

Addressing inequality through EU development cooperation

CONCORD responses to the stakeholder consultation

31 October 2018

Introduction - background

The 2030 Agenda for Sustainable Development makes the reduction of inequality one of the key goals to be achieved by the international community by 2030. In particular, the Agenda includes a specific goal, SDG 10, which is about “Reducing inequality within and among countries”. Beyond SDG 10, inequality permeates throughout the entire 2030 Agenda, as a key underlying principle of the Agenda is the commitment to “leave no one behind”.

The new European Consensus on Development puts eradicating poverty, tackling discriminations and inequalities and leaving no one behind at the heart of the development cooperation policy of the European Union. It calls on the EU and its Member States to “act to reduce inequality of outcomes and promote equal opportunities for all, directly assist the poorest and most vulnerable sections of society and to promote more inclusive, sustainable growth”. The Consensus also calls on the EU and its Member States to “assess the determinants of and trends in economic and social inequalities and to strengthen their tools and approaches to make them more effective in addressing inequality”, as well as to “mainstream the reduction of inequality in their development cooperation and support innovative social practices”.

The EU is already working with its partner countries to tackle the drivers of inequality, for instance through initiatives promoting social protection and decent work, strengthening education systems to ensure they provide inclusive and equitable quality education for all, promoting inclusive and universal health coverage, and in many other areas of intervention. However, in light of the commitments taken in the Consensus and on strong evidence that high levels of inequality are an obstacle to sustainable development, the EU recognises that the reduction of inequality needs to be integrated more strongly and systematically in EU development cooperation going forward.

In this context, the Commission is currently preparing a Staff Working Document with the following objectives: (i) analysing how inequality hampers the objectives of EU development cooperation; (ii) taking stock of existing work within the framework of EU development cooperation in areas that are related to drivers of inequality in partner countries; and (iii) identifying opportunities to improve the impact of our interventions, through the systematic integration of inequality in our development cooperation, in existing tools, approaches and delivery modalities.

General guidelines

The European Commission would like to receive your opinion on the approach of the European Union to inequality in development cooperation. Your input will feed into the development of the Staff Working Document mentioned above.

The Commission is particularly interested in your experience with the EU's and Member States' cooperation with partner countries, including on policies and strategies, projects and programmes funded by the EU and its Member States. Please illustrate your replies with concrete examples. You may add documentation or refer to online documentation.

You may consult your member organizations, but please submit only one consolidated answer to the questionnaire and keep to the maximum space provided for each question.



Questions

1. **What are your general views on how the EU approaches the issue of inequality in the context of its development cooperation and external action? Is inequality sufficiently prioritised?**

Inequalities are not accidents of fate – they are the result of specific actions and policy choices by people in power. These inequalities do not only concern income inequality but may touch on every part of a person's life. Today, we are witnessing billions of people facing deplorable inequalities of opportunities, choices, resources, security, freedom and power. Austerity, privatisation of public services and deregulation of labour are just a few of the recent trends that have translated into rising inequalities, with women being particularly affected.

The **European Consensus on Development** (hereafter, the Consensus) represents an important step forward, in acknowledging that inequality is a root cause of poverty, conflict, fragility, forced displacement and migration [paras 64 & 71]. However a lot remains to be done to implement the Consensus in a consistent manner.

How the EU approaches inequalities in its development cooperation is indeed important, but quite different to how this is done in **other external policy areas**, such as migration, trade and investment or EU foreign and security policy, which often serve to exacerbate inequalities, not reduce them. It is precisely in these instances that **Policy Coherence for (Sustainable) Development** should be applied. Even within DG DEVCO, there are considerable differences in how the various units of the Directorate take inequalities into consideration – for example in uses of funding instruments and ODA.

CONCORD acknowledges and appreciates that **EU development cooperation is contributing to fight inequality**, even if not always framed as such – for example through support to public education, projects to tackle discrimination, an emphasis on women's rights, support to farmers' organisations, women's access to land, etc. However, as the EU's own recent evaluation of its implementation of the GAP II shows, the EU is not always meeting its own targets (in this case for tackling gender inequality), while a large proportion of EU development cooperation fails entirely to address inequality. A most glaring, recent example is **Aid for Trade (AfT)**, which was revised in 2017 - after the adoption of the Consensus - and represents one-third of EU ODA.¹ It is precisely because trade takes place between partners who are vastly unequal in terms of economic development and negotiating power that Aid for Trade was established, with the objective of helping developing countries to access the benefits of expanded trade.

However, inequalities are not only between countries, but also within countries, and therefore **a more meticulous approach is required if the growing gaps between 'haves' and 'have-nots' are to be addressed by AfT**. To help ensure that the benefits of trade and investment are distributed more fairly, AfT should support social dialogue and workers' representation, labour inspectorates, decent work programmes, women's cooperatives and litigation by producers in supply chains. Unfortunately, the only reference to inequality in the new AfT strategy is a footnote commitment not to exacerbate inequalities and to consider both the intended and unintended consequences of aid for trade interventions. And for some strange reason, this commitment only applies to situations of fragility and conflict.

The **External Investment Plan (EIP)** is another initiative where there has been insufficient consideration of the need to ensure that funded projects do not exacerbate inequalities. Inequality considerations must come at the very outset, in determining the nature of the project to be funded, in choosing the private sector partner to invest in and in all the modalities that surround a project, including adequate indicators to monitor its impacts. To cite one example of how the EIP may further

¹https://ec.europa.eu/europeaid/sites/devco/files/com_2017_667_f1_communication_from_commission_to_inst_en_v3_p1_954389.pdf



inequalities, the operations proposed in the agriculture investment window may benefit particular segments of the local population in partner countries, namely the better-off groups of farmers, primarily men, who are better equipped to adopt the kinds of innovations proposed by agri-business enterprises and who have better access to resources such as land, capital, information and markets. However, it is unlikely that the most marginalised small-scale family farmers, especially women, will be able to benefit. The fact that this instrument is in fact not primarily suitable to target the most marginalised small scale producers who have little land or other assets should be explicitly acknowledged, and complementary initiatives and governance systems need to be further developed.

There are similar concerns regarding the sustainable cities investment window, which includes little emphasis on the social dimension of sustainable cities. As acknowledged in the UN New Urban Agenda, “social and economic exclusion and spatial segregation [are] often an irrefutable reality in cities and human settlements”. It would therefore have been important to include references to human rights, and stronger commitments to address inequalities – especially gender inequality – to ensure that everyone can equally enjoy and participate in life in a city and that cities truly become inclusive, safe, resilient and sustainable for all.

CONCORD would thus argue that **inequalities are insufficiently addressed in the EU’s development cooperation**. One of the key aims of EU development cooperation and external action should be to **address the root causes of inequality, such as discriminatory attitudes, laws, policies and actions**, in order to support progress towards a narrowing of the gaps between people *on all fronts*, including income. Key to this would be for the EU to **work with governments to focus on redistributive policies** (such as progressive and gender-sensitive taxation and social protection) to reduce the concentration of wealth and power **and on social policies** (such as health, education and employment). It is also crucial to ensure that the EU trade and investment policy does not restrict the policy and fiscal space of developing countries. In this vein, privatisation of public goods in many societies is systematically eliminating human rights protections and further marginalising those living in poverty. CONCORD urges the EU to exclude certain sectors - such as water, health and education - from European trade and investment negotiations, as demanded by the European Parliament. It is crucial to ensure EU investment policy, as well as its blending and guarantee operations, are not incentivising the privatisation of public services in developing countries.²

Questions of **intersectionality** are often not adequately addressed by EU policies, programmes. All people - no matter their race, ethnicity, sex, sexual orientation or gender identity, age, (dis)ability, language, religion, political or other opinion, national or social origin, birth, migration or other status – must benefit from the outcomes of development cooperation - and the most marginalised must be prioritised in order to improve equality. This underpins the principle of ‘leave no one behind’.

In terms of **environmental, climate and resource inequalities**, the consequences of environmental harm are felt most acutely by those segments of a population who are already in vulnerable situations. Water scarcity is an increasingly urgent issue, with access to water becoming increasingly politicised. The EU should consider what additional measures need to be in place to protect the rights of the most marginalised who face, or at particular risk from, environmental harm and/or unequal access to natural resources, including land. The framework principles developed by the UN Special Rapporteur on the issue of human rights obligations relating to the enjoyment of a safe, clean, healthy and sustainable environment are instructive in this regard.

If the EU aims to ensure that no-one is left behind, as the new Consensus reiterates, it should focus its **ODA** particularly on LDCs and on aspects which are critical for effective, people-centered, sustainable development. EU contributions **to LDCs** have only marginally increased over the years and are far from keeping up with the overall increase in the EU’s ODA. It is thus not possible to conclude

² UN independent expert denounces privatisation of public services:

<https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=23740&LangID=E>

that the EU is serious about its commitment to leaving no-one behind. This is worrisome considering that the current 47 LDCs face acute levels of deprivation and they continue to rely heavily on ODA due to limited domestic resources and limited capacity to attract other types of financial flows. For the LDCs to be able to overcome some of the most severe structural impediments to their sustainable development, a genuine transfer of resources that matches the 0.15–0.20% target is needed. Furthermore, it is crucial that ODA disbursements **to MICs** target inequalities, particularly in support of minorities and discriminated groups, and promote human rights, democracy and civic space rather than leveraging funds from development finance institutions and private investments that are already abundantly available to these countries.³

2. What is your assessment of how inequality hampers the achievement of the EU's development cooperation objectives?

There is ample evidence that inequalities not only undermine efforts to realise human rights, address poverty and inclusive social development and to achieve sustainable progress at a national level, but also increase social tensions and can lead to political instability. One of the main inequalities which must be addressed is **gender inequality**. On current rates of progress, it will take 100 years to close the gaps between men and women and boys and girls.

Inequalities are interlinked. Some of these linkages are well-known and considerably written about, such as those between education, health and livelihoods. However, one particular form - namely inequality in the distribution of wealth - fuels many others. Economic inequality particularly translates into reduced access to resources, but also – and often overlooked – to reduced access to decision-making processes for people living in poverty. One cannot talk about inequality without also speaking of the capture of power (economic, social, and political) by wealthy elites. That is why one of the ways to address inequalities is to **support governance and democratisation processes** and to **strengthen civic participation and local civil society organisations, farmers cooperatives, workers' organisations** etc. in partner countries, to ensure that ordinary people have a voice and to redress some of the power imbalances that both fuel inequalities.

Another example of interlinked inequalities could be access to energy. Over one billion people lack access to electricity and nearly 3 billion still rely on solid fuels such as wood or charcoal for cooking, which cause massive pollution and health risks. In addition, lack of access to energy deprives many people of opportunities for improved health (eg. through vaccination and other basic healthcare provision), education and livelihoods. The most effective way to close the access-to-energy gap and ensure that no one is left behind is through **off-grid and mini grid renewable solutions** which will reach the poorest fastest and where communities are involved in the solutions. Just 5.3% of all EU disbursements for the energy sector between 2010 and 2016, went to energy access and less than half of this went to LDCs and LICs.⁴ This is therefore another area in which the EU should put a greater focus on “leaving no-one behind”.

3. Based on your experience, please briefly describe up to three examples of development projects or programmes funded by the EU, which you see as positive examples of how inequality in all of its forms can be tackled in EU partner countries, and explain why they are successful?

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4. How do you consider EU development cooperation can be improved to more systematically and effectively address inequality in partner countries? Can you highlight

³https://concordeurope.org/wp-content/uploads/2018/10/CONCORD_AidWatch_Report_2018_web.pdf?8f33b2&8f33b2

⁴ CIDSE and ODI report, Oct. 2018: https://www.cidse.org/articles/climate-justice/climate-finance/download/1675_3757e7a1e6498edae3b0ab4d013dcdcf.html

some areas for improvement for development projects and programmes financed by the EU, in terms of how they support the fight against inequality in partner countries? Can you suggest other opportunities or areas particularly relevant for reducing inequality that are currently not sufficiently well-reflected in EU development cooperation?

First and foremost, the EU must apply a **human-rights based approach** to all its policies, not only in development cooperation. This includes recognising the link between discrimination and inequality. It also means that **ex-ante impact assessments which thoroughly address human rights** must be carried out on all policy initiatives with potential external impacts and their results should be duly taken into consideration, whether through mitigation, remediation or a change of approach.

Secondly, while we have not considered it helpful to define here all the marginalised and excluded groups of people, suffice to say that the EU will not reach them in its development cooperation and external action until it puts a **specific focus** on them in **every** policy, programme and action it is responsible for and until intersectionalities are addressed. In each instance, a detailed analysis is needed to ensure that the factors impinging on equality are truly addressed.

It is crucial to look at whether power imbalances could be exacerbated by a project and to make sure that support goes to those with the least power in order to right the balance. For example, in light of the MFF negotiations, it is crucial that the EU adopts a **gender-responsive budget** to ensure that money is spent in a way that will address gender inequalities and change gender biased norms. Systematic gender analysis, gender-sensitive planning and allocation of funds, including gender budgeting, should be promoted going forwards.

Thirdly, the EU should invest more in **collecting disaggregated data** and in supporting partner countries to do likewise. Otherwise it is impossible to know whether the results of one's policies are reaching the furthest behind. We would recommend the use of a **minimum of seven categories** for which results should specifically be measured and for which disaggregated data will therefore be necessary. The seven categories are: gender, age, disability, rural-urban split, minority status, social status and income quintile.

Fourthly, the changing landscape of poverty requires a **more tailored engagement with MICs and more advanced developing countries (MADCs)**. In addition to the fact that there are rising levels of inequality in MICs and MADCs, three-quarters of the world's poor live in these countries. Governments of MICs need the policy and fiscal space to ensure that the benefits of progress are equitably shared with the most marginalised. However, regressive advice by the IMF and World Bank – of which the EU is a member - promoting cuts in public spending, targeted benefits instead of universal coverage, privatisation of public services and regressive taxation, substantially restricts the space of developing countries. Despite this, and despite the increasing number of countries reaching Middle Income Country (MIC) status, the EU does not have a well-defined policy on MICs and previously had a policy of disengagement, or “differentiation” (recently revoked in the European Consensus on Development). The EU should:

- Define how it wants to engage with MICs and tailor its approach to fit the context since this is a very diverse group of countries.
- Not base itself on income alone as the measure of development progress (nor give that factor greatest weight).
- Ensure its policies do not restrict the ability of those countries to fight inequality, and use its influence in IFIs to encourage a similar shift.

In order to implement the European Consensus on Development's welcome focus on inequality, it may be helpful to **use a series of guiding questions**. These would help to ensure quality processes and programming from the outset. We share some examples below:



- What are the main elements of discrimination in the country and how do these intersect?
- Have the objectives included in the development cooperation policies/guidance/programmes etc. been pursued in a way that reduces inequality between individuals and between different social groups and promote a more equal power balance?
- Has Policy Coherence for Sustainable Development been applied and the necessary impact assessments undertaken so as to ensure that people's rights are not being infringed and inequalities not exacerbated? (This clearly applies particularly to 'non-development cooperation' external policies, guidance, programmes etc., such as migration, trade, security...)?
- How have issues such as equal access to economic assets, social services and use of critical natural resources such as water, land, energy and biodiversity been addressed?
- How have policies and actions taken intergenerational equity into consideration, for example in terms of natural resource use?
- How have policies supported the economic and political empowerment and participation of the most marginalised?

5. Do you have any other suggestions or experiences that you would like to share, arising from your work related to the challenge of addressing inequality in developing countries?

Inequalities are exacerbated when essential public services are unavailable or inaccessible, for instance gender inequality as women often compensate for the lack of public services by increasing their own unpaid workload. The EU, through its development cooperation, could support countries more in their **domestic resource mobilisation, especially as regards fiscal policy and the taxation system**, to raise much needed revenue for such public services. Furthermore, partner countries should be persuaded to focus on progressive taxes in order to ensure that women and men living in poverty are not disproportionately impacted by national tax policies. It has been proven that the richest in society are structurally undertaxed - for example, the effective tax rate of the top 10% in Latin America is just 4.8% and in many countries the bottom 10% now pay a higher rate of tax than the top 10%.⁵

In addition, developing countries are losing out on billions of dollars yearly in much needed resources to fund public services due to **tax evasion and tax avoidance**. While the EU has been taking some steps to tackle these issues, there are many other important actions it needs to take to support developing countries, such as increasing the transparency of EU-based corporations' tax behaviour in developing countries by introducing public country-by-country reporting, and conducting analyses of the spillover effects of EU and Member States' tax policies (including tax treaties) on developing countries.

Inequality is also driven deeper when **EU corporations** operate in developing countries without **respecting the human rights** of workers and local communities, since marginalised people are usually also those most impacted by economic activities. A lack of EU-wide regulation requiring companies to conduct human rights due diligence and to provide effective, inclusive redress for all victims is allowing companies to get away with human rights abuses that would not be allowed within the EU.

For instance, the **power imbalance in the internationally traded food system** is demonstrated by the classic example of an "hourglass system", where a large number of producers and a large number of consumers are connected by funnelling through small numbers of multinational corporations who dominate production, processing, retail and financing, giving them an unsafe level of power. The small numbers are getting even smaller at the moment, with mega-mergers taking place between agribusiness TNCs. Redressing this power imbalance or inequality of power requires firm support to small-scale farmers in developing countries, but also other regulatory measures.

⁵ Oxfam, ECLAC, 2016 : <https://www.cepal.org/en/publications/39950-time-tax-inclusive-growth>

Trade – if one judges by President Juncker’s State of the Union speech 2018, not only are EU-Africa relations going to be further prioritised, but clearly trade is going to increase significantly in importance in those relations. It is therefore critical to address the unequal negotiating power of the two regions – or of any African sub-region or country – vis-à-vis the EU. The EU should support African participation in international fora and governance mechanisms. CONCORD also believes that a much greater focus should be put on territorial markets and regional trade, as opposed to the current EU trade policy which encourages the expansion of global value chains, whereby local firms are obliged to stick to low-value added production generating limited domestic revenue, and where poorly paid and insecure jobs largely prevail.

Genuine Measures of Progress – if the EU’s intention is to address inequalities and to ensure that all people benefit from a country’s social, environmental and economic progress, but with the most marginalised now benefitting first and foremost, then it is essential that all policy- and decision-making is based on achieving real measures of progress. Many economists, statisticians, governments and the European Commission have recognised the severe limitations of GDP as a measure of progress. In line with the saying, ‘if you cannot measure it, you cannot improve it’, it would therefore seem logical to put in place more adequate measures of progress in order to ensure that policies and programmes aim to close the inequality gaps within and between countries and are indeed succeeding in leaving no one behind. Such measures should be based on the well-being of people and planet, in line with the goals of sustainable development. These measures should be drawn up in consultation with the public and be locally relevant, with a globally harmonised core set of indicators. They should be consistently used in all spheres of policy- and decision-making, initially together with GDP, but ultimately replacing it.



