



Federal Ministry
for Economic Cooperation
and Development

POSITION PAPER

Less inequality

More opportunities for
sustainable development

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I. Overview

1. Challenges of growing inequality

Gross inequality constrains development opportunities, makes human rights harder to realise and frustrates poverty reduction efforts. It negatively impacts economic growth and threatens social cohesion and the proper functioning of democracies around the world. It can also accompany financial market instability and corruption. So reducing inequality is a cornerstone of sustainable development and one of the central challenges facing humanity going forward. Social justice can only be achieved by reversing the widening divide between rich and poor. To reduce poverty and inequality we need structures that are specifically designed for this purpose.

Globally, inequality between countries declined over the period 1980 to 2020, caused above all by a strong growth in average earnings in highly populated emerging economies such as China and India.¹ However, not all countries are benefiting to the same degree, nor all groups within countries. According to initial estimates, the current crises drove up inequality between 2017 and 2021 by another 1.2 per cent – the first upswing on this scale for a generation.² Within most countries around the world we have seen income inequality rise since 1980³ – despite economic growth and reductions in extreme poverty. Ongoing technological change, cuts in welfare systems and globalisation of labour and capital markets are among the factors leading to a widening gap in (market) incomes.⁴ Current drivers of inequality are the COVID-19 pandemic, climate change and violent conflict, factors which are mutually reinforcing.⁵ It is calculated that 71 per cent of the world's population are living in countries where inequality has been increasing since 1990.⁶

Especially striking are the figures for rising disparities in the distribution of income. Globally, the top one per cent of people have, since 1980, benefited more than twice as much from income growth as the poorest half of humanity, with this one per cent enjoying in total 23 per cent of cumulative income growth.⁷

¹ World Inequality Lab (2021): World Inequality Report 2022, p.69.

² SDSN 2022: The Sustainable Development Goals Report 2022, p.47.

³ World Inequality Lab (2021): World Inequality Report 2022, p.57 (measured against the income shares of the top 10 per cent).

⁴ IMF (2015): Causes and Consequences of Income Inequality: A Global Perspective.

⁵ World Bank (2020): Poverty and Shared Prosperity 2020: Reversals of Fortune.

⁶ UN DESA (2020): World Social Report, p.3.

⁷ World Inequality Lab (2021): World Inequality Report 2022, p.61 (development between 1980 and 2020).

Forms of inequality

Inequality, which appears in various forms and in different constellations, must be treated as a multidimensional phenomenon:

Inequality of opportunity occurs when people's chances of realising their potential and accessing, in particular, education or the labour market are skewed by factors such as family origin, gender, disability or ethnicity.

Inequality of outcome describes the unequal distribution of income and wealth.

Vertical inequality describes differences between "top and bottom", comparing individuals at either end of the spectrum of income and wealth distribution, also with regard to access to education, natural resources and healthcare. *Horizontal inequality* refers to differences between various groups across society.

Within-country inequality concerns the distribution of resources and opportunities between people, social groups and communities within a country. This may be expressed in strong regional disparities within national borders.

Between-country inequality considers comparative distributions between countries.

How is inequality measured?

The form of inequality most commonly measured is income inequality. The best-known measure is the Gini Coefficient⁸, but income inequality can also be captured by the Palma Ratio⁹. This index expresses the share of all income received by the upper 10 per cent divided by the share of all income received by the bottom 40 per cent.¹⁰ This is also the approach taken by the *shared prosperity approach* tracked by the World Bank. It focuses on the poorest 40 per cent of a population and its annual growth rate in per capita income or consumption as compared to the overall average growth of the country concerned. This allows us to determine whether people in the poorest section of society are sharing in economic progress. This is also the thrust of Goal 10 (reduced inequality) of the 2030 Agenda for Sustainable Development.

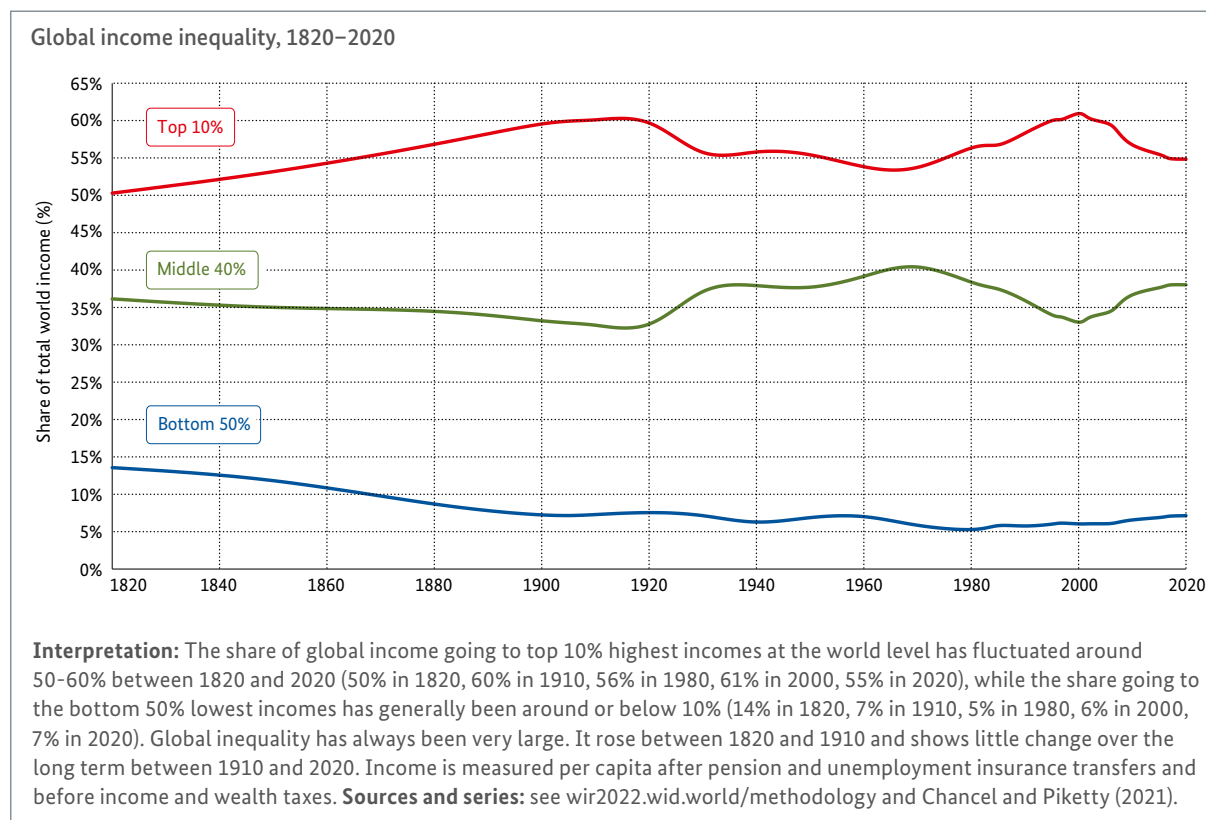
The income and wealth of those at the very top of the distribution pyramid is often underestimated or even completely missed in economic surveys of households. So the World Inequality Lab has developed new methods of measuring inequality, factoring in data from wider sources, including estimates of offshore assets, wealth rankings, income tax returns and inheritance transfers.

The *inequality-adjusted human development index (IHDI)* of the United Nations Development Program (UNDP) combines a country's average achievements in the fields of health, education and income with the distribution of these human development achievements across the population. In this way the assessment of the level of development reached by a country takes account of the social disparities.

⁸ The higher the value, the more unequal the distribution (a value of 0 means complete equality; a value of 100 means maximum inequality). Cf. OECD data (2019): Income inequality, and World Bank (2020): Data Catalog Gini Index.

⁹ A ratio of 1 indicates that the top 10 per cent dispose of the same share of national income as the bottom 40 per cent.

¹⁰ The Palma Ratio varies between 0.8 and 1.5 across the European Union, whereas it stands at 7 in South Africa, which means the top 10 per cent possess a share of national income seven times that of the poorest 40 per cent.



Graph showing the shares of global income taken by the top 10 per cent, middle 40 per cent and bottom 50 per cent. Source: World Inequality Lab 2021.¹¹

Wealth is, across the board, even more unequally distributed than income. While half of the world population owns around 2 per cent of global wealth, the upper 10 per cent has more than two thirds (76 per cent).¹² Moreover, the top one per cent pulled further ahead between 1980 and 2020, benefiting more than twice as much from global economic growth as the poorest half of the world population.¹³

Inequality is apparent not only in unequal shares of wealth but also in unequal distribution of resources and rights as well as differences in opportunities for social, political and economic participation and inclusion. In many cases the different forms and constellations of inequality occur simultaneously, resulting in complex interactions.

It is often assumed that economic growth automatically leads to less inequality. The available data clearly shows, however, that the underlying causes of inequality are multi-layered. Reducing inequality requires carefully targeted political measures and does not occur automatically. Initiatives are, however, often impeded in practice by a lack of political will, by corruption and by the influence that people in higher income groups can exert on policymakers and institutions.¹⁴ This is why the United Nations (UN) enshrined the reduction of inequality as an explicit goal in the 2030 Agenda Sustainable Development Goals (SDGs).

¹¹ World Inequality Lab (2021): World Inequality Report 2022, p.54 (development between 1820 and 2020).

¹² World Inequality Lab (2021): World Inequality Report 2022, p.10.

¹³ World Inequality Lab (2021): World Inequality Report 2022, p.61.

¹⁴ UN DESA (2020): World Social Report.

Inequality in the 2030 Agenda

Reducing inequality is Goal 10 of the 2030 Agenda.¹⁵ Another 13 of the 17 Sustainable Development Goals are directly related to the lessening of inequalities, as is the overriding principle “Leave no one behind”. This reflects a change of perspective in development policy discourse. Alongside initiatives to improve the conditions of people living in poverty, attention has turned to structural inequalities and entrenched forms of discrimination and to the responsibilities of the privileged for shaping fairer societies.

With a view to reducing inequality within countries, SDG 10 calls for the income of the poorest 40 per cent of the population to grow faster than the national average (10.1). Another target of SDG 10 is the social, economic and political inclusion of all (10.2). Governments should, specifically, adopt anti-discriminatory, fiscal, wage and social protection policies to ensure equal opportunity and reduce inequalities of outcome (10.3-4).

As for reducing inequality between countries, SDG 10 focuses on international aspects such as the need to regulate global financial markets and institutions (10.5), ensure an enhanced voice for developing countries in international institutions (10.6) and enable orderly, safe and regular and responsible migration (10.7).

2. Inequality worsening under the impact of current crises

Global crises like the COVID-19 pandemic or Russia’s war of aggression on Ukraine are exacerbating existing inequalities. At the same time, high levels of inequality inhibit the capacity of societies to respond to external shocks like pandemics, natural disasters, economic crises or violent conflicts. The COVID-19 pandemic has made the international community all too aware of this relationship:

- For the first time in twenty years, a worldwide resurgence of extreme poverty was recorded in 2020. In 2022, as a consequence of the pandemic and Russia’s war on Ukraine, there is likely to be an additional 95 million people falling into extreme poverty. This means the number of people having to survive on less than 1.90 US dollars a day has soared to over 670 million.¹⁶
- Despite the pandemic and rising poverty it is estimated that, between March and December 2020, the total wealth of the world’s billionaires rose by 3.9 trillion US dollars – to 11.95 trillion US dollars.¹⁷
- Estimates by the United Nations find that less than half of all humanity have access to basic healthcare.¹⁸ This has been reflected in the rollout of vaccinations to contain the COVID-19 pandemic. Only around 12 per cent of people in low-income countries have received at least one jab. In middle- and high-income countries vaccine coverage averages about 80 per cent.¹⁹

¹⁵ UN DESA: Transforming our world: the 2030 Agenda for Sustainable Development.

¹⁶ Daniel Gerszon Mahler et al. (2022): Pandemic, prices, and poverty.

¹⁷ Oxfam (2021): The Inequality Virus. In its underlying analysis Oxfam draws on the annual ranking of billionaires by net worth (Forbes 2020 World’s Billionaires List) from 18 March 2020 and the real-time ranking of 30 November and 31 December 2020.

¹⁸ UN (2020): The Sustainable Development Goals Report 2020, p.8.

¹⁹ Our World in Data (2022): Share of people who received at least one dose of COVID-19 vaccine (ourworldindata.org).

- Worldwide, 61 per cent of the employed population work in the informal sector.²⁰ This figure includes many people who find themselves in poverty or just above the poverty line. Having no access to savings or social protection schemes, they must remain economically active in order to secure their livelihood. 71 per cent of humanity – around 5.2 billion people – have insufficient or absolutely no social protection and have faced the impacts of the pandemic and other shocks unprepared. It is a situation that even applies to many people living in middle-income countries.
- Since disproportionately large numbers of women work in the informal economy and in sectors hardest hit by the pandemic, their employment conditions are particularly precarious. 72 per cent of those employed as domestics could lose their source of income. As for unpaid work, women and girls around the world, especially those living in poverty, were already performing an estimated daily total of 12.5 billion hours of unpaid care work before the onset of the COVID-19 pandemic. This figure is likely to have risen through the pandemic.²¹
- As COVID-19 spread throughout populations, up to 90 per cent of school and university students worldwide found they could not attend classes. Some 460 million children and young people, above all in developing countries and emerging economies, had no means of being taught online or in another form.²²
- The United Nations 2021 Global Report on Food Crises estimates that the number of people going hungry around the world is in excess of 800 million.²³ In addition, more than 2.3 billion are enduring “hidden hunger” as they go without essential nutrients. The main causes of food insecurity are – in addition to the current pandemic – poverty and conflict, including Russia’s war on Ukraine. The impacts of climate change also play their part, as countries are ravaged by extreme weather events like storms, floods and droughts.
- The COVID-19 pandemic has exacerbated a global trend towards autocratisation. In countries with weak institutions we have seen mechanisms that should provide checks on the executive being hollowed out still further. Minorities have frequently been hardest hit by impacts and measures to contain the pandemic.²⁴ At the same time, scope for political participation has been restricted in many countries due to clampdowns on gatherings and other measures.²⁵

²⁰ UN (2020): The Sustainable Development Goals Report 2020, p.41.

²¹ Oxfam (2020): Time to Care.

²² UNICEF (2020): COVID-19: Are children able to continue learning during school closures? p.1.

²³ FAO (2021): The state of food security and nutrition in the world 2021.

²⁴ World Bank (2021): The State of Economic Inclusion Report, p.34.

²⁵ Repucci and Slipowitz (2020): Social Report 2020 – Democracy under Lockdown | Freedom House, p.3.

II. Dimensions of growing inequality

The causes of, and challenges posed by, deepening inequality are closely connected with the three dimensions of sustainable development – the economic, the social and the ecological. Moreover, the various forms of inequality are often mutually reinforcing.

1. The economic dimension

The extreme inequality in income and wealth that exists worldwide along with the unequal access to capital and resources impede economic and social participation and inclusion for many people. This can cement existing inequalities. Thus, economic growth alone will not guarantee any lessening of inequality.

Rather, the key point here is who benefits from growth. One indicator is the wage share, in other words the labour income share of total gross domestic product, which has been falling in a majority of countries since the beginning of the 1990s.²⁶ This trend means that above all people on low to medium incomes are being disadvantaged. In parallel, we have seen a rise in incomes acquired from non-wage sources, for instance from capital. This especially benefits those who already have high incomes.²⁷

Conversely, a reduction in inequality can positively impact economic development. According to the International Monetary Fund (IMF), a rise in income of the bottom 20 per cent correlates, in the medium term, with higher economic growth than occurs when the top 20 per cent see their incomes rise.²⁸

Reducing inequality is, moreover, a major factor in the fight against poverty, since inequality can influence economic and social mobility over generations. Unfair wages and wide-ranging informality can perpetuate poverty and vulnerability and undermine development opportunities for large sections of the population. Worldwide, more than 60 per cent of people in employment work in the informal economy.²⁹ If we include the workers in low-wage sectors, the number of people working under precarious conditions around the world comes to around 1.4 billion.³⁰ In addition, 266 million employees are estimated to be working for less than the minimum wage, many of them lacking any access to social protection schemes.³¹ The financial inclusion of women is an important factor in efforts to combat poverty and achieve inclusive growth.³² Indeed, greater economic participation by women as well as women's access to funding and their financial independence are considered key to reducing poverty.³³

²⁶ Van Treeck (2019): Measuring the Labor Income Share of Developing Countries.

²⁷ World Inequality Lab (2018): World Inequality Report.

²⁸ IWF (2015): Causes and Consequences of Income Inequality: A global perspective, p.4.

²⁹ UN (2020): The Sustainable Development Goals Report 2020.

³⁰ DGB / HBS (2018): Atlas der Arbeit, p.37.

³¹ ILO (2020): Global Wage Report 2020-2021; OECD (2020): Côte d'Ivoire and Morocco: tax reforms for sustainable health financing.

³² World Bank Group (2018): Women Economic Empowerment Study, p.21.

³³ World Bank Blog (2021): Economic inclusion programs: A springboard out of extreme poverty.

To counter economic inequality the public budget and the tax system play a decisive role as central distribution mechanisms of government. Progressive taxation and targeted government spending are important instruments for reducing inequalities. The 2030 Agenda has also reaffirmed the role of redistribution in lessening inequality by including a new indicator for measuring the redistributive impact of fiscal policy (SDG 10 indicator 10.4.2). In many developing countries, however, tax regimes and welfare systems are actually reinforcing inequality. They place a disproportionate tax burden on the poorer sections of society without compensating them with social benefits or public goods.³⁴ Aggressive tax avoidance by multinational corporations and wealthy individuals can also exacerbate inequality both within and between countries. It is estimated that shortfalls in tax revenues amount to several hundred billion US dollars a year. Lower-income countries bear much greater consequences in terms of total tax revenues.³⁵

Corruption is simultaneously a cause and an effect of inequality. As corruption increases, the efficacy of social and distributive policy measures declines. Corruption undermines the state's capacity for effective action. It results in inequitable access to resources as well as unfair decisions and injustices. It weakens trust in a government's mechanisms for distribution and conflict resolution. Moreover, illicit financial flows are, according to United Nations' estimates, depriving developing countries of around 1.26 trillion US dollars per year – a sum nine times higher than they received in official development assistance in 2017.³⁶

Unequal access to land also endangers the livelihoods of an estimated 2.5 billion people around the world involved in small-scale agriculture.³⁷ More and more land is being concentrated into the hands of large corporations and big land owners, who need fewer and fewer people to work this land as new technologies are increasingly applied. On the other hand, many countries also have increasingly fragmented land distribution due to population growth and inheritance laws. Fair access to land not only mitigates economic inequalities but can also contribute to greater food security, climate change mitigation and gender equality.

2. The social dimension

In many societies, access to resources, to basic public services and to justice is inequitably distributed and depends on factors such as income, gender, family background, disability, residency status, skin colour or where someone lives. Different kinds of social disadvantage can be mutually reinforcing and lead to multiple discriminations, such as when a woman belonging to an ethnic minority also lives in a rural area. Inequalities of this kind are structurally determined and can deepen over generations. So the lives and prospects of millions of people are to a large extent shaped by the conditions into which they were born.³⁸

³⁴ World Bank (2019): Accelerating Poverty Reduction in Africa, p.257-259.

³⁵ Tax Justice Network (2020): The State of Tax Justice in 2020: Tax Justice in the time of COVID-19.

³⁶ Fleming (2019) World Economic Forum: Corruption / UN Sustainable Development Goals, SDG 16.

³⁷ Land Inequality Initiative (2020): Uneven Ground – Land Inequality at the heart of unequal societies.

³⁸ Speech by António Guterres, Secretary General of the United Nations, 20 July 2020.

Lack of participation rooted in high levels of inequality leads to political and social discrimination and marginalisation. It can result in a loss of trust in state institutions and disenchantment with politics. This situation can become a breeding ground for populist and extremist political movements and threaten the stability and cohesion of a society. Horizontal inequality between different groups and communities across a population can act as a driver of crises and conflicts and accelerate forced displacement and migration.³⁹ Moreover, societies may have different ideas about the degree of inequality they find tolerable and socially acceptable. This situation can be another source of conflict.

A new dimension of social (and the associated political and economic) inequality can arise from the ongoing advances in digitalisation. On the one hand, digital innovations open new solutions in fields such as healthcare, e-governance, education, agriculture and business enterprise, in turn creating new jobs and employment opportunities. Digitalisation is also giving people in developing countries and emerging economies easier access to financial services through their mobile phones. Yet, alongside the winners, digital change is also creating losers. The automation of operations and jobs primarily disadvantages the less qualified workers. Algorithms in the sphere of artificial intelligence can systematically disadvantage individual groups in society. Internet availability is another problem. In the least developed countries only 19 per cent of the population have access to the internet, compared with around 87 per cent in the industrialised countries.⁴⁰ The distribution of know-how in the use of digital technologies is also inequitable. So internet access and digital education for disadvantaged groups and communities is essential to prevent the “digital divide” from growing any wider. Innovation and technology can therefore be used to systematically reduce inequalities.

3. The ecological dimension

Climate change, environmental destruction and biodiversity loss are directly and indirectly impacting livelihoods, health, nutrition and productivity worldwide. The 1.5 Degree Report issued by the Intergovernmental Panel on Climate Change (IPCC) shows that climate change has massive consequences for basic human rights, not least the right to life, food, water and health.⁴¹ And those facing the brunt of climate change impacts are the least responsible for causing them. It is the industrialised countries, as the major carbon emitters, that are the main drivers of climate change. Yet those worst affected live in developing countries. Climate change mitigation and adaptation is therefore a matter of social justice – in two senses, in fact. In total, the top 10 per cent of humanity by income cause around 48 per cent of carbon dioxide emissions (figure for 2019). In contrast, the poorer 50 per cent of the world’s population are responsible for just 12 per cent of global emissions, but live predominantly in the countries most severely affected by climate change.⁴² What is more, people in poverty have fewer options to adapt (climate resilience) and are less protected from the consequences of extreme weather events and natural disasters such as crop failures. There is also the threat of conflicts and crises resulting from scarce resources. Up to 132 million people may fall into extreme poverty by 2030 as a result of the multiple ramifications of climate change.⁴³ On the other hand, disadvantaged individuals and groups can be important agents of change in terms of climate action and play an active and important role in moving towards sustainable development. Many people in the least developed countries have no access to modern electricity supplies. They often rely on traditional and inefficient fuels that damage their health and drive climate change. Globally, some 2.8 billion people have no access to clean energy for cooking and are exposed to toxic fumes. 789 million people live without any access to electrical power,⁴⁴ particularly in sparsely populated, rural areas, but also in mushrooming urban centres across Africa.

³⁹ World Bank (2011): World Development Report 2011. Conflict, Security, and Development.

⁴⁰ Access to the internet by country group, in UN DESA (2020): World Social Report.

⁴¹ IPCC (2018): Global Warming of 1.5°C.

⁴² World Inequality Lab (2021): World Inequality Report 2022, pp.121–123.

⁴³ World Bank (2020): Reversals of Fortune. Poverty and Shared Prosperity Report 2020.

⁴⁴ IEA, IRENA, UNSD, World Bank, WHO (2020): Tracking SDG 7: The Energy Progress Report.

Climate change and environmental destruction are thus exacerbating existing inequalities – both within countries and between countries across the world. The gulf in economic performance separating the world’s richest and poorest has widened by 25 per cent due to global warming.⁴⁵ However, climate change mitigation and adaptation do also offer development opportunities. According to projections, for example, some 100 million new jobs will be created worldwide by 2050 due solely to the transition to clean energy across the whole energy sector.⁴⁶ Disasters and climate risks must therefore be confronted holistically and proactively in order to strengthen the resilience precisely of the poorest and least privileged and “leave no one behind”. This demands an ecological and fair remodelling of economic systems, taking particular account of social dimensions and the needs of vulnerable people and communities – in other words, a just transition. In meeting their commitments under the Paris Agreement⁴⁷ and attempting to mitigate climate change and its impacts, many countries face the challenge of cutting greenhouse gas emissions and managing the transition to a carbon-neutral economy. The necessary transition in energy and resource use must be compatible with people’s social needs and keep a focus, above all, on the vulnerable in society. A just transition to a carbon-neutral economy means ensuring that its costs and benefits are shared fairly, that potentially disadvantaged social groups participate in shaping the transformation process, and that this process is designed to be socially responsible and inclusive. Environmental protection measures, climate actions and the transition to carbon neutrality must not result in the poorest facing even greater burdens, nor in a consolidation of existing inequalities, but must be designed to reduce poverty and inequality.

Gender inequality

Inequality of opportunity and inequality of outcome on the basis of gender affect **all three dimensions of sustainable development**:

- The global rate of female participation in the labour force fell from 51 per cent in 2000 to 48 per cent in 2019. Women do approximately 75 per cent of unpaid care work.⁴⁸ Alongside the issue of educational disadvantage, women’s role in performing unpaid caregiving and housework is a decisive factor behind gender differences in the labour market.⁴⁹
- Women earn less than men worldwide. If women did receive the same income global prosperity would rise by 172 trillion US dollars.⁵⁰ Their employment prospects are hindered by the disadvantages faced by girls in education. Despite progress being made around the world, some 130 million girls are still prevented from accessing education. This is particularly striking in the countries of Sub-Saharan Africa where around 52 million girls and young women are affected.⁵¹
- More than one in three women will face gender-based and sexual violence in their lifetime. Female migrants and refugees are especially vulnerable. The consequences are physical and psychological as well as societal, with violence restricting access to education and social participation. It is estimated that violence against women costs some countries as much as 3.7 per cent of their gross domestic product. Women with disabilities are particularly subject to violence.⁵²

⁴⁵ Stanford University (2019): Global warming has increased global economic inequality.

⁴⁶ IRENA (2020): Global Renewables Outlook: Energy Transformation 2050.

⁴⁷ UNFCCC (2015): Paris Agreement.

⁴⁸ World Bank (2020): The World Bank In Gender; OECD (2019): SIGI 2019 Global Report.

⁴⁹ ILO (2019): A Quantum Leap for Gender Equality, p.13.

⁵⁰ Wodon and De La Briere (2018): The Cost of Gender Inequality.

⁵¹ UN (2020): Gender Equality: Why it matters; UNESCO Institute for Statistics (2016): Leaving no one behind: How far on the way to universal primary and secondary education?

⁵² World Bank (2020): The World Bank in Gender; UN Women (2017): Fact sheet: Ending violence against women and girls with disabilities.

- Having no or only limited access to adequate medical provision and nutrition leads to increased mortality among girls and young women. Complications resulting from pregnancy and childbirth are still the most common cause of death among adolescents aged 15 to 19.⁵³
- Women are exposed to greater risks and burdens from climate change impacts because they are more dependent on natural resources than men, even though they have fewer rights over them. Due to limited land rights and lack of access to financial resources, training, technology and decision-making, women are yet to be appropriately included in climate action planning, policymaking and implementation.⁵⁴
- Environmental pollution affects women and children particularly badly as a result of structural factors like low wages, lack of suitable employment and traditional gender roles. The World Health Organization (WHO) calculates that almost 4 million people a year die as a consequence of indoor air pollution. Women and children make up more than 60 per cent of this figure.⁵⁵
- Women account for just 13.8 per cent of land-owners worldwide but make up the majority of workers in agriculture, forestry and fishing and play a central role in food security and agricultural production.⁵⁶ This situation, along with their restricted access to the means of production, results in women suffering disproportionately from climate change.
- Women are underrepresented at all levels of political leadership.⁵⁷ The global average percentage for female representatives in national parliaments comes to just 25.6 per cent.⁵⁸ On average, women have only three-quarters of the legal rights accorded to men.⁵⁹

⁵³ WHO (2020): Adolescent pregnancy.

⁵⁴ UN Women (2022): How gender inequality and climate change are interconnected.

⁵⁵ WHO (2018): Household air pollution and health.

⁵⁶ UN Women (2019): Progress on the Sustainable Development Goals – The Gender Snapshot, p.18.

⁵⁷ UN (2020): Gender Equality: Why it matters.

⁵⁸ IPU (2021): Global and regional averages of women in national parliaments.

⁵⁹ World Bank (2021): Women Business and the Law 2021.

III. Our approach to countering inequality

Social justice and solidarity with the Global South are values in themselves. But those who live by them are not acting purely altruistically but also in their economic and social interest. Effective measures to counter inequality must align with the three dimensions of sustainable development, the 2030 Agenda and the Paris Agreement. Accordingly, our approach is divided into economic, social and ecological measures.

1. Economic measures

Using financial and fiscal policy tools for equitable distribution

The BMZ is supporting partner countries in their efforts to create progressive, transparent and equitable systems of public finance, build the administrative capacities that are needed, and combat and prevent corruption. In this way we are helping to improve domestic resource mobilisation and to direct budgetary resources towards poor and disadvantaged groups in society.

Some specific examples:

In Kenya, the BMZ is supporting the introduction of multi-agency teams of investigators. They facilitate cooperation between the police, customs service, tax authority, anti-corruption agency, public prosecutor's office and judicial authorities, thus expediting public investigations. This has enabled Kenyan anti-corruption officials to improve conviction rates, which rose by 50 per cent from 2017 to 2018. There has also been more success in terms of stolen asset recovery, rising from nearly 7 million to more than 80 million US dollars between 2015 and 2020.

We are assisting Burkina Faso with budget reform. The aim here is to align both expenditure planning and expenditure management with development objectives. To this end, training has been provided to around 1,500 officials since 2017. An important focus of this initiative is mainstreaming children's rights and gender equality. The reforms had, by 2020, been integrated into the programme budgets of eighteen ministries.

Under our Global Project "Reducing Inequalities" advice is provided to selected partner governments (including Namibia, Viet Nam, South Africa, India and Mexico) on the framing of distribution strategies and coherent policies aimed at reducing inequality. The programme also facilitates international sharing of experience. A special focus here is on designing progressive tax regimes and directing public expenditure at poverty reduction.

Through the work of the CONNEX Support Unit the BMZ is empowering partner governments of developing countries and emerging economies dependent on the export of extractives to negotiate fairer investment contracts, thus enabling them to improve domestic resource mobilisation and establish responsible supply chains. In Liberia, for instance, this initiative helped secure additional tax revenues amounting to nearly 17 million US dollars.

Fostering decent jobs, designing inclusive economic and labour-market policies, making supply chains sustainable

Through its development cooperation Germany is supporting measures to make economic growth more inclusive by helping small and medium-sized enterprises so as to establish and build high quality education, strengthen the rights of employees and trades unions, and foster gender equality in the labour market.

Some specific examples:

Under the Special Initiative on Training and Job Creation the BMZ is working with the private sector to create a total of 100,000 decent jobs and 30,000 apprenticeships, and generally improve working conditions. This programme is being rolled out in Morocco, Tunisia, Ethiopia, Ghana, Senegal, Côte d'Ivoire, Rwanda and Egypt.

Through its development cooperation Germany is helping to improve labour, social and environmental standards in Pakistan's textile industry. Improved workplace inspections and cooperation in the areas of supervision, prevention, rehabilitation and compensation are part of an effort to establish decent jobs and earnings. Over the period 2017 to 2020 this initiative improved the working conditions of more than 20,000 people, enabled 7,600 to boost their incomes, and found new employment opportunities for more than 1,300.

In Egypt, Jordan, Morocco and Tunisia the BMZ has improved employment opportunities for women in private-sector businesses through applied Gender Diversity Management. This scheme identifies appropriate in-house measures for female advancement and puts them into practice.

Working together with the European Union, the BMZ is contributing to a regional programme covering Morocco, Tunisia and Egypt that is improving the conditions for regular migration while seeking to avoid a brain-drain. The programme is trialling mobility schemes in which 600 skilled workers and trainees (of whom at least 40 per cent are women) can move between North African and EU countries.

Through the Partnership for Prospects programme in the Middle East, as part of a Special Initiative on Displacement, Germany is working with the International Organisation for Migration in Iraq to create sustainable income-earning opportunities for internally displaced persons, returnees and local communities in need. The project involves a combination of measures, including cash-for-work schemes, medium-to-long-term employment initiatives (training, job placement, grants for micro-enterprises) and long-term measures (establishing an Enterprise Development Fund).

The Investment Climate Reform (ICR) Facility, co-financed by the European Union, is improving the conditions for business to thrive in African, Caribbean and Pacific (ACP) partner countries. The facility provides demand-based technical support for initiatives aimed at improving the business environment and investment climate. Going forward, the ICR Facility is increasingly focusing its activities on women's economic empowerment. It intends to treat this issue proactively, while retaining the facility's demand-based character. This work is helping significantly to increase female inclusion and participation in the ACP countries and assisting the necessary social and ecological transformation.

Making global economic and trade policies fair and inclusive

The BMZ supports the equitable distribution of wealth, fair economic relations and compliance with environmental, social and human rights standards. Trade agreements must enshrine these standards, ensuring that they are binding and enforceable. They should be negotiated between partners as equals and reflect the interests of the various groups in society who are affected.

Some specific examples:

Germany supports regional economic integration, focusing in particular on the African Continental Free Trade Zone (AfCFTA). Integration means partner economies can add more value by expanding their intra-regional trade in processed goods. The BMZ is providing technical cooperation in areas such as trade facilitation and the building of quality assurance infrastructures. In addition to the pan-African sphere, we are promoting the regional economic communities of ECOWAS, EAC and SADC.

The BMZ is supporting the Advisory Centre on WTO Law (ACWL). The ACWL gives free legal advice on request to developing countries involved in WTO dispute settlement proceedings. The centre also advises them in WTO legal matters and organises courses in WTO law in the partner countries. In this way it is filling a gap that has hindered legal enforcement by developing countries and improving the representation of their concerns in international organisations.

The Fairtrade Access Fund makes loans available in Latin America, Africa and Asia for fair trade-certified producer organisations, smallholders, small and medium-sized farms, and micro-finance institutions serving agriculture. Its aim is to improve access by these target groups to finance, information and markets for their produce. This work is securing jobs and income in rural regions and helping to combat extreme poverty and hunger. By the end of 2019 more than 330,000 small farmers had already benefited from the project.

2. Social measures

Promoting universal access to basic services

The BMZ promotes universal, equitable and inclusive access to basic services in partner countries (including access to healthcare, education, food, water, sanitation, social protection and the internet). Through its development cooperation Germany is supporting efforts to build adaptable social protection systems that extend access to basic services to disadvantaged and vulnerable groups in society and protect them against the risks of poverty, with the longer term aim of overcoming these risks. These protection systems also strengthen crisis prevention and response capabilities.

Some specific examples:

In India, up to 500 million people living in poverty are entitled to free health insurance. Through its development cooperation Germany is helping to expand and qualitatively upgrade this scheme. To ensure equal access for all – bringing in, for instance, the elderly, people with disabilities and girls – no limit is placed on the number of persons per household who can be insured.

In Malawi, we are not only supporting a scheme for unconditional cash transfers to some 63,000 deeply poor families who are unable to work (as well as a temporary extension of the scheme to help around 45,000 urban households hit by the COVID-19 pandemic), but also promoting efforts to establish an integrated social security system. This involves the building of a unified, nation-wide social register, which by 2021 already compiled data for some 1.4 million households from 18 districts. As more and more people are registered their access to social benefits widens.

Securing political representation for all groups in society

The BMZ is committed to strengthening the participation of all social actors in political decision-making. Participation must, as a priority, include marginalised and disadvantaged groups, in the spirit of the 2030 Agenda principle “Leave no one behind” (for instance people in poverty, women and girls, children and youth, the elderly, persons with disabilities, indigenous peoples, LGBTQI+ persons, refugees, the internally displaced, and vulnerable migrants).

Some specific examples:

In Benin, dialogue platforms and other forms of citizens’ participation have been established, strengthening trust in local government institutions and building capacity for civil society to flourish. In 25 partner local authorities a total of 61 dialogue platforms on specific sector issues are now operational, connecting local-level agencies of ministries, local councils and civil society.

In Zambia, German development cooperation is assisting civil society organisations to play a professional and proactive role in the legislative process. Between 2015 and 2017 these organisations formulated twelve proposals for improving the legal framework as it applies to political participation. They included ideas on the inclusion of disadvantaged groups. One of the proposed consultation mechanisms was then adopted in the final version of the government’s National Development Plan.

Working in partnership with UN Women, the BMZ is supporting women’s participation in peace processes in the Middle East, focusing on Iraq, Libya, Yemen and Syria. This initiative is strengthening the expertise and negotiating skills of women, while also working on men’s ability and willingness to grant women a place at the negotiating table.

3. Ecological measures

With a view to achieving a socially just transition towards eco-friendly and climate friendly societies, the BMZ helps its partner countries to protect people living in poverty and facing discrimination against the impacts of climate change and to make climate initiatives socially acceptable and responsible. This can be done by combining the available instruments the BMZ uses from the fields of climate change mitigation and adaptation, transitional development assistance, reconstruction and disaster risk management, and training in “green skills” for resource-efficient production and consumption.

Some specific examples:

Climate risk insurance for the poorest: the InsuResilience Global Partnership, initiated by the BMZ, aims to protect people living in poverty and other vulnerable groups and countries from the risks posed by climate change and natural disasters by offering insurance and finance solutions. This initiative has drawn up “pro-poor principles” that put the needs of the poor and disadvantaged at the centre of financing and insurance solutions. The Energising Development (EnDev) multi-donor partnership promotes sustainable access to needs-based, climate-friendly energy supply to households, social facilities and micro-, small and medium-sized enterprises. EnDev has, around the world, already facilitated access to electricity or modern cooking technologies for more than 22.9 million people, 53,860 enterprises and 27,390 social facilities, especially schools and healthcare centres, in 25 countries. Thanks to EnDev initiatives over 2.3 million tons of carbon dioxide emissions are being avoided annually, along with other gases and particulates harmful to the climate and environment. As part of the COVID-19 response the BMZ is contributing through the World Bank to the Green Recovery Initiative, which is designed to make sustainability and climate action an integral part of the reconstruction of countries by means of fiscal and other measures. By introducing environmental taxes (for instance, carbon pricing) and reducing harmful subsidies governments can gain the fiscal space they need for helping disadvantaged communities and reducing inequalities.

IV. Tackling inequality – what still needs to be done?

Following the 2030 Agenda principle of “Leave no one behind”, the BMZ will continue to advance, deepen and expand its varied activities against inequality in partner countries. This challenge requires both global initiatives and context-specific cross-sector approaches and solutions – especially when it comes to implementation.

1. Making the economic changes needed to overcome inequality

Reducing inequality more effectively by distributive and fiscal policies

Governments should be removing unfair tax privileges and committing to progressive taxes, not least corporation and wealth taxes. To prevent wealth taxes resulting in capital outflows it is also important to extend the tax regime to cover assets in shares and bonds, land and real estate, and inherited wealth. On the expenditure side, governments should prioritise growth-stimulating investment in gender-equitable education, health and sustainable infrastructure and in the building of adaptive social protection systems. The instruments available to multilateral organisations and to German financial cooperation with partner countries for supporting conducive political frameworks (for example, development policy loans, policy-based loans) should be deployed more purposefully for these objectives.

Combating tax avoidance and stemming illicit financial flows

It is vital to further strengthen the international cooperation between the G20, OECD, developing countries and emerging economies on combating international tax avoidance and illicit financial flows and to push for international policy coherence. The BMZ advocates effective implementation of the OECD BEPS (Base Erosion and Profit Shifting) reforms aimed, for instance, at reallocating taxing rights (digital tax) and establishing minimum tax rates for corporate profits.

It will also be helping partner countries to strengthen their capacity for mobilising domestic tax revenues.

Promoting sustainable and socially equitable investment and transformation

As part of the G20 initiative for a Compact with Africa (CwA) the BMZ is supporting improvements in the economic environment that will help foster sustainable private-sector investment and self-sustaining economic growth and create long-term jobs for people locally. Support for German and African businesses is available from the development investment fund for Africa. Through this initiative, the BMZ and the Federal Ministry for Economic Affairs and Climate Action (BMWK) are providing funding to facilitate trade and investment in Africa and overcome financial obstacles. The aim is to boost economic growth, especially in the twelve countries within the Compact with Africa initiative, and make lasting improvements in trade relations between Europe and Africa. IMF programmes and World Bank funding arrangements should, in the context of reconstruction programmes and bilateral and commercial debt relief, consistently mainstream social policy objectives so as to prevent a further widening of the social divide.

Making globalisation and worldwide trade more equitable

Developing countries need a stronger voice in global bodies and decision-making processes in order to reduce the inequalities between countries. Another key task here is to strengthen the multilateral rules-based trading system of the WTO and prevent protectionism practised at the expense of the weaker players. More fair trade is needed with the aim of promoting productive and decent employment along with higher incomes in developing countries and, in this way, tackling poverty and inequality.

Strengthening the use of multilateral cooperation funding and instruments for inequality mitigation

Multilateral development banks must do more to direct their investments and their influential knowledge-generating and analytical activities at achieving a socially just economic transformation. The BMZ advocates, for instance, that the International Development Association (IDA), the arm of the World Bank Group dealing with the world's poorest countries, should continue to focus on tackling the growing inequality in partner countries. In the IDA20 replenishment negotiations Germany argued successfully for a stronger commitment by the World Bank to the issues of tax fairness and progressivity, sexual and reproductive health, and social protection systems. We have also succeeded in anchoring indicators, including the Gini coefficient, in the Bank's monitoring and evaluation so as to track progress in these efforts.

Reducing inequalities along supply chains

Compliance with stringent human rights standards as well as social and environmental standards in international supply chains must become the norm. Following the passing of Germany's Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz) negotiations are now underway on corresponding EU-wide legislation. The BMZ advocates the adoption of ambitious rules to strengthen the rights of workers in companies, open effective access to compensation, and secure living wages. To improve effectiveness at the local level in partner countries the BMZ has launched, jointly with other Member States and the European Commission, a Team Europe Initiative for coordinating measures to support companies, civil society and partner countries.

Ensuring equitable access to land

It is vital that partner countries receive more support in adapting their systems and rules in line with the Voluntary Land Guidelines on land tenure as set by the United Nations Food and Agriculture Organization (FAO)⁶⁰ so as to promote equitable access to land for all, especially for vulnerable and marginalised groups in society. Core elements of this approach are the recognition of local and traditional tenure rights and the strengthening of the legal and practical recognition of women's land rights.

⁶⁰ VGGT – Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security, adopted on 11 May 2012 by the Committee on World Food Security, CFS.

2. Making the necessary social and political changes to tackle inequality

Providing social protection for all

The BMZ affirms the principle of universal social protection in accordance with the Global Partnership for Universal Social Protection (USP2030). A particular focus of this initiative is on access to appropriate social protection systems for the vulnerable and people living in poverty. The aim is to deploy the resources and instruments of technical and financial cooperation in support of efforts by partner countries to build and develop national social protection systems. Depending on the partner country in question, these initiatives should in future be linked to reform-oriented approaches designed to ensure good financial governance.

Making healthcare systems inclusive and crisis-proof

In times of global pandemics it is particularly important to secure universal access to quality healthcare services for all – especially for children, the elderly, the chronically ill and people with disabilities. The essential factor here is public funding for the health sector and a strengthening of the World Health Organization (WHO), not least to be better prepared for future crises. The One Health approach can be most effective in this regard, especially in the fields of prevention and early detection of infectious diseases. This is a holistic approach that considers the structural interconnections between the health of people, animals, plants and their shared environment, along with all their social and economic dimensions. These may involve competing interests, such as agricultural productivity and biodiversity, livestock welfare and the use of antibiotics.

Promoting universal, free and public education for all, spreading digital literacy

Qualitatively better and more inclusive education systems, more and better trained teachers, investment in school and training infrastructure, and a sustainable funding model are urgently needed to ensure equal access for all to high-quality education opportunities at every stage along the education pathway. Of central importance here is adequate investment in the digital skills of girls and women. The BMZ is active in this field, for instance through the G20 #eSkills4Girls initiative. It will also be promoting expanded educational opportunities for disadvantaged girls and young women through the “SHE – Support Her Education” educational initiative.

Building greater trust in governments through democratisation

A key challenge is to counter the trend toward autocracy that can be observed in many countries and has been exacerbated by the COVID-19 pandemic. This requires a joint effort with other like-minded donors. The “civic space”, that is the space for political participation by civil society, must be sustained and protected and the participation of all groups in society secured at local, national and international level.

3. Making the necessary ecological changes to overcome inequality

Improving climate and environmental justice by avoiding cost externalisation

Industrialised countries bear a special responsibility and must take the lead in terms of international action on climate change and the environment. They must ensure that the environmental and human costs are paid by those primarily responsible for the damage to the climate and environment.

Making climate and environmental measures socially just

Governments must take care that the interests of people living in poverty and the disadvantaged are properly included and considered in the transition to a climate-friendly and environmentally friendly economy, in other words to achieve a just transition. Governments should, for instance, commit to tax reforms that protect the environment and simultaneously reduce inequality, for instance by reducing fossil fuel subsidies and introducing carbon pricing combined with transfers to poor sections of society or with investments in education and health.

Climate and Development Partnerships

We want to offer our partners concrete solutions that are appropriate to their particular situation in order to support a transformation to climate-neutral and equitable societies. It is to this end that the German government is concluding Climate and Development Partnerships with developing countries and emerging economies. The aim is to assist particularly ambitious partner countries playing an important climate policy role with their efforts to implement national climate targets and to reinforce climate adaptation activities. We are continuing our collaboration with other donors to support national energy transition in countries that are high carbon emitters or coal-dependent.

An example here is the Just Energy Transition Partnership agreed with South Africa as a socially just route to cleaner energy. Giving special consideration to vulnerable social groups, including coalminers, women and young people, the initiative is helping to phase out coal and develop renewables in this emerging economy. Building on the partnership with South Africa, the G7 nations decided at their Elmau summit in June 2022 to explore new partnerships for a just transition with Indonesia, India, Senegal and Viet Nam.

Promoting access to and use of renewables

Using renewable energy sources can make countries more resilient against the impact of climate change and, in so doing, reduce inequality. It is important to ensure affordable access for the poor and disadvantaged in society, and this is more easily attainable thanks to the comparatively low costs of generating electricity from renewables. With its Vision 100 initiative the BMZ is committed to achieving the goal, in its partner countries, of 100 per cent needs-based energy access by 2030 along with 100 per cent net decarbonisation in all energy-related sectors by 2050.

Facilitating comprehensive risk management

Adaptation measures and disaster risk management should be combined with social protection, especially in regions heavily exposed to climate change. Social protection systems help to identify poor and disadvantaged people in need and to reach them effectively with rapid benefit transfers.

4. Overarching approaches to tackling inequality

A central challenge in all areas of life is also to advance gender equality. In line with the principles of feminist development policy, inequalities must be tackled at their roots. This demands a human rights-based, intersectional, inclusive, gender-transformative and power-critiquing approach. Specifically, we must ensure that women, LGBTQI+ people and other marginalised groups have equal rights to participation in decision-making and implementation processes at all levels. As knowledge bearers and actors they play a decisive role for all spheres of sustainable development. Their inclusion rests not least on realising equitable access to resources such as land, finance and the internet, as well as to healthcare provision and education. It is also crucial to strengthen the rights of women, LGBTQI+ people and other marginalised groups. Only through the interplay of equal representation, access to resources and rights will it be possible to overcome discriminatory structures and gender inequality.

To make inequalities visible and tackle them effectively we also need better data on income and wealth distribution and on other forms of inequality, including inequitable access to essential services and to justice. Such databases should be compiled and analysed by, for instance, breaking the statistics down by age, gender, income and disability, while giving due consideration to data protection and privacy issues.

The world has become more unequal in the last few decades, and the COVID-19 pandemic threatens to exacerbate this trend. So it is time to act! As a general rule we can conclude that inequalities cannot be effectively reduced in the long term by single policy measures but only by a comprehensive package of economic, social and environmental measures. Our task must now be to set the agenda for a fundamental social and ecological transformation of the economy, work and society. Policy measures and investment decisions aimed at sustainable reconstruction must not only be climate-smart and environmentally sound, they must also have a clear focus on reducing inequalities and, in this way, make societies fairer, more inclusive and more resilient in the face of future crises. Fewer inequalities thus become an opportunity for sustainable development worldwide.

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