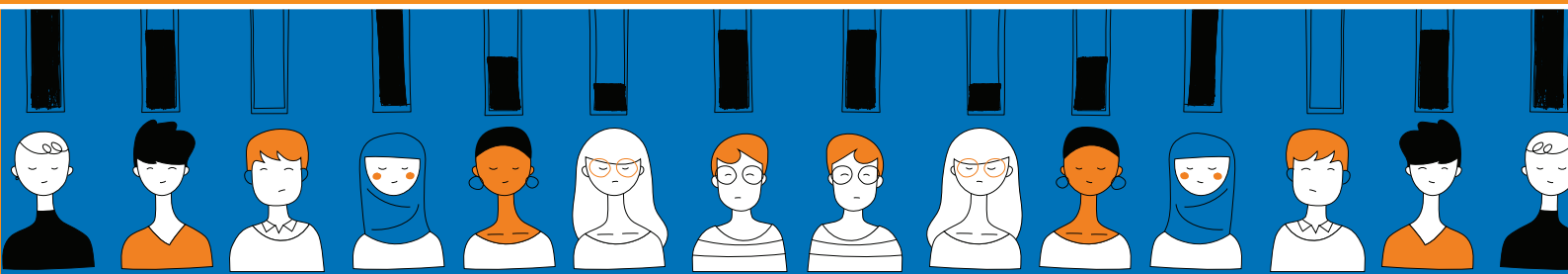




Tools and Methods Series

Reference Document N° 29



Addressing **income inequalities** through development cooperation

*Volume 3:
Guidelines for mainstreaming
the reduction of inequality in
interventions*

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income inequalities
through development cooperation

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Guidelines for mainstreaming the reduction of
inequality in interventions*

Directorate-General for International Cooperation and Development
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This document is the 29th reference document in the EuropeAid Tools and Methods Series. The collection includes three subcollections: guidelines, reference documents and concept papers.

ABBREVIATIONS AND ACRONYMS

AFD	Agence Française de Développement	MIF	Multidimensional Inequality Framework
CEQ	commitment to equity assessment	SCD	systematic country diagnostic
CRII	Commitment to Reducing Inequality Index	SDG	Sustainable Development Goal
DG	Directorate-General	UCT	unconditional cash transfer
ECD	early childhood development	UHC	universal health coverage
EU	European Union	UN	United Nations
GII	Gender Inequality Index	VAT	value added tax
ILO	International Labour Organization	WASH	water, sanitation and hygiene
LoCAL	Local Climate Adaptive Living Facility		

TABLE OF CONTENTS

Acknowledgements	iii
Abbreviations and acronyms	iv
Introduction	1
About the reference document	1
Addressing income inequality through development cooperation	2
Chapter 1: Key principles for mainstreaming	9
A beneficiary approach: involvement and social dialogue	9
Accountability	10
(Re)distribution: targeting the bottom 40 per cent	10
Address spatial inequality and use geographical targeting	11
Chapter 2: Practical steps for mainstreaming	13
2.1 Conducting context analysis in relation to inequality	16
2.2 Raising inequality awareness in policy dialogue and keeping the dialogue alive	19
2.3 Mainstreaming the reduction of inequality at different stages of the programme cycle	25
2.4 Addressing inequality through budget support	33
Annexes	
A: Useful data sources	35
B: Inequality tools	39
References and resources	47



INTRODUCTION

About the reference document

The **objective of this reference document** is to support the ongoing effort of the European Union (EU) to strengthen its approach to development cooperation to address inequalities in its partner countries. While recognising the importance of all forms of inequality, the document will focus primarily on **income inequality, effective policy responses and how to address inequality in development cooperation**.

This exercise reflects the commitment of the Directorate-General for International Partnerships (DG INTPA) to keep pace with the global reflection on inequalities and also to move beyond the objective of poverty reduction, as enshrined in the EU treaties, to that of inclusive growth – defined in the **Agenda for Change** as people’s ability to participate in, and benefit from, wealth and job creation – and eventually to the new concept of equitable and sustainable growth, as proposed in the Addis Ababa Action Agenda and the 2030 Agenda for Sustainable Development.

Most important, the reference document is a direct follow-up on a major step forward made by the EU towards recognising the problem of inequality and addressing the risks it entails. In 2019, the European Commission staff working document ‘Implementation of the new European consensus on development – addressing inequality in partner countries’ (EC, 2019), and the subsequent Council conclusions (Council of the European Union, 2019), recommended the development of **an operational guidance document to mainstream reduction of inequalities into development cooperation**.

This strategic study collects and builds on the knowledge produced in previous studies, and effectively contributes to making DG INTPA strategies, instruments and interventions more responsive to the challenge of **reducing inequality and addressing its causes**. It is structured in three complementary volumes, each dedicated to a specific part of the work.

Volume 1 presents the theoretical background to understanding inequality, including its trends. Chapter 1 is meant to help those who are not very familiar with the relevance of inequality to the fight against poverty, by offering a basic review of definitions and measurements. Chapter 2 will help readers to understand the importance of addressing inequality from an economic perspective and to become familiar with the main determinants of trends towards both lower and higher inequality. It will further illustrate what the main arguments for tackling economic inequality are and some of the main international responses.

Volume 2 presents 18 briefs on policies with a demonstrated impact on inequalities. The policy areas covered are health and nutrition, education, social protection, transport and mobility, energy, climate change, water and sanitation, land, urban development, territorial development, public finance (i.e. taxation), trade, growth, digitalisation, financial inclusion, labour and employment, governance and the rule of law, and gender. No particular priority is assigned to any of the policy areas covered, since all of them have effects on inequalities.

Each policy brief in Volume 2 can be linked to one of the macro areas identified by DG INTPA in its policy note on socioeconomic inequalities (Table 1). In that policy note, the EU objectives for the reduction

of socioeconomic inequalities revolve around four building blocks: (1) enabling people – ensuring equal opportunities; (2) supporting and safeguarding sustainable and inclusive growth; (3) improving the collection, use and distribution of resources; and (4) protecting people from risks. Each building block represents a macro area for intervention.

Table 2 provides an overview of references that can be found in the policy briefs to other policy briefs (direct mentions are indicated in blue and indirect mentions in orange).

This volume, Volume 3, presents guidelines and tools to help EU staff mainstream reduction of inequality into all their development cooperation operations.

Addressing income inequality through development cooperation

Any policy, programme or project has an impact on inequality, positive or negative, whether it is intentional or not. Looking at interventions through an inequality lens is important. It challenges us to think about differences of opportunities and outcomes in everything we do: research, analysis, programming and project formulation, design, implementation, and monitoring and evaluation. Addressing inequality in development programmes and policies also brings crucial manifestations of inequality, such as gender inequality, to the foreground and helps us to understand power imbalances and their effects on policies and outcomes.

Orienting national, regional, global and development cooperation interventions towards the reduction of inequality is more challenging than orienting them towards the reduction of poverty. An orientation towards inequality is about implementing a rights-based approach to development policy through universalist, egalitarian and redistributive ambitions. A human-rights-based approach to development policies aims at a substantive equality of opportunities that will contribute to the reduction of inequality of outcomes. This goal can be achieved by dedicating the ‘maximum of available resources’ (CESR, 2018) to achieving the full realisation of economic and social

rights for all people, enabling them to make the most of their capabilities (Saiz and Donald, 2018).

Addressing inequality through development cooperation programmes would ideally involve a different way of approaching the development cooperation process. First, it would involve acknowledging that inequality exist and are a burden to the progress and the development of societies. Second, it would involve ensuring that all development cooperation actions are assessed through an inequality lens: they should be designed either to reduce inequality or to ‘do no harm’ by preventing high or increased levels of inequality.

In practice, various difficulties could arise, for several reasons, including the following.

- **Inequality is a contentious issue.** It touches at the heart of societies. It is about power and exclusion. Acknowledging the existence of inequality often means confronting historical, cultural and traditional norms that are deeply rooted at the country level. It also involves dealing with existing power elites, often closely interlinked with government structures. Finding the right forums to talk about and discuss these realities openly, and to make decisions regarding inequality, can be difficult.
- **Structural causes of inequality often go beyond the policy sphere.** Historical arrangements – including colonial and post-colonial arrangements – in many countries strongly influence which groups are favoured by businesses, by policies and by those who hold power. Although the past cannot be changed, it is important to recognise this reality to build trust and be able to have an open dialogue to assess and design policies that can correct those imbalances. Similarly, discrimination against women, ethnic minorities, low-caste groups, poor people or other identity-based minorities may be deeply embedded in social and cultural norms. This may have normalised the discrimination, further deepening exclusion and inequality. Only when the different stakeholders recognise these factors will it be possible to support or facilitate change to reduce inequality.
- **Quantifying evidence on inequality requires data.** Detailed individual data on economic

TABLE 1 Macro policy areas relevant to tackling inequalities, as defined by DG INTPA

POLICY AREAS	POLICY BRIEF AND POLICY INTERVENTIONS
Macro Area 1: Enabling people – ensuring equal opportunities	
Investing in education	<ul style="list-style-type: none"> ● Education ● Improve teaching and leadership ● Promote early childhood development (ECD): early intervention to prepare children for school and avoid dropout ● Identification of vulnerable groups facing inequality and increasing their opportunities ● Practical opportunities and approaches to improve equity in education ● Policy development and legislation ● Community-level representatives of marginalised populations ● Financing: conditional cash transfers (CCTs) and unconditional cash transfers (UCTs) ● Protection and resilience building ● Revised curricula and materials ● Good management and governance
Facilitating access to assets	<ul style="list-style-type: none"> ● Land policies ● Land redistribution policies aimed at modifying skewed land distribution patterns ● Address land tenure, control and ownership, with a focus on the most vulnerable ● Review conditions for access to land and land adjudication processes (access, taxation, compensation) ● Land registration and titling can be used to protect smallholders' rights of direct access to land, and awareness campaigns can be used to avoid commodification of property rights ● Set up and enhance land governance participatory platforms ● Support women owners ● Enhance land valuation and taxation ● Provide financial services to enable access and development ● Financial inclusion ● Financial sector policies tailored to target financial inclusion to support excluded populations ● Digital financing: mobile money, online banking, etc. ● Lifting credit constraints: credit and microcredit for micro, small and medium-sized enterprises (MSMEs) ● Promote interoperability agreements to provide digital financial services in a convenient, affordable and fast way
Addressing gender inequalities	<ul style="list-style-type: none"> ● Collect data for gender mainstreaming: precondition for designing and implementing other policy options ● Remove gender-based legal restrictions and promote equality before the law ● Protecting women from violence: support regional and national bodies and gender strategies. ● Supporting and protecting women human rights defenders, strengthening protection mechanisms and supporting their leadership role ● Promote women's entrepreneurship ● Revise tax policies to encourage women to join the labour force ● Create space in government budgets for priority expenditures, such as on infrastructure, health and education, to close the gender gap ● Promote universal health coverage (UHC), including sexual and reproductive health and rights ● Deconstruct stereotypes and work on intersectionality ● Promote equal participation and leadership

TABLE 1 Macro policy areas relevant to tackling inequalities, as defined by DG INTPA (continued)

POLICY AREAS	POLICY BRIEF AND POLICY INTERVENTIONS
Digitalisation for all	<ul style="list-style-type: none"> ● Digitalisation ● Ensure accessibility and availability ● Promote digital identity ● Leverage existing infrastructures and capabilities within countries ● Promote interoperability agreements to provide digital financial services in a convenient, affordable and fast way ● Guarantee data security and privacy ● Promote financial literacy ● Digital education and health: e-health and e-education
Macro Area 2: Supporting and safeguarding sustainable and inclusive growth	
Promoting decent work conditions and fair wages	<ul style="list-style-type: none"> ● Labour and employment ● Minimum wage policies and collective bargaining ● Active labour market policies and programmes ● Labour market regulations
Targeting investments for the bottom 40 %	<ul style="list-style-type: none"> ● Water and sanitation ● Reduce inequalities through universal and equitable access to water, sanitation and hygiene (WASH) ● Ensure clean water and decent sanitation and hygiene in schools ● Guarantee WASH for workers ● Climate change adaptation and resilience for WASH ● Domestic resources, international public financing and increased accountability to ensure that no one is left behind ● Prepare for emerging priorities, notably the rapid development of urban areas ● Transport and mobility ● Application of sound transport planning and programming ● Building transport infrastructure can provide direct benefits ● Promoting labour-intensive forms of investment ● Assess social distributional effects of transport operation and management ● Energy ● Move from a financial rationale to a socioeconomic rationale ● Promote innovation and technology ● Promote sustainable, clean, secure and affordable energy production that is properly adjusted to need, including through the legal and regulatory framework should ● Promote pro-poor tariff structures ● Support programmes to create awareness and to facilitate adult education and learning, skills development and targeted mentoring for business development ● Urban development ● Inclusive urban development – access to basic infrastructures ● Participatory slum upgrading programmes ● Territorial development ● National strategic commitment to territorial development ● Development-friendly decentralisation process ● National urban agenda and rural development strategy ● Set of supportive national policies ● Inspire an endogenous development process, involving regional and local governments

TABLE 1 Macro policy areas relevant to tackling inequalities, as defined by DG INTPA (continued)

POLICY AREAS	POLICY BRIEF AND POLICY INTERVENTIONS
Maximising the employment potential of investment and trade	<ul style="list-style-type: none"> ● Growth ● Assess the employment impact of investments and industrial policy choices and prioritise employment-intensive investments ● Target MSMEs in private sector development and support formalisation ● Target vulnerable workers through specific labour market policies ● Ensure the participation of workers' representatives in the design and monitoring of business environment reforms ● Trade ● Effectively apply labour rights provisions in EU trade agreements and promote responsible business conduct and fair and ethical trade principles ● Increase national budget expenditures (through budget support measures) on key government institutions for labour standards enforcement ● Support South–South cooperation and regional economic integration processes ● Prioritise the targeting of small and medium-sized enterprises under the Aid for Trade initiative ● Support developing countries to enhance competition policies and to enforce relevant legislation that contributes to restricting the abusive behaviour of large companies in international markets
Macro Area 3: Improving the collection and distribution of resources	
Supporting domestic resources mobilisation and progressive fiscal policies, and addressing tax evasion and illicit financial flows	<ul style="list-style-type: none"> ● Public finance: taxation ● Promote progressive tax systems combined with redistributive public expenditure policies ● Raise tax effort and increase tax capacity ● Enlarge the tax base ● Rely more on direct taxes and transfers to achieve redistributive objectives, rather than on indirect taxes and subsidies ● Avoid regressive indirect tax exemptions ● Encourage individual tax credits and avoid individual tax deductions ● Enhance the progressivity of personal income taxes ● Promote international and regional efforts to discourage a race to the bottom on corporate income tax rates ● Promote international cooperation to fight tax avoidance and tax evasion ● Accompany progressive taxation with credible, transparent and redistributive expenditure policies ● Governance and the rule of law ● Actions at project/programme level: ● Promote inclusiveness and participation ● Increase transparency – in particular in relation to the budget – communication and information provision ● Reinforce accountability and external oversight ● Support the design and implementation of reforms in priority areas, and approach them through political dialogue, policy dialogue and budget support, as well as through cooperation or trade agreements

TABLE 1 Macro policy areas relevant to tackling inequalities, as defined by DG INTPA (continued)

POLICY AREAS	POLICY BRIEF AND POLICY INTERVENTIONS
Macro Area 4: Protecting people from risks	
Expanding universal social protection and UHC	<ul style="list-style-type: none"> ● Social protection ● Social assistance, including non-contributory UCT programme and CCT ● Social insurance ● Social protection for informal workers ● Health and nutrition ● Promote UHC through resilient and sustainable health systems ● Ensure equitable access to essential health services, including sexual and reproductive health services ● Increase support for primary healthcare ● Promote ECD ● Promote breastfeeding, provide nutritional supplements for young children and ensure access to sufficient amounts of safe and nutritious food for normal growth and development and an active and healthy life for all
Fighting climate change	<ul style="list-style-type: none"> ● Climate change ● Increase the local knowledge base on climate change and its impacts: ● Climate risk and vulnerability assessment ● Social and informal learning ● Exchange with local authorities and actors on transdisciplinary 'co-production' ● Implement climate measures: ● Preventive planning and disaster risk reduction ● Building and renovating infrastructure ● Increasing resource efficiency ● Increasing energy efficiency ● Preserving ecosystems ● Advancing women's empowerment and gender equality ● Develop an integrated approach for inclusive climate action: ● Prioritise efforts towards mainstreaming climate change action, notably in local development planning ● Understand the trade-offs, synergies and incompatibilities between the measures proposed in nationally determined contributions and in sector strategies ● Assess capacity and the systems in place that are able to support inclusive climate action and capacity and institution building ● Underline the added economic benefit of developing renewable energy sources ● Explore domestic opportunities to mobilise climate finance with international support, where appropriate

TABLE 2 Interlinkages between policy briefs

POLICY BRIEF		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	Health and nutrition																		
2	Education																		
3	Social protection																		
4	Transport and mobility																		
5	Energy																		
6	Climate change																		
7	Water and sanitation																		
8	Land																		
9	Urban development																		
10	Territorial development																		
11	Public finance: taxation																		
12	Trade																		
13	Growth																		
14	Digitalisation																		
15	Financial inclusion																		
16	Labour & employment																		
17	Governance & rule of law																		
18	Gender																		

inequality (income and wealth before and after taxes and transfers, income and corporate tax records) are often not available. Disaggregated data (by location, sex, income level, ethnicity and other relevant identity-based factors) that can be used to compare the unequal realities of different groups are generally scarce. In many countries, national statistical capacities are weak, and disaggregated data are available only in those sectors that have received support from international institutions (e.g. from United Nations agencies or through bilateral aid on education or health). In fact, what is and what is not being measured matters; it reflects the country's priorities and it is likely to determine how public policy is designed and where aid funds are directed.

- **Gathering new data is a costly and lengthy process, and sometimes it is just not possible.** But even where relevant data exist (e.g. where national household surveys are carried out), analysing them in relation to inequality requires specific knowledge and skills (different skills than

the ones needed for policy analysis and strategy), as well as time and resources.

Depending on (1) the level of existing knowledge about the reality and the challenges of inequality in the country in question (data and studies available, existing initiatives related to inequality, and so on) and (2) how sensitive the issue of inequality is among stakeholders in the country, **different approaches and entry points into addressing inequality through development cooperation can be used.** The temptation to equate poverty alleviation with inequality reduction, and just repackage business-as-usual interventions, may be great. These guidelines are meant to help at a practical level to avoid this risk, as well as the risk of falling into traps and simplifications. To that end, they are divided into two chapters.

Chapter 1 provides a set of four principles to be followed for mainstreaming the reduction of inequality, namely:

- a **beneficiary approach** – involvement and social dialogue,
- **accountability**,
- **(re)distribution** – targeting the bottom 40 per cent,
- **geographical targeting** to address spatial inequality.

Chapter 2 presents an array of actions that can be taken to start mainstreaming the reduction of inequality into cooperation programmes. The various actions are linked to suggested tools, which are explained in detail in the annexes:

- **Annex A:** Data sources on economic, social, political and environmental inequality,
- **Annex B:** Inequality tools.

CHAPTER 1

KEY PRINCIPLES FOR MAINSTREAMING

The principles described in the following sections are precepts that can be followed to address inequality and integrate the reduction of inequality into development activities – they can be used to reorient development cooperation through mainstreaming reduction of economic inequality. As shown in Volumes 1 and 2, a wide range of very different outcomes and opportunities affect income inequality. In this volume, Volume 3, the assumption is made that all the actions and principles set out here will have some effect on income inequality.

A beneficiary approach: involvement and social dialogue

In any policy or programme that aims to reduce inequality, particular attention must be paid to focusing its design on reaching the beneficiaries as well as to the efficacy of the targeting itself. Such efforts should not only target the most vulnerable but also include them throughout all the steps of the programming and project cycle. This requires different actors and institutions to reach a common understanding and commitment on existing inequality. They should agree on who the poorest and the marginalised are, where they can be found, and how best to reach them.

This process requires sensitivity and inclusive consultation. Overcoming reluctance to acknowledge the existence of inequality and the challenges they pose requires honest, open and transparent analysis and reflection by different actors at different levels (local, provincial, national and international) and in different constituencies (government, donors, social partners, the private sector and civil society).

Some actions to facilitate awareness of and discussions about inequality are listed below. When undertaking policy dialogue, it is particularly important to apply these principles to find sustainable solutions to inequality challenges.

- **Use participatory approaches** to consult and involve key national or local stakeholders in the design of effective responses targeting the most vulnerable. When possible, use focus groups with actual beneficiaries. Target households at the bottom of the income distribution, which the authorities, and even non-governmental organisations, usually do not reach. This targeting is demanding, as it means identifying which households are at the bottom of the income distribution in different strata of the population and in terms of spatial distribution.
- **Support the participation of women and members of marginalised groups** to learn how to address the structural causes behind discrimination against them and how different policies and cultural norms and attitudes affect them. Civil society organisations are valuable interlocutors in this regard. The participation of women's groups in the process, for example in gender-responsive budgeting, has been very important in designing policies that address the needs and demands of women and girls. Supporting women's organisations is a direct and effective way to achieve progress on equality and women's rights.
- **Support and promote the participation of diverse stakeholders**, with special emphasis on including the voices of people from marginalised and excluded communities, in context analysis, programming, formulation and identification, implementation, and monitoring and evaluation.

The participation of the most vulnerable should be an integral part of the process.

- **Support and facilitate the reinforcement and capacity building of existing social dialogue mechanisms**, including different actors from different constituencies and at different levels. This should be done during the analysis of the context of inequality but also throughout policy and programme formulation and design, implementation, and monitoring and evaluation, to ensure that all the different views can be expressed at each stage (see Dereymaeker and Als, 2017).

Accountability

Accountability is fundamental to tackling inequality. A lack of accountability and transparency is a breeding ground for corruption, which strongly favours inequality⁽¹⁾.

Lack of access to information (e.g. on policy decision-making processes and agreements, budget allocations and expenditures) reduces opportunities for citizens to improve their lives. Similarly, a lack of the disaggregated data required to measure and expose inequality makes the situation invisible and implies that governments take decisions without consideration for their impact on inequality.

The need to increase transparency goes hand in hand with the need to create, facilitate and protect spaces for civil society participation, so that the demands of the most marginalised are heard and taken into account. Promoting **participation and institutional accountability** makes policies more inclusive, and it increases transparency and accountability in policy-making. It thus helps to break the cycles of political capture and wealth and power accumulation, which is crucial to tackling poverty and inequality. It also contributes to better planning, monitoring and evaluation of the impacts of policies on inequality.

Some actions in this regard include the following (see Volume 2, Policy Brief 17: Governance and the Rule of Law and Policy Brief 8: Land).

- Orient cooperation towards strengthening democratic institutions, in particular in relation to legislation on the freedom of information.
- Promote transparency and access to information, including information regarding decision-making, contracting processes, land reform, and tax and budgeting initiatives.
- Support national statistical systems and their capacity to generate disaggregated data related to inequality between different groups of people.
- Support anti-corruption laws and measures, as well as their implementation and the institutions in charge of them.
- Support the establishment and promotion of channels to ensure the public and private accountability of different actors.
- Support digital governance and its role in enhancing democratic governance and transparency.
- Support building the capacity of civil society organisations, their access to information, their ability to conduct research and analysis in key areas, and their involvement in the implementation of social audit initiatives (e.g. public hearings).

Particular attention should be paid to increasing participation by raising awareness of inequality in policy dialogue and keeping dialogue alive.

(Re)distribution: targeting the bottom 40 per cent

Lifting up the bottom 40 per cent of the population, while ensuring a fair contribution from the top 10 per cent, is a must for the reduction of inequality, as illustrated by Target 10.1 under the Sustainable Development Goals. Fiscal policies, through their capacity both to raise public revenues and to finance inclusive policies, can play a crucial role in the redistribution of income and wealth but also in ensuring development opportunities for the very poor (see the policy briefs in Volume 2; they all highlight how different policies can contribute to the reduction of inequality).

⁽¹⁾ For more about the correlation between corruption and inequality, see Transparency International (2017).

If the first target of Sustainable Development Goal 10⁽²⁾ is to be met, interventions should aim to improve the lives of and opportunities for the bottom 40 per cent of the population. Lack of appropriate design and capacity to actually reach the poorest (because of, e.g. insufficient funding, underdeveloped banking systems or limited data) can severely undermine distributional effects and generate substantial trade-offs.

Annex B includes information about how to assess the levels of inequality in a country and provides specific tips, tools and methods relating to understanding the characteristics of the bottom 40 per cent of the population.

Some actions that can be implemented to lift the bottom 40 per cent include the following.

- Apply general policy principles of universal and free access to quality health and education, and support the expansion of these systems to the most remote areas, where often services are absent (see Volume 2, Policy Brief 1: Health and Nutrition and Policy Brief 2: Education).
- Support social protection policies for the most vulnerable communities, targeting regions that suffer from food insecurity and poor nutrition and those affected by the effects of climate change (see Volume 2, Policy Brief 3: Social Protection).
- Promote the creation of good jobs, paying special attention to sectors with a high demand for low-skilled labour, guaranteeing decent working conditions in compliance with international labour standards (see Volume 2, Policy Brief 16: Labour and Employment).
- Establish means of enabling access to services (e.g. health, education, transport, energy, water and sanitation) for specific groups to overcome cultural norms that prevent sectors of the population from receiving adequate treatment, education and jobs (see Volume 2, Policy Brief 1: Health and Nutrition, Policy Brief 2: Education and Policy Brief 16: Labour and Employment).

⁽²⁾ Target 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

- Monitor and evaluate results in terms of improvement to the living conditions of the bottom 40 per cent.
- Use the **Equity Tool**, an online survey, to find out in which wealth quintile a beneficiary is (see **Annex B** for more detail).
- Support fair and progressive tax reforms, so that the tax effort that citizens and companies are required to make increases more than proportionally according to their income and wealth. In the same vein, support the strengthening of tax authorities to increase their capacity to collect revenues and fight tax dodging (Volume 2, Policy Brief 11: Public Finance: Taxation).

Address spatial inequality and use geographical targeting

When reading, discussing, analysing or commissioning research on inequality, take into consideration not only inequality between groups of people (by income, gender, community or ethnic group, disability, religion, and so on) but also how the following types of inequality may be expressed in the country.

- **Within-country inequality – territorial dimension.** Differences between regions or provinces and within regions or provinces are common. Often provinces that are closer to the capital, or to the sea, are better off, as are provinces with particularly good agricultural conditions.
- **Urban versus rural inequality.** Economic and social indicators usually show higher performance in urban than in rural areas.
- **Intra-urban inequality.** Although urban areas are usually better off than rural areas, there are significant differences within cities. In many developing countries, cities that have experienced high population growth have seen the development of vast slum areas, where the most basic services are absent.
- **In rural areas, inequality between rural centres and remote areas.** In some countries, rural areas that are far from the cities or villages where trade concentrates have little or no public support or

private sector presence. A lack of infrastructures makes it very difficult to reach these communities.

Other conditions being equal, geography can determine inequality at birth. Reaching out to the poorest and excluded communities is crucial to tackling inequality. However, this can be arduous. First, who these communities are and where they live must be known, and it is precisely their condition of exclusion that often makes them invisible. Second, even if who they are and where they live are known, often the infrastructure needed to reach these communities (roads, transport, communication) and/or taboos around their condition or identity mean that extra efforts are required to reach them. Third, these difficulties make geographical targeting very expensive and time consuming, so its implementation requires strong commitment on the part of donors, the government or any other implementing institution.

An analysis of how funding is allocated geographically vis-à-vis the subnational distribution of incomes can be informative and useful in assessing just how pro-poor and inequality-sensitive a cooperation portfolio in a given country is. Even if the findings of such an analysis suggest that much more can be done to target the poor and marginalised groups, this should not be considered damning; rather, the analysis should be viewed as a means of gaining a comprehensive overview of a donor's engagement in a given country or in a number of countries (see [Annex B](#), for more information about how to measure geographical allocation of budgets).

- **Conduct national-level budget analysis looking at how budgeting benefits different locations** (regions, rural versus urban areas, differences within urban areas and differences within rural areas). This can reveal how public spending skews resources towards the more advantaged parts of the country.
- **Support district and local-level budget analysis and monitoring of efficiency, accountability and quality of service provision**, as well as corruption. Consider partnering with women's groups for this task.
- **Support the capacity of national statistical systems** to produce data disaggregated by spatial dimensions.
- **Commission or support research** looking specifically at different spatial dimensions.
- **Support and facilitate dialogue** with actors who are aware of these spatial dimensions.
- **Finance research on key policies across regions and districts** (e.g. education and health expenditures, infrastructures and service delivery, participation in elections).

CHAPTER 2

PRACTICAL STEPS FOR MAINSTREAMING

The European Union (EU) programme and project cycle provides several entry points where the reduction of inequality can be mainstreamed into the EU's development cooperation portfolio and into its working methods. In practice, this process can be achieved through efforts in two parallel areas of action:

- throughout the programme and project cycle, **use policy dialogue as a tool to further the inequality agenda** with the development partner, whether or not the issue is directly related to the development cooperation interventions currently ongoing or planned;
- **mainstream the reduction of inequality** into current programming on cooperation, including in the identification and formulation of new interventions, and raise inequality as an issue in existing interventions.

These two areas should not be seen as separate endeavours; on the contrary, actions in one area will strengthen and rely on actions in the other. Often, actions within project cycle management are pure policy dialogue, and policy dialogue in turn relies on evidence that can be generated, *inter alia*, by interventions. Further, **policy dialogue is necessary to create trust and windows of opportunity to address inequality**, whether at sector level or more broadly. Such dialogue is not necessarily linked to any financial instrument. Because policy dialogue can cast the net much wider than projects and programmes and involves a different set of tools and requirements, it is treated in this chapter as another avenue for mainstreaming the reduction of inequality.

In both cases – dialogue on inequality and mainstreaming its reduction into cooperation interventions – a

thorough analysis of inequality issues is required, using the tools described here. Continuous monitoring of inequality is nonetheless a must, both to nurture dialogue and to continuously update and readjust the intervention logic of existing and future interventions.

In all cases, the four basic principles of tackling inequality must be adhered to and must therefore be kept firmly in mind:

- **Use the beneficiary approach.** Involve the beneficiaries, promote and support the participation of women and marginalised groups, facilitate and strengthen social dialogue mechanisms.
- **Promote and support transparency.** Information, participation and accountability should be fostered at all times.
- **Target the bottom 40 per cent.** And ensure a fair contribution from the top 10 per cent.
- **Consider the spatial and territorial dimensions of poverty and exclusion.** How can the most marginalised communities be reached and at what cost?

Below, the discussion centres on how the information obtained from an inequality assessment can be used to put into practice these four major principles.

Each country is different and, because EU development cooperation programmes with partner countries must take the policy priorities of the country in question into account, each EU development cooperation programme is different. As a result, **there can be no blanket approach to mainstreaming the reduction of inequality.**

At most, this guidance offers some rules of thumb on what can be done, in which circumstances and how. Policy dialogue must be adapted to the particular political, cultural, social and policy context of the country. It also has to be adapted to the ambitions for reducing inequality that it can realistically pursue. Mainstreaming inequality reduction into cooperation interventions similarly must fit in with culturally and politically accepted norms while remaining aligned with the EU's cooperation principles and values. It is therefore difficult to provide one set of rules that applies to all circumstances. Box 2.1 offers two examples to illustrate the diversity of situations in which efforts can be made to reduce inequality and of approaches that can be taken.

Mainstreaming can be introduced and applied at all stages, with different degrees of difficulty and effectiveness. In some countries, this will take place when programming has not yet started; in others, focal sectors will already have been chosen. Perhaps the EU may be able to integrate the reduction of

inequality only at the identification or formulation stages of interventions, or it may want to mainstream inequality reduction into ongoing operations or operations that are close to ending but that might be extended. Entry points for integrating reducing inequality into EU cooperation are available in all situations. This guidance attempts to cover a variety of cases so that all may find relevant and useful suggestions for achievable mainstreaming. The decision tree shown in Figure 2.1 illustrates the EU's two-pronged approach to reducing inequality (dialogue and cooperation interventions) and shows the scope and range of actions that EU delegations can take to reduce inequality. It illustrates the steps that can be considered to address the reduction of inequality in EU cooperation programmes. In summary, the logical sequence followed in the decision tree (and in this chapter) is as follows.

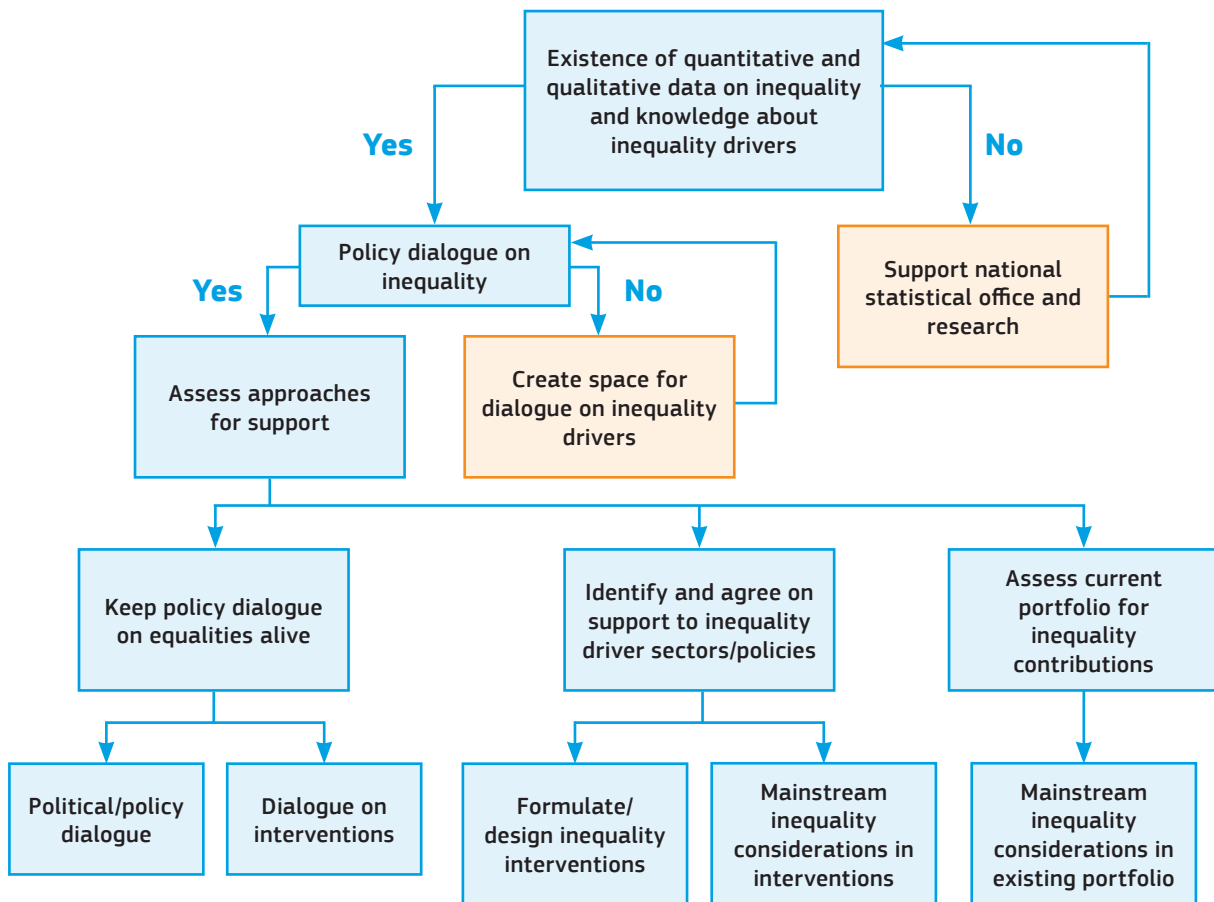
1. **Start by developing a better understanding of the overall situation of inequality in the partner country, or at least in some of its key sectors.**

BOX 2.1 Examples of efforts that can be made and approaches that can be taken to reduce inequality

Case 1: Research on multidimensional inequality in five countries in west Africa (conducted by Oxfam, commissioned by the Agence Française de Développement (AFD) and the Spanish Agency for International Development Cooperation, funded by the EU-AFD Research Facility on Inequalities). This research was carried out in 2019 and served several purposes. It (1) tested the Multidimensional Inequality Framework (MIF) tool developed by Oxfam and the London School of Economics in a regional context analysis; (2) identified multidimensional inequality in the five countries, and common trends and challenges; (3) identified country/regional structural and policy drivers of inequality; (4) suggested policy options to tackle inequality; and (5) undertook a regional policy dialogue with various stakeholders from the five countries about multidimensional inequality in the region, the drivers of those inequality and potential policy solutions. In addition to what was learned about inequality, the research made it possible to start looking at inequality through a different lens, considering diverse aspects of life and opportunities. It also clearly demonstrated the data challenges in the region with regard to measuring and addressing inequality.

Case 2: 'Jobs, skills and finance for women and youth' programme, The Gambia (funded by the 11th European Development Fund). The programme's objective is to reduce poverty through increased and sustainable growth and employment. In particular, it seeks to increase the employability of women and young people in local communities, with an emphasis on improved and equal access to inclusive finance and on the 'green' and climate-resilient economy. To reach out to women and young people in remote areas of the country, the Local Climate Adaptive Living Facility (LoCAL) was selected as an avenue to finance and support the implementation of investments in four rural regions. These regions were chosen because of their deep poverty and the significant amount of migration to the capital city (and Europe) driven by a lack of economic opportunities. To ensure that investments directly benefit women, young women and young men, specific indicators are used to monitor the annual performance of the beneficiary wards. This extra effort is necessary to reach the poorest and most vulnerable to climate change. LoCAL (supported by the United Nations Capital Development Fund, with some EU funding through the Global Climate Change Alliance) aims, through working at a local level, to contribute to countries' achievement of the Paris Agreement targets and the Sustainable Development Goals (SDGs) – particularly SDG 1: End poverty in all its forms everywhere.

FIGURE 2.1 Decision tree for mainstreaming the reduction of inequality into EU development cooperation



Building on the foregoing description of tools that can provide information on the state of inequality in a country, [Section 2.1](#) explores the importance of context analysis in relation to inequality and how it can and should shape cooperation.

2. **Feed the knowledge gained from context analysis into the dialogue between the EU and the partner country.** EU dialogue transcends the programme and project cycle and is always accessible as a tool to foster the reduction of inequality. [Section 2.2](#) discusses how policy dialogue can be launched and maintained whether or not it is linked to the programme cycle.
3. **Use the context analysis and the dialogue to examine potential approaches to mainstreaming reduction of inequality into EU development cooperation** ([Section 2.3](#)). Here there are two options.

- **Programming is ongoing.** In this case, there are two possibilities to be considered.
 - Programming choices: the choice of sectors can be made to optimise the EU's support for inequality reduction by enabling it to introduce policies that have been found to be drivers of equality.
 - In addition, or alternatively, inequality reduction can be mainstreamed into new programmes and projects. The identification and formulation of new projects and programmes taking inequality into account are also discussed.
- **Programming has already established the sectors of cooperation and the projects and programmes have already been formulated.** In this case, [Section 2.3.3](#) explains how inequality reduction can be mainstreamed into ongoing interventions (in addition to being

present in dialogue, as seen in [Section 2.2](#)). [Section 2.3.4](#) summarises the main issues around mainstreaming inequality reduction.

4. **Budget support is an area that lends itself particularly well to fostering improvements in cross-cutting issues such as inequality.** [Section 2.4](#) looks at ways of ensuring that budget support operations pay attention to and foster improvement in inequality.

2.1 Conducting context analysis in relation to inequality

Understanding what inequality looks like in a country is essential: how the situation has evolved (or not) over time, what the main drivers of inequality are and what the scope for change may be. This section examines the scope of country context analysis, its two main fields (situation analysis and sensibilities analysis), the possibility of comparing inequality situations internationally, and what to do when no data or analytical material are available.

2.1.1 The scope of context analysis

The **assessment of what is known about inequality in the country should cover** what has been published, what has been measured and what data are available. The appraisal should take into account both expressions of inequality (economic inequality and those in other areas of life, such as access to healthcare, education and resources, and in voice and participation) and what is known about the structural and policy drivers of inequality.

The answers to these questions will shape what can be done to mainstream the reduction of inequality into the current cooperation portfolio and what can be done in forthcoming projects and programmes to tackle inequality. Four points are important.

- **The context analysis in relation to inequality is the starting point** (see [Section 2.1](#) for the assessment tools to be used). It is crucial to get this analysis right because it shapes the understanding of inequality issues and hence the issues to be raised in policy dialogue. It also influences

the choice of sectors, instruments, interventions, geographical direction of support, areas and indicators to monitor, and so on.

- **Context analysis in relation to inequality remains essential even if programming is already completed** because it will dictate what can be done during formulation and in what manner in the sectors that have been selected as focal sectors. It will also indicate how inequality can be mainstreamed in ongoing operations, notably through monitoring and policy dialogue.
- **Inequality context analysis should be continuously revised and updated**, as dynamics change. Country work plans should therefore incorporate a quick context analysis reviewed periodically (at least every 6 months and/or every time there is an internal or external changing factor). What is static or frozen in the short term might evolve very quickly or over years. Country work plans and interventions should also incorporate some flexibility to allow adaptation, as different responses are required in different contexts.
- **Each step in the programme cycle** can be an entry point for addressing inequality.

Context analysis is about understanding what is known about inequality in the country and then understanding what the forums for talking openly about it are and what the appetite for bringing change is. It should identify the scope for integrating inequality reduction into the development cooperation within the limits of what is needed, desirable and realistic.

2.1.2 Situation analysis of the status of inequality

The country context analysis will seek to identify the type, extent, and depth of inequality; what inequality's drivers are; and what is being done – or not – to address it. The first step is to develop **a description of inequality**. The tools for gathering or analysing existing information on inequality are described in [Annex B](#). This information should provide a first-level analysis, producing a picture of the inequality in the country (including characteristics such as type, extent, depth, and spatial and geographical location), with a focus on income, wealth and power. This descriptive analysis is, however, insufficient to decide how best to respond (see [Box 2.2](#)).

BOX 2.2 Some concrete actions to find out what is known about inequality in the country

- Find out which actors have information and knowledge of inequality in the country; reach out to civil society organisations, non-governmental development organisations, trade unions, think tanks, research centres and academia, at both national and international levels. Some may have quantitative analyses to share, and some may have conducted qualitative analyses, especially on issues on which data are often not available, such as participation, voice, discrimination and domestic violence.
- Check comprehensive, regular publications with standard formats across countries, as they can provide stable, homogenised data. **Reports or analyses by international organisations with a significant global presence** can facilitate access to this type of roughly homogeneous reporting. Some examples include the United Nations (UN) *World Development Report*, UN reports on progress on the SDGs and the World Bank's systematic country diagnostics (see **Annex B** for more information).
- Pay special attention to initiatives in the research and policy areas that are aimed at providing distributional inputs to development actors. One such initiative is led by the **EU-AFD Research Facility on Inequalities**. Its hands-on research looks at improving methodologies, as well as at exploiting new forms of data and data treatment. It can provide **key inputs to distributional analysis with a focus on operationalisation** (see **Annex B** for more information).
- Check reports by **national and international civil society organisations** working on inequality and related issues (e.g. transparency, participation, tax, health, education, climate change, land).
- The fastest way to see how a country is doing on income and wealth inequality compared with others, and to find out about trends in inequality in the country measured other than by the Gini coefficient⁽¹⁾, is to check the **World Inequality Database** or the **World Income Inequality Database** of the United Nations University's World Institute for Development Economics Research. See if the country of interest is in either database (or both). To learn more about wealth accumulation, check if the country is in the latest **Global Wealth Report** produced by Credit Suisse. That report has an accompanying data book, which provides for certain countries an overview of wealth development, the number of billionaires, and some interesting wealth and growth trends.
- To learn about the incidence of government revenues and expenditures on inequality, check if the country has a commitment to equity (CEQ) assessment from the **Commitment to Equity Institute** at Tulane University, which provides an incidence profile of a government's **expenditures**.
- To see how the country is performing, compared with others, on policies that are key to tackling inequality, check if the country is in Oxfam's latest **Commitment to Reducing Equality Index** (CRII), which provides a global ranking of governments based on what they are doing to tackle the gap between rich and poor. (For a quick interactive view, see <https://www.inequalityindex.org/>).

⁽¹⁾The Gini coefficient or Gini index '...measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality' (<https://databank.worldbank.org/metadataglossary/gender-statistics/series/SI.POV.GINI>).

The second step is to identify the drivers of inequality. This second level of analysis may often be available only at sector level. The analysis of the drivers should indeed cover how income, wealth and power are driven by sector policies.

2.1.3 Sensibilities with regard to inequality analysis

The country context analysis should be done by the EU, consulting like-minded partners, including civil society organisations. The country context analysis should also seek **to identify how inequality reduction could be achieved and what can realistically be done**. It should:

- assess the sensibilities in the country (dynamics, politics, tensions, culture, norms, etc.);
- identify in which areas (sectors, policies) it is possible to work on inequality and with whom, and where closed doors are likely to be found (what is acceptable, what is seen as interference);
- determine in which areas the EU can provide added value and where it can try to promote actions intended to achieve inequality reduction, alone or in partnership with other EU Member States (through joint programming or Team Europe initiatives) and/or other development partners;
- identify to what extent policy dialogue is possible (i.e. getting inequality on the agenda and making the case for addressing them in EU–country cooperation).

These starting points are a reference for all entry points (whether in policy dialogue or the project cycle), as they provide the evidence that will shape policy dialogue and any action to mainstream the reduction of inequality.

When the country context analysis is undertaken, particular attention should be paid to identifying the constraints and obstacles to reducing inequalities that may arise. Dialogue about inequality, the analysis of inequality and the mainstreaming of inequality reduction will, at times, come up against the facts:

- **inequality can be a very contentious issue** – it is about power and exclusion – and when preparing development cooperation programmes the EU’s main interlocutor is the government, so care needs to be taken to reach beyond the EU’s traditional partners;
- **inequality’s structural causes often go well beyond the policy sphere** and have historical, cultural and social roots that have resulted in inequalities being normalised, thus requiring first, raising awareness, and second, deep behavioural changes;
- **quantifying evidence on inequalities**, as should be done as part of the situation analysis, requires data, which are often not available and which are both costly and time consuming to gather.

2.1.4 Inequality markers

There are currently no standardised markers or typologies of inequality. The levels of inequality, and their drivers, vary widely, from, for example, very unequal situations reported in Lebanon or South Africa to more equal situations. The picture offered by assessments of inequality should be carefully analysed within its country and regional contexts. Niger, for example, is the most equal country in west Africa; however, this finding should be understood from a least developed country perspective – the situation is fragile and a large segment of the population is equally poor.

As a good starting point, the CEQ or the CRII can be used. The CRII provides a useful complementary analysis to the sector analysis discussed below, broadening the scope of the analysis from budget expenditure to resource allocation and key sectors and policies, and even encompassing an analysis of the fiscal system (see [Annex B](#)).

Both the CEQ and the CRII can inform the dialogue during the programming of EU cooperation in a country to create momentum for integrating inequality. **Showing the country how it performs compared with others in the region or in similar income groups can create a competitive effect, offering an incentive to improve its performance (and thus its image).** Providing resource allocation and fiscal system analysis can also help decision makers understand how to improve financing in the sectors and of the policies that are the most critical drivers of inequality and have the greatest potential effects on reducing inequality.

2.1.5 When no data or analyses are available

If neither data nor analyses of inequality are available for the country in question, then priority should be given to supporting the national statistical office, initiating studies and supporting research.

Lack of data is an enormous challenge in most of the poorest countries. Global inequality reports and specific studies tend to cover only some countries, and global databases often have important gaps in data, either because data are not available or – in many

cases – because they are totally outdated. Box 2.3 suggests some actions to undertake in this situation.

BOX 2.3 Actions to be considered when data are not available

- **Launch research to assess income and/or wealth inequality.** Depending on the data available, such an analysis might use income data, consumption data and/or tax data from existing household surveys or national databases (see **Annex B** for more detail).
- **Support the national statistical office** or bureau in using the **Inequalities Diagnostics tool** developed by the EU and Agence Française de Développement (AFD) in partnership with the African Centre of Excellence for Inequality Research. The diagnostics, covering multiple dimensions of inequality, are based on a common framework and a **handbook** is available for those who would like to conduct this work.
- **Learn about possible drivers** of inequality in the country and assess basic government performance on policies that have a strong impact on inequality (see Volume 2), by conducting a fiscal incidence analysis (see information on the CEQ assessment and the CRII in **Annex B**).
- **Assess expressions and drivers of inequality in multiple dimensions of life**, using the Multidimensional Inequality Framework (MIF) (see **Annex B**).

For research on inequality, the EU delegation in the country can consider using the resources developed by the **EU-AFD Research Facility on Inequalities**. In the short term, priority should be given to gathering information on incomes, education, health and agriculture (the last owing to its dual social and economic function). Box 2.4 sets out how to do so.

2.2 Raising inequality awareness in policy dialogue and keeping the dialogue alive

Policy dialogue is often referred to as the ‘software’ of cooperation. It is not necessarily related to ongoing projects and budget support; rather, it usually

supports them. It can be informed by the monitoring of interventions, ongoing technical assistance and shorter-term technical cooperation. Political and policy or strategic dialogues are mutually reinforcing. They require sharing of information between colleagues and with development partners. To mainstream the reduction of inequality, it is essential to undertake dialogue at multiple levels and with multiple stakeholders. Inequality is inherently sociopolitical and its drivers change only when the distribution of wealth and power does.

Policy dialogue should thus seek to lower barriers to change, encouraging domestic and social dialogue and sector governance to acknowledge the challenge of inequality. The role of the EU in this social dialogue may take different forms and have different entry points, so long as it is based on an honest, open and transparent analysis. EU-supported policy dialogue should promote the voices of all stakeholders from the different levels of the country (local, provincial, national) and constituencies (government, donors, the private sector and civil society). **Policy dialogue should uphold the four basic principles of tackling in equality: the beneficiary approach, the targeting of the bottom 40 per cent, transparency, and spatial and geographical differentiation.**

This approach requires engaging with stakeholders to assess the inequality that exist, understand their drivers, and analyse how they negatively affect development outcomes and how policy and project responses can be designed as effective responses targeting the most vulnerable. **The EU should use policy dialogue to build trust with its partners but also to build trust between stakeholders**, helping to foster propitious working environments. Dialogue and interventions should include the media to make the inequality narrative known and acceptable.

Policy dialogue can be approached at two levels:

- the overall policy dialogue as it takes place between the EU, the government, representatives of civil society, the private sector, research bodies, development partners and others, and the scope it offers for broaching the topic of inequality;
- the policy dialogue that is linked to – and based on – specific cooperation interventions.

BOX 2.4 When information is scarce

In many countries, EU delegations might want to launch studies on inequality to obtain an understanding of the situation and of the drivers (see [Section 2.2](#)). This is usually time consuming, but it should be done to inform the formulation of interventions further into the programming cycle. The information gained should also be used to shape the content of the monitoring and performance frameworks (i.e. to identify what indicators can best track performance on inequality).

In the short term, work can start by collecting existing quantitative and qualitative data and analyses. For this, liaising with EU Member States, like-minded partners and civil society organisations, especially when joint programming is already under way, is an efficient way for the EU to assess what is easily accessible and can be shared and what is not and cannot.

Where data are scarce, the EU should first examine possibilities for supporting the national statistical office of the partner country in setting up systems for the collection, compilation and analysis of relevant data. These systems should gather data for quantitative and qualitative analysis at the country level and at the delegation or partner level.

Quantitative analysis. At the sector level, it is necessary to analyse and understand the performance in terms of sector service delivery for the poorest, for the vulnerable and for excluded groups. Through a public expenditure review, that performance can be assessed in terms of actual expenditures, voted budgets and planned costs. This analysis can usually be done for education, health and/or agriculture using existing budget and sector data. This 'transmission analysis' should focus in particular on bottlenecks in securing resources for reaching and delivering the right quality and quantity of services to those most in need. These bottlenecks might be caused by a change in priorities during budget execution, differences between the resources budgeted for and the resources needed or insufficient attention paid to cost estimates during planning and budgeting. When these situations are understood, dialogue and policy responses can be tried out in pilot programmes. Remember, the budget is the most important policy document of the state, allocating resources to specific objectives; it is a law approved by the government.

Qualitative analysis. Dialogue (through sector working groups with the government, civil society, research bodies, think tanks and other development partners) may have already allowed progress on collecting data and also on analysing the situation. The drivers of inequality at sector level may already be known and accepted.

When inequality analyses and studies are not available, the following steps are specifically recommended to EU delegations.

At country level. Launch research and studies as soon as possible. Applying the CEQ or the CRII will take about a year. Prior to the analysis, dialogue with the country (with government, local authorities, civil society, the private sector) should be initiated to get buy-in and to gain support for the study in the forms of data and qualitative understanding.

At delegation and like-minded partner level. Collaborate with key country experts, research institutions / universities and non-governmental organisations to achieve an initial understanding of the approach to be taken. The CEQ and the CRII can suggest the questions to be asked and studied. Think about sensitivities, as inequality is a political topic. Use the [Chatham House Rule](#) when required.

2.2.1 Overall dialogue in support of policy development

Overall messages conveyed by the EU

The primary message conveyed by the EU should be that our efforts in international partnerships contribute to the objective of fighting inequality by building inclusive and sustainable societies. To do so, the **EU has firmly embedded the fight against inequality as a cross-cutting objective in each of its geopolitical priorities**. Inequality hinders socioeconomic development, and reducing it is necessary to achieve better

development outcomes. Achievements in individual sectors can be negatively affected by inequality, meaning that EU development cooperation is less efficient when it does not address inequality. Policy development and policies supported should seek to lift up the bottom 40 per cent, while ensuring a fair contribution from the top 10 per cent and 1 per cent. Policies should benefit worse-off groups more than better-off groups.

Considerations when engaging in dialogue on inequality

The four principles set out in Chapter 1 should be taken into account when engaging in dialogue about inequality: adopt a beneficiary approach, target the bottom 40 per cent, promote transparency, and take into account spatial inequality and the need for geographical targeting.

The higher the income level of the country, the more the dialogue needs to be about mobilising domestic resources in a progressive way. Reliance on development funds may slowly give way to dialogue around trade relations and jointly tackling global public goods such as climate change. The focus of dialogue may instead progressively shift towards supporting the government in relation to economic governance, for example public finance management, efficient resource mobilisation (including domestic resource mobilisation), and redistributive policies.

The problem of inequality relates not only to the economic effects on the poorest but also to **elite capture**. High inequality allows elites to hold great – and increasing – power, which extends beyond the economic to the political sphere; the power held in each sphere reinforces the power held in the other. Very often policy dialogue is held precisely with the social group that benefits – or even that benefits most – from inequality and from not altering the status quo. Fortunately, SDG 10 (reduce inequality within and among countries) has made inequality a key issue that cannot be ignored. Inequality can now be brought to the table and not excluded on the basis of ‘no interference’ excuses, as used often to be the case. **The EU should stand strong behind the broad empirical evidence on the negative effects of inequality and encourage partner countries to address it using the best available tools**, such as the CEQ, the CRII and the systematic country diagnostics (see **Annex B**), which can provide an overall distributional profile of a country. Based on this profile, the EU can discuss how to help the country adopt more progressive policies.

If there is no space for inequality on the political agenda, that space should be created. For that purpose, research on the expressions of inequality in the country can be very helpful (both to show the importance of the availability of data and to illustrate the

situation with regard to inequality in the country). If the country already has reliable data on inequality, and stakeholders acknowledge the challenges posed by inequality, the EU will be in a better position to support the design and implementation of policies to reduce inequality.

In countries where inequality is a priority issue for the EU (but not necessarily so for the elite that governs the country), the EU might **consider creating conditionalities linked to governance issues** in both budget support operations and projects. In other words, whenever conditionalities are used, consider tying them to action on inequality, if feasible (see Box 2.5). Tackling inequality may require technical support on the best and most cost-efficient way to do so. To establish that, it is important to identify with the partner government and other donors what the most easily accomplished goals in the struggle to reduce inequality are.

This could then lead, in a second phase, to agreeing with the partner government on concrete actions to tackle inequality. Such actions could include agreeing on a greater budget allocation to sectors in which the channels for reducing inequality are established (see the policy briefs in Volume 2), selecting sectors that are known to have potential to make a significant contribution to reducing inequality and benefiting the

BOX 2.5 Difficult but ultimately successful policy dialogue in Morocco

Morocco receives large amounts of budget support from the EU and other donors. With the support of the EU, the World Bank, the International Monetary Fund and other donors, Morocco started in-depth reforms to its public administration and fiscal systems at the end of the 1990s. Recently, thanks to the **EU-AFD Research Facility on Inequalities**, the Moroccan government conducted a fiscal incidence assessment. In addition, the EU included in its budget support operation the condition that the government should evaluate fiscal expenditure and publish the evaluation with the annual budget law. Following this major step forward on transparency, other areas of focus included the reduction of tax exemptions, the simplification of tax brackets, the transparency of the tax system and the revision of value added tax (VAT) (AFD, 2014).

poor. Programmes can also be established with an increasing focus on targeting the bottom 40 per cent to foster improvements in the distributional profile.

Addressing progressivity in tax systems with partner countries

As seen in Policy Brief 11: Public Finance: Taxation in Volume 2, taxation is the policy instrument that can most obviously be used to influence the distribution of income and wealth. As the EU commits its funding to large reforms, including fiscal and budgetary reforms, it can address income and wealth inequality in macroeconomic and public finance dialogues. **Domestic revenue mobilisation is a priority because it can sustain development outcomes and policy financing.** The burden of financing should be fairly distributed, with the richest individuals and big (national and international) corporations making the greatest contributions. Economic theory demonstrates that a progressive tax model would be the fairest. Proportional taxes (e.g. VAT) are regressive; their drain on the purses of the poorest is greater than on the purses of the better-off, and the ability of the poorest to finance their basic needs is also affected in higher proportion than the ability of better-off groups. **Progressive tax systems pay a double dividend in the fight against inequality:** they directly reduce the gap between rich and poor by taking more money from those who can better afford to pay, and they also raise revenue that can be invested in social spending.

Fiscal policies are at the core of the state but are often little known (tax expenditures, for example tax exemptions or tax waivers, may not be calculated and reported). Fiscal policies they are also little understood (tax incidence is not studied, so its impact on development is insufficiently documented). Dialogue should seek to increase the available information on, and understanding of, how different taxes (e.g. central government taxes and local government taxes) interact and how they sustain or generate inequality.

Once they are better understood, fiscal policies and broader domestic revenue mobilisation should be on the agenda in strategic dialogue with the government, local authorities, civil society and the private sector. This dialogue should not be limited to the eligibility criteria for budget support. Dialogue on domestic

revenue mobilisation should tackle tax evasion and the laws and regulations that enable companies to evade their obligations. The EU should 'nudge' partners into fiscal reforms.

Prioritising dialogue in multiple sectors

Sector prioritisation will largely depend on the history of EU development cooperation in the country, the analysis of inequality and the most important sectors driving them, and the level of cooperation established with other development partners (notably the effectiveness of EU Member State joint programming). Ideally, the EU should prioritise the reduction of inequality in all its interventions, becoming a flagbearer for such reduction whenever possible. When choices must be made, they should be made on the basis of situation analysis. Through dialogue, windows of opportunity may emerge, opening up new sectors or regions for engagement with the EU. The EU does not lead all dialogues and can also rely on dialogues held by other partners, notably dialogues held by EU Member States with partner governments.

To put the issue of inequality on the agenda and address inequality in every sector and intervention, **use the best information available to show how inequality affects development outcomes.** When deciding whether to take an overall approach or focus on changes in one or more sectors, the choice will depend on the sectors of concentration, current projects and programmes, and the information available. That information should help to demonstrate that better outcomes could be achieved by taking account of inequality.

To make the case for tackling inequality from the social and economic points of view, it is not necessary to make inequality a specific objective of an intervention. Inequality can be mainstreamed by ensuring that the logic of the intervention seeks to change the drivers of inequality and that performance monitoring tracks these changes. Mainstreaming can thus be done largely through dialogue during the formulation and implementation phases. Dialogue and consultation also provide information that is useful in making the case for addressing inequality. It will require ensuring that stakeholders have a voice and initiating studies to assessing inequality and their drivers in the context of existing interventions.

Use the European Union's role to expand the agenda and create trust

When there are no (or not enough) data or analyses on inequality in a country, it will be necessary to **launch studies**. This will first require dialogue to agree on the studies' subjects and scope. Because such studies provide support to national statistical offices and research agencies, the dialogue should seek to create a broad coalition of stakeholders. In the short term, when there are no quantitative data available, engagement with existing partners and projects can help to build at least a qualitative appreciation of the situation with regard to inequality.

Studies and research can be jointly undertaken with universities and experts with proven knowledge of the country's circumstances, and can be an opportunity to **engage with stakeholders to create dialogue**. The principles for tackling inequality noted above – use the beneficiary approach, promote and support transparency, target the bottom 40 per cent and consider the spatial and territorial dimensions – should shape the form and inclusiveness of the dialogue. EU delegations are well placed to engage in dialogue with civil society organisations, trade unions and workers' representatives, local authorities, the private sector, universities and key experts, creating a public space in which to address inequality. Government representatives should be invited whenever possible. However, creating this public space cannot happen without an environment that supports civil society. EU delegations should seek to promote such an environment; creating peer pressure through diplomacy and political dialogue with governments and publicly raising human rights concerns are two examples of ways to do so.

Dialogue in a country should be multilevel and **dialogue with donors should create a common agenda and to analyse sector situations**. Policy and strategic dialogues are conducted with other development partners in the country, either through sector working groups or through other processes and forums, such as biannual development conferences (see Box 2.6). To prepare for dialogue, to share knowledge and establish common objectives, development partners have long-established processes for sector harmonisation and division of labour. The EU can influence the agendas of these forums to promote mainstreaming

BOX 2.6 The EU's role in facilitating dialogue

Through its financing instruments, which establish a strong political and policy framework for cooperation, the fundamental values it upholds and the history of its involvement, the EU is well positioned to facilitate dialogue and finance pilot programmes. It can do so in the following ways.

- The EU can finance dialogue using existing projects and the Technical Cooperation Facility.
- It can finance studies and research, which should be designed to increase understanding of inequality and their drivers whenever possible.
- It can offer the EU umbrella to shelter the initial dialogue on inequality with civil society, local authorities, universities and the private sector. In some countries, sensitivities and potential threats to human rights may require the EU to be the flagbearer, carefully assessing the extent to which dialogue with stakeholders should be held.
- The EU can finance pilot programmes and similar efforts, setting a leading example by harnessing joint programming to mobilise development partners.

the reduction of inequality, making the case for the importance for development outcomes of addressing inequality and creating a coalition of like-minded partners.

2.2.2 Intensify the policy dialogue around the issue of inequality: Use budget support as a vehicle for discussing macro policies

Budget support can be used in two ways to prioritise the reduction of inequality in government policies. First, as discussed above, budget support can integrate inequality considerations into eligibility criteria and reflect particular concerns in its design, through the choice of relevant disbursement indicators, areas of attention for monitoring and complementary support assistance. Second, as will be discussed here, the forum of budget support dialogue with the government and other stakeholders can be used to open or fuel dialogue on inequality. Although the EU's general political and policy dialogue platforms offer

opportunities to discuss inequality, budget support discussions offer two main advantages. First, budget support dialogue is held first and foremost with a country's ministry of finance (under whatever name), with proposals on domestic revenue mobilisation and public expenditure allocations sent to the cabinet of ministers for decision-making. In many countries, the finance ministry is also the most influential ministry, and the importance of engaging it in work on inequality reduction cannot be overstated. The ministry of finance is thus an especially relevant partner with whom to discuss the importance of reducing inequality of opportunity, income and wealth to stimulate economic growth.

Action areas here relate to both **revenue and expenditure**. With regard to revenue, the EU is particularly well justified in questioning a country about any preferential tax regimes that exempt some categories of economic sectors (or businesses or people) from paying particular taxes, because the EU's support and domestic resources are fungible. Taxation is the main source of national revenue, social expenditure and social transfers. The EU is extremely vigilant, when providing budget support, that it not be used as a substitute for domestic taxes or to enable a reduction in domestic tax effort. This vigilance is even more important when situations of apparent or proven harmful inequality must be addressed.

With regard to expenditure, the EU's budget support provides an opportunity for discretionary expenditure that could be directed towards the most disadvantaged groups of people. This goes well beyond financial considerations. Indeed, when considering the financial contribution of EU cooperation, it is recommended that it be assessed in relation to discretionary expenditure in a given sector. This provides a good benchmark of the extent to which EU cooperation succeeds in reaching new geographical areas, isolated groups and groups that are discriminated against, and in supporting innovative policies and programmes.

Second, budget support is about supporting policies and policy reforms: providing budget support offers the EU a legitimate opportunity to discuss policies, their financing, their objectives and their results. Whether at the national level or at the local level, whether the dialogue is about national development

strategies, sector development policies or transversal policies, the EU is given a place at the discussion table. The EU needs this access to ensure that the policy objectives of sustainable and inclusive growth are being prioritised, that agreed strategies and action plans are being implemented and that they are producing the expected results. One factor that needs continuous attention is whether public policy results, and especially social services, are being provided to all. The most pressing question is whether they are reaching the poorest people, marginalised groups and communities located in the most remote areas of the country, or whether they are delivered only to a privileged few. This should be a specific area for monitoring by the EU, and indeed it often already is in support programmes related to health or education.

Monitoring and mid-term reviews can be used to assess the extent to which ongoing programmes and policies have had an impact on inequality. Existing interventions are an opportunity to introduce the topic of inequality or to expand upon it. Although interventions do not necessarily address inequality directly, they usually target poverty reduction, offering an entry point for the reduction of inequality. Adjusting an intervention monitoring framework and integrating an inequality perspective into mid-term reviews and final evaluations are opportunities to foster dialogue with the government, engage all the intervention's stakeholders (notably the beneficiaries) and obtain information that can be used for future programming and formulation.

Create ad hoc forums to obtain information, discuss how activities could have better addressed the reduction of inequality and draw lessons together. Project, programme and strategic evaluations are especially conducive to dialogue – indeed, they create an impetus for increased accountability and learning. Evaluations are invaluable stages in the programme cycle for drawing lessons from cooperation. Good practice on evaluations encourages thorough consultation and debate with the stakeholders to collect these lessons and appraise how to improve outcomes. The evaluation's objectives should be agreed with all stakeholders; they should be provided with the terms of reference well in advance to ensure that they have the necessary time for engagement and research on the ground.

2.3 Mainstreaming the reduction of inequality at different stages of the programme cycle

2.3.1 Mainstreaming inequality in programming documents

The programming stage is an opportunity to assess the extent to which the government has set itself inequality-reduction objectives and how these are translated into sector policies and their indicators. It can also present a good opportunity (as does a mid-term review of cooperation) to assess the extent to which the EU's operations in the country have paid attention to inequality.

Any actions – programmes, projects or policy support – undertaken by donors to support countries' development affect inequality, whether they were intended to or not. Identifying links between current (or planned) policies and interventions and potential effects on income distribution is a challenging exercise.

Doing a proper **quantitative and qualitative distributional impact assessment** can be very demanding, in terms of both time and resources. With regard to fiscal policies, some research has been conducted in low- and middle-income countries on income inequality before and after taxes and transfers such as social security and social assistance benefits. Budget allocations to sectors reflect the priority areas in a country. It is important to assess spending patterns to see if these are correcting or worsening imbalances; such assessments could include gender budgeting analysis or spatial analysis of budgets (see **Section 2.4**).

Similarly, basic data on all tax types are available in revenue authority annual reports and can easily be compiled. In-depth data analysis will help in understanding whether indirect taxes, such as sales taxes, trade taxes and excise taxes, weigh disproportionately on the poor. It is important to know what the different tax types, rates and exemptions are. The scale of corporate income tax incentives and exemptions (in particular, for the extractive industries and the energy sector), the thresholds for personal income tax (when

people are eligible to pay income tax and the top marginal rates for the rich), wealth taxes (including land and property taxes), taxes on capital gains and inheritance tax all provide an idea of the extent to which a system is skewed and of the resulting fiscal losses (see Policy Brief 11: Public Finance: Taxation in Volume 2).

It is also appropriate to address inequality in the various platforms for dialogue at national, regional and local levels, taking the opportunity to engage with the government and opening up the discussion to interested parties in the civil society (see Box 2.7). Understanding how elites perceive inequality and its effects on society is an important step towards understanding the extent of consensus on the topic. The dialogue and choices to be made will depend on the situation analysis of inequality and their drivers and the sectors that have the greatest potential to impact positively on reducing inequality.

The extent to which it is possible to address inequality will depend on this initial situation. For the EU, addressing inequality is not optional. As a rule of thumb, the EU should prioritise support for existing government policies that tackle inequality. **If the government does not clearly address inequality in its policies, the EU should seek to introduce the issue of inequality through its interventions.** When programming its interventions, the EU can seek to do the following.

- **Agree with the government and sector stakeholders on the sectors in which EU cooperation will mainstream efforts to reduce inequality.** To that end, Volume 2 of this document provides an overview of the sectors affecting inequality and details the rationale for choosing a sector and the drivers that can be changed to reduce them. The choice of focal sectors will also be affected by the country's history of EU cooperation and the trust created in sectors previously supported by the EU, as well as the division of labour with EU Member States and other development partners. The MIF tool, discussed in **Annex B**, provides key questions to consider when conducting dialogue during programming and formulation.
- **An overall approach in which inequality is simply mainstreamed into all focal sectors and**

BOX 2.7 Tools to assess the inequality sensitivity of national policies and programmatic frameworks

Conduct public expenditure reviews and public expenditure tracking surveys (at sector level), to understand the budget distribution between different income groups and different regions, and other geographical and social differences. The process starts by gathering detailed government expenditure data from the country's treasury system, at the most disaggregated level available. The World Bank provides extensive information on country public expenditure reviews that could serve as a starting point for discussion (see the [World Bank's Boost Open Budget Portal](#)).

Provided enough time and resources are available, carry out a distributional impact assessment of policies to identify whether measures have been funded to target the bottom 40 per cent.

Use the Equity Tool to estimate the wealth quintile a beneficiary is in.

To fill in data gaps and to gain a better understanding of who the poor are, where they live and what constraints they face in escaping poverty, use the World Bank Survey of Well-being via Instant and Frequent Tracking. Use contacts and policy dialogue forums to make progress on political economy knowledge and analysis, to gain awareness about the impact on inequality of certain policy approaches and to assess the government's commitment to inclusive political participation at local, district and national levels.

Develop and then apply an inequality marker to ongoing programmes and policies.

Develop and then use a portfolio indicator to estimate the anticipated share of project and programme benefits targeting the bottom 40 per cent of the income distribution. The proposed inequality marker, if it were to be included systematically in all interventions' financing agreements, could also be used to assess the inequality content of the entire portfolio of operations. Bear in mind that, in most countries, identifying the bottom 40 per cent can be difficult (and thus assessing whether and to what extent EU support targets this bottom 40 per cent is also complex), and that what happens to the top 10 per cent should also be considered.

Take advantage of monitoring and evaluation phases in programmes and policies to introduce indicators related to inequality reduction (based on the principles set out in Chapter 1, such as following a beneficiary approach, targeting the bottom 40 per cent, transparency, and looking at spatial and geographical inequality). For more information, see [Annex B](#).

interventions is possible. This requires a reinforced dialogue with the country to agree on the current situation with regard to and drivers of inequality and how best to tackle them in different sectors.

- Where neither data nor space are yet available to address inequality, **the EU should commit to research and studies**, possibly in partnership with other development partners, especially EU Member States.
- Finally, programming can be a good time to **re-assess the attention paid to inequality in existing programmes** and to introduce an inequality perspective into ongoing programmes in which reduction of inequality is not an objective. This can be done through monitoring of performance and during evaluation.

At the programming stage, opportunities for partnership should be seized to form a coalition of like-minded development partners and to give a voice to multiple stakeholders. Inequality cannot be appraised, understood, debated and addressed only with government. This partnering strategy aims to form a solid base for identification and formulation of priorities.

Joint programming with other EU Member States should prioritise inequality in all sectors and interventions, with important actions including:

- sharing available information and sector data, and agreeing on the situation and the drivers;
- agreeing on priority sectors and distribution of labour;
- agreeing on key indicators to be included in sector monitoring and performance assessment.

The EU needs to engage with civil society, local authorities, researchers and universities and the private sector during programming. This requires:

- getting to know who is who;
- engaging stakeholders directly to create trust;
- establishing the rules for dialogue.

The objective of this dialogue is to decide on the forums in which inequality will be addressed and to determine stakeholders' mandates and how they will be able to influence policy design and policy monitoring. This work should be as open and transparent as possible. As a guide, workshops on inequality and structured working groups should initially focus on:

- better understanding what inequality looks like in the country (this work will help in identifying data gaps and deciding on whether to launch new research or studies);
- exploring the main drivers of inequality in the country, focusing on discrimination and sector drivers;
- assessing how current policies and their implementation help in changing those drivers for the better;
- assessing how development partner programmes help in understanding and addressing inequality;
- making recommendations.

This work may be started under the aegis of the EU or other development partners. If some progress on the issue of inequality has already been made, the work could begin under the aegis of sector working groups (for more information, see Oxfam, 2017).

During programming, the EU can agree with the country's authorities on the performance indicators that will subsequently drive the identification and formulation process. This is an opportunity to mainstream inequality while pursuing sector reform objectives. At this stage, it is essential to distinguish between different types of indicators.

- **Indicators on how inequality is expressed in the country.** These present the current situation in static terms and therefore should be used for assessing and evaluating how much has changed.

- **Indicators on the drivers of inequality.** These are vital to designing an intervention logic grounded in theory of change and should be used for monitoring and assessing performance in terms of how policies and partners interventions are changing the drivers of inequality.

These indicators are defined and explained in the MIF (see **Annex B**). They help orient programming towards the achievement of the SDG 10 targets (see Box 2.8).

Inequality reduction is a priority for EU development cooperation. It is an issue that needs to be addressed in all cooperation actions and thus requires a shift compared with how development cooperation has been approached so far. However, adopting an integrated approach to inequality may be difficult and programming may already have been completed. Nevertheless, depending on where in the programme cycle the EU is, it may be worth considering which **policy areas have the greatest potential impact on the reduction of inequality**. Volume 2 presents each area and its links to inequality reduction in detail. When considering which policies to support in the next cooperation programme, the EU should look at these drivers of inequality in the country (the introduction to Volume 2 outlines the policy briefs and policy actions addressed in each macro policy area).

As a general rule, middle-income countries will benefit the most from policy dialogue, technical assistance and knowledge exchanges in areas such as social cohesion and progressive fiscal policy, where the EU has extensive experience. An example of a successful programme in this area is the EUROsocial programme implemented in Latin America. Lower-income countries will benefit more from programmes with a focus on safety nets, social protection, access to basic services and access to assets (e.g. land, credit or insurance).

2.3.2 Addressing the reduction of inequality in the identification and formulation phase

The identification and formulation phase is the stage at which the EU can choose to address inequality within its interventions by supporting appropriate inequality-reducing policies, by integrating actions addressing inequality into programme and project

BOX 2.8 Sustainable Development Goal 10: Reduce inequality within and among countries

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

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

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

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

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

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

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

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

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

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

Source: UN (2015).

design, and by ensuring that relevant inequality indicators are included in these programmes and projects. This section will provide some pointers on how inequality can be integrated into the design of interventions, notably through sector problem analysis, choice of intervention and making sure that inequality is not neglected when designing and implementing interventions.

Sector problem analysis

For design and formulation, the level of country context analysis required will be more detailed than that undertaken at the programming stage, as it will need to include geographical and spatial analyses. These studies should be initiated early on to enable informed dialogue and choices about the financial instruments to be used, the best options for including inequality in the intervention logic and the most appropriate choice of monitoring and performance indicators to secure change in drivers of inequality and support dialogue on the issue through the provision of relevant evidence.

A sector analysis should attempt to answer two main questions related to knowledge about inequality in the sector and the targeted beneficiaries:

- What do we know about inequality in the sector?
- How can inequality in the sector be targeted?

Finding out what is known about inequality in a sector requires both an analysis of quantitative data to establish the inequality situation and a qualitative appreciation of the extent to which inequality can be approached in the sector (a political economy analysis at sector level) (see [Section 2.1](#)).

The sector problem analysis will dig deeper into how inequality is driven by sector policies and their financing. It should also analyse the existing norms, beliefs and attitudes that drive these inequality in the sector and in the geographical area considered for the intervention. There are no shortcuts, and this requires detailed studies to be carried out. In practice, what is required is first to:

- initiate dialogue with stakeholders in the sector and in the geographical area of intervention to create awareness;

- agree on the necessary additional information to be gathered and how it will be done;
- agree on terms of reference for this appraisal, which should assess inequality in terms of both the current situation and the drivers of inequality.

The AFD's **Inequalities Diagnostics tool** is a good place to start when seeking to identify sectors where stark inequality exist.

As for targeting inequality, they can be addressed through the intervention logic without making doing so the prime objective. This means that the sector problem analysis must include sufficient analysis of the drivers. The MIF (see **Annex B**) puts forward a three-pronged approach, structured by sector (see Box 2.9).

- Use the expression of inequality indicators to arrive at an agreed assessment of the situation with regard to inequality.

- Use analytical questions on each domain of drivers in dialogue with stakeholders to assess these drivers (this will probably lead to formulation).
- Use the drivers of inequality indicators to decide on the monitoring and performance assessment framework.

Ultimately, **the final beneficiaries of mainstreaming the reduction of inequality should be the bottom 40 per cent**. The sector problem analysis should identify who is in the bottom 40 per cent and set out their characteristics. The intervention logic should distinguish between the direct and the final beneficiaries.

Direct beneficiaries of support are the institutional structures with which the project or budget support directly interacts and on which it relies to implement activities, produce outputs and influence policies and their implementation. They may include government, local government, civil society, the private sector and universities.

BOX 2.9 Main findings of Oxfam research on five countries in west Africa

Case 1 involved research on multidimensional inequality in five west African countries (Burkina Faso, Ghana, Mali, Niger and Senegal) (see Box 2.1 for details). Using the MIF, the research identified expressions of inequality depending on place of residence (urban or rural), level of income, level of education and gender, in the areas of health, education, financial security and working conditions, living conditions, personal and legal security, and participation. These inequality overlap, so women living in rural areas with lower income and lower education are particularly disadvantaged compared with those living in urban areas with higher income and higher education, especially when compared with men.

The research identified three structural drivers and four policy drivers that can explain in part the inequality identified. Among the structural drivers are the historical context, which determined the type of institutions that exist, the privileges enjoyed by certain groups and the relationships between different groups in society; the traditional, cultural and religious social norms, some of which result in intrinsic dynamics of exclusion and inequality, especially for women, young people and minority groups; and, very much related to the other two, the dynamics of political capture by a few powerful groups and the lack of participation in public decision-making by large segments of the population. These in particular weaken the transparency and overall social accountability of the state in favour of excessive influence by specific groups.

In this context, the four policy drivers identified are (1) inadequate investment in essential services (education, health and social protection for vulnerable and marginalised groups); (2) inadequate investment in smallholder agriculture; (3) a highly dualistic labour market (with limited formal employment monopolised by a labour elite in the government, multinational companies and the extractives sector, whereas the majority of workers earn much lower incomes in the informal or subsistence sector; there is also very high unemployment, particularly among the young population); and (4) regressive taxes.

The solution proposed was to focus not on one policy but on a set of policies clearly targeting the most remote rural areas (to correct for spatial inequality) and women, young people and members of other minorities and marginalised groups. A second tactic was to include elements of citizenship participation, transparency and social accountability in policy design and implementation.

Indirect and final beneficiaries are the targeted bottom 40 per cent and, where possible, the bottom 10 per cent (see Chapter 1). This targeting should include considering the geographical and spatial parameters in formulating the intervention logic and taking account of the extra effort and funding required to reach these groups. The setting of objectives and measurable outcomes must also be commensurate with these additional difficulties (e.g. the level of measurable outcomes might be lower if the bottom 10 per cent is targeted than if the bottom 40 per cent is targeted). As an example, a project might support local governments and authorities, providing financing and capacity development (direct beneficiaries), while the final beneficiaries could be young people and women in those local areas (see Box 2.10).

Choice of intervention

After the sector dynamics and the existing inequality are understood, and the questions of how inequality can be targeted and which people should benefit from the intervention are answered, the discussion should concern the change that the intervention intends to achieve. What, realistically, should the aim be? What should the objective of EU support be in terms of reducing inequality in this sector?

As a starting point, reducing inequality should not necessarily be the primary objective. This goal can

BOX 2.10 Local Climate Adaptive Living Facility, The Gambia

The EU-funded LoCAL programme makes use of performance-based climate resilience grants to the lowest level of local government, providing incentives through financial top-ups and capacity development to adapt investments to climate change while helping to build stronger and more transparent local government planning and financial systems. By doing so, and through performance indicators, LoCAL ensures that the voices of the communities and of the poorest and most vulnerable – including women and young people – are heard and reflected in local development plans and investments, so that climate finance reaches those who need it most. LoCAL also ensures that the investments that are made provide opportunities for decent and community-based work.

be mainstreamed throughout the project cycle (problem analysis, intervention logic, monitoring and performance assessment, and evaluation) and the associated dialogue (strategic, policy and operational).

If the intervention's primary objective is tackling inequality, it must address the current distribution of wealth, income and power. This is best done through fiscal and budget policies, whether global or sectoral. In that case, a sector approach, especially through budget support and public finance management reform, is the best way to address inequality (see Box 2.11).

BOX 2.11 An example of choice of intervention on tax reform in Morocco

Tax reform in Morocco, which began in the mid-1980s, achieved very positive results in the late 1990s, but after that progress slowed. To capitalise on the positive results, a new wave of reforms was undertaken beginning in the late 1990s and supported by the EU and other development partners from 2005. This led to the introduction of simplification, rationalisation and harmonisation measures in relation to taxation. Since 2007, these reforms have made it possible to report on tax expenditures in the Finance Act.

Budget support has been instrumental not in launching reforms (which were initiated by the government) but in creating a focus on issues such as VAT, corporate tax, tax neutrality, and rationalisation of tax expenditure in order to align with good practices, particularly those already followed in the EU.

The intensity of the policy dialogue and the technical support provided (technical assistance and analytical work) during the preparation phases and the choice of disbursement conditions (performance indicators) were instrumental in advancing the reforms. Indeed, in addition to the financing, the intensity of the policy dialogue, nourished and reinforced by technical cooperation, was vital in achieving results. The budgetary support received by the Moroccan government during the period 2005–2012 was relatively limited in size over the period, standing at 1.8 per cent of total general government expenditure or 2.8 per cent of operating and capital expenditure (equivalent to the estimated tax expenditure in a single fiscal year).

In an intervention where the primary objective is not the reduction of inequality, the intervention logic, its financing and the policy supported should be inclusive and aimed at benefiting the bottom 40 per cent more than better-off groups. The assessment of how the intervention will affect inequality should be carried out *ex ante* (see [Section 2.1](#)). Not doing so would run the risk of fuelling further inequality in favour of better-off groups.

2.3.3 Addressing inequality in existing interventions – monitoring and evaluation

Where projects and programmes are already formulated and being implemented, the EU should at least ensure that they do not have negative effects on inequality and that, if they do, corrective measures are taken in a timely manner. The crucial elements for this are:

- having the data to be able to characterise inequality;
- including performance indicators in projects' and programmes' monitoring frameworks that reflect measures of inequality;
- having access to the relevant data to be able to measure performance on the basis of these indicators.

Mainstreaming inequality requires a clear and honest dialogue with all stakeholders to address the sensitivities of the issue. This dialogue must be informed by increasing amounts of disaggregated data. These data can come from the monitoring of existing programmes and projects; similarly, the evaluation of interventions at their closure offers the opportunity to reflect on their impact on inequality. With the availability of more inequality-sensitive data, theories of change and intervention logics will have to be reviewed and adjusted, placing the burden on dialogue to smooth the transition by raising awareness and obtaining agreement on integrating this new inequality perspective. When possible, cross-sectoral dialogue should be privileged.

The **monitoring system** should be designed in a participatory manner and seek to include stakeholders in its design, application and use. It is essential that

monitoring becomes a learning tool, going beyond reporting, and that it helps in understanding whether and how the intervention facilitates changes in the drivers of inequality, and why. The monitoring system should include both quantitative and qualitative indicators to facilitate participation and understanding by all stakeholders.

Monitoring should focus on four dimensions:

- **relevance:** verifying that the inequality of greatest concern are identified and tackled and that the most important drivers are influenced by the intervention;
- **added value:** ensuring that the intervention is complementary to others and elicits greater attention to inequality;
- **risks:** assessing the tensions created by the intervention and any negative consequences for the intended beneficiaries;
- **opportunity:** identifying the new channels for dialogue that are created by the intervention and assessing whether they could provide new channels for action.

Further, the indicators to be used should reflect the contextual drivers of inequality and provide information on changes in these drivers. To ensure that the indicators used for monitoring focus on inequality, use the MIF to guide the choice of indicators (see [Annex B](#)).

To ensure that **evaluations of interventions** account for inequality, the terms of reference should include a specific requirement that all criteria and questions address inequality. Again, the choice of indicators will be critical; they must enable reflection on the effects of the intervention in terms of expression of inequality (coherence, impact) and in terms of drivers of inequality (coherence, effectiveness, sustainability, value added).

Evaluability depends on the availability of information and data. It is essential to prepare for the evaluation from the formulation stage, ensuring a clear intervention logic that is supported by indicators and a monitoring framework. Policy dialogue and studies or support for research will increase the availability and credibility of available data.

Evaluation activities should also involve planning for stakeholders' full engagement; this requires more time on site and in interviews, focus groups and workshops. As evaluations are an opportunity to learn jointly, they should be well prepared, planned in advance, and allotted sufficient time and resources.

2.3.4 Mainstreaming inequality – a summary

Possible scenarios and responses

Table 2.1 sets out various scenarios and possible responses to them, based on what is known about inequality in the country, on existing data and analysis (or a lack of these), on the level of stakeholder acknowledgement and on available financial instruments (research and studies, capacity building, projects, budget support, policy dialogue, and so on).

Importance of raising awareness on inequality

Projects should also mainstream reduction of inequality by **creating awareness at all stages of project**

design and implementation. Awareness can be raised during formulation – for example through consultation with stakeholders or through the appraisal techniques used – and during implementation – for example through regular forums for dialogue with stakeholders and beneficiaries (e.g. the EU-funded social dialogue – the Participatory Initiative for Social Accountability – in Lesotho).

Fundamentally, awareness raising seeks to change the narrative on prevailing norms, beliefs and attitudes that have resulted in inequality and that sustain inequality's drivers and their acceptance, including discriminatory norms, beliefs and attitudes. These are themselves barriers to change, creating a sense of unsettledness and a perception of insecurity and even loss in some segments of society. Raising awareness of inequality is highly sensitive, as it goes to the heart of the distribution of wealth and power in existing social structures. It has to be planned and have adequate resources to be effective.

TABLE 2.1 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 ● Programme 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 ● Propose 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

2.4 Addressing inequality through budget support

Budget support can be an effective vehicle for bringing inequality concerns to the attention of the authorities and wider stakeholders. In addition to raising the issue of inequality in dialogue with the latter, budget support can mainstream the reduction of inequality in the following ways.

2.4.1 Analysing budget support eligibility criteria using an inequality lens

For each of the **four eligibility criteria of budget support** discussed below, an inequality angle can be integrated into analysis and monitoring (EC, 2018, p. 32).

The analysis of **macroeconomic policy and performance** can focus, *inter alia*, on fiscal policy. Attention should be paid to the distributive impact of domestic resource mobilisation (see Volume 2, Policy Brief 11: Public Finance: Taxation on public finance) and public expenditure allocations.

The analysis of **public finance management reform** should look more particularly at the extent to which budget classifiers are able to reflect equality concerns, whether at the level of budget allocations or at that of accounting and reporting. It can also look at the priority given in public finance management reform to improving tax administration and database integration for enhanced tax collection.

An assessment of the **transparency and accountability** principles applied to the budget can look at the attention paid by the supreme audit institution to equality concerns in performance audits. Such an assessment could also look to the reporting on expenditure programmes and their performance with regard to inequality.

Most important, the analysis of **national development or sector priorities** and related reforms being supported by the EU's budget support should ensure that equality issues have been addressed at policy level and that equity considerations are also apparent in action plans and monitoring indicators. The

analysis should look not only at the policy but also at the institutional and organisational capacities of the ministries and agencies in charge of implementing the policies to verify that statements about reducing inequality can be, and are, applied within the institutions themselves. Where capacities are found to be lacking, budget support could consider providing additional capacity-strengthening support under the umbrella of the complementary support activities.

2.4.2 Providing supplementary support to build capacities in the area of inequality

Budget support can provide complementary support – such as technical assistance, studies, training, increasing the visibility of reforms, data collection and analysis, and impact assessments – that can help ministries, public agencies, civil society organisations, research bodies and other relevant institutions to integrate inequality reduction into their policies and monitoring systems. More simply, such complementary support can raise awareness of inequality issues within those organisations. For example, one of the budget support programmes in Morocco has been helping that country to implement gender-sensitive budgeting.

The mainstreaming of inequality reduction requires a cultural and mental shift and a different way of doing business. The kind of complementary support described here can be extremely useful in nudging the inequality agenda forward.

2.4.3 Ensuring that performance indicators for budget support are sensitive to inequality

Budget support provides an especially strong basis for policy dialogue. Within the budget support cycle of policy dialogue, the yearly assessment of progress on sector policy implementation and of the specific performance indicators that trigger the variable tranche payments represents a key moment. The yearly assessment provides an opportunity to take stock of progress and compare the results achieved with the outcomes expected. It is thus essential that the performance indicators agreed on with the government to measure progress in critical areas reflect the concerns of the EU.

Where inequality reduction is a main objective of the budget support programme, performance indicators should reflect this and measure inequality outcomes. Where inequality is not a main objective, performance indicators should be disaggregated as much as possible by gender, region, socioeconomic group, rural versus urban, and other relevant subcategories. Indicators should be selected to target beneficiaries effectively and, where relevant, their targets should be set to ensure higher income or opportunity gains for the most disadvantaged groups – e.g. the bottom 40 per cent of the income distribution or those affected by other sources of inequality, such as gender – compared with the rest of the population, or for deprived regions compared with those that are better off. As an example, in the area of education, targets could be set to ensure higher gains for students belonging to households at the bottom of the income distribution (or for girls, ethnic minorities, and so on), in terms of access to schooling or educational achievements. Alternatively, better access could be sought for households in the bottom 40 per cent of the income distribution.

Discussions of budget support performance indicators are an especially valuable tool for addressing inequality issues. They can raise the awareness of ministries, and in particular of the finance ministry, regarding the importance of tackling inequality, and, as a result, trigger the disbursement of significant amounts of financial support for relevant policies. Box 2.12 offers some examples of performance indicators found in budget support operations approved during 2014–2019.

BOX 2.12 Performance indicators used to target inequality

Minority groups are often targeted by EU budget support operations, not by earmarking funds for them, but by attracting the government's and other stakeholders' attention to the manner in which reforms affect specific population groups. Progress made on the performance of selected results indicators for these groups is measured at regular intervals and monitored, sometimes used as a trigger for EU budget support funding, and included in the EU's dialogue with sector stakeholders. Examples of such indicators include those described below.

- In budget support to the education sector in Cambodia, several indicators used as variable tranche triggers pertain to performance in primary and lower secondary education with regard to completion and drop-out rates in lower performing districts over 4 years.
- In budget support benefiting Montenegro, specific indicators target the performance of the government in setting up a legal and institutional framework for the management of issues affecting migrants and refugees.
- In Jordan, the performance of the education system in catering for Syrian pupils in host communities and camps is being closely monitored by the EU, taking into account the number of teachers, the number of pupils, packages of free school books or access to a library, and other facilities available. Five indicators are used for assessing performance and are linked to variable tranche payments.
- In Morocco, the EU provides budget support for migration policies, and process indicators are used to assess the performance of Morocco's implementation of immigration and asylum policies.
- Numerous budget support programmes rely on performance indicators that are disaggregated by gender, urban versus rural, region and/or the poorest or worst-performing districts versus average districts.

Source: EU budget support database of decisions approved during 2014–2019.

ANNEX A

USEFUL DATA SOURCES

The following are sources of data on economic, social, political and environmental inequality that can be useful to carry out the context analysis for any intervention under formulation. Some are country specific, e.g. agricultural census data or household surveys, and the reader will have to verify their existence and availability independently. Others are well-established repositories of data and information on numerous countries which can be accessed depending on which specific inequality dynamic is being researched. Access is free unless otherwise noted.

Agricultural census data. These are country-specific data on the structure of agriculture, covering the whole or a significant part of a country.

Barometer surveys. The 'Barometer' surveys are carried out separately across different regions. They focus on values, voice and participation, as well as on perceptions of democracy and governance. Disaggregation is limited and is generally done by gender, education and age – and sometimes by income level – although this varies across regions.

- **Afrobarometer**
- **Americas Barometer**
- **Asian Barometer**
- **Latinobarometro**

Demographic and Health Survey. The Demographic and Health Survey is a well-established, standard survey that is applied across many developing countries. It provides high-quality data relating to marriage, fertility, family planning, maternal and child health (including mortality and child immunisation), maternal and child nutrition, malaria and HIV/AIDS. Some

countries include additional modules. Data are often disaggregated by gender, location, income level and education level. <http://dhsprogram.com/Data>

FAOStat. This database from the Food and Agriculture Organization of the United Nations (FAO) provides data on food and agriculture. <http://www.fao.org/faostat/en/#home>

Fund for Peace Fragile States Index. The Fund for Peace Fragile States Index may be useful in providing data related to groups' grievances. It aims at global coverage and provides a global index for comparison between countries, as well as a dashboard to enable analysis on a country basis. <https://fragilestatesindex.org/>

Gallup World Poll. Gallup Inc., with headquarters in the United States, is a research-based, global performance-management consulting company known for its public opinion polls conducted worldwide. It conducts the Gallup World Poll to research citizens' opinions on a wide range of issues including media freedom, security, leadership approval, happiness and employment. No free access. <http://analytics.gallup.com/213704/world-poll.aspx>

Global Corruption Barometer, Transparency International. The barometer surveys the experiences of everyday people faced with corruption around the world. It is the only worldwide public opinion survey on corruption. <https://www.transparency.org/en/gcb>

Household surveys. These are usually carried out by national statistical offices and are country specific.

Human Development Index and Inequality-adjusted Human Development Index. The Human Development Index was created to emphasise that

people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. The Inequality-adjusted Human Development Index combines a country's average achievements in health, education and income with how those achievements are distributed among the country's population by 'discounting' each dimension's average value according to its level of inequality. <http://www.hdr.undp.org/en/data>; <http://hdr.undp.org/en/content/inequality-adjusted-human-development-index-ihdi>

Gender and Land Rights Database, FAO. This country-profile database analyses the extent to which national legal frameworks and interventions support the advancement of women or induce gender-differentiated access to land in 84 countries. The gender- and land-related statistics are disaggregated by gender, and include the share of men and women who are agricultural holders. Includes a legal assessment tool (for Latin America) based on legal information from the country profiles. www.fao.org/gender-landrights-database/en

Gender Inequality Index (GII). This index measures gender inequalities in three important aspects of human development: reproductive health, measured by maternal mortality ratio and adolescent birth rates; empowerment, measured by proportion of parliamentary seats occupied by women and proportion of adult women and men aged 25 years and older with at least some secondary education; and economic status, expressed as labour market participation and measured by the labour force participation rate of female and male populations aged 15 years and older. The GII is built on the same framework as the Inequality-adjusted Human Development Index and aims to bring to light differences in the distribution of achievements between women and men. It measures the human development costs of gender inequality. The higher the GII value, the greater is the disparity between females and males and the greater the loss to human development. <http://hdr.undp.org/en/content/gender-inequality-index-gii>

Gini index and income shares – United Nations University, World Institute for Development Economics Research, World Income Inequality Database. The World Income Inequality Database presents information on income inequality for developed,

developing and transitioning countries. It provides the most comprehensive set of income inequality statistics available. <https://www.wider.unu.edu/project/wiid-world-income-inequality-database>

Global Burden of Disease Database. The Institute for Health Metrics and Evaluation maintains the Global Burden of Disease Database. It gathers global data related to mortality, diseases and injuries, disaggregated by age and gender. <http://www.healthdata.org/gbd/data>

Global Gender Gap Index, World Economic Forum. The Global Gender Gap Index seeks to measure one important aspect of gender equality: the relative gaps between women and men, across a large set of countries and across four key areas: health, education, economics and politics. <https://data.world/hdx/29f2f52f-a9c2-4ff9-a99e-42b894dc18e9>

Global Health Observatory. The World Health Organization maintains the Global Health Observatory as a global data source on life and health issues. It has an online analysis tool that enables selection by country and a particular indicator. Available disaggregation is limited to age and gender. <http://www.who.int/gho/en/>

Global Wealth Databook, Credit Suisse. The Credit Suisse Global Wealth Databook offers a comprehensive portrait of world wealth, covering all regions and countries, and all parts of the wealth spectrum, from rich to poor. <https://bit.ly/2zSln0Y>

International Labour Organization (ILO) Forced Labour Platform. The platform aims to provide global coverage and to collect information from as many countries as possible. There is also a lot of qualitative information, with many special reports on different industries and different countries. <http://www.ilo.org/global/topics/forced-labour/policy-areas/statistics/lang-en/index.htm>

ILOStat. The ILO provides a lot of information related to employment, sectoral and occupational characteristics and job quality, earnings, and health and safety at work, as well as on aspects such as trade unions and strikes. The data reported here are gathered through other instruments and collated. This includes reporting on all of the national Labour Force Surveys,

with the information available online. <http://www.ilo.org/ilostat/faces/ilostat-home>

National statistical offices. These are country specific.

OECD.Stat. This database collects data on Organisation for Economic Co-operation and Development member countries, as well as some non-member countries (Brazil, China, Colombia, Costa Rica, India, Indonesia, Lithuania, Russia and South Africa). Data are collected on a wide range of topics including social protection, social expenditure by sector, income distribution and poverty. It is one of the few sources of data on measures such as 'indebtedness' and 'housing costs overburden'. <http://stats.oecd.org/>

Organization for Security and Co-operation in Europe Office for Democratic Institutions and Human Rights (hate crime reporting). The Office for Democratic Institutions and Human Rights is a regional human rights organisation. It maintains a website to report on hate crime. It does not run an official survey; rather, it collates information from groups that monitor hate crime in the countries covered. Information is available on different types of hate crimes, disaggregated by religion and other aspects of identity. <https://hatecrime.osce.org/>

Pew Research Centre Surveys on Religion. The Pew Research Centre conducts surveys on religion and public life. Its website hosts special country- or regional-level surveys as well as a global data set (compiled since 2007) regarding government restrictions on, and social hostility towards, religion. <http://www.pewforum.org/datasets/>

PovcalNet, World Bank. PovcalNet is an interactive computational tool that allows users to replicate the calculations made by the World Bank's researchers in estimating the extent of absolute poverty in the world. PovcalNet also allows users to calculate the poverty measures under different assumptions and to assemble the estimates using alternative economy groupings or for any set of individual economies of the user's choosing. PovcalNet is self-contained; it has reliable built-in software that quickly does the relevant calculations from the built-in database. This World Bank database is a very useful source of data on income and consumption inequality. It

has near-global coverage and spans several decades. <http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx>

Poverty and Shared Prosperity, World Bank. *Poverty and Shared Prosperity* is an annual series of reports that provides a global audience of development practitioners, policymakers, researchers, advocates and citizens with the latest and most accurate estimates on trends in global poverty and shared prosperity. Each year, the series explores a central challenge to poverty reduction and boosting shared prosperity, assessing what works well and what does not in different settings. By bringing together the latest evidence each year, this corporate flagship report provides a foundation for informed advocacy around ending extreme poverty and improving the lives of the poorest in every country in the world. <https://openknowledge.worldbank.org/handle/10986/25079>

Sustainable Development Goal Indicators Global Database. This global database has been set up to track progress against the Sustainable Development Goals. You can select a country and view all indicators and information available across a wide variety of areas including health, education, water and sanitation, energy, poverty, employment and many more. The level of disaggregation available varies considerably between countries. It may be useful to use this source as a starting point to find out the underlying source of information. <https://unstats.un.org/sdgs/indicators/database/>

United Nations (UN) Crime Trends Survey, UN Office on Drugs and Crime. The UN Crime Trends Survey provides freely accessible statistical information on crime trends in member countries, including homicide, assaults, sexual violence, robbery, kidnapping and theft. It also provides information on criminal justice systems, including people arrested, prosecuted, convicted and in prison, as well as criminal justice system resources. Its coverage is nearly global and information is updated annually. <https://www.unodc.org/unodc/en/data-and-analysis/United-Nations-Surveys-on-Crime-Trends-and-the-Operations-of-Criminal-Justice-Systems.html>

UNdata, live births by gender. The United Nations Statistics Division maintains global data related to population size and composition. The information

is mainly unrelated to the indicators used in the Multidimensional Inequality Framework, but there is an exception: the 'live births by gender' measure. [http://data.un.org/Data.aspx?d=POP&f=tableCode %3a4](http://data.un.org/Data.aspx?d=POP&f=tableCode%3a4)

United Nations Environment Programme (UNEP). UNEP offers real-time data tools and platforms and key reports, publications, factsheets and interactive material. <https://www.unenvironment.org/science-data>

WomanStats Project. Since 2001, the project has been investigating the link between the security and behaviour of states and the situation and security of women within them. It tracks more than 350 variables in 175 countries, including information on issues such as rape, sex trafficking, maternal and child mortality, family law, women in government and the military, and many others. All these variables are listed and explained in the accompanying codebook. <http://www.womanstats.org>

World Bank Living Standards Measurement Survey. This is a household survey run by the World Bank's Development Data Group that provides technical assistance to national statistical offices in the design and implementation of multi-topic household surveys. <http://surveys.worldbank.org/lsms/about-lsms>

World Census of Agriculture, FAO. The data provide a snapshot of the state of a country's agricultural sector, including information on size of landholdings, land tenure, land use, area harvested, irrigation, livestock, labour and other agricultural inputs. <http://www.fao.org/world-census-agriculture/en/>

World Inequality Database. Provides information on top income shares. <https://wid.world/>

World Values Survey. The World Values Survey is a global survey that covers around 100 countries and is conducted every 5 years. This survey has information on several areas of interest, particularly in relation to values and attitudes and political participation. Disaggregation of data is limited but is generally available by income level/social class and by gender. <http://www.worldvaluessurvey.org/>

ANNEX B

INEQUALITY TOOLS

Inequalities diagnostics from Agence Française de Développement

The main objective of this research project is to advance **the analysis of African inequalities** and the policy discussion of strategies to overcome inequality in Africa through a series of country-level engagements. The project is built on the development of a diagnostic tool that will be implemented in a limited number of countries. This diagnostic tool consists of a thorough analysis of the various inequalities in a given country, which will help the government to identify priorities and policy options to reduce those inequalities.

The diagnostic tool is based on three pillars: (1) a conceptual and empirical review of existing studies of inequality in Africa to obtain both a baseline for the development of future projects and a better comprehension of the specificities of inequalities in Africa and their measurements; (2) a handbook describing the framework proposed for the inequalities diagnostic tool, the methodological issues around the measurement of inequalities and their analysis and the important issues linked to policies; and (3) support for the implementation of the diagnostic tool, in collaboration with the pilot countries' local research teams and the creation of a data hub.

In practical terms, the country diagnostic tool takes the form of a report that provides an overview of inequality in a country, across relevant dimensions, both at a given time and, if the tool is used repeatedly, over time. It also summarises the main policies, past or in place, that are expected to have an impact on inequalities. Each country will use its diagnostic tool

as a platform for policy engagement on strategies to overcome inequality, the stimulation of national dialogue and a national research focus on inequality, and a means of leading the national discussion through high-impact research papers from the country node (country office) on inequality.

Systematic country diagnostics from the World Bank

Systematic country diagnostic reports (SCDs) have been produced by the World Bank's Poverty and Equity Global Practice since 2016; they are available online shortly after their completion. They seek to assess progress and constraints in a given country, with a view to reducing poverty (Sustainable Development Goal 1) and making sure that less well-off and disadvantaged groups benefit from the developmental process (Sustainable Development Goal 10). These are standard reports that contain the most comprehensive analysis of inequality levels, trends and drivers. Given this, they can be a key source of analysis for donor agencies. The SCDs provide information on Gini coefficient trends and the evolution of the income of the bottom 40 per cent.

The SCDs also provide an in-depth analysis of inequality drivers and possible channels through which to address them. This analysis can serve as key input for the Directorate-General for International Partnerships (DG INTPA) to identify if and how to address inequality drivers in a given country, taking into account the political, social and economic relevance of inequality, the portfolio that DG INTPA has (and has had) with the partner in question, and any other considerations

regarding negotiation with the government, coordination, division of labour, and so on.

The SCDs are based on the most recent information from a wide variety of institutional, academic, market and public sources; once information gaps have been identified, they incorporate additional analytical work specifically produced for the SCDs. This analytical work tends to make wide use of national household surveys and national accounts data. The SCDs particularly stand out for their specific focus on distributional issues. They are prepared and reviewed by expert teams with a high level of country experience, a high level of methodological expertise and access to the most recent and comprehensive data. The World Bank uses them to identify key areas for prioritisation for its poverty reduction work in a given country. Each SCD, however, is prepared before the World Bank's discussions of that work with the government in question; the goal is to inform the discussions between the World Bank and the government in a neutral and balanced manner.

The SCD is a concise report which draws upon knowledge products including those produced by the World Bank Group (e.g. country, sectoral or thematic reports, lending and technical assistance programmes), the government (e.g. national or sectoral development plans), national and international researchers, think tanks, the private sector and other development partners. It also makes the best possible use of existing data, which includes complementing data from traditional sources (such as national statistics) with other data as they are available, such as crowd-sourced data, qualitative data, and spatial data. To fill critical knowledge gaps, new analysis is conducted to the extent necessary and allowed by available data, resources, time and capacity.

This independence between the results of the diagnostic exercise and the World Bank's negotiation with the government in question is what makes the SCD an excellent public good for governments, donor agencies and other development partners. Given the analytical expertise of the World Bank in this area, it is recommended that this resource be used as a standard procedure to assess poverty and inequality trends, drivers and potential areas in which development cooperation action may be strengthened. In the World Bank's distributional language, focused on

the shared prosperity concept, SCDs have the primary objective of diagnosing a country's key development challenges based on the data available for poverty and shared prosperity. The initial analysis is based on contextual factors (such as geography, history, governance structure, or conflict and violence) and key trends and patterns of poverty reduction, inclusion and sustainability. This initial descriptive analysis helps to assess whether existing developmental challenges are a result of inadequate economic growth, lack of social inclusion, or a combination of the two.

Commitment to Equity Assessment

The Commitment to Equity (CEQ) Assessment (Lustig, 2018)⁽¹⁾ is a diagnostic tool that uses fiscal incidence analysis to determine the extent to which fiscal policy reduces inequality and poverty in a particular country.

It provides an overview of the overall distributional incidence of a government as well as the disaggregated impact of taxation and social expenditure. The overall distributional impact of a government on the economy is given by the combination of taxation and social expenditure, the fiscal system as a whole, and of course any other policy implemented by the government.

The CEQ Assessment is designed to address four main questions.

- How much income redistribution and poverty reduction is being accomplished through fiscal policy?
- How equalising and pro-poor are specific taxes and government spending?
- How effective are taxes and government spending in reducing inequality and poverty?
- What are the effects of fiscal reforms that change the size and/or progressivity of a particular tax or benefit?

There are additional uses for the CEQ assessment. For example, it can be used to guide policymakers

⁽¹⁾ Lustig (2018). For a list of detailed caveats on the methodology, see Lustig (2018), pp. lxiv and lxx.

in terms of what could be done to increase redistribution and poverty reduction through changes in taxation and spending in specific countries.

The CEQ framework, which is intended to be as comprehensive as possible, allows the combined impact of taxes and transfers to be estimated. The analysis also includes the estimated marginal contribution of each individual intervention to the reduction in inequality and poverty. The use of a common methodology makes the results comparable across countries.

The suggestions here for using the CEQ assessment are twofold. First, looking at total distributional incidence can be a key contributor to the policy dialogue with the partner country. For countries with a high level of, and/or an increasing trend, in inequality, the distributional incidence of the entire fiscal system may be a key element of the dialogue, particularly whenever this is regressive. In such cases, technical cooperation aimed at increasing fiscal progressivity may be a pertinent consideration. Second, in the case of budget support in particular, the distributional incidence of social expenditure should be looked at based on the CEQ exercise. This assumes that budget support follows the same incidence as social expenditure as a whole.

The working assumption to consider, however, is that budget support follows the same distributional incidence as social expenditure. All other non-social expenditure categories (e.g. military, police, judiciary, legal and administrative) should instead be considered as distributed neutrally, as assumed by the CEQ, with each citizen receiving the same value regardless of income rank. The reason for this is that an equal-sized benefit is greater than own incomes for poorer individuals, and therefore even neutrally distributed benefits could have an impact on inequality. So, for simplicity, it is also assumed that the value of the benefit received (as opposed to the government cost) is greater for those with higher incomes, such that these neutrally distributed benefits have zero impact on inequality.

Whether and to what extent the bottom 40 per cent disproportionately benefits from social expenditure can be easily derived from results of CEQ analyses. As new CEQ country analyses become available, they

can be more regularly incorporated into the inequality analysis at country level proposed here.

The CEQ exercise identifies the shares of expenditure going to different income quintiles. By adding together the shares going to the first four deciles, that is the bottom 40 per cent of the income distribution, we obtain the total share going to this group (see Box B.1). Government expenditure here corresponds to the addition of expenditures in direct transfers (including contributory pensions), indirect subsidies, education and health. This disaggregation also allows the specific contributions of education, health and subsidies to the bottom 40 per cent to be identified, which may be the focus of sectoral budget support and may therefore help in identifying this form of aid's contribution to tackling inequality.

BOX B.1 Calculating the share of government benefits accruing to the bottom 40 per cent from CEQ data

As CEQ analyses cover an increasing number of countries, the data are continually updated and can be easily derived from CEQ data releases. To obtain the total share of benefits accruing to the bottom 40 per cent, simply [download CEQ standard indicators](#). From the 'concentration share by decile' tab in the spreadsheet of standard indicators, the total share accruing to the bottom 40 per cent is calculated by averaging the total share for the bottom 40 per cent for each of the four categories making up social expenditures, namely direct transfers (including contributory pensions), indirect subsidies, education and health. Each of these categories' bottom 40 per cent share is the addition of the shares accruing to the first four deciles.

Table B.1 shows this calculation for all available countries at the time of writing. As more CEQ analyses become available, data updates will be issued and this calculation will need to be redone.

TABLE B.1 Shares of benefits accruing to the bottom 40 per cent

COUNTRY	BOTTOM 40 %: SHARE OF SOCIAL SPENDING (%)				
	DIRECT TRANSFERS	INDIRECT SUBSIDIES	EDUCATION	HEALTH	TOTAL
Argentina (2012)	65.3	20.5	43.6	53.3	45.7
Armenia (2011)	62.3	0.0	47.0	39.4	37.2
Bolivia (2009)	47.6	17.0	40.6	43.6	37.2
Brazil (2009)	37.1	59.7	49.2	46.1	48.0
Chile (2013)	63.5	39.9	52.4	45.3	50.3
Colombia (2010)	56.2	34.8	51.9	31.3	43.5
Costa Rica (2010)	70.6	0.0	44.7	42.1	39.4
Dominican Republic (2013)	53.7	20.3	52.1	58.3	46.1
Ecuador (2011)	67.2	25.2	55.5	48.7	49.2
El Salvador (2011)	47.4	22.2	48.9	32.3	37.7
Ethiopia (2011)	65.6	17.4	31.3	35.8	37.5
Ghana (2013)	67.0	12.7	31.5	37.3	37.2
Guatemala (2011)	60.0	22.7	42.3	23.9	37.2
Honduras (2011)	52.9	34.2	38.8	42.2	42.0
Indonesia (2012)	56.2	20.4	38.3	33.2	37.0
Iran (2011)	40.8	0.0	33.9	39.3	28.5
Jordan (2010)	55.1	29.1	49.1	22.5	38.9
Mexico (2010)	63.3	23.6	45.1	37.5	42.4
Mexico (2012)	65.2	17.6	44.6	36.1	40.8
Mexico (2014)	63.6	18.8	43.3	35.9	40.4
Nicaragua (2009)	55.2	19.0	40.9	38.8	38.5
Panama (2016)	62.5	25.9	46.4	46.0	45.2
Paraguay	70.4	60.7	45.8	52.5	57.3
Peru (2009)	76.6	0.0	51.6	27.1	38.8
Russia (2010)	51.3	25.9	48.3	38.3	41.0
South Africa (2010)	59.4	0.0	44.6	42.0	36.5
Sri Lanka (2010)	66.8	34.6	41.4	42.6	46.3
Tanzania (2011)	32.7	8.2	32.7	28.1	25.4
Tunisia (2010)	50.5	27.5	39.2	36.0	38.3
Uganda (2013)	69.6	28.2	35.7	39.8	43.3
Uruguay (2009)	74.8	0.0	48.3	47.2	42.6
Venezuela (2013)	53.2	50.6	51.1	46.3	50.3

Source: CEQ data and authors' calculations based on CEQ data and indications.

Note: Direct transfers include contributory pensions.

Commitment to Reducing Inequality Index

Oxfam's Commitment to Reducing Inequality Index (CRII) ranks governments across the world (157 in 2018). The index is based on a comprehensive database, including countries where Development Finance International has strong data and research contacts or Oxfam has country programmes or affiliates, to build up a unique perspective on the extent to which governments are tackling the growing gap between rich and poor in three key policy areas.

The CRII measures government efforts in three policy areas or 'pillars': social spending, taxation and labour. These were selected because of widespread evidence that government actions in these three areas have in the past played a key part in reducing the gap between the rich and the poor.

- Social spending on public services, such as education, health and social protection, has been shown to have a strong impact on reducing inequality, particularly for the poorest women and girls, who are the most dependent on such services.
- Progressive taxation, under which corporations and the richest individuals are taxed more in order to redistribute resources in society and ensure the funding of public services, is a key tool for governments that are committed to reducing inequality.
- There is strong evidence that higher wages for ordinary workers and stronger labour rights, especially for women, are key to reducing inequality.

Figure B.1 presents the constituent data points used to construct the CRII and their implicit weights.

Multidimensional Inequality Framework

The Multidimensional Inequality Framework (MIF) and its accompanying toolkit help in measuring and understanding inequality, identifying its causes and exploring potential solutions to inequality in a consistent and systematic way. Developed by the Centre for Analysis of Social Exclusion at the London School of Economics, the School of Oriental and African Studies and Oxfam, the MIF is based on Amartya

Sen's capability approach. It provides guidance on assessing inequalities in seven domains that matter to human life (such as health, education and knowledge, and the ability to have an influence and a voice), and identifying the drivers of those inequalities.

The MIF offers a systematic approach to measuring and analysing inequality, providing a basis for the identification of the causes of inequality as well as the possible avenues for inequality reduction. It allows the following to be achieved:

- identify inequalities in human capabilities across seven 'domains of life', or areas that matter to human life, and determine a person's well-being, looking at, for example, aspects such as life and health, education and learning, and participation, influence and voice;
- measure inequality, through a number of suggested indicators and measures, with different variables of disaggregation;
- analyse the drivers or causes of inequality by domain, which will help to 'diagnose' the different outcomes observed in a given society;
- explore potential pathways for inequality reduction, including candidate policies by domain.

The MIF should be used as a compass: it provides orientation in terms of where and how to focus the analysis. However, regarding inequality, context matters a great deal; so, it is recommended that the use of the MIF be adapted to the specific context – the user should first decide what domains and subdomains are relevant in each country context, and then, for each one, decide which are the right indicators. Check if required data exist and, if not, adapt the indicators or use proxies. Similarly, the guiding questions for identifying drivers are very comprehensive; those questions that are most relevant to the specific context should be chosen.

The MIF is an excellent tool for learning how to approach the analysis of and the debate about inequality from a holistic and multidimensional perspective. It puts human rights at the centre of the analysis, taking into consideration the specific social, economic, political, cultural and historical context.

Useful links to the MIF website are:

FIGURE B.1 Constituent data points of the Commitment to Reducing Inequality Index

<p>Progressivity of spending [S]</p> <p>Average of indicators S1 and S2</p>	<p>Progressivity of tax [T]</p> <p>Average of indicators T1 to T4</p>	<p>Progressivity of labour policies [L]</p> <p>Average of indicators L.1 to L.3</p> <p><i>All indicators deflated by (L.i) share of informal jobs (L.ii) unemployment</i></p>
<p>S1: Social spending as % total spending: 50%</p> <p>S.1A education spending</p> <p>S.1B health spending</p> <p>S.1C social protection spending</p> <p>S2: 2 Incidence of spending on inequality (Gini coefficient): 50%</p> <p>S.2A Education spend % GDP*incidence coefficient</p> <p>S.2B Health spend % GDP*incidence coefficient</p> <p>S.2C Social protection % GDP*incidence coefficient</p>	<p>T1 Progressivity of tax structure: 25%</p> <p>T.1A PIT minimum and maximum rates + thresholds</p> <p>T.1B CIT rate</p> <p>T.1C VAT rate, exemptions and thresholds</p> <p>T2: Incidence of tax on inequality (Gini coefficient): 25%</p> <p>T.2A VAT revenue % GDP</p> <p>T.2B CIT revenue % GDP</p> <p>T.2C PIT revenue % GDP</p> <p>T.2D Excise revenue % GDP</p> <p>T.2E Customs revenue % GDP</p> <p>T3: Tax collection: 25%</p> <p>T.3A Tax productivity: VAT, PIT and CIT revenue compared to rates and GDP or consumption</p> <p>T.3B Tax effort compared with potential</p> <p>T4: Harmful tax practices: 25%</p> <p>T.4A Harmful tax practices</p> <p>T.4B Anti-tax avoidance rules</p> <p>T.4C Evidence of negative impact</p>	<p>L1: Workers and labour union rights: 33%</p> <p>Government efforts to protect workers in law and in practice</p> <p>L2: Women's legal rights at work: 33%</p> <p>L.2A Laws on equal pay for equal work</p> <p>L.2B Laws against gender discrimination</p> <p>L.2C Laws against rape</p> <p>L.2D Laws against sexual harassment</p> <p>L.2E Parental leave</p> <p>L3: Minimum wage: 33%</p> <p>L.3A Minimum wage in local currency</p> <p>L.3B Per capita GDP</p>

Source: Oxfam (2018).

Note: GDP = gross domestic product; PIT = personal income tax; CIT = corporate income tax; VAT - value added tax

- 'Discovering the domains'
- 'Analysing drivers'
- 'Taking action'
- 'Where to find data'

Geographical allocation of budgets

A methodology for examining whether development resources are targeting the poorer segments of society is the geographical analysis at subnational level as proposed in Briggs (2017) and Öhler et al. (2017). This methodology consists of using available data on subnational allocations of both government and donors that are geolocated to specific areas and comparing these allocations with the geographical distribution of the poor as informed by welfare data. The more that funding is targeting areas with higher poverty rates or where more poor people live, the more likely it is to be addressing inequality.

Correlating the subnational distribution of funds with that of the poorer part of the national distribution of incomes provides an idea of how well targeted resources are. In addition, a regression analysis allows the identification of other variables that may have an important influence on the allocation pattern subnationally. Öhler et al. (2017) use variables such as remoteness of an area, recorded violence, government public expenditure allocations, other donors' investments, and even subnational political differences (for the case of Mexico, see Öhler et al. (2017)).

This exercise, although very informative in terms of whether funding is allocated to regions with more needs, has to be annotated with a few warnings. Öhler et al. (2017) list a large number of justifiable reasons why funding may not be geographically distributed in a pro-poor way for any given donor. Donors' subnational allocations may have to take into account government's priorities, coordination with other donors, strategic sectoral investments, infrastructure needs that are highly dependent on location, addressing governance issues, avoiding conflict areas, clustering with other donors in more secure or efficient areas, historical links, and concentration of activities, as informed by budget size and other considerations.

The distributional impact methodology and the inequality marker

The **distributional impact methodology** is a methodology to assess the extent to which interventions implemented or funded by development cooperation agencies contribute to the goal of reducing inequality. Specifically, the methodology identifies whether the beneficiaries of the analysed interventions belong to the bottom 40 per cent of the wealth distribution through a mix of analytical tools.

The methodology includes an **inequality marker** that assesses whether or not inequality reduction is a central objective of development programmes. Three levels of 'I-marker' are proposed, depending on the level of compromise with the reduction in inequality:

- I-0, when inequality reduction is not targeted;
- I-1, when inequality reduction is a significant objective;
- I-2, when inequality reduction is the principal objective.

However, the inclusion and discussion of the inequality dimension in the documentation is not necessarily proof that this has been fully taken into account in practice, and even less so that it has been made a key objective. This analysis must be based on a genuine assessment of the objectives of an operation, in the same way that the analyses of gender, the environment, digitalisation, migration and Rio markers have been. Bear in mind that promoting the addition of an inequality consideration to portfolios may also contribute to the widespread use of related terminology and thus render the document analysis more challenging.

For this reason, the methodology also builds on the **Equity Tool**, which helps assess the position of direct beneficiaries within the national (urban or rural) wealth distribution, and the **Commitment for Equity Tool**, which helps estimate the distributional impact of general or sectoral budget support. Results confirm the efficacy of the methodology; in particular, its ability to obtain, within a limited budget and time frame, relevant information about how, and the extent to

which, development cooperation programmes reach the bottom 40 per cent. It can be used whenever inequality reduction is an explicit objective of policy interventions. The methodology can be implemented at baseline, before the implementation of interventions, as well as at the end of policy interventions. The analysis shows the efficacy of the methodology to evaluate the potential inequality-reducing effects of development cooperation interventions.

The Equity Tool

The **Equity Tool** is a survey with a limited number of questions per country that any given beneficiary (or citizen, for that matter) has to be asked if the wealth (not income) quintile they belong to can be estimated with sufficient precision. This provides an economical and relatively quick method to identify whether the bottom 40 per cent is being targeted.

By running regression analyses of a number of variables against wealth, the Equity Tool is able to produce a unique set of questions for each country that help researchers to place anyone in the national wealth quintile distribution. This is well summarised on the **Equity Tool website**:

Many programmes in developing countries prioritise serving the poor yet face challenges when trying to determine whether they are reaching their intended population. Conventional approaches may include expensive and infrequent evaluations, or anecdotes. Programme leaders need data and real-time feedback to adjust and improve service delivery.

The Equity Tool is a short, country-specific questionnaire. On average, each survey is only 12 questions long. Three easy-to-use methods to collect data are available depending on your programme's needs. With our web-based app, results are calculated automatically and formatted into a simple report that can be downloaded and shared throughout your organisation. ...

After analysis, you will learn what percentage of your respondents are in each national wealth quintile. This means that you can see whether you are serving the relatively rich or poor in your country. ...

Asking direct beneficiaries between 10 and 15 questions, rather than the hundreds of questions involved in a large survey, is a quick and relatively cheap exercise. Depending on the size of the sample, this is something that a local company or local staff can be commissioned to do, or that aid officers themselves can carry out. The **Equity Tool website** also provides a platform for collecting the data and producing a results report, and can be used with minimal expert knowledge for more than 40 countries.

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