

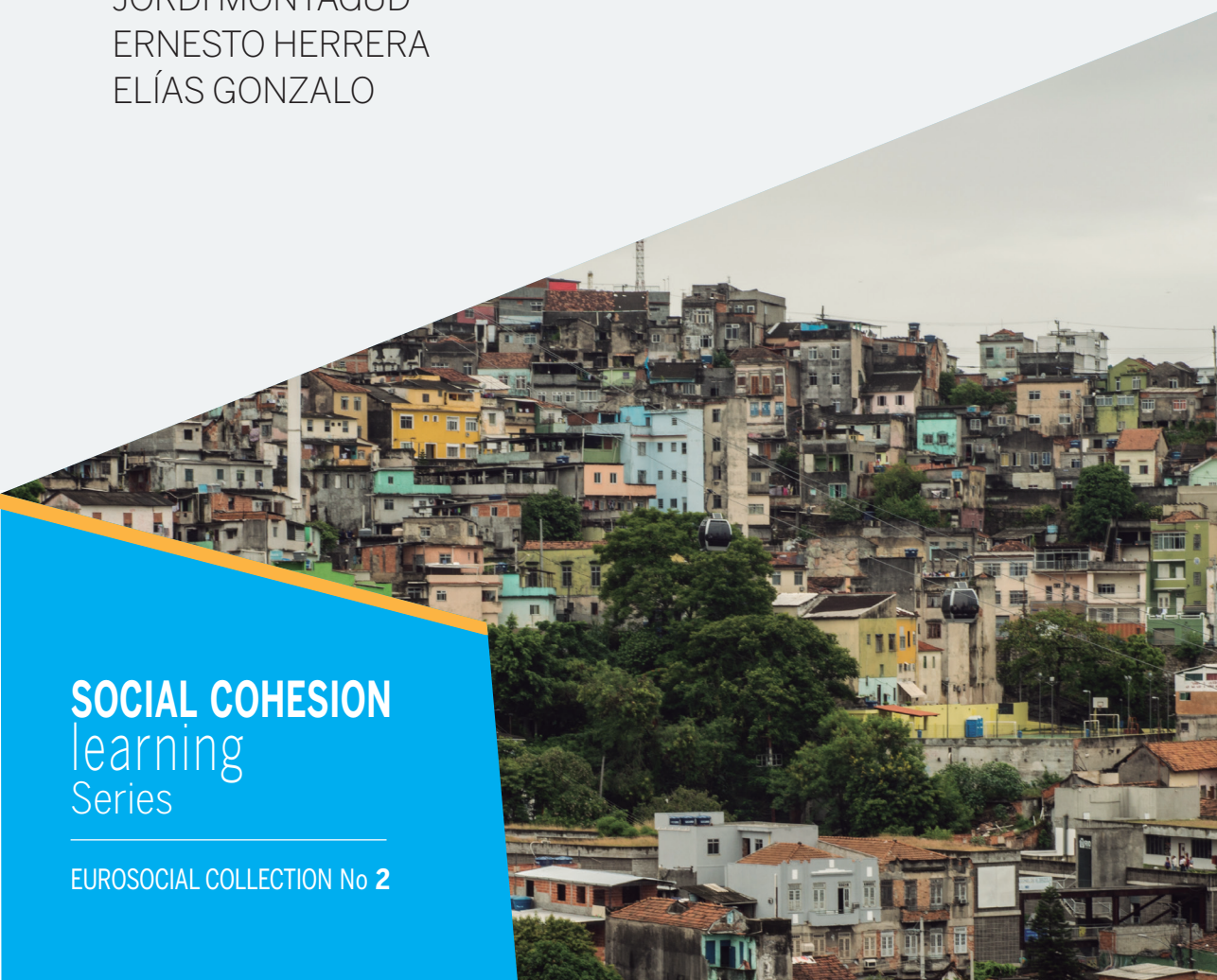


The integration of the social cohesion and the reduction of inequalities approach in the budget support programmes of European Union

JORDI MONTAGUD
ERNESTO HERRERA
ELÍAS GONZALO

SOCIAL COHESION
learning
Series

EUROSOCIAL COLLECTION No 2





The integration of the social cohesion and the reduction of inequalities approach in the budget support programmes of European Union

JORDI MONTAGUD
ERNESTO HERRERA
ELÍAS GONZALO

SOCIAL COHESION
learning
Series

EUROSOCIAL COLLECTION No 2



PROGRAMME FUNDED BY
THE EUROPEAN UNION

Publisher:

EUROsociAL Programme
C/ Beatriz de Bobadilla, 18
28040 Madrid (Spain)
Tel.: +34 91 591 46 00
www.eurosocial.eu

With the coordination of:



International and Ibero-American Foundation for Administration and Public Policies

Publication made with the support of:



Mancala Consultores

This publication was produced with the assistance of the European Union. Its content is the sole responsibility of the authors and does not, in any way, reflect the views of the European Union.

This publication is not for sale.

Graphic design:

Cyan, Proyectos Editoriales, S.A.

Madrid, september 2018



The original publication and any derivative works, which must be distributed with a licence that is the same as the one that applies to the original publication, may not be sold.

Contents

List of acronyms	9
Executive summary	11
1. Introduction and object of the study.....	15
2. Budget support as a tool for EU cooperation	17
2.1 Brief characterisation of budget support according to the EU.....	17
2.2 Some data on EU budget support in Latin America.....	20
3. Poverty and inequality trends in Latin America.....	23
4. Analysis methods	27
4.1. Analysis of EU methodologies, guidelines and processes	28
4.2. Analysis of the social approach to budget support from other donors.....	29
4.3. Proposals from partner governments and civil society.....	29
4.4. Validation with key players	30
4.5. Limitations of the analysis	30
5. Analysis of EU methodologies, guides and processes	33
5.1. EU General Cooperation Framework	33
5.2. Approach and operability of the EU Budget Support	35
5.2.1. Future Approach to EU Budget Support to Third Countries	35
5.2.2. Budget support guidelines.....	36
5.2.3. Risk Matrix.....	40
5.2.4. Mobilisation of Domestic Tax Resources (DRM).....	41
5.3. Social cohesion, inequality and inclusion in EU cooperation	43
5.3.1. Communication from the EU on cooperation and social protection.....	43
5.3.2. Study on addressing inequality in EU cooperation.....	44
5.4. Cycle of programming, formulation, implementation and evaluation of programmes	46

5.4.1. Programming	47
5.4.2. Identification and classification	48
5.4.3. Implementation	51
5.4.4. Evaluation	52
6. Reference to other cooperation organisations	55
6.1. Belgian Technical Cooperation (CTB / BTC)	55
6.2. British cooperation (DFID)	56
6.3. Danish Agency for International Development (DANIDA)	58
6.4. Swedish International Development Agency (SIDA)	59
6.5. Spanish Agency for International Development Cooperation (AECID)	59
6.6. French Development Agency (AFD)	60
6.7. International Financial Institutions (IFIs)	61
7 Contributions from member countries and civil society	63
7.1. The Inequality Atlas of Ecuador	63
7.2. The Oxfam and DFI Commitment to Reducing Inequality Index	64
7.3. Commitment to Equity, Tulane University	65
8. Conclusions	67
8.1. On the general framework and programming of EU cooperation	67
8.2. On the operation of the cycle of budget support programmes	68
8.3. On the methodological proposals and contributions to the process	70
9. Recommendations	73
Annexes	77
Annex 1: Guiding questions	77
Annex: Bibliography	79

Table index

Table 1. Commitment of budget support funds as of 31/12/2015	20
Table 2. Disbursement of budget support funds as of 31/12/2015	20
Table 3. Risk matrix version 2012	40
Table 4. Excerpt from Table 2.1: Examples of how Danish priorities can be promoted through the “budget support package”	58

Figure index

Figure 1. Budget Support Intervention Logic	37
Figure 2. Programme Cycle	46

Graphic index

- Graphic 1. Real GDP growth in Latin America 2002-2015.....24
- Graphic 2. Extreme poverty index in Latin America 2002-201524
- Graphic 3. Gini Index in Latin America 2002-2015.....25
- Graphic 4. Share of income maintained by the poorest 20%
in Latin America 2002-2015.....25
- Graphic 5. Interviews with EUD staff on the use
of the Gini indicator and others50
- Graphic 6. Interviews with EUD staff on the use
of the Gini indicator and others51
- Graphic 7. Interviews with EUD staff on inequality and political dialogue.....52

List of acronyms

AECID	Spanish Agency for International Development Cooperation
AF	Action Sheet
AFD	French Development Agency
BISP	Benazir Income Support Programme
BS	Budget Support
BTC/CTB	Belgian Development Agency, also known as Enabel
CEQ	Commitment to Equity
COIN	Competence Centre on Composite Indicators and Scoreboards
CSP	Country Strategy Papers
DANIDA	Danish International Development Agency
DCI	Development Cooperation Instrument
DEVCO	Directorate-General for International Development Cooperation
DFID	Department for International Development (British cooperation)
DG	Directorate-General
DRM	Domestic Resource Mobilization
EC	European Commission
ECA	European Court of Auditors
ECLAC	Economic Commission for Latin America and the Caribbean
EDF	European Development Fund
EEAS	European External Action Service
EU	European Union
EUD	European Union Delegation
FA	Financing Agreement
GBP	Pounds Sterling
GBS	General Budget Support
GDP	Gross Domestic Product
GDP per capita	Gross Domestic Product per capita
GGDC	Good Governance and Development Contracts
GO	General Objective
HAI	Human Asset Index
IFIs	International Financial Institutions

ILO	International Labour Organization
IMF	International Monetary Fund
IOs	International organisations
JRC	Joint Research Center
MDGs	Millennium Development Goals
NEAR	Directorate-General for Neighbourhood and Enlargement Negotiations
NIP	National Indicative Programme
OCT	Overseas Countries and Territories
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PDP	Policy Development Process
PER	Public Expenditure Reviews
PETS	Public Expenditure Tracking Surveys
PFM	Public Financial Management
PSIA	Poverty and Social Impact Analysis
QSG1	Quality Support Group 1
QSG2	Quality Support Group 2
QUAL	Qualitative Adjustment
ROM	Results-Oriented Monitoring
SBC	State Building Contracts
SBS	Sector Budget Support
SDG	Sustainable Development Goals
SIDA	Swedish International Development Agency
SIS	Small Island States
SO	Specific Objective
SPF	Social Protection Floor
SRC	Sectoral Reform Contracts
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment Tool
TAPs	Technical and Administrative Provisions
USD	US dollars
VAT	Value Added Tax
WB	World Bank
WGI	World Governance Indicators

Executive summary

Budget support is an important instrument of the EU's global development policy towards partner countries, strongly linked to supporting the achievement of government policy results for improving the lives of people in areas such as health, education, social protection, access to basic services and management of public finances, among others.

EUROsociAL+ supports the development of national public policies in Latin America aimed at improving levels of social cohesion. EUROsociAL+ has commissioned this study to provide a first general orientation on how the focus on inclusion, reduction of inequalities and social cohesion of European cooperation is effectively transferred to the formulation and implementation of budget support programmes, and how this approach is integrated into internal of DG DEVCO and NEAR processes.

This study can, from the perspective of EUROsociAL+, help to promote the continuous improvement of innovative EU cooperation tools and methodologies in Latin America and, eventually, in other geographical areas. In this way, the European Commission, specifically the General Directorate of International Cooperation and Development and, indirectly, the European Union Delegations in Latin American, will have an analytical proposal and guidance on how to make budget support a more effective modality in the promotion of social cohesion and inclusion, and the fight against inequality.

The EU General Framework for cooperation places inclusive growth at the highest level of priorities, as reflected, among others, in two strategic documents: The European Union Development Cooperation Guide – Latin America (2010) and the Agenda for Change (2012). In addition, the EC Communication *Social protection in the development cooperation of the European Union* (2012) confirms that social protection is an essential part of European cooperation and that it *can contribute to reducing poverty, promoting inclusive growth and fostering social cohesion and stability*. The communication also points out that budget aid is a particularly appropriate modality to achieve this because of its combination of policy dialogue, support for programmes and policies, the increase in the generation of own resources and the reinforcement of capacities.

However, beyond this general framework there are few references in the strategic documents containing guidelines on how, in practice, this integration of social cohesion should be carried out. A recent study points out that only 13% of the Country Strategy Papers (CSP) analysed worldwide include an inequality analysis. The methodology used by the Commission and EEAS for the allocation of funds also favours poverty levels. In Latin America, the inequality factor in the allocation of funds and selection of focal sectors is felt, albeit indirectly, as many of the poorest countries in the region are also the most unequal. However, the same logic does not always work and, for example, the same relationship between poverty and inequality does not exist in the Caribbean.

Since 2011, the reference document *The Future Approach to EU budget support to Third Countries* includes *inclusive growth* among its challenges. The new *Budget Support Guidelines* (2017) therefore feature sustainable and inclusive economic growth among their goals, making direct and explicit reference to the commitments of the 2030 Agenda, Sustainable Development Goals, inclusive economic growth, job creation and gender equality. The concept of inclusion is related to macroeconomic eligibility and policy credibility. However, the Guidelines still do not provide specific guidance on how a policy dialogue should be conducted, taking into account social cohesion and inequality, nor how indicators that adequately reflect these aspects can be selected.

Another important tool in ensuring European cooperation is the Risk Assessment Matrix. Although there are aspects, such as transparency, which can indirectly affect inequality, risk analysis does not currently include the identification and mitigation of a possible lack of impact or negative impacts on inequality, nor on inclusive growth or social cohesion.

Regarding the treatment of social cohesion in the formulation of budget support programmes, the issue is addressed indirectly in QSG1 and QSG2. This is reflected in the implementation of the programmes, in which the social cohesion approach will depend on whether the issue has been incorporated or not at the time of establishing the eligibility criteria and the Financing Agreements disbursement indicators. A study reveals that only 21% of EU Delegations programme officers interviewed say that the issue of inequality is frequently addressed in the framework of the policy dialogue (including budget support and blending operations). Worryingly, 22.7% say that it is rarely addressed. Even in this context, within the programmes the policy dialogue includes the potential to address social cohesion, since it is a living and flexible process that is not so conditioned to the literal wording of agreements.

In short, although the general framework and the design of the tools is quite comprehensive and places social cohesion to be of the highest importance, there is still a need for guidelines, methodologies and examples that facilitate the effective transfer of those principles into the content of the programmes. The challenge lies in maintaining the focus on inequality, inclusion and cohesion throughout the programme cycle.

There are interesting initiatives, both within the EU cooperation and in other cooperation efforts and civil society, which can be inspiring. In Paraguay, EUROsociAL+ has been able to support dialogue in the preparation of a future budget support intervention in the social sector. Meanwhile, at the level of DG DEVCO Headquarters, the thematic unit on rural development and food security has developed an interesting methodology on the introduction of an inequalities approach to support initiatives for the development of value chains. DFID and DANIDA have approaches to promote equity and social cohesion respectively as Human Rights in their budget support programmes, or similar tools. Elsewhere, the World Bank uses PSIA as an ex-ante evaluation tool for social impact and poverty, while the IMF has begun to introduce inequality into its Article IV consultations with a number of countries. Ecuador launched an Atlas of Inequality in 2013 a detailed study of which sectoral indicators are key to social cohesion in the country. Finally, there are interesting proposals from civil society and academia, such as Oxfam's *Commitment to Reducing Inequality Index*, or the University of Tulane's *Commitment for Equity*, which try to complement more traditional analysis methods.

Possibilities open up to articulate a form of collaboration in which the EUROsociAL+ programme can support DG DEVCO and the EU Delegations in identifying and working around spaces and opportunities to increase the weight of inequality, inclusion and social cohesion in cooperation in general, and in the use of budget support in particular. This may include supporting the development of approaches and methods, channelling expertise and exchanges of experiences between countries and supporting specific processes on demand throughout the budget support programme cycle.

The proposed next steps include the elaboration of a Protocol between DG DEVCO G1/ G2, EURO, the opening of collaboration spaces with the DG DEVCO headquarters and a selection of Delegations and the translation of the report for its dissemination among other DG DEVCO Directorates and NEAR.

1. Introduction and object of the study

The International and Latin American Foundation for Public Administration and Policies leads the Consortium in charge of implementing the EUROsociAL+ programme together with Expertise France, Italian - Latin American International Organization (ILLA) and the Secretariat of Social Integration of Central America (SISCA/SICA). The aim of EUROsociAL+ is to support domestic public policy in Latin American countries aimed at improving levels of social cohesion and strengthening the institutions that carry out these policies. This is to be achieved through the exchange of experiences, knowledge and best practices between public administration bodies in the European Union and Latin America, as well as those within Latin America, in an effort to tackle similar problems and political changes in pursuit of social cohesion.

The EU, through the European Commission, specifically the Directorates General for International Cooperation and Development (DG DEVCO) and Neighbourhood and Negotiations for Enlargement (NEAR), has played a key role in promoting the international agenda in central issues related to budget support. Budget support is an important instrument of the EU's global development policy towards partner countries which aims to address five problems: Promotion of Human Rights and democratic values – improving financial management and macroeconomic stability, including inclusive growth and reducing corruption and fraud, sectoral reforms and provision of sectoral services, state consolidation in fragile states, addressing the specific challenges of the Small Island States (SIS) and the Overseas Countries and Territories (OCT), increased mobilisation of national income and less dependence on aid.

Budget support constitutes a quarter of the total EU development assistance. According to the recent report of the European Commission on the evaluation of EC budget support in 2016, in Latin America, 10 countries receive cooperation through this system, with a total of 31 contracts representing an outlay of 794.7 million Euros.

Budget support is strongly linked to supporting the achievement of policy results of the partner countries, linking their disbursements to the fulfilment of previously agreed goals. Whether through a supportive approach to macroeconomic stability and poverty reduction, or in a more sector-focused support, budget support programmes usually

seek to contribute to improvements in people's lives, particularly in areas relevant to social cohesion, such as health, education, social protection, access to basic services and management of public finances. In this orientation to results and its social approach, the modality coincides with a programme like EUROsociAL+.

However, the way in which the focus on inclusion, reduction of inequalities and social cohesion of European cooperation is effectively transferred to the programming of the aid and to the programmes that are formulated from it is not evident. Neither is it clear how this approach is integrated into the internal processes of DG DEVCO and NEAR. From this perspective, it was considered important to study and analyse the situation, resulting in a document containing guidelines that allow EUROsociAL+ to promote the integration of the a social cohesion approach and the reduction of inequality in the European Union's budgetary support programmes.

This document¹ therefore represents the result of a first reflection on how the major objectives of cooperation in terms of social cohesion can be integrated more effectively, both in the content of the interventions and in the institutional processes.

1. This study was originally drafted in Spanish, this is a translation.

2. Budget support as a tool for EU cooperation

2.1. Brief characterisation of budget support according to the EU

The 2012 European Union Guidelines define budget support as an implementation of cooperation that aims to provide better aid and achieve sustainable development results.

Budget Support differs from the other two implementation methods most used by European aid: The project approach and the implementation through third parties includes the delegation of funds from the European Union to international organisations or delegated cooperation with member state agencies.

A budget support programme is composed of three elements: Funds or financial transfers to the public treasury of the partner country – technical assistance and policy dialogue.

Budget support funds are monetary transfers from the EU Budget or EDF funds that are made directly to the partner country. When transferred to the national treasury account, they must be accounted for as public revenue and accounted for in the official budget of the country. Thereafter, these funds are merged with the rest of the budget, which is known as the principle of fungibility. Disbursed funds are not subject to specific audit by the EU and follow the same rules of commitment, implementation and control as the rest of the country's budget. The transfer of funds is subject to a series of eligibility criteria and compliance with conditions agreed between the EU and the partner country regarding the economic or sectoral development policy that is supported.

In addition to the funds, it is possible, but not mandatory, that a part of the total budget of the programme be allocated to finance Technical Assistance (TA) services aimed at strengthening the capacities of the partner country and accompanying the implementation of the programme. These funds are not transferred to the national treasury and are usually handled directly by the European Union delegation in the country. Support for capacity building is carried out on the basis of national demand, linked to

clear products and through harmonised and aligned initiatives, emphasising the need for a contextual analysis and a specific analysis of the institutions and capacities of each country.

In addition to funds and TA, a key feature of budget support is that, as part of the aid package, it provides a platform for the policy dialogue with the partner country (government, national enforcement agencies and civil society) on the supported aspects and their financing, objectives and results. This dialogue must be consistent with the principles of ownership, transparency and accountability and mutual accountability among partners. It is therefore important that this policy dialogue be articulated effectively between the EU, normally represented by its Delegation and the Government of the country. This dialogue takes shape around the so-called Policy Framework, which includes: the content of the policies and their formulation; the existence of a policy monitoring and evaluation framework: the implementation of review and coordination mechanisms of the donors that support them. The ultimate goal is that the country can undertake the necessary reforms to establish and consolidate democracies, achieve sustainable economic growth and eradicate poverty.

This aid system is not a blank check, nor is it granted to all countries. To be able to use it, as with all European cooperation, the fundamental values regarding respect the principles of democracy, human rights and the rule of law must be met. In addition, in order to be able to consider the implementation of budget support, the partner country must meet four eligibility criteria in reference to:

- *Public policy*: There is a credible and relevant national or sectoral development strategy that supports the objectives of poverty reduction, sustainable and inclusive growth and democratic governance.
- *Macroeconomic management*: There is a credible and relevant programme to restore or maintain macroeconomic stability.
- *Public finance management*: There is a credible and relevant programme to improve the management of public finances.
- *Budget transparency*: The government has published the proposal from the executive branch or the approved budget in the current or previous budget cycle.

These eligibility criteria need to be maintained throughout the duration of the programme and are subject to periodic reviews.

There are three types of budget support, differentiated by their focus:

- *Good Governance and Development Contracts (GGDC)*, also known as General Budget Support: GGDCs will be used as long as the specific objectives of the support focus on the promotion of internal responsibility and accountability, the strengthening of

national control mechanisms and the strengthening of central government systems, as well as support for broader reforms, such as macroeconomic management or the management of public finances. They are traditionally associated with support for strategic plans for poverty reduction.

- *Sectoral Reform Contracts (SRC)* or Sectoral Budget Support. SRCs will be used whenever specific objectives are focused on support for sectoral reforms and policies, improving governance and the provision of services in a specific sector or a set of inter-related sectors. The added value of an SRC can often be found in supporting the acceleration of reforms, in improving the efficiency and effectiveness of sectoral expenditures, in sharing knowledge or in developing capacities. It is the most commonly used system at present.
- *State Building Contracts (SBC)*: SBCs should be used when situations of fragility or of transition require measures to support the processes of transition towards development and democratic governance, including sustainable changes made to societies in transition, in order to help partner countries to guarantee state functions and the provision of basic services to the population. It is associated with circumstances in which the EU supports a country after a humanitarian crisis, a conflict or a natural catastrophe. Its articulation is complicated by the difficulty of countries in a situation of fragility to meet the eligibility criteria.

As far as the identification processes are concerned, and in terms of formulation, execution and evaluation, budget support programmes follow the same steps as the other systems, albeit with certain particularities.

During formulation, special attention is paid to the review of eligibility criteria and the management of the risks associated with a system in which ownership, dialogue and results are promoted over the EU's control and procedures.

In execution, the most important milestones are disbursements of funds, which are usually carried out annually. In order to make transfers to the Treasury, the partner country must demonstrate the maintenance of the eligibility and report on the achievement of established goals for a series of indicators included in the financing agreement. The term "fixed tranche" is used to refer to cases where disbursement is only linked to eligibility criteria, while variable tranche is where disbursement is also linked to the fulfilment of annual goals.

In the case of programme evaluation, there is a specific methodology that tries to address the challenge of demonstrating how financial, technical and dialogue support for a country's policy can effectively contribute to the achievement of results and, eventually, positive impacts on the population.

In short, budget support is a relatively new system, designed to ensure that EU aid has a greater impact on the population while promoting the appropriation of the partner

countries, strengthening the capacity of their institutions, and encouraging donor co-ordination and mutual accountability between donor and recipient. It allows the commitment of large amounts of funds, especially in comparison with the project approach, and raises the level of political dialogue. It also brings challenges such as ensuring compliance with the eligibility criteria, correctly articulating the policy dialogue and, at the end of the process, being able to demonstrate the effective contribution of the programmes to the development of the countries.

2.2. Some data on EU budget support in Latin America

The European Union began using budget support as a means of implementing aid in the early 2000s. Since then, its use has been gradually increasing and, at present, the disbursements made within the framework of budget support programmes account for 20% of the European Commission's Official Development Assistance (ODA).

For the period 2014-2020, the EU has signed Financing Agreements (FA) with ten countries in the region for the start-up of a total of 31 budget support programmes. Almost all operations have a sectoral focus. In proportion to other geographical areas, Latin America represented 6.2% of the total funds committed worldwide by the EU in the various system types until the end of 2015.

Table 1. Commitment of budget support funds as of 31/12/2015

Region	Number of countries	Nº of operations	SBS	GBS	Other budget support modalities	Commitment, € millions
Latin America	10	31	30	1	0	794.7
Total	90	265	215	16	25	12,826.9

Source: 2016 Annual Report European Commission

With regard to disbursements, the amounts were the following:

Table 2. Disbursement of budget support funds as of 31/12/2015

Region	2010	2011	2012	2013	2014	2015	2016 (estimado)
Latin America	96	84	119	72	58	126	168

Source: 2016 Annual Report European Commission

The importance of budget support transcends the weight of the amounts in the budgets of the recipient countries. On the one hand, the contributions are strategic in terms of the completion of sectoral budget allocations, particularly within the context

of restrictions placed on spending on public investment. On the other hand, the disbursements, together with the accompanying Technical Assistance and, especially, the policy dialogue, allow a cooperative relationship based on the appropriation by the partner state, an alignment with national policies, a focus on results and a reduction of the transaction cost.

3. Poverty and inequality trends in Latin America

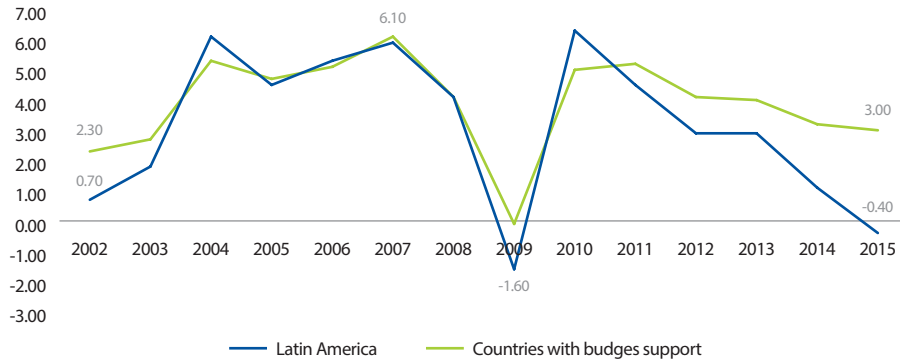
In the last 25 years, Latin America has been characterised by moderate economic growth, marked economic volatility and a decrease in poverty and destitution. Nonetheless, the period 2010-2015 saw stagnation and serious inequality in terms of the distribution of income².

If we take the data from the World Governance Indicators (WGI) of the World Bank (WB) or ECLAC, there has been a deceleration of the real growth of the Gross Domestic Product in Latin America since 2011. The main causes associated with this slowdown are lower external demand, the fall in confidence in the region's economies, the drop in the prices of raw materials and the low mobilisation of domestic resources.

Since the beginning of the century, trends in the continent have undergone significant variations. After the crisis of the first years, relatively high growth of around 5 and 6% was achieved. The international financial crisis severely affected economies between 2007 and 2009, subsequently recovering moderate growth. As of 2011, there has been a large drop at the regional level, which can be explained by the drastic deterioration and the magnitude of the fall of the economies of Brazil – the engine room of the region – and Venezuela. If we look only at the countries that receive funds through the budget support modality, the GDP growth data are similar to that of the countries as a whole until 2010 and since then it has maintained moderate growth, with a downward trend.

2. Arenas de Mesa, A (2016). *Sostenibilidad fiscal y reformas tributarias en América Latina* [“Fiscal Sustainability and Tax Reforms in Latin America”] (LC/G.2688-P). Economic Commission for Latin America and the Caribbean (ECLAC) Santiago de Chile.

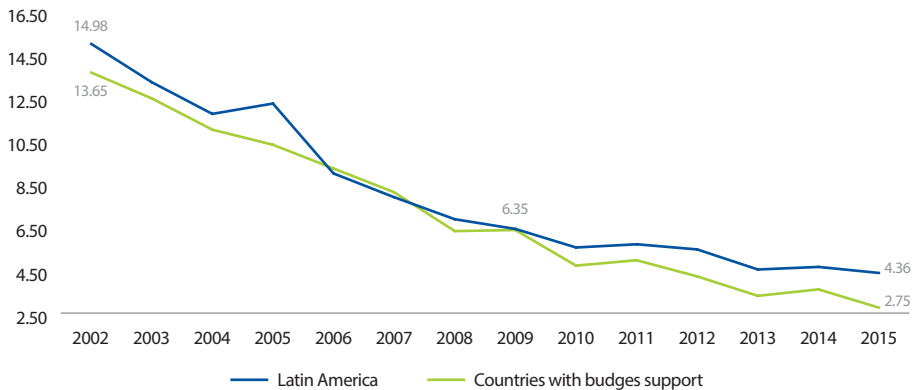
Graphic 1. Real GDP growth in Latin America 2002-2015



Source: own material based on EUROSTAT data.

Despite the economic instabilities that have affected the region in the last decade, important progress has been made in reducing poverty. Extreme poverty in the region has been reduced by 70% over the last 15 years. In the countries receiving EU budget support, this reduction goes up to 80% in the period.

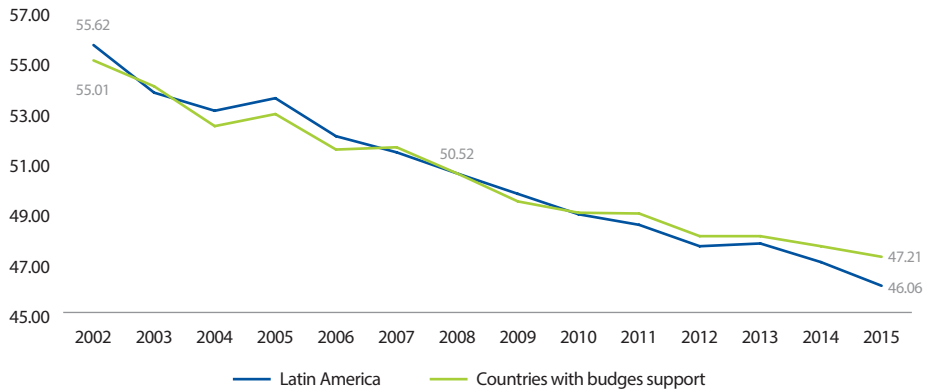
Graphic 2. Extreme poverty index in Latin America 2002-2015



Source: own material based on EUROSTAT data.

With regard to inequality, using the Gini Index, the most widely accepted measure, we can see a constant decrease, although total values remain high. Latin America continues to be the world's most unequal region. However, in recent years the tendency to reduce inequality in the continent as a whole seems slightly better than in budget support recipient countries, no significant differences are observed.

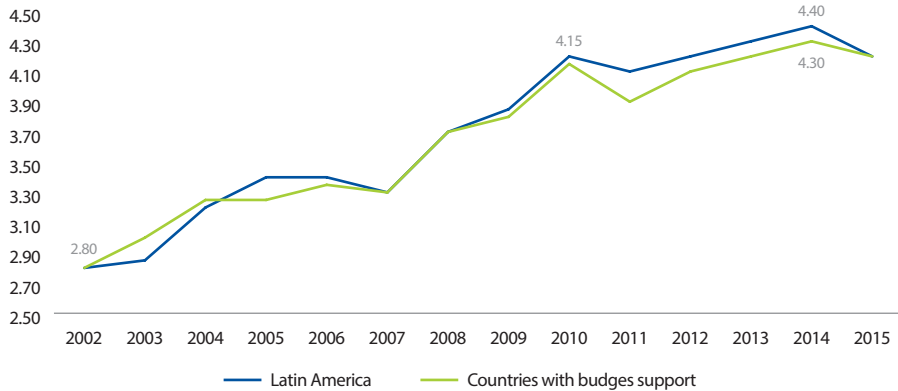
Graphic 3. Gini Index in Latin America 2002-2015



Source: own material based on EUROSTAT data.

Another useful indicator to appreciate the evolution of inequality is the participation of the poorest population out of the total income of the country. While still at low levels despite the relative increase in this share of the lowest percentile of around a third over the past 15 years, the difference between the advances in the whole region and the progress of the group of countries with budget support programmes is marginal.

Graphic 4. Share of income maintained by the poorest 20% in Latin America 2002-2015



Source: own material based on EUROSTAT data.

Inequality and social cohesion worldwide, and in Latin America in particular, is therefore a topic that, although not new, remains a current concern. These data of unstable growth and permanent inequality are a reflection of the impact during the last

decades of natural disasters, safety problems, weak governance, job insecurity, deficiencies in the provision of basic services and low levels of State revenue, inter alia. The Organisation for Economic Cooperation and Development (OECD)³ and the International Monetary Fund (IMF)⁴ have warned of the threat posed by high levels of inequality to the economic stability and growth of countries. The United Nations, in its latest report⁵ on the Sustainable Development Goals (SDGs), recognises progress in reducing poverty but warns about the state of several of the goals, including the continued low coverage of social protection systems worldwide.

3. *FOCUS on Inequality and Growth*. OECD. December 2014.

4. Ostry, J. et al. *Redistribution, Inequality, and Growth*. IMF. 2014.

5. *Sustainable Development Goal Report* United Nations. 2017.

4. Analysis methods

For the preparation of this analysis and guidelines document, an analysis of EU and external source documentation was carried out, as well as interviews with officials from both the EU and other donors.

Documentary analysis based on existing literature

Analysis began with the review of the methodological documents identified in the first phase of the study, first of all those of the European Union and, subsequently, of other donors, to the extent that they were accessible. It is worth mentioning that with regard to the different donors of the EU, access to information was only partial. Studies and reports produced by experts, international organisations, government entities of third countries and civil society organisations were also analysed.

The reading of the documents focused on trying to identify the following aspects: • understanding the general framework for fitting social cohesion into the inherent principles of Official Development Assistance (ODA) of the EU and other donors finding key moments regarding the configuration of the budget support tool throughout the entire programme cycle identifying the paths of entry for the equality and social cohesion aspects in the system's eligibility criteria of the modality finding elements related to addressing inequality and social cohesion in shaping policy dialogue identifying parameters or examples of the type of indicators that can best capture this approach carrying out a preliminary search of cases, in particular Budget Support programmes in Latin America, which can be used as an example to include the focus of this report.

The main budget support programmes that the European Union has financed in the region in recent years and whose approach can be related to poverty reduction with an inclusive approach or in support of some social sector have been identified. As far as possible, examples of other cooperation actions were also identified. Finally, due to limitations in the access to detailed information, the case studies were not analysed in depth, but they could nevertheless be extended and analysed at a later time.

From a procedural perspective, European Union mechanisms for the identification, formulation, implementation and evaluation of budget support programmes and, to a lesser extent, other donors were also analysed.

Interviews

The interviews were conducted at various times. In an initial visit to Brussels, there were face-to-face interviews with officials of DG DEVCO and of the Belgian Development Cooperation (BTC/CTB). Interviews with other officials were conducted, either in person or by telephone or virtual media.

4.1. Analysis of EU methodologies, guidelines and processes

The European Union is an organisation that has developed its foundational principles and procedures with a high level of detail and sophistication. There are numerous elements of its legal, organisational, principles and processes therefore that direct the operation of this complex entity and its many institutions. In addition, the unavoidable accountability to the European taxpayer and the duty to justify the proper use of the EU budget is central to the EU. These elements are granted, an even greater importance when it comes to the action of DG DEVCO and NEAR, the General Directorates (GD) that design and implement the policy of cooperation for development and the fight to reduce poverty, as arms of the European External Action Service (EEAS).

When analysing how the European Union addresses a specific issue such as inequality and social cohesion within the framework of its budget support programmes, the approach has considered that it is part of a legal, institutional and operational framework that is, in itself, considerably developed and well-studied. To narrow the analysis, the review sought⁶ to reflect on the following aspects, using a series of key documents for each⁷:

- Briefly, the EU development aid general framework, which includes: • COM (2011) 637 Agenda for Change, Commission and Council Communications and the EU-Latin America Development Cooperation Guide.
- Budget support technical guides and guidance documents Green paper and subsequent communication on the future of budget support The 2016 EU Budget Support Annual Report Budget support monitoring and evaluation methodologies The treatment of risk The mobilisation of domestic tax resources.
- The monitoring of DG DEVCO activity: • EU Court of Auditors reports.
- The technical reports made within the framework of the DG DEVCO action or commissioned by its services.

6. The final scope for each is established by also considering Section 4.5 on analysis limitations.

7. Complete references to these and other documents are included in Annex 1: Bibliography.

It should be remembered that the European Union is the leading donor worldwide in the channelling of budget support funds, but not the only one to use or have used budget support to channel cooperation funds. Therefore, for the purposes of this document we should offer a brief analysis of how other donors, especially member states, have used budget support.

4.2. Analysis of the social approach to budget support from other donors

The Budget Support tool is, or has been, used by a large number of the main bilateral and multilateral donors. It is interesting to take a general look at how they address the integration of the fight against inequality and in favour of social cohesion in their programmes. An attempt was made to analyse the documents and, where possible, establish some contact with representatives of:

- The French Development Agency (AFD).
- The Belgian Cooperation Agency (CTB / BTC).
- The Danish Agency for Development Aid (DANIDA).
- The Spanish Agency for International Cooperation for Development (AECID).
- The British Department of International Development (DFID).
- International Financial Institutions: The World Bank (WB), the Inter-American Development Bank (IDB) and the International Monetary Fund (IMF).

In this superficial approach to other cooperation actions, emphasis was placed on budget support programmes or financial assistance systems that can be compared to it or have aspects in common. When possible and relevant, it was also analysed whether, and how, the general cooperation frameworks specifically considered the question of inequality and social cohesion.

4.3. Proposals from partner governments and civil society

The elements that may be of interest for the analysis come not only from cooperation agencies, international organisations or experts working for them as officials and consultants. As a result, we did not want to leave out of the analysis an attempt to identify any proposals from partner countries or civil society that could provide a unique view of the object of this study.

Although the issue of inequality and social cohesion has been the object of extensive studies and documents, we focus exclusively on finding new approaches to the compilation or measurement of data and information that may be useful or inspiring for the framework of the analysis. The following, while not a comprehensive selection, are some identified initiatives that did not stem from the EU:

- The Socio-Economic Inequality Atlas of Ecuador.
- The methodological proposal of Oxfam's *Commitment to Reduce Inequality Index*.
- The Commitment for Equity (CEQ) at the University of Tulane, USA.

4.4. Validation with key players

This document is intended for and the main user of the EUROsociAL+ programme. It was nevertheless interesting to consider the role of DG DEVCO and NEAR officials, who are potentially interested in the document's conclusions and recommendations.

Towards the end of the process, and after drafting the first version of the study, the main conclusions and recommendations were validated with a limited number of actors, mainly from EUROsociAL+ and DG DEVCO. The objective was to contrast the level of adjustment of conclusions and recommendations with potential user parties in view of the current context, as well as their applicability.

4.5. Limitations of the analysis

The objective of this document is quite concrete, but it is framed within a much broader context: It originates from the EU principles of development cooperation, which have been in place for more than 50 years. Inequality and social cohesion also cover a wide range of aspects. The Budget Support modality meanwhile is, in itself, quite specific and limited, but addresses such complex aspects as the conditionality of aid, the impact of cooperation, the formulation and implementation of public policies and accountability, among many others. Therefore, it is practically impossible to address all aspects related to the issue and associated areas in this paper, limiting the thematic, operational and focus scope of the analysis.

Inequality and social cohesion are understood as general concepts, associated with MDG number 10 and key EUROsociAL+ content. It is understood that the thematic scope of interest is related to policies that may have a significant impact on reducing the consequences of income inequality and the existence of economic gaps in the population and inequality of opportunities and of access to public services. This largely corresponds to the third pillar of EUROsociAL+ and, most importantly, includes:

- Social protection and care of vulnerable sectors of the population, including subsidies and monetary or in-kind transfers.
- Childhood, particularly in relation to access to education and its quality.
- Access to health care services.
- Access to the job market and decent work.

It is also understood that social policies in their broadest sense (education, health, employment, social protection etc.) focus in one way or another on alleviating inequality and promoting social cohesion. EU cooperation will be therefore considered to be of interest insofar as it supports the reduction of poverty and development from an inclusive approach or that it supports progress in social sectors.

Budget support is analysed for what it is – a form of implementation of EU cooperation, with cooperation principles and general approaches used to contextualise it. It is not the objective of this study to analyse the totality of EU action in the fight against inequality and the promotion of social cohesion in third countries, but specifically how the way in which budgetary support is configured allows contributing to this process, and what possible adjustments could be considered for this purpose.

This analysis is only carried out from the perspective of the content of DG DEVCO's general framework of action, the methodologies and the approaches adopted. There is no analysis of specific case studies (i.e. budget support programmes in Latin America), which would be necessary to further the examination of how the guidelines and methodologies are effectively applied and how one could try to improve the use of the modality on the field.

5. Analysis of EU methodologies, guides and processes

When analysing how current approaches foresee the integration of the social cohesion approach in the Budget Support programmes, four elements are addressed: • What is the general framework of EU action in relation to development cooperation? What methodological aspects define the Budget Support tool? How is the issue of inequality and social cohesion addressed in European cooperation? What are the relevant processes that occur within the programme cycle in this regard?

5.1. EU General Cooperation Framework

The European Union's development cooperation policy is marked by its Treaties and by the 2006⁸ European Consensus, which establishes the principles of joint action of the Commission, the Parliament and the Council of Europe. The Consensus was recently renewed in 2017⁹ in line with the Sustainable Development Goals (SDG).

More specifically to the object of this paper, the reference of the general framework of European cooperation is marked by two documents: The **European Union Development Cooperation Guide – Latin America** and the Agenda for Change.

In 2010, the update of the aforementioned EU-Latin America Guide was published¹⁰. It indicates that, among the Objectives and Priorities of EU cooperation in the Latin American region, the Global Objective is *the eradication of poverty and the promotion of sustainable economic and social development, including the achievement of the Millennium Development Goals (MDG)*. It further indicates that *the EU pays particular attention to social cohesion and regional integration, as well as to the improvement of good governance and the strengthening of public institutions, the development of a common EU-Latin America higher education area, and the promotion of sustainable development*.

8. <https://goo.gl/NzxrzW>

9. https://ec.europa.eu/europeaid/policies/european-development-policy/european-consensus-development_en

10. *Guide on European Union development cooperation – Latin America – Update 2010*. European Commission. 2010.

To this end, the main instrument of European cooperation is the Development Cooperation Instrument (DCI), which is mainly divided into bilateral, regional and thematic programmes. In the case of Caribbean countries, resources from the European Development Fund (EDF) are also channelled. Budget support programmes are articulated within the framework of the EU's bilateral cooperation with the countries, almost all of which is in charge of DCI funds for those covered by EUROsociAL+, except in the case of the Dominican Republic, which also has access to EDF funds.

Another key document of the general framework of EU Cooperation Communication of the initiative known as the **Agenda for Change**¹¹, based on 4 pillars:

1. Ensuring that the European development policy has a great impact.
2. Promoting greater, and more inclusive, growth.
3. Using climate change and energy policies to guide sustainable development.
4. Developing the agricultural sector to guarantee food security and boost growth.

The second pillar makes explicit the inclusive nature of growth, while the rest of the pillars (impact, sustainable development, food security) implicitly relate to inequality.

Coherently, the Agenda for Change also lists the main elements of the new framework for the EU development policy:

1. A more strategic portfolio focused on supporting good governance and inclusive and sustainable growth.
2. Greater sectoral concentration at the country level.
3. Increasing the importance of human rights, democracy and good governance.
4. Continued support for social inclusion and human development, including gender.
5. Greater focus on growth factors and job creation.

The first and fourth elements again refer directly to inclusion. We also find that, for the financial period 2014-2020, the EU concentrates on a maximum of three sectors per country, in line with the following priorities:

- Good governance, democracy and human rights.
- Bases for inclusive growth (i.e. social protection, health and education).
- Factors for growth and job creation (i.e. business climate, regional integration).
- Sectors with a strong multiplier impact and contributing to environmental protection, and prevention/adaptation to climate change (sustainable agriculture, renewable energy efficiency).

11. COM (2012) 492 Final. *EU development policy to support inclusive growth and economic development –Increasing the impact of the EU's development policy.*

In short, in the general EU cooperation framework, there is a clear and decisive reference to inclusion as a central concept, associated with other related factors such as growth, good governance, employment, social cohesion and gender equality.

5.2. Approach and operability of the EU Budget Support

In the last fifteen years, this type of aid implementation has gradually increased in importance and, as it has grown in financial and strategic weight for cooperation, with its methodological framework also developing and refining.

In 2010, a report¹² from the Court of Auditors of the EU (ECA) exhaustively analysed the performance of the approach, particularly General Budget Support (GBS). Among other conclusions, while acknowledging the preference of the donors and the positive potential of GBS, the report criticised the insufficient adaptation of the tool to the context of each country, the poor management of the associated risks and the little emphasis that was given to the results and impact achieved with the funds channelled.

Currently, the key documents are the parameters that the Communication on the Future Perspective of Budget Support established in 2011 and the Budget Support Guidelines, both in its 2012 version in a revised version approved in 2017. They are analysed below.

5.2.1. Future Approach to EU Budget Support to Third Countries

In October 2010, partly in line with the findings of the TCUE report, the European Commission launched a consultation process to improve the tool through the *Green Paper from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions The future of EU budget support to third countries*¹³. The EC communication was positively received by the EC's own services and by civil society, who contributed their points of view in this regard.

After this process, in October 2011 the Commission issued a new Communication¹⁴ with a document that is very relevant for the configuration since then of budget support as an EU approach: **Future Approach to EU Budget Support to Third Countries**. In this document, the new challenges of development cooperation are identified:

- The promotion of human rights and democratic values
- The improvement of financial management, macroeconomic stability, **inclusive growth** and the fight against corruption and fraud

12. *The Commission's Management of General budget support in ACP, Latin American and Asian Countries*. Court of Auditors Special Report 11/2010. 2010.

13. COM(2010) 586 final.

14. COM (2011) 638 final.

- Promotion of sectoral reforms and improving the provision of sectoral services.
- State consolidation in fragile states and facing the challenges posed by the development of small Overseas Countries and Territories (OCT) and Small Island Developing States (SIDS).
- Improving national income mobilisation and reducing dependency on aid.

Indeed, although generically and not particularly prominent, challenges include integrating growth, establishing that the tool should help *the benefits of growth to be widely shared*.

The Communication addresses the inclusion approach in greater detail by addressing the eligibility criteria, particularly that relating to national or sectoral policies and reforms. In this way, it places within this criterion the focus on inequality and social cohesion when relating it to the Agenda for Change and establishing that *a good social fabric requires a high degree of justice and equity in tax collection and the allocation of expenditures (in favour of the poor, gender issues and childhood), and the issues of effective social protection and progress in improving employment and the quality of jobs*.

The European Council¹⁵ supported the Commission's initiative, while insisting on the importance of guaranteeing the fundamental principles of cooperation, focus on results and donor coordination, particularly with Member States. However, the Council's response made no explicit reference in its text to inequality, cohesion, equity or inclusion. The above does not prevent the importance of the inclusion approach from being implicitly accepted as it is included in the EC communication.

In short, the adapted approach considered the issue of inclusion in 2011, although without highlighting it in particular, nor developing the bases of how the issue should be attacked, leaving it in the hands of the operative part.

5.2.2. Budget Support Guidelines

The Guidelines are the main reference for officials, EU officials and partner countries and technical assistants on how a strategy should be operationalised during the programming, design and implementation phases.

Guidelines were recently updated, but, logically, the programmes implemented in recent years or currently in progress were drawn up according to the 2012 version.

The following are the references that have been found in the guidelines in relation to the object of this study, namely the integration of the focus on reducing inequalities and supporting social cohesion and inclusive growth within the budget support programme.

15. Press release of the 3,166th FOREIGN AFFAIRS Council Meeting, May 14 2012.

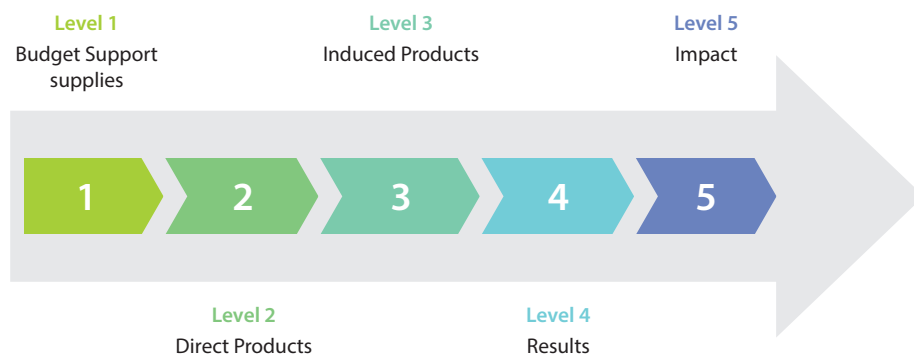
Due to its particular importance in the current context, analysis of the integration of these elements in the Risk Assessment Matrix and in relation to Domestic Revenue Mobilisation is intentionally performed separately¹⁶.

Guidelines, 2012 version

In this version of the guidelines, reference is made, in a manner consistent with the general framework described, to the *eradication of poverty* and *sustainable and inclusive economic growth* within the general objectives of the modality.

In detail, the Guidelines establish that budget support responds to an intervention logic, according to the following basic scheme:

Figure 1. Budget Support Intervention Logic



Source: Source: created by the authors based on Talbot (2012).

The document establishes that the general objectives are established at the level of Impact (Level 5), while the General and Specific Objectives of a budget support programme focuses on Levels 3 (Induced Products) and 4 (Results). *Thus while acknowledging that budget support aims at making a contribution to the achievement of the general objective reflected on the impact indicators such as sustainable growth and poverty reduction, the focus should be on what budget support (and its complementary activities) can contribute to more directly, i.e. the specific objectives and results.* In the specific case of the Good Governance and Development Contracts (CBGD), equivalent to the APG, the guidelines indicate that it is an instrument to support broad reforms that lead to poverty reduction, with emphasis on the Millennium Development Goals. In the case of Sector Reform Contracts, equivalent to the APS, there is no direct reference to the issue of poverty or inequality.

16. Analysis available in Sections 5.2.3 and 5.2.4 of this report.

Regarding the eligibility criteria, at the time of addressing the macroeconomic criterion, the text states that it must *take into account the commitments of the policy*, which, in turn, if we are guided by the general framework, are those that should aim more clearly at reducing inequalities and inclusion. Annex 3, which provides guidance on policy dialogue, contains a relevant reference: *What is the contribution of economic policy to sustainable and inclusive growth? These effects can be delimited more directly through greater attention to the business environment, employment and productivity; they can also be indirectly defined, for example, through social policies that have longer-term implications for inclusive growth. [...] Does (economic policy) include specific social protection measures to ensure that growth is inclusive?*

In relation to the orientations given by the 2012 Guide with reference to the selection of indicators for the programmes, the different types of indicators that can be used for the variable sections are reviewed. A classification is taken by type of indicator (input, process, product, result and impact). It is emphasised that the Commission pays special attention to the results because:

- *These results are what ultimately matters.*
- *They encourage the formulation of evidence-based policies.*
- *They protect the political sphere so that beneficiary countries can choose their own policies and strategies to achieve them.*
- *They promote accountability and accountability at the national level.*
- *They stimulate the demand for high quality statistical information.*

These indications are relevant, and yet there are no guidelines or examples of how the indicators should be based on their content, nor what type of indicators can be taken into consideration to effectively achieve those induced products and results (Levels 3 and 4) that can have a real impact on the impact of poverty reduction and inclusive growth (Level 5).

In short, the Guidelines in their version of 2012 are a coherent extension of the principles established in the general framework, establishing in detail the operation of the tool. However, they only superficially address the effective integration of these general objectives, particularly the one related to inclusive growth, in the eligibility criteria and the parameters for the disbursement of funds.

Guidelines, 2017 version¹⁷

Following the same order as when reviewing the previous version of the guidelines, an analysis is performed of how they approach the issue from the general framework, the eligibility criteria and the selection of indicators.

17. These guidelines are only available in English at the time of the original drafting of this document.

The general approach makes direct reference to 2030 Agenda and SDG commitments. Thus, budget support aims to strengthen the contractual relationship between the EU and the partner countries and *supports the overall objectives of poverty eradication and inequality reduction, sustainable and inclusive growth and job creation (and) the consolidation of democracies and peaceful societies.*

Analysing the general objectives, a much more explicit reference can be seen than in 2012, citing that, in line with the European Consensus of 2017, cooperation will contribute to achieving:

- A reduction in poverty and inequality.
- Sustainable development, inclusive economic growth and job creation.
- Consolidation of democracies and peaceful societies and the promotion of gender equality.
- Sectoral impacts.

The updated version of the document maintains that the reduction of poverty and reduction of inequality is in the Impacts, but that the incidence of the budget support programmes should be sought at previous levels (induced products and results). It now also includes the direct products in the list (Level 2).

As far as eligibility criteria are concerned, the new guidelines seem to integrate inequality treatment in a much more specific way. Thus, it says that a policy will be credible when *there is a credible and relevant national / sectoral policy that supports the general objectives of eradicating poverty and **reducing inequality, sustainable and inclusive growth and job creation, the consolidation of democracies and societies and the promotion of gender equality.*** However, in Annex 13 of the Guidelines, in which the policy dialogue takes place, among the numerous aids provided to the reader, we do not find any that allow users to receive guidance on how to approach in practice the clear link that has been created between policies and inequality.

In addressing the macroeconomic eligibility criteria, *macroeconomic stability is essential for improving the business and investment climate, while, at the same time, pursuing **inclusive and sustainable growth**, one of the objectives of budget support.* It is, again, much more direct than in 2012, but there is no further reference, however, to the use of the Gini index or other indicators that indicate inequality or to the role of macro policy in inequality.

The link established with respect to the Public Finance Management criteria is weaker. There are vague references when referring to the strategic allocation of expenditure. In the case of a Sector Budget Support (SBS), it could be referenced to expenditure in social sectors, especially in contexts of budgetary restriction. Another reference that could

eventually be useful is when Public Expenditure Reviews (PER) or Public Expenditure Tracking Surveys (PETS) or expenditure tracking are cited as possible sources of information. In Annex 13 there is hardly any reference to gender equality when addressing the PFM policy dialogue.

The reference to the selection of indicators does not vary greatly between the previous Guidelines and those recently approved. In Annex 12 there is a reference to the convenience of having information disaggregated by territory or gender, but not a clear reference to the element of inequality. A reference to the indicators of the SDGs is included as part of the additional bibliography at the end of the annex.

Therefore, the 2017 Guidelines clearly improve the 2012 version in the clear and direct references to the focus on the reduction of inequality, social cohesion and inclusion. However, specific tools are still lacking that help EU and partner country officials, as well as the teams that support them, to connect those principles to the essence of the programmes and how eligibility and performance are defined

5.2.3. Risk Assessment Matrix¹⁸

One of the most incisive aspects in the 2012 guidelines was the increase in the importance of risk analysis, which established that *the risk assessment will be part of the identification, formulation and execution phase and will continue throughout the management of the budget support cycle*. Since then, progress in forecasting and dealing with risks has been significant.

With the introduction of the Risk Matrix in 2012, EU cooperation had an effective aid in conducting a comprehensive analysis of a large number and range of risk types and their dimensions (see Figure 2). However, the matrix did not expressly examine the risk associated with the fact that European cooperation did not have a positive impact on the reduction of inequalities, even in a context of significant reduction of poverty, as is the case in 21st century-Latin America.

Table 3. Risk matrix version 2012

Risk type	Dimensions
Political	<ul style="list-style-type: none"> • Human rights • Democracy • Rule of law • Insecurity and conflicts
Macroeconomic	<ul style="list-style-type: none"> • Macroeconomic policy and financial sector • Sustainability of the debt • Vulnerability and exogenous disturbances

18. Financial Implementation, Risk Assessment and Selected Poverty, Macroeconomic and Fiscal Results 2015.

Table 3. Risk matrix version 2012 (cont.)

Risk type	Dimensions
Linked to politics	<ul style="list-style-type: none"> • Public order • Efficacy of the administration
Ministry of Public Finance	<ul style="list-style-type: none"> • Budget completeness • Controls of budget execution • Public contracting • External audit
Corruption	<ul style="list-style-type: none"> • Corruption / Fraud

Source: EU 2012 Directives

Although it does not appear to be a problem that, in practice, has occurred often, the risk remained that a budget support operation would contribute to generating results that could be desired at a macro level (increase in GDP, reduction of poverty, improvement of the macroeconomic and PFM environment, better planning and sectoral budget etc.) but with an unequal distribution of achievements, excluding or not favouring enough the most disadvantaged strata of society, accentuating or reinforcing inequalities.

In short, despite the interesting contributions of the tool, there is currently no risk analysis that clearly aims to mitigate possible negative or negative impacts on inequality, or that refers to inclusive growth or social cohesion.

5.2.4. Domestic Revenue Mobilisation (DRM)

Since the beginning of the use of this system, the relationship between the million-dollar disbursements of funds and the capacity / will to collect from the partner countries has been one of the issues that has been recurrently questioned within the services of the Commission, by the Member States and by civil society. Today, the ability to encourage partner countries to make substantial progress in Domestic Revenue Mobilisation (or DRM) has become one of the key issues for European cooperation.

The 2012 Guidelines raised the issue, linking it to the macroeconomic and PFM eligibility criteria and indicating that budget support should have an impact on:

- Contributing to fiscal reforms and strengthening the tax administration.
- Promoting accountability and national accountability and Public Finance Management.
- Managing wealth from natural resources and encouraging income from natural resources.
- Promoting a transparent, cooperative and equitable international fiscal environment.
- Improving the participation of developing countries in relevant international forums.
- Promoting the adoption and implementation of international standards.

There is no reference in these priorities to fiscal progressivity or to taxes as a factor that distribute wealth and generate equality. However, although no specific tools were provided to enable it to be put into practice, Annex 11 of the 2012 guide, refers to the fact that *efficient and equitable fiscal policies for growth and poverty reduction that provide fiscal resources are essential and can reduce dependence on natural resources and foreign aid. When used correctly, they can reduce inequalities and promote more competitive economies.*

Finally, the 2012 guidelines recognised that, at that time, *in contrast to other areas of Public Finance Management, there is still no specific tool that provides a solid analysis to adequately evaluate fiscal policies and management capabilities.* The 2017 Guidelines already include the acceptance of a tool that will be very useful for this analysis, TADAT. However, as it is a technical tool comparable to the PEFA for Public Finance Management, TADAT does not consider the issue of fiscal progressivity for the purpose of integrating the focus on inequalities.

The new guidelines recognise that *collection and, in particular, fair and efficient taxation are at the core of the social contract between a state and its citizens.* Annex 11 of the Guidelines promote not only encouraging increases in collection, but *doing so by improving the quality, that is, equity, transparency, fairness and efficiency of the whole process and the system.*

The 2017 Guidelines also make explicit that budget support is a key aid in promoting collection in partner countries. In addition, they make an express reference to the alignment of the promotion of DRM with the SDGs, the Addis Tax Initiative and the strategy of “raising more and spending better”. Among the specific fields that work it is worth noting BEPS, tax competence, tax evasion, taxes on natural resources and tax management,

Finally, by integrating the tax issue into the eligibility criteria (although, curiously, not explicitly in the macroeconomic or PFM criteria), the 2017 Guidelines indicate that *the policy dialogue should focus on fiscal policy, the legal framework, tax administration and revenues, including natural resources, to ensure its sustainable and efficient use for **inclusive economic growth.***

In short, **the integration of the approach of inequality and social cohesion in taxes is much better presented in the new guidelines.** However, its effective integration must still be worked on. For the specific case of Latin America a recent study points out that, *although the formula for progressive fiscal policies is clear, and begins by counteracting the capture of the state by the elites, there are a series of gaps and vacuums in both the knowledge and the practices of tax decision makers regarding the need and importance of including equality objectives and rights in the design of tax reforms*¹⁹.

19. Center for Economic and Social Rights. *Mapping of debates, initiatives and actors in the Andean Region*, 2017.

5.3. Social cohesion, inequality and inclusion in EU cooperation

One of the factors that define the European Union is the importance and protection it gives to the rights and the quality of life of its citizens. Among the characteristics of the EU is the attention paid to social protection and although, by the principle of subsidiarity, competence on this issue belongs to the States, there is a common position on universal access to social protection, according to Article 34 of the Charter of Fundamental Rights of the European Union.

The issue is not new in the field of European cooperation. Since before, and especially in the wake of the international financial crisis, the rise in inequality has placed the issue at the centre of the debate on aid effectiveness. With the Agenda for Change, the Commission addressed the issue at the highest level. We should briefly consider the EC Communication on the integration of social protection into EU development cooperation, as well as in a proposal to measure the inequality generated in the framework of a study commissioned by DG DEVCO in this regard.

5.3.1. Communication from the EU on cooperation and social protection

On the basis of the Agenda for Change²⁰, and in response to a request from the Council, the European Parliament and civil society bodies, in 2012 the Commission published ***Social Protection in European Union Development Cooperation***²¹. This paper explains how social protection is an essential part of European cooperation and develops the general principles that should guide its incorporation: *Social protection can play a key role in reducing poverty and vulnerability. By increasing equity – e.g. through social transfers and increased access to basic social services – and providing protection against risk, social protection can support poverty reduction and inclusive growth, as well as supporting social cohesion and stability.*

The Communication refers to the assumption by the EU of the International Labour Organisation's Social Protection Floor initiative that seeks to define the elements that make it up.

20. See section 5.1 for more details on the Programme for Change.

21. *Social Protection in European Union Development Cooperation*. COM(2012) 446 final.

Social Protection Floor (SPF)

*Social Protection Floors Social protection floors comprise a basic set of social guarantees for all (horizontal dimension) and the gradual implementation of higher standards (vertical dimension) as **an integrated set of social policies** designed to guarantee income security and access to essential social services for all, paying particular attention to vulnerable groups and protecting and empowering people across the life cycle.*

The Social Protection Floors Recommendation adopted at the 2012 ILC states that social protection floors should comprise at least the following basic social security guarantees:

- a. *access to a nationally defined set of goods and services, constituting essential healthcare, including maternity care, that meets the criteria of availability, accessibility, acceptability and quality;*
- b. *basic income security for children, at least to a nationally defined minimum level, providing access to nutrition, education, care and any other necessary goods and services;*
- c. **basic income security**, *at least to a nationally defined minimum level, for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability; and*
- d. *basic income security, at least to a nationally defined minimum level, for **older persons**.*

It also establishes a differentiation between the needs of countries in social protection according to their level of development: Middle income countries usually have some type of social protection system and the challenge is to expand their coverage and reach. On the other hand, in the less developed countries, limitations come more from poor institutional capacities and the lack of public financing. This differentiation broadly corresponds to the situation in Latin America, where strong economies with incipient systems coexist with other more precarious ones.

The document states that any form of implementation of the aid can be valid to address the issue of social protection and that it will be performed through policy dialogue, support programmes and policies, increasing the generation of own resources and by strengthening capabilities. It is therefore not surprising that it is explicitly stated that *budget aid, accompanied by political dialogue, can contribute to encourage the development of social protection systems that are fully integrated into national budgeting and programming processes in a context that provides for accountability.*

5.3.2. Study on addressing inequality in EU cooperation

A recent study²² commissioned by DG DEVCO has addressed how the EU's cooperation as a whole is aimed at having a bearing on inequality in the countries with which it cooperates.

22. Robilliard, AS., Lawson, A and Contreras, G. *Addressing inequality through EU Development Cooperation – Response to the 2030 Agenda*. European Commission (2017).

The authors began by presenting the different indices that are most commonly used to measure inequality:

- The most widely-used internationally is the **Gini** index, based on early twentieth century theory which measures inequality in a country using a parameter ranging from 0 (total equality) to 1 (total inequality).
- In 2006, the economist **G. Palma** designed the index that bears his name, which concentrates the measurement on the difference between the income of the richest 10% compared to the income of the poorest 40%.
- Similar to the Palma Index, **the Bottom 40%** methodology is used by the World Bank to compare the access of the richest 20% and the poorest 40% to services such as water or electricity or their educational level.

The authors propose two methodological developments for the measurement of inequality in the strategic documents of EU cooperation.

First, they propose a **simplified classification of income inequality**: On the basis of more disaggregated methodologies, they reduce the levels of income inequality to three: Primary income inequality, associated with “market income, is the distribution of income in households before applying taxes and subsidies, while secondary income inequality is the distribution thereof after taxes have been paid and transfers and subsidies received. Tertiary inequality refers to the distribution of income after having benefited from public services. Based on this classification, the study identifies the policies that can affect inequality at each level.

The primary (market) inequality would therefore be affected by:

- Macroeconomic policies focused on maintaining low inflation.
- Active employment policies - minimum wage, worker protection, regulation of union activity etc.
- Sectoral policies focused on increasing the income of the most disadvantaged populations – agriculture, infrastructure of rural areas etc.

The policies that affect secondary inequality (after taxes and subsidies) are:

- Taxes and fiscal transfers. In developing countries, the redistributive capacity of taxes is lower, as fiscal revenues are between 10% and 15% of GDP. In addition, direct taxes do not cover much of the informal economy. The redistributive capacity of indirect taxes is questioned by some studies.
- Social transfers: Focused on the poorest population and conditioned or unconditioned.

Tertiary inequality would be affected by the use of public services such as education or health.

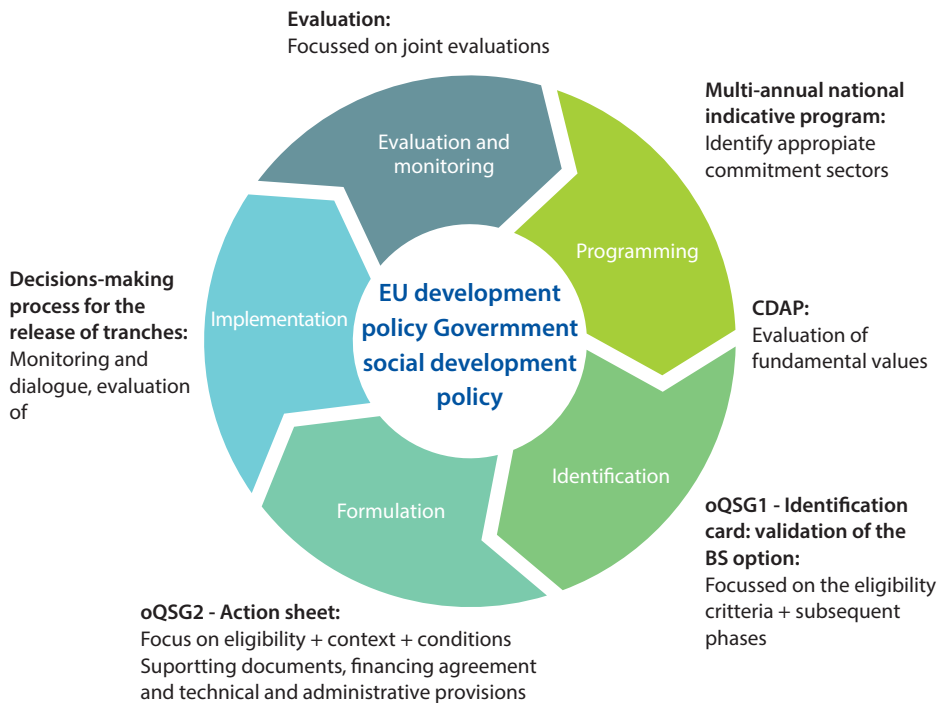
The study also carried out an **analysis of the sensitivity** to inequality in the programming, with a sample of 23 Country Strategy Papers (CSP) and their National Indicative Plans (NIP) for the period 2014-2020. The way in which the degree of inequality in the country influenced the determination of the focal intervention sectors was studied. To do this, the following questions, among others, were asked in the study: Is inequality explicitly or implicitly mentioned in the CSP? Is there an inequality analysis in the CSP? Does the choice of sector indicate a lower levels of inequality? Is the inequality mentioned in the General Objectives or the Specific Objectives of National Indicative Plan actions?

In the next chapter some of the conclusions of this study are detailed, according to their relevance in each of the phases of the programme cycle.

5.4. Cycle of programming, formulation, implementation and evaluation of programmes

The cycle of budget support programmes follows the same basic steps of the cycle of any other approach. There are no major differences between the 2012 and 2017 Guideline processes.

Figure 2. Programme Cycle



Source: Budget Support Guidelines, 2012

5.4.1. Programming

The programming phase of the bilateral aid derives from the **Country Strategy Paper** (CSP) which includes the identification of the sectors, the total amounts allocated and the indication of whether budget support is included among the possible implementation modalities. If so, the evaluation of fundamental values is carried out in this phase, with issues related to Human Rights and good governance also addressed at this point in the cycle.

The **National Indicative Programme** (PIN) establishes the total amount that the EU allocates to bilateral cooperation for the corresponding financial period of 7 years, without prejudice to any modifications that may be made in the PIN Mid-Term Review. The question of the allocation of resources and of the criteria that mark it is important in terms of this document in order to determine if the inequality factor plays an important role or not.

For the 2014-2020 financial period, the Commission and the EEAS established a model²³ of allocation criteria, based on the following indicators:

- Town/City: Positively correlated; the larger the population, the greater the allocation.
- Gross Domestic Product per capita (GDP pc): Negatively correlated; the larger it is, the smaller the allocation.
- Human Asset Index (HAI): Negatively correlated; the higher the HAI per capita, the lower the allocation.
- Economic Vulnerability Index (EVI): Positively correlated; the greater the vulnerability, the greater the allocation.
- World Governance Indicators (WGI): An indicator of commitments and performance and the impact that adds six dimensions of governance; the higher the indicator, the greater the allocation.
- Qualitative adjustment: a multiplication factor that reflects elements of criteria that cannot be fully captured through quantitative methods such as commitment, performance, impact, **inequality**, recent developments in the country's political / security situation and its absorption capacity.

In this official methodology, the focus is above all on poverty, with inequality also considered, although not a main factor. This is despite being expressly cited as an adjustment measure and, implicitly, in parameters provided by the HAI or the WGI.

Prior to that allocation methodology, according to a 2011 study²⁴ based on eleven ROM reports (using the SPSP methodology) of eleven Sector Budget Support programmes in

23. Source: European Commission https://ec.europa.eu/europeaid/sites/devco/files/allocation-methodology_en_3.pdf

24. de Franco, M. and Montagud, J. *Aggregate analysis of the Sector Budget Support programmes (SBS) financed by the European Commission in Latin America and the Caribbean that have been subject to the ROM in the period 2007-2011*. European Commission (2011).

Latin America and the Caribbean, poverty in the countries was the most important feature taken into account when granting SBS resources. This variable has been above the variables on macroeconomic stability and good governance analysed, which do not seem to be statistically significant. The poorest countries in the sample (which included Honduras, Bolivia and Paraguay) were also those with the lowest GDP per capita, the lowest Human Development Indices and in the lowest percentiles for indicators of governance. Based on such a small sample, no evidence was found that showed any type of conditionality related to non-economic indicators. The incidence of the inequality factor seemed, therefore, rather indirect, since the poorest countries in Latin America were also the most unequal. However, in the Caribbean the same relationship was not present, since countries with relatively high GDP had higher inequality levels than other poorer but less unequal countries.

The most recent study (Lawson and Contreras, 2017) confirmed that, *overall, the increases in per capita allocations of EU development funds between 2007-2013 and 2014-2020 have not been notoriously influenced by the levels of inequality of the country [...] However, it is important to clarify that this result is not statistically strong enough to infer a causal relationship*²⁵. The results of this analysis showed that in 39% of the analysed CSP there was no mention of inequality, while in an additional 48%, inequality was mentioned but not analysed in terms of data and possible causes. Only 13% of the analysed CSPs included an inequality analysis therefore.

In terms of the focal sectors, almost all of those chosen in the analysed sample addresses inequality (although 38% do so implicitly). The study confirms that Latin America is the region of the world that presents the majority of cases in which sectors can be associated with a perspective of reducing inequality, with health and education, rural development (including food security), social protection, trade, employment, water and sanitation, and Public Finance Management being the areas considered most important in terms of supporting the reduction of inequality.

5.4.2. Identification and classification

In the identification phase it is confirmed whether the aid is to be channelled through budget support, the eligibility analysis and the first risk analysis are carried out and the duration, amount and conditionalities of the future programme are raised. It is subjected to review by QSG1.

In the formulation phase, the programme is designed in detail in the **Action Fiche** (AF), providing updated risk analysis and the corresponding documents, which include the **Technical and Administrative Provisions** (TAPs), as well as the required annexes. Among the latter, macroeconomic and policy analysis should, among many

25. Free translation.

other factors, analyse how the supported policy can favour inclusive and sustainable growth²⁶. The AF, TAPs and other references are presented to the QSG2 for approval of the programme.

Thus, although the inclusive growth factor is included in the identification and formulation phases, its incidence in QSG1 and QSG2 is small, as it does not constitute one of the main blocks of analysis within the Committees.

Following the study by Lawson and Contreras (2017), a review of the programmes and projects formulated in Latin America from the methodology proposed by them revealed that, in European cooperation, the most usual approach is to reduce gross income inequality (the first level of inequality) and access to public services (the third level). Only a small part of the programmes focused on supporting second level inequality, focused on improving the effectiveness of social transfers. Some examples mentioned refer to programmes implemented through the APS approach: Two in Peru – *Support Programme for the National Development and Social Inclusion Strategy* and *Support Programme for the Peruvian Policy for the Promotion of Exports of Organic Products (ECOTRADE)* – one in Ecuador and one in Colombia (Rural Development with a Territorial Approach). In terms of mentions of second-level inequality in Latin America, only the case of the *SBS Support Programme for Social Policy Development* in Paraguay is identified.

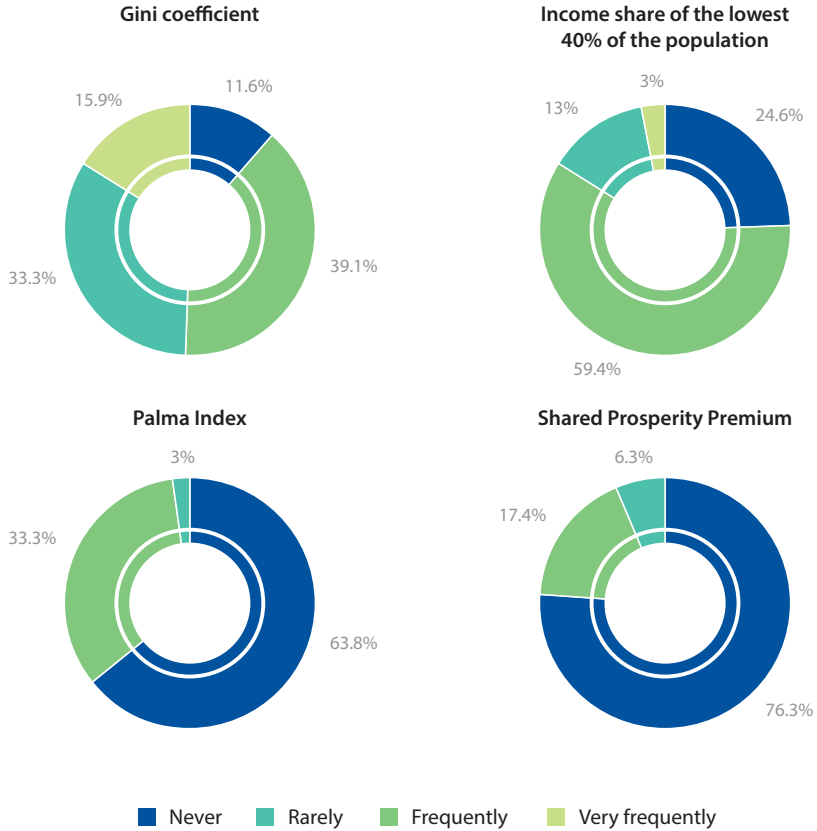
In short, although the systematisation of the integration of inequality and social cohesion is not very successful in these initial phases of the cycle for budget support programmes, there are concrete examples that show that it is possible. The Lawson and Contreras study also concludes that project-focused intervention seems to address inequality in a less explicit manner than Budget Support operations. According to the study, this could reflect the fact that budget support is potentially better suited to improving a comprehensive policy framework that could have an impact on inequality than projects are.

Regarding the use of specific indicators to measure inequality during the formulation of the programmes, a survey among delegations and the DEVCO headquarters revealed that half of the interviewees state that the Gini coefficient is mentioned in the programmes they are involved in. In addition, EUD staff see difficulties in measuring indicators other than the Gini, which, however, hardly appear in EU programmes.

26. See Paragraph 5.2.2.

Graphic 5. Interviews with EUD staff on the use of the Gini indicator and others

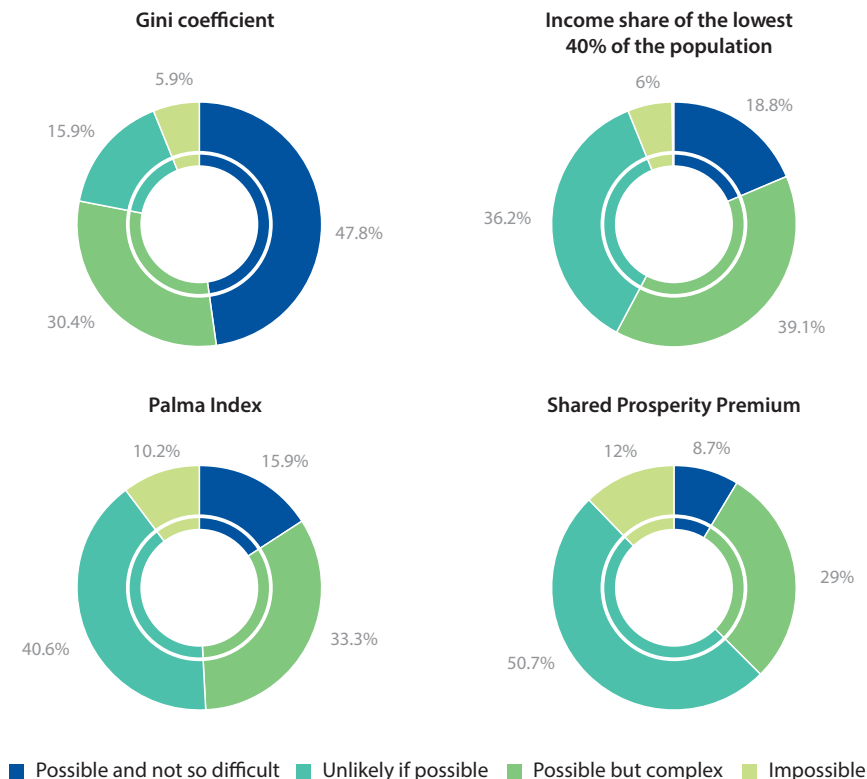
How often do these indicators appear in the programmatic documents / financing agreements and annual reports?



Source: Lawson & Contreras, 2017

Graphic 6. Interviews with EUD staff on the use of the Gini indicator and others

What possibilities would your Delegation / Unit have to monitor these 4 indicators of inequality (considering availability of data, staff and technical capacity etc.)?



Source: Lawson & Contreras, 2017

5.4.3. Implementation

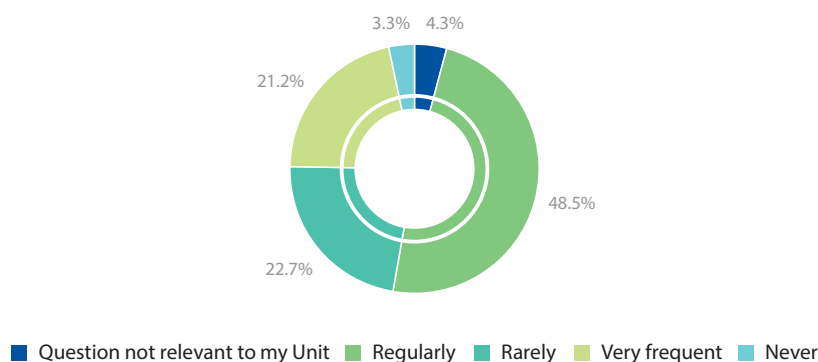
After the signing of the Financing Agreement (FA) between the EU and the partner country, the implementation of the programme begins. With regard to the operation of disbursements of funds, the provisions of the agreement signed between the EU and the partner country apply, in terms of maintenance of eligibility and compliance with the targets of the corresponding indicators. The importance of the element of inequality, inclusion and social cohesion will therefore depend on what is outlined in the FA.

An aspect in which the incidence is not fully marked by the FA is the content **of the policy dialogue**, which gives an opportunity to address the issue. Indeed, the 2012 and 2017 Guidelines do not provide specific tools to guide on how this dialogue on

inequality should be conducted. Returning to interviews with EUD staff, only 21% of respondents say that in the framework of political dialogue (including in BS and blending operations) the issue of inequality is frequently addressed. Almost 50% say that it is approached with some regularity (a very broad spectrum). A significant 22.7% say that it is rarely addressed.

Graphic 7 - Interviews with EUD staff on inequality and political dialogue

Has the problem of inequality been addressed in the Policy Dialogue with partner countries (including, in particular, in the framework of budget support or blending operations)?



Source: Lawson & Contreras, 2017

5.4.4. Evaluation

The evaluation methodology applied to budget support programmes comes from the OECD²⁷ and is known as the Three-Step Approach. This approach attempts to establish the contribution of the three elements of the budget support programmes (funds, TA and policy dialogue) to the progress of poverty reduction or sector policies.

The methodology places the advances in inclusive growth, poverty reduction and reduction of inequality at the level of the **impact** of the policy. The possibility of evaluating the incidence in these aspects is already, therefore, included in what the content of the evaluations should be.

It is important to specify that, by definition, an impact is an effect achieved in the medium and long term that is influenced by multiple factors, both internal and external to the policy and which transcends temporary cooperation support. Therefore, in line with what has already been outlined in the methodology and the EU Guidelines, it is not possible to speak of attribution or quantification of budget support for the reduced

27. <https://goo.gl/q5jZLL> OECD DAC, 2012.

inequality, increased inclusion or social cohesion. It is possible in principle to try to link the eventual contribution of the programme to the progress made in these areas.

The key will therefore be to establish sufficiently strong causal relationships between the programme's contributions and the indicators of inequality when studying the advances in macroeconomic stability and poverty reduction, in the GBSs, and, in the achievements of the sectoral policy, in the SBS.

6. Reference to other cooperation organisations

6.1. Belgian Technical Cooperation (CTB / BTC)

When it has used Budget Support, the CTB / BTC has done so mainly with a strong sectoral focus, which characterises it as specialised cooperation. The Law of 1999 established the following priority sectors for Belgian cooperation:

- basic medical care (including reproductive);
- education and training;
- agriculture and food security;
- basic infrastructure; and
- conflict prevention and society building.

Most of the CTB / BTC's Budget Support programmes have focused particularly on health and education. In Latin America, intervention in Bolivia (food security) and Peru (health) deserves special mention.

However, the CTB / BTC is no longer using the budget support approach. Among other reasons, this is due to the limited importance of the relatively small amounts it commits, in comparison with large multilateral and bilateral donors and, also, due to its positive experience with the project approach in terms of its small number of sectors.

Belgian cooperation has as a reference document is the so-called *vade mecum*²⁸ of 2008, which establishes the principles of action and the framework of action regarding Budget Support and related modalities, such as SWAP. In it, the configuration of the tool is quite similar to the methodology followed by the EU. It has certain minimum conditions that refer to public management, macroeconomics, PFM and, as a particular feature, the presence of other donors that use budget support. Additionally, the specific analysis gives importance to the policy dialogue, the quality of the strategic document and the capacity of the partner country. They also have a considerable impact on risk analysis.

28. *Vade mecum, Aide budgétaire. Principes et procédures pour la participation de la Coopération belge aux aides budgétaires et fonds communs.* CTB / BTC. 2008.

In its methodology document, the CTB / BTC does not have a specific system to monitor inequality. However, its high specialisation and focus is reflected in a concrete example – the SBS SISFIN programme in Peru²⁹. Support for Integral Health Insurance, a Peruvian Ministry of Health programme, works towards the universal provision of health services for people living in poverty and extreme poverty, according to differentiated needs, in prioritised regions of the country. The departmental focus and on the poorest populations allowed a valuable incidence on maternal and neonatal health coverage in the neediest areas of Peru.

6.2. British cooperation (DFID)

British cooperation does not have budget support operations in Latin America. Even so, together with the EU, it has been one of the donors that worldwide has led the use of the tool since the early 2000s, methodologically speaking. The proportion of channelling of ODA funds via budget support in the bilateral programme increased steadily between 2002 and 2008, reaching a maximum of 17.7%, remaining stable in absolute terms until, as a result of the increase in total British official aid, it decreased to 12% for 2014-15.

In this regard, a 2015³⁰ evaluation concluded that the United Kingdom's budget support operations have led to an increase in spending on poverty reduction and basic services and ensuring progress towards the Millennium Development Goals.

Currently, DFID has abandoned the use of General Budget Support in favour of Sector Budget Support and, especially, of other approaches: On the one hand is Non-Budget Support Financial Aid, which continues to channel funds to the countries' budgets, but with greater safeguards and control, including audits or the use of specific bank accounts. On the other is Results-Based Aid.

Regarding its past and present operations, as is the case with the EU, budget support should only be provided to a government when it demonstrates a credible commitment in four areas:

- Poverty reduction and MDG.
- Respect for Human Rights and other international obligations.
- Improve management of Public Finances, promote good governance and fight against corruption.
- Improved accountability.

29. <https://www.mef.gob.pe/es/convenios-de-apoyo-presupuestario?id=3637>

30. *The Management of UK Budget Support Operations*. Independent Commission for Aid Impact (ICAI), Report 9. 2012.

In the *Smart Guide*, the general orientation document for its staff regarding the new cooperation framework, there are no explicit references to inequality or social inclusion. However, recently an internal Guide³¹ was published in which the usual analysis of Economics, Efficiency and Effectiveness (a “Value for Money” approach) now includes a fourth “E”, that of Equity. Some principles established by this Internal Guide are the following:

- Equity can be analysed throughout the entire programme or project cycle and throughout the results chain.
- From an impact point of view, it is important to know how the achievement of a result responds to the present and future needs of the beneficiaries.
- Evaluating equity at the level of results requires a consideration of how the results are distributed and whether someone can be excluded from the effects for reasons other than their level of need.
- At the product level, it may be useful to include the distribution of these among the groups.
- If equity is not considered at the input level, a positive valuation of efficient resource use may be perpetuating inequality.

For each of these principles, and for others included in the document, the Guide gives some practical examples. The following points are also identified as key to an equity analysis: Ensuring the disaggregation of information, seeking the involvement of beneficiaries in early formulation phases, working in different policy scenarios and establishing data monitoring systems.

If this is applied to the “Pay for Results” method, not equivalent to budgetary support but with elements in common, the Guide explicitly give the example that a goal linked to a disbursement may specify that a part of the results to be achieved has to be achieved with respect to the beneficiaries who are most in need.

As an example of specific cases, between 2014 and 2017 DFID has implemented a Stability and Growth programme in Pakistan, parallel to the IMF programme, providing financial support of £300 million, plus £40 million in technical assistance³². As part of this support, through Pay-for-Results, a percentage of the transfers that the Government made to women belonging to families in poverty within the framework of the Benazir Income Support Programme (BISP) have been financed. Another parallel programme finances the BISP to the tune of £279 million between 2012 and 2020.

In short, British cooperation has some interesting approaches that incorporate equity in its operations, particularly those implemented through budget support or similar forms of financial support.

31. *Value for Money Guidance: The 4th E Equity*. DFID July, 2017.

32. Source: DFID <https://devtracker.dfid.gov.uk/countries/PK/projects>

6.3. Danish Agency for International Development (DANIDA)

Danish cooperation is one of the leading bilateral donors in the promotion of democracy and the integration of the Human Rights approach, which links the social and inclusive aspects of poverty reduction. Thus, DANIDA links the issue of inequality and social cohesion to the inherent principles of its cooperation. These aspects are well developed in its key documents, of which two are worth emphasising:

- The document *The Right to a Better Life*³³, published in 2012, sets out the general principles of Danish cooperation and recognises the feasibility of using budget support to achieve its objectives.
- The 2013 budget support guide for DANIDA operations³⁴ takes the mandate of the 2012 document and implements it for this format.

The Guidelines provide examples of how budget support, where appropriate in combination with other approaches, can contribute to the promotion of Danish cooperation priorities. This includes specific references to a “pro-poor approach” and the use of keywords throughout the programme cycle, including “non-discrimination”, “equity” and “inclusion”. Some examples are extracted in the following table:

Table 4 - Excerpt from Table 2.1: Examples of how Danish priorities can be promoted through the “budget support package”.

Danish strategy objectives	Poverty reduction and sustainable development	Social progress
A focus on policy dialogue	<ul style="list-style-type: none"> • Equality, equity, allocation and distribution of expenditure • Inclusive growth policies • A green and climate-focused economy • Employment creation • DRM • Taxes 	<ul style="list-style-type: none"> • Social expenditure, delivery and quality of the delivery of public services • Social protection • Possibility of establishing social protection networks • No discrimination in the availability of and access to social services
Mechanisms for monitoring and measuring performance	<ul style="list-style-type: none"> • Promotion of indicators and targets focused on public sector reform, pro-poor / green policies, tax systems, PFM and indicators of macroeconomic management, growth, deficit, inflation etc. 	<ul style="list-style-type: none"> • Promotion of indicators and goals associated with education, health, water, allocation of expenses, Human Rights in the sector etc.

Source: DANIDA

DANIDA uses the Sector Budget Support approach and, for more fragile states, State Building Contracts. Its eligibility criteria include the inclusive nature of the growth that

33. *The Right to a Better Life. Strategy for Denmark's Development Cooperation*. DANIDA. August 2012.

34. *Guidelines for Development Contracts*. DANIDA. June 2013.

supported sectoral policies need to have. There is also reference to the fact that macroeconomic policy should aim to promote inclusive and sustainable growth and, ultimately, human rights.

6.4. Swedish International Development Agency (SIDA)

Sweden was one of the first bilateral donors to use budget support, extensively so, although in recent years its use has dropped off somewhat. The tools used are General Budget Support with a focus on poverty reduction, and Sector Budget Support. The difference between the two is that the SBP is marked (and the GBS is not) and that it focuses on a specific sector.

Where possible, indicators are taken from the Government's PRSP and should reflect a multi-dimensional approach to poverty. SIDA explicitly states that it is crucial to assess, in its considerations related to budget support, the extent to which a poverty reduction strategy contributes to supporting the efforts of the poor to improve their quality of life.

In addition, by defining the central elements of poverty reduction, gender equality and social projection are included. However, SIDA also lacks a common approach on how to address in practice the issue of how inequality and inclusion fit into its programmes.

6.5. Spanish Agency for International Development Cooperation (AECID)

The Spanish Agency for Development Cooperation made significant use of budget support, particularly in the late 2000s and the early 2010s. Within the framework of programme support, the principles and processes are generally in line with those of the EU, with frequent references to European commitments and approaches.

In 2013, an internal version of the Guide called "The Management of Programme Aid: Common Funds and Budget Support" was drawn up, which framed the conceptual aspects, the eligibility criteria and the management and administrative cycles for the use of these two implementation modalities. References to poverty reduction are frequent in this document, although there are hardly any explicit calls to fight against inequality and equity, except in the case of support for more fragile states.

As a result of the financial crisis and the major impact it had on the AECID budget, this guide was never made official. In any case, when talking about the eligibility criteria, the final version of the Guide pointed out that Public Finance Management needs to

reflect the preparation and execution of the budget, based on the criteria of efficiency, effectiveness, equity (expenses) and sufficiency and progressivity (income). Reference was also made to the analysis of macroeconomic policy and its stability as a necessary condition for a country to have sustainable and inclusive growth.

Also, during the processes of identification and formulation of programmes, a criterion observed by the AECID was the distribution of wealth as one of the aspects of the context analysis of governance.

Finally, by providing examples of the use of indicators, the Sectoral Support Programme for the reform of the health system of the European Commission and AECID in Morocco was considered. Here there are two indicators that specifically aim to correct territorial inequality:

- Indicator 9: *Amount of per capita operating budget items measured in the six most disadvantaged regions: Reduction of the differences of the six most disadvantaged regions in relation to the average of the country.*
- Indicator 10: *Ratio of availability of doctors in the most disadvantaged regions: Reduction of the differences of the six most disadvantaged regions with respect to the average of the country in %.*

6.6. French Development Agency (AFD)

The use of budget support by French cooperation is small compared to the EU and other bilateral donors. Due to the limited information available, it seems that, of the funds committed in 2012 for the multi-year period, less than 10% of the aid was in the form of a donation, of which only a small part was channelled through budget support³⁵. Most of the aid went to loans for urban development and infrastructure.

Regardless of the implementation approach, references to the fight against inequality and for social cohesion becomes more evident in the case of territorial inequality in the eastern and southern Mediterranean (Morocco, Egypt and Jordan) and in support to fragile countries (Afghanistan, Myanmar, Pakistan).

Regarding the tools used in the formulation of its programmes, internally, the AFD requires the preparation of a Sustainable Development Matrix, as well as a document analysing environmental and social risks. However, these are not public and were not made available, so their contents could not be analysed.

35. AFD Overview 2013-14. Agence Française de Développement (AFD) August 2013.

6.7. International Financial Institutions (IFIs)

International Monetary Fund (IMF)

Research conducted for the IMF by Grigoli & Robles (2017)³⁶ established that the relationship between inequality and economic growth is not linear, but rather complex. In their publication, the authors argue that when the Gini index exceeds 0.27, a change in behaviour or turning point occurs, where the relationship becomes negative and greater inequality leads to lower growth.

In an environment with widespread financial access and high concentration of income, an increase in income inequality also results in less economic development because banks will restrict credit to low-income citizens, as they will become poorer and their ability to repay will drop off. However, improving the participation of women can help reduce the negative impact and increase positive aspects (primarily in low-income and unequal countries).

Research by Ostry, et al (2014)³⁷ concludes that it is not possible to establish a significant trade-off between economic growth and the redistribution of resources, since the existing data do not support this hypothesis. In the same investigation, three major findings were defined:

- More unequal societies tend to redistribute more.
- A lower net inequity is robustly correlated with longer and more durable growth.
- Redistribution seems generally benign for growth. Only in extreme cases is there any evidence that it can have a direct negative effect on growth.

With these findings, the efforts of the International Monetary Fund have been changing to seek to introduce public spending floors on education and health. Inequality has also been introduced as a factor to be reduced. Since 2015 inequality in Article IV missions has been included for 10 pilot countries (including Colombia and Bolivia) and, in the case of institutional strengthening projects, it is a priority.

Finally, it is worth referring to the 2017 publication of the IMF's Fiscal Monitor³⁸, which states that the different mechanisms used by the tax policy, such as direct and indirect taxes, as well as the transfers made, must be carefully studied, since they vary according to the countries and the relationships are not direct between the mechanisms and the effect that they can have on the labour market, income of individuals and inequality.

36. Grigoli, Francesco & Robles, Adrian (2017). *Inequality Overhang*. IMF Working Paper WP / 17/76.

37. Ostry, et al. (2014). *Redistribution, Inequality, and Growth*. IMF Staff Discussion Note. SDN/14/02.

38. International Monetary Fund (2017). *Tackling Inequality*. Fiscal Monitor, World Economic and Financial Surveys IMF.

In its 2017 *Fiscal Monitor* report, the IMF establishes that countries with lower administrative capacity have fewer tools available for the redistribution of income, while countries in advanced economies have a greater scope. Therefore, low-income countries are the least sophisticated in terms of redistribution. Another factor to be taken into account according to the IMF is that redistribution goals should be consistent with fiscal sustainability, meaning that those countries with high debt levels need to generate fiscal space to seek to carry out these measures, either through greater efficiency or the relocation of resources.

World Bank. Poverty and Social Impact Analysis (PSIA)

According to the World Bank 2008 Good Practice Note, the Development Policy Operations (DPO) undertake Poverty and Social Impact Analysis³⁹ (PSIA). PSIA is an ex-ante impact analysis approach that combines analytical, social and economic tools to assess the distributive impact of reforms.

The application of PSIA seeks to understand the potential effect of a specific policy on distributive effects, especially among the poorest. It helps to increase the effectiveness of the policy by specifying the political reforms with empirical evidence and its impact, identifying alternative reforms and evaluating the possible risks of economic policy and implementation.

PSIA analysis consists of two parts: The distribution impact and the commitment process of the relevant actors in the policy. PSIA is adaptable, depending on the country and the specific conditions of the reforms to be implemented. It also varies according to the specific conditions of reform and of the country, given that development policy operations differ considerably depending on the volume of the loan, country context and the reform programme.

Among others, it attempts to answer the following questions:

- What actions were addressed in the DPO for the PSIA and why?
- Which relevant actors can be affected by the reform, positively or negatively?
- Through which transmission channels are these groups or institutions affected?
- What is the expected direction and magnitude of the impact on the groups likely to be affected? What are the premises behind the stated impact?
- What are the main risks that can change the expected impact of the reform? What is the probability of risk and the expected magnitude of each?
- How are the research results in the country being disseminated?
- What impact has the PSIA had (or is expected to have) on policy?

39. <http://www.worldbank.org/en/topic/poverty/brief/poverty-and-social-impact-analysis-psia>

7. Contributions from partner countries and civil society

On the question of the measurement of inequality and social cohesion, beyond the methodologies followed by bilateral and multilateral donors and the contributions of International Organisations, there are examples that can be inspiring for the European Union's cooperation work.

A project undertaken in a single country (Ecuador) is highlighted, along with two approaches: A proposal by a non-governmental organisation (DFI/Oxfam) and another by Tulane University, USA.

7.1. The Inequality Atlas of Ecuador

In 2013, the Socio-Economic Inequality Atlas of Ecuador⁴⁰ carried out a historical and territorial analysis of the different types of inequality that have existed and still exist in the country from the perspective of the exercising of rights. Its sources include national censuses, national household surveys, research into living conditions, surveys on intra-family violence and gender equality and maternal and child health studies (EN-DEMAIN in Spanish).

By way of example, its contents include an interesting comparative analysis between the rural and urban population over time (1990, 2001 and 2010), examining numerous indicators related to living conditions, access to services, per capita consumption (in USD) and incidence of poverty. Different indicators are grouped to form a Social Index. Additionally, in the data analysis, the Gini is included as one of the elements to measure equity in poverty reduction in the country.

In the Atlas, reference is also made to a detailed analysis by sector and which type of sectoral indicators related to the reduction of inequality have advanced in the country.

40. The Inequality Atlas of Ecuador. SENPLADES, 2013. Quito, Ecuador [http://documentos.senplades.gob.ec/Atlas de las Desigualdades.pdf](http://documentos.senplades.gob.ec/Atlas%20de%20las%20Desigualdades.pdf)

We therefore include, for example, explicit references to:

- Education: primary education coverage, illiteracy among indigenous people and women, results in basic areas such as mathematics and language and diversity of educational offer.
- Health: coverage; number of doctors per 100,000 population, infant mortality and chronic child malnutrition broken down into urban/rural and indigenous/non-indigenous.
- Infrastructure and housing: rural electrification, rural road infrastructure, quality of housing in rural areas.
- Employment: percentage of active population with “appropriate employment”, underemployment, real wages, child labour.

7.2. The Oxfam and DFI Commitment to Reducing Inequality Index

Oxfam has a long history in the proactive study and analysis of inequality. Recently, together with Development Finance International (DFI), they have published a study that proposes a new approach to ranking inequality at a country level, the *Commitment to Reducing Inequality Index*⁴¹ (CRI). The CRI addresses the analysis of inequality from three fields with their respective subfields:

1. Expenditure progressivity:
 - a. Public expenditure in progressive sectors: Includes education, health, social protection, with a special focus on youth.
 - b. Incidence of public expenditure.
2. Tax progressivity:
 - a. Tax structure: Measures progressivity based on the design of taxes on personal income, companies and Value Added Tax (VAT).
 - b. Tax collection: Measures what kind of taxes are the most collected, considering elements such as tax exemptions, evasion and avoidance, and their progressivity.
 - c. Incidence of taxes.
3. Employment policy progressivity:
 - a. Trade union rights.
 - b. Women’s rights.
 - c. Minimum wage as a percentage of GDP.

41. Development Finance International and Oxfam research report. OXFAM, 2017. <https://www.oxfam.org/en/research/commitment-reducing-inequality-index>

According to the CRI, the least unequal Latin American countries are Argentina (ranked 26 out of 152 countries measured in the world), Costa Rica (32), Uruguay (36) and Chile (39), while Panama (148), Paraguay (116) and Guatemala (109) would be the most unequal, occupying the bottom third of the ranking.

This methodology has been audited and validated by the Competence Centre on Composite Indicators and Scoreboards (COIN) of the Joint Research Centre (JRC) of the European Union.

7.3. Commitment to Equity, Tulane University

In 2010, researchers from Tulane University in New Orleans, drew up the Commitment to Equity (CEQ) to assess the incidence of fiscal policy in the reduction of inequality and poverty, through the rigorous evaluation of taxes and the incidence of benefits.

The CEQ methodology has been applied throughout the world, in practically all the countries of Latin America and, to a lesser extent, in Asia and Africa. Since 2015, the initiative has been established as a University Research Institute⁴² which has the financial support of the Bill and Melinda Gates Foundation.

Next, we present a summary of how inequality is visualised through CEQ, which is contained in the Methodological Guide by Lustig & Higgins in 2017 and updated for 2018⁴³. The research questions that the methodology seeks to pose are the following:

- How much redistributive income and poverty reduction is being achieved through fiscal policy?
- How egalitarian and “pro-poor” are the specific taxes and government expenditures?
- How effective are taxes and government spending in reducing inequality and poverty?
- What is the impact of fiscal reforms that change the size and/or progressivity of a tax benefit or a tax?

The approach adopts an accounting vision, where the tax incidence is evaluated by what is received by income prior to taxes and transfers, and then the tax and benefits scheme is analysed as these components are added.

42. <http://www.commitmenttoequity.org/>

43. Lustig, Nora, editor. 2018. *Commitment to Equity Handbook. Estimating the Impact of Fiscal Policy on Inequality and Poverty* Brookings Institution Press and CEQ Institute, Tulane University.

8. Conclusions

8.1. On the general framework and programming of EU cooperation

1. **The general framework for EU cooperation places inclusive growth at the highest level of priorities**, as reflected in two strategic documents: The **European Union Development Cooperation Guide – Latin America** (2010) refers to sustainable economic and social development, including the achievement of the Millennium Development Goals (MDGs) and pays particular attention to social cohesion. Meanwhile, the **Agenda for Change** (2012) expressly includes the promotion of greater and more inclusive growth in the second of its four pillars, as well as reinforcing this approach in several of its elements and in the priorities that should govern when choosing the priority sectors of European aid intervention.
2. The 2012 EC **Communication *Social protection in development cooperation in the European Union*** confirms that social protection is an essential part of European cooperation and *can contribute to reducing poverty, promoting inclusive growth and fostering social cohesion and stability*. In addition, while stating that any form of aid implementation may be valid to address the issue, it points out that budget support is particularly appropriate as it simultaneously addresses policy dialogue, support for programmes and policies, increases to the generation of domestic resources and the reinforcement of the capacities of the institutions in question.
3. Since 2011, **the reference document *Future Perspective of EU Budget Support to Third Countries* has included inclusive growth** among the challenges facing budget support as a form of implementation. It indicates the importance of inclusion in the analysis and support of the poverty reduction strategy or of the corresponding sectoral policy. However, at this level there is still no guidance on how, in practice, this integration should be carried out, leaving it for more operational documents.

4. According to the analysis of sensitivity to inequality in the programming made in a recent study from a sample of 23 Country Strategy Papers (CSP), in 39% of the 2014-2020 CSPs there was no mention of inequality, while in an additional 48%, inequality was mentioned but it was not analysed in terms of its data and possible causes. **Only 13% of the analysed CSPs include an inequality analysis.** However, the same study identifies that inequality is a relevant factor in addressing the choice of focal sectors chosen in the respective National Indicative Programme (NIP). The study also states that **Latin America is the region of the world that presents the majority of cases in which the sectors of the NIP can be associated with a perspective of reducing inequality.**
5. Regarding the weight that inequality is given when determining the amount of aid granted to partner countries, **the approach used by the Commission and the European External Action Service (EEAS) for the allocation of funds mainly highlights the level of poverty, with inequality being a factor considered, but not a key one.** A 2011 study that analysed the issue for a sample of 16 sector budget support programmes in Latin America and the Caribbean concluded that the only criterion that clearly determined the allocation of cooperation funds was poverty. The incidence of the inequality factor was indirect, since the poorest countries in Latin America were also the most unequal and yet the same relationship was not found in the Caribbean, with comparatively richer and, at the same time, more unequal countries.

8.2. On the operation of the cycle of budget support programmes

6. **The Budget Support Guidelines are operative documents that are consistent with the general documents and which include sustainable and inclusive economic growth among their objectives.** In its 2012 version, its effective integration in the eligibility criteria and the criteria for the disbursement of funds were only superficially addressed. However, the version published in 2017 represents a significant improvement by making direct and explicit reference to the commitments of the 2030 Agenda and the Sustainable Development Goals (SDGs), inclusive economic growth, job creation and gender equality. They relate the concept of inclusion with macroeconomic eligibility and the credibility of policies. However, in none of the versions of the Guidelines are there any indications that help to select indicators that adequately reflect the element of inequality.
7. An important tool that was introduced in the last decade is the **Risk Assessment Matrix**, which allows to control many of the factors that can affect a programme. Despite the important contributions of the matrix, **the risk analysis does not currently expressly include the identification and mitigation of a possible lack of impact or negative impacts on inequality**, nor on inclusive growth or social cohesion.

8. Another key aspect of European cooperation in general, and with respect to general budget support in particular, is the importance of encouraging countries to improve Domestic Revenue Mobilisation (DRM). Regarding the inequality factor, the 2012 Guidelines referred to the need *for efficient and equitable fiscal policies for growth and poverty reduction [...] that can reduce inequality and promote more competitive economies*. The 2017 Guidelines go further by linking DRM to inclusive economic growth and the SDGs, the Addis Tax Initiative and the “Collect More and Spend Better” strategy. Therefore, **since 2017 the integration of the approach of inequality and social cohesion in tax policy as a relevant issue to budget support has been much better presented**, although the analytical reference tool, TADAT, does not explicitly contemplate the issue of progressive taxation.
9. In the identification and formulation of budget support programmes in the EC, the inclusive growth factor is usually aimed at the level of the General Objectives (GO) and/or Specific Objectives (SO). However, according to the standard checklist formats, **the impact on the QSG1 and QSG2 results seems to be small, as it does not constitute one of the main blocks of analysis** within the Committees. In other words, among the multiple aspects addressed, it does not seem a QSG priority to judge how the GOs and SOs effectively translate into actions that clearly address the issue of inequality and social cohesion within the Action Sheets and its annexes.
10. **The implementation of budget support programmes is determined by the content of the corresponding Financing Agreement (FA)**. If the question of inequality is not integrated into the eligibility and disbursement indicators of the DTAs, it is unlikely that it will be an important issue in the life of the programme. Until now, a study pointed out that only 21% of the programme officers of the EU Delegations interviewed say that in the framework of the policy dialogue (including in BS and blending operations) the issue of inequality is frequently addressed. Worryingly, 22.7% say that it is rarely addressed. Even in this discouraging context, **there is potential in the policy dialogue to deal more broadly with the issue of inequality**, as the dynamics and scope of the dialogue is not entirely limited by the contractual content of the FA.
11. Arriving at the end of the programme cycle, the evaluation methodology used for budget support (OECD Three-Step Approach) places inclusive growth, poverty reduction and reduction of inequality at the level of the impact of the supported policies. **Following the evaluation methodology, it would therefore be possible** to try to establish causal relationships to **establish the possible contribution (but not allocation or quantification) of a budget support programme to the progress made in reducing inequality in the partner country**.

12. To summarize, while the general framework and guiding documents for EU co-operation clearly emphasise the central role of inequality, inclusion and social cohesion, the Guidelines for budget support and the specific tools used **lack guidelines, methodologies and examples that help to effectively translate the general principles into programme content.**
13. **The difficulty lies in underpinning the focus on inequality, inclusion and cohesion throughout the programme cycle.** Comparatively, there are not many donors who have made substantial progress in this aspect in recent years and most of the EU Member States follow principles and processes very similar to the EC. However, **there are some methodological proposals that may be worth considering,** both within the framework of European cooperation, other donors and within civil society.

8.3. On the methodological proposals and contributions to the process

14. The first interesting case is that of the British cooperation, **DFID**, which recently published an internal guide in which, in its usual analysis of the three “E’s”, Economy, Efficiency and Effectiveness (*Value for Money* approach), recently added Equity. Among other aspects, the document urges that **equity be evaluated throughout the cycle and as part of the whole logical approach,** presenting practical examples. Additionally, they guide the realisation **of equity analysis:** Disaggregation of information, early involvement of beneficiaries, contemplating different policy scenarios and ensuring the monitoring of data. There are several examples – with respect to Payment for Results (different, but with similarities to Budget Support), the guide explicitly mentions that a goal linked to a disbursement can specify that a part of the results to be achieved must be achieved for the neediest of beneficiaries.
15. Another donor worth of mention is **DANIDA**, the Danish development cooperation agency, for its **focus on Human Rights** and the strong integration of inequality and social cohesion in the inherent principles of its cooperation. In its 2012 strategic document, *The Right to a Better Life*, and its 2013 budget support guide, the agency makes repeated and **specific reference to the pro-poor approach and the use of key words throughout of the entire programme cycle, such as “non-discrimination”, “equity” and “inclusion”.** A matrix summarises the particular importance of this aspect in terms of policy dialogue and monitoring systems in its programmes.
16. The **World Bank and the Inter-American Development Bank** both carry out **Poverty and Social Impact Analysis (PSIA)** for Development Policy Operations

- (equivalent to budget support). PSIA works as an ex-ante impact analysis method, using analytical, social and economic tools to assess the distributive impact of the reforms. Focused on the expected distribution impact and on the commitment process of the relevant actors, the tool is adaptable, depending on the country and the reforms it supports.
17. The International Monetary Fund (IMF), an entity that traditionally has not stood out thanks to of its focus on social aspects, recently published research that points out that redistribution seems generally benign for growth and, **when the Gini index exceeds 0.27, higher inequality brings lower growth**. Consequently, **since 2015 the IMF has included the inequality component in its Article IV consultations with 10 pilot countries** and in its programmes it is beginning to promote the creation of social floors in education and health and inequality is pointed to as a factor to be reduced.
 18. An interesting initiative of a partner country is the **Atlas of Socioeconomic Inequalities of Ecuador** of 2013, which provided a historical and territorial analysis of the different types of inequality existing in the country. The Atlas groups indicators to form a Social Index and also performs an analysis by sector that points to what kind of indicators related to the reduction of inequality in access to Education, Health, Infrastructure and Housing and Employment have advanced in the country.
 19. Civil society organisations have also participated in this deliberation, highlighting the fact that **OXFAM and FDI proposed a new methodology in 2017 called the Commitment to Reduce Inequality Index**, addressing the analysis of inequality from three fields: Spending progressivity; tax progressivity; and progressivity of employment policy. Based on this methodology, which has been audited and validated by the European Union's Joint Research Centre, a global ranking was drawn up which ranked Argentina as the most equal country the region and Panama, Paraguay and Guatemala as the most unequal.
 20. A similar but broader approach has been followed by a study commissioned this year by DG DEVCO on how EU cooperation as a whole is aimed at tackling inequality in the countries with which it cooperates. In one of their documents, the authors propose a **simplified classification of income inequality**, which distinguishes: **Primary** income inequality, which refers to the distribution of income in households before applying taxes and subsidies; **secondary** income inequality, which is the distribution of income after taxes, transfers and subsidies; and **tertiary** inequality, which is the distribution of income after having benefited from public services. They analyse how EU programmes and projects focus on alleviating primary inequality, somewhat less on tertiary education and very little on secondary education.

21. Another interesting approach is that adopted by researchers from **Tulane University** (United States), who have formulated a methodology since 2010 known as **Commitment to Equity (CEQ)**. This diagnosis of the incidence of fiscal policy in the reduction of inequality and poverty has been applied in practically all Latin American countries. The CEQ reports are available to the public. The approach adopts an accounting outlook, where the tax incidence is evaluated by what is received by pre-tax income and transfers, and then the tax and social benefits scheme is analysed.

22. In this context, the **EUROsociAL+** programme is presented with the opportunity to play a role in accompanying DEVCO, EU Delegations, the Latin American partner countries and regional organisations **in identifying spaces and opportunities to increase the weight of the inequality, inclusion and/or social cohesion in cooperation in general, and in the use of budget support in particular**. EUROsociAL+ can also **help develop methodologies and tools and channel knowledge and exchange experiences** between the EU (through its member states) and Latin America, as well as between the countries of the region.

9. Recommendations

Based on the conclusions reached, the following recommendations are formulated, addressed firstly to the EUROsociAL+ programme and, potentially, to DEVCO officials and EU delegations, insofar as they may be of interest to them. Depending on the role of EUROsociAL+, different options are proposed, in order to put forward different possibilities for the introduction of the inequality factor within the current guidelines, tools and processes.

These recommendations take into account that the approach in question is managed by DEVCO and that the proposals should focus, not on changing, but instead on completing the current dynamics of formulation, implementation and evaluation of budget support programmes. As far as possible, the modification of methodologies and recent documents should be avoided or limited, as should the incorporation of new processes, forms and tasks that involve a large workload in addition to that already supported by the staff of DEVCO, EUD and the partner countries.

1. [Recommendation relevant to Conclusion 22] Articulate a **DEVCO-DUE-EURO-sociAL+ Protocol⁴⁴**, which frames the way in which, considering its mandate and scope, the Programme can complement and accompany the action of European cooperation, particularly with regard to budget support, from its methodologies, guides and processes and in reference to the concrete programmes throughout its cycle, from identification to implementation.
2. [Conclusions 4 and 5] In the preparation or review of bilateral programming (CSP and NIP), promote the idea that **the analysis of inequality be incorporated in a systematic way in the analysis of context and that it is more clearly taken into account in the definition of sectors and the allocation of funds**. Although it is too late to be considered for the Mid-Term Review of the 2017-2020 NIPs, it may be interesting to work on it when preparing for the next financial period.

44. A proposal for its possible content is attached in Annex 2 to this report.

3. [Conclusion 7] In the Risk Assessment Matrix (i) include a **specific assessment of the risk** that the products or results supported by the budget support programme are not properly distributed (this may be part of the risk of the policy, without having to introduce a new risk) and (ii) take into account the anti-corruption actions and promotion of transparency that EUROsociAL+ is carrying out, since these are certainly mitigating actions in the contexts in which the budget support operations are inserted.
4. [Conclusion 17] Propose options so that, when DEVCO, DUE and partner countries analyse the macroeconomic criterion of eligibility, the use of **inequality indicators of reference is promoted, with Gini being the most obvious choice**, although other additional or alternative options such as the Human Development Index and/or others can be considered. Additionally, take advantage of the fact that the IMF has begun to introduce inequality in the framework of the **Article IV** consultations to incorporate it into the analysis of the EU programmes.
5. [Conclusion 6] Consider ways to **introduce an analysis of the incidence of fiscal policy and a country's budget on inequality** as part of the Public Finance Management eligibility criterion. This may include issuing a "menu of recommendations" that allows those responsible to carry out or commission more specific studies on inequality and tools such as, for example, fiscal rules, medium-term budgetary framework, efficiency of spending in social sectors (using sectoral spending reviews or public expenditure tracking surveys); leverage of resources or gender budgeting.
6. [Conclusion 8] With specific regard to the incorporation of the inequality approach in the promotion of Domestic Revenue Mobilisation (DRM), propose measures to **complement the use of TADAT with other methodologies with greater emphasis on the redistributive nature of taxation**, for example, through the use of Tulane University's *Commitment to Equity* methodology.
7. [Conclusions 10 and 12] With regard to the eligibility criteria of national or sectoral policy, EUROsociAL+ could help to articulate tools that guide programme officers in DEVCO and NEAR, the EUD and governments to incorporate inequality and cohesion social in the analysis of politics. Specifically, proposals could be made to **complete Annex 13 of the 2017 Guidelines with a methodology to analyse inequality in selected sectors** and to indicate more clearly which type of inequality (primary, secondary, tertiary) is targeted and why.
8. [Conclusions 6, 9 and 10] Help specialists in DEVCO social sectors to **prepare technical notes for EUDs and QSG on the type of elements that sectoral policy should include and what potential sector indicators** may have higher incidence

- on inequality, in order to guide the political dialogue and, if they are in the plans, consider what type of indicators are appropriate to set disbursement goals for variable tranches with an inclusive approach.
9. [Conclusion 11] Suggest an interaction with the Evaluation Unit (DEVCO 04) to see how **to systematically address the contribution of programmes to the reduction of inequality**, inclusion and social cohesion in budget support evaluations.
 10. [Conclusion 22] Consider the possibility of furthering the reflections of this document and being able to make recommendations more focused towards (a selection of) the countries and programmes, going through a more detailed analysis of country strategy documents, accompany a selection of programme formulation through their Action Fiches and Annexes (Technical and Administrative Provisions, Quality Support Group checklists) and the execution of the programmes (Financing Agreements; disbursement dossiers).

Annex 1: Guiding questions

Budget support, as one of the modalities of implementation of EU development cooperation, has as its main objective the fight against poverty and the improvement of public services, but how much and how does it take into account the concepts of “social cohesion”, “inequality” and “inclusion”?

What is the relationship between economic growth, poverty reduction and inequality reduction in Latin America?

Why is it appropriate to use budget support considering the general development cooperation framework of the European Union and its strategic lines for the promotion of social cohesion, inclusion and the fight against inequality?

How important is social cohesion, inclusion and the fight against inequality in the cycle of formulating, implementing and evaluating an EU budget support programme?

What methodologies and processes do the EU and other bilateral and multilateral donors use to focus on social cohesion, inequality and inclusion in their budget support programmes or equivalent modalities?

What proposals have emerged from partner countries, civil society and academia to map inequality and assess the impact of policies and public spending on inequality?

What lessons can be learned from the internal experience of the EU and other actors to improve the way of measuring the impact of funds channelled through budget support programmes on social cohesion, inequality and inclusion?

How can EUROsociAL+ support the central services of the European Commission (DG DEVCO and DG NEAR) and the EU Delegations in third countries to achieve a better integration of the promotion of social cohesion, inclusion and the fight against inequality?

Annex 2: Bibliography

- Arenas de Mesa, A (2016). *Sostenibilidad fiscal y reformas tributarias en América Latina (LC/G.2688-P)*. Comisión Económica para América Latina y Banco Interamericano de Desarrollo: Santiago de Chile
- FOCUS on Inequality and Growth*. OCDE. Diciembre de 2014
- Ostry, J. et al. *Redistribution, Inequality, and Growth*. IMF. 2014
- Informe de los Objetivos de Desarrollo Sostenible*. Naciones Unidas. 2017
- Joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy: 'The European Consensus'*
- Guía sobre la cooperación al desarrollo Unión Europea – América Latina – Actualización 2010*. Comisión Europea. 2010,
- Política de desarrollo de la UE para apoyar el crecimiento inclusivo y el desarrollo económico –Aumentando el impacto de la política de desarrollo de la UE*. COM (2012) 492 Final.
- The Commission's Management of General budget support in ACP, Latin American and Asian Countries*. Tribunal de Cuentas de la UE. Informe especial 11/2010. 2010
- Comunicado de prensa del 3166th FOREIGN AFFAIRS Council meeting, 14 de mayo de 2012
- Mapeo de debates, iniciativas y actores de la Región Andina*. Center for Economic and Social Rights, 2017
- La protección social en la cooperación al desarrollo de la Unión Europea*. COM(2012) 446 final
- Robilliard, A-S., Lawson, A y Contreras, G. *Addressing inequality through EU Development Cooperation – Response to the 2030 Agenda*. Comisión Europea, 2017
- de Franco, M. y Montagud, J. *Análisis agregado de los Programas de Apoyo Presupuestario Sectorial (PAPS) financiados por la Comisión Europea en América Latina y el Caribe que han sido objeto del ROM en el periodo 2007-2011*. Comisión Europea, 2011.
- Evaluating Budget Support: Methodological Approach* (OECD DAC, 2012).
- Vade Mecum, Aide Budgétaire. Principes et procédures pour la participation de la Coopération belge aux aides budgétaires et fonds communs*. CTB/BTC. 2008
- The Management of UK Budget Support Operations*. Independent Commission for Aid Impact (ICAI), Report 9. 2012
- Value for Money Guidance: The 4th E Equity*. DFID. Julio de 2017.
- The Right to a Better Life. Strategy for Denmark's Development Cooperation*. DANIDA. Agosto de 2012
- Guidelines for Development Contracts*. DANIDA. Junio de 2013
- AFD Overview 2013-14*. Agence Française de Développement. Agosto de 2013.
- Grigoli, Francesco & Robles, Adrian (2017). *Inequality Overhang*. IMF Working Paper WP/17/76
- Ostry, et al. (2014). *Redistribution, Inequality, and Growth*. IMF Staff Discussion Note.SDN/14/02

International Monetary Fund (2017). *Tackling Inequality*. Fiscal Monitor, World Economic and Financial Surveys IMF.

Atlas de las Desigualdades Socioeconómicas del Ecuador. SENPLADES, 2013. Quito, Ecuador.

The Commitment to Reducing Inequality Index. Development Finance International and Oxfam research report. OXFAM, 2017

Lustig, Nora, editor. 2018. *Commitment to Equity Handbook. Estimating the Impact of Fiscal Policy on Inequality and Poverty* Brookings Institution Press and CEQ Institute, Tulane University.

EUROSOCIAL is a regional cooperation programme between the European Union and Latin America for the promotion of social cohesion through support for national public policies and the strengthening of the institutions that put them into practice. EUROSOCIAL aims to promote a European-Latin American dialogue about public policies surrounding social cohesion. Its aim is to contribute to reform and implementation processes in ten key areas of public policy in certain thematic areas selected for their potential impact on social cohesion. The instrument provided is that of institutional cooperation or peer-to-peer learning: the exchange of experiences and technical advising between European and Latin American public institutions.

www.eurosocial.eu

Consortium led by

