European Commission

The European Commission inequality marker: Guidelines for the application and scoring of interventions

International Partnerships

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INTRODUCTION

Assessing the extent to which development interventions ([1]) contribute to the goal of reducing within-country inequalities is a challenging task. Inequalities within nations are due to a myriad of factors, including, among other things, the scope of redistributive policies, and the structure of their labour markets ([2]). However, it is possible to analyse the potential contribution of development interventions to inequality reduction by looking at the extent to which they disproportionally target the most vulnerable. This can be done through a set of analytical tools ([3]):

The Inequality Marker (I-Marker)

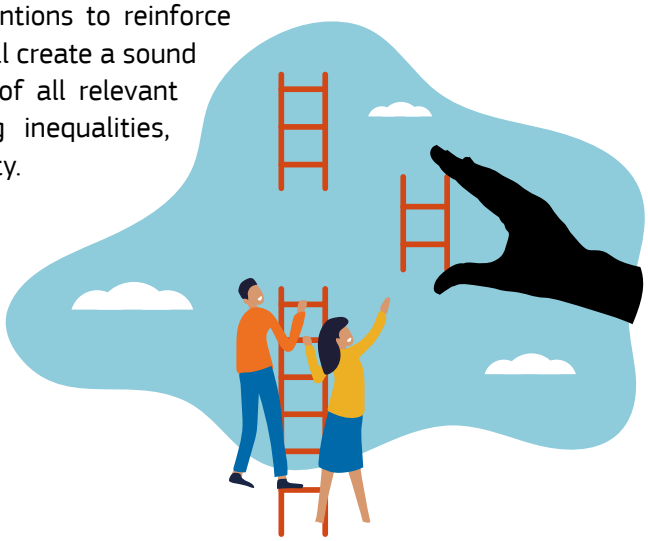
Analysis of inequality levels and its drivers in partner countries

Distributional Impact Assessment (DIA)

THE I-MARKER

What is the ultimate policy objective of the Inequality Marker?

The I-Marker is a **fundamental tool for the European Commission to achieve its overarching objective of "addressing inequalities by building inclusive and sustainable societies"** for at least two reasons. Firstly, it will improve the design of interventions to reinforce their inequality-reducing effect. Secondly, importantly, it will create a sound reporting and benchmarking system on the contribution of all relevant interventions (in terms of ODA allocation) to reducing inequalities, capturing appropriately the multidimensionality of Inequality.



([1]) Development interventions refer to co-operation modalities that include, inter alia, budget support, core contributions and pooled programmes and funds, and project-type interventions.

([2]) The I-Marker, as well as the DIA, focuses on relative measures of inequality, which is a conventional approach that underpins the SDG targets. For a discussion on the implications of adopting absolute inequality measures, see Niño-Zarazúa, Roope, and Tarp (2017).

([3]) Based on Morabito, Christian, Mario Negre, and Miguel Niño-Zarazúa. 2021. "The Distributional Impacts of Development Cooperation Projects." AFD Research Papers, no. 208: 1–61.

What does the Inequality Marker assess?

The I-Marker does not directly assess the impact of development cooperation interventions on, for instance, the levels of Gini, or Palma coefficient or other within-country inequalities measurements ([4]).

The **I-Marker** assesses whether, and to what extent, inequality reduction is an objective of a donor's intervention and, therefore, how likely it will have an impact on reducing within-country inequalities. **This is customarily the case of those interventions (of any modality) designed to benefit, to a larger extent, the bottom (poorest) 40 per cent or other socio-economically disadvantaged individuals, households, or groups,** therefore fostering their opportunities to increase their income, wealth, or socio-economic position (see **Box 1**) ([5]).

***BOX 1** – INTERVENTIONS DESIGNED TO REDUCE INEQUALITY*

There is evidence indicating that interventions promoting universal access to basic services, such as health and education can reduce within-country inequalities by facilitating a more equal utilization of social services and potentially increasing future earnings of beneficiaries. However, if access for the poorest is somewhat hampered, inequalities might actually increase. This is why it is essential to ensure that development cooperation interventions are well designed to target the bottom poorest 40 per cent of the population.

Is an intervention not targeting the poorest ever likely to reduce inequalities?

There might be interventions that, although not explicitly focusing on the bottom (poorest) 40 per cent of the population, can nevertheless reach the same goal ([6]). However, this potential impact relies on their design, specifically on the establishment of clear objectives and targets aiming at reaching the poorest. This would be an effective way to ensure that any development cooperation programme and intervention contributes to reducing within-country inequalities.

In addition, when designing an intervention with the intended logic of reducing inequality, whether directly or indirectly, it is of fundamental importance to consider both the impact on the bottom poorest 40 per cent of the population as well as on the top of the income/wealth distribution. This type of consideration is also part of INTPA's key principles to mainstream inequality reduction (see **Box 3 - INTPA's key principles to mainstream inequality reduction**).

([4]) The Gini coefficient measures the income or wealth distribution across a population, ranging from 0 to 1, with 0 capturing perfect equality while 1 measuring perfect inequality. The Palma ratio measures the share of income held by the richest 10 per cent of a population divided by the share of income held by the poorest 40 per cent. For a technical discussion on different families of inequality measures, see Niño-Zarazúa, Roope, and Tarp (2017).

([5]) For a comparative analysis, see Abdullah, Doucouliagos, and Manning (2015) and Coady and Dizioli (2018).

([6]) For a multi-country microsimulation analysis, see Rattenhuber and Jouste (2018)

How does the Inequality Marker reflect SDG10?

By focusing on increasing income and opportunities of the bottom poorest 40 per cent of the population, the I-Marker enables the assessment of the contribution of development cooperation interventions towards the achievement of SDG10, with particular reference to its two main targets, 10.1 and 10.2 (see **Box 2**).

Nonetheless, **an intervention does not have to target SDG10 as its main or significant goal to apply the I-Marker. The I-Marker is to be applied beyond SDG10;** indeed, SDG10 is a goal dedicated to inequality, but inequality is a multi-dimensional phenomenon and as such there are a number of additional SDGs that are equally relevant. Inequalities, in fact, are at the centre of the entire 2030 Agenda, given the phenomenon's multiple economic, social, and environmental dimensions. If the intervention, for example, contributes to SDG1 (end poverty in all its forms everywhere) ([7]), Target 1.3 of SDG1 (end poverty in all its forms everywhere) , the I-Marker would be applied to see if its context analysis includes information on the proportion of the population benefiting from social protection floors, conditional cash transfers, disaggregated for gender, age, disability, employment status, etc. (in line with indicator 1.3.1) ([8]).

***BOX 2** – KEY TARGETS UNDER SDG 10*

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"

Target 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."

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

***Target 10.4**: "Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality."*

Target 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."*

([7]) Target 1.3: Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable

([8]) Proportion of population covered by social protection floors/systems, by sex, distinguishing children, unemployed persons, older persons, persons with disabilities, pregnant women, newborns, work-injury victims and the poor and the vulnerable

How does the Inequality Marker complement additional tools assessing other forms of inequalities?

The application of the I-Marker builds on the guidance provided in the reference document '**Addressing income inequalities through development cooperation. Volume 3, Guidelines for mainstreaming the reduction of inequality in interventions'**. The implementation of the **mainstreaming principles** (see **Box 3**) included in the guide can, in fact, facilitate the application of the I-Marker.

***BOX 3** – INTPA'S KEY PRINCIPLES TO MAINSTREAM INEQUALITY REDUCTION*

1. **The Beneficiary Approach** – Effective interventions should be designed targeting the poorest, marginalized and most vulnerable, who should be collectively identified and included throughout the programming and project cycle.
2. **Accountability and Transparency** – Interventions should promote availability of disaggregated data, accountability and transparency by partner institutions, fighting of corruption, participatory dispositions in the beneficiary approach. More participation and institutional accountability tend to make policies more inclusive, and it increases transparency and accountability in policymaking.
3. **(Re)Distribution** – Raising income for the bottom 40 per cent while ensuring a fair contribution from the top 10 per cent is crucial to reduce inequality. Fiscal policy is an important instrument in this regard, but multiple areas of intervention should be combined.
4. **Addressing spatial inequality** – Spatial inequality should be investigated for a better understanding of inequality within a country. This geographical lens can help identify new issues and new policy gaps, for which geographically-targeted interventions are required. Differences between regions, urban-rural inequality, intra-urban inequality, and inequality between rural centres are several dimensions to take into account when studying spatial disparities in wealth. Understanding the geographical allocation of funding with regard to the subnational distribution of income can be an efficient way to assess the extent to which policies and cooperation projects take inequality into account.

Nonetheless, inequalities in access to social, economic, and political opportunities might also be determined by factors other than income status, namely age, disability, ethnicity, migrant status, and sex, as indicated by SDG Target 10.2 of SDG10. The composition of the **bottom (poorest) 40 per cent or socio-economically disadvantaged individuals, households or groups** can vary across contexts and interventions, and might intersect with that of other vulnerable groups: women and girls; children; persons with disabilities; ethnic, racial, and religious minorities; indigenous people and local communities, migrants and forcibly displaced populations.

While an intervention might effectively target the bottom (poorest) 40 per cent of the population, and not, for instance, women, it could potentially increase gender inequalities. Vice versa, a programme or project might focus on improving girls' and women's access to opportunities, but not necessarily for those who are the poorest.

It is therefore essential to use the different array of tools available concomitantly to ensure interventions do not miss their intended targets. In the case above, for example, the **Gender Marker** would be fundamental to understand the possible intersectionality of different factors of 'disadvantage', and therefore develop interventions that address all relevant determinants of inequalities.

The I-Marker is thus intended to serve as complementary to the **application of the 'Human Rights Based Approach to international partnerships'**, and of the '**Gender Action Plan III'**. Both are fundamental tools for targeting specific dimensions and drivers of inequality and intersections between socio-economic disadvantaged groups and other vulnerable groups. It is fundamental for all actions to also include this layer of cross-analysis.

What is the "bottom (poorest) 40 per cent population"?

The idea of benefiting the **bottom (poorest) 40 per cent** of the income/wealth distribution (or other socio-economic dimensions) **or socio-economically disadvantaged individuals, households or groups** can be linked to the notion of 'shared prosperity': i.e., the extent to which the promotion of economic and social progress is inclusive. The conventional way of measuring shared prosperity is to look at the income (or wealth) growth of the bottom 40 per cent across the welfare distribution of a country. **If the income (or wealth) of the bottom 40 per cent grows at a rate higher than the national average, then economic progress has been overall inclusive, and consequently inequality is reducing**. This is what the World Bank refers to as the "shared prosperity premium", (see **Box 4**) ([9]) reflected in the Target 10.1 of SDG 10: "*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*".

***BOX 4** – HOW DOES TARGETING THE BOTTOM 40 PER CENT RELATE TO CHANGES IN INCOME, WEALTH OR SOCIAL INEQUALITIES?*

A relatively straightforward concept that links the bottom 40 percent to changes in income, wealth or social inequalities is the shared prosperity premium, which captures the difference in the growth rate of mean income or wealth among the bottom 40 per cent, g_{40}, and the growth rate observed in the overall mean of income or wealth, g_{μ}. The share prosperity premium can thus be expressed as:

$$m = g_{40} - g_{\mu},$$

where m can take positive, $m>0$, or negative, $m<0$ values.

Mean income or wealth growth can be defined as the sum of growth among the bottom 40 per cent and growth among the top 60 per cent, which are both weighted by their corresponding income or wealth shares in the initial period, (S_{40}, S_{60}), before introducing a development intervention, that is:

$$g_{\mu} = g_{40} * S_{40} + g_{60} * S_{60,}$$

Since $S_{40} = 1 - S_{60}$ and $m = g_{40} - g_{\mu}$, supporting the growth rate among the bottom 40 per cent above the growth rate of the mean, i.e., $m>0$ will lead to lower growth rate on the top 60 per cent, and ultimately, to inequality reduction. For a fuller technical discussion, see (Lakner et al. 2022)

([9]) The share prosperity premium is analogous to measures of (negative) change in inequality. For a more technical discussion on the concept of share prosperity premium, see Lakner et al. (2022) and Ferreira, Galasso, and Negre (2020).

The I- Marker is aligned with SDG10 Target 10.1 to underscore that development cooperation interventions are likely to have inequality reducing effects if they benefit proportionally more the bottom 40 per cent of the income (or wealth) distribution relative to the rest of the population. ([10]) In practical terms, this can be assessed by looking at the position of beneficiaries of development cooperation interventions across the wealth distribution, using the **Equity Tool** (see below). Generally speaking, if more than 40 per cent of project beneficiaries belong to the bottom 40 per cent of the wealth distribution, then it can be argued that the project is likely to contribute to inequality-reduction efforts ([11]). The larger the share of resources devoted to benefit the bottom 40 per cent, the greater the contribution to inequality-reduction. These effects may nonetheless be heterogeneous across population groups, further justifying the need to analyse and integrate in any intervention the intersections with relevant groups.

Why should development interventions focus on the bottom (poorest) 40 per cent?

The I-Marker focuses on **the bottom (poorest) 40 per cent** of the income/wealth distribution (or other socio-economic parameters) **or socio-economically disadvantaged individuals, households or groups to maximize the transformative impact of any intervention**. There are two main reasons justifying this logic.

First, this is directly linked to SDG10, Target 10.1. Fostering faster than average income growth in the bottom 40 percent of the population, and thus reducing inequality, promotes sustainable and inclusive growth and accelerates the pace at which growth contributes to poverty reduction. Sustainable inclusive growth can be a vehicle to promote social justice, wealth redistribution, and a new development model that is, given the crises and challenges of the last years, needed more than ever. This is directly linked to **DG INTPA's objectives to achieve the SDGs, reducing and ultimately eradicating poverty, and fighting inequalities to build sustainable and inclusive societies**. Inequality in income and wealth is also strongly associated with political power and elite capture. Where disparities in wealth and income are high, the political process can be influenced so that public policies and resources favour the better-off and more powerful leading to increased inequality across the board.

Second, because social and economic inequalities are strongly interrelated, **individuals at the bottom of the income distribution (the bottom 40 per cent) will have lower socioeconomic outcomes, and inevitably lower opportunities**, including access to services such as health, education, housing and many other important elements. As indicated by SDG10, Target 10.2, **increasing opportunities for lower income groups** (thus focusing on income as a determinant of socio and economic opportunities and status) **can lead to an improvement in their outcomes**. As an example, children's opportunities tend to be correlated with their parents' income. Children born to families at the bottom of the income distribution suffer from gaps in the development of cognitive and non-cognitive skills, and physical abilities, which in turn are important determinants of good socio-economic outcomes in the future.

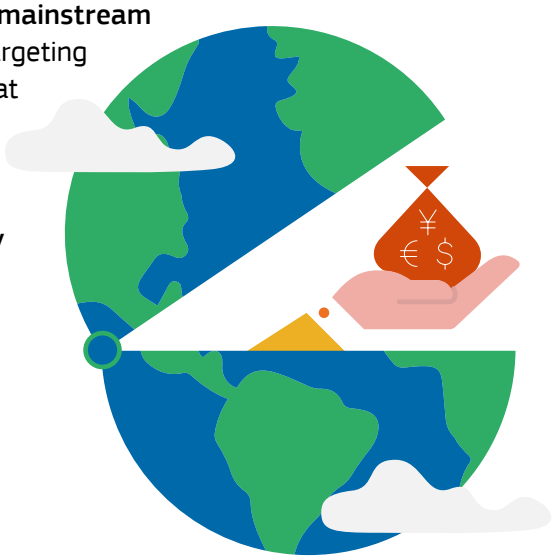
([10]) In the context of the Inequality Marker, the 'wealth' concept makes direct reference to household assets such as durable goods and housing materials.

([11]) see Lakner et al. (2022).

What about top incomes?

Regardless of whether surveys collect data on income or consumption, **information on richer individuals who absorb higher shares of resources tends to be of relatively poor quality** due to a few reasons. First off, those at the very top of the income distribution scale are, by definition, very rich and very few. Because surveys gather information not on the entire population but on a sample of it, the small number of very rich individuals may not be included despite the fact that their incomes are a significant part of the total. Secondly, if the very rich are included in the sample, they frequently will not respond to a survey that may involve questions that make them uneasy (high non-response rates). Third, even if they respond, they often will not provide information on all their income for a variety of reasons, among which is a fear of mentioning income not declared to the tax authorities (under-reporting).

Given the above, it is difficult (if not impossible) to foresee the impact of an intervention on top incomes, but certain considerations should still be kept in mind when designing one. However, **targeting the bottom 40 per cent needs to be accompanied by a fair contribution from the top 10 per cent**, and what happens to the top 10 per cent should also be considered. The EU has firmly embedded the fight against inequality as a cross-cutting objective in each of its geopolitical priorities, and it is thus promoting policies that should benefit worse-off groups more than better-off groups (e.g. progressive taxation). Thus, take advantage of monitoring and evaluation phases in programmes and interventions to introduce indicators related to inequality reduction (based on the principles set out in **Box 3 – INTPA's key principles to mainstream inequality reduction**: following a beneficiary approach, targeting the bottom 40 per cent, transparency, and looking at spatial and geographical inequality). When possible, also consult the **World Inequality Database (WID)** for available data on top income shares (as mentioned in **Box 7 - Key sources for a detailed analysis of inequality and its drivers**).



2

THE SCORING SYSTEM OF THE INEQUALITY MARKER

As explained above, the **I-Marker assesses whether, and to what extent, inequality reduction is an objective of development interventions**. For this purpose, a set of criteria has been developed to establish if:

I-0: Inequality reduction is not targeted
I-1: Inequality reduction is a significant objective
I-2: Inequality reduction is the principal objective

Consistent with the objective of addressing progress of the bottom 40 per cent, which is central to SDG10 and should be made operational in our actions, a programme or an intervention is marked using the following criteria:

1. Whether an **analysis of trends and drivers of inequalities in the policy area of the intervention** (see below) is used to identify **the bottom (poorest) 40 per cent or socio-economically disadvantaged individuals, households or groups** to define the programme or project objectives and activities;
2. Whether the **objectives and activities of the intervention are designed to directly benefit the bottom (poorest) 40 per cent or socio-economically disadvantaged individuals, households or groups within the population**, which *inter alia* could have been disproportionally excluded from the provision of public goods and services;
3. Whether **measurable and relevant indicators** are in place (with baselines and targets) to **assess progress in delivering the expected benefits to the bottom (poorest) 40 per cent or socio-economically disadvantaged individuals, households or groups**;
4. Whether there is a **specific evaluation plan** (or component in the foreseen evaluation) **to assess the impact on the bottom (poorest) 40 per cent or socio-economically disadvantaged individuals, households or groups**, including those identified by using the **Distributional Impact Assessment** tool (see further below).

Based on the above criteria, the I-Marker is scored in the following way (see **Box 5**):

BOX 5 - I-MARKER LEVELS OF SCORING

(I-0) Inequality reduction is not targeted - None of the criteria are relevant for the intervention			
No analysis of the incidence of inequalities at either national or sectoral level is provided.	No objectives to reduce inequalities are set.	No targets are set to benefit in particular the bottom (poorest) 40 per cent or socioeconomically disadvantaged individuals, households or groups.	No evaluation of the distributional impact of the programme is planned.

(I-1) Inequality reduction is a significant objective - The following minimum criteria are met in full			
Generic contextual information on the levels of inequality in the country or sector (*) is provided and is used for the designing of the intervention.	The **general objective** or **at least one of the specific objectives** of the intervention is either to reduce inequality: i) in the country, ii) in a specific geographical area, or iii) in a specific sector.	**Inequality indicators** (**) are developed with targets set for measuring, **directly or indirectly** (***), the effect of the intervention on the **bottom (poorest) 40 per cent or socioeconomically disadvantaged individuals, households or groups**.	There is a clear plan to evaluate results, including inequality reduction targets.

(I-2) Inequality reduction is the principal objective of the intervention - the intervention is designed with the principal intention of reducing inequality; all of the criteria below are present, relevant, and thoroughly developed for the intervention			
Detailed analysis is provided on the levels, drivers, and determinants of inequality in the country and/or on the areas of intervention.	The **general objective of the intervention** is to reduce inequalities and **at least one of the specific objectives** is set to reach the **bottom (poorest) 40 per cent or socioeconomically disadvantaged individuals, households or groups**.	**Inequality indicators** are developed with targets set for **directly measuring** the effects of the intervention on the **bottom (poorest) 40 per cent or socioeconomically disadvantaged individuals, households or groups**.	An evaluation is planned to assess the intervention's impact on the **bottom (poorest) 40 per cent or on socioeconomically disadvantaged individuals, households or groups** and on the reduction in inequality.

(*) Analyses at country level may include subnational disaggregation by geographical divisions, or rural vs. urban areas. Analyses at sectoral level may include economic activities listed under the 'International Standard Industrial Classification of All Economic Activities (ISIC)', or sectors of public spending, as defined by the 'OECD Classification of the Functions of Government (COFOG)'.

(**) Inequality Indicators can include those measuring dimensions related to either horizontal inequality (e.g., opportunity, access, targeting of vulnerable groups) or vertical inequality (e.g., outcome, income level, etc.), and can include a level of disaggregation that identifies beneficiaries as belonging to the bottom (poorest) 40 per cent or socio-economically disadvantaged individuals, households or groups.

(***) For example, an indicator measuring the inequality-related outputs of a technical assistance intervention would count as an inequality indicator.

What is the difference between a general context analysis and a detailed one?

A "detailed context analysis" provides all available data about the inequalities in a specific sector or geographical area, clearly explaining drivers, determinants, and consequences/effects for a given population (see **Box 6** for an example). It is important to underline that analyses can be lacking simply because the information and data are not available in the given country. Yet, if all available information, although incomplete, is included in the analysis, then the project can be ranked as I-2 (provided the other criteria are also met).

General contextual information, instead, provides only basic data (e.g., only the Gini level in a given country) and understanding of the dynamics of inequalities in a given country, without investigating in detail determinants and possible consequences/effects.

BOX 6 *– EXAMPLE OF A DETAILED ANALYSIS*

The following is an example of a detailed analysis based on the study 'The distributional impacts of development cooperation projects' published by AFD in 2020. Data has been gathered from various sources including the World Bank, National Statistical Institute, and OECD. Citations have been removed in the excerpt, but can be found in the original text.

'Colombia has generally experienced higher annual growth in GDP per capita over the last 20 years, about 2.5 per cent, relative to the average of about 1.4 per cent for Latin America and the Caribbean. Today, Colombia is classified by the World Bank as an upper-middle income country. Economic growth over this period has been, on the whole, pro-poor in reducing poverty and income inequality … Despite large reductions in poverty in the country over the last two decades, as of 2018, over 4 per cent of Colombians still live on less than $1.90 per day, more than 11 per cent live on less than $3.20 per day, and over 28 per cent live on less than $5.50 per day. Based on national poverty lines, 8.5 per cent of Colombians lived in extreme poverty, while nearly one-third lived in moderate poverty and 18 per cent lived in multidimensional poverty …'

'When compared to other Latin American countries with similar or higher Gini index values prior to 2005 (e.g., Bolivia, Ecuador, Peru, etc.), Colombia's economic growth does appear to have been relatively weakly pro-poor. … Underlying this persistent inequality are disparities between urban and rural areas, as well as significant regional disparities between the departments … The story of Colombian poverty and inequality also includes structural and social issues, particularly in healthcare.'

'Since the creation of the mandatory system for guarantee of quality care (Sistema Obligatorio de Garantía de la Calidad en Salud) in 2006, Colombia has made great strides in expanding coverage and quality of healthcare throughout the country. However, while the population coverage of healthcare services is higher than other OECD countries, there are a number of general healthcare indicators that continue to lag behind … For instance, the maternal mortality rate in Colombia is by far the highest of all OECD countries … The country also experiences approximately 46 deaths per 100,000 every year due to poor quality of care, and a further 24 due to non-utilisation of or poor access to healthcare services …'

'Significant disparities contribute to Colombia's healthcare challenges. Such disparities exist between public and private facilities, rural and urban facilities, and between departments with relatively high and low poverty rates. One striking example of this is the fact that rates of delivery of screening mammographs for women aged 50-69 ranged from 1-3 per cent in the relatively high poverty departments of Vichada, Vaupés and Guainía, as compared to the national average of 10.3 per cent …'

There are also large regional variations, e.g., limited supply of medical professionals and specialists in rural areas and in departments with higher poverty rates, number of births attended by a skilled professional (urban vs. rural), and the number of health providers per capita, etc.

What sources can be used for the analysis of inequality and its drivers?

The fundamental criteria for the application of the I-Marker is an **assessment of the level of inequality, and when and where possible, its drivers,** in the countries or policy areas of the intervention. As indicated in the criteria above, an I-2 intervention needs to include detailed contextual information; nonetheless, any intervention can benefit from a context analysis that considers inequality data. This is done by reviewing the most updated available data through key sources (see **Box 7**).

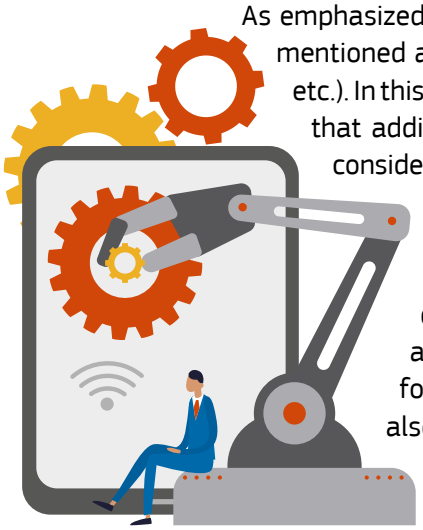
***BOX 7** – KEY SOURCES FOR A DETAILED ANALYSIS OF INEQUALITY AND ITS DRIVERS*

PovcalNet	Provides country, regional, and global poverty and Gini estimates
World Development Indicators	Builds on PovcalNet and includes a large number of additional indicators from several sources
World Bank's Poverty and Shared Prosperity	Reports for shared prosperity data premium (SDG10.1)
World Bank's Systemic Country Diagnostics	Systematic Country Diagnostic (SCD) reports are prepared by World Bank Group staff in close consultation with national authorities and other stakeholders. They identify key challenges and opportunities for a country to accelerate progress towards development objectives that are consistent with the twin goals of ending absolute poverty and boosting shared prosperity in a sustainable manner.
UNU-WIDER's World Income Inequality Database (WIID)	The World Income Inequality Database (WIID) presents information on income inequality for developed, developing, and transition countries. It provides the most comprehensive set of income inequality statistics available and can be downloaded for free.
World Inequality Database (WID)	Provides information on top incomes shares for some countries
National Development Plans, SDGs National Reports, and reports from National Statistical Agencies Offices	
Other rigorous distributional studies	
Annex A – Useful Data Sources - Addressing income inequalities through development cooperation. Volume 3, Guidelines for mainstreaming the reduction of inequality in interventions	The Annex includes 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 that can be accessed depending on which specific inequality dynamic is being researched. Access is free unless otherwise noted.

EU-AFD-ACEIR Handbook on Inequality Measurement for Country Studies	In contexts where inequality analysis is not available, EU Delegations should consider **commissioning research on inequalities**. The **Inequality Diagnostics Tool** builds on existing data, and it provides an excellent approach to develop such analyses. Developed through the EU-AFD **Research Facility on Inequalities**, this diagnostic tool leads to a thorough analysis of the various inequalities in a given country. 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 over time. It also summarises the main policies, past or in place, that are expected to have an impact on inequalities. This can be used as a policy dialogue tool to identify with the partner government the priorities and policy options in order to reduce them. In addition, the tool has been developed with a meta objective in mind, namely to facilitate the comparability of results and findings across countries.
GIZ Inequality Diagnostic Guidelines	Guidelines providing structure for a diagnostic assessment of national inequality in partner countries. Key causes and linkages are highlighted for analysis along with various approaches to reducing inequality at national level. The focal areas mentioned are not exhaustive, and each diagnostic will emphasise different aspects according to local significance.
The Commitment to Reducing Inequality (CRI) Index	The Commitment to Reducing Inequality (CRI) Index monitors what governments are doing through their policy commitments to reduce inequality.

The analysis could also include an examination of the composition and trends of development assistance to the sector of interest in the recipient country by type of flow (e.g., official development assistance, foreign direct investment, private grants, etc.) in accordance with SDG 10.b.1 ([12]).

The analysis, in line with the criteria of I-Marker, should be reflected in the elements mentioned above, namely: 1) **objectives and activities**; 2) **measurable and relevant indicators** to assess progress in reaching the bottom 40 per cent; and 3) a **specific evaluation plan** to assess progress to reach the bottom 40 per cent.



As emphasized earlier, the analysis should be carried out in accordance with the existing tools mentioned above (e.g., the Reference Document on Addressing Inequality, the HRBA Toolkit, etc.). In this sense, the **Gender Marker and Disability Marker** are fundamental tools to ensure that additional dimensions of inequality (e.g., horizontal inequality) are fully taken into consideration when designing interventions. In addition, the **Country Risk Management Framework Plus** (RMF+) should also be considered as complementary. The RMF+ assesses risks that could affect the priorities of the European Commission and the objectives as set in programming documents. Among the different dimensions analysed, it looks at **Equality, inclusion and non-discrimination** ([13]) and **Inclusive growth, inequality and women's economic empowerment** ([14]) for all INTPA countries, for all operations and for all aid modalities. The RMF+ also identifies mitigating measures and policy dialogue priorities based on the risk levels assessed. Beyond the two dimensions mentioned above, further analysis related to inequality can be found in the RMF+ reports ([15]).

([12]) Indicator 10.b.1: Total resource flows for development, by recipient and donor countries and type of flow (e.g. official development assistance, foreign direct investment and other flows).

([13]) Dimension 1.3: 'What is the risk that gender equality and rights of women and girls are not recognized and adequately protected? What is the risk that the rights of persons belonging to minorities or persons in vulnerable situations are not recognized and adequately protected?'

([14]) Dimension 2.4: 'What is the risk that the country's growth will increase inequality and benefit only part of the population and that public policies to promote inclusive growth are not taken, ineffective or not implemented?'

([15]) For more information on the Risk Management Framework Plus (RMF+), contact INTPA.E.1.

3

RECOMMENDATIONS FOR THE EFFECTIVE APPLICATION OF THE INEQUALITY MARKER

What is reviewed by the I-Marker?

In the case of larger interventions with multiple components, the I-Marker must review and be applied to its totality, taking into account all its different components. The I-Marker must score the overall intervention, and not focus on individual components.

As an example, the following intervention aims to modernize the credit system in a given country, through four components:

1. Review and update of the national credit legislation;
2. Capacity-building of financial institutions to propose diverse credit schemes;
3. Provision of support to build the capacities of MSMEs to meet criteria and apply to credit schemes; and
4. Establishment of a specific micro-credit scheme devoted to micro enterprises owned by low-income individuals or families.

Based on the assessment of the nature of the objective/components alone, the above programme would be marked as I-1, because only one component (number 4) focuses on reducing inequalities. It could be ranked as I-2, but only if all components were to focus on the bottom (poorest) 40 per cent, or socio-economically disadvantaged individuals, households or groups.

What is the distinction between the score I-0 and the "blank" value?

All new interventions will be assessed using the I-Marker. A score of I-0 (inequality is not targeted) can be given only to projects that have been assessed against the I-Marker checklist. It cannot be used as a default value. For projects that have not been analysed, the I-0 must not be used.

How should projects aiming at universality of services be marked?

Interventions aiming at universalizing access to goods or social services ([16]) are potentially inequality-reducing even though these policies have no specific objectives targeting the poorest 40 per cent or the most vulnerable populations. Universal access to social services **can be an effective policy strategy** to address existing inequalities in service access and service utilization.

A project aiming at universalizing access to basic health or education, for example, including through the building of facilities and schools all over the country, in particular in remote areas, can be marked as **I-1**. However, it has to be outlined that there might be exogenous factors nevertheless undermining access for the poorest: e.g., cultural barriers, or, in the case of schooling, preference of labour for children of the poorest parents. As a result, in order to be marked as **I-2**, a project aiming at universalizing services must also include a detailed analysis of all factors that might prevent access, and incorporate it in the intervention's objective, specific indicators, targets and evaluation plans verifying the effective intake of the poorest.

How should projects providing technical assistance be marked?

Projects focusing on technical assistance can be also marked as I-0, I-1, or I-2, depending on the scope and objective of the assistance. If technical assistance aims to improve capacities of national actors in the delivery of policies that can benefit the poorest, then we can consider inequality reduction as a 'significant' or 'principal' objective. To illustrate, if a project provides technical assistance to develop teachers' training modules to increase the quality of education among pupils, including those from the poorest households, then the project can be marked as I-1. If the same project includes a detailed analysis, and its objective is to develop training modules for inclusive pedagogical practices targeting the poorest children, with clear indicators for measuring the number of trained teachers teaching the poorest children living in deprived rural areas, then the project can be marked as I-2.

How should infrastructure projects be marked?

Large infrastructure projects follow the same logic as any intervention when assessing their focus on inequality reduction. A project that aims to develop the railway network in a specific geographical area of a country can be taken as an example. If no analysis is conducted about the effects of the project on inequalities, and objectives or indicators set to facilitate access by the poorest to rail transportation and services, then the project should be marked as I-0. If analysis is conducted about how the railway network impacts the poorest, and at least one specific objective of the project is devoted to this goal, i.e., to improve railway access among the poorest, then the project can be marked as I-1.

An infrastructure project can be marked as I-2 only when the entire focus of the project is on reducing inequalities by building the railway network to reach the poorest areas, in combination with subsidies for the lowest income families. The project should also include indicators to evaluate the utilization of railway services among the poorest and if possible, the effects of the project in terms of socio-economic outcomes such as access to markets.

([16]) For example, water, electricity, education, health, social protection schemes, insurance, pensions, etc.

4

MEASURING THE DISTRIBUTIONAL IMPACT OF INTERVENTIONS

What is the Distributional Impact Assessment (DIA) Methodology?

The Distributional Impact Assessment (DIA) provides an evidence-based assessment on **the potential inequality-reducing effects of the intervention**.

The DIA should be considered as complementary to the I-Marker: it can inform ex ante, during the design phase, and ex post, whether the poorest 40 per cent have been targeted or reached, while also comparing with the share of beneficiaries that enjoy higher income or wealth. Targeting or reaching the poorest 40 per cent of a society by an intervention allows it to contribute to reducing inequalities in accordance with SDG10.

For an intervention to be labelled as I-2, the DIA would need to be fully integrated within the programme's cycle. When an intervention is labelled I-2, the DIA could be launched through the support of INTPA G.4 and its technical assistance facilities. EU Delegations and operational managers would be fully supported to integrate the DIA in the implementation of the intervention, which would benefit from improved beneficiary targeting.

Note, however, that the **DIA can be performed for all types of interventions, regardless of its I-Marker score**. The DIA can provide critical information about income or wealth distribution of the targeted population when performed ex-ante, during the project design. This can assist agencies to maximize their impact, even if inequality reduction is not the principal objective of the intervention. Therefore, **the DIA is highly recommended for interventions labelled I-1.**

The analysis looks at the effective targeting of beneficiaries of development interventions, identifying if more than 40 per cent of beneficiaries are at the bottom two quintiles of the income or wealth distribution. ([17])

To determine whether direct beneficiaries of development interventions are at the bottom 40 per cent of the wealth distribution, the DIA relies on the **Equity Tool** (EQT). The EQT is a quick, low-cost and user-friendly tool that measures relative wealth (or household assets) based on nationally representative survey data from Demographic Health Surveys, Multiple Indicator Cluster Surveys, and other household surveys with information on household assets. The EQT relies on a small set of questions (around 10-15), which help identify the wealth quintile of the individual (in line with SDG 10.1.1). Regarding the poorest of the poorest (Bottom 20 %), the tool provides information about the share of programme beneficiaries that come from the bottom quintile, so if a project aims to benefit

([17]) **Income** is used in the analysis of budget support operations, whereas a wealth index based on **household assets** such as televisions, housing materials, types of water access and sanitation facilities, is used to evaluate project type interventions.

the poorest, the tool provides hints of how effective projects have been in that respect. It does not support, however, the decomposition of the wealth distribution (or income distribution for the case of the CEQ) below that level.

Why and when should a DIA using the Equity Tool be done?

Assessing the economic (income or wealth) status of an individual, household, group, or population, is not straightforward. It requires empirical analyses. These analyses can be costly and time consuming. The Equity Tool, instead, is a very simple instrument to undertake a Distributional Impact Assessment.

Yet, in some cases, performing a DIA can be redundant. As an example, is an intervention project building a health facility in a very marginalised poor area (such as slum in a city, or a rural remote village), there would be no need to undertake the DIA, since basically all beneficiaries are likely the poorest individuals/households in the country. In this case, the only requirement would be to assess the actual intake of the health facility service, and the capacity to address the health needs of the beneficiaries.

However, these case scenarios are not actually very frequent. **Most of development cooperation interventions are constructed to reach out to diverse beneficiaries, in heterogeneous socio-economic environments where the economic status of beneficiaries is uncertain**. The DIA, potentially, could therefore be undertaken for any and all interventions, in particular those not specifically targeting the poorest by intention nor design.

Could the DIA be performed ex ante?

Yes, and it is actually highly recommended to perform the DIA, using the Equity Tool, ex ante, to identify, target and include beneficiaries (households, groups, geographical areas) mostly from the bottom (poorest) 40 per cent. As an example, if a project aims at expanding access to basic education, particularly for the poorest children, by increasing the number of primary schools, it is essential to select those areas where the majority of children belonging to the lowest income or wealth households can be found. The DIA allows geographical sampling to target effectively these areas.

In addition, **the DIA methodology allows some degree of flexibility by adding questions to the Equity Tool that can help identify other important horizontal dimensions of inequality**. For example, following the above case, programme implementers may be interested not only in improving access to primary education among the poorest children, but also in identifying educational gaps in terms of gender, ethnicity, race or other dimensions. This information can be crucial for the design and the effective implementation of development interventions, and their expected and desired social impact.

What project components can be assessed through the DIA?

An intervention might have multiple components, but the DIA can be performed only on those for which it is possible to establish the targeted population, or observe sectors of activity that are funded through budget support operations (see below).

The following example can be considered. An intervention aims to increase access to micro-credit through three specific components:

1. creation of micro-credit schemes by public credit institutions with support of the public sector;
2. capacity building for small enterprises to apply for schemes, including specific training for lowest earners; and
3. capacity-building for small enterprises to develop business plans for an effective use of credit, including specific training for lowest earners.

In this case, the DIA can be applied only for components 2 and 3.

Within specific components, **it is also necessary to identify the suitable activity that can be assessed** through the DIA and the Equity Tool. In the case above, each component could be implemented using different approaches and types of activities. **Only those that directly target beneficiaries can be assessed** through the DIA based on the Equity Tool: e.g. trainings for beneficiaries, where the DIA would assess the extent to which the intervention had reached the poorest 40 per cent.

What is the difference between assessing beneficiaries when they are individuals and when they are geographical areas?

If beneficiaries are individuals or households, performing the DIA based on the Equity Tool is straightforward. **It suffices to conduct surveys among the direct beneficiaries of the intervention** (e.g., the owner of a small enterprises who participated in a training programme). In the case of a large number of individuals or households benefiting, a sample can be made to ease the undertaking of the survey.

When beneficiaries are geographical entities, for example, a region, district, or village, **a sample of the population of these entities must be designed to conduct the Equity Tool survey**. Yet, it is also essential to add questions to the Equity Tool survey to reveal whether respondents actually benefited from the intervention (e.g., in the previously mentioned project to expand access to electricity, whether the households did actually subscribe to the service, and for how long they kept their subscription, and whether its income increase/decrease because of that).

Can the DIA based on the Equity Tool look at other dimensions of inequality?

Yes. While it is relevant to look at the income or wealth distribution in order to understand the level of inequality in a country, it might be relevant to identify relevant dimensions of inequality within targeted populations. By extending the scope of the questions in the Equity Tool, it is possible to add certain variables of interest to the analysis. The tool can provide information on the wealth distribution across relevant groups within the targeted population. For example, for a project that aims to increase school enrolment among the poorest children, it may be also relevant to know how girls vs. boys, or children historically excluded because of their ethnic, racial or religious identities (in line with SDG10.3.1), or children with disabilities (as per SDG10.2.1) or having refugee status (as per SDG10.7) have benefited from the project.

Can the DIA based on the Equity Tool measure vertical inequalities?

It is possible, at the very least, to understand whether beneficiaries of an intervention have seen a change in their income status or social outcomes by adding a specific question to the Equity Tool survey. It is not possible, however, to assess whether the change can be directly or uniquely attributed to the development cooperation's intervention, unless a counterfactual analysis is conducted (with a similar sample, not benefiting from the intervention).

Can the DIA based on the Equity Tool be performed in every country of the world?

The DIA can be conducted in all those countries with nationally representative household surveys with data on household assets (e.g., Demographic and Health Surveys (DHS), Multiple Indicator Cluster Surveys (MICs), and Living Standards Measurement Study (LSMS). Currently, the Equity Tool can be used to conduct DIAs in over 60 countries ([18]); with existing survey data, the tool could be applied to 90 per cent of all countries in the world.

([18]) https://www.equitytool.org/countries/

5

DISTRIBUTIONAL IMPACT ASSESSMENTS OF BUDGET SUPPORT OPERATIONS USING THE COMMITMENT TO EQUITY TOOL

How can the DIA be implemented to analyse sectors of activity that benefit from budget support operations?

In the case of sectors of activity (e.g., primary education, health care, or social protection benefits) that are supported via budget support operations, the DIA can be implemented based on a fiscal incidence analysis using the Commitment to Equity (CEQ) tool.

What is the Commitment to Equity (CEQ) tool?

The CEQ tool provides an overview of the overall distributional incidence of government spending, as well as the disaggregated impact of taxation and social expenditure ([19]), in accordance with SDG Target 10.4: *"Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality"*. The CEQ tool provides an indicator of whether the bottom (poorest) 40 per cent are proportionally benefiting more from social expenditure than the rest of the income distribution. Budget support operations, thus, can be regarded as being inequality-reducing if government expenditure benefits proportionally more the bottom 40 per cent of the income distribution.

How does the CEQ work?

The CEQ tool relies on nationally representative household surveys and public expenditure data to assess how government spending on services (e.g., education, health, or social protection expenditure) is distributed across the income distribution. For the purpose of the DIA, it is assumed that additional resources made available to partner countries via budget support operations follow existing patterns of government budget allocations within sectors of activity (e.g., education or health). Thus, **the DIA through the CEQ works under the assumption that any contribution of general or sectoral budget support will follow the incidence of the general or sectoral spending distributional impact**.

([19]) See the CEQ at http://commitmentoequity.org/.

What questions can be answered with the DIA using the CEQ tool?

The CEQ tool answers three fundamental questions about the contribution of budget support to inequality reduction:

First, **has income inequality declined after accounting for government redistribution that is supported by general or sectoral budget support? If so, to what extent?** This question can be addressed by comparing the Gini coefficient based on 'market income' with inequality measures based on 'final income', with the latter accounting for the effect of monetary values of government spending that goes to targeted social services that are provided by the State, such as education, health, and social protection. ([20])

Second, **has general or sectoral budget support achieved an equalizing effect?** This question can be addressed by comparing concentration coefficients (C) for specific sectors of activity that are supported by budget support with Gini coefficients for market income (G). ([21]) If C < G, then we can argue that government spending in the targeted sector contributes to inequality reduction. If C > G, it can be argued that government spending increases inequality, and if C has a negative value, it can be argued that government spending not only has an inequality-reducing effect, but it is also pro-poor.

Third, **has government spending supported by budget support benefitted the poorest bottom 40 per cent proportionally more than the rest of the income distribution? If so, to what extent?** This question can be addressed by calculating the share of budget support to the targeted sector that goes to the bottom 40 per cent. If the share of government expending exceeds 40 per cent at the bottom 40 per cent of the income distribution, then it can be argued that budget support has achieved a pro-poor redistribution.

Can the DIA using the CEQ tool be conducted ex ante?

Yes, **it is recommended to perform the DIA using the CEQ tool ex ante** to identify how progressive or regressive government spending is in the sectors of activity that are projected to be funded by budget support operations. If, for example, only 20 per cent of government health spending reaches the bottom 40 per cent, then specific policy initiatives could be designed ex ante and then introduced as part of budget support operations to facilitate a more equal distribution of health spending.

([20]) Market income captures pre-tax gross labour income (formal or informal), self-consumption, capital income, imputed rent for owner-occupied housing and private transfers such as remittances and gifts. Disposable income is the outcome of market income minus direct taxes on personal income and contributions to social security, except for the portion earmarked for old-age pensions. Consumable income results from disposable income plus the indirect subsidies received by individuals, less fewer indirect taxes and contributions paid, while final income is consumable income plus the monetary value of social services provided by the state (Lustig 2018).

([21]) Concentration coefficients are indicators of the progressivity or regressivity of policies or government budgets.

What project components can be assessed via the CEQ tool?

All those referring to budget allocation. Outcomes achievements, e.g., increase in access to basic education for the poorest, due to increase in allocation in budget, can instead be measured through the Equity Tool.

Can the DIA based on the CEQ be used to analyse the contribution of budget support operations to inequality-reduction in specific dimensions such as age or gender?

In principle, it would be possible to conduct such analyses if data on government expenditure was disaggregated by specific dimensions, i.e., age or gender. However, in practice, data on government spending is mainly disaggregated by sectors of activity (e.g., education, health care, social protection), and in some cases, by subsectors of activity (e.g., basic education, secondary education, tertiary education, higher education) and at subnational level (e.g., central government, local government). It is therefore unlikely, but possible if the relevant data is available.

Can one perform the DIA based on the CEQ at subnational level (states, provinces, for instance)?

Yes, in principle. However, to implement the CEQ at the subnational level, access to data on government spending by sector of activity disaggregated at the local level would be needed.

Can one perform the DIA based on the CEQ in every country in the world?

At the moment, the CEQ provides data on the overall distributional incidence of government spending for 63 low-income and middle-income countries ([22]). For those countries currently not covered by the CEQ tool, one could conduct a fiscal incidence analysis using nationally representative surveys and data on general or sectoral government expenditure and cover nearly 90 per cent of all developing countries with existing survey and expenditure data.

([22]) See https://commitmentoequity.org/ for list of countries.

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ANNEX 1 – EXAMPLES OF SCORING INTERVENTIONS USING THE I-MARKER

Example 1 – Education Project aiming at increasing literacy through access to basic education

The following example looks at how an intervention aiming at increasing literacy through access to basic education could potentially be scored as I-0, I-1, and I-2, depending on how the criteria are articulated in the document.

Criteria	I-0	I-1	I-2
Analysis of trends and drivers of inequalities in the policy area of the intervention	An analysis is carried out on literacy rates and determinants at national level;	A generic contextual information on the levels of inequality in education is provided, e.g. literacy rates in the country, possibly disaggregated by some specific regions/geographical areas. Limited identification of determinants, e.g., lack of primary schools, undermining access to basic education in these areas.	A detailed analysis of levels, drivers, and determinants of inequality in education in the country is provided, with disaggregated data about literacy rates, showing lower rates among the poorest children (children living in families with low-educated or low-income parents or any other socio-economic determinant). Detailed identification of determinants, e.g., factors preventing children from accessing basic education; above all the limited number of primary schools where most of the poorest children live (specific regions, areas such as sub-urban, rural), and long distance between existing schools and villages/cities' areas.
Level of targeting by the general and specific objectives	The overall objective of the project is to increase national literacy rates, and no specific objective is set to reduce inequalities. The main specific objective is to expand access to basic education through an increase in the number of primary schools across the country;	The overall objective of the project is to increase literacy rates in all regions/geographical areas of the country by expanding access to basic education. Among specific objectives, one is specifically related to reducing inequalities through an increase in the number of primary schools in specific regions/ geographical areas, e.g., sub-urban and rural villages, which are characterized by less coverage and mostly populated by the poorest children.	The overall objective of the project is to reduce inequalities in literacy by expanding access to basic education for the poorest children. All specific objectives are related to inequality: 1) increase in the number of primary schools, in most deprived areas (i.e., sub-urban and rural); 2) reduce the distance between schools and main villages by building nearby schools and/or ensuring transportation; and 3) raising awareness among parents in sub-urban and rural villages about the importance of enrolment in basic education.

Criteria	I-0	I-1	I-2
Indicators and Targets	Indicators are set with reference to the expansion of primary schools, and coverage (e.g., an increase of X per cent in primary school intake at a national level).	Indicators are set with reference to the expansion of primary schools, and coverage (e.g., an increase of X per cent in primary schooling intake) in selected regions/geographical areas, e.g., sub-urban and rural villages, where coverage is lower and are mostly populated by the poorest children.	Indicators are set with reference to the expansion of primary schools, and coverage among the poorest children (e.g., an increase of X per cent in primary school intake for the poorest children in selected deprived areas, and/or in comparison with the national average).
Evaluation of the inequality-reduction effects of the intervention.	An evaluation plan is proposed, but only looking at the increase in intake across the country.	An evaluation plan is proposed looking at the increase in intake across the country, and in the selected areas where coverage is lower and largely inhabited by the poorest households.	The evaluation specifically assesses the impact of the intervention on the percentage of the poorest children who have been enrolled in primary schools.

Example 2 – Infrastructure project aiming at expanding access to electricity in rural areas

The following example looks at how an intervention aiming at expanding access to electricity in rural areas could potentially be scored as I-0, I-1, and I-2, depending on how the criteria are articulated in the document.

Criteria	I-0	I-1	I-2
Analysis of trends and drivers of inequalities in the policy area of the intervention		A generic and contextual considerations about lack of access to electricity in rural areas are presented, e.g., rural areas generally lack of network infrastructures and facilities preventing them from expanding electrification of village houses, services (e.g., schools, basic health), and roads. In addition, considerations are also made about the fact that rural areas are mostly populated by the poorest households, and therefore investing in electrification in these areas might indirectly decrease the likelihood of poverty.	A detailed analysis of inequalities in access to electricity among the poorest 40 per cent in rural areas is conducted. The analysis could include, apart from gaps in network infrastructures, modalities by which electricity facilities are managed (private-public partnerships), costs of services and the ability of low-income households to afford the costs of connection and use.
Level of targeting by the general and specific objectives		The general objective of the project is to expand access to electricity in rural areas, where poorest households live. Two specific objectives relate to inequalities: 1) increasing coverage of electricity network in rural areas; 2) establish pre-payments innovative systems to favor subscriptions to electricity network by poorest households. And 3), not related to inequality, which focus on increasing electricity network's management capacities.	The overall objective is to expand access to electricity among the poor households in rural areas. All specific objectives are related to inequalities: 1) increasing coverage of electricity network in rural areas 2) establish innovative financial instruments to subsidised connections and lower tariffs for the poorest to facilitate subscriptions 3) increasing electricity network's management capacities with specific objective of ensuring continuous access to quality electricity services in rural areas for the poorest households.
Indicators and Targets		Indicators are set to measure indirect effects on inequalities. To point out, the expansion of coverage of electricity network in rural areas, populated by the poorest (e.g., number of villages for a total population of N connected to the network, and per cent of population that has subscribed to electricity service).	Specific indicators are set to measure the increase in, and duration of, subscriptions to electricity services among the bottom poorest 40 per cent in rural areas, e.g., number of villages for a total population of N connected to the network; percentage of poorest households that has subscribed to electricity services; duration of subscriptions made by the poorest households/ percentage of put out among the poorest households).
Evaluation of the inequality-reduction effects of the intervention.		An evaluation is planned in this respect, by assessing the achievement of a number of targets measured through the above indicators.	An evaluation is planned (and subsequently conducted) to measure whether, and the extent to which, the bottom poorest 40 per cent of households benefitted from the intervention.

What about I-0 ?

The ranking I-0 (i.e., therefore not targeting inequalities) is highly rare for interventions that focus on extending access to goods and services in rural areas, such as is the case with this project on electricity, but the same can be said about water, or basic education or health. This is because rural areas in developing countries are populated predominantely by the most socio-economic marginalized and disadvantaged households, and therefore interventions targeting these areas have nevertheless, although it might indirect, an positive effect on the bottom (poorest) 40 per cent.

Example 3 – MSMEs project promoting access to micro-credit

The following example looks at an intervention aiming at promoting access to micro-credit for MSMEs to improve their business capacities. The intervention is scored as I-0, I-1, and I-2, depending on how the criteria are articulated in the document.

Criteria	I-0	I-1	I-2
Analysis of trends and drivers of inequalities in the policy area of the intervention	An analysis is conducted about small-enterprises business sector in the country and major determinants of the lack of access to micro-credit, impeding their business capacities.	An analysis is conducted about small-enterprises business sector in the country, and major determinants of the lack of access to micro-credit, impeding their business capacities. Contextual information is provided about the correlation between low business capacities and low earnings of enterprise owners.	An analysis is conducted about small-enterprises business sector in the country, with detailed information and data about distribution of small enterprises with respect to size, turnover, and areas of business operations. The focus of the analysis is on small size-lowest income owners, and the impediments towards their access to micro-credit, and increase of business capacities (e.g., lack of capacities for applying, operating in the informal sector and therefore impossibility to fulfil criteria to access common financial credit schemes, etc.).
Level of targeting by the general and specific objectives	The overall objective of the project is to increase access to micro-credit for small enterprises. Specific objectives are: 1) creation of micro-credit schemes by public credit institutions with support of the public sector; 2) capacity building for small enterprises to apply for schemes; and 3) capacity building for small enterprises to develop business plans for an effective use of credit.	The overall objective of the project is to increase access to micro-credit for small enterprises, in particular, lowest earners. Specific objectives are: 1) creation of micro-credit schemes by public credit institutions with support of the public sector; 2) capacity building for small enterprises to apply for schemes, including specific training for lowest earners; and 3) capacity building for small enterprises to develop business plans for an effective use of credit, including specific training for lowest earners.	The overall objective of the project is to increase access to micro-credit for small enterprises with lowest earnings. Specific objectives are: 1) creation of micro-credit schemes by public credit institutions with support of the public sector specifically adapted for lowest earners, and therefore open to operators in the informal sector; 2) capacity building for lowest earners' small enterprises to apply for schemes; and 3) capacity building for lowest earners' small enterprises to develop business plans for an effective use of credit, including patterns towards formalizing their business operations.
Indicators and Targets	Indicators are set with reference to the number of credit schemes opened by institutions and intake from small enterprises.	Indicators are set with reference to the number of credit schemes opened by institutions and intake from small enterprises, including lowest earners.	Indicators are set with reference to the number of credit schemes opened by institutions and intake from lowest earners' small enterprises, along with number of lowest earners with business increased and formalized.
Evaluation of the inequality-reduction effects of the intervention.	The evaluation plan looks only at the number of micro credit schemes implemented and intake.	The evaluation plan looks at the number of micro credit schemes implemented and intake for lowest earners.	The evaluation specifically assesses the schemes accessed by lowest earners' small enterprises.

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

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