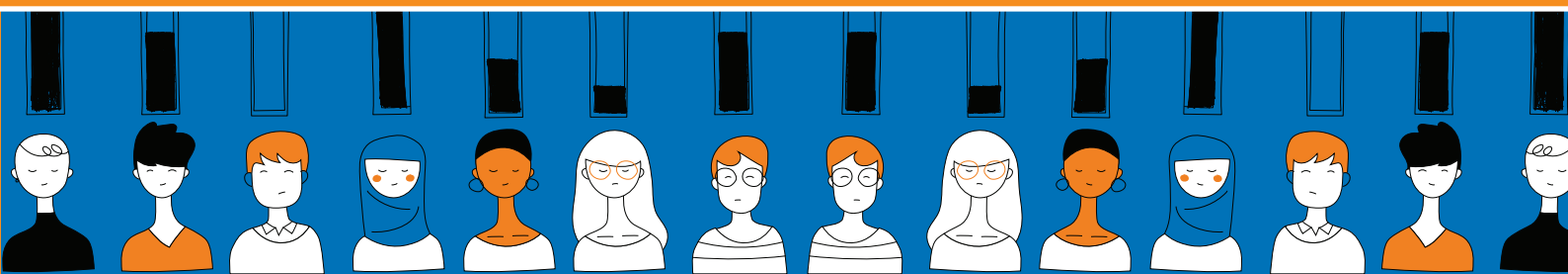




# Tools and Methods Series

## Reference Document N° 29



# Addressing **income inequalities** through development cooperation

*Volume 2:  
Policy briefs to tackle inequalities*



Reference Document N° 29

Addressing  
income inequalities  
through development cooperation

*Volume 2:  
Policy briefs to tackle inequalities*

Directorate-General for International Cooperation and Development  
European Commission

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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

|          |                                                                               |        |                                                                  |
|----------|-------------------------------------------------------------------------------|--------|------------------------------------------------------------------|
| ALMP     | active labour market programme                                                | SDG    | Sustainable Development Goal                                     |
| CCT      | conditional cash transfer                                                     | SME    | small or medium-sized enterprise                                 |
| CGAP     | Consultative Group to Assist the Poor                                         | SRHR   | sexual and reproductive health and rights                        |
| DG INTPA | Directorate-General for International Partnerships                            | TALD   | territorial approach to local development                        |
| ECD      | early childhood development                                                   | TVET   | technical and vocational education and training                  |
| ESG      | environmental, social and governance                                          | UCT    | unconditional cash transfer                                      |
| EU       | European Union                                                                | UHC    | universal health coverage                                        |
| GDP      | gross domestic product                                                        | UN     | United Nations                                                   |
| GHG      | greenhouse gas                                                                | UNCTAD | United Nations Conference on Trade and Development               |
| GSP      | Generalised System of Preferences                                             | UNESCO | United Nations Educational, Scientific and Cultural Organization |
| GSP+     | Special Incentive Arrangement for Sustainable Development and Good Governance | UNFCCC | United Nations Framework Convention on Climate Change            |
| ICT      | information and communications technology                                     | UNICEF | United Nations Children's Fund                                   |
| IFC      | International Finance Corporation                                             | UNICEF | United Nations Children's Emergency Fund                         |
| ILO      | International Labour Organization                                             | VAT    | value added tax                                                  |
| IMF      | International Monetary Fund                                                   | WASH   | water, decent sanitation and hygiene                             |
| IPCC     | International Panel on Climate Change                                         | WHO    | World Health Organization                                        |
| MSME     | micro, small and medium-sized enterprises                                     | WTO    | World Trade Organization                                         |
| OECD     | Organisation for Economic Co-operation and Development                        |        |                                                                  |
| SABER    | Systems Approach for Better Education Results                                 |        |                                                                  |

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# 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 3 presents guidelines and tools** to help EU staff mainstream reduction of inequality into all their development cooperation operations.

**This volume, 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.

## Policies that contribute to reducing inequalities

The policies presented in the briefs have either proven to have **positive distributional effects** without compromising economic growth or are known to have some positive distributional effects – that is, the briefs reveal findings and lessons from evidence-based policy interventions that are effective in reducing income inequalities. Each brief explains how the policy area in question relates to income inequality: how income inequalities are expressed in that area, how that area relates to drivers or determinants of inequality, what the consequences are, how policies in that area can contribute to the reduction of income inequalities and what the general requirements are for that to happen. Each brief covers several policy measures with a demonstrated impact on income inequality, a few examples of real experiences and a list of additional resources.

It should be noted that the policy briefs have been drafted by different specialists, and therefore the writing styles differ. There has not been a process of aligning the different policy areas, but an effort has been made to include references to other policy briefs when needed.

Each policy brief 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).

## References

Council of the European Union, 2019. 'Addressing inequality in partner countries', 14456/19, 25.11.2019.

European Commission, 2019. 'Implementation of the new European consensus on development – addressing inequality in partner countries', SWD(2019) 280, 14.6.2019.

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

| POLICY AREAS                                                        | POLICY BRIEF AND POLICY INTERVENTIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Macro Area 1: Enabling people – ensuring equal opportunities</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Investing in education                                              | <ul style="list-style-type: none"> <li>• Education</li> <li>• Improve teaching and leadership</li> <li>• Promote early childhood development (ECD): early intervention to prepare children for school and avoid dropout</li> <li>• Identification of vulnerable groups facing inequality and increasing their opportunities</li> <li>• Practical opportunities and approaches to improve equity in education</li> <li>• Policy development and legislation</li> <li>• Community-level representatives of marginalised populations</li> <li>• Financing: conditional cash transfers (CCTs) and unconditional cash transfers (UCTs)</li> <li>• Protection and resilience building</li> <li>• Revised curricula and materials</li> <li>• Good management and governance</li> </ul> |

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

| POLICY AREAS                                                                      | POLICY BRIEF AND POLICY INTERVENTIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Facilitating access to assets                                                     | <ul style="list-style-type: none"> <li>• Land policies</li> <li>• Land redistribution policies aimed at modifying skewed land distribution patterns</li> <li>• Address land tenure, control and ownership, with a focus on the most vulnerable</li> <li>• Review conditions for access to land and land adjudication processes (access, taxation, compensation)</li> <li>• 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</li> <li>• Set up and enhance land governance participatory platforms</li> <li>• Support women owners</li> <li>• Enhance land valuation and taxation</li> <li>• Provide financial services to enable access and development</li> <li>• Financial inclusion</li> <li>• Financial sector policies tailored to target financial inclusion to support excluded populations</li> <li>• Digital financing: mobile money, online banking, etc.</li> <li>• Lifting credit constraints: credit and microcredit for micro, small and medium-sized enterprises (MSMEs)</li> <li>• Promote interoperability agreements to provide digital financial services in a convenient, affordable and fast way</li> </ul> |
| Addressing gender inequalities                                                    | <ul style="list-style-type: none"> <li>• Collect data for gender mainstreaming: precondition for designing and implementing other policy options</li> <li>• Remove gender-based legal restrictions and promote equality before the law</li> <li>• Protecting women from violence: support regional and national bodies and gender strategies.</li> <li>• Supporting and protecting women human rights defenders, strengthening protection mechanisms and supporting their leadership role</li> <li>• Promote women's entrepreneurship</li> <li>• Revise tax policies to encourage women to join the labour force</li> <li>• Create space in government budgets for priority expenditures, such as on infrastructure, health and education, to close the gender gap</li> <li>• Promote universal health coverage (UHC), including sexual and reproductive health and rights</li> <li>• Deconstruct stereotypes and work on intersectionality</li> <li>• Promote equal participation and leadership</li> </ul>                                                                                                                                                                                                                                                        |
| Digitalisation for all                                                            | <ul style="list-style-type: none"> <li>• Digitalisation</li> <li>• Ensure accessibility and availability</li> <li>• Promote digital identity</li> <li>• Leverage existing infrastructures and capabilities within countries</li> <li>• Promote interoperability agreements to provide digital financial services in a convenient, affordable and fast way</li> <li>• Guarantee data security and privacy</li> <li>• Promote financial literacy</li> <li>• Digital education and health: e-health and e-education</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Macro Area 2: Supporting and safeguarding sustainable and inclusive growth</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Promoting decent work conditions and fair wages                                   | <ul style="list-style-type: none"> <li>• Labour and employment</li> <li>• Minimum wage policies and collective bargaining</li> <li>• Active labour market policies and programmes</li> <li>• Labour market regulations</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

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

| POLICY AREAS                                                | POLICY BRIEF AND POLICY INTERVENTIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Targeting investments for the bottom 40 %                   | <ul style="list-style-type: none"> <li>• Water and sanitation</li> <li>• Reduce inequalities through universal and equitable access to water, sanitation and hygiene (WASH)</li> <li>• Ensure clean water and decent sanitation and hygiene in schools</li> <li>• Guarantee WASH for workers</li> <li>• Climate change adaptation and resilience for WASH</li> <li>• Domestic resources, international public financing and increased accountability to ensure that no one is left behind</li> <li>• Prepare for emerging priorities, notably the rapid development of urban areas</li> <li>• Transport and mobility</li> <li>• Application of sound transport planning and programming</li> <li>• Building transport infrastructure can provide direct benefits</li> <li>• Promoting labour-intensive forms of investment</li> <li>• Assess social distributional effects of transport operation and management</li> <li>• Energy</li> <li>• Move from a financial rationale to a socioeconomic rationale</li> <li>• Promote innovation and technology</li> <li>• Promote sustainable, clean, secure and affordable energy production that is properly adjusted to need, including through the legal and regulatory framework should</li> <li>• Promote pro-poor tariff structures</li> <li>• Support programmes to create awareness and to facilitate adult education and learning, skills development and targeted mentoring for business development</li> <li>• Urban development</li> <li>• Inclusive urban development – access to basic infrastructures</li> <li>• Participatory slum upgrading programmes</li> <li>• Territorial development</li> <li>• National strategic commitment to territorial development</li> <li>• Development-friendly decentralisation process</li> <li>• National urban agenda and rural development strategy</li> <li>• Set of supportive national policies</li> <li>• Inspire an endogenous development process, involving regional and local governments</li> </ul> |
| Maximising the employment potential of investment and trade | <ul style="list-style-type: none"> <li>• Growth</li> <li>• Assess the employment impact of investments and industrial policy choices and prioritise employment-intensive investments</li> <li>• Target MSMEs in private sector development and support formalisation</li> <li>• Target vulnerable workers through specific labour market policies</li> <li>• Ensure the participation of workers' representatives in the design and monitoring of business environment reforms</li> <li>• Trade</li> <li>• Effectively apply labour rights provisions in EU trade agreements and promote responsible business conduct and fair and ethical trade principles</li> <li>• Increase national budget expenditures (through budget support measures) on key government institutions for labour standards enforcement</li> <li>• Support South-South cooperation and regional economic integration processes</li> <li>• Prioritise the targeting of small and medium-sized enterprises under the Aid for Trade initiative</li> <li>• 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</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

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

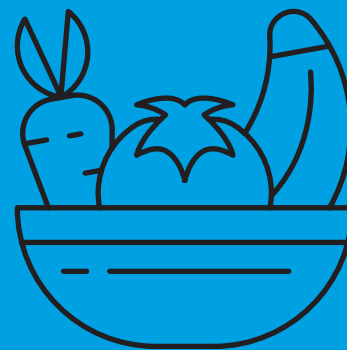
| POLICY AREAS                                                                                                                       | POLICY BRIEF AND POLICY INTERVENTIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Macro Area 3: Improving the collection and distribution of resources</b>                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Supporting domestic resources mobilisation and progressive fiscal policies, and addressing tax evasion and illicit financial flows | <ul style="list-style-type: none"> <li>• Public finance: taxation</li> <li>• Promote progressive tax systems combined with redistributive public expenditure policies</li> <li>• Raise tax effort and increase tax capacity</li> <li>• Enlarge the tax base</li> <li>• Rely more on direct taxes and transfers to achieve redistributive objectives, rather than on indirect taxes and subsidies</li> <li>• Avoid regressive indirect tax exemptions</li> <li>• Encourage individual tax credits and avoid individual tax deductions</li> <li>• Enhance the progressivity of personal income taxes</li> <li>• Promote international and regional efforts to discourage a race to the bottom on corporate income tax rates</li> <li>• Promote international cooperation to fight tax avoidance and tax evasion</li> <li>• Accompany progressive taxation with credible, transparent and redistributive expenditure policies</li> <li>• Governance and the rule of law</li> <li>• Actions at project/programme level:</li> <li>• Promote inclusiveness and participation</li> <li>• Increase transparency – in particular in relation to the budget – communication and information provision</li> <li>• Reinforce accountability and external oversight</li> <li>• 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</li> </ul> |
| <b>Macro Area 4: Protecting people from risks</b>                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Expanding universal social protection and UHC                                                                                      | <ul style="list-style-type: none"> <li>• Social protection</li> <li>• Social assistance, including non-contributory UCT programme and CCT</li> <li>• Social insurance</li> <li>• Social protection for informal workers</li> <li>• Health and nutrition</li> <li>• Promote UHC through resilient and sustainable health systems</li> <li>• Ensure equitable access to essential health services, including sexual and reproductive health services</li> <li>• Increase support for primary healthcare</li> <li>• Promote ECD</li> <li>• 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</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

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

| POLICY AREAS            | POLICY BRIEF AND POLICY INTERVENTIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fighting climate change | <ul style="list-style-type: none"> <li>● Climate change</li> <li>● Increase the local knowledge base on climate change and its impacts:</li> <li>● Climate risk and vulnerability assessment</li> <li>● Social and informal learning</li> <li>● Exchange with local authorities and actors on transdisciplinary ‘co-production’</li> <li>● Implement climate measures:</li> <li>● Preventive planning and disaster risk reduction</li> <li>● Building and renovating infrastructure</li> <li>● Increasing resource efficiency</li> <li>● Increasing energy efficiency</li> <li>● Preserving ecosystems</li> <li>● Advancing women’s empowerment and gender equality</li> <li>● Develop an integrated approach for inclusive climate action:</li> <li>● Prioritise efforts towards mainstreaming climate change action, notably in local development planning</li> <li>● Understand the trade-offs, synergies and incompatibilities between the measures proposed in nationally determined contributions and in sector strategies</li> <li>● Assess capacity and the systems in place that are able to support inclusive climate action and capacity and institution building</li> <li>● Underline the added economic benefit of developing renewable energy sources</li> <li>● Explore domestic opportunities to mobilise climate finance with international support, where appropriate</li> </ul> |

**TABLE 2** Interlinkages between policy briefs[illegible]

# HEALTH AND NUTRITION



## KEY MESSAGES

- Health and nutrition are both results and drivers of income inequality.
- Health systems should be of universal coverage (reaching all people), free (at no cost) and of high quality.
- Early childhood development, focusing on breastfeeding and nutrition of children aged under 5 years, has a strong impact on the reduction of inequality.

**H**ealth and nutrition are key dimensions of an individual's well-being. Health and nutrition inequalities are systematic differences in health and nutrition status or in the distribution of health and nutrition resources between different population groups, arising from the social conditions in which people are born, grow up, live, work and age.

Important achievements in terms of health and nutrition outcomes have been made in recent decades. According to the World Health Statistics 2020 report, the average life expectancy at birth increased by 5.5 years globally between 2000 and 2016, the global maternal mortality rate declined by 2.9 per cent every year between 2000 and 2017, and the under-age-5 mortality rate fell from 76 per 1 000 live births to 39 between 2000 and 2018 (WHO, 2020).

## Health and nutrition and inequality

However, health and nutrition inequalities remain unresolved. Children from rural and poorer households are disproportionately liable to suffer from stunting, early death, and other preventable misfortunes (WHO, 2018).

- **Stunting** (significantly low height for the age of the child) still affects 149.0 million (21.9 per cent) children under 5 years of age, and **wasting** (low weight relative to height) affects 49.5 million (7.3 per cent) children under 5 years of age (Development Initiatives Poverty Research Ltd, 2020).
- **Children in sub-Saharan Africa are 14 times more likely to die before they are 5 years old** than in the rest of the world (WHO, 2018). The number of deaths among children from rural and poorer households is disproportionately high. Children from the poorest 20 per cent of households are nearly twice as likely to die before the age of 5 as children in the richest 20 per cent. Residents of rural areas, who tend to be poorer, have a **lower level of access to healthcare** across all types of services (WHO, 2002). Many of the countries that are not making progress in reducing young child mortality and increasing vaccinations are located in sub-Saharan Africa and South Asia, home to the vast majority of the global extreme poor (Wagstaff, Bredenkamp and Buisman, 2014).
- There are significant disparities between **access to antenatal care coverage** among the richest and the poorest people in low- and middle-income countries, with rates at 50 per cent and 83 per cent, respectively.
- A similar disparity exists in the percentage of births that are attended by skilled health professionals. The poor are often excluded from healthcare services by a combination of a lack of money and geographical distance. Where services are accessible, cultural and gender norms may prevent effective use of those services or the services may be of low quality.

- The **Sustainable Development Goal (SDGs)** of the United Nations include SDG 3 on good health and well-being. Reaching this SDG is dependent on reaching the targets set by SDG 11 on sustainable cities and communities. Almost 1 billion people – one quarter of the world’s population – live in slum conditions, lacking basic access to sanitation and health and handwashing services (WHO, 2018) (see **Policy Brief 7: Water and Sanitation**). A lack of basic handwashing facilities puts these people at increased risk of COVID-19 and other transmittable diseases. In the least developed countries, 7 out of 10 schools lack basic handwashing facilities and half lack basic sanitation and water services (WHO and UNICEF, 2020).

Health, like education (see **Policy Brief 2: Education**), is both a consequence and a driver of income inequalities (see Box 1.1).

**As a consequence, health and nutrition inequalities are the unjust and avoidable differences** in people’s health within a population and between specific population groups. The conditions in which people are born, grow up, work, live and age, together with the economic policies and systems, development agendas, social norms, social policies and political systems that shape the conditions of daily life are the social determinants of health.

**As a driver, elements of health and nutrition inequalities lead to avoidable mortality**, behavioural risks, long-term health conditions, mental health and other vital limitations that further deepen income inequalities. Inequality in health means that women, poor people and marginalised groups often suffer health problems that will limit their capacities to fulfil their potential and enjoy opportunities for a better life. Greater economic inequality leads to worse health.

Income and wealth are also clear **drivers** of health inequalities. In most countries, **higher income and wealth levels determine better health and longer life**, whereas being poor often means more sickness and an earlier death. Increasing evidence shows that many health outcomes (from life expectancy to infant mortality and all forms of malnutrition, including obesity) can be linked to the level of economic inequality within a given population; this is also closely linked to the level of education (see **Policy Brief 2: Education**).

### BOX 1.1 Health inequalities and economic growth

Large health inequalities constrain the economic growth and development of the poor and of a country as a whole. A number of studies have provided evidence of the economic efficiency of reducing health inequalities. Estimates suggest that improvements in health and nutrition were responsible for up to 30 per cent of growth in gross domestic product in the **United Kingdom** between 1780 and 1979. Similarly, an estimate of up to 11 per cent of growth in low- and middle-income countries between 1970 and 2000 has been attributed to the decline in death rates alone. This relationship exists because poor health harms the accumulation of human capital. For instance, a worker who is sick may not be physically able to work or, at best, would probably not be as efficient as a healthy worker. Preventing illness can lead to an increased ability to work, increased income for the worker and increased efficiency for employers. This same effect applies to schoolchildren as well as labourers. A deworming programme in **Kenya** increased the school participation rate by nearly 10 per cent, which is expected to result in an estimated 17 per cent increase in future incomes. Estimates from elsewhere in **Africa** suggest a 24 per cent increase in incomes as a result of deworming alone. A study in Indonesia gave men iron supplements to avoid anaemia and found that the beneficiaries earned 20 per cent higher incomes after just 4 months compared with men who did not receive the supplements. A similar study in **China** found a 17 per cent rise in the productivity of female cotton mill workers after 12 weeks of receiving iron supplements.

For example, in Nepal, a child from a poor family is three times more likely to die before reaching the age of 5 than is a child from a rich family<sup>(1)</sup>. Life expectancy in the richest parts of São Paulo, Brazil, is 79 years; in one of the poorest areas of the city it is 54 years<sup>(2)</sup>.

When **the poor cannot easily afford important health services**, they have two options: pay to receive

<sup>(1)</sup> Lawson et al. (2019), data from Nepal Demographic and Health Survey 2016.

<sup>(2)</sup> Lawson et al. (2019), data from Rede Nossa São Paulo, Mapa das Desigualdades de São Paulo 2016.

health services anyway or decide not to access health services at all. The expense of using health services may make it difficult or impossible for an individual or a household to make purchases and investments, resulting in detrimental effects on education, food security, nutrition or other essential aspect of life that will have implications for a long time. Choosing not to access health services will worsen an individual's health and prevent the effective performance of normal activities, harming productivity and reducing future incomes. Thus, the poor and unhealthy are forced into an impossible dilemma in which anything they do will probably result in the deepening of their poverty over time.

Longer and healthier lifespans result in a workforce whose members can spend more years earning an income and contributing to the economy. People who are sick less often and have better nutrition can work more often and more efficiently. Healthier children develop more quickly and effectively, gain more from educational opportunities, and ultimately earn more money and contribute more to the growth and development of the economy. This increased economic development can feed back into further improving the livelihoods of the poor, forming a [virtuous cycle](#) and leading to a more prosperous and equal society.

To summarise, health and nutrition inequalities result in significant social and economic costs to individuals and societies that compromise human development. Health and nutrition disparities between socio-economic groups can start before birth and may accumulate, making human development more difficult (Conceição, 2020; WHO, 2018). A high level of income inequality is associated with more poverty, more segregation and greater erosion of social cohesion, all of which may negatively affect health-related policies and health and nutrition outcomes. With relatively small investments, the reduction in health inequalities might be substantial. For instance, the 2013 Lancet Commission suggested a set of feasible investments that could prevent 10 million deaths by 2035. Crucially, 60 per cent to 70 per cent of the costs would go towards improving existing health-care systems and networks rather than directly providing needed services (Jamison et al., 2013). This sort of approach creates lasting long-term benefits. The United Nations Children's Fund (UNICEF)

estimates suggest that a USD 6.7 billion expansion of existing interventions could cut pneumonia and diarrhoea-related deaths by two thirds and that USD 9.6 billion of expanded interventions could avert, every year, the deaths of 900 000 children under 5 years old across the 34 countries with the highest mortality rates for children 5 years old and younger (UNICEF, 2016).

## Health policy measures with a demonstrated impact on inequality

Health policy actions intended to reduce inequalities must have the following characteristics:

- **Be available to the entire population.** This could be done by:
  - achieving universal health coverage (UHC), thus eliminating the costs of healthcare for poor households;
  - ensuring that services are provided in geographical areas where the incidence of poverty is high and services are absent;
  - establishing modalities to enable access for specific groups to overcome cultural norms that prevent sectors of the population from receiving adequate treatment.
- **Avoid financial burdens of health treatments.** Health treatments can cause poor households to experience severe financial downturns and can deepen their poverty. Financial protection against this must be put in place, by providing free or low-cost health services in very deprived and remote areas or strengthening insurance schemes for the poorest individuals and households. Still, UHC is the best strategy to avoid the financial burden of health treatments, ensure that the poor are reached and avoid potentially corrupt practices in the provision of private financial and health services.
- **Ensure that quality assurances are put in place.** Access to services for the poorest individuals and households must be accompanied by quality assurances to reduce inequalities effectively.

Quality standards must be outlined and enforced, including in private and community-based settings. Health systems must be strengthened in all their facets, including financing, human resources, clean water and sanitation.



## Universal healthcare

UHC refers to ensuring that all people, regardless of economic considerations, have access to needed health services, such as antenatal and postnatal care, nutrition supplements, vaccination, water and sanitation, and current treatments, to guarantee their right to survival and well-being (WHO, 2021b). It helps ensure the survival and health of individuals, resulting in higher cognitive and productive capacities and improved well-being. By promoting human development, social inclusion and cohesion, it also contributes to economic growth.

Access to health services reduces socioeconomic inequalities by limiting health-associated economic burdens for poor households. It improves the health of individuals and households and consequently supports human development and economic opportunities for the most vulnerable. This allows the poorest households to invest in developing opportunities for their children.

In supporting governments in partner countries to promote UHC, it is therefore important to take into account the following principles.

- Ensure broader coverage all round and provide financial protection. Reduce the financial burdens of health costs for the poorest individuals and households, via universality and by linking with social assistance and insurance schemes (universality).
- Ensure service provision for anyone who needs it, non-exclusion and non-discrimination (equity).
- Provide comprehensive care, including all aspects of care.
- Guarantee protection of patients' rights.

These principles are linked to the realisation that informal modalities of provision, such as community-based healthcare services, might facilitate reaching the poorest groups (see Box 1.2). Minimum standards of

quality must be ensured to reduce inequalities. And the collection of health data is essential to substantiating the positive effects of health coverage and to improving the efficacy of health measures targeted to those in need.

### BOX 1.2 Successful programmes to reduce healthcare inequalities

Thailand and Rwanda have implemented schemes for universal health insurance with a focus on benefiting the poor. **Thailand's** programme managed to cover 75 per cent of the population within a year, including 18 million individuals who had been uninsured. **Rwanda's** programme covers 90 per cent of the population at no cost to the extremely poor, and it also managed to significantly reduce out-of-pocket spending in the health system. These programmes demonstrate that even low-income countries have the financial and administrative capacity to provide some form of UHC.

A pilot programme for community-based insurance in Kwara State, **Nigeria**, nearly doubled the use of health services, increased local awareness of health issues and collected premiums of only about USD 0.14 per person per year. This kind of increase in healthcare usage is exactly what can lead to large societal gains from improved health. **Cambodia** created health equity funds with which non-governmental organisations reimburse facilities for treating poor patients. This removed the problem of prohibitive fees and was part of Cambodia's rapid reduction in the mortality rate for children under 5 years old – one of the fastest declines in the world.

There might be substantial trade-offs between the extent of the coverage of health services and public financial resources. The expansion of services towards universality might substantially increase public costs and diminish the ability of governments to subsidise care. However, much of the incurred costs would find compensation in the reduced need for state spending in other areas, such as social protection (see **Policy Brief 3: Social Protection**), as well as increased growth and tax revenue (see **Policy Brief 11: Public Finance: Taxation** and **Policy Brief 13: Growth**).



## Primary healthcare

Primary healthcare is an approach to health and well-being centred on the needs and circumstances

of individuals, families and communities. It addresses comprehensive and interrelated physical, mental and social health and well-being. It is about providing whole-person care for health needs throughout life, not just treating a set of specific diseases. Primary healthcare ensures that people receive comprehensive care, ranging from promotion and prevention to treatment, rehabilitation and palliative care, as close as is feasible to their everyday environment.

The World Health Organization has developed a cohesive definition of primary healthcare based on three components:

- ensuring people's health problems are addressed through comprehensive promotive, protective, preventive, curative, rehabilitative and palliative care throughout life, strategically prioritising key system functions aimed at individuals and families and the population as the central elements of integrated service delivery across all levels of care;
- systematically addressing the broader determinants of health (including social, economic and environmental determinants, and people's characteristics and behaviours) through evidence-informed public policies and actions across all sectors;
- empowering individuals, families and communities to optimise their health, as advocates for policies that promote and protect health and well-being, as co-developers of health and social services through their participation, and as self-carers and caregivers to others.

Primary healthcare is the most efficient and cost-effective way to achieve UHC around the world and consequently reduce inequality.



### Early childhood development

Early childhood (usually defined as birth to 8 years) is a time of crucial physical, cognitive, socioemotional and language development that can determine future development prospects of individuals and future inequalities. Early childhood development (ECD) is a set of policy interventions to promote physical, socioemotional, cognitive and motor development between 0 and 8 years of age (WHO, 2021a) (see Box 1.3).

#### **BOX 1.3 Home- and community-based programmes: an effective modality to reach out to the poorest individuals and households**

Access to health facilities for prenatal care or delivery for women in developing countries is very often limited, especially for those living in the poorest households, notably in rural areas. As a result, home- or community-based interventions might be more effective in terms of providing poor mothers with key information about their children's and their own health.

The programme 'Alive and Thrive' that has been undertaken in Bangladesh, Ethiopia and Vietnam is a good example of an efficient design of home- and community-based ECD interventions. The programme combines advocacy, community mobilisation, and mass media communication, resulting in an increase in breastfeeding rates from 49 per cent to 86 per cent in targeted communities. However, for home-based and community-based programmes to reduce inequalities effectively, a minimum set of 'lighter' quality standards must be adopted and respected. The enforcement of minimum standards can be linked to, for instance, access to public subsidies and accreditation.

There is increasing evidence of the burden of children who are at risk of suboptimal development, without effective interventions or affordable services; the cost of inaction is real (WHO, 2021a). A continuum of care – from preconception to the formative early years – is needed to safeguard and maximise children's developmental outcomes (see [Policy Brief 2: Education](#) and [Policy Brief 3: Social Protection](#)). The health sector has the potential to reach many families during pregnancy, childbirth and early childhood, and is poised to deliver effective interventions for the optimal development of young children. Early childhood health includes programmes on breastfeeding, nutrition and parenting. For example, a study in rural Vietnam found that combining nutrition programmes with interventions that encouraged parental stimulation had a more significant effect on combating child stunting and provided more benefits to the most disadvantaged children (Naudeau et al., 2011).

Early childhood development has powerful effects on individuals' health later in life and on future income inequalities. It is also a highly cost-efficient intervention with high rates of return on investment. Ensuring

quality of services is a crucial factor to successful ECD health outcomes and a reduction in inequality.

Poor families still find it difficult to provide adequate nutrition for their children, and nearly one in four children under 5 years old worldwide suffers from stunting (UNICEF, 2016; World Bank, 2015). These gaps exist at the foundation of an individual's life. Helping to close them would provide a more equitable starting position for poor individuals; ultimately, help to reduce poverty and inequality by improving lifelong outcomes (see Box 1.4). Cultural, social and economic factors, as well as the position women have in society, often limit awareness of the importance of breastfeeding and knowledge of the overall nutrition of children.

#### **BOX 1.4 Nutritional supplement programme in Jamaica**

A study in Jamaica found that stunted toddlers between 9 and 24 months old, living in disadvantaged households, who were supplied with regular nutrition supplements achieved a normal height-for-age within 18 months. More interesting was the finding that the effects of combined nutrition supplements and psychosocial stimulation at home were significant and lasted beyond childhood. The children that received both interventions had 25 per cent higher earnings 20 years later, reaching similar earnings to those who had never been stunted at all; these results were much higher than those of the children that received only nutrition supplements.

The World Health Organization recommends that a child begin breastfeeding within the first hour of life and that a child be exclusively breastfed for the first 6 months of life (WHO and UNICEF, 2003). By itself, breastfeeding has been shown to have significant benefits for the health of infants, such as greatly reduced risk of diarrhoea and respiratory infection (Horta and Victora, 2013) and reduced risk of infant death. The reduced incidence of diarrhoea among breastfed children has also shown to reduce the rate of stunting (WHO, n.d.). It also has positive effects on child cognitive development (Sankar et al., 2015). A study in Belarus found that 12 months of breastfeeding resulted in a positive difference in intelligence quotient of 6 points by the age of 6 years, compared

with a control group of children who had not been breastfed (Kramer et al., 2009). In Brazil, a similar study found that a positive intelligence quotient difference of 4 points was still present 30 years later and that it accompanied an average of 1 additional year of education and higher average incomes (Victora et al., 2015). These effects on human capital, which last beyond childhood, make breastfeeding a prominent intervention to reduce poverty and inequalities later in life.

It has been estimated that the failure to breastfeed children at 6 months of age is responsible for a loss of USD 70.9 billion, or about 0.4 per cent, in the collective gross national incomes of low- and middle-income countries (Gillespie et al., 2016). This potential for economic gain, united with the moral imperative to ensure equal and sufficient opportunities for young children, makes ECD a prominent equalising policy intervention.

Programmes providing nutritional supplements for young children have also shown significant effects in reducing inequalities. Many of these programmes have focused specifically on reducing the incidence of stunting. Stunting is an important indicator of nutritional quality; avoiding it can mean developmental gains that will benefit an individual later in life. For example, in Guatemala, children who had not been stunted at 3 years old were found to have 66 per cent higher consumption spending 40 years later, compared with those who had been stunted (Hoddinott et al., 2011). Again, nutrition supplements in early years are a powerful intervention, providing poor children with improved opportunities and a quality of life that will ultimately benefit society's entire economic performance.



#### **Conditional cash transfers and unconditional cash transfers**

Conditional cash transfers (CCTs) and unconditional cash transfers (UCTs) are explained in more detail in **Policy Brief 3: Social Protection**. Cash transfers can also be used to improve the utilisation of healthcare services and to promote healthier lifestyles: providing a cash transfer reduces the cost of using various health services, which can be prohibitive for the poorest households. The main focus is often on improving

the use of pregnancy-related health services, particularly to reduce infant and maternal mortality rates or to reduce malnutrition (see Box 1.5).

#### **BOX 1.5 The impact of CCTs on children's health and nutrition**

CCT programmes all over the world have been remarkably successful in reducing poverty and enhancing the well-being and opportunities of recipients. The most successful CCT experiences have been those linking cash transfers with improving ECD. Below are some examples of positive effects on physical development of transfers that were made conditional on participation in regular growth monitoring and health check-ups and nutrition.

The Shombob programme in Bangladesh resulted in a 40 per cent reduction in the incidence of wasting for children aged between 10 and 22 months (Ferré and Sharif, 2014).

Red de Protección in Nicaragua also managed to increase child height, with the beneficiaries improving almost twice as quickly as the general population (Maluccio and Flores, 2005).

In Ecuador, a similar programme improved the height of slightly older, pre-school-aged children in poor households (Paxson and Schady, 2010). These measures of child height and weight are indicators of the degree of malnourishment, so these improvements in physical development also have implications for mental and social development.

Mexico's Prospera programme improved growth rates for young children, reduced stunting, and reduced the incidence of child illness (Behrman and Hoddinott, 2005). In addition, it has also reduced the number of sick days taken by adults by 17 per cent (Gertler and Boyce, 2001), which has important implications for the productivity of labour in the country.

Programmes in Indonesia and Peru managed to improve the frequency of antenatal visits and professionally assisted deliveries<sup>(3)</sup>. Another programme in India significantly reduced the frequency of infant death and improved the rate of child vaccinations (Carvalho et al., 2015; Lim et al., 2010).

Given the costs and administrative burden of enforcing and monitoring conditions, the logistical and institutional barriers, and the fact that they may distort incentives, the necessity of using conditionalities for cash transfers should be questioned. 'Soft' conditions or UCTs should always be considered as options.

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# EDUCATION



## KEY MESSAGES

- Education is both an expression of inequalities and a driver of equality.
- There is a clear link between economic inequality and inequality in education.
- Inequality in education can be addressed effectively through early intervention and financing targeted at factors of inequality.

Education is a fundamental human right that is widely recognised as an engine for change and transformation, contributing to individual development, better health, economic growth, stability and peace, and environmental preservation. Access to education should not be impeded by economic factors that are outside the control of individuals – for example, by wealth or social factors such as gender, ethnicity, language and disability. Specific country contexts, such as fragility or crisis, which may displace people and disrupt education, are also important in exclusion from education – as are pandemics. The ongoing COVID-19 pandemic has led not only to school closures around the world, but also to the emergence of what has been called the ‘COVID gap’, where children from disadvantaged families have less access to online learning and are more likely to fall behind and see their education careers interrupted or ended.

## Education and inequality

Education can be **one of the most powerful equalisers in societies**. However, the extent to which individuals and societies benefit depends, to a great extent, on how countries’ education systems function. The **failure to educate everyone equitably**

**reinforces social exclusion and isolation and perpetuates the cycle of poverty** while failing to open up opportunities for the very children who need them the most. The recent United Nations Educational, Scientific and Cultural Organization *Handbook on Measuring Equity in Education* notes that research on the consequences of education inequalities in access and outcome is limited but suggests that such inequalities are associated with a wide range of negative outcomes, including slower economic growth, a higher level of income inequality and a higher risk of violent conflict (UNESCO Institute for Statistics, 2018).

The past several decades have seen real growth in access to education, but this encouraging progress has not prevented the persistence of **inequality in education, both between and within countries**. An estimated 258 million children, adolescents and youths (17 per cent of the global total) are not in school. The share of sub-Saharan Africa in the global total increased from 24 per cent in 2000 to 38 per cent in 2018 (UNESCO, 2020). In most countries, educational destiny is determined primarily by wealth, but also by language, gender, ethnicity, disability or simply location (see Box 2.1). Young women from the poorest 20 per cent of households are almost six times as likely to be unable to read as those from the richest 20 per cent of households (UNESCO, 2015). Children from the poorest 20 per cent of households are five times as likely not to complete primary school as those from the richest 20 per cent of households.

The very real progress in increasing education access and completion over the past two decades has led to only limited improvement in terms of equity gaps. Children from the poorest families have seen modestly larger gains in primary school completion

than other children. However, although secondary school completion has also improved, gains for children from the poorest families have not kept pace (UNESCO, 2015). Children from rich families are seven times more likely to complete secondary school than children from poor families. Children from conflict-affected countries are similarly disadvantaged, and 50 per cent are less likely to complete lower secondary education<sup>(1)</sup>.

### BOX 2.1 Educational gaps of rural areas

Rural populations are especially disadvantaged with respect to education because of limited resources and, in the case of women and girls, societal restrictions and expectations. Many rural children in Peru, for example, are at a disadvantage from the start in achieving literacy because they are less likely than urban children to speak Spanish at home, a fact the country's education system does not take into account. Of the hundreds of millions of illiterate adults worldwide, two thirds are women; half of all women in sub-Saharan Africa are illiterate. Most of these women live in rural areas. These educational gaps both contribute to the slowing of national progress for the countries most affected and act as barriers to global progress in attaining the SDGs.

These findings reflect the challenge of education being both **an expression of inequalities and a driver of equality**.

- As expressions of inequalities, **wealth, gender, language and disability** are significant factors in determining who learns and who does not, as shown by the results from the 2018 programme for international student assessment. For instance, Grade 4 students in middle- and high-income countries who were taught in a language other than their mother tongue scored an average of 34 per cent below native speakers in reading tests. Another study found that children with disabilities were 19 per cent less likely to achieve minimum proficiency in reading (UNESCO, 2020).
- As a driver of equality, education can provide children from poor families with an opportunity for

upward mobility. It is estimated that an individual's earnings increase by about 10 per cent for each additional year of schooling; rates of return are highest in poorer regions such as sub-Saharan Africa, reflecting the scarcity of skilled workers (UNESCO, 2016). If all students in low-income countries completed school with even basic reading skills, 171 million people could be lifted out of poverty. This would be equal to a 12 per cent cut in global poverty (UNESCO, 2016). If everyone had access to a secondary education, an estimated 420 million people would be lifted out of poverty, thus reducing the number of individuals living in poverty worldwide by more than half (UNESCO, 2017).

### BOX 2.2 The importance of education budgets

The configuration of education budgets often determines who benefits from the education system. On average, in low-income countries, 46 per cent of public education resources are allocated to the most-educated 10 per cent of students, who are usually from the wealthiest families. This is not only because the very poorest children often drop out of school, or do not go to school at all, but also because significant shares of education budgets are allocated to higher levels of education that are accessed only by higher-income groups. For example, in Burkina Faso, Lesotho, Madagascar, Malawi and Senegal, the richest 10 per cent all get more than 50 per cent of government-allocated education resources. In Malawi, the top 10 per cent use 68 per cent of all public resources in education, with much of this distortion reflecting unequal access to tertiary education.

**Source:** Adapted from Lawson et al. (2019).

In addition to poverty, education is also a driver of economic inequalities. A recent study of 13 countries finds that more than half of the total wage gap can be explained by inequality in educational attainment (Omoeva, Moussa and Gale, 2016). Unequal access to education affects people's ability to obtain decent jobs with fair compensation, to innovate and engage in entrepreneurial activity, and to acquire critical thinking and decision-making skills. It affects the ability of individuals to obtain the necessary skills and capabilities to work in the present global economy,

<sup>(1)</sup> Lawson et al. (2019), pp. 19 and 33; data from Kenya Demographic and Health Survey 2014.

which is characterised by innovation and knowledge. In addition, it is the engine of production and economic growth and the foundation for social inclusion and cohesion, empowering individuals to become active and responsible citizens. Unequal education systems fuel inequality in societies, perpetuating poverty and exclusion, making it more difficult to cope with challenges such as climate change (see [Policy Brief 6: Climate Change](#)) and the COVID-19 pandemic. Ultimately, unequal education systems erode democracy.

Education does have a very real potential to reduce inequalities by strengthening the knowledge and skills of the poorest individuals and groups; however, when these individuals and groups are excluded, it can result in the [widening of social gaps](#). In 2014, only about one quarter of the poorest children in low-income countries completed primary education, compared with three quarters of the wealthiest children. Similarly, there is a significant learning gap between rich and poor students, one that grows as students move to higher grades (World Bank, 2018).

A recent World Bank study on economic mobility across generations supported the idea that reducing inequalities in education has economic benefits. [Greater mobility](#) can be understood as a proxy for equality, and it is associated with better economic outcomes and higher levels of national income across economies. The study found that increases in mobility are associated with greater gross domestic product growth and poverty reduction in subsequent years (see [Policy Brief 13: Growth](#)). It noted that greater mobility promotes the accumulation of human capital and therefore boosts long-term economic growth. It also noted that economies with higher income levels tend to have higher levels of public spending on human capital development, which leads to higher relative mobility if public spending has an equalising effect on opportunities (Narayan et al., 2018).

## Education policy measures with a demonstrated impact on inequality

The concept of equity is built on the idea that everyone should have the same opportunity to access education and be welcomed, valued, able to contribute to and benefit from education, and respected. Inequalities in education can be caused by the failure of the education system to recognise and/or adequately address the barriers faced by children and youths. Equity in education requires an understanding of education from a system perspective and (except in the context of crisis and fragility, which requires specific and more tailored responses) can be best achieved through reforms that address sector management systems as well as service delivery systems. It requires change from the [national level to the classroom](#), and a [holistic view of cross-sectoral factors](#) that affect children, including health and nutrition, safety and stability, and social protection systems and initiatives.

Practical opportunities for addressing equity issues within education systems appear in the following key areas:

- teaching and leadership
- early intervention
- curriculum and assessments
- learning
- disaggregated data
- financing.



### Teaching and leadership

School leadership is a critical component of efforts to improve equity in schools (Ross and Berger, 2009). Indeed, head teachers' ability to play a strong instructional leadership role depends, in part, on their ability to provide leadership on equity issues (Rigby and Tredway, 2015). Head teachers should work with teachers to develop a shared idea of their school's mission regarding diversity and fairness, understanding that their own attitudes will influence teachers'

beliefs and practices. Head teachers must help to create a safe school environment and communicate clearly that all students have the right to participate in all school activities.

The role of the teacher must also be redefined. As schools respond to students with a broad range of learning needs, teachers can not only impart information but can also improve equity and opportunities for all children. Regrettably, even access to teacher training and leadership opportunities is frequently inequitable, particularly when merit-based recruitment systems are not in place. Teachers' assignments may also be highly inequitable, with the most disadvantaged regions frequently having the greatest proportion of unqualified teachers.

Equitable training and deployment of good teachers, making them available to the most vulnerable student populations, can make an enormous contribution to improving the equality of learning outcomes. Tools such as the Systems Approach for Better Education Results (SABER) from the World Bank can be useful for understanding how to improve student learning and develop priority options for improving teachers' ability to meet the instructional needs of all students.

Access to teacher training and leadership opportunities is, itself, frequently inequitable, particularly when merit-based recruitment systems are not in place. Teacher deployment may be highly inequitable, with the most disadvantaged regions frequently having the greatest proportion of unqualified teachers.



### Early intervention

Perhaps the most important lesson to emerge from a review of the broader literature on educational equity is the importance of early intervention. As mentioned in **Policy Brief 1: Health and Nutrition**, early childhood (usually defined as birth to 8 years) is a time of crucial physical, cognitive, socioemotional and language development that can determine future development prospects of individuals. The Nobel Prize-winning economist James Heckman concludes that inequality 'can and should be corrected ... with the resource of early childhood and parental education'. Evidence shows that supplementing the family environments of disadvantaged children with educational resources is an effective and cost-efficient way

to provide equal opportunity, achievement and economic success (Heckman, 2011). The Organisation for Economic Co-operation and Development concludes that 'one way of improving performance and preventing dropout is to identify at-risk students early and take action quickly. This means monitoring information on attendance, performance and involvement in school activities, and having a concrete response to improve outcomes and prevent dropout' (OECD, 2008).

Vulnerable and marginalised children frequently arrive at school ill-prepared to learn. They frequently have oral language delays, lack early stimulation and suffer from malnutrition and chronic illnesses (see **Policy Brief 1: Health and Nutrition**). Children living in unstable environments, or amid conflicts, have difficulty developing the soft skills associated with socioemotional learning and executive functioning. Good pre-primary programmes, however, can reduce the achievement gaps caused by these factors and help the most vulnerable children keep up with their peers, giving them a fairer chance in their educational journey (UNICEF, 2019).



### Curriculum and assessments

If education is to be fair and accessible to all, modifications in the curriculum and instructional materials, including assessments, may be necessary to avoid sending subtle messages that support ethnic, regional or gender stereotypes. Adjectives that openly reinforce biases and stereotypes may be used to describe indigenous, poor or minority populations. The accomplishments of women, of persons with disabilities or of minority groups may be overlooked. Issues relevant to the poor and those that are less powerful are seldom discussed or presented, reinforcing marginalisation. Standardised tests may use examples that are not relevant to marginalised communities.



### Learning

Children in rural areas and in poor families are less likely to benefit from good teaching and frequently must try to learn in overcrowded, underequipped classrooms. They may use a curriculum with materials in a language they do not understand and content that is not relevant to their communities. Addressing

this situation requires change at all levels from the national to the classroom, with modifications in policies, curriculum content and materials, assessments, teaching methods and teachers' professional development.



### Disaggregated data

Disaggregated data that would allow the tracking of progress for specific vulnerable population groups at the country level are not easily available, and comparability of data across countries is another challenge. However, the goal and targets set for fair and accessible education have the immense value of requiring much further attention to and understanding of equity issues. Vulnerable groups evidently constitute an ever-higher proportion of out-of-school children, but there are major data gaps at the country level.

Information and good indicators are core to leveraging changes in policy and changes in service delivery. Policies and plans can be effective in addressing equity issues only if they are based on solid disaggregated data. The SDGs have prompted significant efforts, at the country level and globally, to measure progress in equity in education and in mainstreaming equity in education planning<sup>(2)</sup>. Evidence-based approaches can catalyse reform and determine whether reforms are working and achieving the goal of equity. Informed decision-making requires real-time information about what is working and what is not working to produce actual learning results.



### Financing

Targeted support is frequently needed to reduce barriers in access to education (see Box 2.3). Equity means that enough resources should be provided for every student to have the same chance to succeed, rather than that the same level of funding and other resources should be provided for every child.

A World Bank study in Thailand showed that the poorest households spend, on average, only one eighth as much on education as the richest households, but that this represents about 60 per cent of their total income; it represents less than 1 per cent for

### BOX 2.3 Spending on education in Vietnam

Vietnam decided to prioritise equitable investments in public education, helping children to access education of a kind known to produce good results. The basic learning attainment of children from the poorest households increased and the gender gap disappeared, although differences between urban and rural areas and challenges for ethnic minorities persisted. At present, these achievements are being frustrated by continued enrolment gaps among socioeconomic groups and by the government focusing more investment on tertiary education, stifling the impressive progress that has already been made.

Source: Adapted from Lawson et al. (2019).

the wealthiest families (World Bank, 2012). Ensuring equity in the overall education budget means that policies must target the most vulnerable children both by increasing the share of the budget that goes to lower levels of education systems (which have the most broad-based participation and are the most equitable) and by reassessing and establishing who pays (e.g. expecting greater cost recovery at higher educational levels from children from wealthier families, confirming public support for community-run schools, deploying teachers equitably in all regions, offering scholarships or cash transfers for vulnerable children, supplying their transport or the provision of gender-based water, sanitation and hygiene facilities in schools).

For all these policy measures (teaching and leadership, early intervention, curriculum and assessments, learning, disaggregated data and financing), a useful method of addressing educational inequalities in a **three-step process** should be considered<sup>(3)</sup>: (1) an analysis of barriers to education that includes collecting data and mapping the policy context as well as noting existing interventions; (2) identification of possible levers for change, including identification of champions for the reform process, an analysis of how resources flow through the education system, and consideration of challenges that go beyond the education sector; and (3) the development of a

<sup>(2)</sup> See, for example, IIEP (2019a, 2019b).

<sup>(3)</sup> Taken from the EC (2020).

response strategy that includes the participation of all key stakeholders, looking at issues such as policies, financing, institutional capacity, curriculum, and teacher training and school management. A wide range of potential interventions supporting a systems approach to equity can be considered on the basis of each country's context and specific priorities.

This process should be guided by the following principles:

- **Identification of vulnerable groups facing inequality within education systems.** This information could be used to reinforce equity mainstreaming in sector planning and in the design of interventions and their implementation and monitoring. Identification of vulnerable groups could support the development of a better system for managing educational information – a system better able to disaggregate data, contribute to addressing information gaps and possibly to finance studies of the impact on equity of specific factors. Such a system might also make more possible an analysis of barriers to equity and greater monitoring and evaluation capacity to monitor progress on equity.
- **Policy development and legislation.** Background studies can review existing legislation and policy directives to assess the framework for ensuring that vulnerable children have equitable access not just to schooling but also to learning.
- **Financing.** Budget analysis could review who benefits and who does not benefit from existing sectoral allocations. This might suggest the need for a progressive reallocation to underfinanced subsectors with the greatest potential to improve equity, such as pre-primary and primary schooling. It could also lead to school-level financing, with an equity-oriented formula that would help to counterbalance geographical disparities caused by the remoteness and/or size of schools. Analysis of the cost of schooling at each subsector level can inform social protection measures, such as cash transfers, that have proven to be an effective way to increase access and participation in education.
- **Community-level representatives of marginalised populations.** Civil society organisations can raise awareness of issues in marginalised populations and conduct advocacy campaigns. Such organisations can also develop a participative approach and support the creation and capacity development of local networks that represent disadvantaged groups or support their participation in existing organisations, such as school support committees and sector coordination structures to ensure that they have a voice in the dialogue.
- **Protection and resilience building.** This includes adopting measures to support better access to schooling of marginalised or vulnerable children to schooling, especially in the context of conflict and crisis (see **Policy Brief 3: Social Protection**). It also includes measures to support countries in developing an early warning system to identify vulnerable children; developing a rapid response system (classroom, school, community and home) to support children and their families in keeping children in school and combating dropout; identifying country-specific causes of dropout, with information on possible geographical disparities explained by different causes, each requiring a different set of responses. The policy framework set out in the European Commission's Communication on Education in Emergencies and Protracted Crisis reaffirms as a strategic priority the promotion of access, inclusion and equity in these contexts (EC, 2018). Needs assessments and situation analysis play key roles in identifying the barriers faced by children in accessing education in crisis contexts.
- **Curricula and materials.** There should be a review of textbooks and teaching and learning materials to ensure that they are available to all students and are inclusive. There should also be a review of the curriculum to ensure that it is accessible to all, that examination processes provide appropriate accommodations for children with disabilities and that the language of instruction policy is inclusive.
- **Management and governance.** Another measure is to train head teachers on inclusive education, working with school management committees to raise awareness and understanding of diversity and the need to leave no one behind, and to develop strategies for inclusion in their schools. Indeed, support for policies and reforms that affect teachers may be a key element of efforts to improve equity. Support could be provided

to improve human resources management in the education system and to revise the system to provide incentives to teachers and organise their career progress. This would help to ensure the deployment of good teachers in all parts of the national territory and in relation to all social groups, with the intent of ensuring a more equitable supply of education services across the country. Such approaches could include training in inclusive education as part of both pre-service and in-service teacher training.

To conclude, a key starting point for addressing educational inequalities is to **assess who is left behind**. **Collecting and analysing data** on different dimensions across a range of outcomes and indicators will give a more detailed picture of the relevant gaps and how they change over time. Qualitative research will be an important complement to quantitative approaches, as it can help stakeholders understand how these issues are reflected in the classroom. The ingredients for change will include a carefully thought-out **plan, policies and management systems**, and may also require addressing **non-inclusive cultural norms** and strengthening the voice of disadvantaged groups. Change will often require **additional funding** or a rethinking of the priorities in existing budgets.

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# SOCIAL PROTECTION



## KEY MESSAGES

- Social protection is an important policy instrument to support reducing inequality.
- The focus of support is on the system building of resilient social protection schemes.
- A solid national social protection policy and credibility are key to engaging in any support for social protection.
- Apart from reaching the most vulnerable through social protection schemes, support should focus increasingly on the working poor in the informal sector, especially in the urban context.

## Social protection and inequality

Social protection refers to a **nationally defined system of policies and programmes that provide equitable access to all people** and protect them throughout their lives against poverty and risks to their livelihoods and well-being. Social protection promotes social cohesion and reduces poverty, inequality and other deprivations (e.g. a lack of access to healthcare, education, hygiene, water and sanitation, nutrition, protection, shelter and a healthy environment). Social protection also facilitates human development and access to decent working and living conditions, and enhances people's resilience in the face of shocks and structural transformations (USP2030, 2019).

Although there is variation across countries, social protection instruments usually refer to **three main pillars** that are integrated or, at a minimum, coordinated:

- **non-contributory schemes such as social assistance**, including social transfers (cash transfers, vouchers, in-kind transfers), public works programmes (cash for work, food for work), fee waivers for basic healthcare and education, subsidies (e.g. of fuel and food) and **social care** (e.g. social welfare services, child protection services, psychological support, case management) (see **Policy Brief 1: Health and Nutrition** and **Policy Brief 2: Education**);
- **contributory schemes** such as **social insurance**, including insurance covering risks such as illness, unemployment, maternity and work accidents, and old-age pension schemes and survivors' benefits;
- **active labour market policies**, such as training, job search services and work sharing (see **Policy Brief 16: Labour and Employment**).

Social protection lies at the heart of inclusive development, as it is an efficient tool to **reduce income inequality**. It is a redistributive tool that aims to reallocate income across the life course and reinforce solidarity between and within generations.

Social protection investments can reduce income inequality through **four main effects**.

- Social protection helps low-income households **accumulate productive assets by lifting credit and saving constraints** that prevent human capital investments (Mathers and Slater, 2014). For instance, social protection can enable low-income households to have access to bank loans and extend credits (see **Policy Brief 15: Financial Inclusion**). This can help poor people overcome social exclusion and access barriers, and subsequently increase their level of consumption and disposable income.

### BOX 3.1 The impact of CCTs on education

Conditional cash transfer programmes have played a central role in reducing inequalities, especially by improving education. Below are some successful examples of the impact of CCTs on education.

- The Nahouri project in **Burkina Faso** improved enrolment rates among boys by 11 percentage points and enrolment rates among girls by 9.2 percentage points (Akresh, de Walque and Kazianga, 2013).
- In programmes in **Cambodia, Chile, Malawi, the Philippines** and **Zimbabwe**, increases in enrolment rates were observed.
- In **Bangladesh** and **Pakistan**, CCTs targeted schoolgirls specifically and increased the enrolment rates of female students substantially.
- **Ecuador's** and **Nicaragua's** CCT programmes have also been shown to improve students' cognitive abilities (Schady and Caridad Araujo, 2008). Evidence from Ecuador and Nicaragua reveals the strengthening of language skills and behavioural skills for beneficiary students, especially among poorer households (Macours, Schady and Vakis, 2008). These results may come from reduced stress or improved nutrition because of the supplementary income.
- In **Malawi**, a CCT programme was able to specifically improve language test scores and enrolment retention among girls returning to school after dropping out (Baird, McIntosh and Özler, 2009).
- In **Brazil**, the Bolsa Família has had a large effect on equality, helping 36 million people escape poverty, reducing income inequality by 13 per cent in a decade and reducing the Gini coefficient by 21 per cent after 1 year of implementation (Mathers and Slater, 2014). Moreover, the CCT programme has improved the level of education of the low-income population, keeping 16 million children and youths in school (IPEA, 2013).

as sending children to school and visiting health clinics (Barrientos and Scott, 2008). This can contribute to lower rates of malnutrition and higher educational attainments, which are positively correlated with future and better life opportunities, particularly in the employment field, thereby reducing income inequality (UN DESA, 2018).

- Social protection can also help enhance the income capacity of low-income households by **providing greater security and certainty** (Ali, 2007). Social protection programmes serve as **safety nets** and **social assistance** for low-income and vulnerable households by guaranteeing a minimum level of economic and social well-being, especially in times of crisis, such as the COVID-19 crisis. They allow an almost immediate provision of cash (at best, in the form of mobile money). By helping such households to cope with risks and protect their consumption and assets against adverse shocks, social protection reduces the risk of adopting coping mechanisms that deteriorate human capital, such as reducing food consumption and interrupting children's' education, and that could in turn increase income inequality.
- Social protection can reduce income inequality by **encouraging innovation and entrepreneurship** among the most vulnerable households. Indeed, social transfers represent a long-term and practicable income support for the vulnerable and poor. This certainty of future transfers can encourage them to innovate and take some risks, leading to a more efficient use of resources and a higher income (Alderman and Yemtsov, 2014).

All these four effects have helped to stimulate a **strong 'pro-poor growth'**, which has the potential to reduce income inequality, especially through better outcomes for children and youths in low-income households. Besides, the development of social protection systems worldwide has already proven its efficiency to address inequality by reducing the Gini coefficient<sup>(1)</sup> by 1.8 per cent in 2016 (World Bank,

- By overcoming the savings and credit constraints, social protection can have a positive effect on **investments in human capital**. For instance, social assistance programmes can include conditions requiring human capital investments, such

<sup>(1)</sup> 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

2018). These redistributive effects of social protection will depend on key elements.

- **The country context.** The greater the coverage, the greater the redistributive impact of social protection programmes. However, even the possibility of targeting vulnerable groups and extending the coverage depends on a country's level of development. In middle- and high-income countries, where coverage rates are high, social insurance has a significant effect on income inequality: in eastern Europe and central Asia, the Gini coefficient fell by 16 per cent because of investments in social insurance (UN DESA, 2018). Social protection systems in low-income countries tend to be less extensive and have limited coverage as a result of informality and a lack of financing. Because of low coverage, social assistance programmes in sub-Saharan Africa and East Asia have proven less effective in reducing income inequalities.
- **The programme type.** Social assistance covers many more people than does social insurance in most regions. The Middle East and North Africa region show the largest difference: social assistance covers about 55 per cent of the population, whereas social insurance covers 14 per cent. In Europe and central Asia, social assistance and insurance cover about the same share (47 per cent). This is mostly because social assistance has higher coverage among poorer populations, whereas social insurance has higher coverage among richer populations. For instance, in Latin America, social assistance covers 67 per cent and 10 per cent of the poorest and richest quintiles, respectively, whereas social insurance covers 9 per cent and 40 per cent of the poorest and the richest quintiles, respectively (OECD, 2019).

Given that the nature and the coverage of a programme both matter to its impact on inequalities, introducing greater **flexibility and scalability** into

programme design can bring about a social protection scheme that is capable of **horizontal expansion** for non-regular social protection beneficiaries and/or **vertical expansion** to increase benefit amounts for existing social protection beneficiaries at a significant time of need.

## Social protection policy measures with a demonstrated impact on inequality



### Social assistance

Social assistance is defined as 'non-contributory social protection, usually financed through taxes and targeted at low-income households and vulnerable groups' (OECD, 2019). This instrument can be either **unconditional** (no compliance with further conditions required) or **conditional** (cash is transferred upon compliance with certain conditions, such as children accessing health and education services, or if adult members of the household participate in a public works programme). Examples of social assistance programmes, sometimes also known as 'social transfers' or 'social safety nets', are not only direct and regularly transferred cash or in-kind payments (i.e. school feeding) to households and individuals, but also fee waivers or subsidies.

Social assistance schemes currently cover 31 per cent of the global population (World Bank, 2018): some 130 low- and middle-income countries have implemented at least one non-contributory unconditional cash transfer (UCT) programme, whereas about 63 have at least one conditional cash transfer (CCT) programme (Bastagli et al., 2016). However, there is **still a large share of vulnerable households that lack access to social assistance**. Social assistance schemes also cover less than 15 per cent of the sub-Saharan African population, benefiting only about 9 per cent of the poorest households (OECD, 2019).

There is evidence that **social assistance programmes have a substantial positive impact on reducing income inequality**. A World Bank (2016) estimate suggests that five of the largest social assistance programmes, through the form of UCTs and CCTs,

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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' (World Bank, n.d.).

reduced their countries' Gini index by between 0.2 and 2.3 points. Studies directly comparing the use of conditional transfers versus unconditional transfers in social protection show that both modalities have positive impacts on outcomes such as education and health service uptake, with no conclusive evidence to suggest that one is more effective than the other (Bastagli et al., 2016).

Social transfers directly reduce income inequalities by **transferring cash** while also **breaking the intergenerational transmission of inequalities** by equalising socioeconomic opportunities for children. Indeed, cash transfers aim to provide direct support to poor individuals or households and, in the case of CCTs under specific conditions, such as school enrolment for children and school attendance, to improve the ability of pupils to learn, which can in turn lead to better employment opportunities and less income inequality (see Box 3.1).

Cash transfers can also **spur investments in health**, which in turn can have a positive impact on labour outcomes and on the reduction of income inequality. They have been used to make healthcare services more accessible and to promote healthier lifestyles. A cash transfer reduces the cost of using various health services, which can be prohibitive for the poorest households. The main focus is often on improving the use of pregnancy-related health services, in particular, on reducing infant and maternal mortality rates. Programmes in Indonesia and Peru managed to improve the frequency of antenatal visits and professionally assisted deliveries<sup>(2)</sup>. Another programme in India significantly reduced the frequency of infant death and improved the rate of child vaccinations (Carvalho, 2015).

In terms of CCTs, however, **gender dimensions and socioeconomic and other barriers** must be given close attention in programme design and delivery (see **Policy Brief 18: Gender**). Gendered patterns of work and care, the unavailability or low quality of services, costs of transport, opening hours that are not compatible with an individual's duties, and so on, **may hamper a targeted participant in accessing**

**services and complying with certain behavioural conditions** (Razavi, 2007). These factors may also result in overcrowding of already dysfunctional health facilities.

This raises questions about the need to place conditions on cash transfers to obtain desirable outcomes, given the costs, administrative burden, logistical and institutional challenges of enforcing conditions and the fact that they may distort incentives. As a consequence, the conditions set for **CCTs should not be strictly enforced without accompanying high-quality services** (EC, 2019).

In acknowledging the positive impact of CCTs and without having the duty to show that additional impacts warrant the additional of conditionalities, There are a number of programmes, such as the Cash Transfer Programme for Orphans and Vulnerable Children in Kenya and the Livelihood Empowerment Against Poverty programme in Ghana, in which **CCTs are implemented with 'soft conditions'**. Participants are encouraged to meet these through the programme's design, communication and social marketing – for example, reminding people of the goals of the programme – but **the conditions are not rigidly enforced through systematic monitoring and penalties for non-compliance**. Such approaches acknowledge the positive impact of CCTs without insisting that any additional benefits from monitoring and controlling compliance be shown to justify the additional costs.

Given these potential limitations, soft conditions or UCTs should always be considered. Unconditional cash transfers have two main advantages: they can be a cheaper way of delivering benefits than in-kind benefits, such as food, and they do not distort consumer preferences or presume to know what the individual families need better than the families themselves. In addition, in contrast to CCTs, **UCTs avoid paternalism by giving people in need choice and flexibility to respond to changes in their circumstances**. An Action Against Hunger project (2011) revealed that, in Uganda, the majority of beneficiaries chose to use cash transfers to buy livestock (see Box 3.2).

<sup>(2)</sup> See World Bank (2011) and Perova and Vakis (2012), respectively, for more on these programmes.

### BOX 3.2 Impact of unconditional cash transfers in Uganda

The Learn Project implemented by Action Against Hunger was a UCT programme in the Otuke District of Uganda. In total, 1 500 of the most vulnerable households were given two cash transfers of UGX 570 000 (USD 285), that were spaced several months apart. This programme gives beneficiaries complete freedom to spend aid money on what is best for them. The majority of beneficiaries chose to buy livestock. A total of approximately UGX 650 000 000 (USD 325 000) was spent on livestock purchases. Overall, the average household spent UGX 480 000 (USD 240, or 84 per cent of the total grant) on productive assets, and UGX 90 000 (USD 45, or 16 per cent of the total grant) on immediate needs. More than half of the money used for immediate needs was spent on food (54 per cent), with smaller percentages going to medical bills (11 per cent), school fees (9 per cent), household items (7 per cent) and debt repayment (4 per cent). The project also had a significant impact on income inequality through greater investments in health and education.

Social assistance programmes share similar elements with social insurance programmes. The **key principles for their design** will be detailed at the end of that section.



### Social insurance

Social insurance refers to 'contributory programmes that protect against certain life contingencies through a risk-pooling insurance mechanism dependent on prior contributions' (OECD, 2019). Pension schemes and unemployment benefit programmes are key examples of social insurance programmes.

Social insurance programmes provide a **proven equalising effect** that, in certain contexts, is greater than that of social assistance (see Box 3.3). In middle- and high-income countries where coverage is widespread, as in Eastern Europe and Central Asia, social insurance has reduced the Gini coefficient by 16 per cent.

### BOX 3.3 Social insurance schemes in Brazil

Brazil dedicates most of its social protection spending to social insurance schemes, which covered **30.5 per cent of the population in 2015**, compared with 27.7 per cent in the Latin America and Caribbean region (OECD, 2019). Pension schemes in 2015 accounted for 73 per cent of total social protection expenditure and 10 per cent of gross domestic product. Moreover, 78 per cent of the elderly received pensions, and 52 per cent of the labour force paid contributions, which greatly exceeded Latin American and Caribbean averages (54 per cent and 40 per cent, respectively) (ILO, 2017).

These schemes have contributed to reducing inequalities among the Brazilian population, with a **7.6 per cent decline in the Gini index and a 49 per cent decline in the poverty gap in 2015 alone** (World Bank, 2018).

Typically, social insurance programmes benefiting the working-age population and the elderly first have an impact on income inequality by indirectly influencing children and youth outcomes, such as education, child labour and early pregnancy (see Box 3.4).

### BOX 3.4 Impact of pension schemes on education investments

In developing countries, studies analysing the impact of social insurance, including contributory pensions, on children and youth education outcomes are relatively scarce. However, some evidence points to a positive effect.

- In urban areas of **China**, expansion of the public pension programme to the non-state sector appears to significantly increase households' education investments in children (Mu and Du, 2017).
- In **Brazil**, an increase of BRL 100 in household income per capita resulting from contributory old-age and survivors' pensions is associated with a 9 per cent increase in the probability of youths studying and not working (Reis and Camargo, 2007).

However, it is important to note that, although there is always an element of solidarity in a social insurance relationship, there is also an element of inequality or exclusion. **People outside the public service and formal labour market are often systematically excluded from social insurance arrangements.** In developing countries, social insurance tends to be concentrated among better-off workers, leaving a large proportion of informal workers behind. For instance, contributory pension schemes cover only 9.6 per cent of the working-age population in Africa, 17.3 per cent in Asia and the Pacific, and 28.9 per cent in Latin America and the Caribbean (ILO, 2017). In many countries the fragmentation of the social insurance system makes unbalanced generosity possible for some; this is frequently the case for public servants and their families. Such individuals derive extraordinary benefits from state resources, exacerbating inequality and putting public finances under substantial pressure.



### Labour market policies

Overall, 152 million unemployed workers worldwide are unprotected, meaning that 78 per cent of unemployed workers are not covered by social protection. **Informal workers** (basically self-employed or casual workers) make up more than 60 per cent of the global workforce (approximately 2 billion people), yet they are often excluded from all forms of social protection. They neither benefit from employment-related protection, because they lack a standard employment relationship, nor have access to the social assistance packages for the most vulnerable.

There are various ways to expand social protection schemes to those informal workers. Social protection insurance could be extended to those who have some contributory capacity (e.g. voluntary contributory schemes). Universal social assistance (e.g. cash transfers) could assist those who cannot afford any contribution. Other measures could include improved access to higher-quality public services – especially in healthcare and child care – and aligning urban policies with social protection systems (cities around the world are growing, and the number of informal workers is growing with them).

Labour market policies (see **Policy Brief 16: Labour and Employment**) can also extend social protection schemes to those excluded from the labour market. For instance, active labour market policies, such as training schemes, job search services and an employment guarantee scheme – a state guarantee of employment for those able to work when the labour market does not provide them with work – can help facilitate employment and access to social protection. Passive labour market policies, such as maternity benefits, injury compensation and sickness benefits for those in work, or changes in legislation (e.g. minimum wage, mandated safe working conditions) can do the same.

In view of the importance of social assistance, social insurance and labour market policies in countering income inequality and attenuating potentially undesirable effects of social insurance programmes, there are some considerations that are essential when designing such a programme.

- **Political commitment.** The successful design and delivery of social protection systems must be embedded in a nationally owned national social protection policy that brings together the main players who may decide and benefit from social protection measures. Policies have to be accompanied by a solid budget from different sources. There must be realistic implementation planning with results, main target groups, grievance systems, and so on. Too often, social protection measures in the European Union's partner countries are split between too many individual activities. Overall, the situation is improving, with an increasing number of partner countries opting for building social protection systems, showing a commitment to engage actively in the long term.
- **Adequate institutional environment.** Linked to political commitment, the legal and institutional context for designing and implementing social protection programmes is key. A robust legislative framework for social protection – usually based on the individual's rights enshrined in the law – is required to give effect to such a strategy.
- **Financial sustainability.** Social protection is one area of public spending, and it competes with other priorities a government must finance. Many sources of financing for social protection also fund

other areas of expenditure. Social protection should not be viewed in isolation but in the context of a government's overall public finance framework. To finance cash transfers, pensions, and so on in the area of social protection, official development assistance should be avoided. This source of funding is not appropriate in the long term; it is too scarce, it can fluctuate, and donors will look to reduce assistance as countries' average income levels rise. Official development assistance should be used to advise partner countries on best practices in social protection (social protection system strengthening). Similarly, revenues from natural resources can be highly volatile and are often based on finite resources; they thus represent an unstable (and often procyclical) source of financing for programmes that require steady, long-term (and often countercyclical) financing. Progressive and equitable taxation should be favoured (see **Policy Brief 11: Public Finance: Taxation**).

- **Capacity building.** In the absence of a well-defined system, a number of government institutions may implement some provision for social protection according to various legislative and policy imperatives, without considering possible gaps or overlaps among programmes. In this case, schemes will evolve at various points in time in response to various needs, with minimal coordination or information sharing. From this perspective, it is key to understand the basic characteristics of all existing programmes that can or will form the basis for a new social protection system.
- **High level of coverage.** To reduce inequality, efficient targeting and a high level of coverage focusing on the most vulnerable and low-income households are necessities. A number of factors can affect targeting and coverage, above all a lack of governance and administrative capacity, as well as a high level of fragmentation with multiple ministries involved. The efficacy of delivery might be improved through coordinating entities and the use of technologies, such as electronic payment systems using smart cards or mobile banking, to ensure that the payments go to the people who need them and are used for the intended purposes. In Niger, the use of electronic payments reduced the time required for beneficiaries to receive the transfers by 75 per cent (Aker et al., 2013). The use of electronic payment systems also dramatically reduces the cost involved in actually dispersing payments, as has been observed in South Africa (CGAP, 2011), and reduces kickbacks and corruption by eliminating middlemen from the payment structure.
- **Efficient targeting by vulnerability.** The more precise the target is, the more likely it is that the effects of the cash transfer will be significant. In Malawi, a programme designed to benefit schoolgirls was improved not by increasing the size of the transfer to the household but by increasing the size of the cash transfer sent directly to the beneficiaries, that is, to the schoolgirls (Baird, McIntosh and Özler, 2009).
- **Efficient targeting.** Programmes must be designed with the risks or vulnerabilities of the target population in mind. Some specific risks occur more commonly in specific socioeconomic groups; thus, someone's socioeconomic profile can, to some extent, predict what risks are more likely. For example, unemployment and illness are more frequent among poorer socioeconomic groups, whereas work-related risks associated with the combination of work and life show a very different social stratification. A programme that addresses specific risks will have stronger redistributive and poverty-reducing effects when those affected by the risk are concentrated in poorer socioeconomic groups.
- **Adequate benefit levels.** In addition to covering many of the poor, higher benefit levels can lead to a greater reduction in poverty and inequality. The size of the programme might depend on the available budget. The largest programmes provide transfers that average about 15 per cent of the income of the poorest quintile of households, benefiting about one third of the poorest 20 per cent of households on average (World Bank, 2015). Larger budget resources might increase the number of beneficiaries, but this must be followed by an extension of available services or programmes, making costs for governments potentially unsustainable. For example, if a condition of a cash transfer is enrolment in school, and more people receive such transfers than was originally planned, more schools will have to be built to ensure demand can be met.

Some may fear that increased cash transfers for the poor will lead to reduced labour supply, as recipients could stop working or stop looking for employment and simply enjoy the benefits, or that the additional income would be used for tobacco, alcohol or gambling. However, recent evaluations of social assistance programmes in several countries have failed to confirm any such effect. For example, beneficiary households in the Philippines were found to have reduced their alcohol consumption by 39 per cent (Chaudhury, Friedman and Onishi, 2014). In addition, studies have found a positive association between CCTs and a decrease in interpersonal violence and street crime in Brazil (Chioda, de Mello and Soares, 2012) and Ecuador. No evidence has pointed to potential increases in birth rates among recipients, exacerbating strains on households' economic situation (Stecklov et al., 2007).

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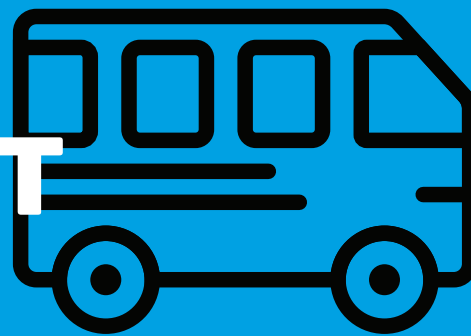
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# TRANSPORT AND MOBILITY



## KEY MESSAGES

- Mobility defines how transport affects inequalities. Income inequality is a factor of mobility inequality.
- Mobility solutions need to respond not only to the economic dimension, but also have to be geared to maximise sustainability and inclusiveness, to address the notion of 'green' mobility and the complex socioeconomic dimensions of transport as it affects inequalities.
- Transport policy measures to tackle inequalities must be embedded in a comprehensive transport planning process. The end of this process, after sectoral diagnostic reviews and an appraisal of alternatives, is a sectoral programme and a set of selected projects with different degrees of priority.
- Social distributional effects are more important in the long-term operation and management of transport because of the long lifespan of transport projects.

## Transport and mobility and inequality

To understand the impact of transport on income inequality and how transport policies can reduce income inequalities, the concept of mobility is essential. Kaufmann, Bergman and Joye (2004) define it as 'the capacity to be mobile in the social and geographical space or as the way in which entities access and appropriate the capacity for sociospatial mobility'.

Public transport is both a social policy that is key to ensuring people's ability to access opportunities, especially in and around cities, and an economic

policy. It is the mode of transport that exerts the least monetary pressure on users and that most decom-modifies mobility (Hernández, 2017).

Transport and mobility are drivers of income inequality. They reduce the poorest individuals' ability to access opportunities and are not equitably distributed; some people have more transport opportunities than others and some can travel much faster than others and in more directions. The ability of households and individuals to take advantage of social and economic opportunities is determined by their assets and their resources – and by the amount that must go to transport. In other words, for the poorest individuals, mobility and transport compete with other basic means in the allocation of scarce resources (Hernández, 2017). Holding other things equal, this means that people and households cannot increase their income unless the state makes mobility affordable. With COVID-19 affecting many countries, the cost of mobility may be rising because of safety measures.

In rural areas, where the majority of the world's poor people live, access to transport is the crucial entry point for socioeconomic development and addressing inequalities (see Box 4.1). For instance, more than 70 per cent of the rural population in Africa are considered unconnected because of insufficient, or missing, transport mobility systems and respective services (Hernández, 2017).

Thynell (2017) states that poverty and immobility are correlated for those living in rural areas, and that although women constitute half the world's working population, they generate only 37 per cent of gross domestic product. Further, most agricultural production takes place in rural areas, so improved access to both local markets and cities makes a significant

#### **BOX 4.1 Corridors of Freedom project in Johannesburg supports densification along major transit routes**

There is a growing amount of international literature on the relationship between transport and urban form. Accumulating evidence points to the positive correlation between residential densities, the use and viability of public transport, and the economic and social sustainability of the city. Apartheid-based, inefficient and unequal spatial patterns are intrinsically linked to the state of transport in South African cities. Many people are forced to commute daily over long distances for extraordinarily long periods. This has prompted a drive to invest in the improvement of South African public transport systems. A significant level of investment in public transport, largely galvanised by the hosting of the 2010 World Cup competition, has been made across South African cities over the past decade to improve the public transport services available in South African cities. The fundamental premise of such investments is that they not only have the potential to improve the access and mobility available to people living in cities, but also can simultaneously provide the developmental impetus required to restructure the apartheid-based city patterns.

The research confirms a clear relationship between density and use of public transport and reveals that this relationship holds across all income groups. There is a correlation between urban population density and the use of different modes of transport in the city of Johannesburg, with private cars used more in lower-density areas, and higher rates of public transport and non-motorised transport use in higher-density areas. The study also compares density and household income with the use of public transport in the city. Across all of the household income categories in the Quality of Life study of 2011, those living in higher-density areas are more likely to use public transport than those living in lower-density areas.

**Source:** Harrison et al. (2014)

difference in securing the livelihoods of farming communities.

In urban areas, rapid urbanisation and related pressures are likely to outpace the growth of public transport. Improving overall access for the poor and vulnerable, improving the equity of access, is therefore

put at risk. More, the transport sector is not regarded as gender neutral. Women find considerable barriers to employment in this sector and decision-making is still affected by the under-representation of women (see [Policy Brief 18: Gender](#)).

If transport solutions are to contribute efficiently to reducing income inequalities, they must be designed to connect all people and communities to economic and social opportunities in sustainable ways. This means the solutions must take into account the needs of different groups, including the poor, those in vulnerable situations, women, children, the elderly and persons with disabilities, across geographical locations (Sustainable Mobility for All, 2019). Sustainable mobility is a driver of economic prosperity that provides a solid basis for strong, sustainable and inclusive growth. The European Green Deal policies commit the European Union (EU) to responding to the growing demand for transport in developing countries while minimising increases in greenhouse gas emissions and pollution.

However, ‘greening’ mobility cannot happen at the expense of the poorest people, who can hardly afford good transport services. In addition, in the context of the COVID-19 shocks and respective recovery phases, governments in partnership with the EU are gradually engaging in infrastructure investment, particularly investments in transport connectivity and access, to boost economic growth. This offers the unique chance of using the momentum to embark on high-quality mobility solutions of a transformative nature. Such mobility solutions will have to respond well beyond the economic dimension. They will have to be geared to maximise sustainability and inclusiveness and to address the notion of green mobility (see [Policy Brief 6: Climate Change](#)).

Most important, mobility solutions will have to accommodate the complex socioeconomic dimensions of income inequalities that affect transport. This calls for future actions under the umbrella of universal access to services at, primarily, rural and urban levels, with consideration of gender-related issues. In light of the above, the transport sector’s ambition for reducing inequalities is intrinsically linked to Sustainable Development Goal 9 (build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation), Sustainable Development

Goal 11 (make cities and human settlements inclusive, safe, resilient and sustainable) and Sustainable Development Goal 12 (ensure sustainable consumption and production patterns).

When working on agreed mobility solutions, it must be recognised that addressing the social inclusiveness and inequality aspects of sustainable mobility is a quite complex matter. Analysis and careful conceptualisation are needed. An incomplete list of factors that must be considered includes the following:

- cost of commuting,
- reliability of services and networks,
- modes of transport,
- gender-disaggregated travel patterns and needs,
- geographical distribution of people,
- social classes,
- distribution of opportunity for employment and education,
- safety of travel.

Institutional and policy matters, such as political goals for reducing carbon dioxide emissions, also affect the social inclusiveness and inequality aspects of sustainable mobility.

## Transport policy measures with a demonstrated impact on inequality



### Transport policy and planning

Transport policy measures to tackle inequalities must be embedded in a comprehensive transport policy analytical framework, such as the one developed by Hernández (2017).

- **Transport opportunities.** This piece of the analytical framework includes the extent of the road network and of the public transport network and travel times. It also covers the characteristics of public transport (timetables, regularity of service, availability of service at different times of the day), the quality of the system in terms of

convenience and safety or rolling stock and permanent facilities, and what information is made available to passengers.

- **Institutional configuration.** This describes the extent of state participation in the configuration of transport opportunities and the identification of who pays and who benefits in relation to travel costs. Other considerations are the priority given to private forms of transport compared with public transport, driving costs (e.g. urban toll roads), the fare structure of public transport and the existence of regulation and subsidy mechanisms.
- **Individual characteristics.** These are the extent to which individuals can take advantage of transport opportunities and the place those individuals occupy in relation to institutional configuration. In this regard, some considerations are people's income, the time available for transportation and how people can organise that time, their skills and abilities to master the system and its operation (e.g. knowing how to drive or being able to understand how public transport works) and their ability to access transport.
- **Urban form.** This concerns socioterritorial dynamics, such as the location of households and opportunities in the city.

These dimensions cover various structural aspects and individual characteristics that, when combined, define people's capacity to overcome geographical distances. For example, a person may live in an area with excellent public transport, but if that person cannot afford the fare, accessibility will be limited. Consideration must also be given to who pays (the cost and how it is financed), who can access public transport and how good its quality is, and to the share of transport costs in people's and households' expenditures. In and around cities, transport and mobility are affected by spatial organisation and housing.

The product of this policy process, after sectoral diagnostics and appraisal of alternatives, is a sectoral programme and a set of selected projects with different degrees of priority. Inequalities must be dealt with by integrating social distributional effects into programme and project appraisal, to which an **economic cost-benefit analysis** is essential. A sound cost-benefit analysis involves efficiency considerations

and distributional issues, which should be taken into account by evaluating the social value of benefits and costs accruing to different individuals.

The basic transport policy measure with an impact on inequalities is the application of sound transport planning and programming. Since the early 1990s, the EU has supported its partner countries' capacities to produce good-quality transport planning and programming. Insufficient planning and poor programming lead to neglecting social distributional effects. A main policy concern is thus ensuring that national administrations carry out planning and programming efficiently. The EU is still committed to this goal, now primarily through blending (a financing mechanism that combines grants with other resources, such as loans, equities and guarantees, from development finance institutions, as well as commercial loans and investments) and budget support.



### Transport infrastructure

Social distributional effects appear in both the short and the long term. In the short term, building transport infrastructure can provide direct benefits by employing disadvantaged groups and underemployed workers in vast public works programmes. In economies with low labour costs and extensive unemployment or underemployment, labour-intensive methods represent an attractive and cost-effective option for infrastructure works (see **Policy Brief 16: Labour and Employment**). In the long term, more sustainable and well-connected transport infrastructure not only reduces congestion and air pollution, but also reduces travel time for workers, improving job opportunities and freeing time for family and education.

In designing programmes, and particularly when specifying the contractual arrangements, objectives meant to reduce inequalities can be integrated by choosing highly labour-intensive forms of investment, carefully establishing the daily wage and arranging the recruitment of workers to be attractive to those who are worse off. This requires adjusting procurement specifications to favour labour-intensive work and skills development in the award criteria. Further, modes of recruitment and work conditions

have to be specified under International Labour Organisation standards to ensure that inequalities are not reinforced (e.g. through forced labour or inequality of access) and that workers retain their wages and benefits. Labour-intensive methods emphasise the use of local available materials and equipment, which generates more income in the local economies and supports the promotion of circular economies (by relying on locally available resources).

Feeder roads sustain agricultural markets and enable 'farm to market' economic models, thereby offering new economic opportunities to areas where levels of inequalities are high; they can also promote more sustainable food consumption. In the longer run, maintenance of infrastructure built with such investments, especially rural roads, can provide employment opportunities.

When infrastructure is planned, it is important to advocate integrating inequality reduction objectives into its design and the planning of works. This requires social and environmental impact studies and has to be examined when assessing applications submitted to blending facilities.



### Transport operation and management

Social distributional effects are important in the long-term operation and management of transport because of the long lifespan of transport projects. A cost-benefit analysis allows the weight of short-term building distributional effects and long-term operational ones to be reflected in a project's or system's assessment.

Other management and policy issues have an impact on social distribution. Mobility is impaired by high costs of transport for people and goods. Often transport costs depend largely on energy prices (diesel fuel, petrol). Taxation has a large impact on these prices and, therefore, on social distribution.

Subsidies are an important expense in states' general budgets. An analysis shows that assessing subsidies' redistributive aim requires the use of data and models to understand who benefits from price subsidies and their impact on people's welfare. Concentration effects can lead to government subsidies that mostly

benefit households with high disposable income and high expenditures. The International Monetary Fund demonstrated, through reviews of studies covering 32 countries (Coady, Flamini and Sears, 2015), that a very large share of benefits from price subsidies goes to high-income households, further reinforcing existing income inequalities. However, promoting subsidised public or 'mass' transport and charging fares that enable mobility across areas and cities are critical to unlocking areas where the poorest and marginalised people dwell.

Transport facilitation and good sectoral governance are other fields in which social distribution is feasible. For instance, forbidding axle overloading benefits the whole national economy of a developing country; it improves road safety, prevents road degradation and indirectly affects all services. Leaving axle overloading uncontrolled benefits, in the short term, only some transport carriers and shippers. Policy dialogue between stakeholders is essential, recognising past failures and introducing new technology to improve the efficiency of control measures. Other transport facilitation measures, such as fewer road checkpoints, operation of joint border posts and abolishing freight-sharing cartels and quotas improve the efficiency of the whole sector and help reduce transport inequalities.

Promoting innovation and technology requires improving the legal and regulatory framework for the use of new technologies, ensuring that existing laws and regulations are applied or made applicable, or both. It is possible to sustain innovation, including innovations that do not require new technologies, to respond to needs of the poorest individuals, increasing the efficiency of their spending and thereby reducing inequalities. Supporting programmes are required to create awareness and to facilitate adult education and learning, skills development and targeted mentoring for business development in the transport sector.



### Gender aspects

Although the transport sector is traditionally male dominated, the sector does hold significant potential to increase women's productivity and promote gender equality. Ambitious transport policy frameworks

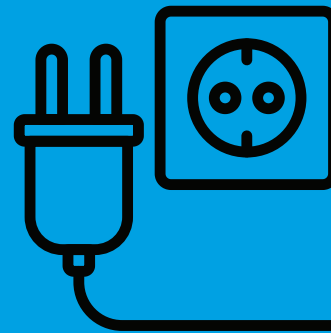
should be more attentive to the specific needs of women and follow a participatory approach. Instruments and modalities need to be developed and analysed vis-à-vis their socioeconomic costs and benefits regarding inequalities. Some proposed policy measures related to this field are listed below:

- assessing and analysing women's mobility needs, taking into account gender-aggregated data, informal transport, walking, cycling, travel patterns, gender impact assessments of transport interventions, and so on;
- ensuring the engagement of women in transport planning at policy and operational network management levels;
- developing inclusive mobility services fit for women's needs;
- ensuring the safety and security of transport modes, taking into account the likelihood of sexual harassment;
- employing and empowering women in the transport sector to move towards establishing a gender-responsive work culture;
- engaging in labour-intensive construction and maintenance methods that encourage female employment from a long-term perspective, particularly in domains of routine maintenance;
- regularly contributing to awareness creation and the stimulation of behavioural change to boost gender aspects in view of its impact on reducing inequalities.

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# ENERGY



## KEY MESSAGES

- The energy sector deeply affects the capabilities of the poorest and marginalised in both rural and urban areas. Access to energy is essential to stimulate economic growth and reduce socioeconomic inequalities.
- Investment policies and regulatory frameworks should enable affordable access to clean energy and electricity despite low financial returns.
- Energy policy that is closely linked to climate and environment policies may sustain small- and medium-scale sustainable energy generation, renewable energy and off-grid energy solutions, reducing inequalities and preventing environmental degradation. Off-grid energy solutions could benefit job creation in local energy value chains.

## Energy and inequality

Worldwide, about 1.2 billion people have no access to electricity (mainly in rural areas). Up to a billion more have access only to unreliable electricity networks. Women disproportionately bear the burden of 'energy poverty'. The biggest challenges are located on the African continent, where access to electricity in rural areas can be as low as 10–15 per cent in some countries. Africa is also the only region where, because of demographic pressure, the number of energy poor is increasing over time despite international efforts (EC, 2017).

Providing affordable and reliable access to clean and carbon-neutral energy in rural and peri-urban areas – where a majority of poor households are located in developing countries – increases access to social

and economic opportunities, raises incomes and thus helps to reduce income inequalities while contributing to the country's overall development and growth. In cities the focus should be on slums, which lack access to safe and efficient energy sources and electricity, and on efficient mobility solutions.

Investments in energy aim to extend energy access through the national grid or off-grid solutions. Their importance stems from the basic but essential services such investments make possible. They allow national sector policies, such as health and education policies, to take effect. They also permit access to basic services, such as clean water, cooking, transport, information technology and digital connectivity, to be extended to those previously without them.

Unlocking access to energy also has clear potential for development. Energy poverty is among the root causes of migration for those in search of better livelihoods, whereas sustainable energy powers industry and agriculture and can create additional jobs locally. It gives rise to novel business models and services and to creating prosperity, jobs and opportunities at home (EC, 2017).

Clean, affordable, secure and efficient energy provision is necessary to stimulate social and economic development and trade in rural and peri-urban areas. Energy brings new social opportunities, such as better health through safe and efficient cooking, safe and efficient heating, refrigeration of vaccines and medicines and access to clean water. It also supports better education by bringing light into private or communal study rooms, adding good ventilation and connectivity for online information. Energy can free time that had been spent on domestic tasks for use in income-generating activities. From an economic

standpoint, investing in improving access to energy has direct benefits for growth and decent job creation. This is especially the case when sustainable energy value chains are promoted and when productive use of energy occurs in economic sectors (agriculture and food processing, industry, mobility, and so on), thereby contributing to a reduction of inequalities through more competitive and resilient economies (see [Policy Brief 1: Health and Nutrition](#), [Policy Brief 2: Education](#), [Policy Brief 7: Water and Sanitation](#) and [Policy Brief 13: Growth](#)).

How these new services are provided matters; ensuring that the energy supply is accessible involves geographic and spatial factors, but making it affordable may require social transfers rather than subsidies (see [Policy Brief 3: Social Protection](#)). In 2019, fossil fuel subsidies still accounted for an estimated total of USD 317 billion (IEA, 2019), whether in direct consumption or as inputs to electricity generation. In some countries, subsidies represent a very large share of the state budget; some estimates go beyond 20 per cent. For example, in Indonesia, 3 per cent of gross domestic product was dedicated to energy subsidies in 2012–2013. However, the impact of energy subsidies on social welfare is questionable. Instead, investing in the ‘green’ energy transition can support the reduction of inequalities and ensure a just transition pathway based on solidarity and fairness, particularly if fossil-based industries represent a significant share of national economies and job markets. For example, cleaner, green or efficient energy enables rural communities to access not only basic services but also modern communication systems – telephones, radio, television, and the internet and digital devices – which are now very limited in such areas. With good content programming, information and communication technologies might contribute to reducing inequalities by promoting positive societal change in education, health and parenting, as well as fighting discrimination through the cultural influence of entertainment. Some evidence suggests that cable television in India may have reduced tolerance of spousal abuse and the preference for male children, and increased the likelihood of female children attending school.

Transport depends on energy and is inherently linked to economic activities; it also raises the issue of

sustainable mobility. For many people and businesses, transport is not an issue of access to paved roads, but issues of access to and the affordability of safe transport, both public and private, to go about their studies and their work and to access markets. Rapid urbanisation has continued unabated in many cities with insufficient planning for the mobility of goods and people, preventing individuals from accessing both fresh food and safe and affordable transport. Lack of mobility or its high cost and inefficiency leads to significant income inequalities (see [Policy Brief 4: Transport and Mobility](#)).

Improved or increased access to energy is not limited to electricity. Relying on inefficient, unclean and unsafe energy sources, such as kerosene and charcoal for heating, cooking or lighting, increases inequalities through limited use and negative health impacts. Indeed, an important positive effect of clean, sustainable and efficient energy provision is a reduction in the need for kerosene or wood and charcoal. This improves the air in living spaces and ultimately reduces inequalities by enhancing human capital. In El Salvador, an electrification programme in rural areas resulted in a two-thirds reduction in indoor air pollution, which decreased the risk of respiratory infections for children and women. Better child health and physical development lead to better educational outcomes and increased future earning and income potentials. This shift towards more clean, sustainable and efficient energy sources also frees up household members (largely women) from daily chores, such as gathering wood and cooking, thus improving female employment and increasing households’ income (see [Policy Brief 18: Gender](#)).

## Energy policy measures with a demonstrated impact on inequality

Lack of access to clean and affordable energy worldwide, especially in rural and peri-urban areas in poor countries, calls for policy responses that might be able to tackle energy poverty while fostering inclusive growth and decent jobs in a bid to reduce income inequalities, notably for women and children. Energy generation and energy supply are technically very different fields. Addressing energy access, energy

generation and clean and safe energy requires a sound understanding of country and regional problems to promote affordable and appropriate policy responses. European Union (EU) support should systematically take into account air pollution (including indoor pollution), climate change, gender and disability as factors contributing to inequality.

The EU is guided by the **following principles** in the energy sector:

- make legislative frameworks clearer and more predictable and introduce more transparency in the planning of necessary infrastructure (electricity generation and grid expansion master plans);
- encourage private sector involvement by tackling public control and vertical integration of the energy supply chain;
- enhance the accountability of sector institutions and operators;
- strengthen the financial stability of energy utilities, alleviating the burden on governments' budgets by improving payment recovery and phasing out non-cost-reflective tariffs (this can be affected by a customer base lacking financial solvency, or with low energy consumption per capita or limited purchasing power, contributing to the low profitability of the sector);
- boost green investment in renewables and other climate change mitigation actions by phasing out inefficient production and consumption subsidies;
- encourage investments in rural and peri-urban off-grid energy value chains, including a focus on promoting circular economy business models (which produce energy from organic or agricultural wastes);
- adjust the cost of energy to factor in the impacts of pollution, climate change and other negative externalities;
- improve institutional capacities of energy administrations;
- facilitate credit for local investments by enhancing local financial institutions' knowledge of the energy sector;
- enhance the technical qualifications of the workforce;

- promote cross-border interconnections, as well as harmonised regulations and standards, curtailing the options for international power exchange and regional integration;
- strengthen understanding and knowledge of the potential of energy efficiency, particularly in fossil-fuel-producing regions;
- fill the gaps in research and innovation capacities to support steady implementation of a low-carbon energy system in developing countries.



### **Moving from a financial rationale to a socioeconomic rationale**

The low density of rural areas coupled with and low disposable income have often prevented public investment in extending roads and energy infrastructure. This is still the case in some emerging economies, as it is for access to telecommunication in some parts of the territories of developed economies. To address inequality reduction effectively, decision-making must go beyond the financial viability of investments. Active policies designed to tackle significant inequalities caused by poverty in rural areas should be supported. Poverty and few opportunities cause young people to leave rural areas, leading to a loss of know-how and further reducing economic opportunities, thus creating a negative feedback loop. In some countries, rural communities live on remittances. Land degradation, land tenure and climate change compound this situation.



### **Promoting innovation and technology**

More than 2.7 billion people, mostly in Asia and Africa, still rely on wood, charcoal, animal dung, crop waste and coal for cooking and heating. According to the World Health Organization, more than 4 million people die prematurely every year from illnesses attributable to household air pollution from cooking with solid fuels (IEA, 2019). Alternatives to existing policies should be offered and demonstrated. The EU is well placed to support a process of policy change by fostering dialogue between stakeholders, recognising policy failures and using new technology to reduce reliance on traditional sources of energy.

Promoting innovation and technology requires improving the legal and regulatory framework for the use of new technologies, ensuring that the related existing laws and regulations are applied or made applicable. For example, most countries regulate the production and distribution of charcoal, but few can enforce those regulations, given the reliance of the population on charcoal for cooking. Supporting technological innovation (especially circular economy business models) through programmes and financing leads to more efficient cooking solutions (better stoves and fuels). Recent innovation has seen the use of residual biomass to make briquettes and produce biogas from local organic waste. New cooking technology has been introduced, such as cooking bags, efficient stoves and solar-based options. The EU can sustain innovation to respond to the needs of the poorest individuals, increase efficiency of energy services and their value for money, and thereby reduce inequalities.

In the transition towards sustainable mobility, clean or efficient cooking solutions, and heating and refrigerating technologies, alternative modes of transport should be promoted wherever possible.



### Power generation, production and distribution

The legal and regulatory framework should promote sustainable, clean, secure and affordable energy production that is properly adjusted to need. The EU is favouring both grid extension and off-grid development. In Indonesia, the policy and legal and regulatory frameworks now support independent power producers in investing in renewable energies with simpler licence requirements and economically viable feed-in tariffs. This means that small islands may benefit from access (or cheaper access) to electricity. It is also reducing the costs of fuel transport and mitigating the impact of greenhouse gas emissions. In Africa, many rural and peri-urban areas could benefit from off-grid facilities, such as biomass digesters and small-scale solar power plants, should they be allowed. 'These solutions range from independent local mini and micro grids, to community managed systems, and stand-alone solar home systems combined with portable photovoltaic appliances for light' (IEA, 2019). Indeed, 'according to the International

Renewable Energy Agency, the potential for solar, geothermal, hydro and wind energy in Africa is among the highest in the world' (IEA, 2019).

Enabling households to shift away from dangerous or costly fuels (rubbish, charcoal and kerosene) is a priority (see Box 5.1). There is no panacea: energy requires a cross-sectoral approach to support lower prices and improved or increased access for the poorest individuals and for remote areas, and to increase benefits in terms of climate change adaptation and mitigation, as well as health and education outcomes.

#### BOX 5.1 Benefits of electrification

Electrification of rural communities in Nicaragua and South Africa was accompanied by a 9 percentage point increase in the employment of women; in India it led to an increase in the labour supply by allowing men to shift from casual work to more formal work and women to increase their participation in casual work. The availability of electricity introduces the possibility of owning appliances and devices that can form the backbone of small businesses, such as sewing machines. For example, electrified households in Vietnam were nine times more likely to produce goods in the home and received a 29 per cent higher non-farm income.



### Pro-poor tariff structures

**Access to safe and clean energy can be impaired by cost as well as a lack of infrastructure for distribution.** To promote access, many countries use subsidies as the basic, sometimes sole mechanism.

The EU seeks to strengthen the financial stability of energy utilities, thus alleviating the burden on governments' budgets by improving payment recovery and phasing out non-cost-reflective tariffs (EC, 2017).

Indeed, subsidies can be an important expense in a state's general budget. Indonesia's subsidy policy accounted for an average of 22 per cent of the total state budget, of which more than half was for energy (61 per cent in 2013). In Ecuador, such subsidies amounted to one sixth of the 2015 budget, of which 58 per cent was for all forms of fuel subsidies (liquefied petroleum gas, gasoline and diesel). Reaching

the subsidies' redistributive goals depends heavily on data and models to understand who benefits from price subsidies their impact on welfare and to design effective targeting. Concentration effects can lead to government subsidies that mostly benefit households with a high disposable income and high expenditures. The International Monetary Fund demonstrated, through reviews of studies in 32 countries, that a very large share of benefits from price subsidies goes to high-income households, reinforcing existing income inequalities (Coady, Flamini and Sears, 2015). In analysing how to improve the impact of subsidies or other interventions on reducing inequality, the **Kakwani index** is a recognised and accepted measure for assessing the progressivity of social interventions (Porta, 2014).

Before establishing price incentives, it is important to support studies that test their efficiency compared with alternative social transfers. This contributes to effective governance and transparency (see **Policy Brief 17: Governance and the rule of law**). To address the limited customer base, it is possible to use cash transfers for the poorest individuals rather than subsidies for the sector. This shifts the responsibility of offering innovative, affordable alternatives away from the state and to the energy providers.



### Accompanying measures

Better policies, improved legal and regulatory frameworks, and new investments in energy production and distribution to improve access to energy may not be enough to create change and reduce inequalities. Support programmes are required to create awareness and to facilitate adult education and learning, skills development and targeted mentoring for business development.

A key set of accompanying measures concerns women and girls, who bear the brunt of energy poverty and the burden of searching for fuel and cooking. Their social and economic rights should be promoted to achieve their empowerment.

The *World Energy Investment 2019* report reminds us of the strong link that exists between income levels and energy investment (IEA, 2019):

Nearly 90 % of energy investment in 2018 was concentrated in high- and upper-middle income countries and regions. These areas also tend to benefit from relatively well-developed financial systems. High-income countries, with just over 15 % of the global population, accounted for over 40 % of energy investment in 2018. ... Lower-middle and low-income countries accounted for less than 15 % of energy investment in 2018 despite containing well over 40 % of the world's population. In recent years, the fastest investment growth within this group has come from India with rising power sector spending, while spending in sub-Saharan Africa has declined, mostly due to less investment in fuel supply.

Sustainable Energy for All and the European External Investment Plan seek to create new opportunities through an integrated and comprehensive structure to **finance investments, harnessing the private sector and innovation**, notably in Africa and the EU neighbourhood. Innovative approaches can reduce inequalities in the energy sector.

Subnational governments have the mandate for development in their areas but face limits in their access to finance and capacity to foster their investments. Supporting subnational governments through **innovative financing and national sector planning, designing and executing** can boost access to clean and safe energy. **A solid legal and regulatory framework** will also support the public and private investments needed for the transition to a climate-neutral, green, competitive and inclusive economy. **Incentives** to unlock and redirect public and private investment should be designed. Green budgeting and procurement should be encouraged, and ways to make it easier to approve state aid for transition regions should be identified.

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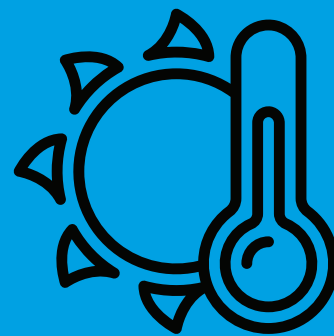
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# CLIMATE CHANGE



## KEY MESSAGES

- The world's poorest and most vulnerable people, who have contributed the least to the greenhouse gas emissions that cause climate change, suffer the most from that change and have a low capacity to respond to it, leading to increased inequality.
- Climate justice considers an ethical response that reduces social and economic inequalities.
- Integrating social and economic concerns into responses can help to ensure climate change does not amplify pre-existing disadvantages.

## Climate and inequality

Climate change represents an existential threat to life on Earth. The only way to stop this threat is to radically change the prevailing economic model of production and consumption. At the moment, two actions clearly must be taken, and that urgently: mitigating climate change onset and adapting to the effects of change that are already locked in. Both actions require technical and financial capacity.

**The world's poorest and most vulnerable people, who have contributed least to the greenhouse gas (GHG) emissions that cause climate change, suffer the most from climate change and have little capacity to respond to it.** Industrialised countries' fossil fuel-based development<sup>(1)</sup> has generated

economic wealth while causing environmental damage<sup>(2)</sup>. This wealth has been generated through an extractive economic model that assumes that resources and materials can be considered unlimited (see [Policy Brief 13: Growth](#)). It cannot continue to be created without the cost of the damage from climate change being taken into account. Countries that lack the resources to adapt to climate change are often highly dependent on agriculture, a large amount of which is subsistence agriculture; they are finding that more frequent and extreme climate events and changing seasonal patterns are damaging their economies. Without the ability to adapt to climate change, such countries are likely to find that sustainable development gains will be eroded and future generations will be seriously affected.

**The imbalance between countries that have benefited from fossil fuel-based economic development and those that have not and suffer most from climate change is the main subject of climate justice.** Indeed, under the United Nations Framework Convention on Climate Change (UNFCCC), all countries are asked to ensure that their transition to circular economic models avoids and reduces emissions. Although this may mean that some lower-income economies will be able leapfrog highly polluting energy sources, moving directly to more sustainable sources, in general, implies disproportionate efforts for lower-income economies. Further, the United Nations Intergovernmental Panel on Climate Change special report of October 2018 set the level of urgency: we only have 12 years left to stop Earth

<sup>(1)</sup> Developed countries have been responsible for 77 per cent of all emissions since the mid 18th century (Raupach et al., 2007).

<sup>(2)</sup> The gap between economic outputs of the world's richest and poorest countries is 25 per cent larger today than it would have been without global warming. India's economy is 31 per cent smaller than it would have been without global warming. See Garthwaite (2019).

from radically heating up and threatening the lives of hundreds of millions (IPCC, 2018b). The panel's proposed solutions require a massive restructuring of energy and transport systems; these, which currently rely on fossil fuels (80 per cent of the energy mix), must move towards using renewable sources of energy instead. This has immense consequences for all economies and explains the need to ensure just transitions (see [Policy Brief 4: Transport and mobility](#) and [Policy Brief 5: Energy](#)).

**The concept of just transition has different connotations for different actors** (the International Labour Organisation, the UNFCCC, the EU, et al.), referring to economic, social and/or environmental dimensions and different sectors (including labour, energy, industrial, transport, agriculture and territorial management). The EU, for instance, raised its 2030 ambitions and has cut GHG emissions by 50–55 per cent compared with 1990 levels. By 2050, Europe aims to become the world's first climate-neutral continent (EC, 2020).

Just transition is an evolving concept, but, overall, it intends to **integrate the social and economic consequences of climate change and to shift from an extractive economy to a circular and regenerative economy**. It provides a framework for connecting climate action with the need for an inclusive economy and the guarantee that all people will have the opportunity to benefit equally from climate solutions, while not taking on an unequal burden of climate impacts, and those affected will be considered by those making decisions (ILO, 2015) (see Box 6.1). As governments and the private sector embark on the urgent reforms needed to drastically reduce GHG emissions, ensuring just transitions in the different sectors means that nobody will be left behind.

**Inequalities caused by climate change are also growing within countries, particularly in middle-income countries.** Poor planning, uncontrolled development, drainage problems and insufficient infrastructure make cities vulnerable to flooding and extreme temperatures. Urban areas without adequate budgets often do not have adequate sanitation systems. They will be especially affected by floods, leading to infrastructure damage, disturbed public service delivery and potential public health problems. Rural areas in many developing countries depend heavily on natural and agricultural resources. They

### BOX 6.1 Fiscal transition in Brazil

The clean energy transition in Brazil offers alternatives to fossil fuels and can thus lead to a decrease in government revenues in two ways: through a drop in fossil fuel prices and, over the longer term, through the shrinkage of absolute amounts of fossil fuel production and consumption.

In 2017, taxes and other revenues from fossil fuel production and consumption amounted to 6.8 per cent of general government revenue in Brazil. These revenues should be used strategically to help move the economy away from fossil fuels and cover the social costs of the transition, including the costs for vulnerable groups of consumers, workers and communities that currently depend on fossil fuels (Roth and Kühne, 2019).

are often characterised by higher rates of poverty, isolation and marginalisation; they are neglected by policymakers and show the weakest levels of social development. Ecosystems already weakened by unsustainable exploitation are directly affected by changing climate parameters, as is biodiversity. Changing climate parameters undermine ecosystems' resilience and their ability to continue underpinning societies' well-being. The poorest populations and Indigenous people often rely directly on forests and other ecosystems for food, fuel, shelter, water and other necessities; loss of biodiversity will disproportionately increase their vulnerability. Climate impacts, observed as slow trends or as extreme events, are increasingly threatening resources and opportunities and eroding the basic rights of the rural poor.

**Vulnerable groups suffer disproportionate impacts from climate change, including loss of their income and assets, resulting in greater subsequent income inequality (Nazrul and Winkel, 2017).** This also applies to gender-related inequalities. Globally, on average, women's salaries and assets are lower than men's, putting single mothers and elderly women, particularly, at a disadvantage when expensive decisions<sup>(3)</sup> – improving housing infrastructure, investing in irrigation systems and adopting new climate-adapted

<sup>(3)</sup> See definition of climate change adaptation and climate change mitigation in GCCA+ (2018).

seed varieties – about how to adapt to climate change are to be made<sup>(4)</sup>. Women's level of involvement in climate change decision-making at national, European and international levels is still low, with the highest proportion being found in the national delegations of the UNFCCC (39 per cent) (EIGE, 2012). About 80 per cent of those displaced by climate change and deprived of their assets are women and girls (Siegel, n.d.). As they move from their homes, they are particularly vulnerable to gender-based violence (see [Policy Brief 18: Gender](#)).

**To summarise, climate change increases income inequality between and within countries.** Such inequality will be all the more difficult to address because there is no single agreed indicator at the international level that allows the effects of climate change policies and the impact they have on inequality to be measured.

## Climate-related policy areas and measures with a demonstrated impact on inequality



### Enlarge the local knowledge base on climate change and its impacts

A better understanding of the **distributional and inequality impacts of climate change** and the policies to address them is important to **avoid negative social and distributional outcomes** as countries increase their climate policy ambitions in the post-Paris context. To do so, EU Delegations can develop a climate risk and vulnerability assessment and a programme of social and informal learning.

A climate risk and vulnerability assessment shines a light on the additional difficulties that poor and vulnerable people will have to cope with as a result of the adverse effects of climate change. This is an essential step, as, too often, the multiple pressures of climate change and the need to support the socially disadvantaged, including women, are simply ignored. Such an assessment must entail the understanding

of climate change as a driver of multiple risks that can be interrelated (e.g. floods can lead to infrastructure damage and droughts can lead to crop failure) or that create interdependencies between geographical areas that are usually disregarded because of the differences between political and natural boundaries.

**Social and informal learning, whereby decision-makers, technicians and intended beneficiaries collaborate and share ideas and good practices to solve problems in a genuine participatory process**, can also help reduce the lack of climate-related knowledge and impacts on vulnerable people (GCCA+, 2018). Guided sessions can improve stakeholder cooperation in defining their main concerns, which may include known and growing climate impacts and risks of irreversible changes to life-sustaining and economic systems. Stakeholders may also be concerned about synergies that feed the growth of vicious circles of inequality (e.g. long dry periods exacerbate health issues and reduce chances of diversifying income). Exchanges with local authorities and other actors on a transdisciplinary 'co-production' basis should also be encouraged, thereby promoting the European Green Deal priority of supporting circular economies.

Despite this emphasis on climate change adaptation, understanding how **inequality at different levels may evolve under different climate change mitigation pathways** is also necessary to inform policy. In addition to climate-related policy areas and measures introduced here, climate change mitigation will also require environmental policies, especially those related to energy supply and consumption or green investments (see [Policy Brief 5: Energy](#)).



### The 'no regret' approach to implementing climate measures

'No regret' measures are justified from economic, social and environmental perspectives, whether or not climate change impacts (or other hazards) take place (Siegel, n.d.). They are well adapted to filling the gap between perceived political risks that can accompany decisions to be made today and a future decarbonised economy. Typical 'no regret' measures have low or no political costs at present. The European Green Deal includes several such measures.

<sup>(4)</sup> See, for example, United Nations WomenWatch (2009); IUCN (2015); and Hemmati and Roehr (2007).

**Preventive planning and disaster risk reduction** are both key to reducing inequality gaps intensified by climate change. Attempts to close infrastructure and related inequality gaps without proper planning could cause more harm than good. Such planning might include measures such as:

- **Building and renovating infrastructure** to address identified needs in adapting to the impacts of climate change, notably in urban or rural areas suffering from under-investment. Any approach should allow such areas to adopt the precepts of sustainability, resilience and liveability. This can also be done by integrating known needs in adapting to climate change into safety-net mechanisms such as jobs that offer guaranteed wages in construction works and environmental services, such as local energy value chains, waste collecting and sorting, and recycling.
- **Increasing resource efficiency**, using limited natural resources in a sustainable manner while minimising impacts on the environment. This is the first important step towards climate action (and often one easily taken by many small-scale processors and producers, typically because of the use of outdated technology). Resource efficiency improves sustainability and reduces production costs, making local production more competitive and increasing the number of jobs offered. Products should also be made accessible to more customers.
- **Improving energy efficiency** to improve affordability and access to energy services for all, thereby helping households and businesses to save income for other essentials. By comparison, similar levels of investments in energy efficiency (including for building retrofits and to optimise production costs) create more jobs than those in oil and gas (Pollin, Heintz and Garrett-Peltier, 2009).
- **Preserving ecosystems** as the supporting systems of livelihoods and income diversification, preventing vulnerable people from becoming poorer. Preserving natural capital will generate long-term benefits and income in terms of sustained harvests and production, as well as sustainable tourism. On a global scale, nature-based solutions to problems of climate change adaptation are often more cost effective and technologically better adapted to developing countries. They can

offer win-win solutions for climate change, biodiversity conservation and poverty reduction, as they enhance ecosystems on which the poor disproportionately rely for their livelihoods.

- **Advancing women's empowerment and gender equality**, as it can lead to more environmentally friendly decision-making at household and national levels (IUCN, 2015) and therefore deliver results across a variety of sectors, including food and economic security and health. Climate change-related gender action plans can help countries to develop comprehensive action that integrates gender concerns and builds on women's unique knowledge and perspectives. Current discussions at the UNFCCC level and in the development and implementation of national climate policies are putting a focus on a gender-responsive agenda (UNFCCC, 2021). The EU external relations gender action plan 2016–2020 promotes a pioneering approach, based on a shift in institutional culture, aimed at ensuring that commitments on gender equality are translated into clear and tangible outcomes (GCCA+, 2018).



### Developing an integrated approach for inclusive climate action

Ecosystem services, such as clean air and water, and public goods, such as access to energy and roads, are often said to be held in common or should be provided by governments or by a combination of public-private partnerships. Their existence and maintenance enhance the well-being and livelihoods of communities who depend on them. To adjust to climate impacts, the transition to low carbon pathways is often a key element of safeguarding such assets and has the benefit of creating new sustainable job opportunities and value chains. To promote such a transition, the following actions are recommended.

- **Prioritise efforts towards mainstreaming climate change**, linking the disciplines of adaptation, disaster risk management and social protection to information technologies, including spatial data, to support decision-making (Siegel, 2011). Notably, mainstreaming climate adaptation needs in local development planning, such as in existing decentralisation mechanisms, is an appropriate means of addressing local issues relating to both climate

and equality. Climate policy integration with multi-disciplinary approaches and good coordination mechanisms (GCCA+, 2018) should be preferred to simple ‘language add-ons’ in order to implement credible inclusive climate action.

- **Understand the trade-offs and synergies** between the measures proposed in nationally determined contributions and in sector strategies, given that inequality could emerge from the failure to consider incompatibilities between different actions (e.g. agricultural policies may support large-scale infrastructure and exports, whereas nationally determined contributions and inclusive policies may encourage smallholders in local economies).
- **Assess the ability of the systems in place to support inclusive environment and climate action**, and support capacity and institution building (see Box 6.2). To be really effective, environment and climate change-related training must be institutionalised (GCCA+, 2018). For example, a climate public expenditure and institutional review for analysing public expenditures, climate change plans and policies, the institutional framework and public finance architecture can help governments understand where opportunities exist to build synergies, eliminate duplication and build transparency. This is a useful tool for assessing opportunities and constraints, as well as for building an understanding across line ministries of how to integrate inclusive climate change concerns into the national and subnational budget allocations and expenditure processes.
- **Underline the added economic benefit of developing renewable energy sources** that do not contribute to further warming, recognising that fossil fuel-based economies have exacerbated economic inequality, with particular focus on rural and peri-urban energy value chains.
- **Promote payments for ecosystem services to reward the rural poor for acting as guardians** of the ecosystems. For instance, uphill communities would receive a subsidy to sustainably manage a forest that will protect water sources to the benefit of lowland communities and private actors who are able to pay for the service. This should be part of an integrated approach to landscape

#### **BOX 6.2 Integrated approach to increasing agricultural communities’ adaptive capacity**

In the region known as the ‘central cattle corridor’ in Uganda, a project has been implemented to strengthen the knowledge and adaptive capacity of agricultural communities. At the start of the project, a climate change risk assessment with community participation was conducted to guide the choice of intervention areas. Designing project activities so that they specifically focused on identified risks helped secure ownership and the uptake of proposed measures. An integrated approach was adopted to strengthen the various components of adaptive capacity simultaneously, including knowledge, institutional capacity, economic capacity and ecosystems capacity. Overall, the project has shown that learning how to adapt in a systematic manner can positively influence the resilience and adaptive capacity of local communities, and that integrated watershed management provides sustainable ways of improving the climate resilience of land and water systems (GCCA+, 2018).

management in which climate change, biodiversity and food security and livelihoods objectives are simultaneously pursued.

- **Explore domestic opportunities to mobilise climate finance with international support**, where appropriate. Many climate funding instruments available at international level relate to climate adaptation, and therefore any socioeconomic sector can apply<sup>(5)</sup>. This should include support for private sector development, especially in circular business models promoting a carbon-neutral economy and decent job creation. In addition, funded operations are often encouraged to take a ‘Leave No One Behind’\* approach under the premise of climate justice recognised (UNFCCC, 2015). It is appropriate to support governments to improve data collection and management and for countries to put forward bankable projects to the different financing instruments.

<sup>(5)</sup> This is notably true for sectors prioritised in the NDCs, including agriculture/forestry/fisheries, water, energy, industries/sustainable production, transport, waste management/circular economy, health, and finance/transparency.

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# WATER AND SANITATION



## KEY MESSAGES

- People face life-threatening inequalities if they do not have access to safe drinking water, decent sanitation and hygiene (WASH). However, inequalities also exist because of inadequate access to WASH.
- Water and sanitation outcomes are determined by geographical, environmental, spatial and climate change factors; they require going many extra miles to provide improvements for remote and marginalised groups.
- Access to WASH in schools and for the lowest deciles of the population should be promoted, specifically seeking changes and indicators regarding hard-to-reach groups.
- Mainstreaming climate change adaptation into development planning is an opportunity to tackle WASH and finance its development for the most vulnerable groups.
- Financing WASH is decidedly a public policy matter that cannot be left to market mechanisms only.

## Water and sanitation and inequality

Access to safe drinking water and sanitation is a human right that is central to the achievement of most Sustainable Development Goals (SDGs), to the three dimensions of sustainable development and to the reduction of inequality (Council of the European Union, 2019). Investments in safe drinking water, decent sanitation and hygiene (WASH) aim to ensure basic human rights by developing the necessary infrastructure at different scales (micro, small, medium or large), and to reduce inequality by safeguarding

access to clean drinking water and to safe waste disposal.

Attaining SDG 6 (Ensure availability and sustainable management of water and sanitation for all), as measured by its indicators on ensuring clean drinking water, decent sanitation and hygiene, requires integrating a strong gender-related dimension (SDG 5: Achieve gender equality and empower all women and girls) and also combining with immediate and protracted health (SDG 3: Ensure healthy lives and promote well-being for all at all ages), which is necessary for achieving education outcomes (SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all). SDG 6 is part of what will enable the poorest and marginalised people to become economic actors and enjoy all their capabilities (SDG 1: End poverty in all its forms everywhere and SDG 12: Ensure sustainable consumption and production patterns). A lack of access to these basic services is an expression of inequalities that further deepens income inequalities. Climate change (SDG 13: Take urgent action to combat climate change and its impacts) compounds these inequalities, unless its effects are addressed. Water and climate change are inherently linked: when the climate changes, the water cycle changes. Thus strengthening resilience and adaptive capacity to climate-related hazards and natural disasters in all countries will be critical to reducing inequalities (see [Policy Brief 6: Climate Change](#)).

Income inequalities exist also as a result of inadequate access to WASH at global, national and local levels. Sustainable access to safe drinking water, decent sanitation and hygiene is a priority in the effort to leave no one behind.

Although progress has been made towards universal access to safe drinking water, much remains to be done for rural and urban areas, marginalised groups, and the disproportionate burden of fetching water on women and girls. According to United Nations Sustainable Development Goal 6:

While substantial progress has been made in increasing access to clean drinking water and sanitation, billions of people—mostly in rural areas—still lack these basic services. Worldwide, *one in three people do not have access to safe drinking water, two out of five people do not have a basic hand-washing facility with soap and water, and more than 673 million people still practice open defecation* [italics in original]

In 2015, two out of five people in rural areas had access to piped water supplies (a form of improved supply but not necessarily a safely managed supply); four out of five people in urban areas had piped supplies. Sewer connections dominate in urban areas, where they are used by 63 per cent of the population, compared with only 9 per cent in rural areas (UNESCO, 2019). In addition, the fact that one third of schools and one quarter of health facilities lack basic water facilities is affecting inequalities even more. Freshwater is scarce and is increasingly becoming a source of conflict between countries (with many sharing catchment areas) and communities (UNESCO, 2019). All people facing conflict situations and displaced people are especially affected by inequalities linked to the lack of WASH services.

According to the World Resources Institute, ‘the gap between those countries able to manage drought, flooding, and dirty water and those with little capacity to do so is also widening, with the potential to deteriorate as climate change makes water supply less predictable and extreme weather more common’ (Schleifer and Otto, 2019). At country level and below, the inequalities are usually linked to geographical, environmental and spatial issues (rural or urban setting), compounded by cultural behaviours and norms. Indeed, the World Health Organization (WHO) and the Pan American Health Organization consider water and sanitation as proxies for social position. Disaggregation of data confirms inequalities within countries on the basis of income quintile, rural–urban location and gender. For example, although Angola

has a relatively high level of availability of basic drinking water compared with other sub-Saharan African countries, there is a 40 percentage point gap between urban and rural areas and a 65 percentage point gap between the richest and poorest quintiles. In Pakistan, inequalities in access to basic hygiene run along wealth quintiles: the richest quintile has 94 per cent coverage and the poorest 16 per cent. This trend is mirrored between regions within Pakistan, where coverage of basic hygiene ranges from 20 per cent to 89 per cent. Poor and marginalised people will usually have no or little control over water resources and will have few options for sanitation. They are more vulnerable to climate change and are less likely to recover from extreme weather events, such as devastating cyclones, which can destroy properties and decimate local economies.

Where safe drinking water (or simply freshwater) must be retrieved from sources outside the home, the burden of fetching and carrying water largely falls on women, girls and children, aggravating other forms of inequality, including the lack of nutritious food. A lack of access to water and sanitation services, including for menstrual hygiene management in schools, can contribute to an increase in inequalities related to education. This lack of access can also reinforce the stigma associated with menstruation and negatively affect women’s and girls’ enjoyment of the right to education. This can lead to girls moving away from education early and often facing sexual violence. Further improving school sanitation, including menstrual hygiene management, is therefore a determinant for achieving quality and inclusive education and effective learning outcomes among girls.

Access to water and sanitation is also a determinant of health outcomes. Insufficient water and sanitation reduces resilience against waterborne and communicable diseases, often predominantly in lower-income neighbourhoods. Poor access to water also affects the ability to care properly for persons with disabilities who have specific needs.

As water and sanitation are linked to dynamics of poverty and inequality, addressing WASH is necessary to achieve the goal of reducing income inequalities and improving quality of life. Access to WASH must be secured for remote and marginalised populations,

especially people facing discrimination against their gender, ethnicity, disability, caste or religion.

However, in market economies, private sector projects and cost recovery approaches end up giving priority to those who are better off: the people who can pay. For marginalised people or those living in informal settlements (e.g. slum dwellers), the additional financial benefit is below the marginal costs of reaching them. In other words, better-off and powerful groups have better access to WASH, and purely financial approaches to investments in WASH generate and increase inequalities in WASH.

The causes include the reluctance of some governments to formalise informal settlements by extending service provision in these areas as well as fear from people living in these settlements to claim access to clean water and sanitation facilities. Such inactions by some authorities are not in line with the state's obligations under international human rights law (UNESCO, 2019).

In some places, the higher cost of water for poor people is extreme. 'A study on the informal settlements of Nairobi showed that poor people are paying more than USD 6 per cubic metre of water during times of shortage – higher than water rates practically anywhere else in the world, and 20 times the amount paid for the same volume by those with piped connections' (WaterAid, 2015).

In particular, the World Bank found the following (UNESCO, 2019) [confirm reference].

- Many Indigenous people and ethnic groups live in remote and isolated places, which can increase the costs of service provision.
- Single-headed households, especially those headed by single women, are likely to have lower incomes than households with two or more adults and may therefore not be able to afford WASH services.
- Children may face a lower service level because customs might prioritise adults' use of a household toilet, and schools may provide poor WASH services. Access may also be less in a large family with many dependents.

- The elderly, the sick and physically disabled often require the support of technologies with specific features, which may come at a high cost. At the same time, their financial resources may be limited since they often do not earn income (and safety nets or pensions barely exist in many nations).
- Limited WASH options are available to people faced with emergencies (such as natural disasters), especially when they are situated far away from population centres.
- Refugees in the developing world are usually provided temporary solutions for their WASH needs – their access to WASH services is left largely to the mercy of donors and non-governmental organisations.
- Prisoners often have little access to WASH, which leads to indignities and suffering.

The greatest gains for society come from offering safe drinking water and decent sanitation to all.

## Water and sanitation policy areas and measures with a demonstrated impact on inequality

The European Union (EU) has developed guidelines on working with WASH. In the EU gender action plan (2016–2020), objectives of equal access and control over clean water for girls and women, as well as equitable engagement in water management, are set out (Council of the European Union, 2019). In November 2018, the Foreign Affairs Council adopted conclusions on EU water diplomacy that stated that (Council of the European Union, 2018):

The EU is committed to the human rights to safe drinking water and sanitation, as components of the right to an adequate standard of living... As part of this commitment, the EU will continue to support and protect human rights defenders addressing environmental issues.

The commitments are grounded in the human rights discourse on water and sanitation and offer direction

on how to use the available EU foreign policy tools, including development cooperation, to promote and protect the human rights to safe drinking water and sanitation. They are aligned with Article 11 of the International Covenant on Economic, Social and Cultural Rights, which entitles everyone to an adequate standard of living.

The core principles that must be considered for the right to water and sanitation, as defined by the EU guidelines, are as follows.

- **Availability.** The water supply for each person must be continuous and contain sufficient water for personal and domestic use, including drinking water, personal sanitation, washing of clothes, food preparation, and personal and household hygiene, including menstrual hygiene. Likewise, a sufficient number of sanitation facilities must be available. This principle underlines the fact that the supply of drinking water and sanitation should be prioritised over other water use, whenever there is competition over water resources.
- **Accessibility.** Water and sanitation services should be accessible to everyone in, or in the immediate vicinity of, households, health and educational institutions, public institutions, public places and workplaces, without discrimination. This includes women and girls, people with disabilities and all people belonging to the most vulnerable or marginalised sections of the population. Physical security must not be threatened when accessing facilities.
- **Quality.** Water should be safe for direct human consumption (e.g. for drinking water) and other personal or domestic use, with no threat to human health. Sanitation facilities must ensure privacy and be hygienically and technically safe to use. To ensure hygiene, including menstrual hygiene, water points should be positioned to enable use for cleansing and handwashing.
- **Affordability.** Although human rights laws do not require services to be provided free of charge, the price of sanitation and water services must be affordable for all. If a fee is charged, it must be such that it does not compromise the recipient's ability to pay for other essential necessities

guaranteed in human rights law, such as food, housing, healthcare and education.

- **Acceptability.** Services, in particular sanitation facilities, have to be culturally acceptable. This may require gender-specific facilities, constructed in a way that ensures privacy, safety and dignity.

When discussing WASH options with partner governments, in an effort to reduce inequalities, EU delegations should keep in mind the priority areas discussed below.



### Ensuring universal and equitable access to water, sanitation and hygiene

Water has an economic value and should be recognised as a social and public good. According to the Water Framework Directive (2000/60/EC of the European Parliament and Council), 'water is not a commercial product like any other but, rather, a heritage which must be protected, defended and treated as such'. Policies should seek to address specifically remote and marginalised groups' access to water and sanitation. This requires going beyond cost recovery policies and providing a favourable framework for public and private investments. Financial viability of investments cannot be the single reason for decision-making by the public sector. Public policies that target the attainment of SDG 6 and recognise linkages to other SDGs should be supported<sup>(1)</sup>. Such policies might include actions that improve the efficiency of water use,

<sup>(1)</sup> An example drawn from Council of the European Union (2019): 'Safe drinking water and sanitation is essential for progress on several health-related targets (SDG 3)... Reducing the time spent on water collection and improving school sanitation, including for menstrual hygiene, is also important for achieving quality and inclusive education and effective learning outcomes among girls (SDG 4). Furthermore, it also contributes to achieving gender equality and to the empowerment of all women and girls (SDG 5). Vital is also the SDG 1 on ending poverty and target 1.4: 'By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance' and its indicator 1.4.1 'Proportion of population living in households with access to basic services.' Significant is also SDG 12, which aims at sustainable consumption and production patterns [...] Finally, SDG 13, which aims at taking urgent action to

particularly in high-consumption sectors (e.g. industrial and agricultural use); promote water recycling and reuse; reduce pollution and sewage contamination (see Box 7.1); improve wastewater treatment and watershed management; and expand the use of grey water<sup>(2)</sup>. The EU's external investment plan provides possible solutions by mobilising finance through the European Fund for Sustainable Development, technical assistance and developing a favourable investment climate and business environment.

#### **BOX 7.1 South Africa: sustainable sanitation services**

The Government of South Africa has prioritised sustainable sanitation services for its citizens. The municipality of eThekweni, a pioneer in the inclusive provision of such services, has exemplified good practices in the organisation and protection of sanitation workers. It operates sanitation services in a financially sustainable way, with a special gender policy, strict labour laws and a trade union. Through these formalising measures, sanitation workers in eThekweni use adequate machinery and protective personal equipment for both pit emptying and sewer maintenance, and work in broad daylight. Combined with innovative sanitation technologies, this enables dignified work.

Policies should include indicators to measure progress towards universal access to WASH. Data should be disaggregated along lines of inequalities and between groups, to understand which groups are most affected by the lack of WASH services, and to address discrimination and other causes of this exclusion. Users have an important role to play in changing habits and demanding services and their involvement should be fostered via a participatory approach.

combat climate change and its impacts, is closely linked to water'.

<sup>(2)</sup> Wastewater from domestic activities that can be recycled.



#### **Ensuring that water resources and water, sanitation and hygiene services are managed at the appropriate governance level**

The subsidiarity principle of integrated water resources management urges that authority for service delivery and water management should be assigned at the lowest practicable level of governance. The justification is to ensure maximum stakeholder engagement and reflection of the corresponding context. The lowest level can range from the multistate level to considering issues affecting an entire river basin; it might be public utilities in urban areas or community-based groups regarding WASH in remote villages. This approach enables stakeholder involvement at the corresponding level of water use; it also often includes and empowers groups that may otherwise be bypassed in centralised management approaches – the poor, vulnerable segments of society and untraditional decision-makers.



#### **Ensuring clean water and decent sanitation and hygiene to ensure inclusiveness of public services**

Public services infrastructure, such as schools, health facilities, justice facilities (prisons, tribunals, and so on), cultural facilities (libraries, museums) and transport facilities (motorways, airports, and so on) must ensure that access to WASH facilities for all is included. This will ensure that these services are inclusive of everyone, including women, persons with disabilities and older people who face specific WASH needs (see Box 7.2).

In particular, school is an equaliser of inequalities that works better when WASH is provided. The presence of WASH facilities increases enrolment and fosters better results through a cleaner learning environment and control of waterborne diseases. WaterAid found that schools that do not provide WASH facilities tend to have a lower level of enrolment and higher absenteeism, limiting students' progress. WASH in schools aims to improve the health and learning performance of school-aged children by reducing the incidence of water- and sanitation-related diseases (UNICEF, 2014). This is especially important for girls, as they need single-sex toilets to access safe and decent

### BOX 7.2 Ethiopia: One WASH

To deliver on its promise of ensuring access to safe WASH for all, the Ethiopian government created the One WASH Coordination Office, encompassing four ministries and WASH actors within the country. One WASH formed the Equity and Inclusion Task Force in 2017, including the government, WaterAid Ethiopia and other non-governmental organisations, organisations for persons with disabilities and academic organisations.

The task force, mandated to promote, advocate, share and coordinate sustainable and integrated development of equity and inclusion in WASH, launched a series of training modules in 2018. With the Open University, WaterAid Ethiopia contributed the 'count me in' module: an open-access learning resource that provides training for WASH sector actors in understanding exclusion, including in relation to persons with disabilities; gender equality and women's empowerment in WASH; inclusive WASH facilities; and participation and partnership. Count Me In has been disseminated to WASH practitioners, donors and organisations throughout Ethiopia to reduce knowledge gaps and offer concrete guidance on how to promote and secure everyone's rights to water and sanitation.

hygiene conditions, notably during menstruation. Investment in these essential services must be scaled up in line with credible plans for achieving universal access by 2030 at the absolute latest.

Schools can help address attitudes and norms that sustain inequalities, notably against women and girls because of menstrual taboos and stigma. Decent sanitation meets the specific needs of women and girls, and ensures privacy, safety and dignity. Not addressing this issue raises the risk of school drop-out and lower self-esteem for girls, and reduces their opportunities in life. Schools should also provide adequate and inclusive WASH facilities for students with disabilities.

Addressing WASH in schools requires strong policy coordination between WASH and health and education efforts at central and decentralisation levels. The roles of governments and official bodies at all levels should be clearly defined, and areas of responsibility should be officially established (see [Policy Brief 2: Education](#)).



### Guaranteeing water, sanitation and hygiene for workers

Sustainable Development Goal 8 supports 'full and productive employment and decent work for all', as it supports the aim to 'protect labour rights and promote safe and secure working environments for all workers, including migrant workers, particularly women migrants, and those in precarious employment'. Decent work cannot be achieved without access to safe drinking water and decent sanitation and hygiene; WASH is a necessity for all workers. As industrialisation gains momentum, labour protection policies should secure decent working conditions, including WASH. This has an impact on health and self-esteem and helps lower the risk of gender-based violence. Gender implications should be examined and taken into account at all stages (see [Policy Brief 16: Labour and Employment](#) and [Policy Brief 18: Gender](#)).

Most workers in sanitation and waste disposal lack the bargaining power to secure minimum protection and decent work conditions. Workers in an additional 1.4 billion jobs (42 per cent of the world's total active workforce) are heavily water dependent. These workers often face discrimination that confines them to low-income jobs and reduces their access to basic services. Recognising their rights, formalising their work and supporting their bargaining power can help reduce the income inequalities they face.



### Promoting climate change adaptation and resilience for water, sanitation and hygiene

Climate change is compounding existing inequalities, notably that of WASH. Water represents an essential component of nearly all the mitigation and adaptation strategies under the Paris Agreement, and WASH is identified as a priority sector in most nationally determined contributions' adaptation actions. In the Sendai Framework for Disaster Risk Reduction, WASH is also present in each of the global priorities for action and is central to all seven targets. As for health and education, WASH must be addressed holistically; it also must be addressed in climate change policy as a key adaptation strategy (see [Policy Brief 6: Climate Change](#)). Water-related activities should aim to enhance (or

cause the least detriment to) the natural environment and its health and life-giving properties.

The Global Climate Action Pathway of the United Nations Framework Convention on Climate Change set the following goal for action for 2020: nationally determined contributions and national adaptation plans should be updated to include resilient water management approaches and tools (Marrekech Partnership, 2019). By 2030, the Global Climate Action Pathway for Water targets are as follows:

- an enabling environment for resilient water management is to be put in place;
- access to conventional and alternative climate finance for water-related mitigation and adaptation projects is to be mainstreamed.

Environmental changes should be monitored so that improvements can be encouraged and detrimental impacts can be minimised. Planning and securing investment in water resources should be prioritised at central and decentralised levels. Increasing investment in climate-resilient WASH and disaster risk reduction would benefit remote and marginalised groups.



### **Allocating domestic resources, international public financing and increased accountability to leave no one behind**

The WASH goals cannot be met without allocating the necessary financing and tracking its use and accomplishments. Overall, 80 per cent of countries report insufficient financing to meet national SDG 6 targets. A 2018 report indicated that the financing gap for water infrastructure in Africa was higher than the one for energy, transport and information communication technology infrastructures combined (ICA, 2018). The economic case for investments in drinking water, sanitation and hygiene services is clear. In urban areas, every US dollar invested in basic sanitation returns USD 2.5 in saved medical costs and increased productivity. For drinking water, the average return is USD 3.0. The WASH goal is especially challenging given its multisectoral linkages that require gathering data and indicators in multiple sectors (see Box 7.3).

Directing public resources towards access to safe drinking water, decent sanitation and hygiene should

be carried out through sectoral policy and devolved competences to local governments (see **Policy Brief 11: Public Finance: Taxation**). This requires a comprehensive system to collect data and track progress. A sound information and knowledge base is needed for effective actions in all water-related activities. Centres of excellence should be upgraded and universities should include effective courses on water-related subjects in their curricula. Investments should be made in developing knowledge and skills at the level of local governments and water operators so that they can develop a pipeline of good and financially attractive projects while taking into account inclusivity and environmental requirements. The competences devolved to local governments (or to community-based or private entities) must include the institutional, administrative and technical capacities required to operate and maintain WASH facilities in the long term or to properly follow the delegation of operation and maintenance to water operators with clear inclusivity and environmental requirements.

Access to WASH must be measured by sustainable criteria that extend beyond the realisation of facilities to the continued operation over their entire economic life. Accordingly, practical cost recovery strategies must be developed in the community and national contexts. A sustainable tariff policy will span the range of requirements to achieve the 'consumer pays' and 'polluter pays' principles: affordability for the poor and willingness to pay for the broader customer base and overall public priorities (to safeguard public health and environmental quality and foster economic development). Cost recovery tariffs may not be accepted for political reasons, and such risks – and corresponding contingencies – should be addressed from the onset to safeguard WASH investments in the long term.



### **Preparing for emerging priorities: rapid development of urban areas**

In line with the European Green Deal, the EU will promote shifts towards low-carbon development, together with its partner countries. Where there is rapid urbanisation, the use of 'green' infrastructure can be expanded to mitigate environmental impacts – for example, by reducing the contamination of wetlands and aquifers (most of this is now caused

### BOX 7.3 Ethiopia: 15 towns water supply and sanitation project

The European Investment Bank (EUR 40 million) joined with Agence Française de Développement (EUR 20 million) and the Italian Development Cooperation (EUR 15 million) to finance a EUR 94 million project by Ethiopia's Water Resources Development Fund under the Ministry of Water, Irrigation and Energy. The project's goal is to provide WASH facilities to serve 120 000 households in small and medium-sized towns across Ethiopia. By improving access to water and sanitation, this project aims to tackle inequality drivers and determinants and thus contribute to reducing income inequality.

The water supply and sanitation project also aims to improve the health and quality of life of many Ethiopians, including those spread across the country beyond the capital city. The project focuses on reducing the incidence of waterborne diseases and increasing water consumption from safe sources. The population will also benefit from the time savings associated with better access to water.

Another aspect of the technical assistance project is building on the institutional capacities of the Water Resources Development Fund and the regional water authorities.

This project builds on EUR 500 million of European Investment Bank investments in water sectors across Africa – in Burkina Faso, Cameroon, Mali, Niger, Lesotho, Tanzania, Uganda and Zambia – during the period 2010–2015.

by the mismanagement of solid waste and wastewater), improving natural water filtering, and managing storm water run-off. Cities need to develop urban water resilience, addressing critical vulnerabilities through adequate infrastructure and management. This implies scaling up the development of innovative approaches, including nature-based solutions (see Box 7.4), for water-related uses and services that are sustainable, replicable and scalable.

### BOX 7.4 Ghana: national strategy and plan on WASH

WaterAid Ghana – together with the Ghana Education Service, the United Nations Children's Fund and other partners – has supported the creation of a costed strategy and national plan to increase access to WASH in schools. This policy will set minimum standards for WASH in all schools in Ghana.

Around 79 per cent of Ghanaians do not have access to a basic toilet and, although most secondary school students have access to limited sanitation facilities, 8 per cent have either no or unimproved facilities.

At Salaga Senior High School in the East Gonja District, students used to have to wake up at 1 a.m. to walk 4 km to fetch water before school. Without toilets, they were forced to defecate outside before sunrise. 'Total WASH', a pilot project led by WaterAid Ghana, supported by HSBC Malta, provided an integrated solution that both improves access to WASH for more than 2 145 students and teachers and helps power the school kitchen. The programme installed a solar-powered mechanised water system and three toilet blocks, with single-sex facilities, and two rainwater harvesters. A biogas digester attached to the toilets processes waste into gas for the kitchen and fertiliser for the school farmland. This multipronged intervention is the first of its kind in the northern region of Ghana.

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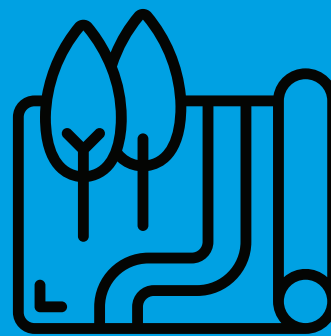
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# L AND



## KEY MESSAGES

- Global trends indicate greater land concentration in fewer hands.
- Inequality in rural areas leads to agricultural land expansion, which creates further inequality.
- A lower level of land inequality leads to higher levels of education.
- Land reform has significant effects on public services provided locally, political competition, and the distribution of status and power in society, among other things.

## Land and inequality

Land plays a central role in all economies, as it provides food, a home, an income and influence. **Land inequality is the difference in the quantity and value of land people have access to, the relative strengths of their land tenure rights, and the effective appropriation of the value derived from the land and its use** (Wegerif and Guereña, 2020). More equally distributed land has been found to have contributed to the creation of more equal societies that foster sustained growth and development on more solid foundations (Binswanger-Mkhize, Bourguignon and van den Brink, 2009). Insecure land tenure has, on the contrary, been found to deepen inequalities, when the resilience of the most vulnerable is highly affected by their access to and use of natural resources.

Around 84 per cent of farms worldwide share 12 per cent of the total agricultural land area, whereas just 16 per cent of farms control the remaining 88 per cent. In the most unequal countries, fewer

than 1 per cent of landowners control 50 per cent or more of agricultural land<sup>(1)</sup>.

**Inequality in land use, management and governance especially affects already vulnerable people and marginalised communities, such as women, pastoralists, youths and smallholder farmers who survive on smaller parcels of land and must deal with worsening terms of trade at the household economy level.** Given this, increases in inequality in rural areas, in all its forms, promote agricultural expansion, which in turn will have a larger impact on income inequality than the expected positive effects from increased agricultural productivity (Graziano Ceddia, 2019).

Land inequality also underpins malign forms of power. For instance, landowners in rural communities have undue influence over public decision-making (Faguet, Sanches and Villaveces, 2016). In addition, evidence shows that the distribution of land alters incentives such that elements of the economy – educational, institutional or financial – do not develop optimally and lead to lower levels of income (Erikson and Vollrath, 2004). As landowners are able to promote self-protecting policies and give advantages to those at the top at the expense of the rest of society, inequality becomes self-perpetuating (Stiglitz, 2012).

Women have proved their role in improving food security, education, health and economic development, making gender equality in land tenure, access and control essential. However, women own only 15 per cent of land around the world (Park, 2019). In Latin America, less than 12 per cent of land reform

<sup>(1)</sup> All figures are taken from Lowder, Sánchez and Bertini (2019).

beneficiaries are women (Deere and León, 2003); on average, only 18 per cent of farms in the region are owned by women (FAO, 2021b). State regulations governing banking and land ownership also work against women. Because male family members hold title to the land, banks often deny loans to women who seek to use their land or future crops as collateral. When they cannot get loans from legitimate institutions, these women are forced to turn to private lenders, who charge higher interest rates. Some private lenders may also be corrupt, further putting women at financial risk and increasing income inequality (see [Policy Brief 18: Gender](#)).

Land and associated ecosystems can be important means of reducing income inequality. Access, control and ownership of land by the most vulnerable has the potential to transform the lives of families and ensure a better life and livelihood over generations. At the rural level, small-scale farming has greater poverty-reducing effects than large-scale farms because of the positive effects on the local economy, including in the non-farming sector (Mellor, 1999).

## Land policy areas and measures with a demonstrated impact on inequality

To address land inequalities in partner countries, staff in European Union (EU) delegations could support policies and areas related to the following.



### Land redistribution policies

**Land redistribution policies aim to modify skewed land distribution patterns.** They may include property and inheritance tax reforms or direct interventions to acquire land. To be successful, these need to be combined with diversified interventions that improve autonomy from corporate agri-food systems and develop local economic potential (see Box 8.1).

### BOX 8.1 Land concentration in Tanzania

Farmland distribution in Tanzania was analysed in 1993 and 2013. In 1993, the largest farms (>10 hectares (ha)) represented 2 per cent of total household farms and accounted for 12 per cent of the agricultural area. In 2013, total agricultural area had doubled. By then, farms larger than 10 ha represented 3 per cent of household farms but accounted for 22 per cent of the agricultural area.

The new large landowners are mostly corporations and investors from outside Tanzania. They represent a model that has been vigorously promoted by the Tanzanian government and other rich nations through their 'development' agencies and multilateral institutions, not to mention private sector actors.

**Source:** Lowder et al. (2016); Wegerif and Guereña (2020).



### Address land tenure, control and ownership with a focus on the most vulnerable

Encouraging the sustainable management of land and other ecosystem resources by the most vulnerable can reduce social, environmental and economic inequalities in the long run. This implies, for instance, analysing tenure through land tenure maps indicating who lives on, uses and manages the land. The visualisation of land rights goes far beyond cadastral surveys and can be performed in parallel with land registration or regularisation programmes. The collected information can then be used as a basis for defining land value and property tax systems.

To address land tenure, the EU steered and then strongly supported the development and dissemination of the voluntary guidelines on the responsible governance of tenure of land, fisheries and forests in the context of national food security (FAO, 2012). The United Nations (UN) Committee on Food Security endorsed the guidelines in 2012, and since then their implementation has been encouraged by the Group of Twenty, the UN Conference on Sustainable Development, the UN General Assembly and many donors. These guidelines promote 'secure tenure rights and equitable access to land, fisheries and forests as a means of eradicating hunger and poverty,

supporting sustainable development and enhancing the environment'. This is a major step forward; however, despite progress in several countries, evidence from the field shows that the guidelines are not yet sufficiently known and recognised, and are thus not applied often enough.

In implementing the external dimension of the **European Green Deal**, transparent and equitable land tenure has a crucial role to play. To achieve the Sustainable Development Goals and the EU objectives on climate change, sustainable food systems, biodiversity, and so on, mid- and long-term horizons are needed to design and implement the right strategies, and many of the related investments pay off only after several years. A transparent and equitable land governance system is therefore of the utmost importance (see **Policy Brief 6: Climate Change**).

Special attention should be paid to operations related to land ownership concentration. When land deals are taking place with foreign investors, it is advisable to look at whether the transactions are being promoted by tax exemptions and other incentives (see **Policy Brief 11: Public Finance: Taxation**). Analysing commercial operations dealing with compensation deals and assessing the quality of these deals are also recommended.



### Land registration and titling

Land registration and titling can be used to protect smallholders' rights of direct access to land. Registration has been used as a tool to reduce land conflicts and allow smallholders to enjoy their land directly, by establishing title to the land and averting land grabbing or forced renting. However, the healthy development of the rural land market can also be compromised by an exaggerated or extreme commodification of property rights, to the disadvantage of local communities. These may be unaware of the implications of registration or bureaucratic intricacies. The high costs, complexity and bureaucracy of registration may also work to the disadvantage of weak or politically marginalised groups, to the benefit of the commercial and estate sectors.



### Setting up land governance participatory platforms

Setting up participatory land governance platforms or enhancing existing ones for transparent dialogue on issues related to land management, tenure and governance, as well as transactions, can greatly reduce, if it cannot annihilate, tensions around these issues. Indeed, proactive engagement from donors in this field is too often perceived as being too delicate, politically sensitive or posing reputational risks to the actions of the EU. It is crucial that land governance be given due attention, for both its human and its environmental benefits. Such platforms, both national and local, can help achieve this goal. Wider processes, such as those promoted by the International Land Coalition, offer a structure of regional offices that would usefully benefit from EU support within regional strategies<sup>(2)</sup> (see **Policy Brief 17: Governance and the Rule of Law**).



### Promotion of women owners

Depending on social and legal contexts, women may still be unable to inherit or may face difficulties in inheriting land and property (see Box 8.2). Land grabbing causes additional concern when women are the victims, for both social and environmental reasons. These can justify special support measures in the other recommended measures, notably land registration, financial services and income diversification (see Box 8.3).



### Land value and taxation

Tax systems directed at large landowners and commercial operations can be used to reduce inequalities. Further, land value taxation in urban areas tends to prevent land speculation that distorts markets and, combined with a reduction in taxes on wages, would remove a major source of economic inequality while improving productivity (Foldvary and Minola, 2017).

<sup>(2)</sup> As an example, the Land Matrix initiative is a publicly available web-based platform hosted by the International Fund for Agriculture Development. The initiative collects information globally on major land deals.

### BOX 8.2 Land administration and gender realities in Nicaragua

In Nicaragua, according to the country's constitution, women can own property on equal terms with men. In practice, marriage and inheritance laws and practices negatively affect women's property rights. There is a markedly skewed distribution between men and women regarding productive resources such as land and animals. Despite the gender mainstreaming in agricultural policy and the progressive legal framework of the 1980s and 1990s, the state as a source of land ownership is much less important for women than for men. There is also a considerable gender difference regarding both access to agricultural extension services and access to credit, as well as education and the labour market. According to the recent Organisation for Economic Co-operation and Development Social Institutions and Gender Index, Nicaragua has the highest level of gender discrimination in Latin America and the Caribbean.

Source: Spichiger et al. (2013)

### BOX 8.3 Participatory land registration and titling in Uganda

In central and eastern Uganda, the country's bureau called Responsible Land Policy in Uganda aims to formalise land rights for 80 000 households through demarcation of land parcels, their digital documentation and (eventually) the issuance of land certificates. The local population accompanies surveying teams on the ground to define land parcels and village boundaries with global navigation satellite system receivers. The highly organised land registration process allows entire villages to be systematically covered in a time- and cost-efficient manner.

As a result, synergies have been established in and between informal and formal forms of participatory management of land conflict in the project area. At the end of October 2019, of 306 conflict cases reported, 83 per cent were resolved. Consent agreements witnessed by community members have also been signed and respected by the parties in conflict, as reported in success stories that have been shared and documented.



## Financial services

Financial services are often inaccessible to the poor and to marginalised communities, and women may also have difficulties in this regard. Exploring the offers available from mainstream financial services and understanding the barriers to accessing these services are important (see **Policy Brief 15: Financial Inclusion**).



## Diversification of income sources to sustain rural livelihoods

Organising production and distribution services, such as agri-tourism, and environmental or farm-caring services, builds greater autonomy from corporate systems and external influences, and gives more attention to what works for people, the environment, and society. It is therefore important to promote an integrated landscape approach to sustainable land management and rural development, taking into account both people's needs and their interaction with nature.

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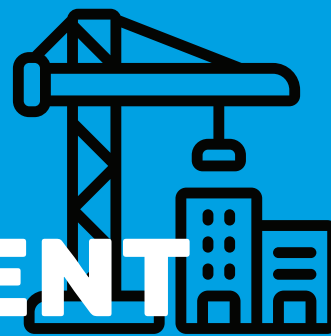
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# URBAN DEVELOPMENT



## KEY MESSAGES

- Slums in cities in developing countries must be a priority in addressing inequality.
- People and human rights belong at the forefront of urban sustainable development.
- Addressing the challenges presented by slums requires an integrated perspective involving city authorities and stakeholder groups, as well as national urban policies and a wide policy community.
- Greater access to improved housing, developed in an inclusive and integrated manner, will contribute to reducing social inequalities and strengthen the drive towards sustainable urbanisation in many developing economies.

## Urban development and inequality

Cities and urbanisation are essential to the structural transformation of economies towards higher productivity and wealth creation. Traditionally, there has been a focus on inequalities that arise from the rural–urban divide, with urban areas typically having access to more resources, opportunities and development potential.

The movement of rural populations towards cities is clearly connected to economic opportunities; however, this trend is also driven by humanitarian crises. Overall, 60 per cent of refugees and 80 per cent of internally displaced people are drawn to cities, looking for safety, access to basic services, housing, employment and a better standard of living, including a better income. Natural disasters, such as disease outbreaks, and clear signals of climate change, such

as flooding, severe droughts and rising heat on land and in the ocean, may push people from rural areas to urban areas.

Increasingly, the focus is shifting towards intra-urban inequalities, most of which can be seen in the sprawling, expanding slum areas in developing countries – areas that generally lack access to decent jobs and income. There are clear indications that these informal settlements, rather than constituting a temporary place to live while proper urban solutions are found, could become long-term shanty towns and the main way in which cities are expanding. The speedy pace of global urbanisation is mostly occurring in developing countries, principally in the world's two poorest regions – south Asia and sub-Saharan Africa – suggesting that the number of slums and informal settlements in these regions will grow dramatically. According to the United Nations (UN) Human Settlements Programme, nearly 1 billion of the urban poor live in slums and informal settlements. The number of slum dwellers is projected to increase to 2 billion by 2030 and 3 billion by 2050 if existing trends persist (UN-Habitat, 2010).

Slum settlements are classified as households in which citizens suffer from one or more of the following deprivations: a lack of security of tenure, a lack of access to sanitation facilities, a lack of sufficient living space and a lack of durable housing (UN-Habitat, 2006). Specific spatial and social dimensions characterise these slums: high density, low standards for services, weak infrastructure, and exclusion from urban society and opportunities. People living in these settlements experience deplorable living conditions; there are shortages in the water supply, high levels of air pollution, inadequate or non-existent waste disposal measures and filthy environmental sanitation

conditions. All these expose slum dwellers to serious health risks. Countries with a high prevalence of slums include Botswana, Burundi, Cameroon, Côte d'Ivoire, Eritrea, Gabon, Ghana, Kenya, Nigeria and Zambia. Most of these countries share the features of low income and high rates of poverty and urbanisation. However, an analysis of this group of countries shows that even those with higher incomes also have a high percentage of slum dwellers. Remarkable examples are Botswana and Gabon, with 61 per cent and 66 per cent of their urban population residing in slums in 2001, despite their real gross domestic product per capita at that time being USD 7 820 and USD 5 990, respectively. This suggests that high levels of income alone might not be sufficient to tackle the proliferation of slums. High-income countries may retain a high prevalence of slums if slum upgrading and prevention are not priorities in their urban development programmes (Arimah, n.d.).

Slums are the result of insufficient resources, low and unreliable wages, failed policies, a lack of affordable housing and poor urbanisation planning. The crucial issues of slums and other informal settlements stem mainly from a lack of urban planning, lack of infrastructure, weak social and economic services, and inadequate or non-existent sanitation and waste management. It is essential to acknowledge the political and social dimensions of these informal settlements, which extend not only to the lack of proper housing, but also to social segregation, social disparities and stigmatisation. Slum residents are excluded from the economic, social and political spheres of the urban area.

The increasing expansion of informal settlements has regional and global consequences, affecting the environment, the social sphere, political exclusion and health. Without reliable sanitation services, clean water, proper housing and decent air quality, slum dwellers are under constant physical threat, not only in the form of serious health risks but also in the form of reduced capacity to recover from natural disasters. Further, the expansion of slums can negatively affect the national and regional economies. Slum dwellers are often facing high transaction costs for transport or water and energy supplies, given the lack of infrastructure. The presence of cartels distorts slum markets. For instance, in water markets, the poor pay

prices that are several times higher than those paid by higher-income households with water connections (Fox, 2008). Finally, the lack of security of tenure and unclear property rights contribute to the informality of the land sector and discourage participation and investments in the urban markets.

**All of these factors contribute to perpetuating the cycle of poverty and the growing level of income inequalities in urban areas of developing countries,** threatening sustainable urban development at local and regional scales.

## Urban development policy measures with a demonstrated impact on inequality

Slums are symptoms of intricate urbanisation problems affecting various urban sectors. There are key challenges to the upgrading of slums.

- A lack of adequate legislation and political will hampers efforts at improvement.
- The informality of the economy and the land sector can cause confusion around ownership and rights.
- Lack of security of tenure is a large constraint that can be addressed only by governments and the public sector.
- Cartels distort slum markets, especially water and transport markets. In water markets, the poor pay prices that are several times higher than those paid by higher-income households with water connections.
- Households and their microenterprises have limited access to credit – a lack of credit history is a major hurdle.
- Financing at scale is lacking. There is a need for major financial commitments and incentives to leverage finance from different sources.
- Incentives to engage the private sector should be created. A diversity of partnerships can help ensure more consistency in this engagement.

- The importance of private sector involvement and local authorities' contributions in low-income areas must be recognised.
- Governance is highly important. Proposed innovations for slum upgrading cannot work in isolation. None of the transformative scaled change will happen without proper governance.

Improving living conditions in slums and preventing their expansion both require **a collective approach that should focus on improved urban governance and urban policy frameworks**. Such a response will also address the social exclusion faced by slum citizens (see Box 9.1). Policies directed to slum improvement should concern **land tenure, housing and infrastructure** (including waste and water management), **finance**, mobilisation of **local resources**, construction standards and other related areas (see **Policy Brief 1: Health and Nutrition** and **Policy Brief 11: Public Finance: Taxation**). To upgrade the informal settlements, avoid their proliferation and push for their physical, social and economic integration into the official urban system, **the following policies are recommended**.



### Urban planning

The first step to upgrading slums is through adequate **urban planning**. Urban planning aims to organise urban space to match the supply of affordable land (e.g. reducing urban sprawl through better mobility from peri-urban areas), housing and infrastructure. Planners work to guide both urban growth and urban renewal, promoting compact urban communities and discouraging the use of unsafe or environmentally fragile areas. Urban planning reflects the global targets of the **Sendai Framework for Disaster Risk Reduction** to build resilience to natural and man-made hazards, many of which are water related.



### Formal housing

Formal housing should be promoted by securing **access to adequate housing for all** – in particular the most vulnerable – and promoting affordable and safe solutions and inclusive housing finance systems.

#### BOX 9.1 Kenya slum upgrading programme

The Kenya slum upgrading programme is a collaborative initiative between the Government of Kenya and the UN Human Settlements Programme (UN-Habitat). The aim of the programme is to promote a multidisciplinary and integrated approach to improving the livelihoods of people living and working in slums and informal settlements in Kenya's urban areas. UN-Habitat's approach links the provision of basic infrastructure (e.g. water and sanitation) to income-generation activities and considers this action an entry point to slum upgrading. An example of this is providing jobs opportunities to youths, such as organising 'garbage crews' to clean the neighbourhoods. In this regard, the principle of self-involvement is essential. The people of informal settlements should not only have a say in how they want to live but also participate substantially in developing their communities. In addition, a partnership with all urban actors that have a stake in slum upgrading is fundamental for meaningful interventions.

- The **Government of Kenya** is responsible for the execution and management of the programme and therefore takes care of land and tenure issues, coordination, resource supply, and monitoring and evaluation, as well as the legal framework enabling favourable conditions for slum upgrading.
- The involvement of **relevant local authorities** is crucial for a successful intervention, since they are key actors in urban management and governance. It is within their mandate to implement the projects within a municipality, undertake urban planning functions, and provide and maintain physical and social infrastructure.
- The participation of **local communities** is vital, as only they know what they need, and only they can guarantee programme ownership and sustainability.
- The involvement of **civil society organisations** mobilises local communities and promotes consensus building for slum upgrading.
- The **private sector** should be involved; its members can propose innovative solutions and play important roles in the management and financing of utilities in urban areas.



## Inclusive urban development and access to basic infrastructure

Inclusive urban infrastructure development is a comprehensive approach that provides sustainable, resilient, accessible and affordable solutions to the challenges faced by the urban poor by improving their access to urban services and infrastructure through targeted investments. This comprehensive approach requires collective actions from all institutions and stakeholders, including the government, the private sector, local communities and civil societies, that have the capacity to deliver on different levels (see Box 9.2).

### BOX 9.2 Participatory slum upgrading programme

The European Commission entered a tripartite partnership with the Secretariat of the Africa, Caribbean and Pacific Group of States and UN-Habitat to address the challenge of slums in African, Caribbean and Pacific countries through the launch of a participatory slum upgrading programme in 2008. The programme has developed more than 30 citywide slum upgrading and prevention strategies and identified concrete entry points for participatory slum upgrading at city level. It has achieved all this through a twin-track approach that is aimed at improving the supply and affordability of housing and tackling the growth and creation of slums while also undertaking specific slum upgrading programmes.

Provision of basic infrastructure, such as water supply, sanitation systems and sewage treatment, waste management and road networks constitutes an entry point to slum upgrading. Such provision contributes not only to the progress of the country where it takes place but also to the welfare of those who live there (see [Policy Brief 4: Transport and Mobility](#) and [Policy Brief 7: Water and Sanitation](#)).

There is a need to come up with new ways of approaching and involving the private sector, given that sector's role in providing low-cost innovative solutions to urban problems. There is also a need to explore opportunities for new forms of cooperation with development partners, looking toward new investments and strategies, such as support for the circular economy.



## Improved urban governance and management

Innovative solutions in the areas of sanitation, waste management, health-tech and clean energy cannot provide a solution to all the challenges of the slums by themselves. In this regard, both government support and the political will to promote targeted policy, legislation and planning for affordable housing and urban prosperity, with improved mobility and greater access to education, decent jobs and sustainable wages, are essential. With improved urban governance and management, the benefits of living in a city will be better delivered to all citizens with transparency and accountability, reducing corruption and correcting many forms of malpractice (see [Policy Brief 17: Governance and the Rule of Law](#)).

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# TERRITORIAL DEVELOPMENT



## KEY MESSAGES

- Inequality has a very significant territorial dimension.
- Territorial inequalities have high social, economic and political costs.
- The territorial approach to local development is a multidimensional national policy that reflects a commitment to territorial development as a way to address spatial inequalities.
- This approach should enable local authorities to promote an endogenous, integrated, incremental process to deliver local development at multiple scales.

## Territorial development and inequality

After decades of sustained growth in most developing countries, the topic of territorial development is receiving increasing attention from policymakers, practitioners and researchers as well as from external development agencies. This has been accompanied by rising spatial inequality within countries and territories, a global trend that represents a key challenge to inclusive growth across the world. Growth in developing countries has not always resulted in a reduction in income inequality and a rising standard of living; it has left many people and places behind, with yet more slums and informal settlement dwellers in many cities. Thus, many key players – and particularly the European Union (EU) – are now concerned with **promoting territorial development as a way to address uneven spatial development**. In the case of Europe, this goes to the essence of the EU's constitution and the decisive bet on regional development to level out disparities between EU regions.

## Income inequality and territoriality

Income inequality has a clear territorial dimension: individual inequalities often cluster into specific areas, thus appearing as territorial disparities characterised by unequal access to opportunities and less potential for a decent life. Income inequalities related to territory have high social, environmental and political costs, as they hamper a country's ability to unleash the potential of its land.

**Spatial disparities manifest beyond income.** They also materialise as imbalances in the provision of public goods and access to public services, and as substantial differences in job opportunities, pollution levels and housing. The discontinuous and uneven quality of public service provision across space means that populations in neglected areas are excluded from mainstream development cooperative efforts and actions. Spatial inequalities and the resulting uneven development tend to slow growth, with reduced economic development and more unemployment, informal markets and small trade-related conflicts, increasing income inequality (see Box 10.1).

Territorial exclusion is an important and recurrent sign of governance deficits. Territorial development gaps are often the result of irrelevant or deficient policies in places that are being 'left behind', with public authorities unable or unwilling to respond equally to the needs of all citizens. Spatial inequality is also often associated with other dimensions of exclusion and related to political, social and ethnic tensions.

## Traditional approaches to local development

Traditional public policies meant to correct territorial disparities through increased public spending (e.g.

### BOX 10.1 Territorial inequalities and the development potential of local authorities in Tunisia

Growing inequalities and lack of opportunities in marginalised territories were key triggers for the 2011 revolution in Tunisia. Political stability and the success of the democratic transition hinged largely on ensuring greater spatial equity. The country's 2014 constitution marked a major shift in the state's organisation. Decentralisation was viewed as a political project aimed at redistributing power and enabling regional and local authorities to function as autonomous development actors. However, genuine territorial development requires a coherent set of national policies as well as governance reforms that effectively empower regional and local authorities to assume such a role. The EU therefore incorporated a regional and local dimension into its overall cooperation strategy. Several complementary EU support programmes also sought to foster both economic activities in the marginalised territories and decentralisation reforms promoting locally driven, sustainable territorial development. EU support in strengthening local leadership and the capacity of local authorities was a decisive factor in increasing their role as development actors within their territory.

spending on upgrading housing and sanitation measures in fast-growing slum areas) have had limited success. Traditional public policies generally adopt a top-down approach and a strictly sectoral logic. They typically also lack both an adequate budget and a willingness to consider solutions that are less expensive to run and nature based. Traditional approaches may adopt a 'hyper-local' perspective on development that seeks to solve one problem without looking at the overarching causes that created that problem to begin with. Further, territorial inequalities disproportionately affect particular groups, and the challenges faced by vulnerable populations, such as migrants, Indigenous people, women, youths, the elderly and internally displaced people, complicate the quest to ensure inclusive development.

Adopting a territorial perspective on local development policies can help stakeholders understand the limitations of traditional policies designed to reduce the continuing growth of regional, rural versus urban and intra-urban unbalances. The territorial view may

make it easier to see what can be done to attain a more homogeneous map in terms of economic growth, environmental conditions, poverty reduction and improved income distribution.

## Territorial development policy measures with a demonstrated impact on inequality

Experiences in promoting territorial development across the globe have yielded valuable lessons, allowing some key success factors to be identified – factors that are able to ensure the **effectiveness of the territorial approach for correcting disparities, especially income inequalities**. This is known as the territorial approach to local development (TALD), an approach that puts local authorities at the centre of the development process, in a catalytic and developmental role for the promotion of a sustainable and more equitable future. From this perspective, cities, local governments and place-based actors are uniquely placed to deliver inclusive growth and to address the challenges of territorial inequalities. As demonstrated by the **Inclusive Growth in Cities Initiative** (OECD, 2016) – a global coalition of champion mayors who are leading the fight against inequalities – local authorities are taking initiatives to reduce urban inequalities and create more inclusive cities. Over the past decade, a **new narrative on decentralisation** has been developed, focused on the political drivers of decentralisation reforms and their ability **to help unleash the potential of territories**. Decentralisation can be an effective tool in the effort to fight inequality, create wealth and jobs, and tackle other development challenges. This new perspective has major consequences for the European Commission's external assistance, as acknowledged in the 2013 Communication on 'Empowering local authorities in partner countries for enhanced governance and more effective development outcomes' (EC, 2013).



### Territorial approach to local development

The TALD provides a broad analytical and programming framework that is meant to help EU delegations

assess the policy, institutional and technical capacity constraints that affect territorial development in a given context, and determine where and how to best intervene to support it. The TALD framework maps the linkages between decentralisation and development outcomes; it highlights the policy, institutional and technical capacity development that is required to strengthen those linkages. Among the key features of the TALD approach are a **national strategic commitment to territorial development**, a **development-friendly decentralisation process** and a **set of supportive national policies** – especially a **national urban agenda** and a **rural development strategy**. These are all critical to unleashing the potential of territories (see **Policy Brief 8: Land** and **Policy Brief 9: Urban Development**).

A TALD approach is important not only for ensuring economic inclusion but also for **enhancing the social and political cohesiveness of a given community**. Addressing inequality through territorial development implies promoting the approach as a distinct **contribution to national economic growth and social cohesion** (see **Policy Brief 13: Growth**). More, there is evidence of increased environmental benefits stemming from a territorial approach to development, with transformative ‘green’ economy policy agendas often being developed at local and state levels rather than starting in central government (Mohamed, 2020) (see Box 10.2). (Indeed, the design of inclusive and green growth strategies should draw on citizens’ inputs, guided by local leadership.)



### Private sector involvement and inclusion

Likewise, inclusion, economic growth and social cohesion may benefit from the engagement of the private sector, with local enterprises being most likely to engage in dialogue and often quick to take ownership and pioneer new efforts. Inclusion benefits from a robust and well-resourced institutional mechanism and from being embedded in governance systems. Thus, the role of local authorities in addressing the factors that contribute to increased spatial inequalities and creating a solution is absolutely essential. Effective **national policies must be conceived in a territorially sensitive way**, be grounded in local realities and priorities, and inspire an endogenous

### BOX 10.2 Addressing territorial inequalities in Peru

In 2009, the EUROPAN programme was launched to provide budget support for the implementation of national strategies promoting social inclusion. Recognising the huge territorial inequalities in Peru and the need to work closely with the country's regions to address them, the Ministry of Economy and Finance and the EU delegation sought to integrate a territorial dimension into the budget support process. It was decided that the budget support would be regional and the measurement of indicators would be local. This approach made it possible to adapt indicators to diverging territorial realities and to engage with regional authorities and other stakeholders to achieve programme objectives in a spirit of mutual accountability. EUROPAN's positive results have led the government to take over the budget support modality and create its own mechanisms of performance-oriented financial incentives in national budget processes.

development process involving regional and local governments. Indeed, interventions should be rooted in a good understanding of evolving local development dynamics. More, territorial targeting could be a way to address multidimensional gaps in a cost-effective manner.

Successful efforts to correct spatial inequality through territorial development largely depend on the following factors: context-specific knowledge, data and analysis; inclusion of a tailored economic perspective in local development plans; and a shift away from top-down spatial redistribution policies and vertical attempts to implement sector policies. Other necessary factors include better use of co-provision and co-production with local stakeholders, appropriately matching the chosen strategy to local institutional capacities and adopting development-friendly forms of decentralisation that give local authorities a meaningful degree of autonomy and accountability. The TALD approach is meant to guide the integration of this spatial dimension into programming and the design of key interventions in partner countries.

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# PUBLIC FINANCE: TAXATION



## KEY MESSAGES

- Progressive taxation can be an effective tool to address inequalities.
- Designing progressive taxation requires raising tax efforts for the richest people and largest companies, relying on direct taxes, avoiding indirect tax exemptions and trade taxes, encouraging tax credits and discouraging tax deductions, enhancing the progressivity of personal income taxes and fighting tax avoidance and tax evasion.

## Taxation and inequality

Taxation is the financial charge that a government imposes on individuals and legal entities (e.g. corporations, non-governmental organizations, etc.). Taxes can be levied on income, consumption, property, assets, wealth, and goods and services. Taxation is important for development because it is the **main source of national revenue that funds social transfers and inequality-reduction programmes**.

Taxation is also at the heart of the social contract between a government and its citizens: citizens pay for government activities in exchange for the services that the government provides to its citizens. Citizens are more interested in paying taxes when they feel they are sharing in the country's overall development, are getting good value for their money and can hold their government accountable.

The effect of taxes on income inequality depends on the redistributive effect they have on income and wealth. This depends both on the design of the tax system (who pays how much on what) and on the government's ability to collect revenues.

A **proportional tax** is one that imposes the same relative burden on all taxpayers. A **progressive tax** is characterised by a more than proportional rise in the tax liability relative to the increase in income, and a **regressive tax** is characterised by a less than proportional rise. Thus, a progressive tax is seen as reducing income inequalities, whereas a regressive tax can tend to increase them.

**Taxation can be an effective tool to address income inequalities in three main ways.**

- Taxes provide revenues to finance social protection programmes and other basic public social services, as well as infrastructure plans that are crucial to reducing income inequalities (see **Policy Brief 1: Health and Nutrition**, **Policy Brief 2: Education**, **Policy Brief 3: Social Protection** and **Policy Brief 4: Transport and Mobility**).
- Progressive taxation can have redistributive effects, by increasing the disposable income of the bottom 40 per cent relative to that of average and top income earners, as there would be a reduction in the tax effort for the bottom 40 per cent compared with the rest. By increasing the disposable income of the poor, progressive taxation can contribute to reducing income inequality by allowing families to make larger investments in children's education and health, and in human capital in general (see **Policy Brief 1: Health and Nutrition** and **Policy Brief 2: Education**).
- Progressive taxation can also contribute to economic growth by stimulating demand from the poor, which is usually more oriented towards local production. Higher economic growth can help decrease poverty and reduce income inequality if growth is inclusive and broad based (see **Policy Brief 12: Trade** and **Policy Brief 13: Growth**).

When considering the relationship between taxation and income inequality, **it is necessary to simultaneously analyse the tax and spending sides, that is, the net fiscal system.** Taxation enables governments to raise crucial revenues that can be used to reduce income inequality. Although taxes can sometimes be unequalising, spending – for instance, spending in education and health – can counterbalance this unequalising effect of taxes if it is carefully targeted and commensurate with the needs of the different income groups. On the contrary, if a progressive tax system serves to finance health and education policies that benefit people in the upper quintiles of income more than people in the lower quintiles, as is often the case for higher education, the overall impact may well be that income inequalities become bigger.

**The ratio of tax to gross domestic product (GDP) and the capacity of a country to raise tax revenue seems to increase with the level of economic development.**

The tax-to-GDP ratio in low-income countries usually lies between 10 per cent and 20 per cent; in advanced economies, it is generally between 25 per cent and 45 per cent. Resource-dependent countries generally have a relatively low tax-to-GDP ratio compared with the ratio of tax to gross national income per capita. Tax capacity is an estimation based on economic and institutional characteristics. A cross-sectional study of 113 countries found tax capacity to be positively correlated not only with income levels, but also with governance quality (perception of corruption), lower informality, open economies and macroeconomic stability (low inflation) (Fenochietto and Pessino, 2013) (see **Policy Brief 17: Governance and the Rule of Law**). More, the study suggested that higher income inequality negatively affects tax capacity. Generally, low redistributive potential in developing economies is compounded by the tax structure. Such countries rely more on indirect and trade taxes than do advanced economies. The share of corporate taxation in tax revenue also tends to be higher because of a limited-income taxpayer base.

**Generalisations about the incidence (impact) of certain types of taxes on inequality are difficult to make.** Tax schedules and special rules (tax exemptions, in particular) are common and lead to variations between countries. Moreover, a tax system may be equalising and yet increase absolute poverty if the poor are net payers through consumption taxes.

**Environmental taxes (also known as green taxation) have the potential to tackle income inequalities through their fiscal function, among other benefits (EEA, 2016).** Beyond reduced pollution and resource use, such taxes may contribute to a healthier society, thus lowering health-related costs. ‘Green’ taxes can generate wealth and jobs, notably by triggering eco-innovations<sup>(1)</sup> and circular economy business models (see **Policy Brief 14: Digitalisation** and **Policy Brief 16: Labour and Employment**). Green taxation can be less distorting to economic behaviour than labour and corporate taxes. It is often found in company with tax-shifting programmes in which revenues from environmental taxes are used to secure a second dividend.<sup>(2)</sup> This reduces the distortions of labour and capital taxes in a revenue-neutral way and increases the overall efficiency benefits of the tax reform. Evasion rates are also much lower than for other taxes because of monitoring mechanisms that are easier to implement; administrative costs are lower than for income and value added tax (VAT).

## Taxation policies with a demonstrated impact on inequality

Fiscal policy – in particular, a progressive tax system combined with redistributive public expenditure policies – can be an effective tool to address income inequalities. As a result, progressivity must be the goal of any tax policy that aims to reduce inequalities. In many cases, tax policies and systems redistribute income and wealth towards the top earners. Tax systems across the world have, on average, increased income inequality since 1990, except in the European Union (EU), in which progressivity has managed to reduce the Gini index scores of the 27 Member States by an average of 20 points. Inequality reduction is

<sup>(1)</sup> An eco-innovation is ‘any innovation resulting in significant progress towards the goal of sustainable development, by reducing the impacts of our production modes on the environment, enhancing nature’s resilience to environmental pressures, or achieving a more efficient and responsible use of natural resources’ (EC, n.d.).

<sup>(2)</sup> ‘Second dividend’ refers to the idea that environmental taxes can both reduce pollution (the first dividend) and reduce the costs of the tax system by using the revenue to displace other taxes that slow economic growth at the same time (the second dividend) (EEA, n.d.).

more than twice as large in countries using progressive taxation as in those not using it (Avram, Horacio and Sutherland, 2014). (The Gini coefficient ranges between 0 and 1, or between 0 per cent and 100 per cent if it is expressed as a percentage, with 0 representing perfect equality and 1 representing perfect inequality.)

When discussing **tax policy options** with a government that is trying to increase the effectiveness of the redistributive effect of tax policies and reduce income inequalities, EU delegations should keep in mind the following policies.



### **Raise tax effort and increase tax capacity**

**The focus should be on raising tax effort in countries where it is found to be low.** In developing countries, broadening the tax capacity is already a major step towards fighting income inequalities, both directly because of more equitable revenue collection and indirectly because it creates more resources for equity-enhancing public expenditures. Developing countries do face important challenges in developing their tax capacities and mobilising domestic resources. High levels of corruption, weak enforcement capacity caused by the lack of strong administrative structures and a high degree of informality may explain, in part, a government's difficulty in raising or collecting taxes. This inability to collect taxes reduces potential investments in inequality-reducing policy interventions. From this perspective, fiscal reforms should be supported by revenue administration reforms that enable an improved collection of tax from the higher quintiles and a more accurate tax base through efficient database integration (to avoid tax evasion), audits, internal controls and digitalisation. If tax effort is already high, one should address the tax capacity frontier.

### **Enlarge the tax base**

It is also key to enlarge the taxpayer base, for instance, by fighting tax avoidance and tax evasion and formalising the informal sector. In fragile states, there should also be a focus on simplifying taxes, procedures and structures. Simplicity of the tax system and of tax legislation is a key principle for

enlarging the tax base (see Box 11.1). This makes tax administration less challenging in states that lack a well-functioning judicial system. In addition, successful revenue mobilisation hinges on managing information and leveraging the power of big data to improve compliance and fight corruption. It is therefore important to take advantage of existing (or possibly strengthened) information technology systems to enlarge the tax base (e.g. electronic registration, electronic filing of returns).

#### **BOX 11.1 Tax reforms in South Africa**

The post-apartheid South Africa Katz Commission tax reforms (1994–1999) are an example of progressive taxation. They helped reduce high inequalities by reducing most marginal individual rates, reducing the direct personal income tax burden and the nominal rates of corporate taxes, increasing the tax base and improving tax collection.



### **Rely more on direct taxes and transfers to achieve redistributive objectives than on indirect taxes and subsidies**

The main direct taxes are personal income tax and corporate tax. Property tax and inheritance tax, designed to affect only the top income earners and the wealthy, can be important in addressing inequalities; however, they currently represent only a very small fraction of revenue.

Property tax represents only 0.1–0.5 per cent of GDP in developing countries, compared with 1–4 per cent of GDP in advanced economies (IMF, 2014). New open access information technologies, including blockchain, can help overcome administrative constraints and increase the tax base. Beyond its own revenue potential, taxing property can also enhance the efficiency of personal income taxes by collecting information on ownership of assets, property use and rentals. It is an important income source for municipalities in financing local investments and basic services for the local population (Ahmad et al., 2017). A simple flat tax linked to the essential characteristics of properties is difficult to escape and improves tax equity.

**Green taxation** may shift the tax burden away from low-paid labour and may also generate economic and distributional benefits while improving the environment. According to the Organisation for Economic Co-operation and Development, a well-designed environmental tax ‘increases the price of a good or activity to reflect the cost of the environmental harm that it imposes on others. Similarly, subsidies and incentives for environmentally preferable goods or practices involve the government steering the economy in favour of certain environmental solutions over others. Both approaches involve the government trying to ‘pick winners’ – directing the market in a prescriptive way (OECD, 2011). An environmental tax should be levied as directly as possible on the pollutant or action causing the environmental damage. Using the tax to increase the market cost of the polluting activity helps to incentivise the full range of potential abatement options (e.g. new product design, cleaner production processes, end-of-pipe abatement) with indirect benefits for those segments of the society most affected by pollution. In this context, environmental taxes should typically target those benefiting the most from ecosystem services or from the processing of natural resources into goods and services, and those individuals or groups with the highest consumption and carbon footprint.



### **Avoid regressive indirect tax exemptions**

Indirect taxation on consumption, such as a VAT and customs duties, is usually regressive. A flat VAT implies a much greater effort for poor families that spend most of their income on the consumption of basic goods. Brazil relies heavily on revenue from consumption taxes, including consumption taxes on basic items such as food, that disproportionately burden the poor. However, indirect taxes can have varying impacts, depending on the level of formality of an economy and the use of tax exemptions for items that constitute a larger part of the consumption basket of the poor. The regressive effect of proportional taxes such as a VAT and customs duties can be diminished by tax exemptions on some products (cooking oil, sugar, flour, rice). In general, tax exemptions should be avoided in favour of a more progressive tax system on income. However, when present, they should target items that are mainly consumed by the poor and not

by the rich. As to exemptions on fuel, environmental and climate considerations have to be weighed against redistributive considerations. Such exemptions may have a significant positive impact on the poor in lower-middle-income countries, but this may be in addition to their negative effects on environmental objectives, notably climate change objectives. Evidence from Indonesia shows that the relative tax burden can be high on poor households that own energy-processing goods, such as motorbikes. The EU should encourage **transparency** in the cost of tax exemptions (uncollected taxes) to be reflected in the national budget or at least in reports of the National Fiscal Council, as in South Africa.



### **Encourage individual tax credits and avoid individual tax deductions**

Tax credits based on age, household composition or job situation can have strong distributional effects. For instance, a medical tax credit for taxpayers under 65 years of age, as in South Africa, can reduce the tax burden on the poor. Tax deductions, on the contrary, are known to be regressive. For example, deductions for mortgage interest and charitable donations primarily benefit the top income earners. Deductions for indirect taxes on consumption can also have regressive effects, as in middle- and low-income countries, where higher-income earners tend to consume higher-value-added products. Deductions also reduce overall tax revenues, constraining redistributive policies.



### **Enhance progressivity of personal income tax**

A personal income tax is always progressive, although its share in the total tax system is limited in low-income countries (IMF, 2017). Economically, there seems to be scope for increasing progressivity at the upper end of income distribution, even though raising the top rates may be politically difficult to negotiate. In addition, reforms could foresee a gradually expanding coverage of personal income taxes.



### **Encourage ‘sin’ taxes**

So-called sin taxes, such as taxes on alcohol, tobacco and fossil-fuel-based energy, have a higher immediate

impact on lower-income populations. However, the long-term effects in terms of health benefits can have an equalising effect – and revenues from such taxes can be used for progressive spending.



### **Promote international and regional efforts to discourage a race to the bottom on corporate income tax rates**

Corporate income tax revenues have come under pressure through cuts in corporate tax rates and erosion in the corporate tax base. Average corporate income tax rates in low-income countries have declined from 45 per cent to less than 30 per cent over the past 25 years, even though studies indicate that tax incentives are usually not effective in attracting foreign direct investment (IMF, 2017). Although the direct impact of corporate income taxes is progressive, they may have regressive effects if the tax burden is shifted from shareholders to labour and consumers through lower wages and higher prices.



### **Promote international cooperation to fight tax avoidance and tax evasion**

The redistributive effects of personal income taxes and corporate income taxes are diminished by tax avoidance and tax evasion at the top as well as by a race to the bottom on corporate income tax rates, all of which limit the internal capacity for redistribution through poverty-reducing transfers. Poor countries lose millions in potential revenues because of tax dodging by large corporations and very rich people. According to Oxfam, ‘corporate tax dodging costs poor countries at least USD 100 billion every year, and Africa alone loses USD 14 billion in tax revenues because of the super-rich using tax havens’ (Oxfam, 2020). To ensure that international tax rules do not facilitate the shift in profits and increase the burden on the poorest local populations, EU delegations could focus on promoting international cooperation in the **Inclusive Framework on Base Erosion and Profit Shifting**, improving the coherence of tax regimes across borders and enhancing the transparency and accountability of the tax systems.



### **Involve civil society**

It is important to support a stronger level of involvement of civil society, universities, trade unions and the media in tax policy design and monitoring and in revenue administration performance, as it could help increase the transparency and accountability of national tax systems and get buy-in to implement reforms. Indeed, accountable stakeholders are usually more sensitive to questions of inequalities, and their involvement is important far beyond the question of international taxation. Good examples are the **Extractive Industry Transparency Initiative** and the **Publish What You Pay** campaign.



### **Link progressive taxation with credible, transparent and redistributive expenditure policies**

Taxation is not an end in itself. It needs to be accompanied by **credible, transparent and efficient expenditure policies** (EC, 2015). What matters is the combined distributional impact of tax and transfer systems. If a progressive tax system serves to finance pro-rich health and education policies, the overall impact may well be regressive. Progressive tax policies and improved domestic resource mobilisation must yield distributive and public service delivery improvements to be politically sustainable (see Box 11.2). Taxation should not just be about abiding by the law but also be consensual, as taxation is non-transactional.

#### **BOX 11.2 Tax reforms in Chile**

Since its return to democracy in 1990, Chile has been faced with rising levels of inequalities and has implemented progressive taxation. From 1990 to 2000, the government used a variety of strategies to pass tax increases. One method consisted of increasing taxes gradually and for a limited period of time. Another approach consisted of linking tax increases to popular benefits, such as social spending, to mobilise public support.

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# POLICY BRIEF 12

# TRADE



## KEY MESSAGES

- There is no systematic positive impact of trade on the reduction of inequalities, but inclusive trade does contribute to it.
- Inclusive trade comprises policy options that help protect workers' rights, strengthen the capacities of small companies against the dominant position of large companies and strengthen developing countries' capacities in global and regional trade negotiations.
- Redistributive policies have to complement trade reforms to share trade benefits more equally.

## Trade and inequality

It is often generalised that increasing a country's participation in international trade contributes to reducing poverty and inequalities worldwide, especially in developing countries (Pavcnik, 2017). Trade liberalisation reforms initiated in the 1990s have brought about a significant increase in global trade. Trade reforms have also contributed to reducing income inequality between countries, especially between developed and developing countries. The success of China and India, where poverty rates have dropped dramatically since the 1990s, is generally attributed to their rapid growth resulting from trade reforms. Trade liberalisation has taken thousands out of poverty and reduced income inequalities. It has contributed to increasing workers' earnings, thus improving families' livelihoods and health, reducing child labour (see Box 12.1) and increasing school attendance. The generation of jobs in trade-related sectors has brought about the extension of formal employment (see Box 12.2), thus squeezing informality out of the economy.

### BOX 12.1 Reduced child labour in Sri Lanka encouraged by GSP+ rules

The staff report on Sri Lanka in relation to the Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+) for the period 2018–2019 concluded that the country had made substantive progress in advancing labour rights. By the end of the reporting period, children engaged in child labour represented 1 per cent of the total child population (43 714 children), compared with 16 per cent previously. In addition, the government committed itself to eradicating child labour by 2022. Sri Lanka also voted in a law to increase the minimum working age from 14 to 16 years, which was enforced in 2020.

Source: European Commission (2017).

### BOX 12.2 Trade contributed to the formalisation of the economy in Vietnam

In Vietnam, 85 per cent of workers and 66 per cent of those in manufacturing were employed in informal microenterprises before the signing of the United States–Vietnam Bilateral Trade Agreement. On the basis of this agreement, the United States lowered taxes on Vietnamese exports. The removal of tariffs on exports provided an impetus for the expansion of more productive firms, which created many jobs. After that, the share of informal workers in Vietnam declined, with trade clearly contributing to this shift. In Vietnam, workers in the formal sector earn higher wages, work longer hours (underemployment is reduced) and are less likely to hold multiple jobs. This change affected mainly younger workers.

**The economic and social implications of those changes, however, are mixed.** The trade reforms that reduced inequality between developed and developing

countries also negatively affected income distribution within countries (UNCTAD, 2019). This is because income inequality depends heavily on employment outcomes provided by open trade – but those outcomes can be positive or negative. **Not everyone has benefited from trade liberalisation, which produces winners and losers.** Evidence shows that trade results in positive outcomes to specific workers, economic sectors, companies and geographical areas in a given country. **Export-driven sectors perform better than import-based ones (Pavcnik, 2017). Better-performing firms tend to benefit more from trade than others.** They companies adapt more easily to the required standards for goods on the international market, whereas such standards may be a substantial barrier to market entry for smaller firms that perform less well. **The size of the company also matters.** Large companies tend to capture gains from trade that may be available because of the unequal power dynamics between local suppliers and global leading brands in supply value chains (ILO, 2015).

Research shows that, in all cases, **informal workers** are worse off once national markets are open; the wage gap between the formal economy and the informal economy deepens and leads to increased income inequality (UNCTAD, 2019). **Specific regions that are better located or equipped** (i.e. are closer to ports or better transport infrastructure) or have existing industrial structures are also more often among the winners of trade reforms. **Higher-educated and younger people** may also have better chances of reaping the benefits of trade reforms, as they are more likely than others to move to another locality to find employment in better-performing companies.

**The negative consequences of trade reforms and of jobless growth can be manifold.** The increased competition of imported goods can lead to a decline in some economic sectors, reducing workers' earnings and increasing unemployment and informality. This may contribute to worsening families' livelihoods and health, lowering school attendance and disrupting social cohesion, as social and economic inequalities rise. Evidence shows that such negative consequences can be long lasting and even become amplified over time, leading to a vicious circle of lack of opportunities, poverty and growing inequalities (Pavcnik, 2017). A decline in formal economic activity

in regions adversely affected by trade openness and uneven economic growth can mean less is collected in taxes. Lower tax revenues lower the quantity and quality of public services offered to the population; lower revenues also reduce the level of investment and the capacity to cope with adverse economic situations.

**Trade liberalisation can increase the income of some groups, but it does not close the income gap per se.** Inclusive trade, however, is able to reduce income inequality. Inclusive trade is an interplay of market forces and purposeful public policies aimed at sharing trade benefits more equally. Those public policies have to be twofold. First, they have to make sure that more marginalised people, firms and countries can participate in the global market and take advantage of the opportunities offered. Second, they have to compensate for the negative consequences for some through complementary redistributive measures. Civil society organisations can be valuable partners in promoting both of those policies through raising awareness and advocating for them with authorities.

## Trade policy measures with a demonstrated impact on inequality

The first set of policy options that can contribute to ensuring larger access to trade opportunities for marginalised people, firms and countries includes:

- applying labour rights provisions in European Union (EU) trade agreements;
- supporting South–South cooperation and economic integration;
- prioritising the targeting of small and medium-sized enterprises under the Aid for Trade initiative;
- enhancing competition policies and enforcing legislation that restricts abusive behaviours of large companies.



### Apply labour rights provisions in EU trade agreements and promote responsible business conduct and fair and ethical trade principles

The EU includes trade and sustainable development chapters in free trade agreements and labour provisions in other types of trade arrangements (e.g. the Generalised System of Preferences (GSP) and the Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+)) in order to foster sustainable development. **Those provisions oblige trade partners to apply fundamental international labour standards, which have a direct positive impact on income inequality reduction** (see Box 12.3).

#### BOX 12.3 International Labour Standards

International labour standards are legal instruments drawn up by the International Labour Organization's constituents (governments, employers and workers) setting out basic principles and rights at work. They include **Conventions (or Protocols)** – legally binding international treaties that may be ratified by Member States – or **Recommendations** – non-binding guidelines. The International Labour Organization's Governing Body identified eight fundamental conventions, which cover subjects that are considered to be fundamental principles and rights at work: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

If efficiently enforced, labour standards can help eradicate child labour and forced labour, strengthen workers' rights under collective bargaining rules (thus having an equalising effect on earnings) and protect workers from discrimination (see **Policy Brief 16: Labour and Employment**). Evidence shows that **labour provisions in trade agreements** do not harm or divert trade. On the contrary, **because they protect workers, labour provisions tend to increase labour force volumes**. This is especially true of female labour force participation. **Labour provisions thus reduce**

**inequalities**; more people work and have an income, particularly women, whose position in the labour market is often weaker than men's) (ILO, 2016).

Business plays a key role in applying labour standards, partly through trade (EC, 2018). In the absence of relevant binding legislation, it is crucial to encourage companies that are participating in international trade to put into practice **responsible business conduct** that will foster the effective application of labour standards.

The access of small producers in **third countries** to **fair and ethical trade schemes** has a positive effect on the reduction of inequalities, including inequalities between countries, as it allows a level playing field to be set up in trade relationships. To increase companies' buy-in to responsible business conduct, relevant support given to the private sector should opt to provide a coherent response to the many facets of such conduct, including concerted action to promote compliance with international labour, health and safety, and environmental and sustainability standards.

The EU makes efforts to ease the implementation of labour provisions in trade agreements through training, monitoring and involving stakeholders, but the ultimate results depend on countries' commitments and institutional set-ups. In addition, development cooperation should insist on increasing national budget expenditures (through budget support measures) on key government institutions for labour standards enforcement (e.g. a labour inspectorate). Practical enforcement of the labour provisions in trade agreements should also be moved higher on the political dialogue agenda, as it can clearly contribute to reducing income inequality.



### Support South–South cooperation and regional economic integration processes

The large majority of international trade involves developed countries. Even if trade between developing countries is constantly increasing, it accounts for only one quarter of all world trade (UN DESA, 2019), so there is significant room for expansion. The United Nations recognises that South–South cooperation can be a key factor in overcoming income inequalities (UN, 2017). As research demonstrates, South–South trade

has already been more beneficial to companies, by strengthening their competitiveness and productivity, than North–South trade (ITC, 2019). It also allows companies to move up the value chain faster and to increase the transfer of knowledge. This can enable those companies to create decent jobs and increase their workers' incomes, contributing to a reduction in income inequalities.

However, a direct link between the intensification of regional trade and a reduction in inequalities cannot be taken for granted, as research from Paraguay and Uruguay indicates (Borras, Rossi and Ferres, 2012). Although economic integration in the **Mercosur agreement** contributed to poverty reduction in Uruguay, it did not change that country's level of inequalities. In Paraguay, on the contrary, income distribution improved, but the number of people living below the poverty level increased. **This again demonstrates that trade liberalisation cannot reduce income inequalities on its own: corrective and equalising measures have to be put in place in parallel.** Nonetheless, South–South trade can be an alternative source of growth for developing countries, especially as long as North–South income and import growth gaps persist (Bernhardt, 2016).

Trade liberalisation that opens national markets of developing countries to global competition can adversely affect national and local industries, especially emerging ones. While benefiting from opportunities brought by more open trade, developing countries should keep their ability to deploy country-specific economic policies that can **reinforce selected industries through adequate protective measures** if necessary. A country opening to the international trade market needs to have a sound industrial policy through a smart policy mix. Developing countries may lack the institutional capacity to address such imbalances (Denae Thrasher and Gallagher, 2015).

There is a need to enhance the analytical and trade negotiation capacities of developing countries to help them develop trade at regional and global levels. It is important to support these efforts in partner countries with technical assistance programmes at country and regional levels. The Aid for Trade initiative should be mobilised for these purposes.



### **Prioritise the targeting of small and medium-sized enterprises, with particular focus on women, youths and other marginalised communities, under the Aid for Trade initiative**

Larger companies tend to capture benefits from trade liberalisation; small and medium-sized enterprises (SMEs) will first need help to perform better and grow in order to reap their rewards from increased trade. Evidence confirms that SMEs can play a fundamental role in addressing income inequality at global level (ITC, 2015). Stronger SMEs can have a significant impact on income distribution. As the majority of companies in developing countries are micro-, small or medium-sized enterprises that are, responsible for most employment (many of which are informal businesses), improving their performance can increase the wage share of poorer people and contribute to decent work creation. In addition, focusing on the empowerment and integration of women, youths and other marginalised groups (e.g. Indigenous communities) can multiply the development impact of SMEs, informal or no. However, complying with quality standards, environmental regulations, health and safety standards and other non-tariff measures of the international market is often too challenging for those small companies. That is why helping them overcome those barriers through special programmes, including export promotion, developing trade and market intelligence and links to the South–South and North–South value chains, would bring them more opportunities to thrive and create decent employment. Thanks to digitalisation, information points, webinars and help desks can be set up to provide advice and information on tariffs, rules of origin, documentation requirements, and so on. These information points can be set up by mutual agreement between the EU and the other party so that SMEs in both countries can benefit from the advantages of the trade agreements.



### **Enhance competition policies and to enforce relevant legislation that restricts the abusive behaviour of large companies in international markets**

To rebalance the power dynamics between global brands and local SMEs, it is necessary to foster

competition in national and regional markets. For that purpose, an **effective legal framework on competition and fair and progressive taxation of companies** has to be adopted and applied (see **Policy Brief 11: Public Finance: Taxation**). Efficient national and regional competition can exemplify, and national tax authorities can develop, such a framework. The weak institutional capacity of many developing countries means there is a need to promote international and regional cooperation in competition and tax law enforcement.

Fair competition can also be promoted by including **specific clauses in competition chapters of bilateral and regional trade agreements**. Technical assistance and cooperation among trading partners can help implement such complex legal frameworks to ensure that large firms from developed countries are not the only ones benefiting from international trade (ITC, 2015). Budget support and Aid for Trade can also support trade policy and regulations.

**Public policies have to make sure that those who structurally do not have the capacity to reap the rewards of trade reforms, such as informal workers, can directly benefit from them anyway.** Redistributive policies allowing this result to be obtained include taxation policy (see **Policy Brief 11: Public Finance: Taxation**), employment policies (see **Policy Brief 16: Labour and Employment**), social protection (see **Policy Brief 3: Social Protection**) and education (see **Policy Brief 2: Education**).

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# POLICY BRIEF 13

# GROWTH



## KEY MESSAGES

- Only inclusive and job-rich growth contributes to reducing inequalities.
- Inclusive growth is economic growth that is distributed fairly across society and creates opportunities for all.
- Redistributive policies have to complement growth policies to share the benefits of growth more equally.
- When economic policies are designed, their effects on employment should always be assessed beforehand.
- Labour-intensive investments and sectors are key to inequality reductions.

## Growth and inequality

Economic growth has been generally considered an automatic solution for social problems. A high level of growth has been expected to translate into the creation of decent jobs for all, increasing household incomes and allowing governments to collect more taxes to finance policies to further boost the economy.

Increasing evidence, however, shows that **economic growth does not bring equal benefit** to all, nor does it directly contribute to reducing income inequalities (IMF, 2018b). On the contrary, if only some groups capture the benefits of growth, growth can increase the income gap. **Only inclusive and job-rich growth can achieve the objective of reduced income inequality.** Purposeful public policies are needed to make growth inclusive.

First, **as full and productive employment is the most effective way to alleviate poverty and reduce**

**income inequality, growth should be job-rich.** The quality of jobs also matters. Inclusive growth should lead to employment that meets decent work standards, because decent work and inclusive growth support each other (see Box 13.1).

### BOX 13.1 Definition of decent work

‘Decent work’ is defined by the International Labour Organization (ILO) as ‘productive work for women and men in conditions of freedom, equity, security and human dignity’. Decent work involves opportunities for work that is productive and delivers a fair income, provides security in the workplace and social protection for workers and their families, offers prospects for personal development and encourages social integration, gives people the freedom to express their concerns, and to organise and to participate in decisions that affect their lives, and guarantees equal opportunities and equal treatment for all.

Decent work consists of four inseparable, interrelated and mutually supportive strategic objectives: employment, fundamental principles and rights at work, social protection (social security and labour protection), and social dialogue. Gender equality and non-discrimination are cross-cutting issues.

Source: ILO (1999).

As evidence shows, good-quality employment ensures higher wages for workers (ILO, OECD and World Bank, 2016). Higher wages mean higher purchasing power, which is one of the most important drivers of growth. Further, better working conditions can increase companies’ performance and competitiveness, which also result in higher growth (ILO and IFC, 2016) (see **Policy Brief 16: Labour and Employment**).

In many developing countries, however, economic growth does not translate into sufficient job creation or good-quality jobs (Merotto, Weber and Atrido, 2018). Indeed, in low-income countries employment is weakly correlated with growth in the gross domestic product (GDP) (Merotto, Weber and Atrido, 2018). A lack of decent jobs hits vulnerable or excluded (ILO, 2013) groups that face additional barriers to reaping the rewards of economic growth (e.g. a lack of skills or experience, or social and cultural norms) particularly hard. Additional important features of developing countries' labour markets are informality and under-employment<sup>(1)</sup>, which result in poor-quality jobs that cannot help people to increase their income (Merotto, Weber and Atrido, 2018).

Second, as the benefits of growth do not trickle down equally, redistributive policies are necessary to equalise those imbalances (see Box 13.2). They aim both to provide income to poor households and to build a level playing field for all, equalising opportunities (see [Policy Brief 16: Labour and Employment](#)).

Well-designed and coordinated macroeconomic, employment and social policies can have **mutually reinforcing effects**. If the benefits of growth are more equally distributed among the population, in particular among the poor, they can have a positive impact on domestic consumption (a significant part of GDP, particularly in larger markets), leading to higher GDP results (ILO, 2013). A job-friendly policy mix brings both a higher level of GDP growth and higher employment rates (ILO, 2013). When both indicators rise, a reduction in inequalities follows.

**Last, but not least, recent evidence demonstrates that widening income inequality adversely affects growth (Dabla-Norris et al., 2015).** Increasing inequality reduces growth by depriving poor households of accumulating physical and human capital. It can result in underinvestment in education for poor children, lowering their potential labour productivity and limiting their opportunities to get decent employment.

<sup>(1)</sup> 'Many workers around the world tend to work less hours, earn less income or use their occupational skills incompletely; in other words, they tend to carry out an activity which is less productive than they could and would like to carry out' (ILO, 2016).

### **BOX 13.2 Has growth been inclusive in Bangladesh?**

Bangladesh's growth expanded at relatively slow rates in the mid-1990s; it grew more rapidly in the following decade and has continued this trend until the late 2010s. Although annual growth in Bangladesh was 2.6 per cent in the 1990s (Davidson et al., 2014), it has averaged more than 6 per cent over the past decade (IMF, 2018). Despite this increased economic growth, Bangladesh remains a country where income inequality is high and where an elite has captured most of the country's wealth. Although the income share held by the lowest 10 per cent declined from 4.13 per cent to 3.99 per cent, the income share held by the highest 10 per cent increased from 21 per cent in 1984 to 27 per cent in 2010. In 2016, the income share held by the lowest 10 per cent continued to decline, reaching 3.7 per cent, whereas the income share held by the highest 10 per cent remained stable. The Gini coefficient, another indicator of inequality, tells a similar story: it stood at 0.483 in 2016, up from 0.458 in 2010 (Mazid, 2019). (The Gini coefficient ranges between 0 and 1, or between 0 per cent and 100 per cent if it is expressed as a percentage, with 0 representing perfect equality and 1 representing perfect inequality.)

This increase in income inequality is mainly because of slow job growth, a stagnation of real wage growth, low expenditures on education and health and a high level of corruption among Bangladesh's elite. Transparency International's 2017 Corruption Perceptions Index ranks the country 143 out of 180 countries.

Therefore, although Bangladesh has experienced strong economic growth over the past decade, this has not been inclusive growth, as income inequality has increased over the same period. As Selim Raihan, Executive Director of the South Asian Network on Economic Modelling, said, 'The economic growth in recent years has been far from inclusive.'

**Addressing income inequality is therefore crucial not only from the perspectives of justice and social cohesion but also from an economic perspective.** Inclusive growth consists not only of sharing the benefits of growth but also of accelerating the growth rate of low-income groups and lagging firms, raising them higher on the social and economic ladder (OECD, 2018b). This echoes **Sustainable Development Goal (SDG) target 10.1**: 'by 2030 progressively achieve

and sustain income growth of the bottom 40% of the population at a rate higher than the national average’.

## Growth policy areas and measures with a potential positive impact on inequality

Policy areas that help make growth more inclusive are those aimed at supporting micro, small and medium-sized enterprises (MSMEs) in sustainable expansions, increasing their access to markets and business services and helping them to thrive. Those policies should also be designed to support workers by improving their working conditions (including ensuring higher wages) and increasing the employment rate. Inclusive growth also means that because the state is collecting more revenues from growth, the state can finance better-quality public services. Better public services in such areas as education, health, early childhood development and transport in turn contribute to building a stable foundation for further growth without jeopardising the environment or the climate (see [Policy Brief 1: Health and Nutrition](#), [Policy Brief 2: Education](#) and [Policy Brief 4: Transport and Mobility](#)). If inclusive growth is to be meaningful, it must be possible to maintain the growth rate without creating significant environmental problems or the consumption of non-renewable resources.

**There is clearly a trade-off between rapid economic growth today and opportunities for growth for future generations.** This trade-off particularly affects vulnerable groups, which have little defence against the consequences of the depletion of natural resources, ecosystem degradation and climate change. Progressive taxation and social protection schemes also play an important role in sharing the benefits of growth in a fairer way (see [Policy Brief 3: Social Protection](#)).

The following policy guidelines can make pro-growth interventions more inclusive.



### Assess the employment impact of investments and industrial policy choices and prioritise employment-intensive investments

Because the reduction of income inequality is positively correlated with the creation of full and productive employment, assessing the potential impact of economic policies on employment is essential. **Economic sectors can have varying degrees of labour intensiveness**, just as they have more or fewer links with other local economic sectors. Understanding the nature and composition of economic sectors and having full knowledge of their employment potential enables policymakers to make sound decisions on which ones to invest in, taking into account criteria related to human development, in particular the skills that are needed in the labour market.

#### BOX 13.3 Strengthening the impact on employment of sector and trade policies: STRENGTHEN

The **STRENGTHEN** project is implemented by the ILO and financed by the European Union. It aims to strengthen the capabilities of partner countries to analyse and design policies and programmes that would improve both the quantity and quality of created jobs. STRENGTHEN develops global- and country-level knowledge of the impact of selected policies on productive and decent employment and on measures to optimise the employment effects of those policies. It also develops knowledge of related issues, such as structural transformation, labour standards and skills development. The project works on appropriate methodologies to measure the employment impact. STRENGTHEN operates in nine countries and covers the sectors of infrastructure, agriculture, rural development, energy and trade. For example, the project analysed the potential employment impact of processing cocoa in Ghana that would have resulted from the government's plans to expand cocoa production in the country, thereby creating new decent jobs. STRENGTHEN has been expanded to support employment assessment of investment in Africa.

**Source:** ILO, ‘**Strengthening the impact on employment of sector and trade policies (STRENGTHEN)**’.

Employment impact assessments require advanced analytical capacities that technical assistance could help developing countries acquire. Taking into account the results of such assessments can also help policy-makers design complementary measures (skills development, public investment in infrastructure, and so on) to maximise job creation and inequality reduction. Those complementary investments can also be employment intensive, contributing to improving people's living conditions and incomes (ILO, n.d.).



### **Target micro, small and medium-sized enterprises in private sector development and support formalisation**

Given the strong link between decent job creation and the reduction of inequality, it is essential **to promote the creation and sustainability of MSMEs**. They have a substantial presence in economies of all types and a large potential to create jobs (ILO, 2013). **Building an enabling business environment** for the private sector can also contribute to increasing the productivity of small and medium-sized enterprises, which would generate better-quality jobs (Merotto, Weber and Atrido, 2018). A conducive business environment can also have a positive impact on reducing informality. The activities targeting MSMEs' development and business environment should also **cover informal businesses** to help them increase their productivity and formalise. **Recommendation No 204 from the International Labour Organization**, on the transition from the informal to the formal economy, can guide this process.



### **Target vulnerable workers in labour market policies**

Vulnerable and excluded groups (e.g. women, youths, minorities, migrants and people with disabilities) face more barriers to accessing decent employment. **They rarely benefit from the gains of growth** because of a lack of opportunities, qualifications or experience, or cultural or social norms. Making it possible for them to participate in the benefits of growth through targeted labour market policies (such as subsidised wages and public work programmes – see **Policy Brief 16: Labour and Employment**) would not only reduce inequalities but also, in the long run, increase the supply

of labour and lead to positive macroeconomic effects (ILO, 2013). Civil society organisations can provide valuable help in identifying the most vulnerable.



### **Ensure the participation of workers' representatives in the design and monitoring of business environment reforms**

In many developed countries, social dialogue has showed the potential to foster better industrial relations, building trust and cooperation between workers, employers and governments. It can also play this role in developing countries. Decisions taken by all social partners through social dialogue represent the interests of the many, and can lead to inclusive growth and reduced inequalities because they are able to better address the social consequences of economic decisions that affect all parties involved. Social partners involved in social dialogue can better identify skills needs in the labour market, develop better education and training programmes, and jointly tackle gender disparities and issues of discrimination. Social dialogue and collective bargaining can contribute to establishing inclusive wage policies – to extending social protections to migrant workers, for example, and to those in non-standard forms of employment – or to facilitating transitions from an informal economy to a formal economy. **All these potential outcomes play an essential role in creating inclusive labour markets** (ILO and OECD, 2018).

An efficient social dialogue requires strong and free social partners operating within an adequately enforced legal framework and with appropriate institutional capacity of the mechanisms of social dialogue. In many developing countries, both the legal framework and the institutional capacity of social partners may need to be enhanced. The recommendations of the **ILO Committee of Experts on the Application of Conventions and Recommendations** directed at specific countries should guide the design of such activities.

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# DIGITALISATION



## KEY MESSAGES

- Digitalisation could have an ambiguous impact on inequality. Although it can help reduce income inequality by helping to include the most vulnerable, it may exacerbate inequalities if certain conditions (infrastructure, adequate skills, regulations) are not fulfilled.
- Using digital technologies in finance, education and health to promote financial inclusion, and to expand and increase the efficiency of education and health systems, can help address income inequality.

## Digitalisation and inequality

Digitalisation refers to the broad transformation of the economy and society through the ‘use of digital technologies and data as well as their interconnection that results in new or changes to existing activities’ (OECD, 2019a). Digitalisation is a pervasive phenomenon that affects the way we work, the way we learn and the way we interact with each other. It encompasses the growing presence of the internet and connectivity, as well as of new technologies and services in key aspects of daily life. The ‘internet of things’, fifth-generation wireless networks, blockchain, artificial intelligence, big data and cloud computing are among the new entries transforming production processes with an impact on productivity, employment, and business models as well as provision and access to public and private services.

Digital technologies and services have the potential to improve living standards, life expectancy and quality of life. They have proved essential during

the COVID-19 pandemic, making daily life possible and easier for those that could access digital technologies and connectivity and harder for those who could not. The digital divide – that is, the gap between those who have access and can use the internet and digital technologies and those who do not or cannot – has been recognised as a form of inequality in itself, affecting people’s opportunities politically, socially and economically.

### Because of the digital divide, the impact of digitalisation on income inequality remains ambiguous.

On the one hand, digitalisation creates better opportunities to enhance the inclusion of disadvantaged groups – for example, by fostering formalisation of the economy, creating new jobs and improving participation in the labour market, and reducing barriers to participation and access to information. On the other hand, it can also exacerbate existing inequalities and introduce further challenges and new risks for the most vulnerable if certain conditions are not fulfilled.

## Opportunities

Digital technologies can reduce income inequalities by curbing the informal economy, characterised by unequal wages, a high degree of insecurity and vulnerability, and the feminisation and racialisation of work. Digitalisation can foster opportunities of formalisation by reducing upfront costs, enabling financial inclusion and access to credit. Digital technologies such as easy payment platforms, virtual credit supply platforms and mobile money offer access to financial inclusion and credit history, the first step in the formalisation process. Access to these e-services can, however, be a luxury for some if such services are not accompanied by enabling factors (e.g. financial consumer protection and literacy) and

well designed (e.g. taking into consideration the type of applications that can get the widest uptake, the language of the content, connectivity issues and the possibility of offline access).

**Digitalisation also enhances governments' transparency, accountability and effectiveness**, with gains for redistributive policies. Digital technologies and solutions can, for instance, improve governments' capacity to **collect taxes** and implement them. For example, in Rwanda, where all transactions are digitalised, the government can more easily track spending across firms, making it harder for informal firms to sell to formal firms, improving tax collection.

Digitalisation can **complement people's skills and expand their capabilities** as both consumers and entrepreneurs, with the potential for significant benefits in terms of growth, jobs and income, especially in areas with limited or no access to traditional markets. Digitalisation linked to circular economy business models can increase the competitive strength of entrepreneurship with market-disruptive business approaches, such as product-as-a-service solutions and sharing platforms.

Digitalisation can make labour markets more transparent and inclusive. Information about vacancies, wages and candidates' abilities can be harder to find in developing countries, distorting the labour market and leading to a higher level of inequalities. In addition, those with fewer sources of information generally come from a lower socioeconomic background. Digitalisation fills this gap by **improving the process of matching jobs and workers, and therefore reducing income inequalities**. It reduces both search and screening costs. Job seekers can use social media and online job listing services to identify companies and job opportunities, saving time and effort when looking for a job. This also expands the possibility of finding jobs outside the personal network of the jobseeker, which is often the main source of job opportunities in developing countries. For instance, LinkUp is an online resource that matches people's skills to labour demand. Employers can also use digital technologies to gain a better idea of a potential candidate. They can use LinkedIn or similar services to find out people's educational and professional backgrounds and skills. By 2025, better matching of jobs and workers could result in 536 000 additional full-time-equivalent jobs

and a USD 3 billion increase in gross domestic product (GDP) in Kenya, 861 000 jobs and USD 20 billion in additional GDP in South Africa, and 1.9 million jobs and USD 20 billion in additional GDP in Nigeria.

Digitalisation can strengthen the voice of workers and unions in the public debate. A lack of unions is an impediment to workers in exercising their basic labour rights, increasing income inequalities. If unions and civil registration systems are weak or non-existent, workers may simply not express their views; their voices will be unheard. Digitalisation can help reduce inequalities by **overcoming barriers to participation**. Digitalisation technologies can turn workers into citizens able to express their opinions through social media (e.g. Facebook, Twitter, and so on), even if they may also be subject to a risk of misinformation. Digital identity (digital ID) systems also give people the opportunity to register and then vote. For instance, India's massive Aadhaar programme, which has enrolled more than 950 million people, has dispensed with physical identity cards altogether (World Bank, 2016). In Mozambique, texts sent by short message service (SMS) increased voter turnout by 5 percentage points and allowed citizens to report electoral irregularities (Aker et al., 2013). Digitalisation can also empower unions by creating a new form of accountability and transparency in the **social dialogue** between workers, employers and representatives.

Digitalisation can also **lower information barriers and cut information asymmetries**, achieving positive results for disadvantaged groups (e.g. women, the poor, rural workers, working children, small firms) by reducing the cost of acquiring information and making more information available. For instance, in Ghana, Cignifi promotes financial inclusion of those without bank accounts – it has developed methods to judge the creditworthiness of a potential borrower on the basis of their mobile phone records.

## Challenges and risks

Despite the opportunities to reduce income inequalities offered by digital services, digitalisation can also result in a higher level of inequalities if certain conditions are not met.

**Digital dividends are not necessarily equally and heterogeneously distributed.** Digitalisation can lead to a polarisation or a 'hollowing out' of the labour market, increasing income inequalities. Owing to its positive skill bias, it tends to shift employment postings and responses towards high-skilled occupations, reducing the demand for low-skilled jobs. These high-skilled jobs are often near the top of the income distribution, thus increasing income inequalities. In other words, technology augments higher skills while replacing easily automated, routine jobs, forcing many workers to compete for low-skilled, low-paying jobs. However, this trend will be less pronounced in developing than in developed countries, or may not even take place. Using robust difference-in-difference estimates from three data sets, covering 12 African countries, Hjort and Poulsen (2019) found that Africa could be a notable exception to this polarisation: the demand for skilled workers increased sizeably, with no reduction in the demand for low-skilled workers, in areas where the number of connections to faster internet increased. Earlier empirical work by Dutz, Almeida and Packard (2018) showed that low-skilled workers can benefit from significant job expansion related to the availability of the internet and adoption of related skill-biased digital technologies, suggesting that digitalisation will have a different effect on labour markets in developing countries than elsewhere.

Two main mechanisms could explain why digitalisation may also increase the demand for low-skilled jobs. One is an increase in the net number of firms entering the labour market (an increase of around 23 per cent when a fast internet connection arrived in South Africa, for instance). The other part of demand increase appears to come from a productivity increase in existing manufacturing firms. Thanks to digital solutions, firms export more, communicate with clients more and train employees more, suggesting that the productivity of less-educated workers may have benefited from their employers offering targeted on-the-job training.

**Although digitalisation is not expected to create polarisation in the labour markets of developing countries, there is still a risk of increased precariousness and job insecurity.** This is, in part, because of a proliferation of non-standard work arrangements and the rise of the platform economy or gig economy.

This new class of gig workers is constantly searching for new contracts, which is a source of income insecurity. In addition, being in non-standard contracts, they tend not to be protected by labour laws or eligible for benefits and social security. This job insecurity increases income inequality; this has especially been the case during the COVID-19 pandemic, as the crisis has left those who depend on gig work with an unstable source of income, making them extremely vulnerable to health and economic risks.

**Digitalisation can also increase inequalities by exacerbating the existing digital divide.** Women and older people have a higher risk of being excluded from digitalisation. According to the World Bank (2016), 20 per cent of youths (defined as people aged 16–24) and 18 per cent of men, versus 8 per cent of individuals over 45 years of age and 12 per cent of women, will use the internet in Africa. Women in sub-Saharan Africa are 15 per cent less likely to own a mobile phone and 41 per cent less likely to use mobile internet than men.

Digitalisation can offer many opportunities in developing countries for everyone, including those with a low level of education. However, **technology will turn the promise of inclusiveness and lesser income inequality into reality only if the following preconditions are implemented.**

- To reduce the risk of inequalities and the digital divide, it is necessary to **connect the unconnected**. Digital technologies should be available, accessible and affordable for everyone. However, Africa is currently characterised by a lack of digital infrastructure. Although the regional average broadband penetration is 31 per cent today (including 3G and 4G connections), of the 916 million total population (who are 10 years old or older) from 54 countries in the region, only 7 per cent have access to 4G broadband connections. The World Bank (2019b) estimates that it will take USD 100 billion to ensure that everyone on the continent is digitally enabled by 2030. In addition to the needed digital infrastructure, physical infrastructure is also needed, such as electricity and facilities for transport and logistics.
- Furthermore, to reduce inequalities, adequate **regulations that lower the barriers to digital**

adoption, increase competition for the benefit of consumers and protect consumers' data privacy should be designed, implemented and enforced.

- Skills development is another pathway to address growing digital inequalities. **Workers should have the right skills (in information and communications technology (ICT) as well as cognitive and emotional skills) to take advantage of opportunities in the digital world**, as a skills shortage is one of the main reasons that inequalities are exacerbated between low-skilled workers and high-skilled workers.
- To reduce sociopolitical inequalities, **governments should be transparent and accountable and use digital technologies to empower and protect their citizens** through privacy policies and to deliver services, such as adapting social protection to changing digital labour markets.

## Digitalisation policy areas and measures with a demonstrated impact on inequality

### DIGITAL FINANCIAL INCLUSION

Digital financial inclusion involves the deployment of cost-saving digital means, such as the use of mobile phones to reach currently financially excluded and underserved populations with a range of formal financial services (CGAP, 2015) (see **Policy Brief 15: Financial Inclusion**). For the 2.5 billion adults whose transactions are exclusively in cash, digital financial inclusion can bring significant benefits, including a decrease in income inequality, by increasing the income share of the bottom 40 per cent (see Box 14.1). Digital services can help the most vulnerable individuals to increase their savings and income by giving them access to formal financial services, such as payments, transfers, savings and credit, insurance, and securities.

For instance, the poorest households could have better access to government-to-person payments, such as conditional cash transfers. These transfers can provide additional income stability to the poorest households, allowing them to face income shocks,

#### BOX 14.1 Digital financial inclusion in India

The world's largest digital ID programme, Digital Aadhaar, has provided financial services for 1.2 billion people in India, especially among the most vulnerable and low-income individuals.

Aadhaar is a 12-digit, unique identification number underpinned by biometric authentication, which provides secure, safe and unique proof of identity for India's citizens, with no criteria for eligibility. Aadhaar has since been linked to a low-cost (Jan Dhan) bank account, which facilitates the transfer of direct benefit schemes to the poorest and vulnerable individuals and promotes financial inclusion.

To encourage people to use the Jan Dhan bank accounts, the federal government and state governments have provided some subsidies and salary payments through this platform. Almost 340 million people have now received direct benefit transfers, saving the government an estimated USD 7.51 billion over 3 years.

**Source:** World Bank (2016).

and permit them to increase investments in children's education or productive assets, such as farmland and livestock (see Box 14.2). In Mexico, the availability of debit cards and automated teller machines for beneficiaries of the cash transfer programme Oportunidades has increased account balances and savings.

Digital services can also augment the disposable income of the poorest by **lowering the costs of transactions**. For instance, electronic payment of social transfers in Niger has consistently saved beneficiaries time, by eliminating the need to travel to manually collect transfers (Aker et al., 2013). In South Africa, using cards to disburse social payments costs one third of disbursing cash (CGAP, 2011). The most vulnerable households can more easily do transactions locally in irregular, tiny amounts.

Digital finance can also **reduce the risks of loss, theft and other financial crimes posed by cash-based transactions**, and thus may help to reduce income inequality by protecting the disposable income of the poorest, who tend to be the first victims of such crimes. In Argentina, it has been reported that electronic payments have eliminated kickbacks; in India,

### BOX 14.2 Digital financial inclusion in Kenya

Kenya's M-Pesa programme (M for mobile; pesa is Swahili for money) is one of the most successful mobile money initiatives that has helped promote financial inclusion.

A study of M-Pesa showed that wide access to digital financial services in Kenya tripled the proportion of people using formal financial services, from 27 per cent in 2006 to 75 per cent by 2015.

These digital financial services led to increased financial resilience and savings, particularly among households led by women. They were also found to assist women in moving out of agriculture and into business. In Kenya, the expansion of mobile money lifted 2 per cent of households in the country above the poverty line (USD 1.90 per day).

Source: ITU (2017).

they have had a positive impact on reducing bribes (Muralidharan, Niehaus and Sukhtankar, 2014).

Digital services (e.g. electronic commerce, or e-commerce) could also promote **economic empowerment and entrepreneurship** by enabling **asset accumulation** and, for **women** in particular, increase economic participation. In Kenya, mobile money transfers have reduced the time, effort, and costs of remittances that women receive from migrants, boosting their economic empowerment, particularly in rural areas (Banerjee et al., 2015).

In view of the importance of digital financial inclusion in the fight against income inequality, European Union (EU) delegations could consider this topic as well as the following principles when designing policy and measures.



### Ensure accessibility and availability of digital financial services

To reach the poorest, digital financial services should be both available and accessible to all. However, the availability of digital financial services does not necessarily mean that low-income individuals and the very poor have convenient access to them. Even if banks offer online banking services, some people may find it cheaper to walk to the bank to undertake

some transactions than to use online digital finance platforms. It is important to consider designing digital financial services that are both accessible and affordable for the poor.



### Promote digital identity

Being able to prove who you are is a fundamental requirement for having access to financial and social services. In developing countries, nearly 2.4 billion people are not registered with any authority – there are no birth certificates in many parts of the world. They are usually the poorest and most marginalised members of society; about one quarter are children. Simple electronic identification systems, often using biometric characteristics, have helped include people who would otherwise be excluded from services by providing an effective platform for secure bank transactions, accessing social services, paying utility bills and much more. Many countries, from Moldova to Nigeria and Oman, have introduced digital IDs. India is on track to register its entire population using Aadhaar digital ID.

Although digital ID programmes have great potential, they also pose risks of exclusion for some minorities and vulnerable groups that may face challenges in proving their identity (see Box 14.3). Civil society organisations should be consulted to ensure those initiatives do no harm.

### BOX 14.3 Digital identity issues in Kenya

It must be underlined that the digitisation of identification can cause new forms of exclusion, as certain populations may have difficulty in proving their identity and enrolling in ID systems. When a government makes such digital IDs necessary to gain access to basic services, such as food rations, healthcare and pensions, the exclusion becomes very serious. A recent example is the Kenyan digital ID programme, which has been challenged in court by civil society organisations on the ground that it was marginalising already vulnerable groups. A number of people can indeed face exclusion, perhaps because their fingerprints are worn and cannot be easily captured (as is often the case with manual labourers) or because they belong to minority ethnic groups for whom the Kenyan government has long made it difficult to apply for the documents required for national identity cards.



### **Leverage existing infrastructure and capabilities within countries**

Particular attention should be given to supporting partner countries in leveraging any existing infrastructure and capabilities, in an effort to avoid duplication of costs. In particular, partner countries can consider ways to use postal networks for providing financial services. If postal networks are providing transaction accounts (savings or current accounts), or remittances or other payments services, they can become an important element in providing financial services.



### **Promote interoperability agreements to provide digital financial services in a convenient, affordable and fast way**

Interoperability is 'a characteristic of a product or system, whose interfaces are completely understood, to work with other products or systems, at present or in the future, in either implementation or access, without any restrictions' (Centre for Digital Built Britain, 2018). Interoperability agreements guarantee that a consumer will be able to use digital financial services independent of location and at any time. The work on open application programming interfaces will seek enhanced access to the digital financial services rails for third-party providers; increased diversification of uses for those services offered to customers; extended distribution networks; and more control over their data and money for customers.



### **Guarantee data security and privacy**

The wide use of digital finance technologies has increased the risk of cyberattacks that pose significant threats to the security and privacy of customers' data. With respect to regulatory concerns, it is very important to promote strong consumer protection frameworks through development cooperation. Such frameworks can be critical in building the trust and confidence that customers must have. This can also help reduce the level of voluntary financial exclusion by people who do not want to participate in digital finance because they have data security concerns.



### **Promote financial literacy**

Investing in financial literacy is a requirement for helping individuals to access and use appropriate, formal financial products, especially in countries in which basic literacy and numeracy skills are low. In Mali and Uganda, about three quarters of third-grade children cannot read. In Afghanistan and Niger, 7 out of 10 adults are illiterate (World Bank, 2016).

In addition to supporting countries in providing financial literacy, it is appropriate to help them design digital financial services **in a simple and accessible manner** to avoid risks for customers derived from their lack of familiarity with the products, services and providers and their resulting vulnerability to exploitation and abuse. An integrated approach to digital skills and literacy is needed. Digital literacy should be introduced at an early age. The private sector must be called on to provide digital skills through technical and vocational education training and the ICT skills of professionals, giving new opportunities to those who are generally excluded. To have a transformative impact on society and reduce inequalities, we must ensure that we do not forget those who are out of school.

## **DIGITAL EDUCATION AND HEALTH**

Providing education and health remains a **challenge** in developing countries with large rural populations. For example, in Ethiopia, more than 80 per cent of the population lives outside urban areas, and more than 30 per cent of the rural population is poor. Difficulties in providing good health and education systems can be a determinant of income inequality; people who are not in good health or have little education will be less productive, which will have a negative impact on their future wages (see **Policy Brief 1: Health and Nutrition** and **Policy Brief 2: Education**).

**Digitalisation can help reduce income inequality by delivering electronic health (e-health) and electronic education (e-education) services.** The internet and associated technologies have the potential to expand health and education services in developing countries, reach remote rural areas, increase

the efficiency of health and education systems, and lead to better patient and student outcomes (see Box 14.4).

#### **BOX 14.4 An e-health solution in Ethiopia**

The FrontlineSMS platform, developed by the World Bank, the African Development Bank and Addis Ababa University, helps register pregnant women and newborns by sending automated short message service (SMS) reminders to notify them of key appointments and to track the stock of essential medicines. By using existing mobile networks and low-cost feature phones, the system improved the ability of health workers to deliver services and improve health outcomes. More women received assistance and antenatal care in health centres. The system improved health workers' capacity to respond in a timely manner and help reduce inequality by improving health system performance and coverage for the rural poor.

**Source:** Bilal et al. (2011)

Although **e-education** includes the full range of uses of ICT, such as student database and e-learning platforms, and a full range of technologies, including the internet and mobile applications, **e-health** is even broader. It encompasses traditional administrative reporting systems, health management information systems, telemedicine, electronic medical records, clinical decision support and patient portals.

Because of the potential impact on inequality, EU delegations could consider **highlighting the link between digitalisation and health and education systems**. Although projects will be tailored based on a country's specific circumstances, the following main principles can be considered when designing e-education and e-health solutions.



#### **Ensure adequate physical and technological infrastructure**

A fundamental requirement for the implementation and scaling of e-health and e-education systems is the availability of adequate physical and technological infrastructure. Physical infrastructure across the Africa region, though still lagging behind much of the rest of the world, has continued to improve rapidly,

particularly in the area of telecommunications and mobile telephony. Currently, the mobile penetration rate in the Africa region is 73 per cent (World Bank, 2016). Consequently, **e-health and e-education**, corresponding to the use of mobile phones in health and education systems, should be considered a priority. **Mobile health (m-health) and mobile education (m-education)** solutions are even more attractive than other e-health and e-education solutions, given that they are relatively less expensive, easier to use and less power intensive. This last feature can be a real asset in rural settings where reliable electricity connections are rare. In other words, it is better to favour existing technology that is already available in a local environment: **the best technology is technology that people already have, know how to use and can afford** (see Box 14.5).

#### **BOX 14.5 An e-education in Papua New Guinea**

As the One Laptop per Child project in Peru has shown, the provision of digital services does not necessarily lead to better quality in education and health, because people do not know how to use such services.

On the other hand, the SMS story project in rural Papua New Guinea is an example of technology that meets local needs. The SMS story project aimed to motivate teachers to use technologies already at hand. It sent daily text message stories and teaching tips to teachers as an aid to help improve students' reading. As a result, teachers were motivated, and the intervention halved the number of children who could not read anything.

**Source:** Cristia et al. (2012); Kaleebu et al. (2013).



#### **Promote data and interoperability standards**

Health and education cannot be delivered safely, and in a high-quality and cost-effective manner, without a seamless, sustainable and secure data and information exchange at all levels of the health and education systems. If this is not achieved, data can be captured in a way that cannot be shared as needed because of interoperability issues or a lack of standards regarding the exchange of health and education information. **Open data and interoperability standards**

can prevent data from being captured multiple times in multiple ways, leading to duplication, inaccuracies and delays. Developed by main development partners such as the World Bank, open standards are a set of customisable information system standards that are publicly available for free or for a nominal charge and developed and maintained through collaborative and consensus-driven processes.



### Provide sufficient local and human capacity

When designing e-health and e-education solutions, EU delegations could consider **local capacity**. Without sufficient local capacity, such as enough technically qualified human agents, e-health and e-education solutions are rarely scalable or sustainable after donors, who have often developed the projects, have left. Investment in human capacity must be prioritised. For instance, to make projects more sustainable, donors can work collaboratively with technology incubators that provide skilled local information technology talent. In addition to ensuring that health workers and teachers are able to use digital systems effectively, this also implies the need for strong health and education informatics training programmes in order to develop a qualified e-health and e-education workforce.



### Develop regulatory and institutional environments

To ensure that e-health and e-education solutions will be affordable and accessible, regulations that promote competition and entry by removing barriers to digital adoption should be emphasised. In addition, as health and education data are particularly sensitive, it is important to insist on consumer-privacy regulation and data protection.



### Support policy dialogue

Design, implementation monitoring and evaluation of e-health and e-education solutions require the involvement of all stakeholders, from the different national ministries to donors, the private sector and civil society; hence the need to promote a policy dialogue when designing solutions. An exchange of experiences, learning and network building at national

and regional levels in the digital transformation of social services is necessary to improve the efficiency and resilience of those services.



### Engage with civil society

To ensure that the digital transformation is human centred and promotes prosperity for all citizens, including the most vulnerable, civil society organisations (CSOs) have an important role to play. Many of them not only provide training in and support for digital literacy and digital entrepreneurship, but also contribute to reducing the digital gender gap. That gap can be reduced by increasing women's ability to protect themselves in a digital environment and advocating that the authorities adopt a regulatory framework aimed at addressing gender-based violence, such as online harassment. These organisations can also lead local efforts to advance affordable internet access; see, for example, the Alliance for Affordable Internet, hosted by the World Wide Web Foundation. Besides, CSOs are key actors when it comes to promoting sound data protection frameworks and the respect for digital rights.

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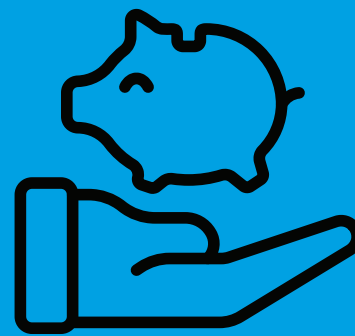
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# FINANCIAL INCLUSION

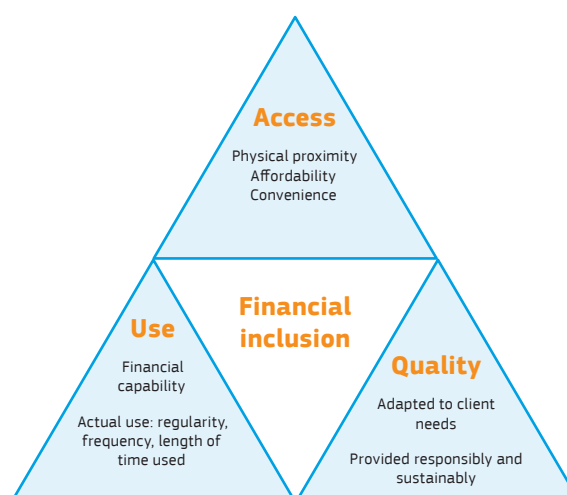


## KEY MESSAGES

- Those without access to financial services are less likely to be able to lift themselves and their families out of poverty. Gender and rural–urban inequalities are clearly expressed in access to financial services.
- Financial inclusion, especially when targeted at the poor and women, can reduce socioeconomic and income inequalities.
- Financial services should be made available, together with other enabling policies: financial awareness and education, land titling and ownership, civil registration, gender equality, and digitalisation.
- Financial sector policies can be accompanied by targeted measures, such as expanding digital payments and providing credit and/or microcredit to micro, small, and medium-sized enterprises.

on the lack of access or usage of appropriate low-cost financial products across marginalised segments of the society (see Figure 15.1).

**FIGURE 15.1** Dimensions of financial inclusion



Source: Burjorjee and Scola (2015).

## Financial inclusion and inequality

According to the World Bank, ‘financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way’ (World Bank, 2018). Leyshon and Thrift (1996) defined financial exclusion as referring to those processes that serve to prevent certain social groups and individuals from gaining access to the formal financial system. Carbó et al. (2015) defined financial exclusion as, broadly, the inability (however occasioned) of some societal groups to access the financial system. Mohan’s (2016) definition focused

Inclusion thus means not only having better access to banking services but also being provided with a wide range of services (deposit taking, credit, microfinance, payment processing, mortgages, insurance and so on) specially tailored to the poor and to women, who represent the bulk of the ‘unbanked’. It also means being served by a responsible and sustainable financial sector, one that manages and mitigates any potential environmental, social and governance (ESG) risks associated with the use of financial products and services. One such way is through having actors in the sector adopt an environmental and social management system. This involves incorporating ESG considerations across all facets of banking services and operations, in line with related

industry developments. According to **Findex** data<sup>(1)</sup> and **Universal Financial Access** data, 1.7 billion people remained unbanked in 2017 (latest available data). According to the United Nations Capital Development Fund, 2.5 billion adults – more than half of the world's working adults – are excluded from formal financial services. Exclusion is most acute among low-income populations in emerging and developing economies, in which approximately 80 per cent of poor people do not have access to financial services. Including them in the formal economy is a critical contribution to reducing poverty, tackling income inequality and fostering inclusive growth (UNCDF, 2020a).

#### **Financial exclusion is a driver of income inequality.**

Although a systematic and significant bias against women's financial inclusion has been demonstrated in empirical studies, inequality in financial access is more strongly related to income inequality than to gender inequality. Another finding is that, in countries with low financial access, increases in the use of financial services are driven at first by the minority who already have access, thus exacerbating inequalities in financial inclusion. It is only when an increase in the use of financial services starts to be driven by more people gaining access that inequality in financial inclusion decreases (Aslan et al., 2017)<sup>(2)</sup>. These findings have important policy implications: **financial development can have a significant impact on poverty and inequality reduction if more equal access to a broad range of financial services is provided across the population** (Aslan et al., 2017). This is further explored below, together with associated enabling policies.

#### **The transmission channels from financial inclusion to the reduction of inequality are multidimensional.**

Financial services facilitate redistribution over time and between generations by enabling the smoothing out of consumption, using savings for education and

health or simply for coping with unexpected shocks and managing risk. Credit facilitates investment and expansion of businesses, creating job opportunities. Thus, better access to and use of financial services spurs economic growth and can contribute to improving quality of life. As a result, **financial inclusion is seen as an important facilitator of reducing extreme poverty through pro-poor growth and reducing income inequalities**<sup>(3)</sup>.

**However, adopting a policy of financial deepening – providing better and more access to financial services, expanding the range of financial products available and using advanced financial technology – is unlikely to reduce inequalities if services remain unused and products do not correspond to needs. Financial sector policies must specifically target financial inclusion by bringing services to disadvantaged population groups**, tailoring products to their needs and making them aware of how they can use the products to meet needs (Aslan et al., 2017). Instead, financial services usually exclude the poor and informal workers or entrepreneurs, and largely exclude the rural and farming population (see Box 15.1). Women and the rural population are missing out the most. Most of the people trapped in the informal economy are women (Bill & Melinda Gates Foundation and G7 French Presidency, 2019), and in many rural areas informal and subsistence activities take place in a non-monetised economy, leaving households without the resources to access the most basic goods, pay tuition fees or buy medicines.

**Beyond easing access to financial services, complementary policies that lift some of the constraints on the use of financial services by these disadvantaged population groups should also be part of the policy package.** The constraints that have to be overcome to ensure better uptake include distance and availability of transport to the nearest banking branch, financial illiteracy and/or unawareness, the charges and fees levied and mistrust. Outside the financial system there may well be a lack of freedom for women to make decisions and to undertake administrative and financial transactions, an absence

<sup>(1)</sup> Findex is a database of cross-country, nationally representative survey results of household finances. It captures not only financial needs but also socioeconomic and demographic characteristics of respondents. For the different data available to measure financial inclusion, see World Bank (2015).

<sup>(2)</sup> This refers to literature analysing gender and income inequality that shows that gender gaps in education, health and financing exacerbate inequality of opportunities, resulting in higher income inequality.

<sup>(3)</sup> See Aslan et al. (2017), IMF (2020) and UNCDF (2020).

### BOX 15.1 Financial inclusion and informality

'The poor are typically excluded from formal sector opportunities. They live and work in the informal economy. They are both producers and consumers, and they need financial access to build assets, create and sustain livelihoods, manage risks, and smooth consumption. Without access to formal financial services, poor families must rely on informal mechanisms: family and friends, rotating savings schemes, pawnbrokers, moneylenders, money under the mattress. These informal mechanisms are insufficient, can be unreliable, and are often very expensive. Thus, financial exclusion imposes large opportunity costs on those who most need opportunity.'

Source: CGAP (2013).

of formal identity cards<sup>(4)</sup>. Those who are willing to use financial services may have no credit history or collateral (which are linked to issues around land titling and land tenure) and may also lack basic financial planning and record keeping skills.

In many cases, the impact of financial system policies will be weak unless it is accompanied by appropriate regulatory measures that enable inclusive business models (UNCDF, 2020a). As the Consultative Group to Assist the Poor (CGAP) highlighted, 'Digital financial services have revolutionised how we think about financial access and product diversification, and early graduation programs have proven that even the poorest can be empowered to become active managers of their financial lives' (Burjorjee and Scola, 2015) (see Box 15.2).

<sup>(4)</sup> To illustrate, nearly 38 per cent of the population in low-income countries lack a national identity card, compared with 5 per cent of adults in high-income countries. This is a direct impediment to financial inclusion and access to deeds and land title that often affects women the most (see Policy Brief 8: Land, Policy Brief 14: Digitalisation and Policy Brief 17: Governance and the Rule of Law). Inequitable or regressive legislation can be an underlying cause of women's economic or financial exclusion. For example, laws that require a husband's permission for activities such as getting an identity card, registering a birth and obtaining a loan act as major barriers to economic empowerment. These laws directly hinder a woman's ability to access financial services, find employment or even own a cell phone.

### BOX 15.2 Financial inclusion in sub-Saharan Africa

'In Kenya, financial inclusion has grown at an astonishing rate of over 9.4 per cent per year from 27 per cent in 2006 to 83 per cent in 2018, and banking system deposits increased from 30 to 44 per cent between 2000 and 2016' (Gubbins, 2019).

When savings accounts were offered to female market vendors in Kenya, their daily expenditure increased by 37 per cent, compared with the group of women who did not receive an account.

Financial inclusion through adequate offers and spread of services means that millions of entrepreneurial women and youths will be able to get start-up capital, do business efficiently without layers of middlemen, save, invest in priorities, such as health and education, that supercharge development, and pass from the informal to the formal economy (Bill & Melinda Gates Foundation and G7 French Presidency, 2019). To achieve this end, supporting digitalisation is also necessary: access to a personal phone, especially for women living in poor and marginalised communities, is a game changer (see Policy Brief 14: Digitalisation).

Because inclusive finance can also lead to abuse, indebtedness and other ills, it must be achieved in a responsible manner. The United Nations Capital Development Fund applies a set of principles that are a good guide<sup>(5)</sup>.

The legal and regulatory environment should provide consumer protection. It should also ensure supervision of operators by financial authorities that set and enforce rules relating to the provision of services, especially regarding transparency, recourse and other aspects of market conduct.

Industry action – taken either individually or collectively – should be shaped by principles, standards, codes of conduct and guidelines, such as the Smart Campaign's Client Protection Principles.

<sup>(5)</sup> Also see Responsible Finance Forum (2021). The Responsible Finance Forum and the Global Partnership for Financial Inclusion (of the G20) are promoting guidelines to achieve better outcomes.

Enhancing the financial capability of consumers to make sound financial decisions and protect themselves from harm should be mainstreamed in all financial inclusion policies and programmes.

## Financial inclusion policy measures with a demonstrated impact on inequality

In addition to these policy measures, the policies identified in **Policy Brief 14: Digitalisation** – which tend toward inclusion – should be consulted.



### Financial sector policies

When supporting financial sector policies or macro-economic and fiscal reforms for an improved investment climate and business environment, the European Union (EU) should consider the inequality implications of such support. As seen above, **deepening financial services can increase inequality**, as high-income individuals and well-established firms reap the benefits of the improved offer of financing. However, even such undesirable short-term effects could lead to higher investment and more jobs for unqualified and informal workers, leading to a larger share of the population joining the formal economy, higher wages and more inclusive growth, thus ultimately contributing to **reducing socioeconomic and income inequalities**. Nevertheless, a fine balance must be struck. The potential role of financial sector policies in reducing (or increasing) inequality should be considered carefully on a case-by-case basis. The EU should ensure that the financial sector policies it supports are designed so that they also directly contribute to reducing income inequalities.

Some general policy rules for this include the following<sup>(6)</sup>:

- Financial inclusion policies are important for reducing inequality, as the benefits are greatest for the poorest, especially households and women, among other groups;
- Regulatory and supervisory policy needs to limit financial deepening so that its marginal benefits are not exclusively captured by the top incomes and financial sector rents;
- Pro-small firm bias in expanding financial inclusion is beneficial for financial stability;
- Financial sector policies are a complement to, not a substitute for, other policy tools such as fiscal and competition policies;
- When financial inclusion strategies combine financial regulation, telecommunications, competition and education, they increase the pace and impact of reforms;
- Improved financial literacy helps the poorest households to access financial services in safe, convenient and affordable ways.

Financial sector policies work best in reducing inequalities when they are accompanied by specially targeted measures to facilitate the access of the disadvantaged to financial services; when the products offered are targeted to the needs of this group; and when this group has the knowledge to borrow safely, invest wisely, save for new opportunities and spend well<sup>(7)</sup>.



### Digital finance

**Modern information and communications technology improves the quality and convenience of financial services by lowering the cost of acquiring and servicing small and infrequent transactions.** It can address the challenges of access to non-cash payments caused by weak banking systems. Digital financial services and mobile financial devices are increasingly becoming key pillars of a country's financial infrastructure and are central to commerce, household finance and innovation. Digital and mobile financial services have individual- and household-level impacts. They allow the secure storage of money and

<sup>(6)</sup> These are based on findings of recent empirical research undertaken by the IMF and the World Bank. The IMF's study focused on the links between income inequality on the one hand, and (1) financial depth, (2) financial inclusion and (3) financial instability on the other. See Cihak and Sahay (2020). The World Bank focused on a review of financial policies and their effects on financial inclusion – see World Bank (2018).

<sup>(7)</sup> See, for example, the UNCDF's approach to putting people at the centre of its approach to financial tools and services.

lead to better financial management and savings, especially among women, youths and elderly people. They can be linked to microfinance institutions and more broadly to banking institutions and thus to credit. In Kenya, for example, access to mobile financial services increased households' daily per capita consumption levels by 2 per cent and helped an estimated 185 000 women move from farming to business occupations. A greater number of financial services also led to a 22 per cent rise in the savings of female-headed households. Increased access to such services gives women in male-headed households, often also secondary income earners, more financial independence and economic opportunities, including opportunities to start their own businesses (Matheson, 2016). Economy-wide spillover effects, generated by the activity of a larger financial sector, rapid financial innovation and greater financial inclusion, are also demonstrated; these effects include improved labour productivity and sustained long-term growth. Digital financial services and mobile financial services are **tools for building financial resilience in the short term; in the longer term, they provide a policy instrument for poverty and income inequality reduction**.

More, if public finance management is made more effective by digital finance (which reduces opportunities for corruption, targets spending more precisely and improves tax collection), it will give governments additional **fiscal space in which to reduce income inequalities**. The facilitation of **new business models**, such as sharing platforms, product-as-a-service applications and other circular economy solutions, can also make the usage of products more affordable and widely available.

Digital finance's effectiveness in reducing inequalities depends on how well it is regulated to protect consumers and to offer a sufficiently dense agent network. Financial regulations should be reviewed and adapted to new financial digital products and services to protect customers and enforce secure transactions and data protection. An individual's right to consent, principles for protecting privacy and a documented privacy policy should be developed and made known in a way that is easily understood. An independent body for supervision of digital finance products and

an independent body for consumer appeals should be set up.

**Mobile money offers new ways to remunerate people, whether it be paying isolated workers in rural and remote areas or sending payments through transfers.** In Honduras, Euroclima+ supports payments to communities providing environmental services. **Cash transfer policies**, including social protection payments and other social benefit payments, **can rely on digital payments not only as a safe and secure mechanism of payments** (see **Policy Brief 1: Health and Nutrition**, **Policy Brief 2: Education** and **Policy Brief 3: Social Protection**), that, in addition to cash, secures money for households or women, **but also as a way of mainstreaming financial services for the poor**, thus extending financial inclusion and acting to reduce income inequalities. Besides, in its Special Series on Fiscal Policies to Respond to COVID-19, the International Monetary Fund (Fiscal Affairs) proposed a focus on digital solutions for direct cash transfers in emergencies (IMF, 2020):

Experiences during previous pandemics and economic crises have shown that a range of transfer programs and modalities can be effective in protecting vulnerable households, including those in the informal sector and poorer regions. In the wake of the COVID-19 pandemic, many governments are considering direct cash transfers to protect vulnerable households. In several developing countries, the scale of these payments is unprecedented. For people living in extreme poverty, such cash support can be a lifeline. However, low-income developing countries and emerging market economies often have large informal sectors, which make it more difficult to deliver support effectively and securely.

Mobile money also **facilitates remittances and helps the development of micro and small businesses**, as it makes basic services and utilities (e.g. access to energy, education and water) more accessible to people at the base of the economic pyramid. Similarly, public works can be used to promote digital payments: digital payments are secure, enable workers to demonstrate their previous work, and encourage saving and better financial management. Development partners can support these options when undertaking highly labour-intensive work, combining digital payments with the financial education of labourers (see **Policy Brief 16: Labour and Employment**).

Conditions for increasing financial inclusion through digital financing services (e-banking and mobile banking) include accomplishing the following tasks (EIB, 2016).

- Undertake a case-by-case analysis of the regulatory framework and market conditions, which differ considerably from country to country. In success stories so far, the regulator and a dominant market player have held critical roles, showing the need for an appropriate regulatory environment (notably in consumer protection) and a supportive market structure.
- Link the technological deployment of internet banking and mobile banking with adequate technical assistance in information technology and credit risk management. This is crucial if access to finance for micro, small and medium-sized enterprises (MSMEs) is actively promoted.
- Build a supportive and open infrastructure and payments ecosystem that includes widespread phone ownership and network coverage at an affordable price.
- Increase financial literacy among the population and digital skills among government and banking sector staff.
- Approach financial inclusion systematically, taking the different stakeholders in the financial ecosystem into account.



### **Lifting credit constraints: credit and microcredit for micro, small and medium-sized enterprises**

According to CGAP (Hommes and Ardic, 2013), an estimated 80 per cent of enterprises in developing economies are informal firms. The definition of informal, as opposed to formal, varies from country to country. For example, a firm in the Philippines is required to have a business licence, a tax identification number and a municipal licence in order to open a bank account and qualify as 'formal'. However, in Bangladesh, an enterprise with no tax identification number but with a trade licence and a record of operations for at least 2–3 years is considered sufficiently formal to open a bank account. **In all cases, ensuring that MSMEs have access to credit is critical (see Box 15.3).** These enterprises are the 'missing

middle' of employment and production in economic development, yet they are underserved by financial institutions. The problem is more acute for MSMEs that are led by women and members of marginalised groups.

#### **BOX 15.3 The EU initiative for financial inclusion**

In partnership with the European Investment Bank, the European Bank for Reconstruction and Development, Germany's KfW Development Bank and Agence Française de Développement, the European Commission created the EU Initiative for Financial Inclusion. The initiative offers blending to loans of the four other partners in support of MSMEs, including innovative start-ups, in the Neighbourhood South region. It can reach up to 200 000 micro, small and medium-sized enterprises (MSMEs) through:

- microfinance, through local financial institutions and capacity building (**SANAD**), led by KfW Development Bank;
- a risk capital facility offering risk capital or venture capital to support MSMEs as well as loans to microfinance institutions that lend those funds on to micro enterprises, led by the European Investment Bank;
- advisory services for MSMEs (small business support), led by the European Bank for Reconstruction and Development;
- MSME credit lines and capacity building for local financial institutions, led by the European Bank for Reconstruction and Development;
- guaranteeing funds to incentivise local banks to lend new funds to MSMEs, led by Agence Française de Développement.

**Source:** EC (n.d.).

Dedicating resources to financing MSMEs' development thus makes sense, as they contribute to growth and job creation, offer opportunities for those without education and for farmers wishing to transform their agricultural produce into refined products (e.g. turn fruit into juice), and become change agents contributing to reducing income inequalities. However, they need support in demonstrating the robustness of their business cases: industry, non-governmental organisations and specialised agencies (e.g. the United Nations

Capital Development Fund) can help. (Industry itself needs to be educated so that perceptions change and MSMEs are considered a viable option.)

For better MSME access to financing and better use of financial services, the following measures could be supported.

- Update banks' business analysis and risk analysis in the different productive sectors so that they can **adapt their credit conditions**.
- Collect **information on borrower creditworthiness**, and document credible evidence of borrowers' financial viability and/or social impact.
- Use more comprehensive approaches, linking access to **credit with capacity-building activities**, notably those directed towards management skills and improved financial literacy of credit beneficiaries. Linking loans with training is a tested practice that enhances beneficiaries' overall level of preparation in using credit funds and mitigates risks. Making loan ceilings conditioned on previous loans and credit history protects the borrower and the bank, mitigating risks for them and for the system.
- Support and edit **responsible lending guidelines** to promote transparency, comparability and choice in financial services for MSMEs and consumers. Responsible finance principles across the financial sector exist but are still undeveloped<sup>(8)</sup>. Potential avenues to explore include supporting the establishment of certification standards for responsible lenders and MSME banks, ensuring the implementation of the principles of responsible finance, and supporting responsible non-banking financial organisations (e.g. insurance companies, housing arrangements and low-cost digital financial services).

When addressing the smallest MSMEs, the constraints are more acute. To lift the constraint of lack of access to capital for the poor, which in fact limits their ability to invest, capital markets should offer adequate microcredit schemes – subject to some key principles. Microcredit institutions should be **accountable** and **provide sustainable credit**. An offer of credit may

be accompanied by complementary activities such as **subsidies, financial education and business development support**, which are necessary for first-time credit users to make the most of the services and products offered.

Through a development cooperation partnership, the EU can assist a developing partner country in two ways (other than by providing direct support as a guarantor or lender).

- It can rely on its country experience to **work with national financial services providers that understand the local context** and the existing limitations to reach the final beneficiaries (e.g. MSMEs, households, the poorest segments of the population).
- It can offer blending: **by deploying funds with a higher risk tolerance than commercial investors, a blending mechanism can help mobilise a significant amount of capital** in the short to medium term while also achieving an important demonstration effect to lower perceived risk in the long term. This can support partnerships between non-governmental organisations and the private sector to pave the way for truly inclusive financial services.

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# LABOUR LAND EMPLOYMENT



## KEY MESSAGES

- Labour markets in developing countries often face challenges related to poor-quality work, vulnerable employment and informality.
- Minimum wage policies can directly contribute to limiting wage inequality by establishing the starting wages at the end of the wage scale. However, this can happen only if they are combined with collective bargaining.
- Active labour market programmes (ALMPs) can facilitate people's transition to employment and higher incomes, but choosing the right programme is fundamental, and it requires careful diagnostics and targeting.
- ALMPs cannot solve all problems on their own. They must be accompanied by structural reforms and complementary policies.

## Labour and employment and inequality

This policy brief is based on a recent two-volume Commission publication which details the importance of employment and decent work for sustainable and inclusive development, *Promoting employment and decent work in development cooperation*. **Volume 1** seeks to sensitise the reader about the importance of these concepts, the potential barriers to employment and the range of relevant policy instruments. **Volume 2** offers practical guidance for supporting analysis, policy dialogue, and the formulation of different types of interventions. It is organised in concise, stand-alone guidance notes that provide quick access to good practices on a variety of topics.

Given the importance of individual wages and earnings for household incomes, labour policies are instruments that can directly contribute to a reduction in income inequalities and simultaneously enhance economic growth and social cohesion.

**Labour market conditions are a key determinant of income inequality, and developing countries generally share common challenges.** These common challenges include the following.

- **Poor-quality work is often more of a problem than unemployment.** Given the low coverage of social protection systems, people simply cannot afford to be unemployed. However, wage employment is often the exception, and a large share of the labour force in developing countries works in household enterprises and subsistence farming. This, in turn, leads not only to **vulnerability and informality**, but also to people's dependency on **portfolios of work**: as one job is insufficient to provide enough income, people often engage in a range of income-generating activities simultaneously (e.g. agriculture, casual labour, petty trading and possibly formal work), each with its own risks (i.e. seasonality, unacceptable forms of work, low occupational safety and health standards, and so on) (see Box 16.1).
- **Vulnerable employment**, which includes own-account (self-employed) workers and contributing family members, is **characterised by low-productivity jobs lacking access to adequate earnings and social security**, and can obviously lead to an increase in income inequality. The 'precarariat' is particularly vulnerable: this is a social class formed of people suffering from job insecurity, affecting material or psychological

### BOX 16.1 Definition of decent work

'Decent work' is defined by the International Labour Organization (ILO) as 'productive work for women and men in conditions of freedom, equality, security and human dignity'. Given that in developing countries **work is often the only source of income**, the 'decency' of the work is a key determinant of people's livelihood, well-being and dignity. Decent work can support the transmission channel created by employment through:

- **the income effect** – decent income and earnings could be translated into higher consumption and economic dynamism;
- **the investment (dynamic) effect** – rising household income is often associated with rising household investment in health, education and skills development, which in turn raises productivity;
- **the social cohesion effect** – rising self-esteem and dignity, which in turn leads to political stability, an enabling environment for growth and development.

welfare. It includes informal workers, gig and temporary workers, and the unemployed and migrant workers (Standing, 2011).

- **Informality** – a main challenge in developing countries – represents 70 per cent of all employment in developing and emerging countries, compared with about 18 per cent in developed countries. It comes with **a range of poor-quality working conditions, increasing inequality between formal and informal workers**. These include low earnings and high costs and risks, unfair terms of employment, trade and occupational health and safety risks, a lack of access to basic labour protections, other legal protections and social protection, and a lack of organisation and worker representation.

Addressing these challenges is necessary to reduce income inequality, and it requires constructing institutions that support people both inside and outside the labour market. There is indeed a direct correlation between a well-regulated and functioning labour market, supported by an organised welfare state and widely available public social services, and greater equality between groups, including in wages and household income. Further, societies with more

equitable and decent wages will have less need for supportive redistributive measures (which should nonetheless be pursued).

Labour market conditions, and so their impact on inequalities, are far from remaining constant. Technological advances and innovation, such as digital platforms and automation, are increasingly affecting employment globally, inducing changes in the labour market through (job) substitution, creation and transformation. New business models materialise, enabled by technologies and boosted by global shifts in lifestyles, to deliver on the promise of growing economies. For example, circular economy business models are increasingly adopted, being largely grounded on the rise of innovative solutions and technologies, and can become a powerful source of job creation. These business models, notably benefiting a digitally literate workforce (see **Policy Brief 14: Digitalisation**), may bring not only a net increase in jobs but also a potential loss of some existing employment positions or tasks, as recent research results focused on the European Union indicate (Summa Circular Economy Policy Research Centre, 2018).

It must be remembered that regulating the labour market and the employment dimension of a country relies on **multiple labour market institutions**. These are not only institutions that regulate the workplace (e.g. social dialogue mechanisms, business registration authorities, public employment services) but also institutions that redistribute income, including pensions, income support for the unemployed and the poor, and public social services. **These institutions do not exist in a vacuum, but rather work through linkages that can have both direct and indirect effects**; these effects are both social and economic and include the effect of reducing inequalities. An example of linkages is the linkage between **trade openness and wage differentials** (see **Policy Brief 12: Trade**). Trade openness, together with other relevant factors, has contributed to widening wage differentials in Latin America by favouring the wages of workers in export sectors and increasing the earnings of skilled labour relative to unskilled labour. In such cases, the working poor are at a disadvantage; they cannot access some opportunities or wage benefits because of the level of skills and education they possess.

It is no surprise then that, on the one hand, **complementary policy measures have to be in place** and that, on the other hand, the effectiveness of labour policies in tackling inequalities can be undermined by a lack of harmonisation with those other policies. Labour policies should be linked to other measures, such as **human capital development policies**, which are crucial to reducing the mismatch between the demand for skilled employees and the supply, and well-structured and functioning **social safety nets**, which guarantee a continuity of income for the poorest during adverse time and crises.

## Labour and employment policy measures with a demonstrated impact on inequality

Addressing employment and labour challenges requires a mix of policies, including policies supporting private sector development, formalisation and improvement in standards of work. When trying to reach this objective and reduce income inequalities at the same time, minimum wage policies and active labour market programmes (ALMPs) are the measures that have proven particularly effective.



### Minimum wage policies and collective bargaining

Minimum wage policies are an important form of labour market regulation that can have strong effects on reducing inequalities, ensuring adequate standard living conditions.

Minimum wage policies can contribute directly to limiting wage inequality by setting the starting wage at the end of the wage scale, increasing the income share of the bottom 40 per cent, levelling the income distribution (ILO, 2013) and thus reducing the pay difference between the bottom and top percentages. However, this can happen only if a minimum wage is combined with collective bargaining – which can also be used in negotiations on additional policy measures (ILO, 2017) (see Box 16.2).

### BOX 16.2 Social dialogue and collective bargaining

Social dialogue and collective bargaining are tools to build consensus on a wide range of employment issues. Specifically, they can help build national policy frameworks, create an employment-friendly environment in industries, and help address deficits in decent work. Social dialogue is both a means to achieve social, economic and environmental progress and an end in itself, as it gives people a voice and stake in their society and workplaces.

If the formal sector employs a significant share of the active population, minimum wage legislation may be a powerful instrument to mitigate wage inequality. It has been found that, in low-income countries, minimum wage legislation in the (admittedly limited) formal sector may induce workers in the informal sector to ask their employers for higher wages. A minimum wage can then lead to increased wages in the informal sector. This is, of course, dependent on the existence and enforcement of legislation recognising the rights of collective bargaining and the strengths of trade unions, and in general of civil society organisations. In the case of informal workers, *conditio sine qua non* is for trade unions to protect them also. The absence or weakness of such organisations undermines the ability of (and opportunity for) workers in both formal and informal sectors to advocate for adequate wages and safe working conditions, and thus increase their income.

From the labour supply perspective, the minimum wage may be a benchmark for ‘fair’ wages. Employers in the informal sector may pay wages that are higher than the minimum wage, even comparable to the formal sector market wage, so that their employees do not leave for a similar job in the formal sector (Cunningham, Sanchez-Puerta and Wuerml, 2010).

Minimum wages has also been found to have an impact on decent work, raising labour standards, and on the gender pay gap, particularly for those sectors in which women are over-represented. Raising labour standards and ensuring that wages meet basic needs, levelling wages across sectors with more vulnerable workers, and forcing employers and the state to

invest in training and human capital development can help reduce inequalities.

Because of its potential to reduce income inequalities, raising the topic of minimum wage regulation in the policy dialogue process with partner governments should be considered. This is particularly true if those governments have identified a reduction in inequalities as a policy priority.

Optimal minimum wage systems vary across countries and depend on a number of sectors. However, certain guiding principles should be considered.

- **National minimum wages are considered most effective when combined with a system of collective bargaining.** The more inclusive the collective agreements are, the greater their influence on income distribution. Further, social partners should also be engaged in overseeing and adjusting the minimum wage (Castel-Branco, 2016a, 2016c).
- **A regional strategy should also be considered. Regional minimum wage systems can help prevent a ‘race to the bottom’,** stopping poor countries from competing among themselves on the global market by deliberately depressing wages to attain a higher level of competitiveness.
- **Minimum wages should be set, taking into account the needs of workers and their families,** as well as the cost of basic needs and the average wage (ILO, 2020).
- **Minimum wages should be set based on the ‘basic wage’** (which includes income tax and social insurance contributions but excludes wage supplements such as productivity pay and in-kind benefits) (Castel-Branco, 2015).
- **Minimum wages have to be adjusted over time to remain relevant and adjusted at a faster rate than the general wage levels.** This is necessary in order to ensure that minimum wages reduce inequality.
- **Measures to enforce compliance with the established minimum wage are essential.** These include a labour inspectorate, penalties and sanctions for violators, and incentives for compliant employers (Mahyut, 2018; Mayneris, Poncet and Zhang, 2014).

### BOX 16.3 Minimum wage reform in Malaysia

In Malaysia, studies had found that more than 30 per cent of private sector workers were paid less than MYR 700 per month – below the national poverty line. In addition, wages had risen significantly slower than productivity over a 10-year period. There were indications of distortion in the labour market, in which wages determined by market forces failed to increase salaries in line with productivity and the rise in the cost of living.

As a result, Malaysia implemented a minimum wage policy on 1 January 2013. The policy set a minimum wage of MYR 900 per month (USD 297) for Peninsular Malaysia and MYR 800 per month (USD 267) in the poor eastern states of Sabah and Sarawak. The minimum wage covers both the local and the foreign workforce, except for domestic workers such as domestic helpers and gardeners. The minimum wage policy is intended to ensure that the basic needs of workers and their families are met, to reward and protect them from exploitation, and to give firms incentives to move up the value chain by investing in technology and boosting productivity.

The determination of the minimum wage was primarily done by the National Wage Consultative Council, whose membership comprised six employer representatives, six employee representatives, six representatives of public offices and five other members. In setting the minimum wage, the council took into account social and economic considerations: cost of living, productivity, competitiveness, and employment and geographical differences within the country. Other points that it considered include geographical factors (different states, regions), economic sectors and industries and demographic factors.



### Active labour market programmes

Active labour market programmes are designed to actively facilitate people's transition to employment and higher incomes, through relatively short-duration interventions (typically less than 6 months and rarely more than 1 year). In doing so, ALMPs can be a key tool for reducing people's vulnerability, fostering social inclusion, and directly tackling and reducing income inequalities.

- By fostering employability, facilitating business creation, enhancing job search and providing short-term job opportunities, ALMPs can contribute to higher labour force participation, lower unemployment and higher earnings, and also facilitate the social inclusion of disadvantaged groups. In addition, by connecting people to the labour market, ALMPs can reduce a country's fiscal burden in terms of social assistance.
- **ALMPs can improve labour market outcomes, especially for low-income and disadvantaged groups, helping reduce income inequality**, when they are well designed and implemented. For instance, a focus on low-income youths or youths with low levels of education has been found to trigger higher employment and earnings for these youths than for youths across all country income levels (Kluve et al., 2017).

In middle- and high-income countries, ALMPs are closely related to the concept of activation. There, such programmes seek to 'effectively promote and assist the return to work' by encouraging jobseekers to actively look for work and/or improve their employability (e.g. by acquiring new skills) (OECD, 2013). In these contexts, in return for receiving income support and being offered a range of employment services, individuals must comply with a set of requirements (e.g. active job search, participation in programmes, accepting job offers). **In low-income countries, ALMPs are typically used as an instrument to provide income-generating opportunities and contribute to lifting people out of poverty, reducing income inequality.** As formal social protection mechanisms are often insufficient in these countries, people are under particular pressure to work in order to make a living. Hence, ALMPs can play an important role in providing temporary work opportunities and equipping people to find and retain more permanent jobs. In these contexts, ALMPs can also serve as a bridge from social assistance programmes (e.g. cash transfers) to self-sufficiency ('graduation') (Almeida et al., 2012).

**Active labour market programmes have also been found to have higher impacts in low- and middle-income countries** than in high-income countries. This can be explained by the fact that developing countries often have large cohorts of disadvantaged people, for whom marginal investments in skills and

employment opportunities can lead to larger changes in outcomes.

Because of their potential impact on inequality, European Union delegations could consider ALMPs. Although projects will be tailored based on country specificities, **the following main principles can be considered when designing and implementing ALMPs.**

- ALMPs should primarily target disadvantaged groups of people with higher levels of vulnerability, who may therefore have more difficulties in finding work on their own (e.g. youths, women, persons with disabilities, migrant workers, older workers, the long-term unemployed, low-skilled workers). **ALMPs can support both people outside the labour market (i.e. the inactive) and those employed**, enhancing the productivity of people in underemployment and subsistence activities, and **connect people working in the informal economy with employment in the formal sector.**
- The design, and the type of ALMP chosen, is a reflection of the different barriers that have to be addressed in the labour market (Table 16.1). No one type of intervention is better than others. Programmes can address barriers on the supply side and the demand side, including issues related to matching people with skills with jobs in the labour market. In practice, they can also be combined (e.g. a combination of skills training and employment subsidies) to address multiple simultaneous barriers faced by jobseekers. The fundamental step is to carry out sound diagnostics to identify the barriers of the local context (Blattmann and Ralston, 2015). The selection and design of ALMPs must be informed by beneficiary characteristics.
- **ALMPs cannot solve all problems on their own and must be accompanied by structural reforms.** They are short-term instruments to facilitate labour market transitions and cannot address structural barriers in the labour market. ALMPs must always be embedded into a broader mix of policies – employment and non-employment policies – to target jobseekers and firms, as well as challenges in the labour market and other types of inequality determinants.

**TABLE 16.1 Overview of possible ALMPs according to constraints**

| LABOUR MARKET CONSTRAINT                                                                   | EMPLOYMENT BARRIER                                                                                                                                                                                                                                                                                                              | POSSIBLE SHORT-TERM ALMP INTERVENTION <sup>(1)</sup>                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Job search constraints (matching)                                                          | <ul style="list-style-type: none"> <li>• Lack of information</li> <li>• Lack of networks</li> <li>• Difficulty in signalling abilities to employers</li> </ul>                                                                                                                                                                  | Employment services: <ul style="list-style-type: none"> <li>• career guidance</li> <li>• job search assistance</li> <li>• job placement services</li> <li>• skills certification</li> <li>• training centre accreditation</li> </ul>                                                                                                                                                           |
| Insufficient job-relevant skills (supply)                                                  | <ul style="list-style-type: none"> <li>• Lack of (relevant) technical skills</li> <li>• Lack of soft skills</li> <li>• Lack of work experience</li> <li>• Lack of basic skills</li> </ul>                                                                                                                                       | Skills training programmes: <ul style="list-style-type: none"> <li>• technical and vocational training</li> <li>• soft skills training</li> <li>• on-the-job training</li> <li>• literacy and numeracy training</li> </ul> Also: <ul style="list-style-type: none"> <li>• information about returns to education and training</li> <li>• training subsidies</li> </ul>                         |
| Constraints to small-scale farming and self-employment (demand)                            | <ul style="list-style-type: none"> <li>• Lack of information, education and business skills</li> <li>• Lack of financial capital</li> <li>• Lack of access to land, physical capital and inputs</li> <li>• Lack of social capital</li> <li>• Lack of access to markets</li> <li>• Restrictive social and legal norms</li> </ul> | Entrepreneurship promotion interventions: <ul style="list-style-type: none"> <li>• entrepreneurship training</li> <li>• access to finance (savings, grants, loans, etc.), including microfinance</li> <li>• access to land, physical assets and inputs</li> <li>• advisory services (including coaching/mentoring)</li> <li>• access to markets (including value chain development)</li> </ul> |
| Low demand for workers (demand)                                                            | <ul style="list-style-type: none"> <li>• Slow job growth</li> <li>• Employer discrimination against certain groups</li> </ul>                                                                                                                                                                                                   | Subsidised employment programmes: <ul style="list-style-type: none"> <li>• public works/service programmes</li> <li>• wage subsidies</li> </ul>                                                                                                                                                                                                                                                |
| Other constraints outside the labour market <sup>(2)</sup> (supply and job search-related) | <ul style="list-style-type: none"> <li>• Low health (including mental health)</li> <li>• Family responsibilities</li> <li>• Culture and social norms</li> <li>• Restricted mobility (e.g. due to security situation)</li> <li>• Distorted aspirations and expectations</li> </ul>                                               | Other support services: <ul style="list-style-type: none"> <li>• health services (including psychological counselling)</li> <li>• childcare assistance</li> <li>• safe spaces; family and community engagement</li> <li>• mentoring</li> <li>• transport assistance</li> <li>• other social services</li> </ul>                                                                                |

Source: Based on Cunningham, Sanchez-Puerta and Wuerml, 2010.

<sup>(1)</sup> The interventions listed here do not necessarily imply an evidence base or proof of efficacy; the listing is also not exhaustive.

<sup>(2)</sup> The term 'social constraints' used by Cunningham, Sanchez-Puerta and Wuerml (2010) has been broadened to reflect other barriers as well.

- **Institutional context matters.** ALMPs have to be looked at in the context of the institutions that implement them. It is important to link the use of ALMPs with institutional development efforts while also working with non-public providers (e.g. non-governmental organisations), in which ALMPs have a comparative advantage.
- Even with strong national public employment services, it is not possible for a single provider to deliver all relevant services to a diverse group of jobseekers efficiently and to a high quality standard. Hence, a good network of partner organisations and **coordination with relevant stakeholders and external service providers are essential. There should be clear linkages** and additionality between national employment services (Ministry of Labour and other ministries, such as agriculture, industry and youth) and non-public providers (e.g. private employment agencies, non-governmental organisations and training institutions).

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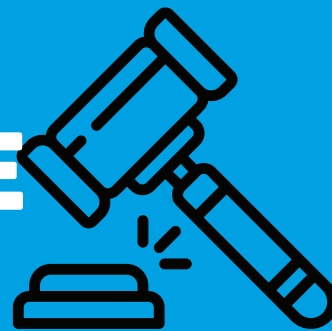
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# GOVERNANCE AND THE RULE OF LAW



## KEY MESSAGES

- Poor governance and a deficient rule of law are both the main drivers of inequality and shaped by inequality.
- Changes in governance and the rule of law to tackle inequality require addressing power asymmetries.
- Policy measures can help when carefully calibrated to shift incentives.
- Guiding principles are accountability, transparency, participative decision-making and access to information.

## Governance and the rule of law and their relationship with inequality

As stated in the European Consensus on Development and reiterated in most literature and guidance on development, good governance and the rule of law are preconditions for [sustainable and inclusive development](#). Sustainable Development Goal 16 (Peace, justice and strong institutions) puts governance at the heart of the achievement of all other Sustainable Development Goals. Democracy is most often added to the equation as the third condition for effective, equitable, inclusive and sustainable development; however, for democracy to deliver on equity, governance is key.

Governance concerns the state's ability to serve its citizens. It refers to the rules, processes and behaviour by which interests are articulated, resources are managed and power is exercised in society (EC, 2003). It is apprehended through governance institutions' and

systems' responsiveness to public needs, their ability to deliver essential services and their achievement in the promotion of inclusive growth (EC, 2017).

Governance touches on fundamental principles, such as participation, inclusion, transparency and accountability, which are goals in their own right. [Good governance is characterised by accountable and transparent institutions, participatory decision-making and public access to information.](#) It relies on the impartiality of courts, the provision of fair justice, access to legal assistance, and inclusive political processes ensuring that citizens can hold public officials to account. It is thus intimately linked to the notions of the rule of law and democracy. The term 'democratic governance' encompasses these fundamental values at the core of the European Union's (EU's) external actions (under Articles 2 and 21 of the Treaty on European Union).

It is through governance that economic growth, the distribution of incomes and the reduction of income inequalities can happen, or not. Ultimately, however, this is a question of relative power. The [political dimension](#) in particular is recognised as a determinant of how effective public institutions and systems are in achieving development outcomes. The World Bank's *World Development Report 2017* on governance and the rule of law acknowledges a shift in paradigm in which good governance is not so much about 'best practice' (what works to make development policies effective and under which circumstances) but about 'best fit'. It is therefore key to analyse systematically how power and politics influence core governance issues, as well as performance and results in a given sector<sup>(1)</sup>.

<sup>(1)</sup> See EC (2008), p. 6.

**Income inequality in the vast realm of governance and the rule of law has multiple expressions**, such as exclusion of some groups from decision-making or the concentration of decision-making in a few hands, corruption, and elite capture of some economic policies – a form of corruption. Corruption further increases income inequality and poverty by reducing economic growth, the progressivity of the tax system, the level and effectiveness of social spending, and the formation of human capital, and by perpetuating an unequal distribution of asset ownership and unequal access to education (Gupta, Davoodi and Alonso-Terme, 1998). **Further, there is a bidirectional causal relationship between corruption and inequality, in which inequality facilitates corrupt behaviour through elite capture of political processes and exploitation of vulnerable citizens.** A lack of transparency and accountability is also pervasive in these situations. Democratic systems can favour such practices (e.g. rules governing the financing of political parties), thereby failing to increase wealth redistribution to the poorest segments of societies. Financing election campaigns generates an injection of money into politics, which has repercussions throughout the governance system.

**Governance is therefore a major driver of income inequalities**, because it sets the framework and the rules for income distribution (through its fiscal and social protection policies); asset ownership (land rights in particular) (see **Policy Briefs 3: Social Protection** and **Policy Brief 8: Land**); and access to any public services, ranging from basic social services to public infrastructure (see **Policy Brief 1: Health and Nutrition**, **Policy Brief 2: Education**, **Policy Brief 4: Transport and Mobility**, **Policy Brief 5: Energy** and **Policy Brief 7: Water and Sanitation**). Governance also sets the rules on public investments, employment and economic opportunities, and justice; and the rules on voting and being able to participate in decision-making. Governance defines society and is defined by society: if society is unjust and inequitable, then the chances are that the governance systems and institutions will replicate this and sustain or enhance the inequity and inequality.

Examples of how elites have pushed for a governance framework that benefits them at the expense of the rest of the population include deregulation, transfer

of public assets at low prices (privatisation of telecommunications, energy, natural resources), special licences, and tax exemptions (see **Policy Brief 11: Public Finance: Taxation**). Other signs include corporate laws and competition laws that serve some interests and not others and preferential treatment in licensing requirements, access to finance, quality of infrastructure, availability of cheap energy, access to foreign exchange and import protection, favouritism and the politicisation of the civil service. Most of the signs of inequality in governance and the rule of law are defined in terms of rent-seeking behaviour that not only benefits a minority but also does so at the cost of the rest of the population.

Although bad governance drives income inequality and increases it in a dynamic manner, it is also a direct result of income inequality. Good governance can be eroded by income inequality when vested interests are threatened and corruption appears on the scene to protect established privileges. The current literature shows that corruption is not necessarily linked to growing inequality, but, by affecting income distribution, the distribution of aid flows and decision-making on public expenditure, it breeds inequality<sup>(2)</sup>. Corruption has not only negative effects on economic growth but also distorting effects (e.g. capture of public resources by the elite, leaving fewer resources to be spent on social services for the poor). The European Commission quotes the United Nations as estimating that ‘USD 1.26 trillion is lost each year by developing countries to corruption, bribery, theft and tax evasion. This is an amount equivalent to nine times global official development assistance’<sup>(3)</sup>.

**Governance and the rule of law are essential to support the reduction of income inequality**, and can be implemented through numerous channels. These channels:

<sup>(2)</sup> See Gupta, Davoodi and Alonso-Terme (1998), which uses a cross-country empirical analysis over the 1980–1997 period to show that increasing corruption levels also increase income inequality and poverty, mainly through the economic growth channel. For a different and more recent review that links corruption to income distribution rather than growth, see Zuniga (2017).

<sup>(3)</sup> See EC (2019), p. 20.

- provide a level playing field to regulate economic operators when they are undertaking their activities (asset ownership, access to public services, access to public infrastructure, access to commercial justice, and so on);
- allow economic policies to be effective (taxation and so on);
- provide a framework for **civic education** and **participative decision-making** in which stakeholders from disadvantaged groups are empowered and policies are prioritised, designed, implemented and monitored in an inclusive manner (a rights-based approach);
- uphold **accountability and transparency** as fundamental principles of governance with institutions that allow and defend citizen participation;
- ensure that **public spending differentiates between the top 10 per cent and the bottom 40 per cent** and addresses inequalities through free education and health, targeted subsidies and transfers, free access to justice, progressive tax policies, social protection programmes, sound management of natural resources, and so on;
- provide a **legal framework that is clear and transparent and provides rules that are applicable to all, with a credible system of sanctions and incentives to ensure compliance and an accessible, functioning system of recourse**.

However, to uphold these principles when designing a policy, **one has to take account** not only of what is economically the best policy choice and what is feasible in terms of implementation (second-best but feasible), but also of **the power asymmetries at play**. This may require reshaping the policy arena.

Improving systems and institutions so that they can effectively deliver on policies that reduce inequality is more and more recognised as a political endeavour, requiring **a power shift to tackle privileges, vested interests and rent situations enjoyed by specific groups**. Pro-equity policies are bound to meet resistance from these groups as they lose the influence and gains linked to their positions. The World Bank in its World Development Report 2017 emphasised that, although the traditional approach to effective policies – a combination of good policies, good

institutions to implement them and a sound legal framework – is still relevant, **changes in the policy arena, namely in relative bargaining power (participation in decision-making), in incentives and in accommodating the preferences of different actors are also required**. Here, the drivers of change are seen as elite bargains, citizen engagement and international influence.

## Governance policy measures with a demonstrated impact on inequality

Under the overall umbrella of governance, a myriad of policies is available to address income inequality: fiscal policies (whether acting on taxes, public expenditure or transfers), education policies, health policies, public infrastructure policies, etc. The choice of which policy or mix of policies fits best depends on what the diagnostics and the data tell us about inequality in the country (see Volume 3: *Guidelines for mainstreaming the reduction of inequality in interventions*) and particularly depends on what the data tell us about different players and their interests. Indeed, the key, as suggested above, lies in managing the consequences of pro-equity policies for the groups that are likely to lose from their implementation. This requires acting on changing the incentives for, or the preferences of, the actors that have the most power and/or allowing new actors (especially disadvantaged groups) to contest the policies. This might mean creating new incentives to support new policies, building common interest around these policies, or ensuring the representation of disadvantaged groups in the decision-making process of policymakers and political bodies (national or local)<sup>(4)</sup>. Some suggestions have been made below for action at three levels. In any case, civil society organisations are key partners, as they advocate good governance. Any projects aimed at strengthening good governance should consider closely involving these actors.

<sup>(4)</sup> See World Bank (2017), Chapter 6.



## Actions at project/programme level

Actions that promote inclusiveness and participation, through strengthening the capacities of disadvantaged groups to represent themselves and participate in public policy processes, and through policy dialogue, can help. Actions that increase transparency – in particular, transparency about the budget – increase communication, increase the information provided and present evidence that could trigger different incentives and build other interests also help. Actions that reinforce accountability and external oversight by investing in national democratic and accountability systems, whether through oversight institutions or by empowering civil society, think tanks or research bodies<sup>(5)</sup>, will put more pressure on the system to be transparent, accountable and participative<sup>(6)</sup>. Nevertheless, the major concern about how to shift power among groups so as to make the shift towards equity more acceptable should remain.



## Support for the design and implementation of reforms

The legal and regulatory frameworks (i.e. policies, institutions and processes that embody governance and the rule of law) are fundamental entry points for reform. In particular, these can be strongly influenced by policies concerning taxation, public finance management, public administration reform, and civil service reform. Factors that enable reform are: strong and independent oversight institutions, anti-corruption policies and institutions, decentralisation and local government reform and enhancement of the role of civil society (see Box 17.1). Anti-corruption policies are particularly important, as corruption affects mainly the most disadvantaged and marginalised groups of society (EC, 2019).

<sup>(5)</sup> See, for example, Wathi (2018).

<sup>(6)</sup> See, for example, Oxfam's work on why active citizenship matters in reducing inequality (Oxfam, 2019), p. 2.

### BOX 17.1 EUROsociAL for social cohesion: A regional approach in social protection policy

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

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

Source: EC (2019).

The EU can approach these areas through political dialogue, policy dialogue and budget support, as well as through cooperation or trade agreements. Addressing governance in these different areas through these entry points at sector level is equally important (EC, 2008). However, these reforms are **extremely large and complex and require political backing** (thus circling back to the issue of power asymmetries), in addition to good policies and functioning institutions.



## Actions at the international level

Governance and the rule of law in a country can be further influenced by what happens at the international level, a dimension where the EU plays an active role in multiple policy areas. The EU contributes in raising international political will and taking action against illicit financial flows and tax evasion, and in improving mobilisation of domestic resources. The EU

is further promoting global norms on transparency and accountability (Kossoff, 2017), with trade agreements, and in supporting civil society organisations that promote campaigns for greater transparency, such as the **Publish What You Pay** campaign. In all these areas, **international rules and regulations can push, or can offer incentives to, other countries to change their behaviour**. Possibly the most notable changes in preferences and incentives have been brought about by the legislative and regulatory changes linked to the EU's preferential trade agreements. This is especially true of countries that may join the EU's; such candidate countries benefit from a Deep and Comprehensive Free Trade Area agreement or advanced status. For these countries, progressive integration into the European internal market requires a vast array of legislative and regulatory adjustments to be put in place to converge towards the *acquis communautaire*.

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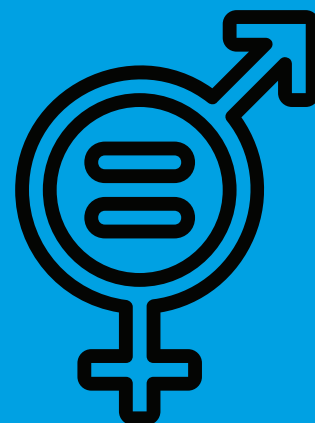
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# POLICY BRIEF 18

# GENDER



## KEY MESSAGES

- Gender is a key factor in income inequality.
- Promoting gender equality can help reduce income inequality if the focus is on equality before the law, investment in human capital, entrepreneurship, gender-neutral taxes, women's empowerment, family benefits and the provision of social services.

## Gender and inequality

Gender is one of the main determinants of income inequality in all income groups, over time and across countries. Gender-related inequality is strongly associated with income inequality. An increase in the Gender Inequality Index of the United Nations (UN), from 0 (perfect gender equality) to 1 (perfect gender inequality), is associated with an increase in net income inequality of almost 10 points, as measured by the Gini coefficient, which ranges from 0 (full income equality) to 100 (full income inequality). Alternatively, if the Gender Inequality Index falls from the highest level of 0.7 (seen in Yemen) to the median level of 0.4 (seen in Peru), the net Gini coefficient decreases by 3.4 points.

Gender-related inequality is also correlated with the actual distribution of income. A higher level of gender inequality is strongly associated with higher income shares in the top 10 per cent income group, possibly because being a woman may disproportionately undermine earning possibilities at the higher end of the income distribution. If the Gender Inequality Index increases from the median to the highest levels, the income share of the top 10 per cent increases

by 5.8 percentage points (Kochhar, Jain-Chandra and Newiak, 2017).

Gender contributes to income inequality through two main channels.

- **Inequality of economic outcomes.** This directly contributes to income inequality. In terms of employment prospects, women are still facing a triple disadvantage globally: exclusion from paid employment; employment that is mostly informal; and significantly lower wages compared with men, even if they are in the formal sector.
  - Women are less likely to have a paid job – in fact, only about half of the world's working-age women are employed, 23 percentage points less than men.
  - Women who manage to find employment are more likely to be in the informal sector, to be underemployed and to be in temporary or part-time and other precarious employment, which affects wages, working conditions and social benefits. If women eventually get a job in the formal sector, they face, on average, a wage gap of more than 40 per cent (World Economic Forum, 2020).
  - Women are concentrated in sectors with lower productivity, underlining the differences in wages and other work conditions.
  - Although women are concentrated in limited industries and occupations, employment segregation is also linked to women's labour force participation. Employment segregation can also be vertical, reflected in gender disparities in positions, roles and employment advancement potential (Das and Kotikula, 2019).

- Women entrepreneurs generally operate smaller businesses, often micro and small or medium-sized enterprises (MSMEs) and informal businesses, and in less profitable sectors. They face disadvantages in their access to credit, resources and assets (Meunier, Krylova and Ramalho, 2017).
- Women-owned businesses have limited access to finance and constitute an outsized share of the global MSME finance gap, estimated by the International Finance Corporation (IFC) at USD 1.7 trillion (IFC, 2017).
- **Inequality of opportunity.** Women have unequal access to education, health services, finance and political, public and private representation. They also face power differentials and discrimination, resulting in substantial inequality. This inequality of opportunity between men and women is strongly associated with a higher level of income inequality (Castello-Climent and Domenech, 2014).
  - In terms of access to **education**, if boys can get to school more easily than girls, then they will have higher future earnings, resulting in a higher level of income inequality. Educational inequality can contribute to women's unequal household bargaining power and empowerment, affecting the distribution of household resources and lowering investments in women's education, health and skills development, which in turn will increase income inequality (Bertrand, Kamenica and Pan, 2015).
  - With regard to **health**, maternal health and adolescent fertility can have an impact on income inequality. High fertility rates have been associated with less economic activity by women. In particular, high adolescent fertility prevents girls from going to school, increasing inequality in education and causing them to enter the labour market with limited skills. This reduces their future employment opportunities and economic participation and increases income inequality and the pay gap between men and women.
  - In terms of **access to finance and inclusion**, women have a lower level of access to financial services, such as credit and bank accounts, and to financial literacy and training. This reduces their economic opportunities and makes it more difficult for them to start a business or to invest in education and health, which tends to lower their wages and in turn increase income inequality (Bill & Melinda Gates Foundation and G7 French Presidency, 2019). Moreover, women are excluded from leadership across the globe. Women hold only 25 per cent of parliamentary seats, and only 21 per cent of ministers are women. In the private sector, only 18.2 per cent of firms globally are led by a woman, and on average 22.3 per cent of board members in Organisation for Economic Co-operation and Development countries are women. Women have an even lower level of representation in emerging economies (e.g. 9.7 per cent in China and 13.8 per cent in India) (World Economic Forum, 2020). Low numbers of women in government and leadership positions means that women are not included in decision-making or do not have their voices heard on matters that concern them. In the public sector, this often means inadequate investment in social sector services and time-saving technology that would benefit women. In the private sector, when women are not on boards or in leadership positions, business and investment decisions are less likely to take into account women's needs or enhance women's opportunities.
  - Women also suffer from **power differentials and discrimination** all over the world, which results in the mistreatment and subjugation of women and girls. Globally, one in three women will be victims of gender-based violence (UN Women, 2020). Women have lower chances of formal employment and less access to resources, assets and services, and this further reduces their power and agency, perpetuating a vicious circle of marginalisation. Women with disabilities or women belonging to minorities are affected even more.
  - In terms of **legal frameworks**, only seven countries in the world give legal economic

equality to both men and women<sup>(1)</sup>, increasing inequality. Globally, women have on average three quarters of the legal economic rights of men, and in some regions, for example in the Middle East and North Africa, women have fewer than half the legal rights of men (World Bank and IFC, 2019).

To summarise, income inequality and gender gaps are related through gender wage gaps and labour force participation rates, education, finance and health gender gaps that are likely to exacerbate income inequality and impede more equal income distribution (see Box 18.1). If women had the same lifetime earnings as men, global wealth could increase by USD 172 trillion (Wodon et al., 2020).

#### **BOX 18.1 Women labour's force participation and income inequality**

Ding, Dong and Li (2009) show that the public sector labour retrenchment of the late 1990s in **China** led to a drastic decline in the employment rates of women, especially those married to low-earning husbands, and the change in the women's employment rate was a major force driving income inequality.

In **Taiwan**, the entry of relatively skilled women into the labour force reduced earnings inequality and contributed to an increase in women's incomes (Ferreira and Ravallion, 2008).

In **Brazil**, between 1976 and 1996, a substantial increase in extreme poverty and inequality was associated primarily with an increase in unemployment, informality and underemployment among women (Ferreira and Ravallion, 2008).

Although gender gaps exist everywhere, their impact varies depending on the **level of development of a country**. In developed countries, gender gaps in education are largely closed and opportunity across the sexes is more equal. Income inequality arises mainly because of differences in economic participation by men and women. In developing countries, unequal opportunity, in particular gender gaps in education

and health, is the main driver of income inequality between men and women.

## **Gender policy measures with a demonstrated impact on inequality**

**Increased gender equality is associated with a lower level of income inequality.** By applying a rights-based approach to integrate gender mainstreaming into European Union (EU) development cooperation, gender equality efforts in all sectors will be strengthened (see Box 18.2). To promote gender equality, EU delegations can implement the following policy guidelines.

#### **BOX 18.2 Five working principles of a rights-based approach**

The five working principles of a rights-based approach are:

1. application of all rights (legality, universality and indivisibility of human rights),
2. participation and access to the decision-making process,
3. non-discrimination and equal access,
4. accountability and access to the rule of law,
5. transparency and access to information.



#### **Collect data for gender mainstreaming**

Collecting data on gender equality and increasing the capacity of gender analysis is both key to and a precondition for designing and implementing other policy options. This is done, for instance, through the UN Economic Commission for Latin America, the Caribbean Gender Equality Observatory for Latin America and the Caribbean and the new Regional Civil Society Observatory on Violence against Women and Girls in the Middle East and North Africa region. The EU is also supporting Turkey and EU candidate countries (and potential candidate countries) in the western Balkans in their participation in the European Institute for Gender Equality, delivering progress as measured by the Gender Equality Index. Data from the

<sup>(1)</sup> Belgium, Denmark, France, Latvia, Luxembourg, Sweden and most recently Canada.

index are key to informing policies and for advocacy purposes, and to supporting national gender-related initiatives. In the framework of the Spotlight regional programme in Africa, supporting the African Union Commission Regional Data and Research Unit and other regional entities will improve the availability and use of quality data related to gender-based violence.



### Remove gender-based legal restrictions and promote equal laws

When men and women are subject to different laws, women typically face institutions that are stacked against them, which can reduce their economic opportunities and contribute to income inequality. For instance, in countries with property rights that are more favourable to women, there is greater financial inclusion of women than in countries with property rights unfavourable to women (World Bank and IFC 2015). It is more difficult for women to deploy immovable property as collateral to access credit in countries characterised by legal restrictions against women.

The **World Bank's Women, Business and the Law database** provides detailed information on legal and regulatory barriers to women's economic participation and entrepreneurial activity in 190 countries. Eight indicators should be considered when promoting gender equality in the legal and institutional framework:

- **mobility** – examines constraints on freedom of movement;
- **workplace** – analyses laws affecting women's decisions to work;
- **pay** – measures laws and regulations affecting women's pay;
- **marriage** – assesses legal constraints related to marriage;
- **parenthood** – examines laws affecting women's work after having children;
- **entrepreneurship** – analyses constraints on women starting and running businesses;
- **assets** – considers gender differences in property and inheritance;
- **pension** – assesses laws affecting the size of woman's pension.

To promote equal laws, EU delegations should step up their engagement on gender equality and women's empowerment in regional and national forums and in dialogue and partnerships with regional and national stakeholders (see Box 18.3). EU delegations should support **regional and national bodies and gender strategies**. EU delegations should also continue to support and protect **women who are active human rights defenders**, strengthening protection mechanisms and supporting them in leadership roles; they are crucial to the advancement of women's rights and gender equality.

#### BOX 18.3 Progress in equal laws

More equitable property rights and more equal rights to obtain a job or pursue a profession are associated with lower gender gaps in labour force participation without significantly affecting male participation rates, which in turn lower income inequality (World Bank and IFC, 2013).

- The restriction on married women working (e.g. needing their husbands' permission) was removed in 23 countries, such as **Guatemala** and **South Africa** in 1998 and **Turkey** in 2001.
- Restrictions on married women opening a bank account were relaxed in 20 countries, including **Mozambique** in 2004 and **Lesotho** in 2006.
- In **Belarus**, the number of professions in which work by women is prohibited was reduced from 252 to 182.
- In **Nicaragua** and **Togo**, men and women now have equal rights to be the head of the household.
- In **Kenya**, a new law on matrimonial property gives both spouses equal rights to administer joint property.

Despite this progress, it is important to remember that there are still many gender-related restrictions in place, particularly in the Middle East and North Africa, sub-Saharan Africa, and south Asia.



### Promote women's entrepreneurship

Small and medium-sized enterprises (SMEs) with full female ownership represent only 38 per cent or less of formal SMEs in emerging markets and face many

limitations – they are more likely than male-owned SMEs to be small, informal and home based. This can be explained by women's restricted access to finance. Women experience less favourable terms than men when they borrow money, such as higher interest rates and shorter repayment times (see [Policy Brief 15: Financial Inclusion](#)). They are also often excluded from or marginalised by the credit infrastructure, further inhibiting their ability to borrow funds or even enter the market. Reducing constraints on women's entrepreneurship, especially in the MSME sector, requires focusing on the following policies.

- **Promoting progressive, non-discriminatory legal and regulatory frameworks (as previously mentioned).** Reforms in laws and policies, such as non-bank provision of digital money, secured-transaction regulations allowing alternative forms of collateral, and the creation of collateral registries for moveable assets (live-stock, jewellery and other household items) can help women pursue entrepreneurial activities.
- **Supporting a women-friendly economic environment to tackle the structural barriers limiting women's economic participation and inclusion.** This could include reforms in regulation, policy and practice, supported, for instance, through actions on investment climate and business environments that focus on women. It could also include action to support social norm change in organisations and communities, tackling institutional gender discrimination and the marginalisation of women. And finally it could include dialogue around the legal and regulatory environment to support decent work, women's access to social protection, women's rights and protection from violence.
- **Developing fairer credit institutions.** Credit information bureaus and public credit registries that record only transactions that meet a certain threshold often prevent smaller entrepreneurs from building credit histories. Allowing the use of information from non-bank institutions may help women who lack traditional banking relationships to build reputational capital (a solid record of payments), which in turn will help these women build their credit histories and ultimately access better financing and increase their income.
- **Ensuring access to capital and financial services.** This can be done by allowing retail agents – who are able to reach underserved segments of the population – to provide financial services. Such outreach could usefully include the hiring of female agents who can offer a more focused approach to reaching the women's market, for example, by providing access to savings accounts, and by improving the financial literacy of women. Other examples of innovative investment schemes are those provided by the European external investment plan, such as the **NASIRA** guarantee and the blending operation at the Women's Financial Inclusion Facility (see Box 18.4). However a lack of access to finance is more complicated than the terms on which loans are made available, as it also depends on the lack of appropriate products, financial literacy, access to identification documents, mobility, bank agents, stereotypes and discrimination, decision-making power in households, and so on.
- **Increasing access to markets.** This can be done by providing information about markets in different sectors, building the managerial capacity of female entrepreneurs, facilitating better connections for women-owned MSMEs and female traders with markets, providing early-stage finance and building networks for women-owned MSMEs.
- **Targeted support actions in sectors with a high prevalence of women and a high level of potential for opportunities.** The former includes the garment sector and agriculture (see Box 18.5); the latter, digital. The focus of this intervention type is on women's individual capacity, power and agency, as well as supporting access to resources and supportive structures, often in a specific sector.

Full consideration of the **social, institutional and policy dimensions of national and local contexts** is also vital in promoting women's entrepreneurship.



### **Promote gender-responsive budgeting**

Gender-responsive budgeting is an application of gender mainstreaming in the budgetary process, at the national or local level. It means a gender-based

### BOX 18.4 Examples of European Fund for Sustainable Development guarantees and blending

The European Fund for Sustainable Development **risk-sharing programme NASIRA** (under an agreement signed with the Dutch development bank FMO) provides a guarantee to local banks so that they can lend to clients who are perceived to be high risk, with women, youths and migrants as the main target groups. For example, with the support of the NASIRA guarantee, a local bank operates a loan portfolio that serves a 25-year-old woman who needs EUR 500 to buy a small stock of food products that she intends to sell in a refugee city in Jordan. NASIRA is set up to create and support up to 800 000 jobs and benefit MSMEs. Some EUR 8 million of technical support is also provided (through European external investment plan pillar II) and is used for capacity development and training for entrepreneurs who receive loans from local banks.

An example of an external investment plan blending operation is the **Women's Financial Inclusion Facility**, which is in partnership with Women's World Banking and the German development bank KfW. This facility invests in financial service providers in sub-Saharan Africa that incorporate low-income women into their client base by creating financial products and services that respond to the needs of women. They also include women in their own management teams. Technical assistance helps them to create gender action plans and support their implementation. The facility promotes sustainable change by eliminating the perceived higher risk in investing in women. The idea is that local financial institutions will improve the gender capacities in their own institutions as well as creating needed services and products that are now not provided by the market. They tap into the new market of women borrowers and create the financial products and services needed to continue to serve that market, including after the programme has ended. The facility also aims to increase the availability of and access to skills training, including digital financial services and digital literacy for women. This aspect of the facility's work is monitored by a number of women with increased access and connectivity to mobile technology and digital financial services.

### BOX 18.5 Decent work and the garment sector

The garment sector is complex, involves different industries such as cotton, textile and footwear, and employs high numbers of women workers in many countries, especially in south Asia and south-east Asia. In low-income countries, this type of employment can be labour intensive with vulnerable workers, including home workers and informal workers. The European Union promotes decent work and aims to reduce vulnerabilities in the garment sector, seeking to improve labour conditions and human rights, with a strong gender equality focus. The actions supported include the **Better Work programme** of the International Labour Organization and International Finance Corporation, and the **track and trace platform** of the International Trade Centre and the UN Economic Commission for Europe, meant to improve traceability in the garment sector.

assessment of budgets is carried out, incorporating a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures to promote gender equality.



### Revise tax policies to encourage women to join the labour force

**Tax credits or benefits for low-wage earners can stimulate labour force participation, including among women.** By reducing the net tax liability or even making it negative, tax credits increase the net income gain from accepting a job (see **Policy Brief 11: Public Finance: Taxation**).

Policies can also build on the fact that female labour supply is more responsive to taxes than male labour supply. For example, **a switch from family income taxation to individual income taxation** that reduces the tax burden for (predominantly female) secondary earners can increase female labour force participation, whereas it would affect male labour supply to a smaller extent.



## Create space in government budgets for priority expenditures, such as on infrastructure, health and education, to close the gender gap

Investing in public infrastructure can boost the participation of women in the labour force. As they are often responsible for household activities, women are more dependent on adequate infrastructure (running water, electricity, and so on). A large part of the difference in female labour force participation rates in 1990 between the United States, on the one hand, and Brazil and Mexico, on the other, can be explained by the availability of basic infrastructure (Norando, 2010).

Better access to comprehensive, affordable and high-quality childcare can also free up women's time for formal employment, and subsequently reduce income inequality by increasing women's participation and their wages. Reducing the price of childcare by 50 per cent could be associated with an increase of 6.5–10 per cent in the labour supply of young mothers (Gong, Breunig and King, 2010) (see [Policy Brief 4: Transport and Mobility](#), [Policy Brief 5: Energy](#) and [Policy Brief 7: Water and Sanitation](#)).

Closing the remaining gender gaps in education and promoting the school-to-work transition will also help to reduce income inequalities, as higher levels of education for women will give them greater economic opportunities and, subsequently, higher incomes (see Box 18.6).

### BOX 18.6 Economic empowerment of adolescent girls and young women in Liberia

The Economic Empowerment of Adolescent Girls and Young Women in Liberia project, implemented by the World Bank, trained about 2 500 young women for either wage employment or self-employment plus life skills, with an emphasis on job placement and follow-up support. The project evaluation showed that employment rose by 47 per cent; earnings increased by about USD 32 per month for these women, an 80 per cent gain. The project also significantly increased girls' savings by about USD 36, and had positive effects on their self-confidence and job satisfaction (Adoho et al., 2014).

To close this gap, different interventions can be designed. On the demand side, these could include conditional cash transfers and scholarships and stipends for girls; on the supply side, there could be strengthened school-based management, results-based teacher incentives, access to information, business training, vocational training and follow-up support (see [Policy Brief 2: Education](#)).



## Promote universal health coverage, including sexual and reproductive health and rights

Sexual and reproductive health and rights (SRHR) are critical to achieving gender equality because of their impact on gender-based violence, educational attainment, well-being and economic empowerment, which are key determinants of inequality. In crisis-affected contexts and conflict areas, a lack of access to basic SRHR remains an important cause of death and long-term disability. Harmful gender stereotypes prevent access to SRHR and family planning, through legal barriers or community pressure, harassment and abuse. A backlash of forces against gender equality is threatening hard-won progress and existing laws.

EU delegations should continue to support universal health coverage through sustainable and resilient health systems and equitable access to essential health services, including sexual and reproductive health services. Support can be expressed in country programmes and through global initiatives with a strong gender-equality impact, such as the global programme led by the UN Population Fund (UNFPA) to address son preference at birth, the UNFPA–UNICEF global programme to abandon female genital mutilation, the UNFPA–UNICEF global programme to end child marriage, and the EU–UN Spotlight initiative (see [Policy Brief 1: Health and Nutrition](#)).

To increase universal access to SRHR, EU delegations should support the strengthening of public and community health systems and engage with community, traditional and religious leaders, men and women, schools and local communities to transform attitudes towards SRHR.



## Deconstruct stereotypes and work on intersectionality

Gender stereotypes, stigma, and discriminatory and patriarchal social norms limit women's agency and opportunities. They lock women and girls into dependent roles, often through child marriage or early marriage and restricted access to education, health, jobs and economic prospects. Women may not be able to obtain identification documents, own property, hold land rights, receive an inheritance, or have the right to sign contracts. Their mobility may be limited. Supportive policies – for example to support digital literacy, skills development and entrepreneurial support services – may be missing or weak, giving women only a limited voice in decision-making and therefore reinforce income inequalities.

Changing deeply rooted narratives calls for a **whole-of-society approach**, fully engaging men and boys. Strong partnerships and dialogue with local actors, civil society actors and communities, cultural operators and artists, and traditional and religious leaders are essential to formulating effective context-sensitive responses, in particular in conflict-affected and fragile settings.

The **audiovisual sector** is of strategic importance in issues of gender equity and diversity. Creative industries and the media have a considerable influence on the public perception of gender issues. From this perspective, the EU delegations should:

- **step up their cooperation with the cultural and creative sectors to increase women's role and entrepreneurship**, with a focus on audiovisual productions (TV shows, series, music, social media, and so on) as powerful tools for changing the sociocultural dimension of gender stereotypes<sup>(2)</sup>;
- **reinforce cooperation with the media** to address endemic discrimination towards women, to change gender-based stereotypes in media content, and to support women's empowerment as users and producers of information and as

decision-makers in media organisations (e.g. through the **Media4Democracy** technical assistance programme).



## Promote equal participation and leadership

Women should participate equally with men in democratic life, in the public sphere and the private sector. This is essential for a functioning democracy and has major benefits for the whole of society, ranging from enhanced credibility of democratic institutions to reduced inequality.

Although participation and a gender-diverse and inclusive leadership is increasingly needed and acknowledged, **women continue to be under-represented as voters, political leaders, elected officials and private sector leaders**. Women represent around 25 per cent of national parliamentarians worldwide, up from about 12 per cent 20 years ago. Change is slow in elected and decision-making bodies at all levels. Although quotas were adopted in 39 per cent of countries, their implementation is hampered by a number of factors, including gender stereotypes, inaccessible political parties and a lack of political financing.

Women in leadership positions may act as role models while combating stereotypes. Such examples may increase female labour force participation, which in turn will increase women's earnings and reduce income inequality.

Structural barriers to women's participation and leadership should be addressed through the promotion of gender-responsive legislative reform and temporary measures, such as quotas, and by promoting behavioural change and combating discriminatory social norms. The introduction of quotas for women in political positions can increase women's political participation and votes for women. The success of gender quota laws depends on the design of the laws, the institutional context and the ability of both government and civil society organisations to monitor their application. In Rwanda, the constitutionally guaranteed quota of 30 per cent of women in parliament has been not only filled, but exceeded (Klugman and Twigg, 2012). In Indian village councils, the use of quotas for women has led to a greater likelihood of

<sup>(2)</sup> The EU has successfully supported the making of a TV show – *One Woman Show* – addressing gender roles as in Burkina Faso, Kenya and the Middle East and North Africa region.

women standing for elected positions in these councils. Once women are in charge, they tend to fight against gender stereotypes, change public attitudes towards women, change the aspirations teenage girls have for themselves, and encourage parents to invest in their daughters' education. They have also invested more in human capital, as women have a stronger preference than men for spending on goods and services that contribute to education, food and healthcare (Beaman, 2019).

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