
Guidelines

Inequality Diagnostics

6 March 2023

Written by Dr. Paula Nagler (Erasmus University Rotterdam) and Mr. Niek de Jong (Erasmus University Rotterdam).

For further details, questions and feedback, please contact Holger Apel (holger.apel@giz.de).

Introduction to the guidelines

Inequality has gained increased priority in global development agendas, with UN member countries committing to *leave no one behind* (LNOB) in pursuing the 2030 Sustainable Development Goals (SDGs), including the Sustainable Development Goal No. 10 (reduced inequalities). Yet, while inequality has decreased on a global scale this century, progress has been relatively limited at regional and national level or has even been undone as a result of the Covid-19 pandemic. In fact, “[m]ore than 70 percent of the world population now live in countries where income inequality has increased in the last three decades”.¹ Incorporating inequality effectively into national development strategies requires a deeper understanding of its context-specific causes and drivers, the national debate and individual perceptions, as well as the range and feasibility of potential solutions.

These guidelines provide a framework for the diagnostic assessment of national inequality in partner countries of the German Development Cooperation (GDC). Such assessments aim to stimulate dialogue, partnerships and further research around inequality and, ultimately, to have a positive impact on inclusive development through informed interventions. The structure of the diagnostic is designed to build insight into how and why inequality manifests in different environments and its implications for development, before summarising the debates and perceptions around this topic, and outlining potential solutions and key areas for GDC.

The diagnostics should take the form of a report with sub-sections analogous to the guidelines, making assessments largely comparable across countries. Key aspects and linkages are highlighted for analysis, though the focal areas mentioned are not exhaustive and each diagnostic may need to emphasise additional factors according to local significance.

¹ See UN website on [inequality](#).

Introduction

The diagnostic starts with a macroeconomic overview that presents the major developments since 2000 in terms of economic growth, poverty and inequality. The remainder of the diagnostic is structured as follows. Section 1 describes and analyses the causes and drivers of inequality in the area of labour market developments and in the area of taxes and transfers. Section 2 presents the major national policies and strategies and discusses to what extent inequality features in them. This section also briefly discusses the strategies of key international donors. Section 3 presents selected policy options to address inequality. Finally, Section 4 gives an overview of current German Development Cooperation (GDC) in the partner country and gives suggestions on how GDC can contribute (more) to inequality reduction in the partner country.

The bulk of analysed data should be sourced from international organisations,² national survey data or other institutions using standardised measures and procedures and supplemented with local databases for more detailed or more recent information. A key source of data are the World Development Indicators. Where relevant and feasible, alternative estimates of inequality should be presented that make a correction for underreporting of top incomes.

Macroeconomic overview

The first section of the diagnostic provides an overview of how and under which conditions inequality has evolved and shows inequality trends over time (since approximately 2000). This involves outlining trends in macroeconomic development (such as economic growth and poverty) and examining the level and characteristics of inequality nationally. Given its complex and context-specific nature, a detailed assessment of inequality dynamics should include a mix of monetary and non-monetary³ indicators.

Common statistics for measuring inequality, generally based on income or expenditure data, include the Gini coefficient, the Theil index, the Palma ratio and shares received by the poorest and the richest 10% of the population, each capturing a different aspect of inequality. Further aspects to consider are the inequality of opportunities versus the inequality of outcomes (see also Haughton and Khandker 2009). Where possible and relevant, inequality measures may be disaggregated by gender, age, geography (urban/rural), ethnicity, and education.

Key questions to be addressed in this section are:

1. What has been the economic performance of the country in the past two decades?
2. Have there been structural changes in the economy in terms of the sectoral composition of GDP? If so, how has the structure of the economy changed?
3. What is the explanation of major changes in economic growth?
4. How have poverty and inequality changed over time in comparison with the trends in economic growth?
5. What can be said about urban and rural inequality?

1. Causes and drivers of inequality

The potential causes and drivers of inequality are numerous and intertwined and are consequently challenging to identify in isolation.⁴ Three major factors, namely i) labour market developments, ii) taxes and transfers, and iii) social access to (public) services are proposed for conducting the inequality

² Reliable sources of public data include the World Bank, International Monetary Fund, OECD, United Nations (particularly UNDP), International Labour Organisation, World Health Organisation, Asian/African Development Banks, and World Value Survey.

³ Monetary indicators measure inequality in terms of wealth, income or consumption, while non-monetary indicators capture disparities in living standards, health, participation, rights and opportunities.

⁴ See Klasen et al. (2016) for a full literature review on the structural causes of inequality.

diagnostics, given their relatively broad scope, links with other macro-level trends,⁵ and position as key leverage points for policy. Particular diagnostics might further examine e.g. land rights and distribution, if deemed locally relevant. Factors should be clearly associated with inequality in the given context and be considered holistically, by identifying the links between them.⁶

In all diagnostics, the labour market developments, taxes and public social expenditure, as well as access to (public) services are key aspects to study further, given their relevance in relation to inequality. Additional aspects, such as discriminatory policies, may be locally relevant and should be added on a case-by-case basis. Where possible and feasible, it is recommended to also include comparisons to regional averages.

1.1 Labour market developments

Labour market developments are a key mechanism in the link between economic growth and structural change on the one hand, and poverty and inequality on the other hand. Employment and remuneration are major determinants of incomes and, consequently, of income distributions. Studying the transmission of labour market outcomes requires information on patterns of economic activity, changes in the availability and nature of employment, trends in remuneration, and labour mobility, since these factors possibly influence barriers to entry and access to opportunities. Therefore, a reference to the impact on inequality is always made when answering the following questions. The following questions can be addressed, provided that relevant studies and/or information exist:

- 1.1.1 Are the labour force participation rate and unemployment of specific groups (age, gender, geography, education, ethnicity) strikingly low or high? What are the underlying drivers?
- 1.1.2 Does the national employment structure in terms of economic sectors (agriculture, industry, services) and employment status (wage employment versus self-employment) affect inequality?
- 1.1.3 What are the average earnings of the various labour force groups (e.g. wage earners, non-wage earners and different socioeconomic groups/sectors) and what does this indicate in terms of inequality?
- 1.1.4 To what extent are informality and vulnerable employment issues contributing to inequality?
- 1.1.5 Do minimum wage laws help to reduce inequality?
- 1.1.6 Which effects do current labour policies have on labour market outcomes such as employment or productivity? How does this impact the scale and nature of inequality in [country]?

1.2 Taxes and transfers

Taxes and transfers involve the reallocation of resources within society to rectify market disparities in income and capabilities. A country's fiscal system therefore holds considerable scope for influencing the redistributive capacity of the state and has the potential to mitigate (or reinforce) inequality.⁷ Other financial flows, including remittances, may be important to consider in some contexts.

Taxes

The effectiveness of taxes for reducing inequality depends on the combination of instruments used and the degree of enforcement and compliance. The diagnostic should observe the key features of the national tax system to evaluate the link with inequality, namely, the types of taxes levied (income, property or consumption) and their degree of progressivity. Two important questions are whether tax structures match the pattern and concentration of wealth and income, and which incentives are set to balance revenue collection with growth and productivity. These guidelines include primarily questions on income taxes.

- 1.2.1 Is the current tax base sufficient and the tax-to-GDP ratio adequate? Is a large portion of overall public revenue generated through taxation? How does this compare to regional or OECD averages?

⁵ Globalisation and crises (sectoral change and wages/demand), demographic and socio-political change (affects pressure on and support for fiscal policy), environmental factors (extreme events causing income volatility for certain sectors, displacement).

⁶ Where possible, diagnostics should use peer-reviewed theoretical and empirical literature, and other sources from national or international organisations, academic institutions, and inequality experts.

⁷ An important source for this section is the [fiscal incidence analysis](#) conducted by the Commitment to Equity Project. The handbook contains multiple country case studies (more than 60 countries) and informs the reader to what extent particular policy interventions have contributed to a reduction of the Gini coefficient.

- 1.2.2 How are the composition of tax revenues and the proportions levied through direct and indirect taxes affecting the different income groups?
- 1.2.3 What is the value of the Gini coefficient (or another inequality metric) pre- and post-tax, using the results of fiscal incidence analyses that apply the Commitment to Equity (CEQ) methodology?
- 1.2.4 Which tax exemptions or credit schemes exist? Who are the main beneficiaries and how does this affect inequality?
- 1.2.5 Is a property tax and/or consumption tax in place? How do such taxes (or their absence) affect the level of inequality?
- 1.2.6 Has the tax system developed in a way relevant for inequality (e.g. policies or reforms in the past that reduced or increased inequality)?
- 1.2.7 What are the main characteristics of the current tax system that perpetuate or even reinforce inequalities?

Property taxes (optional)

- 1.2.8 Does [country] have a property tax in place and for which types of transactions are these levied?
- 1.2.9 Are property taxes levied on informal settlements and informal housing?
- 1.2.10 What is the extent to which bottom vs. upper quantiles of the income distribution are affected by property taxes?

Consumption taxes (optional)

- 1.2.11 Does [country] levy taxes on consumption and for which types of consumption are these levied?
- 1.2.12 To what extent do consumption taxes affect the bottom vs. upper quantiles of the income distribution?
- 1.2.13 Are different tax rates in place for different goods and services? If so, what are the criteria and which quantiles of the income distribution profit relatively more/less from the reduction of taxes on certain basic goods and services?

Transfers

Public social expenditure takes a variety of forms, from cash and in-kind transfers to pension schemes, health insurance and nutrition programmes, thereby mitigating different types of inequality (see Causa and Hermansen 2017).⁸ Social safety nets directly ease budget constraints of the poor to improve wellbeing. Social insurance acts as a buffer against shocks to health or income in order to smooth consumption. Subsidies decrease the cost of specific (basic) goods and services such as healthcare or education, increasing current living standards and future mobility.⁹ If well-designed and targeted, transfers can alleviate poverty and decrease inequalities. However, if they benefit population groups that are already better off, are mis-prioritised or are not invested in productive assets, they can negligibly impact or even reinforce inequality. The following questions can be addressed, provided that relevant studies and/or information exist:

- 1.2.14 To what extent do existing social protection programmes address the main sources of inequality?
- 1.2.15 Is coverage of these programmes sufficient?
- 1.2.16 Which inclusion or exclusion errors exist?¹⁰
- 1.2.17 Which, if any, spill-over effects are generated by social protection programmes for the wider community? How, and through which mechanisms, do these externalities impact inequality?
- 1.2.18 Which kinds of subsidies exist? Which population groups benefit from these subsidies?
- 1.2.19 What proportion of GDP or public expenditure is allocated to public social spending and how are social programmes prioritised? How does this compare to regional, peer or OECD averages?
- 1.2.20 What is the level of public spending on education and health? Who benefits from it? How does this compare to regional, peer or OECD averages?
- 1.2.21 Have the public education and health expenditure, social protection and subsidy programmes developed in a way relevant for inequality (e.g. policies or reforms in the past that reduced or increased inequality)?

⁸ An important distinction must be made between social transfers, e.g. housing or education subsidies, and social spending on e.g. schools or education programmes, which are complementary redistribution tools but occupy a different part of the public budget.

⁹ Subsidies may be applied generally, or available to individuals or households that meet specific criteria, such as those below an income threshold or the unemployed.

¹⁰ Exclusion errors refer to units of the target group who do not receive social assistance, while inclusion errors refer to units receiving assistance who do not belong to the target group. These errors can occur due to eligibility criteria, uneven coverage or other reasons such as a lack of funding.

- 1.2.22 What is the value of the Gini coefficient (or another inequality metric) pre- and post-transfers?¹¹ Do studies exist on the effect of transfers on income inequality using the Commitment to Equity methodology? If so, what are the results of the studies?
- 1.2.23 What are the main impediments of the current social protection system that hinder significant inequality reduction?

Remittances (optional)

Remittances, or migrant transfers, can present a substantial share of household income for particular population groups in particular countries. The source of remittances (whether an industrialised or developing country) determines the stability of receipts, while the characteristics of recipients (i.e. who can access migration opportunities), the cost of sending money (often through informal operators) and how remittances are spent (whether used for productive investment or consumption) influence their ability to reduce (poverty and) inequality in destination countries.¹² The following questions can be addressed, provided that relevant studies exist:

- 1.2.24 What is the annual value of remittances and how does this fluctuate over time? What is the ratio of remittances to GDP? What is the reach and diversity of remittance sources?
- 1.2.25 What is the relationship between remittances and income inequality in [country]?
- 1.2.26 Do remittances have negative effects on labour income as a result of reduced labour supply and/or do they negatively affect other transfer incomes?
- 1.2.27 How are remittances distributed among the population? Do they contribute a higher share of income among poorer or richer quantiles of households?
- 1.2.28 Have remittances developed in a way relevant for inequality (e.g. policies or reforms in the past that reduced or increased inequality)?

1.3 Access to public services and discriminatory policies

The analysis of (public) services is crucial for understanding inequalities of opportunity, since the level of provision significantly influences the distribution of physical and human assets which expand capabilities, especially in regions where access to credit is limited. Public services span a broad range of sectors including health, education, infrastructure and amenities (electricity, sanitation), the justice system, public transportation, social welfare and assistance. These guidelines prioritise social access (and optionally discriminatory policies) with a focus on education and health, given their direct impact on wellbeing and their importance for long-term growth. Questions about spatial access, which could be relevant for countries with pronounced urban-rural differences or concentrated regional development, are optional.

Social access

Social access refers to the freedom and ability of certain demarcations (such as religious or ethnic groups or a certain gender or class) to access opportunities for wellbeing and mobility. In contrast to discriminatory policies, which consist of official laws and regulations, inequalities in the access to services function through more subtle mechanisms and are linked to culture and history through norms, prejudices and persistent marginalisation, as well as to income through the ability to pay. This aspect is further relevant in the context of LNOB. The following questions can be addressed, provided that relevant studies exist:

Education

- 1.3.1 How does school enrolment and attendance vary by [demarcation] among children?
- 1.3.2 What are the major constraints for those who lack sufficient access to education?

¹¹ It is possible that this comparison cannot be made for lack of relevant estimates of income inequality, such as those of inequality of disposable incomes, i.e. incomes after taxes and transfers.

¹² Dependence on foreign income makes recipients vulnerable to external shocks, exchange rate fluctuations and seasonality.

- 1.3.3 What is the variation in capacity and quality of public and private schools nationally? (Number of teachers, number of places for each age group relative to the size of the corresponding population group, quality differences between public and private education)?
- 1.3.4 Has access to schooling changed with regard to questions 1.3.1 to 1.3.3?

Health care

- 1.3.5 To what extent do disparities exist in the quantity and quality of healthcare provision between different population groups by [demarcation]?
- 1.3.6 How has access to health care developed?
- 1.3.7 What are the main obstacles for those lacking access to (sufficient) healthcare?
- 1.3.8 Do level of infant mortality and average life expectancy differ across income/population groups?
- 1.3.9 How have infant mortality and average life expectancy changed for different income/population groups?

Spatial access (optional)

Spatial access refers to the location of (public) services and the way people have the possibility to reach these services. Relevant dimensions of interest may include pronounced urban-rural differences, as well as difference between a major (capital) city and other regions. The following questions can be addressed, provided that relevant studies exist:

Education

- 1.3.10 Can all children of a certain age (or age range) enrol and attend school in terms of spatial access?
- 1.3.11 If not, which children are affected, what are the limitations and why?
- 1.3.12 Has spatial access to schooling changed?

Health care

- 1.3.13 Can all people access health centres/hospitals in terms of spatial access?
- 1.3.14 If not, which parts of the population are affected and what are the limitations?
- 1.3.15 Has spatial access to health care changed?

Discriminatory policies (optional)

Discriminatory legislation can exist with regard to e.g. race, ethnicity, religion, political opinion, sexual orientation, age, disability or gender.¹³ Discrimination directly drives inequality of opportunity (and indirectly inequality of outcomes); negative discriminatory policies create barriers to accessing public services through segregation or the removal of rights; positive discrimination includes quotas or preferential treatment which offer an advantage to specific groups. Positive discrimination is often contested, because in striving to create stronger equity it violates the fundamental principle of equality. Such issues must be evaluated in context, since they may be tolerated and even required to reverse long histories of negative discrimination. The following questions can be addressed, provided that relevant studies exist:

- 1.3.16 Which, if any, formal (negative) discriminatory policies are currently in place in [country]? Which ones existed in the past and when were they removed?
- 1.3.17 What are the direct and indirect consequences of these policies, for the affected groups and society as a whole? What are the persisting effects of past discriminatory policies?
- 1.3.18 How are productive assets, including land, information, technology and financial resources, distributed by gender, religion, ethnicity (e.g. rights to ownership, access to credit)?
- 1.3.19 Which explicit policies and laws have the underlying objective of reaching equality (positive discrimination)? How effectively are these enforced? To what extent do they reduce certain types of inequality?
- 1.3.20 Which, if any, official complaint mechanisms exist for reporting incidences of discrimination? Are they well-known/well-articulated publicly? How are complaints managed and dealt with?

¹³ This guideline recommends focusing on gender, religion and ethnicity, which are the most widespread and observable forms of discrimination, though other demarcations (e.g. age), may be more relevant in certain countries.

2. Inequality in the political and societal discourse

To present policy options for reducing inequality, it is necessary to understand the current debate surrounding it. The diagnostic should examine the way inequality is addressed in existing national policies and strategies. Optionally, it also examines the progression of the national debate on inequality, considering the scale and severity of (perceived) inequality within the country and the aspects of inequality that are referred to in the debate. The diagnostic should also pay attention to the strategies of the most important donors with respect to inequality.

2.1 Existing policies and strategies in national partner countries

Globally, an increasing number of policy makers consider the reduction of inequality a priority policy area (UNDP 2013). It is valuable to learn whether a similar urgency is felt among partner countries of the German DC and, additionally, whether and how this is reflected in national policy documents and processes. A related question concerns the alignment of donor policies with partner country policies to generate stronger cooperation with the German DC around inequality reduction.

In answering the following questions, diagnostics should refer to National Development Plan(s) and other key public documents which promote the national agenda and define policy goals. Supplementary publications can be sourced from local institutions including think tanks, universities and NGOs who have knowledge and experience in the field.

- 2.1.1. To what extent is inequality reduction included/a priority in the national development strategies?
- 2.1.2 Which (if any) types of inequality are addressed in the national policy documents? To what extent does this reflect national trends in inequality as well as trends in specific aspects of inequality (e.g. urban/rural, by ethnicity, gender, etc.)?
- 2.1.3 Do documents explicitly cite the causes, drivers, and consequences of inequality nationally?

2.2 Inequality in the political and societal discourse (optional)

The diagnostic should examine the extent to which inequality reduction features in the political and societal discourse, and the aspects of inequality that are referred to in that discourse. This indicates the general willingness to address inequality, as well as potential challenges for implementation.

- 2.2.1 Are inequality-related issues discussed among high-level politicians and other key stakeholders?
- 2.2.2 How big of a problem is inequality considered, and are discussions based around taking action or rather generating awareness?
- 2.2.3 To what extent does the political and societal discourse pay attention to the causes, drivers and consequences of inequality?

2.3 Donor strategies

Bilateral and multilateral donors usually formulate multi-annual strategies for their cooperation with partner country governments and implement their strategies together with the national governments (and non-governmental organisations) in partner countries.

- 2.3.1 What are the key donors?
- 2.3.2 To what extent do strategies of key donors align with government policies, particularly those on reducing inequality?

3. Policy options for reducing inequality

A vast number of policies exist with the potential to alleviate growing inequality, however, not all of them are feasible or relevant in every context.¹⁴ Given the focus on labour market developments and taxes and transfers in both the diagnostics (see Section 1) and the review of the policies and strategies (see Section 2), the policy options concentrate on these areas as well. In prioritising interventions, policy makers should further consider the current and potential future capacity of the state, the stage of development and the nature of existing institutions (UNRISD 2010; Klasen et al. 2016; ILO 2017), which collectively determine the policy environment.¹⁵

3.1 Labour market developments

Policies that address labour market developments can translate growth into opportunity, especially for lower-income households (World Bank 2016). Two types of labour policy can be implemented to combat inequality: (1) a group of passive interventions involving changes in legislation around minimum wages, minority inclusion and occupational safety; (2) a set of active programmes aiming to address the negative effects of structural change by improving the earnings capacity of poor workers and increasing access for the unemployed. These include employment services such as counselling or job matching; active labour market policies such as skills training; and direct employment generation through SME support.

- 3.1.1 To what extent do national policies address the drivers of labour market inequality in [country]?
- 3.1.2 How can any distortionary effects caused by labour policies be minimised whilst reducing inequality?
- 3.1.3 In the case of active labour market policies, can vulnerable groups access the available support, trainings and services? If not, what are the main obstacles, and how can obstacles to access available support, training and services be reduced?
- 3.1.4 Which other labour policies would improve socioeconomic outcomes and opportunities of the bottom 40%?

3.2 Taxes and transfers

Taxes

- 3.2.1 Which potential reforms may yield the largest expected increase in the tax base and thus, increase the scope for redistribution? [E.g. raising/lowering tax rates, altering the degree of progressivity or changing the type of taxes levied].
- 3.2.2 What is the estimated “tax gap” in [country] (the difference between actual and potential revenue collection)? How has the tax gap evolved in the past?
- 3.2.3 How could tax laws and standards be changed to prevent non-compliance, corruption, etc.? [E.g. stringency, clarity, enforcement]. Could this yield greater increases in revenue than altering the tax system itself?
- 3.2.4 Which tax agreements, such as commitment to global standards for transparency or fighting corruption, does [country] participate in and what is the scope for new agreements?

Transfers

- 3.2.5 To what extent do existing public social expenditure and social protection programmes address the main sources of inequality in [country]? Which alternative social protection programmes may better reflect local causes and drivers?

¹⁴ It is important to highlight policies that have the potential to address inequalities and are already in place in the country. See also Section 1 of the document.

¹⁵ This guideline emphasises redistributive and macroeconomic policies due to their broad scope and applicability across multiple contexts. In some cases, other policies (e.g. positive discrimination or spatial policy) may be necessary to reverse trends of marginalisation and unequal opportunity.

- 3.2.6 What is the breadth and depth of coverage of [policy]? Which changes in eligibility criteria or policy design could reach target groups more effectively and avoid fragmentation (multiple policies covering the same group) or exclusion?
- 3.2.7 Which, if any, spill-over effects are generated by social protection programmes for the wider community? How, and through which mechanisms, do these externalities impact inequality and how could they contribute more to inequality reduction?
- 3.2.8 How is funding sourced for these programmes? Are they fully state-funded, aid-reliant, or do employers and employees contribute? What is the scope for reforming the funding structure to reduce inequality?

Remittances (optional)

- 3.2.9 How can remittances be used more effectively to reduce inequality?
- 3.2.10 Which policies can be implemented to facilitate the flow of remittances to the country?
- 3.2.11 Does the fact that some people receive remittances and others not allow for focusing public social expenditure more on people who do not receive remittances?

3.3 Access to (public) services and discriminatory policies

Social access

Policies can be designed to enhance social access to (public) education and health services and social protection programmes, or existing policies can be improved. If well-designed, such policies can disproportionately benefit the poor and vulnerable population and help to raise their living standards. In the long run, they can help to break intergenerational cycles of poverty and inequality through upward social mobility. Relevant questions are:

- 3.3.1 What is the scope for improving the coverage or targeting of social protection programmes?
- 3.3.2 How can public expenditure in education and health benefit more the most vulnerable and disadvantaged socioeconomic groups?

Spatial access (optional)

Policies to enhance spatial access to (public) education and health services and social protection programmes may also have to be designed or improved to address existing spatial inequality in access to such services and programmes. If well-designed, such policies can disproportionately benefit the population in poorer areas of the country. In the long run, they can also help to break intergenerational cycles of poverty and inequality through upward social mobility. Relevant questions are:

- 3.3.3 What is the scope for improving the geographical coverage of social protection programmes?
- 3.3.4 How can public expenditure in education and health benefit increase the access to and quality of such services for the population in poorer areas of the country?

Discriminatory policies (optional)

Negative discriminatory policies that create barriers to accessing public services through segregation or the removal of rights would need to be abolished or adjusted. At the same time, positive discriminatory policies could be improved or introduced. Relevant questions are:

- 3.3.5 Are there negative discriminatory policies that could either be abolished, or adjusted such that they are less harmful in terms of inequality?
- 3.3.6 Are there positive discriminatory policies that could either be introduced, or adjusted such that they are more effective in addressing inequality?

4. Options for German Development Cooperation to contribute more to inequality reduction

Bilateral and multilateral donors can help to reduce inequality in partner countries, both directly via (co-)financing of specific development programmes and indirectly through technical projects and agenda-setting. The appropriate form of assistance depends on the information from the previous sections of the diagnostic regarding causes and drivers of inequality, existing national policies and strategies, and the options identified to mitigate national inequalities. In addition, it is key to take the existing portfolio of GIZ and the German DC into account.

- 4.1 Which types of support (if any) does the German DC currently provide for reducing inequality that could be continued or expanded?
- 4.2 Which new areas could the German DC enter with the aim of reducing inequality?
- 4.3 Which suggested policy options as described in Section 3 could be supported by German DC?
- 4.4. In which areas would capacity-building be most relevant for addressing the issue of inequality?

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APPENDIX A – Optional Questions

Non-tax revenue

Numerous sources of revenue are used to supplement taxes.¹⁶ Non-tax revenues are typically less stable and more vulnerable to external shocks but can be important for reducing inequality where domestic tax systems fail to redistribute wealth effectively.

- A.18 What is the contribution of non-tax revenues to overall revenue in [country]?
- A.19 Which sources of non-tax revenue have the highest revenue-generating potential?
- A.20 What measures can be taken to increase the stability of non-tax revenues? [This could involve strengthening geopolitical relationships, changing the portfolio of state assets or a greater focus on meeting loan requirements].
- A.21 What are the risks involved in acquiring non-tax revenues (e.g. sacrifices for meeting loan criteria, increased dependency on foreign aid)?

¹⁶ Examples include foreign aid; federal grants; loans from monetary funds; interest receipts or dividends; revenue from state-owned enterprise or the sale of state assets; fines from public authorities; licencing and registration fees; and user fees for public services.