



EXTENSION OF THE RESEARCH FACILITY ON INEQUALITIES



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EDITO

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RESEARCH FOR A STRONG ECOLOGICAL TRANSITION

The most vulnerable populations have been hit hardest by the Covid-19 crisis, jeopardizing the achievement of the 2030 Agenda goals. According to a World Bank study, while the pandemic has affected the world significantly, the economic recovery is still very heterogeneous, with developing countries, unlike the 2008-2009 crisis, being the most affected this time. While the richest 40% of the world's people have regained more than 45% of their average income loss between 2019 and 2021, the poorest 4 deciles have not yet managed to recover their income loss (Sánchez-Páramo et al, 2021). The figures are all the more striking when one considers the 1,000 richest people in the world who will have needed only a few months to recover their average pre-pandemic income ("The Inequality Virus", Oxfam, 2021).

Convinced that inequality reduction policies require coordinated action at the multilateral level, the AFD and the European Union have been working together to implement the Research Facility on Inequalities since 2017. After three years of research at the global, national and local levels and in close cooperation with our partner countries, **we want to deepen our work with the Extension of this Facility**, to activate it more directly in service of countries that have also put the fight against inequality at the center of their political agenda.

This new five-year programme (2020-2025) builds on the results and approaches of the first phase of the Facility and aims to support the governments of four countries - Colombia, Indonesia, Mexico and South Africa - in implementing policies that have an impact on reducing inequalities. **Tools measuring the impact of public policies**

on inequalities and paying particular attention to the transition towards strong sustainability trajectories will be developed and made available to policymakers. This new phase will closely involve the research ecosystems of the countries concerned. Convinced that evidence-based policy dialogue is essential for coherent action to reduce inequalities, the activities carried out within the framework of the Extension will enable the formulation and implementation of development policies geared towards achieving Sustainable Development Goal 10 (SDG 10).

Inequality and climate change are intrinsically linked.

At a time when the climate emergency raises the issues of justice and social cohesion in new terms, we are convinced that **the fight against inequalities will only be possible through the prism of a just transition**. As climate change impacts the most vulnerable people first and foremost and thus affects social cohesion, reducing inequalities is one of the conditions for achieving the objectives of the COP21 - in particular its most ambitious goal of limiting global warming to 1.5°C. While 90% of advanced economies are expected to return to their pre-pandemic levels of per capita income by 2022, only a third of emerging and developing countries are expected to achieve this. As **inequality and climate change are intrinsically linked**, the work of the Extension will seek to link these two dimensions in order to build a world in common.

A PARTNERSHIP APPROACH TO REDUCE INEQUALITIES

To meet the challenges of the 2030 Agenda and its seventeen Sustainable Development Goals (SDGs), **the European Union and its Member States are firmly committed to reducing inequalities** (SDG 10). Indeed, the importance of tackling inequality is highlighted throughout the entire 2030 Agenda, as reducing inequality can accelerate progress towards many of the other SDGs and is essential to fulfilling the commitment to leave no one behind.

This ambition has led Commissioner Jutta Urpilainen and the Directorate-General for International Partnerships (DG INTPA) to place the fight against inequalities at the heart of international cooperation strategies. **To meet the objective of "Fighting Inequalities by Building Inclusive and Sustainable Societies"** and to ensure that no one is left behind, Commissioner Jutta Urpilainen has called to firmly embed the fight against inequalities as a crosscutting objective in each of our geopolitical priorities, both politically and operationally.

The fight against inequalities requires the commitment of all.

In context, we are also very proud to announce the publication of the **Reference Document, "Addressing income inequalities through development cooperation"**. This tool will support our efforts to strengthen and mainstream our approach to development cooperation in order to fight inequality more effectively in our partner countries.

Martin Seychell
Deputy Director General
at DG International Partnerships
(European Commission)



Recognizing and understanding the multi-dimensional aspect of inequalities is a necessary step. However, the fight against inequalities requires the commitment of all. This is why DG INTPA wishes to make it a crosscutting objective, by encouraging cooperation between the countries of intervention, international partners, and development financial institutions, in synergy at the European level, **notably through the Team Europe approach**. This new approach, developed in response to the Covid-19 crisis, offers the possibility of building a strategic culture of cooperation centered on decisive measures that will bring about change. It is about helping our partner countries to develop evidence-based policies to foster a robust, equitable, inclusive, green and digital post-pandemic recovery.

Following the success of the first phase of the EU-AFD Research Facility on Inequalities, we are pleased to launch a second phase that is complementary to the Team Europe dynamic. **By supporting the development of inequality-sensitive public policies in Colombia, Indonesia, Mexico and South Africa** in close collaboration with local research centers and partner governments, we are convinced that the Extension will be a key tool for achieving SDG 10.

THE RESEARCH FACILITY ON INEQUALITIES A BROADENED UNDERSTANDING FOR BETTER COLLABORATION

Globalization and liberalization have played a paradoxical role in recent decades. While they have reduced global (inter-country) inequalities, they have also reinforced intra-country inequalities by creating winners and losers within each country. The Covid-19 health crisis has likely further aggravated these trends by reinforcing socio-economic inequalities at all levels.

In light of these considerations, the Agence Française de Développement (AFD) and the European Union (EU) have made the fight against inequality one of their respective priorities. It is in this context that they began their collaboration to reduce

inequalities with the implementation of the EU-AFD Research Facility on Inequalities in 2017. From the beginning, the general objective of the Facility has been to contribute to the implementation of the 2030 Development Agenda with its seventeen Sustainable Development Goals (SDG): in particular, the fight against inequality (SDG 10). By seeking to build a common European strategy within the framework of the 2030 Agenda and the SDGs, this programme also encourages greater cohesion between EU Member States on strategies to reduce inequalities.

With an initial kickoff in 2017, the Research Facility on Inequalities is composed of two distinct phases.

Funded by the European Union, through the Directorate-General for International Partnerships (DG INTPA) and implemented by the AFD, the first phase of the Facility was deployed in the 2017-2020 period. Committed to broadening the understanding of the gaps, dynamics and drivers of inequalities, the first phase set out to strengthen knowledge on inequality in 32 low and middle-income countries. With 22 research projects focused on developing methodologies and creating knowledge at the global, city and country levels, the first phase also sought to respond more effectively to inequalities with research-based public policy dialogue.

Given the success of the first phase of the Facility in generating knowledge on inequalities and in fostering public policy dialogue, the AFD and DG INTPA decided to continue the programme with a second phase called the Extension. This new phase will be implemented over the 2020-2025 period and focuses on supporting the definition and implementation of policies to reduce inequalities in four partner countries: Colombia, Indonesia, Mexico and South Africa. In the short and medium-term, this research-based programme will enable partner countries to enhance their understanding of specific factors leading to inequality and identify possible solutions that could be implemented to better respond to the challenge of lowering inequalities through effective public policies.

2017 —→ **2020** —→ **2025**

PHASE 1

- 1/ Projects selection (22)
- 2/ Implementation
- 3/ Research - Methodologies and approaches development
- 4/ Knowledge dissemination

PHASE 2 THE EXTENSION

- 4 projects - Colombia, Indonesia, Mexico and South Africa:
- using the methodologies and approaches from the first phase
 - building more effective public policies to reduce inequality



A LOOK BACK ON PHASE 1

Initiated in 2017, the first phase of the Facility involved 22 research projects conducted in 32 countries and 9 cities. This €4 million programme, funded by DG INTPA and implemented by the AFD in collaboration with research centres in partner countries, allowed the publication of more than 100 research papers, which were discussed in public policy forums aiming to support governments and development stakeholders on the implementation of more inequality-sensitive policies and strategies.

Phase one of the Facility generated knowledge on inequality and strengthened public policy dialogue and international partnerships. Research spanned a wide range of topics on the factors that create and sustain inequalities at the regional, national and global levels. From exploring links between inequality and structural change, to investigating climate-induced inequalities, to a close examination of human and social capacity impacts and beyond, the Research Facility brought to light key drivers of inequality and the nature of potential solutions on a local and worldwide scale.



 **2017-2020**

 **€4**
million in funding

 **22**
projects in 32 countries
and 9 cities

more than
100 
research papers
and policy briefs
published

Throughout the first phase, three major outcomes emerged:

- 1 Strengthened research capacity:** the supported projects increased understanding of inequality and knowledge that is empowering local partners to contribute more effectively to the transformation of their societies.
- 2 New partnerships:** the programme created collaborations with national and local research centres in partner countries, building relationships for more impactful research, results and action-oriented recommendations.
- 3 Enhanced policy dialogue:** the approach of jointly developing methods and tools with a range of stakeholders has enabled a constructive conduit between research and policy.

Finally, the first phase of the Research Facility on Inequalities initiated a new dynamic of cooperation between the European Union, the AFD and EU Member States, notably in the framework of the Facility's strategic committee. Another important objective of the first phase was to better coordinate European strategies and to strengthen the contribution of the EU's development cooperation agencies to the reduction of inequalities. This close cooperation has resulted in the publication by the European Commission of a Reference Document intending to operationalize the European's strategy on inequalities.

To share perspectives, dive deep into the research and find alignment on pathways forward, numerous conferences, workshops and webinars were convened over the period. The final conference of the first phase of the Facility held in March 2021 also brought together key stakeholders, researchers and policymakers to discuss the importance of fighting inequalities in development cooperation.

UNDERSTANDING INEQUALITIES 2.0 THE EXTENSION OF THE RESEARCH FACILITY

Following the success of the Facility's first phase, the AFD and the European Union have agreed to continue the programme in a second phase: the Extension. This new phase, financed with €3 million by DG INTPA over the period 2020-2025, will focus on four middle-income countries: Colombia, Indonesia, Mexico and South Africa.

The Extension intends to support these four partner countries in formulating policies to reduce inequalities in the context of the 2030 Agenda not only because of the prevalence of inequalities in these countries, but also because reducing inequalities has been set high on the political agenda of their governments.

This programme is thus designed to make the public policy process more responsive to inequalities, more inclusive and more effective, based on research evidence.

It is also intended to foster discussions between experts and policymakers in order to identify the best options for reducing inequalities in the specific contexts of these countries.

The policies supported under the Extension will be the result of close dialogue with the governments and will be based on research conducted with local research centres. These policies will build on the results achieved so far by the Facility, both in terms of methodologies developed and synergies established.



DEVELOPMENT IN MOTION: HOW DOES THE EXTENSION MOVE FORWARD ?

The Extension will work within a common framework in the context of four countries: Colombia, Indonesia, Mexico and South Africa. Like the first phase of the Research Facility on Inequalities, it will focus on research that more deeply investigates inequality issues, but in addition will support these four partner countries in formulating policies enabling inequality reduction.



The activities carried out under the Extension will be defined as follows:

- The objective is first to **target one or more priority themes for intervention by country through prior research work**. The work carried out will be based on the tools resulting from the first phase of the Facility, such as the inequality diagnostic. This preliminary work will make it possible to identify the policies and initiatives to support in the future.
- **A set of recommendations** related to the previously identified topics will then be issued in each country, which will allow for a better identification of the public policy issues related to the reduction of inequalities.
- **Tools and methodologies** will then be developed and tested in order to inform policymakers on the impacts of public policies on inequalities.
- **Policy frameworks** based on the results of the research and consultations will be developed and validated by local public and political authorities.
- Finally, **support and expertise** will be provided throughout the implementation of the identified public policies to ensure their sustainable impact.

The Extension will be governed by three committees, building on lessons learned from the first phase of the Facility on the importance of partnership and capacity building:

AT THE LOCAL LEVEL

- A steering committee will be set up in each of the four countries to decide on the identification and deployment of initiatives at a national level and will ensure their alignment with the strategic priorities of the national government, the EU and the AFD.

AT THE GLOBAL LEVEL

- A steering committee composed of the AFD and DG INTPA will meet to monitor the Extension and provide overall strategic direction.
- A strategic committee composed of the AFD, DG INTPA, participating EU Member States, as well as other invited development partners active in the field of inequality will meet to ensure the coordination of Member States around the 2030 Agenda on inequalities.

Towards a fair and sustainable trajectory

The benefits of continuing forward with the Extension phase are many. Basing initiatives on the research results and methodologies of the first phase, the AFD and the European Union will ensure that the Extension programme has a tangible impact and is leveraged for profound change in the four countries. The synergies identified and developed at the European level since research began in 2017, as well as intra-national partnerships and solution building, will be built on to create lasting policy and dialogue outcomes.

INEQUALITIES' RESEARCH AND POLICY SUPPORT FOR A MORE INCLUSIVE FISCAL SYSTEM



Colombia

Recent years have been marked by economic growth in Colombia, with growth rates overall above 3% per year, which has enabled many people to escape poverty. However, despite these positive developments, Colombia remains one of the most unequal countries in the Latin America region, with a Gini coefficient of income distribution between 0.55 and 0.6 (before and after redistribution). The Covid-19 pandemic has certainly reinforced these levels of inequality, particularly in terms of access to education and health.

The income of the richest 10% of Colombians is

11

times that of the poorest 10% (2021)

A woman is

1.7

times more likely to be unemployed than a man (2021)

The country's rural property distribution index (Gini) is

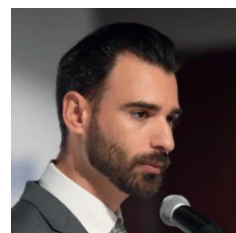
0.89 (IGAC)

Through the Extension of the Research Facility, the AFD and the EU seek to accompany the Colombian government in addressing these important inequality challenges and implementing effective public policies to reduce them.

An inequality diagnostic based on the methodology developed under the first phase of the Facility will first be implemented in collaboration with the Fedesarrollo think tank. This diagnostic will provide a detailed overview of the situation of inequality in the country and will make it possible to identify the critical factors that shape inequalities. These results will support the reflections generated around this topic with different stakeholders, including the

Colombian government, and will allow the improvement - or support - of measures that can reduce the gaps.

Particular emphasis will be placed on the discussion of Colombian fiscal policy and public spending. This aspect will be addressed and supported within the framework of the Extension, using the fiscal incidence assessment methodology developed by the Commitment to Equity (CEQ) Institute, which was also used during the first phase of the Facility in different contexts. This study will allow a simulation of the impacts of a set of policies and programmes on inequalities and aims to be a crucial tool for the Colombian National Planning Department and Ministry of Finance.



The «Facility on Inequalities» programme aims - through research - to accompany the Colombian government in the formulation of public policies to combat one of Colombia's main problems: inequality. In addition, this programme will promote spaces for dialogue between the different actors of the Colombian society in order to raise awareness and facilitate the implementation of the reforms that the country needs to reduce inequalities. This project, implemented in close cooperation with the AFD agency in Colombia, complements and accompanies the cooperation operations that the European Union and its Member States have in the country, always working hand in hand and aligned with Colombia's development agenda.

Rocco Busco

Head of Cooperation, European Union Delegation to Colombia

INEQUALITY AND ENVIRONMENTAL SUSTAINABILITY

Indonesia



Indonesia has benefited from its integration into globalization with a significant increase in the value of the human development index and a significant decrease in the number of people living below the poverty line. However, this economic growth has not been inclusive, as evidenced by the rapid increase in wealth inequality in the country.

Gini coefficient of
0.38
in 2019

Changing weather patterns and warming oceans are expected to lead to a

20%
decrease in Indonesia's marine fishery production by 2055

By the end of the 21st century, it is estimated that Southeast Asia will lose about

11%
of its GDP due to climate change

With a Gini coefficient of 0.38 in 2019, Indonesia experiences higher levels of inequality than other Southeast Asian countries in the same income group.

While Indonesia is among the fastest growing lower-middle income countries in Southeast Asia, it is also one of the most affected by climate variability. As an archipelagic country, Indonesia depends heavily on the fishery sector and on the quality of its marine ecosystem. Yet the latter is seriously endangered by climate change, threatening the very fabric of society in the country.

To address this issue, Indonesia has introduced a plan to develop Marine Protected Areas (MPAs) with the aim of promoting the conservation of

marine ecosystems in designated areas. This plan, established for the period 2020-2024, is part of the country's 6th Development Programme and presents benefits for both environmental sustainability and reducing inequalities.

Preliminary research and workshops conducted in partnership with local research centres, the AFD and the EU delegation in Indonesia have highlighted the role that MPAs could play in reducing economic, access, gender and health inequalities. Additional studies and consultations will be carried out in the coming months, which will feed into the policy dialogue with the Indonesian government. This research will aim to identify options to support the government in the implementation of MPAs with a strong inequality reduction dimension.



The research work carried out in Indonesia by the Research Facility on Inequalities responds directly to several priorities of the European Union's policy on International Partnerships, including the fight against inequality and action on climate change. By focusing on Marine Protected Areas, this work is also a contribution to the sustainable management of marine resources and the protection of coastal ecosystems. This theme is essential for a country like Indonesia and its ambition to develop a sustainable blue economy. It also allows the Facility to guide the development of future "Team Europe" initiatives in Indonesia on the green transition.

Thibaut Portevin

Head of Cooperation, European Union Delegation to Indonesia

LABOUR MARKET, CARE ECONOMY AND ENVIRONMENTAL TAXATION THROUGH THE LENS OF INEQUALITY



Mexico

Mexico has enjoyed economic growth in recent decades. However, this growth has not been inclusive, as evidenced by the prevalence of extreme poverty and inequality in the country. Although official data shows a reduction in the rate of inequality over the past 25 years, Mexico remains one of the most unequal countries in Latin America, with a Gini coefficient of 0.46 in 2018.

Research conducted during the first phase of the Facility has highlighted low wealth sharing and limited social mobility. Further exacerbating inequalities are the perceptions of inequality and social mobility among the Mexican public, as these can directly influence preferences for redistribution and alter the way a society perceives its ability to move between social strata.

In this highly unequal context, reinforced by the overestimation of the tax burden in terms of income tax, the activities of the second phase of the Research Facility will

focus on the labour market, more particularly on the care economy, and on the redistributive impact of environmental taxation.

In the coming months, the Extension will focus research on the links between inequalities, the health care system and environmental taxation. The results of these studies will feed into the policy dialogue with the Mexican government, particularly the Ministry of Finance (*Hacienda*), and will eventually lead to the implementation of policies with high potential in terms of inequality reduction.

The richest 10% own

59%
of the national income,
while the richest
1% own 29% (2019)

69% of the extremely
poor live in

6 of Mexico's
32 states (2018)

Air pollution causes

5.9%
of all deaths
in the country



Mexico is a land of contrasts: an upper-middle income country with large inequalities across a wide range of opportunities and outcomes. Over the past few years, there has been substantial progress in understanding the sources, dynamics and consequences of these multiple inequalities in the country. But

there is still a long way to go to identify, design and implement policies that close the gaps and create a more just society. The research programme and selected activities of the Facility connect the analytical elements with the political economy and practical challenges of policymaking. This integrated approach increases the chances of real, sustainable and progressive change and thus supports the foundation of a society with better opportunities and wider freedoms.

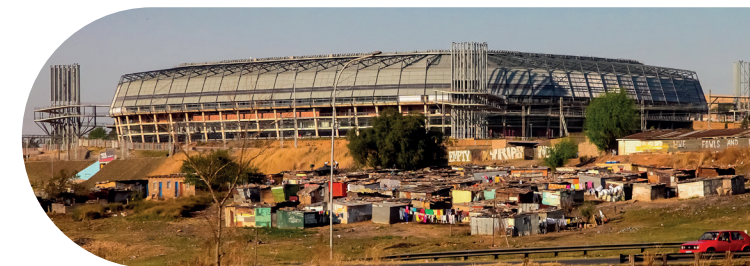
Ricardo Fuentes

International expert on inequalities - Scientific coordinator for the research projects in Mexico

SUSTAINABLE RECOVERY AND JUST TRANSITION



South Africa



Despite considerable efforts to improve the welfare of its citizens since its transition to democracy in the mid-1990s from a history of colonization and apartheid, South Africa remains one of the most unequal countries in the world.

With a Gini coefficient of 0.65 in 2015, South Africa retains many structural challenges inherited from its history of segregation. Yet the fight against inequality is deeply embedded in South African policy, from the 1994 Reconstruction and Development Programme to the current National Development Plan, with reducing inequality one of its two core objectives, alongside eradicating poverty. At the same time, South

Africa faces the challenges of exiting coal, preserving its biodiversity and managing its agricultural value chain, which is heavily impacted by climate change.

To extend the work undertaken during the first phase of the Facility, the AFD, the EU and the Presidential Management Office in the Presidency launched a second research programme that aims to support policy thinking and implementation both at the national government and municipal levels.

With the objective of ensuring a higher degree of inclusiveness in public policies, the Extension's programme is built on two pillars, which directly

feed into the South African Economic Reconstruction and Recovery Plan. One is to develop an interactive, online Community Explorer to allow researchers, policymakers and civil society members to build a stronger understanding of well-being at the community level in South Africa. The Community Explorer will act as a tool for the local level analysis needed in designing just transition strategies in coal intensive municipalities. The other is to address the need to advance the evidence base and understanding of the stimulus effects of income transfer programmes in the South African context, focusing on the impacts of social grants and of public employment programmes implemented as a response to the current crisis.

Unemployment
rate of almost

35%
in 2021

55.5%
of South Africans were
living in poverty in 2015

2,239
people die per year
from illnesses caused
by pollution



This project fills a vital evidence gap for us, by exploring whether and how local spending from social grants and special employment programmes acts as a stimulus in poor and marginalized local economies. Where do beneficiaries of these programmes spend most of their incomes?

Is it contributing to economic recovery in the informal sector and small enterprises at a local level? How does such spending trickle up into wider value chains in the economy – and with what employment creation effects? To the extent that income transfers have indirect and induced impacts on employment outcomes, they are impacting not only on poverty but also on inequality. For us, this has important implications that can help inform integrated approaches to addressing poverty, unemployment and inequality.

Kate Philip

Programme lead for Presidential Employment Stimulus in the Project Management Office in the Private Office of the President

Agence Française de Développement (AFD) implements France's policy on international development and solidarity. Through its financing of NGOs and the public sector, as well as its research and publications, AFD supports and accelerates transitions towards a fairer, more resilient world. It also provides training in sustainable development (at AFD Campus) and other awareness-raising activities in France. With our partners, we are building shared solutions with and for the people of the Global South. Our teams are at work on more than 4,000 projects in the field, in the French Overseas Departments and Territories, in 115 countries and in regions in crisis. We strive to protect global public goods – promoting a stable climate, biodiversity and peace, as well as gender equality, education and healthcare. In this way, we contribute to the commitment of France and the French people to achieve the Sustainable Development Goals (SDGs). Towards a world in common.



#WorldInCommon #ResearchInequalities

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