant example in this area is the EU Expertise on Social Protection, Labour and Employment **SOCIEUX+**, a demand-driven technical assistance facility with global coverage. SOCIEUX+ supports the creation of inclusive social protection systems, employment policies, and labour policies.

The EU cooperates closely with the **International Labour Organization (ILO)**, social partners at all levels, and other stakeholders to promote the ratification of ILO conventions and the effective implementation of labour standards around the world. The ILO is also an important partner in the implementation of EU cooperation programmes, such as programmes to strengthen labour-market actors and institutions;, decent job creation and labour migration, among others.

Support for **vocational education and training** helps ensure that workers and job seekers (in particular young people) can develop the right skills to take advantage of quality job opportunities with better earnings potential. For example, in **Cote d'Ivoire**, professional and vocational education and training are areas targeted by EU budget support and by the Proforme programme, which is implemented by the United Nations Industrial Development Organisation.

Private sector development, trade, and financial inclusion

Trade and investment bring significant benefits to societies but can also have drawbacks if these benefits don't reach all segments of society. Promoting inclusive and sustainable growth, and a focus on inclusiveness and poverty reduction, are thus important elements in the **EU strategies for private sector development and trade** (including value chains). This was highlighted in the 2014 Communication 'A stronger role of the private sector in achieving inclusive and sustainable growth in developing countries' and in the updated 'Aid for Trade' strategy of 2017.

Through its **Trade for All** strategy the Commission aims, inter alia, to ensure that economic growth goes hand in hand with: social justice; respect for human rights; high labour and environmental standards; and health and safety protection. The EU has been leading in integrating sustainable-development objectives into trade policy and making trade an effective tool to promote sustainable development worldwide. The GSP+ (generalised system of preferences) and the new generation of free trade agreements and deep-and-comprehensive free trade agreements include legally binding commitments on labour and the environment.

[16] The Decent Work Agenda, an initiative of the International Labour Organization, is structured around four pillars, which are integral elements of the 2030 Agenda: employment creation; social protection; rights at work; and social dialogue.

The new **Africa-Europe Alliance for Sustainable Investment and Jobs**[17], announced by President Juncker in the 2018 state of the union address, will boost these efforts in the region. The aim of the alliance is to improve the EU's partnership with Africa, promoting investment; further attracting private investors; supporting education and skills development for employability; boosting trade; and improving the business climate.

Under the new **External Investment Plan (EIP)**, the EU is linking the mobilisation of financial resources from the European Fund for Sustainable Development (EFSD) (Pillar 1) with technical assistance (Pillar 2) and improvements in the investment climate (Pillar 3). The latter focuses on removing constraints to private investment in partner countries and supporting priority reforms through a strengthened dialogue with the private sector.

A relevant example of cooperation in this area is **AL-Invest**, a programme with Latin America that began in 1994 and is now in its fifth phase. The programme aims to promote inclusive growth and social cohesion, and to reduce inequalities by working with small businesses in the region. Its objective is to: (i) address informality; (ii) promote internationalisation and job creation; and (iii) support the competitiveness of micro, small and medium-sized enterprises in Latin America. Another example is the economic partnership-agreement support programme with Zimbabwe, which was launched in 2018. This programme aims to: (i) promote reform of the policy and regulatory environment; and (ii) strengthen the government's capacities to manage, implement and benefit from trade agreements.

Support for financial inclusion is also key to increasing people's opportunities to: (i) participate in the economy through access to financial products including credit and insurance; (ii) start and grow businesses; (iii) invest in education and job skills; and (iv) protect themselves, their families and productive assets from shocks. Relevant EU initiatives in this area include: (i) its participation in the Consultative Group to Assist the Poor (CGAP), an initiative to accelerate financial inclusion in partner countries; and (ii) a new programme aiming to leverage public and private resources through blending[18] to promote women's economic empowerment and financial inclusion in sub-Saharan Africa.

Territorial and urban development

Pronounced **urban and regional disparities** ultimately translate into interpersonal inequalities and pose significant challenges in terms of economic efficiency, social fairness and environmental justice, as shown in a recent Commission staff working document (SWD) on cities and local authorities[19]. The SWD aims to promote good urban governance; the social dimension of urban development; and cities that are green, resilient, prosperous and innovative.

Targeting urban inequalities is an objective of several EU interventions in this area. For instance a project is ongoing on participatory **slum upgrading**, targeting around 35 ACP countries. Promoting sustainable cities is also a priority investment area of the **EIP**, and a new programme is currently

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[17] Commission Communication COM(2018)643 on a new Africa-Europe Alliance for Sustainable Investment and Jobs: Taking our partnership for investment and jobs to the next level.

[18] Operations mixing EU grants with loans from private sector co-financiers.

[19] European Commission, 2018, European Union (EU) cooperation with cities and local authorities in third countries, SWD(2018) 269 final.

under development with the Spanish Agency for International Development Cooperation and the World Bank to promote land-value capture as a financing mechanism for investments in infrastructure and inclusive urban development.

Digital for development

Digital solutions and technological change hold great potential for sustainable development, greater productivity and more growth. But they can also lead to income polarisation by: (i) creating new excluded groups or further excluding vulnerable groups from economic opportunities; and (ii) rewarding disproportionately the high-skilled, in particular those employed in higher-value sectors of the economy.

The European Commission has issued a staff working document on the role of digital technologies in development in 2017[20]. It places a strong emphasis on the use of **digital technologies to improve inclusion**, particularly of women. Although this concept of 'digital for development' is not a specific area of cooperation, it is regarded as an issue that could be mainstreamed in other sector operations[21]. The staff working document also emphasises the opportunities in this sector, particularly in Africa. It therefore calls for a stronger focus on the region, since the digital divide is greatest in Africa.

'Digitalisation for sustainable development' is also a priority area of the **EIP**, which aims to promote investments in innovative digital solutions for local needs, financial inclusion and decent job creation. For instance, a joint programme led by the European Bank for Reconstruction and Development and the European Investment Bank is currently under development to increase private sector investment in digital infrastructure and the digital service sector in neighbourhood countries. Its aim is to enable people and businesses outside the main urban centres and in rural areas to take part more fully in the digital economy.

Environment, energy and natural-resource governance

Strengthening land and natural resource governance, and securing access to and sustainable use of land and natural resources for people living in the most vulnerable situations are crucial for addressing inequality and exclusion, and improving the livelihood opportunities of these groups[22]. Promoting the adoption of sustainable consumption and production and circular economy models can also play a central role in addressing inequalities by creating long-term, decent jobs for SMEs and local communities, while at the same time reducing resource extraction and pollution, which affects primarily these groups.

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[20] European Commission, 2017, Digital4Development: mainstreaming digital technologies and services into EU development policy, SWD(2017) 157 final.

[21] For example, digital technology is enabling the financial inclusion interventions mentioned earlier in this chapter.

[22] 1.5 billion people from indigenous groups and local communities live on and manage up to 65% of the world's land area in customary and traditional systems. Despite existing laws that secure their rights, these groups and local communities have formal legal ownership of just 10%, and some formal rights of control over an additional 8%. Even when their rights are recognised, they are often not enforced, leaving them exposed to abuses and conflict. The 'EU land policy guidelines' of 2004 recognise these challenges, and several of the principles identified there were retained in the 'Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security', supported by the EU and widely recognised by the international community as the reference framework to promote tenure rights and equitable access to land, fisheries and forests.

Currently, the EU supports **land governance actions** in about 40 countries, mostly in sub-Saharan Africa. In Namibia, for instance, the EU supported the recognition of customary land rights and communal land development, including through capacity building of national authorities to implement a roadmap to register communal land rights, and the use of remote sensing to support the formalisation of community rights.

In **Colombia**, the EU supported a reform of land distribution and use. The Ministry of Environment's green-growth policy received EU budget support, and addresses conflicts related to land tenure and natural-resource access in priority zones within protected areas. These protected areas are home to landless communities, in particular indigenous and Afro-Colombian groups, which are among the poorest in the country. The EU's budget support to Colombia's rural development policy aimed to reduce regional disparities by supporting productive, social and institutional transformation of priority rural territories. The programme also supported poor rural populations, especially populations that had been victims of conflict, in securing their land rights.

Another relevant EU initiative is FLEGT (Forest Law Enforcement, Governance and Trade). The EU's FLEGT action plan was drawn up in 2003, and aims to reduce illegal logging by strengthening sustainable and legal forest management, improving governance and promoting trade in legally produced timber. By providing a space for multi-stakeholder dialogue that identifies gaps and weaknesses in legal frameworks, and pursuing the fight against corruption in the forestry sector, FLEGT helps fighting discriminatory land tenure rules fostering inequality and exclusion, and supports benefit sharing. FLEGT also improves fiscal revenues by addressing the widespread illegality in the sector.

Improving the **resilience to climate shocks** of the poorest segments of the population is increasingly a priority in many countries. This includes insurance systems in case of unexpected events such as crop failure, drought and natural disasters. In Malawi, one of the poorest countries in Africa, over the last 5 years the humanitarian caseload has been between 2-3 million, out of a population of 18 million. To reduce food insecurity and increase the resilience to climate shocks of the poorest, the EU launched the 'social support for resilience' programme. This programme pioneers a multi-hazard shock responsive social protection system focusing on proactively using social support and insurance systems, including social cash transfers, to build resilience, strengthen livelihoods and effectively respond to shocks.

Addressing **unequal access to affordable, reliable, sustainable and modern energy** is also an important part of the EU's support for inclusive and sustainable economic and social development. The promotion of clean energy and energy efficiency also helps: (i) mitigate the inevitable adverse effects of climate change and therefore reduces environmental inequalities; and (ii) alleviate energy poverty. For example, in Côte d'Ivoire the EU supports the project PEPT "Energie pour tous", aiming to extend energy access to poorer households, as well as other rural electrification projects with the objective to promote income-generating activities in vulnerable areas. Sustainable energy is also a priority investment area under the EIP.

Culture for development

Culture is an important component of development that can facilitate **social inclusion, freedom of expression, identity building, civil empowerment, and conflict prevention**, all while strengthening economic growth. EU development cooperation tackles inequalities through culture in three ways. Firstly, the EU approaches culture as an enabler of socioeconomic development, and uses it to tackle inequality through the inclusion of young people in the job market. Secondly, the EU's development cooperation recognises that access to culture and diversity of cultural expression is an important component of human development. Thirdly, the EU's development cooperation recognises that culture has a transversal dimension, which offers spaces to convey — and create new — traditions, norms and values that have an impact on social inequality, identity building and development.

The EU's actions are based on the three pillars outlined by the 2016 Joint Communication on an EU strategy for international cultural relations: **creative industries, cultural heritage and intercultural dialogue**. For example, there are new actions on creative industries and intercultural dialogue targeted at vulnerable parts of society in Africa, the Middle East and central Asia. Moreover, EU supports major programmes on cultural heritage which create future opportunities for income generation — including through tourism. These programmes also instil a sense of ownership of cultural heritage especially among vulnerable young people in precarious situations. Increasing job creation and income generation in cultural and creative industries has been at the heart of cooperation with the African, Pacific and Caribbean group of states.

Addressing secondary income inequality

Fiscal policy

For a given level of primary income inequality, secondary income inequality is determined by net fiscal and social transfers. Their impact on income inequality depends on their size relative to national income and on their incidence. Developing countries have, in general, a limited ability to address inequalities through **fiscal policies**, as fiscal revenues represent only 15% to 20% of national income and in some cases even less[23]. Moreover, developing countries usually have large informal sectors that largely escape direct taxation.

Reducing exemptions, closing tax loopholes and avoiding/fighting tax evasion are therefore key to increase the tax to GDP ratio, increasing country's redistributive capacity. Redistribution can also be promoted through **progressive taxation**, based on analysis of the equalising effects of taxes and subsidies. Beyond the tax-to-GDP ratio, **redistributive capacity** also depends on the administrative costs required for state functioning, which depend on a host of factors and individual country circumstances[24].

Budget support is a useful instrument for policy dialogue and support to EU partner countries on fiscal policy and domestic revenue mobilisation. For instance, the budget support programme with Haiti supports a fiscal reform with particular emphasis on tax fairness. Other examples include EU support for the Revenue Mobilisation Thematic Fund and the Managing Natural Resource Wealth

[23] In OECD countries, total taxes represent about 40% of national income, while monetary transfers (public pensions, unemployment and family benefits, means-tested transfers) represent about 15% of national income. See Morelli, S., T.M Smeeding and J.P. Thompson (2014). Post-1970 trends in within country inequality and poverty: rich and middle-income countries. In Atkinson, A. B. and F. Bourguignon (eds.) (2014). *Handbook of Income Distribution* SET vols 2A-2B. Elsevier.

[24] Environmental taxes can contribute to more progressive and sustainable tax systems and more equitable societies in developing countries, especially if accompanied by social welfare measures to address potential impacts. As environmental taxes are harder to evade than corporate or personal income taxes, environmental taxes also have the potential to strengthen state accountability, improve tax morale and enhance fiscal governance.

Trust Fund, both implemented by the International Monetary Fund, which provide technical assistance and capacity development to a wide range of countries, such as the Central African Republic, Myanmar and Guatemala. In other countries, EU experts provide technical assistance on domestic revenue mobilisation.

Budget support also includes budget transparency as an eligibility criterion. This promotes a continuous dialogue with the government of the partner countries on how to improve budget information and better involve the population. It also promotes a dialogue around **gender-responsive budgeting**, which entails gender aware assessments of policies and budgets, sex disaggregated and gender sensitive data collection and the integration of gender-responsive budgeting into public financial management practices and budgetary laws.[25]

Social protection

Efficient, sustainable and equitable **social protection systems** are needed to guarantee basic income, **prevent relapses into extreme poverty, and build resilience**. The EU is strongly committed to supporting social protection systems, and allocates at least **20% of its official development assistance** to social inclusion and human development.

The EU supports several global and country programmes to strengthen social protection systems including floors. It is actively engaging with the ILO, the UN, the World Bank and other development partners as part of the **universal social protection initiative** (USP 2030) to advance universal social protection policies, paying particular attention to the poor and the vulnerable. This includes support to insurance systems with a view to strengthen resilience to unexpected events (sudden illnesses, etc.). In 2018, the EU supported around 20 partner countries in their efforts to strengthen their social protection systems, including in fragile or conflict affected countries. One of them is **Lesotho**, where the EU has been providing assistance since 2009 to set up a social protection system that addresses vulnerability and inequality throughout the life course in a comprehensive and holistic manner.[26]

Budget support is also an important delivery modality to support partner countries in the area of **social protection policies**. Seven countries are receiving EU budget support in this area (El Salvador, Kyrgyzstan, Morocco, Peru, Tajikistan, Paraguay and Togo), and new sector-reform contracts are under preparation in Bangladesh and Senegal[27]. A good example of this is El Salvador, where EU budget support in the area of social protection began in 2000. EU support in El Salvador led to a shift from targeting the most vulnerable towards a more universal social protection approach, in line with the EU's human rights-based approach to social protection.

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[25] As an example, gender-responsive budgeting analysis in South Africa led to the removal of taxes on basic food items and higher taxes on alcohol and tobacco.

[26] A recent study identified this programme as one of the most cost-effective programmes in the country to reach the poor and the near-poor. See Dietrich at al. (2016). Estimation of rate of return (ROR) on social protection investments in Lesotho, Maastricht University.

[27] A recent evaluation of EU support for social protection in external action found that the budget support modality was very successful in fostering policy dialogue and inter-ministerial cooperation at national level, as well as in accelerating reform processes. The evaluation found that budget support is particularly well suited for providing high-quality technical assistance on social protection, an area in which the EU has a comparative advantage.

Regional approaches in social protection policy — the case of Latin America

The commitment to fighting inequality in Latin America and the Caribbean has been implemented through different programmes, in particular the **EUROsociAL programme**. Through the three phases of EUROsociAL, the Commission has allocated more than EUR 100 million for the reduction of inequality and the improvement of social cohesion in Latin America.

The objective of EUROsociAL is to support social-cohesion policies, while strengthening the institutions responsible for their implementation and the capacity of these institutions to provide high-quality public services. EUROsociAL works as a facilitator, making available to the institutions involved in these processes lessons from similar experiences in other countries in the region and in Europe. The priority areas of action for EUROsociAL are social policies, good governance policies, and gender-equality policies. The evaluation of the last phase of the programme found that the programme helped to significantly reduce inequality in the region. The positive experience of EUROsociAL has led to a number of new initiatives seeking to replicate its success, including the recent EU facilities for triangular cooperation and for countries in transition.

Addressing tertiary income inequality

Social-sector spending generally has a positive impact on social equality, provided it aims at providing access to the poorer segments of the population[28]. In particular, ensuring **universal access to basic services** such as education, health, housing, water and energy will reduce inequality. This is because the cost of this access represents a larger share of household income for households with lower levels of income. Supporting access to **legal protection and corruption-free public services** is also important for reducing tertiary income inequality. These categories of expenditure are small in developing countries — they are rarely greater than 15% of national income (the equivalent for OECD countries is 25%) and are often significantly less.

Education

The **EU is committed** to supporting universal access to quality education and training, and has allocated nearly **€5 billion to supporting education** (including pre-primary education) in developing countries under its 2014-2020 budget.

To deliver on its commitments, the EU provides financial and technical support to the **Global Partnership for Education**, which helps more than 65 developing countries to ensure that every child receives a quality basic education. The Global Partnership for Education prioritises the poorest, the most vulnerable, and those living in countries affected by fragility and conflict.

Support is also provided through **budget support and bilateral programmes**, based on partners' own development strategies and priorities. Education policies supported by the EU include: (i) targeted

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[28] For instance, spending on primary education, which benefits poor households, is more progressive than subsidies for higher education. Evidence from benefit-incidence analysis in 28 low- and middle-income countries confirms the equalising effects of investment in pre-primary and primary education. It shows that spending on pre-school and primary school is progressive in almost all countries in absolute terms, that absolute progressivity in secondary school spending is less prevalent, and that tertiary education spending tends to be more regressive than progressive. See Lustig, N., and S. Higgins (2013). Commitment to Equity Assessment (CEQ): estimating the incidence of social spending, subsidies and taxes-Handbook.

allocation schemes to support the poorest regions, districts and schools, to ensure that minimum standards and basic standards for facilities (water, electricity, ICT) are met everywhere; (ii) scholarships and educational kits for disadvantaged children; and (iii) incentives for more experienced teachers to work in disadvantaged schools. In **Bangladesh**, for instance, EU budget support for primary education has helped greatly to increase the attendance of girls in primary and lower-secondary education. EU support also focuses on reducing geographical disparities in participation, completion and learning outcomes.

Health

Properly designed policies that maximise health benefits on an **equitable basis** are key to address health inequalities. The EU works with partner countries and the World Health Organization to strengthen all areas of health systems and to move towards **universal health coverage** (UHC) where quality health services are accessible and affordable for all.

One example in this area is EU support for the **UHC Partnership**, an initiative to promote universal health coverage in 38 partner countries. The UHC Partnership comprises a broad mix of health experts working together to promote UHC by fostering policy dialogue on: (i) strategic planning and health system governance; (ii) developing health-financing strategies; and (iii) supporting the implementation of these health-financing strategies.

Public financial management

Poor economic governance and corruption restrain fiscal space and divert resources away from the intended beneficiaries of policies to promote equality.

Reforms to improve **public financial management** systems are an eligibility criterion and integral part of budget support policy dialogue. At the core of public-financial-management reporting programmes are: (i) credible budget preparation and execution; (ii) corruption-free expenditure chains; and (iii) enhanced oversight and accountability to the public. Moreover, the EU's external strategy on fair taxation, implemented through the **'collect more — spend better'** action plan[29], aims at strengthening tax policies and administration, while at the same time addressing challenges in public expenditure management, including efficient public investment management in line with national development priorities, transparent and competitive procurement systems and strengthened debt management capacities. For instance, the EU supports the **World Bank's Debt Management Facility** (DMF), which provides assistance to low-income countries in conducting debt management reforms and in building capacity to manage risks in their debt portfolios.

Finally, **variable tranche indicators** used in budget support can improve the implementation of government policies to reduce inequality. They focus on different forms of inequality of access to public services for specific population groups or disadvantaged regions, and monitor the trends of these inequalities over time. The dialogue around these indicators helps create awareness, capacities and statistics on these topics, and also helps reduce tertiary inequalities. For example, a health-sector support programme in Ethiopia monitors the gap between the attendance of skilled

[29] European Commission, 2015, Collect More — Spend Better: Achieving Development in an Inclusive and Sustainable Way, SWD(2015) 198.

medical staff at births in the poorest 10% of districts and the national average. Support for the education sector in Niger follows indicators on: (i) net enrolment and completion rates for girls in primary schools; and (ii) school enrolment in rural areas. In Mali, the national building contract measures the quality of education through changes in teacher/pupil ratios in the most disadvantaged districts.

Support for democracy, the rule of law and the fight against corruption

Inequality can only be effectively addressed by following the basic principles of good governance — participation, inclusion, transparency and accountability. The rule of law and administration of justice are central to any effective attempts to combat inequality. The rule of law itself can only be legitimised by inclusive and participatory decision making, and by effective, accountable institutions. In short, **good governance, democracy and the rule of law** are vital for combating inequality.

Access to justice, **legal protection** and **corruption-free public services** is central to addressing social inequality, and can help to ensure the protection of rights to property or to communal assets. According to United Nations estimates, USD 1.26 trillion is lost each year by developing countries to corruption, bribery, theft and tax evasion. This is an amount equivalent to nine times global official development assistance. Moreover, corruption mainly affects the most marginalised sections of society — women and young people in particular. When supporting large-scale investment operations, it is essential for the EU to ensure that its investment ultimately benefits those for whom it is intended. Anti-corruption mechanisms are therefore essential in that regard.

The EU supports the rule of law and fights corruption in its external action through a combination of instruments. This combination of instruments includes: (i) support **to law enforcement** and **judicial authorities**; (ii) support for the creation of robust legal frameworks and the strengthening of anti-corruption bodies; (iii) support for public administration reform and sound public financial management (as described in the previous sub-section); (iv) support to civil society and the media; and (v) support for the independence and capacities of oversight institutions such as courts of auditors and parliamentary budget committees.

5 — Further integrating the reduction of inequality in EU development cooperation

Reducing inequality within and between countries is a global agenda with a key role for EU development cooperation. A stronger focus on reducing inequality and on leaving no one behind can help increase the impact and effectiveness of EU development cooperation by addressing a major obstacle to sustainable development in partner countries, and to promoting social cohesion, resilience, gender equality, human rights and the rule of law, while preventing conflict.

As highlighted in the previous chapter, many aspects of EU development cooperation are relevant to addressing inequality in partner countries, at each of the three levels of income distribution. However, more can be done to systematically and effectively target inequality and reach the poorest and most vulnerable, consistent with the ambition of addressing inequality and leaving no one behind that is expressed in the 2030 Agenda and the European Consensus on development.

For instance, the design of cooperation strategies and interventions could be based on a more comprehensive analysis of drivers of inequality in a given country. Inequality and distributional impacts could also be more systematically taken into account in the development of new programmes and projects. They could also be better monitored during the implementation phase, to assess the impacts on inequality of EU interventions.

A similar assessment is also presented in a recent evaluation of the 'equality-sensitivity' of EU development cooperation that was commissioned by the Commission[30]. Looking at a sample of EU country strategies in partner countries, the evaluation found that a majority of these strategies (61%) mentioned inequality (or related terms such as social cohesion, inclusion, inclusive growth, pro-poor growth, and access to services). However, the evaluation also found that there was no analysis of inequality levels in 48% of the strategies (including in countries where inequality is very high). The evaluation also found that none of the country strategies presented a complete analysis of inequality with a clear link to the selection of focal sectors of cooperation. Looking at the focal sectors identified in the sample of country strategies, inequality was targeted in 76% of them although mostly as an implicit objective, and only 5.1% of focal sectors contained no targeting of inequality. Interventions aiming to reduce inequality in primary income distribution, and to a lesser extent tertiary income distribution, were the most common. Only 6% of interventions targeted secondary income distribution. Increases in per-capita allocations of EU development funds between 2007-2013 and 2014-2020 have not been noticeably influenced by levels of inequality. This is not surprising, since inequality levels are not part of the allocation criteria for EU development funds.

Finally, the evaluation identified a number of key processes that could be improved to better address inequality, such as the design of multi-annual indicative programmes, quality support processes and the drafting of terms of reference for programme/project formulation.

Against this background, efforts are continuing, in line with the Consensus, to more systematically and effectively address inequality in EU development cooperation through a number of tools and measures. These efforts include enhancing the impact on inequality of existing policies, further mainstreaming the reduction of inequality in the programme and project cycle, and strengthening partnerships, data and knowledge, to deliver on the EU's commitments to reduce inequality and leave no one behind.

Strengthening policies to address inequality

The 2030 Agenda and the Consensus commit the EU to strengthen the capacity of its development cooperation policies and interventions to effectively address inequality. These commitments are further bolstered by a better recognition that high levels of inequality represent an obstacle to sustainable development. This section presents some of the EU's priorities for meeting these commitments, while recognising that policies need to reflect the circumstances and inequality situation of partner countries.

[30] Lawson, A. and G. Contreras (2017). Addressing inequality through EU development cooperation — response to the 2030 Agenda. Product B: Analysis of measures to address inequality in EU development cooperation. Fiscus Public Finance Consultants, Ltd.

Addressing primary income inequality: inclusive and sustainable growth and jobs

Economic growth is a powerful lever to eradicate poverty. Beyond the rates of economic expansion, its determinants and sectoral composition also determine how growth affects poverty. The focus needs to be put on **sustainable growth patterns that allow the bottom 40% of the income distribution, and particularly the poorest among them, to directly benefit from economic expansion through jobs and higher incomes** in line with SDG target 10.1. Not only quantity but also quality of jobs is crucial. The primary objective should be to increase decent and productive employment in the formal sector. Essential considerations include: income levels; equal opportunities for all women and men; health and safety at work, including a pollution-free working environment; better work conditions; and job security and stability (especially in low paid or informal work).

In the coming years, the EU's EIP will continue to be a key tool to promote growth, job creation and sustainable development in partner countries, by encouraging investment in a number of priority sectors. Another relevant initiative is the new Africa-Europe Alliance for Sustainable Investment and Jobs, which aims at boosting growth and jobs in Africa. Ensuring that investments generated under the EIP and blending operations — as well as under the new Africa-Europe Alliance — are designed to promote inclusive and sustainable growth patterns and to maximise the creation of decent jobs is essential to ensure that these initiatives can deliver positive results for all segments of the population, including the poorest and most vulnerable.

Addressing primary income inequality also requires **continuing ongoing efforts to address discrimination, support territorial development and environmental governance, as well as secure tenure and equitable access to and sustainable management of land, natural resources and energy**. Efforts are also needed to promote the productive use of natural resources and energy in order to ensure adequate income generation and provide sustainable access to affordable energy.

Moreover, harnessing **digitalisation and technological change** in a way that enhances inclusion rather than creating a digital divide will also be key to increase job creation, productivity and financial inclusion. This requires promoting access to affordable and secure digital infrastructure and the necessary regulatory reforms, promoting digital literacy and digital skills for all, fostering digital entrepreneurship and job creation, and promoting the use of digital technologies as an enabler for sustainable development.

In parallel, **stability-oriented macroeconomic policies** also need to be supported in order to make economic growth sustainable. Public debt sustainability shows a deteriorating trend in many partner countries and needs to be closely monitored to prevent debt crises which may undermine economic stability and seriously affect employment and income opportunities for the poor. In addition, fiscal consolidation, when achieved through expenditure cuts, tends to affect the poor disproportionately. In that regard, regular dialogue with partner countries in the context of budget support operations is essential to address macroeconomic and fiscal stability, and their impact on the most vulnerable.

Addressing secondary income inequality: redistributive capacity, fiscal policy and social transfers

Secondary income inequality is determined by fiscal and social transfers, given primary income distribution. As presented in the previous chapter, there are successful experiences of EU cooperation with partner countries on **social protection**, which could be continued and potentially replicated in other contexts and regions. Budget support also proved a successful instrument for supporting social protection policies. It also enabled policy dialogue and support in the design of **progressive tax policies and domestic revenue mobilisation**, which have a crucial role in addressing inequality. It could thus be further enhanced, with a focus on the following priorities: broadening tax bases, enhancing tax equity and tapping into underused revenue sources, such as the taxation of immovable property and environmental taxes.

Administrative capacities in **public finance management** also pose significant constraints for tax collection and redistributive spending policies in many EU partner countries (this is thus relevant to both secondary and tertiary income inequality). Special attention should be paid to climate-negative spending, such as fossil fuel subsidies. In this context, the 'collect more — spend better' approach and action plan could be further supported. Continuing support to social protection mechanisms and cash-transfer models is also very important, especially in low-capacity countries. New information technologies, such as blockchain and big data could also be harnessed to enhance the capacities of administrations to improve tax collection and implement more efficient transfer systems and redistributive spending. Strengthening cooperation on illicit financial flows, tax evasion and avoidance is another essential priority in this area.

Addressing tertiary income inequality: human development

Policies aimed at **promoting universal access to basic services** are needed to address tertiary income inequality. Investments in **health, education**, housing, water and energy are especially critical for human development and sustained growth. Such investments are also a precondition for people to benefit from equal employment opportunities. Policies should aim to ensure secure access to adequate and sustainable housing, water and energy.

Health and education policies need to remain focused on the poorest and on people in disadvantaged situations, including women, girls, and people in less developed countries/regions. Weaknesses in the design of education or health systems need to be addressed to ensure they promote broad-based access to education (including pre-primary education) and health: this is essential to raise productivity at all levels and create job opportunities. In addition to school attendance, the quality of education and the relevance of education to job markets could also be targeted. Lifelong learning opportunities and adult education should also be supported.

Besides health and education, continuing to support **good governance, democracy and the rule of law** in areas such as access to justice, legal protection and corruption-free public services remains a key priority. This includes support for inclusive and evidence-based policy-making and public consultations, as a means to ensure that the needs of disadvantaged and marginalised people are included in policy-making.

Mainstreaming the reduction of inequality in the EU programme and project cycle

The EU programme and project cycle provides various opportunities for further mainstreaming the reduction of inequality in the EU's development cooperation and working methods. As argued above, aspects taken into account when assessing partner country contexts and identifying priority objectives for cooperation do not include a thorough analysis of inequality issues. Moreover, inequality and distributional impacts are not systematically assessed in the development of new programmes and projects, nor are they monitored during the implementation of these programmes and projects.

It should be emphasised that mainstreaming the reduction of inequality in EU development cooperation is relevant for both country and regional programmes.

Programming phase

Further mainstreaming the reduction of inequality into the multi-annual programming phase appears particularly relevant, as it influences all subsequent phases of the programme and project cycle. Inequality could be taken into account, where relevant, to inform country situation analyses, the development of country programmes and the identification of priority objectives for cooperation. Specific issues which could be taken into account in this process include:

- The magnitude of inequality in partner countries. The first step needs to be an assessment of inequality levels and trends, to understand to what extent inequality may be a concern for sustainable development. It is important to consider both inequality of outcome and inequality of opportunity (e.g. the systematic marginalisation of certain groups).

- The drivers of inequality and the obstacles to reducing inequality. If levels or trends in inequality are of concern, it is important to understand the determinants of inequality, for example unequal access to education and health; disparities in productivity growth; unequal physical and social access to services; worsening environment and climate conditions. The obstacles to addressing inequality – such as political priorities and issues related to capacity (e.g. financial or institutional) of the countries to implement and sustain inequality reducing policies – could also be analysed.

- The policy options for addressing inequality and their prioritisation. Policy recommendations and their impact on the design of country interventions depend on the drivers of inequality, the available policy and fiscal space, the country's political economy and implementation capacity, as well as societal preferences for redistribution, among others. It is also important to take into account their fit into the overall policy mix, as well as synergies and trade-offs. Indeed, given the multidimensional nature of inequality there might be conflicting goals, in practice, when it comes to tackling inequality[31].

Further integrating the reduction of inequality in country situation analyses allows to deepen the understanding of country-led efforts in tackling inequality, as well as of actions of other development partners. These analyses at country level should build as much as possible on existing information and analysis, such as country diagnostic studies done under the EU Research Facility on

[31] For instance, reducing inequalities in access to health care might affect the chances of reducing inequality of access to education in contexts of limited fiscal space; similarly, pursuing the development and attractiveness of major capitals, essential to attract foreign investments and raise greater fiscal revenues in the future, might come at the expense of investment in basic services in secondary cities. Accordingly, the EU needs to focus on sectors where its support can contribute the most to enhancing positive impacts on inequality.

Inequality[32], and other studies and diagnostics, such as the Systematic Country Diagnostics reports prepared by the World Bank.

Identification and formulation phase

The identification and formulation phase provides an opportunity to ensure that inequality concerns are reflected upfront, where relevant, in programme/project design, that action is foreseen to adequately address inequality, that necessary budget provisions are made and that relevant indicators are included.

An ex-ante assessment of inequality and distributional impacts in the development of new programmes and projects, in particular, could provide a concrete opportunity in this context. It could allow to systematically take the impacts on the poorest and people in disadvantaged situations into account.

For instance, without prejudging the outcome of discussions on future programming and programmes' preparation, such ex-ante assessment of inequality and distributional impacts could be implemented through **two indicators** used in the formulation of new programmes and projects, to identify and measure the share of EU development cooperation addressing inequality reduction objectives:

- An "equality marker" to reflect whether an intervention targets inequality as one of its stated objectives. The implementation of such ex-ante assessment tool, inspired by existing markers, appears to be feasible and straightforward in the current context, as demonstrated by a recent assessment of its potential application[33].

- The anticipated share of project/programme benefits targeted to the bottom 40% of the income distribution. A focus on the bottom 40% appears relevant as it corresponds to SDG target 10.1. While undertaking detailed benefit incidence analysis for all projects and programmes would not be feasible, simple estimates based on existing data from secondary sources could probably be provided. This would allow for a more systematic ex-ante analysis of distributional impacts of new EU actions, and would be a way to operationalise the commitment to "leave no one behind" in this phase of the programme/project cycle.

Implementation phase

The project/programme implementation phase also provides opportunities to enhance the potential of programmes and projects to address inequality, ensuring that interventions do not have negative impacts related to inequality and that appropriate remedial action is taken if necessary.

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[32] The EU Research Facility on Inequality is a project launched by the European Commission in 2017 and implemented by the French Development Agency (AFD). Its objective is to enhance available knowledge and understanding of economic and social inequalities in EU partner countries, their drivers and underlying factors at different spatial levels, as well as the most effective policies and approaches to address them.

[33] Lawson, A. and G. Contreras (2017). Addressing inequality through EU development cooperation — response to the 2030 Agenda. Product B: Analysis of measures to address inequality in EU development cooperation. Fiscus Public Finance Consultants, Ltd.

Ensuring that relevant **indicators** related to inequality and to leaving no one behind are included in **programmes and projects' monitoring systems and reports**, in particular, would allow to monitor impacts on inequality of EU interventions in partner countries, and to identify any adverse impacts that may arise.

Evaluation phase

In the evaluation phase, **the performance of programmes and projects against inequality objectives could be systematically analysed, and lessons could be drawn for future operations**. Relevant opportunities in the context of the evaluation phase include ensuring that evaluation criteria and related questions capture key inequality concerns, that lessons are drawn for the implementation of ongoing initiatives, and that evaluation results inform the design of future programmes/projects. Considering that inequalities evolve slowly, ex-post evaluation of programmes and projects can be useful to assess the sustainability of the actions. This requires appropriately reflecting inequality concerns in the terms of reference for evaluations, and ensuring that evaluation teams have relevant expertise.

Strengthening partnerships for addressing inequality

Tailored engagement with partner countries on inequality

High levels of inequality are a common challenge faced by many EU partner countries, but addressing this common challenge **requires approaches tailored to specific country circumstances and inequality dynamics**. For instance, in low-income countries facing both high levels of poverty and inequality, the design and implementation of inequality-reduction policies should continue to rely strongly on official development assistance and traditional cooperation approaches. In these countries, focusing on the poor, especially by enabling their income to grow faster than average, is essential to poverty eradication.

On the other hand, middle income countries and in particular more advanced developing countries, despite experiencing significant progress in many areas of sustainable development and poverty reduction, often continue to face vulnerability and development challenges such as high levels of inequality and social exclusion, as illustrated in chapter 3. In these countries, generally characterised by lower poverty rates than low income countries, the objective must be to lift those left behind above the poverty line, and to sustain the incomes of the poorest segments of the population. These objectives are in line with the Consensus, which emphasises that a "key focus in engaging with middle income countries will be to ensure that no one is left behind" (paragraph 94).

The Consensus acknowledges that the engagement with more advanced developing countries requires a tailored partnership, including and beyond financial cooperation, as these countries need fewer or no concessional forms of assistance (paragraph 95)[34]. In this context, relevant tools to tackle inequality include **policy dialogues, technical assistance and exchanges of knowledge**, in

[34] To better tailor its cooperation to the diverse challenges of these countries, the EU has developed an engagement strategy for cooperation with more advanced developing countries. As part of strong policy dialogues based on the SDGs, the EU promotes three implementation channels in particular: (i) the exchange of knowledge, peer-to-peer learning and institutional partnerships, (ii) triangular cooperation, and (iii) blending and innovative financial instruments.

areas such as social cohesion and progressive fiscal policy, where the EU has extensive experience[35]. 'Triangular' cooperation (collaboration in which donor countries and multilateral organisations facilitate 'south-south' initiatives through the provision of funding, training, management, technological systems, and other forms of support) is also a useful tool to build on — and scale up — programmes such as EUROsociAL and Bolsa Familia in Brazil[36].

The EU could engage with a set of partner countries interested in working jointly to address inequality. These '**pilot initiatives'** would make it possible to generate lessons and experience that could be used in other contexts and partner countries.

Working together with Member States

The objective of tackling inequality in partner countries provides opportunities for greater coordination and coherence in relevant EU and Member States approaches, consistently with the commitments made by the EU and Member States in the Consensus on working better together to support the 2030 Agenda.

Joint approaches at country level could be developed where relevant, for instance through **joint analyses and diagnostics of inequality**, as well as potentially joint implementation modalities such as **joint project formulation** and **joint policy dialogue**. The EU Research Facility on Inequality, launched in 2017, provides an opportunity in this context, as it aims to strengthen synergies and collaboration among EU Member States to strengthen the contribution of EU development cooperation to the fight against inequality.

Collaboration with other partners and civil society

Collaboration with partner institutions could also be strengthened to make use of the knowledge and expertise on inequality developed externally, as well as to strengthen synergies and impact. This includes enhancing policy dialogue and consultation with partner countries to identify opportunities for collaboration and possible areas of support. **Strategic partnerships with institutions such as the World Bank and the International Monetary Fund,** in particular, could add value to EU work in this area. Moreover, strong partnerships with International Financial Institutions is key, notably as part of the implementation of the EIP.

Additionally, **partnerships with civil society organisations (CSOs)** on inequality could be further strengthened[37]. CSOs play a very important role in the fight against inequality and discrimination, for example as advocates for legislation that promotes equality, as "watch-dogs" demanding social accountability to their governments, participating in budget processes and monitoring private sector

[35] The SOCIEUX+ facility shows that experiences and practices from EU Member States can successfully be shared with partner country organisations and are highly valued.
[36] Bolsa Familia is a social programme launched by the government of Brazil in 2003, which consisted in providing financial aid to poor Brazilian families. Under Bolsa Familia, families must ensure that children attend school and preventive health care visits. Bolsa Familia is regarded as having contributed significantly to reducing poverty in Brazil.
[37] The EU has signed 25 framework partnership agreements (FPAs) with networks of civil society organisations, through which CSOs are supported in their work in several policy areas, including inequality. A new specific initiative on inequality is included in the multiannual action programme of the 'civil society and local authorities' thematic programme for 2018-2020. This ongoing initiative provides support to a wide range of potential activities related to inequality (both at global and country level), through advocacy campaigns, awareness raising, research and events.

compliance with social and environmental standards, through research/investigation and disclosure of information, and by supporting workers' rights to freedom of association and collective bargaining, as in the case of trade unions organisations.

Strengthening data and knowledge

Disaggregated-data collection

Ensuring that the 2030 Agenda commitments on reduction of inequality and leaving no one behind can be met requires a good understanding of the situation and trends of target populations. However, data collection and statistical capacities in EU partner countries are often weak. In particular, disaggregated data needed to understand and address the situations of women and other people living in vulnerable situations, such as children, young people, or people with disabilities is insufficient.

Continuing to provide **support to partner countries' statistical infrastructure and capacity** to collect disaggregated data is thus essential to develop proper baselines, design and implement targeted policies to address the situations of those living in the most marginalised situations, and monitor progress on the goal of leaving no one behind.

The **collection of disaggregated data** as part of EU development cooperation interventions could be further strengthened to monitor how EU development cooperation is affecting different target populations (e.g. women, young people, etc.).

Knowledge-building and capacity-development activities

Analytical work and knowledge-building activities such as the **EU research facility on inequalities** could be further supported, to strengthen knowledge on inequality trends and drivers in partner countries, and to support evidence based programming and policy-making.

Training courses could also be organised to strengthen staff expertise and working methods in this area and staff capacity to better integrate inequality as a cross-cutting issue in EU development cooperation. The use of knowledge sharing tools such as Capacity4Dev could also be further explored, to provide a platform for sharing knowledge and information on inequality issues affecting EU partner countries.

Possible options to further integrate the reduction of inequality in EU development cooperation

Strengthening policies to address inequality

- Addressing primary income inequality: promote sustainable growth patterns that allow the bottom 40% and the poorest to benefit from it through more jobs and higher incomes; address all forms of discrimination; support territorial development, good and inclusive environmental governance, and access to land, natural resources and energy; harness digitalisation and technological change; promote stability-oriented macroeconomic policies.
- Addressing secondary income inequality: strengthen social protection; support progressive tax policies, domestic revenue mobilisation, and public finance management.
- Addressing tertiary income inequality: promote universal access to basic services; invest in human development, and particularly health and education; support the rule of law, including access to justice and legal protection.
- Policy Coherence for Development

Mainstreaming the reduction of inequality in the EU programme and project cycle

- Programming phase: further integrate inequality in country-situation analyses, the development of country programmes, and the identification of priority objectives for cooperation.
- Identification and formulation phase: consider inequality and distributional impacts in the design of new programmes and projects, through ex-ante assessments.
- Implementation phase: include inequality-related indicators in programmes and projects' monitoring systems and reports.
- Evaluation phase: analyse the performance of programmes and projects in relation to inequality, and draw lessons for future operations.

Strengthening partnerships for addressing inequality

- Tailored engagement with partner countries on inequality: depending on country circumstances and inequality dynamics, tailor tools accordingly, including policy dialogues, technical assistance and exchanges of knowledge, using EU experience.
- Working together with Member States
- Collaboration with other partners and civil society.

Strengthening data and knowledge

- Disaggregated data collection.
- Knowledge-building and capacity-development activities.

6 — Conclusions

Levels of inequality in developing countries are very high, and higher on average than they were 30 years ago. High levels of inequality are an obstacle to all aspects of sustainable development and to achieving the objectives of the 2030 Agenda. They hinder sustainable economic growth, hold back poverty eradication, threaten democracy, stability and social cohesion as well as other social outcomes. They can also lead to environmental degradation, which in turn mostly affects the poor and other vulnerable groups.

The EU is already supporting its partner countries through policies and initiatives that contribute to tackle inequality in its various forms. However, more can be done to more systematically and effectively integrate inequality in EU development cooperation.

The additional efforts envisaged by the Commission to reduce inequality in partner countries as part of the EU's international cooperation and development policy are in line with the 2030 Agenda for Sustainable Development, which makes the reduction of inequality one of the key objectives to be achieved by the international community, and with the new European Consensus on development, which calls on the EU and its Member States to mainstream the reduction of inequality in their development cooperation.

EU support for the reduction of inequality in partner countries will continue to be implemented as a cross-cutting element necessary to achieve the objectives – and improve the impact – of EU development cooperation. The priorities which could be explored to further support inequality reduction include:

- strengthening existing EU external action and development cooperation policies relevant to addressing inequality drivers in partner countries (such as social protection, the promotion of universal access to basic services, and addressing all forms of discrimination including through further strengthening the implementation of a rights-based approach to EU development cooperation);

- further mainstreaming the reduction of inequality in the EU programme and project cycle, including at the programming phase, the identification and formulation phase, the implementation phase and the evaluation phase;

- strengthening partnerships for addressing inequality, including by: tailoring tools for engagement with partner countries on inequality using EU experience, working better together with Member States, and strengthening collaboration with international partners and civil society;

- strengthening data and knowledge, including disaggregated-data collection, knowledge-building activities and capacity-development activities.

ANNEX I — Sustainable Development Goal 10: Targets and indicators

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	10.1.1 Growth rates of household expenditure or income per capita among the bottom 40 per cent of the population and the total population
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	10.2.1 Proportion of people living below 50 per cent of median income, by sex, age and persons with disabilities
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	10.3.1 Proportion of population reporting having personally felt discriminated against or harassed in the previous 12 months on the basis of a ground of discrimination prohibited under international human rights law
10.4 Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality	10.4.1 Labour share of GDP, comprising wages and social protection transfers
10.5 Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations	10.5.1 Financial Soundness Indicators
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	10.6.1 Proportion of members and voting rights of developing countries in international organisations
10.7 Facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies	10.7.1 Recruitment cost borne by employee as a proportion of yearly income earned in country of destination
	10.7.2 Number of countries that have implemented 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 Organisation agreements	10.a.1 Proportion of tariff lines applied to imports from least developed countries and developing countries with zero-tariff
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.b.1 Total resource flows for development, by recipient and donor countries and type of flow (e.g. official development assistance, foreign direct investment and other flows)
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	10.c.1 Remittance costs as a proportion of the amount remitted

ANNEX II — Overview of the literature on the links between inequality and growth, poverty, and other development outcomes

Inequality, growth and poverty

The relationship between income inequality and economic growth has received considerable attention by economists for a long time. This debate was heavily influenced by Kuznets, who in the 1950s famously hypothesised that income inequality and economic growth are characterised by an inverted U-shaped relation, whereby income inequality first increases and then decreases during the development process of a country.[38]

Since the 1990s, an empirical consensus has emerged that high levels of inequality are harmful for economic growth.[39] Empirical evidence shows that high inequality is, on average, negatively associated with growth, and that countries with more equal income distribution tend to grow faster.[40] For instance, a recent IMF study found that an increase in 5 net Gini points decreases growth on average by 0.5 percentage points.[41] Another recent study found that the duration of growth spells is also robustly associated with the distribution of income: a 10-percentile decrease in inequality increases the expected length of a growth spell by 50%.[42]

Despite these general conclusions, it is important to emphasise that the relationship between inequality and growth is complex. For instance, a recent econometric study by the IMF found evidence of an 'inequality overhang' at a level of Gini of about 27%.[43] In other words, the study found that at very low levels of inequality there is a positive relationship between inequality and growth, which however turns negative at higher levels of inequality. This provides support to the hypothesis that some levels of inequality are integral to the effective functioning of a market economy and the incentives needed for investment and growth[44], while being also consistent with the general empirical consensus mentioned above.

One of the channels through which inequality affects long-term growth is through a less efficient allocation of resources, as the poor may be unable to invest in human capital (education, health), or

[38] A corollary of Kuznets's hypothesis is that inequality is a necessary by-product of economic development that should not be the focus of policy attention, as sustainable economic growth will ultimately lower it over time. See Kuznets, S., 1955, 'Economic growth and income inequality', *American Economic Review*, 45(1).

[39] Easterly, W. (2007). 'Inequality does cause underdevelopment: insights from a new instrument', *Journal of Development Economics*, 84(2).
Berg, A., and J. Ostry (2011). 'Inequality and Unsustainable Growth: Two Sides of the Same Coin?', *IMF Staff Discussion Note* 11/08, International Monetary Fund: Washington.
Ostry, J., A. Berg and C. Tsangarides (2014). 'Redistribution, Inequality, and Growth', *IMF Staff Discussion Note* 14/02, International Monetary Fund: Washington.

[40] Alesina, A. and D. Rodrick (1994). 'Distributive Politics and Economic Growth', *Quarterly Journal of Economics*, Vol. 109, No 2.

[41] Ostry, J., A. Berg and C. Tsangarides (2014). 'Redistribution, Inequality, and Growth', *IMF Staff Discussion Note* 14/02, International Monetary Fund: Washington.

[42] Berg, A., and J. Ostry (2011). 'Inequality and Unsustainable Growth: Two Sides of the Same Coin?', *IMF Staff Discussion Note* 11/08, International Monetary Fund: Washington.

[43] Grigoli, F. and A., Robles (2017). 'Inequality Overhang', *IMF Working Paper* 17/76, International Monetary Fund: Washington.

[44] Chaduhuri, S. and M. Ravaillon (2006). 'Partially Awakened Giants: Uneven Growth in China and India' in Winters L.A. and S. Yusuf (eds.), *Dancing with Giants: China, India and the Global Economy*, World Bank: Washington.

engage in productive activities if financial market imperfections limit their borrowing capacity.[45] Moreover, inequality also drives social conflict, which has adverse macroeconomic effects, such as unproductive public spending.[46] Additionally, inequality can lead to financial fragility[47] and amplify the effects of negative external shocks,[48] as in highly unequal societies the social insurance mechanisms that absorb the effects of shocks on consumption are limited to few, imposing large welfare costs.

Inequality is also an obstacle to poverty reduction. Evidence shows that growth is less efficient in lowering poverty in countries with high initial levels of inequality, or in which the distributional pattern of growth favours the non-poor. In other words, there is a 'double dividend' associated with reduced inequality: firstly, it accelerates growth, and secondly it accelerates the pace at which growth impacts poverty reduction (it makes poverty more responsive to growth).

The Poverty-Growth-Inequality Triangle model[49] illustrates that a country's poverty trajectory is fully determined by changes in income growth and income inequality, and hence achieving the goal of rapidly reducing absolute poverty requires strong, country-specific combinations of growth and distribution policies. A recent study focusing on sub-Saharan African countries found that a 1% reduction in the Gini coefficient lead to about a half percentage point reduction in the poverty rate.[50] The study suggests that reducing inequality in sub-Saharan Africa is just as important as economic growth for poverty reduction.

Inequality and other development outcomes

Inequality and conflict

There is strong support in the literature for the hypothesis that horizontal inequality (between groups) is linked to conflict, while no conclusive evidence can be found in the case of vertical inequality (between individuals).[51] A number of authors have raised the issue of endogeneity in the relation between inequality and conflict, i.e. the fact that although higher inequality may increase the likelihood of a conflict, conflict itself can in turn make inequality worse. Conflict is 'development in reverse'[52], and can intensify deprivation and grievances that can lead to further mobilisation.

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[45] Banerjee, A. (2004). 'Inequality and Investment', MIT Press: Cambridge.
[46] Alesina, A. and D. Rodrick (1994). 'Distributive Politics and Economic Growth', *Quarterly Journal of Economics*, Vol. 109, No 2.
[47] Kumhof, M. and R. Rancière (2010). 'Inequality, Leverage and Crises', *IMF Working Paper* 10/268, International Monetary Fund: Washington.
[48] Rodrick, D. (1999). 'Where did all the growth go? External shocks, social conflict, and growth collapses', *Journal of Economic Growth*, Vol. 4, No 4.
[49] Bourguignon, F. (2003). *The Poverty-Growth-Inequality Triangle*, World Bank: Washington.
[50] De Crombrugghe, D., R. Bluhm and A. Fosu (2016). Income Inequality and Poverty Reduction in Sub-Saharan Africa, European Commission: Brussels.
[51] Ostby, G. (2016). 'Inequality and political conflict', in *World Social Science Report*.
Steward, F. (2008). *Horizontal inequalities and conflict: understanding group violence in multi-ethnic societies*, Palgrave Macmillan: Basingstoke.
Ostby, G. (2008). 'Polarisation, horizontal inequalities and violent civil conflict', *Journal of Peace Research*, Vol 45, No 2.
Cederman, L.-E., K.S. Gleditsch and N.B. Weidmann (2011). 'Horizontal inequalities and ethno-nationalist civil war: a global comparison', *American Political Science Review*, Vol. 105, No 3.
[52] Collier, P., V.L. Elliot, H. Håvard, A. Hoeffler, M. Reynal-Querol and N. Sambanis (2003). *Breaking the conflict trap: Civil war and development policy*. World Bank and Oxford University Press.

The fact that some of the literature fails to demonstrate the relationship between vertical inequality and conflict might be related to the way inequality is measured. As shown in the case of the Arab Spring, where low levels of life satisfaction were not readable in data on both income growth and poverty levels during the time preceding the revolts, standard economic measurements might not be appropriate to capture subjective wellbeing or explain social unrest.[53] Some authors have for a long time emphasised the central importance of how inequality is experienced, or perceived ('the relative deprivation theory').[54] A growing literature, which finds empirical support, argues that it is indeed the perception of inequality and injustices that triggers conflicts and leads people to take action, rather than actual inequality levels as measured through indicators of which they might not be aware.[55]

Inequality, environment and climate change

The literature also shows evidence of a negative relation between income inequality and environmental outcomes. One environmental dimension that is negatively affected by inequality, for instance, is biodiversity. A study focusing on the states of the USA, finds that 'a 1% increase in the Gini ratio is associated with an almost 2% rise in the number of threatened species'.[56] A similar study, looking at a sample of 50 countries at different levels of development, finds that greater inequality, as expressed by the Gini ratio, is associated with a greater proportion of threatened species.[57] Another relevant dimension is consumption and waste generation, where the literature shows that higher levels of inequality are generally associated with more resource consumption and waste generation.[58]

Environmental degradation also leads to or exacerbate inequalities and vulnerable groups are the most affected. In 2017, the Lancet Commission on health and pollution reported that 'the highest estimates of premature death and disease due to pollution are seen in low-income sub-Saharan African countries'. Gender, race, age, ethnic and other sources of inequality lead to and are aggravated by unequal levels of tenure or access to natural resources, including land, water, forests, etc. A report from the European Environmental Agency states that the health of Europe's most vulnerable citizens remains disproportionality affected by pollution, noise and extreme temperature due to an 'unequal exposure and unequal impacts' among citizens. The distribution of environmental threats and the impacts they have on human health closely mirror difference in income, unemployment and education levels across Europe.

Climate change is also relevant to inequality, and evidence shows that the relationship between the two is characterised by a vicious cycle, where initial inequality causes disadvantaged groups to suffer disproportionately from the impacts of climate change, which results in even greater subsequent

[53] World Bank, 2015, MENA Economic Monitor: inequality, uprisings and conflict in the Arab World, World Bank: Washington.
[54] Gurr, T. R. (1970), *Why men rebel*. Princeton University Press: Princeton.
[55] Cederman, L.E., K.S. Gleditsch and H. Buhaug (2013). *Inequality, Grievances, and Civil War*, Cambridge University Press.
Stewart, F. (2000). 'Crisis prevention: Tackling horizontal inequalities', *Oxford Development Studies*, 28 (3):245-262.
Stewart, F. (2009). 'Horizontal inequalities as a cause of conflict', Bradford Development Lecture.
[56] Mikkelson, G. M., A. Gonzalez and G.D. Peterson (2007). 'Economic Inequality Predicts Biodiversity Loss'. PLoS ONE, 2(5).
[57] Holland, T., G. Peterson, D. Garry and A. Gonzalez (2009). 'A Cross-National Analysis of How Economic Inequality Predicts Biodiversity Loss', Conservation Biology, 23(5).
[58] Nazrul Islam, S. (2015). 'Inequality and environmental sustainability', *DESA Working Paper* no. 145, UN Department of Economic and Social Affairs: New York.

inequality.[59] This is explained by three main factors: exposure to climate hazards (e.g. more disadvantaged groups tend to live in areas more prone to disaster, such as hill slopes and coastal areas); high vulnerability to damages caused by climate change, given the same level of exposure (e.g. because of lack of asset diversification); low ability to cope with and recover from the damages (inequality implies less resources for the disadvantaged groups to undertake coping and recovery measures). Gender, race, age, ethnic and other sources of inequality can further strengthen the risks of climate hazards.

An important aspect of the relationship between inequality and climate change, beyond the vicious cycle described above, is related to the fact that the poorest and most disadvantaged groups are also the least responsible for climate change. Estimates indicate that the poorest half of the global population are responsible for only around 10 % of total global greenhouse gas emissions attributed to individual consumption[60]. Conversely, 50 % of emissions can be attributed to the richest 10 % of the global population, who have carbon footprints 11 times as high as the poorest half of the population, and 60 times as high as the poorest 10 %. Climate change thus leads to a dual inequality: higher income groups are the main emitters of greenhouse gases but poorer income groups are the most vulnerable to its effects as they have less capacity to adapt.[61]

Inequality and health

There is a general consensus that a negative relation exists between inequality and health outcomes. Health, along with education and income, is one of the key dimensions of human development, as reflected in the UNDP human development framework. Significant correlations exist between all three of these dimensions. Moreover, the relation between inequality and health outcomes works as a vicious cycle, since the quality of health can also affect the socioeconomic status of an individual, as well as impact on poverty, decreased productivity, and inadequate socioeconomic development at both the societal and the individual level. In the health sector, available evidence implies 'that health inequity is caused by the unequal distribution of income, goods, and services and of the consequent chance of leading a flourishing life'.[62]

For instance, a study looking at the links between inequality and health and social problems in the USA and others OECD countries found that social and health problems are worse in more unequal societies.[63] However, while there is an agreement on the relation between inequality and health outcomes, conclusive data to prove the causality between the two variables is missing. In particular, there is a lack of sufficient empirical data from developing countries in this area.

Another relevant example is nutrition status. In most countries, growing levels of inequality are reflected by growing disparities in nutritional status. While the global prevalence of stunting now stands at 22 %, the 2018 Global Nutrition Report estimates that as many as 45 % of all children under five from the poorest quintile are stunted, while over 85 % of the young children in the poorest quintile do not even have access to a minimally adequate diet. While nutritional outcomes such as

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[59] Nazrul Islam, S. and J. Winkel (2017). 'Climate change and social inequality', DESA Working Paper no. 152, UN Department of Economic and Social Affairs: New York.
[60] Oxfam (2015). 'Extreme carbon inequality', Media Briefing: 2 December 2015.
[61] ECLAC (2018). 'The inefficiency of inequality', ECLAC: Mexico City.
[62] WHO (2008). Report of the Commission on Social Determinants of Health.
[63] Wilkinson, R. and K. Pickett (2010). *The Spirit Level: Why Equality is Better for Everyone*. Penguin Group: London.

stunting reflect inequalities (in income, diet, access to basic services and the provision of care), at the same time poor nutrition constitutes a driver of inequality in its own right. Evidence links nutritional deprivation in childhood with limited physical growth, reduced brain development and reduced income earning capacity in adulthood. Addressing socioeconomic inequality must thus be considered as crucial for accelerating reductions in all forms of malnutrition.

The literature suggests three possible links between income inequality and health outcomes, which appear to be supported by empirical evidence: income inequality is linked to disinvestment in human capital (health care, education); inequality decreases social capital; inequality worsens health through exposure to air and water pollution and inadequate housing and stress caused by social comparison.[64] Moreover, the literature shows that it is important to consider not only economic inequalities, but also gender and ethnic based inequality, which can equally influence health outcomes.

Inequality and education

Students coming from more disadvantaged families are three times as likely to be among PISA's poor performers as children from socio-economically advantaged backgrounds,[65] which means that students who are disadvantaged before entering school continue to be disadvantaged as they go through the education system and later enter the labour market. Recent econometric analysis shows evidence of a large and positive relationship between inequality of schooling and income inequality, especially in emerging and developing countries.[66]

The education system has been identified as one of the major institutions by which inequality has been perpetuated over time, especially in less developed countries,[67] as educational attainment and skill levels play a significant role in determining labour-market outcomes. Investing in education can thus be a critical tool to ensure growth, but also to break the intergenerational transmission of poverty and reduce inequality of opportunity, which in turn reduces future income inequality.[68]

Inequality and culture

Culture plays very often a significant part in the perpetuation of inequalities, but also as a source to overcome inequality in all its dimensions[69]: firstly, access to culture as a right and basic component

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[64] Kawachi, I., and B. P. Kennedy (1999). 'Income inequality and health: pathways and mechanisms', Health Services Research, 34:1, Part II.
Lynch, J. W, and G.A. Kaplan, 1997, 'Understanding How Inequality in the Distribution of Income Affects Health', Journal of Health Psychology, 2.
[65] One explanation is that students from advantaged families are more likely to come from home environments that are conducive to learning, including a quiet place to study, access to the Internet, and parents that are more likely to have the time and ability to help them with their homework and encourage them to study. See Burns, T. (2017). 'Mind the gap: inequality in education', OECD, http://oecdeducationtoday.blogspot.com/2017/02/mind-gap-inequality-in-education.html.
[66] Coady, D., and A. Dizioli (2017). 'Income inequality and education revisited: persistence, endogeneity, and heterogeneity', IMF Working Paper, WP/17/126, Washington DC.
[67] Stiglitz, J. (1973). 'Education and Inequality', in *Income Inequality*, Vol 409.
[68] Corak, M. (2013). 'Income inequality, equality of opportunity, and intergenerational mobility', *Journal of Economic Perspectives*, 27 (3).
[69] Rao, V. and M. Walton (Eds.) (2004). *Culture and Public Action*. Stanford University Press. The International Bank for Reconstruction and Development/The World Bank

of development is very often hindered through, for example: (1) economic barriers to consume culture, (2) legal barriers to the full recognition of cultural and ethnic diversity or (3) social barriers to active participation in culture, e.g. through limited access to cultural practices, institutions and education, especially among economically, socially and politically vulnerable groups. Secondly, culture is recognised as a major source of income, especially for young people[70], but capacities for income generation often correlate with inequality. Thirdly, culture as a symbolic system of beliefs conveying traditions, norms and values can contribute to reproduce social inequality, but also to overcome it as it offers spaces for empathy and dialogue, creativity and innovation.

Eyben, R. and J. Lovett (Eds.) (2004). *Political and social inequality: a review*. Institute for Development Studies, Brighton. Commissioned by DFID; A. Martinell (Ed.) (2013): *Impactos de la Dimensión Cultural en el Desarrollo*. Documenta Universitaria. Cátedra UNESCO de Políticas Culturales y Cooperación de la Universitat de Girona.

[70] UNESCO (2018): *Global Report. Reshaping Cultural Policies*; CISAC and UNESCO (2015): *Cultural Times*.

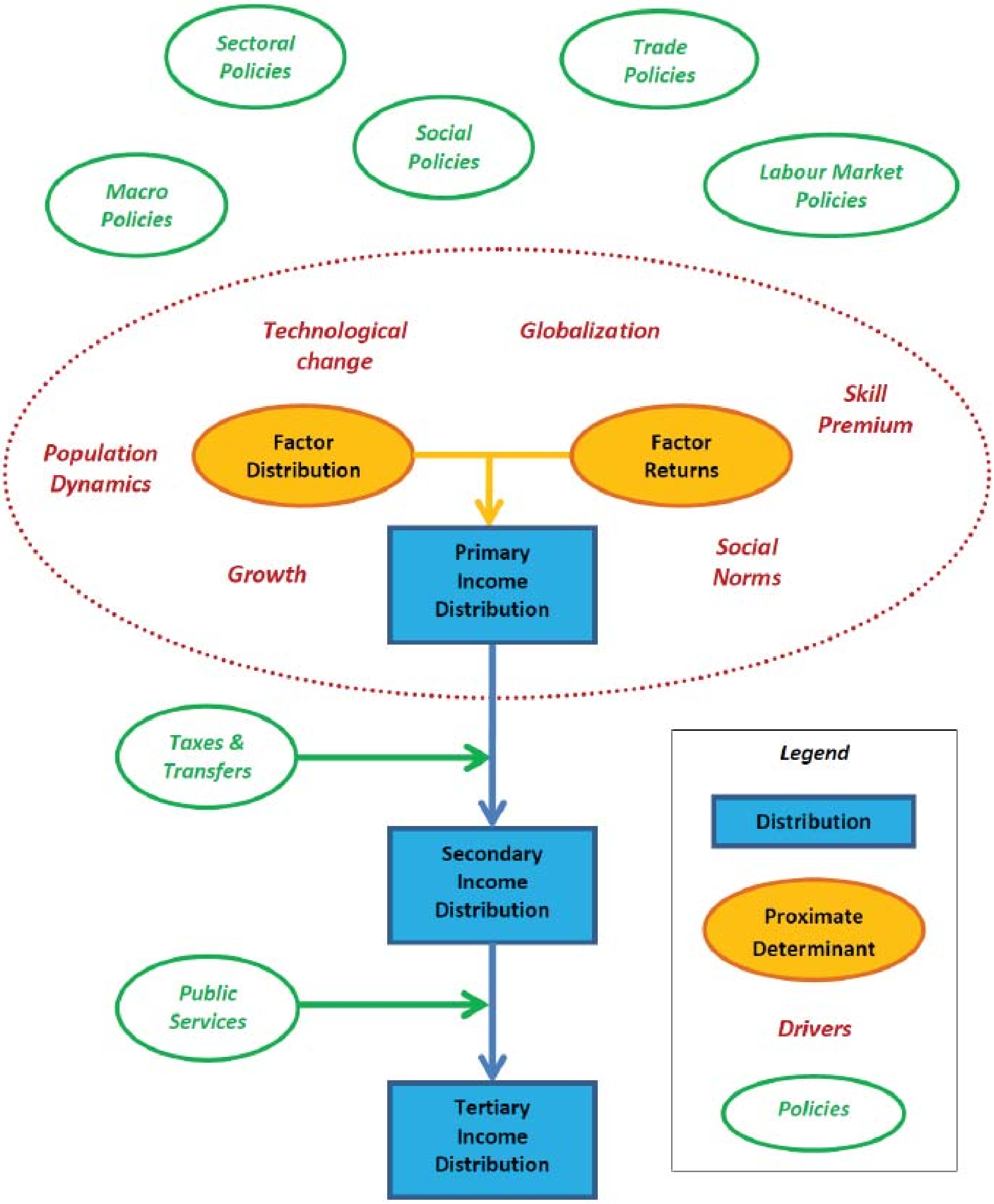
ANNEX III — Conceptual framework and policies for addressing inequality

Drivers of inequality are context specific, and vary from country to country and over time. However, the conceptual framework presented below can be helpful to analyse the causes of inequality and guide the design of policy interventions to address them. The conceptual framework is inspired in the System of National Accounts that the Commission, UN, IMF, OECD and World Bank agreed to in 2008. It is based on economic inequality, and specifically the three different levels at which income distribution can be considered, which is very closely associated with social and other forms of inequality:[71]

- **Primary** income distribution that is the distribution of household incomes resulting from employment and/or productive activities before taxes and subsidies.
- **Secondary** income distribution, as determined by fiscal and social transfers (also referred to as disposable income).
- **Tertiary** income distribution, which results from the incidence of public expenditure.

[71] This conceptual framework was developed by Anne-Sophie Robilliard and Andrew Lawson in a study contracted by the European Commission in 2017. See Robilliard, A.S., and A. Lawson (2017). Product A: Conceptual and Measurement Framework for Addressing Inequality, *Addressing inequality through EU Development Cooperation — Response to the 2030 Agenda*, Fiscus Public Finance Consultants and IRD-DIAL.

Figure 6. Conceptual framework



Source: Robilliard, A.S., and Lawson, A., 2017, Product A: Conceptual and Measurement Framework for Addressing Inequality, *Addressing inequality through EU Development Cooperation — response to the 2030 Agenda*, Fiscus Public Finance Consultants and IRD-DIAL.

The conceptual framework distinguishes different criteria to consider what determines income inequality:[72]

[72] It is important to note that inequalities arise in many dimensions which are not necessarily economic but that are driven by differences in economic status. In particular, in the absence of compensating actions by the state or society, income inequality is likely to cause people to be unequal in terms of political power or rights, as well as in education outcomes (access, levels, quality), health outcomes (access, morbidity, mortality), access to basic utilities (water, sanitation and energy), and access to social and legal protection. As mentioned earlier, social and economic inequalities are strongly inter-

- Proximate determinants are the immediate determinants of the primary income distribution:
    - Unequal distribution of production factors (land, natural resources, energy, labour, physical and human capital); and
    - Unequal returns to these factors (rents, wages, and profits).
- Drivers of primary income inequality are the socioeconomic and demographic processes affecting primary income distribution through their impact on the distribution and returns to production factors. These can be grouped as follows:
    - Economic drivers, including growth processes, technological change, trade and globalisation;
    - Cultural and social norms, especially those that are discriminatory; and
    - Population dynamics, notably population growth and mobility.
- Public policies affect income distribution either directly through their impact on proximate determinants of inequality (factor distribution and returns) or indirectly through their influence on socioeconomic drivers of income distribution. Public policies can impact on any of the three levels of income distribution.
    - Policies addressing inequality in primary income distribution include policies that improve assets distribution (e.g. land reform); policies that improve returns to assets (employment and labour-market policies and institutions, agricultural policies, infrastructure and territorial development policies); and economic and trade policy.
    - Policies addressing inequality in secondary income distribution are those increasing fiscal redistribution by the state, and include fiscal and social policy (social transfers).
    - Policies addressing inequality in tertiary income distribution are those enhancing the redistributive incidence of public spending, and improving public sector management; they include social public spending that aims at providing access to the poorer segments of the population, and policies that improve access and quality of public services and provide basic legal protection.

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related, as it can be observed from data showing that there are both economic and social drivers in many outcomes. However, it is difficult to disentangle causal relationships and derive a simple answer as to whether policies should prioritise the reduction of social or economic inequality. In fact, evidence indicates that social and economic inequalities are most effectively addressed simultaneously.