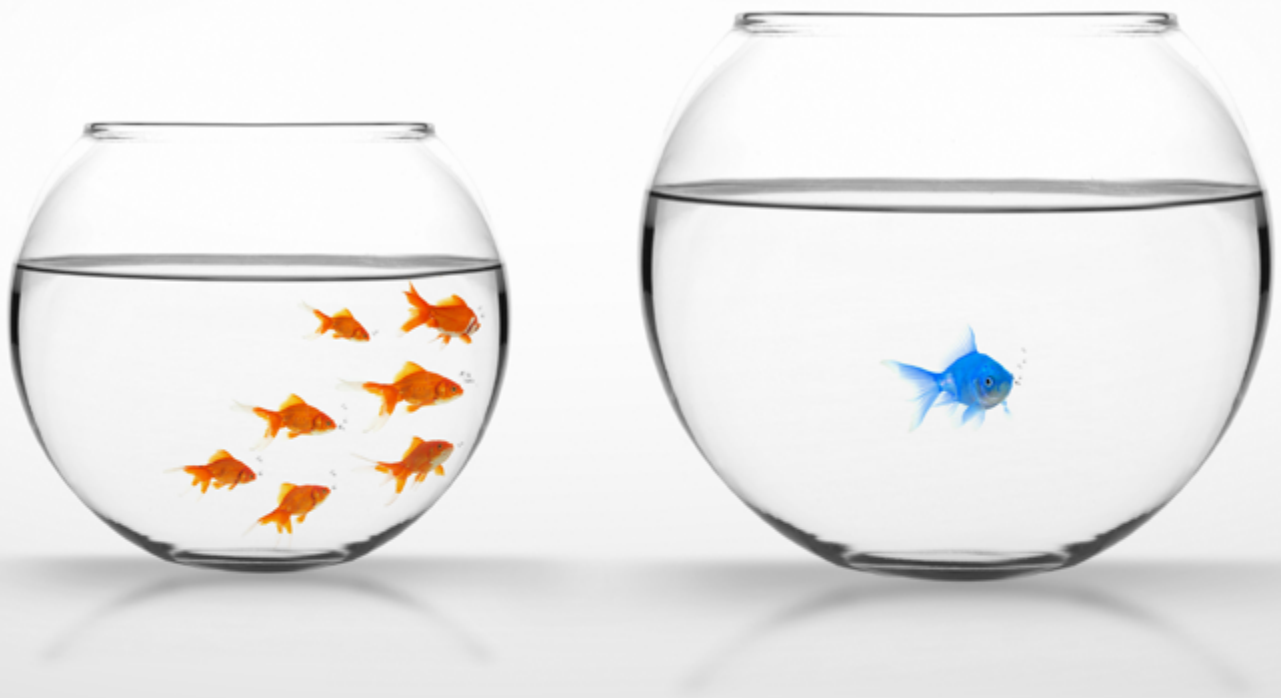


Addressing Income Inequality through Development Cooperation : A Quick Guide

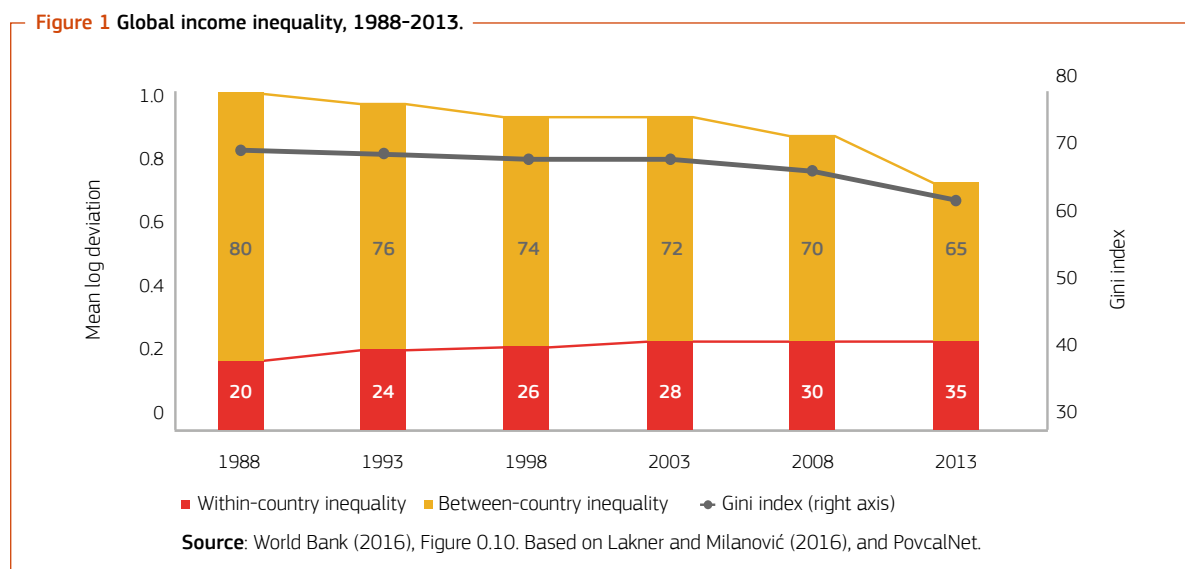


INTRODUCTION TO INEQUALITY

A. Why inequality matters

Introduction

The rule of Law at the root of any democratic constitution rests on the idea that every human is born equal and is entitled to **equal rights and opportunities** in life. However, due to failings in our social, political and economic organisation, equal rights do not always translate into equal opportunities nor into equal outcomes. Working to reduce inequality means to bridge that gap and raise everyone's quality of life, while building sustainable and inclusive societies for all.



Contemporary income and wealth inequalities are very large today, about as great as they were in the early 20th century. Here are some figures from the [World Inequality Report 2022](#). The richest 10% of the global population currently takes 52% of global income, whereas the poorest half of the population earns 8.5% of it.

On average, an individual from the top 10% of the global income distribution earns a yearly €87,200, whereas an individual from the poorest half of the global income distribution makes €2,800 per year. Wealth inequality has also increased at the very top of the distribution, particularly during the pandemic. Since 1995, the share of global wealth possessed by billionaires has risen from 1% to over 3%.

The fight against inequality within and between countries is central to the European Union's strategy to achieve the United Nations' 2030 Agenda for Sustainable Development. Development cooperation to help reduce inequality in partner countries is even more crucial now that the COVID-19 pandemic may have undone years of progress in some parts of the world.

Equality is one of the foundations of the **EU social model** and this translates into many of its policies. Tackling inequality is therefore a cross-sectional effort that benefits many policy areas, from ensuring equal opportunities and improving outcomes for all, including through the redistribution of resources, supporting a more sustainable economy, and protecting people from risks, including those associated with climate change.

Five perspectives on why inequality matters

There are many reasons why inequality matters. Here are five different perspectives, informed by economics and political science:



MORAL STANDPOINT

Inequality can be addressed from a moral standpoint, as illustrated by the Universal Declaration of Human Rights. It is morally wrong for there to be too wide a gap between rich and poor, and between those at the centre and those at the margins. It is a moral and political duty of governments to ensure everyone should have equal opportunities in life.



“EFFICIENCY” PERSPECTIVE

The “Efficiency” perspective argues that policy interventions sometimes face a trade-off between efficiency and equity. However, research shows that even if it often seems more efficient to favour those who already fare well in the short term, more equal firms and communities perform better economically.



“POVERTY” PERSPECTIVE

The “Poverty” perspective sees inequality as an obstacle to the elimination of global poverty: less inequality means that the benefits of growth accrue more to the poorer members of society. Conversely, when resources are unequally distributed, investment favours the rich and the benefits of growth are less likely to reach poor and marginalised communities.



“KUZNETS” PERSPECTIVE

The “Kuznets” point of view from economist Simon Kuznets, sees inequality as an unavoidable part of the process of development. In that perspective, inequality is expected to increase in the first stages of development and decrease over time. Economists have used this tool to think about how changes in society trigger waves of inequality before providing the means to reduce them. However, Kuznets predicted these would wane over time in richer societies, but the opposite has happened. Recent changes in labour and technology might have ushered in a new wave of inequality, with no waning in sight.



“POLITICAL ECONOMY” PERSPECTIVE

The “Political Economy” perspective sees inequality as a barrier to growth and a poison for democracy. Elite capture of resources leads to market and government failure. Rising inequality means social instability and eventually threatens what economists call “social capital”: the ability of communities to share common values and coordinate actions at the local level to improve their lives. Inequality also undermines the trust people put in governing bodies and policies in general.



Rationale of SDG 10 and key targets

Being the world's largest contributor to development cooperation, the European Union is committed to the United Nation's tenth **Sustainable Development Goal (SDG10)**, "Reduced inequality", which falls under its 2030 Agenda for Sustainable Development. SDG10 has four main targets by 2030. First, achieve and sustain income **growth** of the bottom 40% of the population at a rate higher than the national average. Second, empower and promote the social, political and economic **inclusion** of all individuals and identities. Third, ensure **equal opportunities** and reduce income equality with the right policy instruments. And finally, adopt fiscal, wage and social protection **policies** in order to achieve greater equality.

B. Defining and measuring inequality

Definitions of inequality

Inequality is the **unequal distribution** of wealth, rights and opportunities. Unlike poverty, which focuses on those who live under a minimal level of income and living standards (i.e. **the poverty threshold**), inequality refers to differences across the whole population, or between and within groups. Inequality and **poverty** are connected since both are linked to the distribution of resources, but low-poverty-rate societies can also be highly unequal. Accordingly, policies to reduce poverty can leave inequality unaffected if they are not well calibrated.

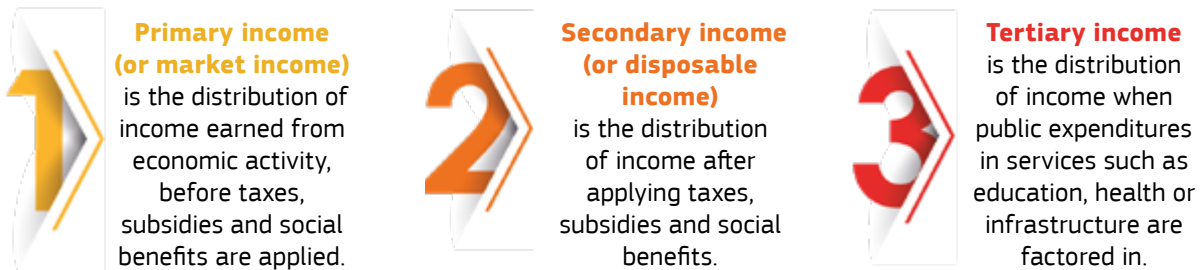
One useful conceptual distinction is between horizontal and vertical inequality.

- › **Horizontal inequality** affects individuals and groups who share an identity in a society, be it a similar income, education, gender, ethnicity or birthplace. Women and girls, for instance, face more challenges, barriers, violence and discrimination than men, which impedes access to resources and opportunities, such as education, health or the labour market. This limits their autonomy and freedom, violates their human rights, and can prevent them from benefiting equally from development cooperation.
- › **Vertical inequality**, on the other hand, concentrates on inequality between individuals (or households) in a region, a country or the world. In contrast to the horizontal view – focusing on the unequal opportunities that different groups have – vertical inequality points to the gaps between individuals.

More conceptual distinctions exist, such as between **economic inequality** (the gap between positions in the distribution of income) and **social inequality** (the unequal distribution of public services). The focus of this document is on economic inequality, but it is important to note that inequality does not only concern economic wealth. It can affect access to power and decisions (**political inequality**) or exposition to environmental risks and access to natural resources (**environmental inequality**). All forms of inequality are interconnected to a degree. Social and economic inequality, for instance, are strongly linked in the provision of public services like education, health, nutrition, housing, employment, security and other rights. That being said, this document focuses primarily on the resource at the core of economic inequality: income.

Income inequality

Reducing inequality of income is a major policy area. Income is at the source of many inequalities of outcomes and opportunities, as it often determines a household's access to food, health, education, housing, and a lot of what makes life feasible and enjoyable. Economists consider three levels at which personal or household income can be studied:



Total income equality for everyone is neither possible nor just. Differences in rewards can be fair and provide useful incentives. However, given the magnitude of income inequality in the world today, accomplishing a shift in the distribution towards more income equality would drastically improve life for billions of people and make our societies more sustainable.

Measuring inequality

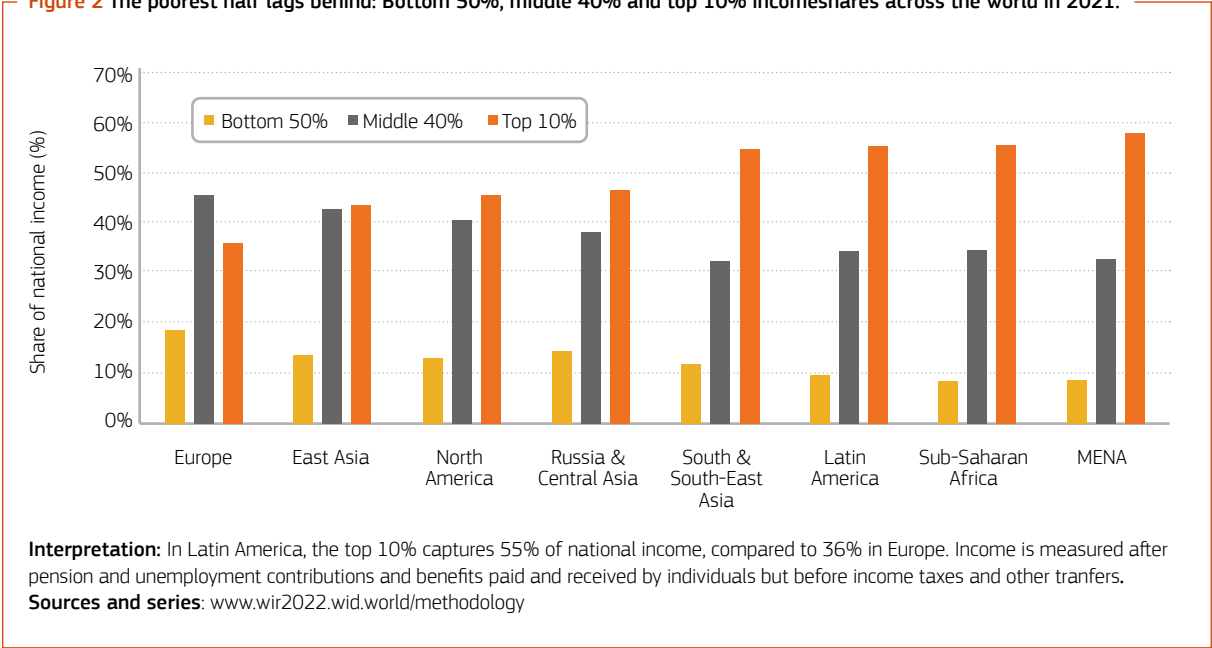
Unlike data collected by States, like GDP, economic inequality data mostly rely on **surveys**. Data from national accounts provide aggregates that do not reflect the distribution of incomes; surveys need to be conducted to measure inequality in a population. Despite their importance, surveys do have a number of drawbacks. The first is **availability**: surveys must be **representative** (nationally, for instance), which means large samples, operational complexity, and heavy costs. They are seldom carried out regularly enough to study inequality and evaluate public policies. Regrettably, the countries that face the most challenges in carrying out income distribution surveys are often those that need them most.

Income inequality can be measured either in terms of **income** or **consumption**. Income is preferable in principle, as it weighs so much in inequality. But income data is not always available, especially in poorer areas, where informal economies make it irregular and difficult to track. A typical example is the survey of farming populations. Depending on when the survey is conducted relative to the harvest period, income can vary dramatically. In addition, the concept of income may be irrelevant in assessing life standards in the case of populations that rely on household production, notably in the agricultural sector.

That is why, in poorer contexts, surveys tend to collect information on **consumption** instead of income, as it is more stable throughout the year. Although their income may change drastically, people tend to maintain the same consumption habits. Researchers can use it as a **proxy** for income, but only when households tend to spend all that they earn. Indeed, as consumption does not include **savings**, it becomes less useful at higher income levels. As a consequence, in middle- and even low-income areas, inequality data based on consumption information often **underestimates** inequality levels compared to measurements based on income.

Regardless of whether income or consumption data are collected, little information is available at the very **top of income distribution**. Surveys are not effective at gathering information on individuals that have amassed great wealth. The people at the upper end of the income distribution are **very rich** and **very few**. As a consequence, they are seldom included in samples, even though their combined incomes make for a significant proportion of the total. Even when surveys include the very rich, they tend to present high non-response rates and often will not fully disclose all their income.

Figure 2 The poorest half lags behind: Bottom 50%, middle 40% and top 10% incomeshares across the world in 2021.



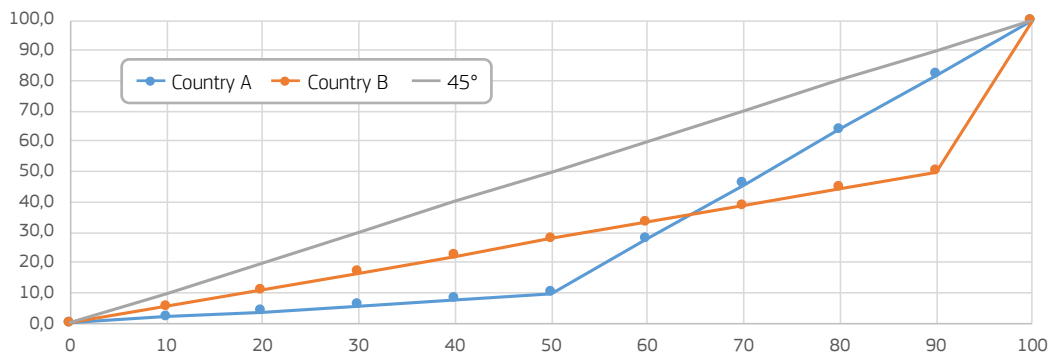
Inequality indicators: Gini index and the bottom 40%

Income inequality is too complex to be captured by a single indicator. The **Gini index** is the most widely used, as it provides a straightforward tool to rank countries and monitor inequality levels over time. The Gini index corresponds to the area between two curves: one is a perfectly equal distribution of income where everyone receives the same amount, while the other is the actual income distribution of a given population (the Lorenz curve). The Gini index **ranges from 0 to 1** (or 0% to 100%), with zero representing perfect, hypothetical equality (everyone has the same income) and one is total inequality (a single resident earns all the income).

The Gini index is more sensitive to variations in the **middle** of the income distribution than to changes within the top and bottom tails. Given the unreliability of data at the ends of the income spectrum (particularly at the richer end), the index is built to focus on those parts of the distribution where quality information is most often available. A major drawback is that changes occurring in the poorest and richest segments of the population are **underrepresented**.

Another flaw of the Gini index is that different shapes of the Lorenz curve can result in the same Gini index – the same way a single length of rope can form multiple shapes with different areas. The result is that two countries with the **same Gini ranking** could in reality exhibit very **different profiles** of inequality. A complementary method must be used to circumvent the Gini index’s lack of sensitivity at the tails: focusing on the shares of income accruing to the top and bottom of the distribution. Those typically considered: the **bottom 40%** (in line with the SDG 10 target 10.1) and the top 20%, 10% or even 1% to focus on the interesting dynamics among groups at the top.

Figure 3 Gini is an imperfect measurement



In country A: 50% of the poorest earn 10% of the national income / In country B: 10% of the richest earn 50% of the national income. These two distributions are “symmetrical” and have the same Gini (0.40). However, the share of the richest 10% is very different: 18% for A, 50% for B. Likewise the share of the poorest 40%: 8% for A, 22.2% for B.

What is also interesting is that they are difficult to rank from a distributional point of view: depending on the criterion used (top 10 or bottom 40), we reach different conclusions. Graphically, this is shown by the fact that the 2 curves cross.

C. Inequality reduction as a tool for cooperation

Inequality reduction and poverty

Inequality is an important barrier to reducing poverty. Economic growth in countries with high inequality levels is less effective at decreasing poverty, as it tends to be absorbed by the wealthier segments of the population. Additionally, tackling inequality *is* actually reducing poverty, as any improvement towards a more equal distribution mechanically improves income at the poorest level. It follows that reducing inequality yields a double benefit: it accelerates growth and increases its capacity to reduce poverty.

Economists use the analogy of the **poverty-growth-inequality triangle** to illustrate how decreasing inequality accelerates poverty reduction. There is a precise relationship between the three summits of the triangle in any given country. In practical terms, it means that reducing poverty implies a combination of growth and targeted redistribution policies that reduce inequality. The important takeaway is that growth policies that do not include redistribution of wealth have little impact on rates of poverty.

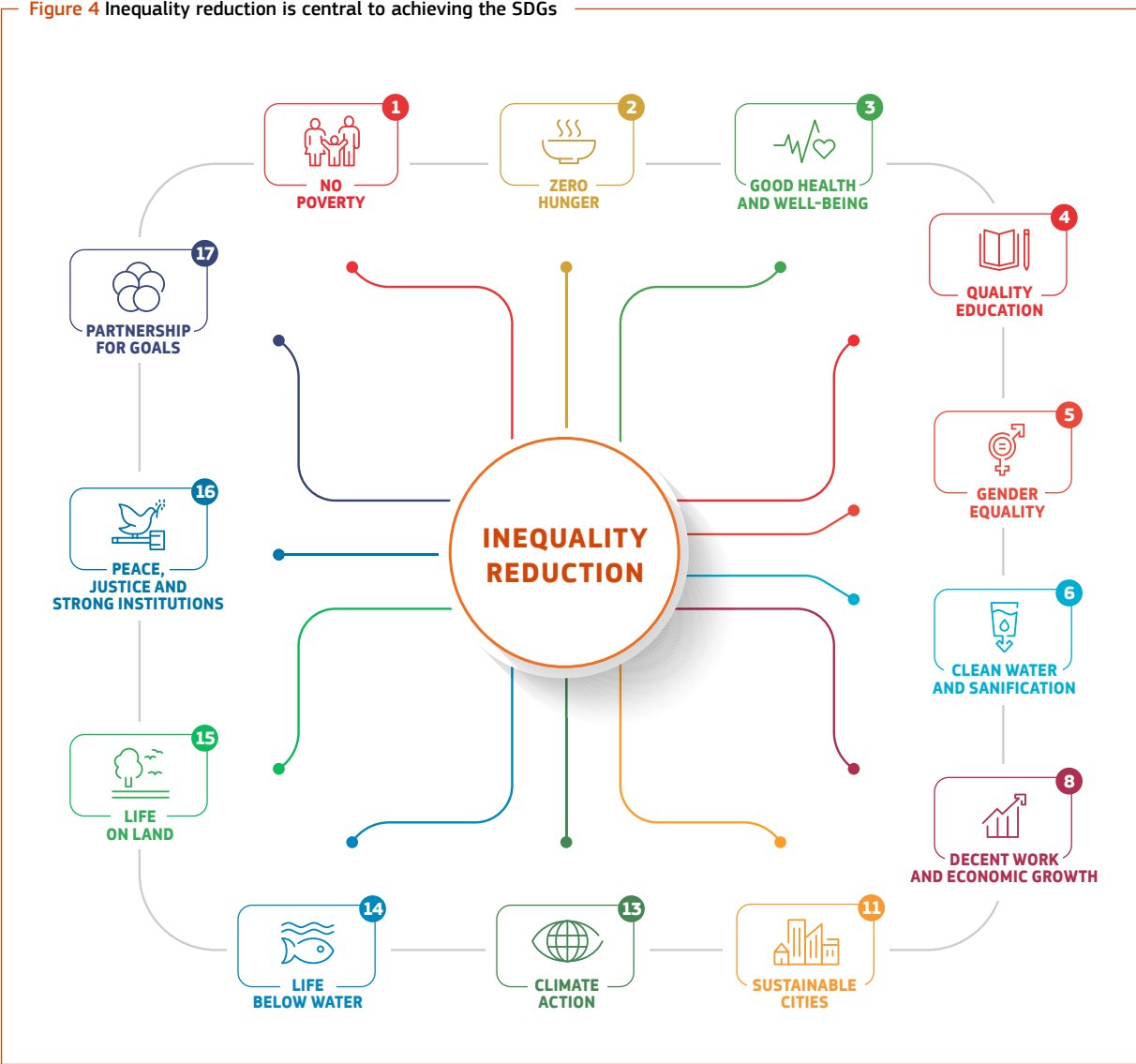
Inequality reduction and other Sustainable Development Goals

Empirical evidence shows that **income inequality is an obstacle** to achieving many other Sustainable Development Goals. We saw that inequality slows the fight against **poverty (SDG1)** and hinders working conditions and sustainable growth (SDG8), but inequality also hinders other struggles for peace, gender equality and protecting life on Earth.

Inequality is a threat to peace, democracy and to the **quality of institutions (SDG 16)** in general, because it undermines their legitimacy by weakening social **cohesion, trust** in government and community **resilience**. High income inequality also means that economic **interest groups** have a disproportionate influence over democratic processes; where decisions about financial and environmental health regulations are concerned, this tends to undermine sustainability. Inequality facilitates **corruption** and abuses of power, further eroding good governance. Even more critically, horizontal inequality (between groups) is linked to **conflicts** and **violence**.

Inequality has a demonstrated negative impact on the sustainable management of natural resources and **ecosystems** (forest, wetlands, fisheries, etc.) and has led to an accelerating biodiversity crisis. A stark example is poaching and illegal logging, be it for subsistence or income from black markets. Aside from uncontrolled biodiversity losses, poverty and inequality drive human activity into increasingly more secluded areas, where zoonotic pathogens like the COVID-19 pandemic originate. In the longer run, disadvantaged groups and ecologically vulnerable populations will bear the brunt of the disasters associated with climate change. Inequality worsens their resilience to the changes expected from a warmer climate and **magnifies the risk** by slowing down climate change mitigation. This directly threatens the Sustainable Development Goals relating to protecting our **climate (SDG13) and life, whether in the oceans (SDG14) or on land (SDG15)**.

Finally, inequality locks **women and girls** into unequal power relations, limiting their access to political power and decision-making as well as impairing their autonomy and freedom. Exclusion, discrimination and violence towards women tend to be higher in more unequal societies. Moreover, gender inequality is often aggravated when women experience other forms of exclusion, for instance because of their age, disability, ethnicity, sexual orientation, religion or geographical location. This is a direct threat to the fifth Sustainable Development Goal (SDG5).



2

A METHODOLOGICAL FRAMEWORK AGAINST INEQUALITY

C. The EU Policy Framework for tackling inequality

The EU's response to inequality

Seeking better policies to reduce inequality at the core of many European texts, from the third chapter of its Charter of Fundamental Rights, to the Treaty of Lisbon and the new European Consensus on Development. Tackling inequality is also essential to the European Green Deal and to addressing the climate crisis, as per the Paris Agreement. Because it studies the distribution of income and other inequality factors in depth, the European Commission's approach to inequality in new and existing programmes has spill-over benefits: it allows international cooperation stakeholders and policymakers to identify issues and intervention gaps sector by sector.

Drivers of inequality

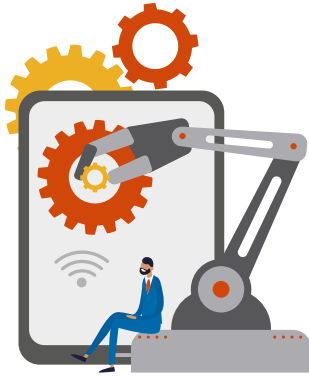
Inequality has many interlinked root causes, but three main **drivers of inequality** stand out: **global finance**, **labour market** reforms and **sociotechnical changes**.



Financial globalisation has had a negative influence on wealth distribution in three ways. First by facilitating the movement of capital across borders, leading to outsourcing and relocation, which increased demand for high-skill workers in low-income countries. Financial globalisation also brought more frequent financial crises that disproportionately affected the poor, as did the 2007 subprime mortgage crisis. Finally, financial globalisation maximises shareholder value to the detriment of labour, which hinders wage increases while favouring outsourcing and downsizing as well as weakening unions.



Labour market reforms aimed at increasing flexibility mean that workers have less bargaining power, which increases inequality. Furthermore, neoliberal policies such as low-income protection, low minimum wages and reforms lowering union density also limit the share of income apportioned to labour. In poorer countries, these policies have pushed many workers into the informal economy, further fuelling wage inequality and complicating inequality-reducing policies.



Technological developments and accompanying social changes have also played a central role in driving up inequality worldwide. A more digital and service-oriented economy rapidly increased the demand for skilled labour, awarding a growing wage premium to the highly skilled to the detriment of low-skilled workers. Automation has eliminated many jobs or raised the skill level necessary to obtain or keep them. On a global scale, technological advances have increased the returns on capital, which has fuelled an explosion at the very top of the income distribution, making the very rich even richer.

There are many other factors that can impact inequality: corruption, neoliberal policies, dependence on natural resources and ethnic fractionalisation, for instance, all contribute to social, economic and environmental inequalities.

Components to lower inequality

What can policymakers do to help reduce inequalities? Three important strands of initiatives are the **provision of public goods, gender-focused policies** and **income redistribution**. Public goods include health, education and infrastructure. Education plays a decisive role in reducing inequality. It is a strong determinant of occupational choices and therefore of income levels. Public investment in education can easily translate into reducing inequality by increasing the share of the population that has access to professional and social opportunities.



PROVISION OF PUBLIC GOODS

Available and affordable **access to basic infrastructure** (water and sanitation, electricity, heating, and waste disposal) is essential to public health, quality of life and community resilience. It increases the productive and free time available to individuals and families, laying the foundation for their equal opportunity to participate in the educational and economic systems.



GENDER-FOCUSED POLICIES

Policies **addressing gender inequalities** also tackle unequal access to health and education, which leads to diminished agency, political representation and economic opportunities for women and girls. Policies that improve women's socioeconomic status and address gender inequality also help lower income inequality. Many gender-focused policies have already been implemented and have proven their efficiency in **redistributing** and **balancing** care responsibilities, creating economic **opportunities** to close the gender gap in employment and entrepreneurship as well as tackling discriminatory laws and restrictive social norms.



INCOME REDISTRIBUTION

Trade policies can have a positive impact on inequality if they increase the income of the bottom 40% in relation to average or top incomes. The relationship between trade and inequality is ambivalent, as trade liberalisation has negatively affected wealth inequality (through a redistribution of income towards capital) and income (through detrimental labour market effects for less productive manufacturers). But trade openness can also be associated with lower inequality through wage increases for low-skill jobs. However, gains in terms of trade have to be taxed and redistributed in a progressive fashion if trade liberalisation is to reduce inequality in any meaningful way.

Redistributive policies such as a **progressive tax system** can be strong drivers of inequality reduction. Such policies usually have a direct effect on (secondary) income but also yield other benefits, such as investment in children's health and education.

D. Macro areas for policy action against inequality

Adjusting policies to levels of inequality

Some policies for reducing inequality target areas such as **labour markets, land ownership or finance and trade** regulations. These interventions aim to improve the distribution of **primary income** (which ignores taxes, subsidies and social benefits). Such policies include land reform and interventions supporting human capital development through education (which can be measured by the percentage of higher education or the skill premium).

Inequalities in terms of net fiscal and social transfers involve the distribution of **secondary income**. This type of inequality can be targeted by **fiscal policy** and measured using the amounts of taxes and transfers as a percentage of GDP, or the incidence of taxation. Tertiary income inequality is a way of accounting for the share of public expenditure in income and how it is distributed in the population. This can be measured through the amounts spent on public services as a percentage of GDP, or assessing the share of private services.

Macro policy areas relevant to fighting inequalities

EU objectives for the reduction of socioeconomic inequality revolve around **four building blocks**: Each building block represents a **macro area** for intervention.



3

ADDRESSING INEQUALITY THROUGH DEVELOPMENT COOPERATION

E. Key principles

Inequality dialogue

Inequality is a **complex and contentious issue** that generally requires thinking about its structural causes, as well as questioning political, technical and cultural norms that are often deeply rooted at the local or country level. An approach to inequality **informed by history** is necessary in order to build trust among cooperation partners and create the conditions of an open dialogue about the unequal distribution of wealth. An efficient way to discuss inequality issues is to bring as much evidence to the table as data availability and statistical capacities will allow. Disaggregated income data, a crucial element to understanding inequality, is often of poor quality if not completely lacking. Here, what is measured and what is not, matters. It reflects the country's priorities and is likely to determine how public policy is designed and where aid funds are directed.

Several approaches can be adopted to address inequality through policy interventions, depending on the level of existing **knowledge** about income distribution in the country, established **priorities** in terms of sectors or population groups and the **sensitivity** of inequality-related issues among stakeholders. The broad guidelines presented here are not about repackaging business-as-usual interventions in poverty alleviation. The next sections review and describe four principles that can be followed in order to tackle inequality through specific channels and integrate inequality reduction into development activities.

1
Key principle
BENEFICIARY
APPROACH

2
Key principle
TRANSPARENCY AND
ACCOUNTABILITY

3
Key principle
TARGETING THE
BOTTOM 40 PERCENT

4
Key principle
CONSIDER TERRITORIAL
DIMENSIONS



Key principle 1

BENEFICIARY APPROACH

The beneficiary approach aims at designing effective responses targeting the most vulnerable.

Poor and marginalised communities or individuals should be collectively identified and an outreach organised so that they can be included throughout the programming and project cycle. The beneficiary approach benefits greatly from participatory approaches that foster involvement of and dialogue with national and local stakeholders. It is also crucial to encourage the participation of women and marginalised groups in order to design policies tailored to their rights and needs. Targeting in this framework is demanding and requires identifying households and beneficiaries at several, detailed levels (geographical, income, etc.). There is no need to start from scratch, however: reinforcing the existing social dialogue with capacity-building mechanisms is an important dimension of the beneficiary approach and it can go a long way.



Key principle 2

TRANSPARENCY AND ACCOUNTABILITY

Poor availability of disaggregated data makes it difficult to understand and tackle inequality. The same is true for accountability and transparency.

It is all the more problematic that corruption is both a driver and an outcome of inequality. Improving transparency goes hand in hand with the participatory dispositions in the beneficiary approach. More participation and institutional accountability tend to render policies more inclusive as well as increasing transparency in policymaking.

Guidelines to transparency measures that promote lower inequality:

- Steer cooperation towards strengthening democratic institutions (*e.g.* freedom of information)
- Ensure transparency, public and private accountability, and access to information
- Strengthen national statistical systems
- Enforce well-implemented anti-corruption laws
- Wisely use digital governance to strengthen democratic processes and transparency
- Build capacity in civil society organisations, giving them access to information and the ability to conduct social audits of firms and administrations



Key principle 3

TARGETING THE BOTTOM 40 PERCENT

Raising income for the bottom 40% while ensuring a fair contribution from the top 10% is crucial to reduce inequality.

Fiscal policy is an important instrument in this regard but multiple areas of intervention should be combined. Tools and methods adapted to the characteristics of the bottom 40% are required, especially in countries where information about this segment of the population can be scarce.

Guidelines to reducing inequalities within the bottom 40%:

- › Promote universal and free access to healthcare and education, especially in remote areas
- › Cultivate social protection policies for those communities most vulnerable to food and climate risks
- › Sponsor the creation of decent employment with high labour standards, prioritising low-skill labour
- › Establish access to infrastructures, services and means of political participation for marginalised communities
- › Support fair and progressive tax reforms for citizens and firms, enforced by well-equipped authorities
- › Monitor and evaluate policies, focusing on living standards in the bottom 40%



Key principle 4

CONSIDER TERRITORIAL DIMENSIONS

Spatial inequality should be investigated for a better understanding of inequality in a country.

This geographical lens can help identify new issues and new policy gaps, for which geographically targeted interventions are required. Differences between regions, urban-rural inequality, intra-urban inequality, and inequality between rural centres are several dimensions to take into account when studying spatial disparities in wealth. Understanding the geographical allocation of funding with regard to the subnational distribution of income can be an efficient way to assess the extent to which policies and cooperation projects take inequality into account.

Here are some important aspects to consider when addressing geographic inequality:

- › Within-country inequality: proximity to the capital or agricultural production create geographic disparities, as do harsh climates or being landlocked
- › Economic indicators generally show better performance in urban areas, but intra-urban inequality can be extremely high
- › Rural areas exhibit different profiles, with remote areas being generally worse off than rural centres where trade concentrates

F. Practical steps

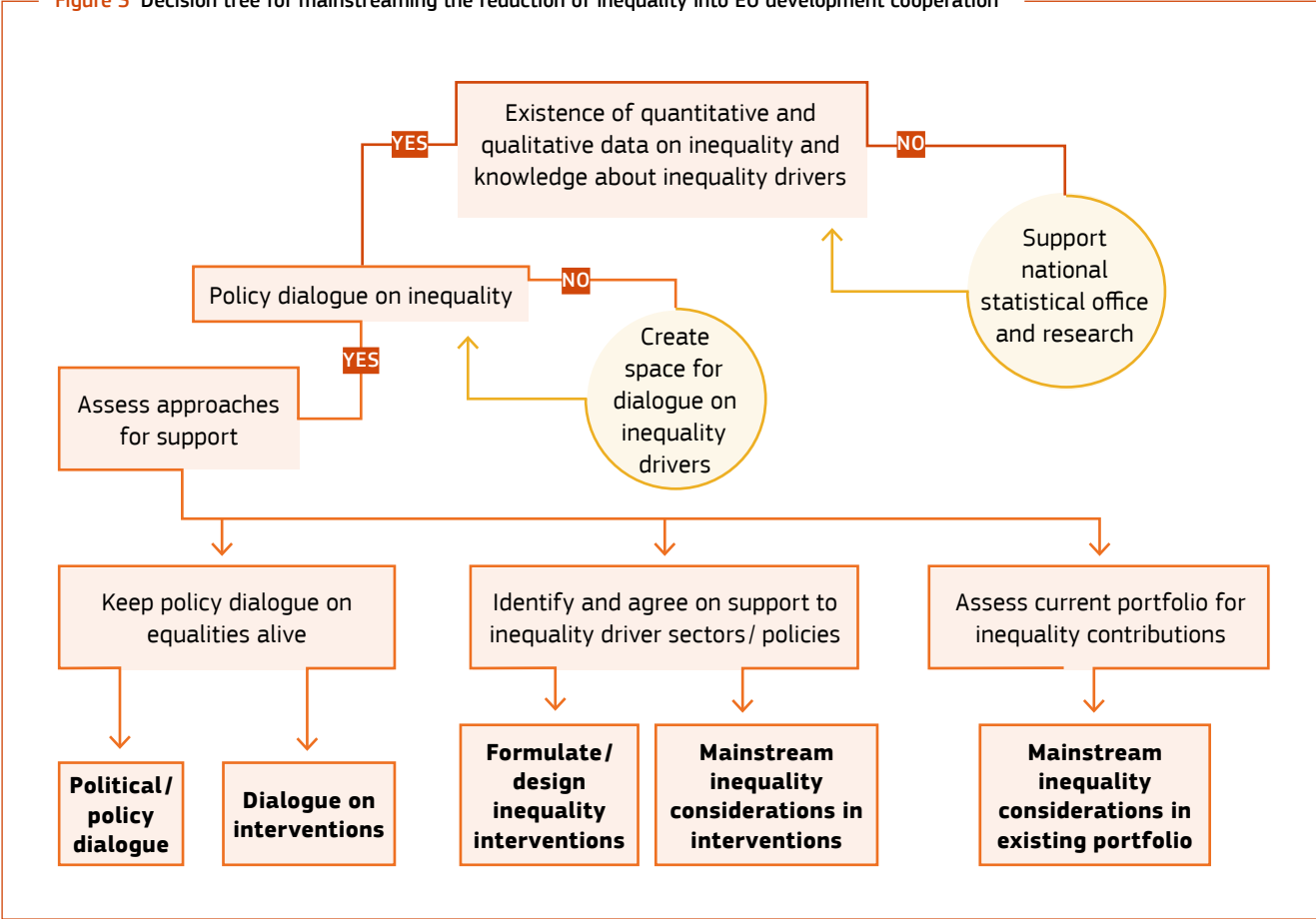
Practical steps to integrate inequality and cooperation

Inequality reduction can be integrated into **all stages** of project cycles. This decision tree (Figure 5) illustrates the logical sequence presented in this section:

- › Start by developing a better understanding of the overall situation of inequality in the partner country, or at least in some of its key sectors.
- › Feed the knowledge gained from context analysis into the dialogue between the EU and the partner country.
- › Use the context analysis and the dialogue to examine potential approaches to mainstreaming reduction of inequality into EU development cooperation. This step will differ depending on whether the programmes have already been formulated or not.
- › Budget support is an area that lends itself particularly well to improvements in cross-cutting issues such as inequality.

While the practical steps described here can serve as guidance to incorporating inequality reduction in cooperation programmes, it is crucial to bear in mind that each country is different and that there can be no blanket approach. Policy dialogue must be adapted to the particular political, cultural, social and policy context of each country.

Figure 5 Decision tree for mainstreaming the reduction of inequality into EU development cooperation



Context analysis

When it comes to reducing inequality, the very first step of development cooperation consists of an **exploratory assessment** of what is already known and what are the grey areas that need further investigation. This assessment should aim at answering the following questions:

- › Historical perspective: How has the situation evolved over time?
- › Drivers' identification: What are the main drivers of inequality? This will help understand how income, wealth and power are driven by sector policies.
- › Sector identification: What may be the scope for integrating inequality reduction into the development cooperation within the limits of what is needed, desirable and realistic?¹

At this stage, it is crucial to anticipate constraints and obstacles to inequality reduction. First, inequality can be a contentious issue, whose structural causes often go beyond the policy sphere. Second, quantitative evidence on inequality can be difficult to gather since data is not often available. In this case, the priority should be given to supporting the national statistical office, initiating studies and supporting research.

Policy dialogue

The EU has firmly embedded the fight against inequality as a cross-cutting objective in each of its programmes to achieve better development outcomes. Conditionality could be a way to achieve this goal by tying cooperation to action on inequality and the European Union's role can be used effectively in expanding the agenda and engaging with stakeholders to create a policy dialogue (through studies and research or spaces of dialogue, for instance). A deadlock can arise if policy dialogue is held with precisely the social group that benefits from inequality. In those cases, it is important to stand firm on the basis of broad empirical evidence, using all the tools available to build a systematic and shared representation of inequality.

Ideally, the EU should integrate the reduction of inequality in all its interventions but, if prioritisation must be made, it should be the results of a thorough situation analysis. Nevertheless, policy dialogue should focus on taxation since progressive tax systems yield a double dividend in the fight against inequality: they directly reduce the gap between rich and poor, while also raising revenue that can be invested in social spending.

Inequality and programme design

The programming stage provides a great opportunity to implement a proper distributional impact assessment, allowing us to understand the extent to which both the EU's operations in the country and the government have paid attention to inequality in the past. On this basis, the EU should select the sectors in which EU cooperation will mainstream efforts to reduce inequality even though an overall approach in which inequality is simply mainstreamed into all relevant sectors and interventions is possible. As mentioned earlier, where neither data nor space are yet available to address inequality, the EU should commit to research and studies. Throughout this programming phase, it is important to agree with the country on the performance indicators that will serve to monitor progress. Those indicators measuring inequality in the country and its drivers, will drive the identification and formulation process.

1. The reference document (Volume 3, box 2,2) provides a list of concrete actions to discover what is known about inequality in the country, including references to several tools to implement context analysis.

Subsequently, inequality can be integrated into the design of interventions, through sectoral problem analysis, choice of intervention and making sure that inequality is not neglected when designing and implementing interventions. The context analysis should be deepened to include geographical and spatial analyses and understand the specifics of inequality in the sectors targeted. By combining both quantitative and qualitative data, this sectoral problem analysis can dig deeper into how inequality is driven by sector policies and their financing. During this phase, it is primordial to keep the beneficiary approach in mind: the final beneficiaries of mainstreaming the reduction of inequality should be the bottom 40 per cent, even if the direct beneficiaries of support are the institutional structures with which the project or budget support directly interacts.

Including an inequality scope in existing interventions

When interventions and programmes are already formulated, the EU should at least ensure that they do not have negative effects on inequality. If this appears to be the case, corrective measures should be taken. A monitoring system can be designed in order to assess the effect of the project on inequality. The system should include both quantitative and qualitative indicators to facilitate participation and understanding by all stakeholders.

Table 1 Possible responses to different situations

| SITUATION | POSSIBLE RESPONSE |
|---|--|
| Insufficient research and data on inequality | <ul style="list-style-type: none"> ➤ Launch studies using technical cooperation; work with the national statistical office ➤ Program a research project develop partnerships (with universities, The National statistical office, development partners EU Member States) ➤ Prepare a call for proposals targeting inequality (mapping and dialogue) and launch it |
| Policy planning and development present challenges to integrating an inequality perspective | Design a capacity-building project to develop policies; the focus could be sectoral or fiscal |
| Inequality is recognised only in some sectors, subsectors or regions | <ul style="list-style-type: none"> ➤ Design a project that mainstreams reducing inequality ➤ All project cycle phases should integrate an inequality perspective in dialogue, terms of reference, steering committees and working groups |
| Inequality is acknowledged at sector level or in general; sector policy is being developed | <ul style="list-style-type: none"> ➤ Engage in and pursue dialogue on sector policy ➤ Proposed budget support ➤ Agree on the inclusion of an inequality perspective in the eligibility criteria analysis |
| There is no space for inequality on the political agenda | <ul style="list-style-type: none"> ➤ Probably only dialogue can be envisaged ➤ The EU should use its status to collect information |
| In all situations | <ul style="list-style-type: none"> ➤ Policy dialogue is required and should inform strategic and political dialogue with the country and its government ➤ Operational dialogue on existing interventions and with their stakeholders will feed the policy dialogue |

Inequality reduction through public finance

Budget support can be an effective vehicle for bringing inequality concerns to the attention of the authorities and wider stakeholders. Budget support can simultaneously raise awareness, provide support, and both initiate and fuel policy dialogue. First, an inequality angle can be integrated into the analysis and monitoring of the eligibility criteria of budget support. The analysis of the macroeconomic policy and performance of the public finance management reform could easily include inequality within its scope. Second, budget support can provide complementary support that can help stakeholders integrate inequality reduction into their policies and monitoring systems. Third, discussions of budget support performance indicators are an especially valuable tool for addressing inequality issues and the indicators should both reflect the inequality reduction objectives and measure inequality outcomes. Finally, the forum of budget support dialogue with the government and other stakeholders can be used to launch and inform inequality reduction strategies.

For additional information and more detailed content, be sure to check out the complete reference document **“Addressing income inequalities through development cooperation”**, Volumes [1](#), [2](#) and [3](#), available on the website of the Publications Office of the European Union.



Publications Office
of the European Union